

Morningstar<sup>®</sup> Document Research<sup>SM</sup>

## **FORM 10-K405**

**TENET HEALTHCARE CORP - THC**

**Filed: August 27, 1999 (period: May 31, 1999)**

Annual report filed under Regulation S-K Item 405 (Discontinued)

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR THE FISCAL YEAR ENDED MAY 31, 1999.

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: I-7293

TENET HEALTHCARE CORPORATION  
(Exact name of Registrant as specified in its charter)

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

95-2557091  
(I.R.S. Employer  
Identification No.)

3820 STATE STREET  
SANTA BARBARA, CALIFORNIA  
(Address of principal  
executive offices)

93105  
(Zip Code)

AREA CODE (805) 563-7000  
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock.....	New York Stock Exchange Pacific Stock Exchange
Preferred Stock Purchase Rights.....	New York Stock Exchange Pacific Stock Exchange
9 5/8% Senior Notes due 2002.....	New York Stock Exchange
7 7/8% Senior Notes due 2003.....	New York Stock Exchange
8 5/8% Senior Notes due 2003.....	New York Stock Exchange
6% Exchangeable Subordinated Notes due 2005.....	New York Stock Exchange
8% Senior Notes due 2005.....	New York Stock Exchange
10 1/8% Senior Subordinated Notes due 2005.....	New York Stock Exchange
8 5/8% Senior Subordinated Notes due 2007.....	New York Stock Exchange
7 5/8% Series B Senior Notes due 2008.....	New York Stock Exchange
8 1/8% Series B Senior Subordinated Notes due 2008.....	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months and (2) has been subject to such filing  
requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein,  
and will not be contained, to the best of the Registrant's knowledge, in  
definitive proxy or information statements incorporated by reference in Part III

of this Form 10-K or any amendments to this Form 10-K. /X/

As of July 31, 1999, there were 311,341,137 shares of Common Stock outstanding. The aggregate market value of the shares of Common Stock held by non-affiliates of the Registrant, based on the closing price of these shares on the New York Stock Exchange, was \$5,579,900,260. For the purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended May 31, 1999, have been incorporated by reference into Parts I, II and IV of this Report. Portions of the definitive Proxy Statement for the Registrant's 1999 Annual Meeting of Shareholders have been incorporated by reference into Part III of this Report.

-----  
-----  
TABLE OF CONTENTS  
FORM 10-K ANNUAL REPORT--1999  
TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

	PAGE -----
PART I	
Item 1. Business.....	1
Item 2. Properties.....	23
Item 3. Legal Proceedings.....	23
Item 4. Submission of Matters to a Vote of Security Holders.....	24
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	24
Item 6. Selected Financial Data.....	24
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	24
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	24
Item 8. Financial Statements and Supplementary Data.....	24
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	24
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	25
Item 11. Executive Compensation.....	25
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	25

## PART IV

-----

Note: The responses to Items 5 through 8, Item 12 and portions of Items 1, 3, 10, 11 and 14 are included in the Registrant's Annual Report to Shareholders for the year ended May 31, 1999, or the definitive Proxy Statement for the Registrant's 1999 Annual Meeting of Shareholders. The required information is incorporated into this Report by reference to those documents and is not repeated herein.

## PART I

## ITEM 1. BUSINESS

## GENERAL

Tenet Healthcare Corporation (together with its subsidiaries, "Tenet", the "Registrant" or the "Company") is the second-largest investor-owned health care services company in the United States. At May 31, 1999, Tenet's subsidiaries and affiliates (collectively "subsidiaries") owned or operated 130 general hospitals with 30,791 licensed beds and related health care facilities serving urban and rural communities in 18 states, and held investments in other health care companies. The related health care facilities included a small number of rehabilitation hospitals, specialty hospitals, long-term care facilities and psychiatric facilities and many medical office buildings located on the same campus as, or nearby, its general hospitals, various ancillary health care businesses, including outpatient surgery centers, home health care agencies, occupational and rural health care clinics, health maintenance organizations, a preferred provider organization, a managed care insurance company and physician practices. Tenet intends to continue its strategic acquisitions of and partnerships or affiliations with additional general hospitals and related health care businesses in order to expand and enhance its integrated health care delivery systems.

Tenet has grown substantially over the past several years through corporate acquisitions and acquisitions of individual facilities. On March 1, 1995, Tenet acquired the parent company of American Medical International, Inc., now known as Tenet HealthSystem Medical, Inc. ("TH Medical"), in a transaction accounted for as a purchase. At the time it was acquired, TH Medical owned 35 general hospitals as well as related health care businesses. On January 30, 1997, Tenet acquired OrNda HealthCorp ("OrNda"), now known as Tenet HealthSystem HealthCorp ("TH HealthCorp"), in a transaction accounted for as a pooling-of-interests (the "Merger"). Accordingly, the consolidated financial statements incorporated herein by reference and all statistical data shown herein prior to the Merger were restated in fiscal 1997 to include the accounts and results of operations of OrNda for all periods presented (subsequent periods were not restated). At the time it was acquired, OrNda owned 50 general hospitals as well as related health care operations.

As discussed in more detail under Health Care on page 2 below, Tenet's subsidiaries acquired twelve general hospitals during fiscal 1999. In addition, Tenet closed one general hospital, sold two general hospitals and combined the operations of one general hospital with those of a nearby general hospital during fiscal 1999.

Tenet's revolving credit agreement allows Tenet to borrow, repay and reborrow up to \$2.8 billion prior to its January 31, 2002, maturity date. The Company had approximately \$632 million available under its revolving credit agreement at May 31, 1999.

Under segment reporting criteria, Tenet believes that "health care services" is its only material business segment. See the discussion of Tenet's revenues and operations in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Tenet's 1999 Annual Report to Shareholders.

1

## OPERATIONS

### A. HEALTH CARE

All of Tenet's operations are conducted through its subsidiaries. Tenet's general hospital and other health care operations are conducted primarily through the following three subsidiaries and their subsidiaries: (i) Tenet HealthSystem Hospitals, Inc., (ii) TH Medical, Inc., and (iii) TH HealthCorp. At May 31, 1999, Tenet's subsidiaries operated 130 general hospitals with 30,791 licensed beds serving urban and rural communities in 18 states. Of those general hospitals, 104 are owned by Tenet's subsidiaries and 26 are owned by third parties and leased by Tenet subsidiaries (including one Tenet owned facility that is on land leased from a third party). A Tenet subsidiary also owns one general hospital and ancillary health care operations in Barcelona, Spain.

During fiscal 1999, Tenet's subsidiaries acquired the following 12 general hospitals: (i) eight Philadelphia-area hospitals (City Avenue Hospital, Elkins Park Hospital, Graduate Hospital, Hahnemann University Hospital, Medical College of Pennsylvania Hospital, Parkview Hospital, Saint Christopher's Hospital for Children and Warminster Hospital) with a total of 2,484 beds, acquired from the Allegheny Health, Education and Research Foundation ("AHERF"); (ii) the 409-bed Queen of Angels-Hollywood Presbyterian Medical Center in Los Angeles, California; (iii) the 99-bed Rancho Springs Medical Center in Murrieta, California; and (iv) an 80 percent interest in the two-hospital 414-bed MetroWest Medical Center in Framingham and Natick, Massachusetts. As part of the AHERF transaction, Tenet also acquired physician practices and other related health care facilities, and obtained the right to reorganize MCP Hahnemann University of the Health Sciences (formerly Allegheny University of the Health Sciences), a nonprofit institution that is managed by Philadelphia's Drexel University under a management agreement with Tenet.

In addition, during fiscal 1999, Tenet sold two general hospitals, closed one general hospital, combined the operations of the Sharpstown General Hospital with those of nearby Twelve Oaks Hospital in Houston, Texas, to form the Bayou City Medical Center and closed 29 home health agencies. During fiscal 1999, construction continued on a new hospital in Weston, Florida, under a joint venture with the Cleveland Clinic. Construction also continued on Worcester Medical Center, a new medical complex that will replace Tenet's Saint Vincent Hospital in Worcester, Massachusetts.

Each of Tenet's general hospitals offers acute care services, operating and recovery rooms, radiology services, respiratory therapy services, pharmacies and clinical laboratories, and most offer intensive-care, critical-care and/or coronary care units, and physical therapy, orthopedic, oncology and outpatient services. A number of the hospitals also offer tertiary care services such as open-heart surgery, neonatal intensive care and neuroscience. Five of the Company's hospitals--Memorial Medical Center, USC University Hospital, Saint Louis University Hospital, Hahnemann University Hospital and Sierra Medical Center--offer quaternary care in such areas as heart, lung, liver and kidney transplants. USC University Hospital and Sierra Medical Center also offer gamma-knife brain surgery and Memorial Medical Center offers bone marrow transplants. Except for one small hospital that has not sought to be accredited, each of the Company's facilities that is eligible for accreditation is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), the Commission on Accreditation of Rehabilitation Facilities ("CARF") (in the case of rehabilitation hospitals) or another appropriate accreditation agency. With such accreditation, the Company's hospitals are eligible to

2

participate in the Medicare and Medicaid programs. The one hospital that is not accredited participates in the Medicare program through a special waiver that must be renewed each year.

Various factors, such as technological developments permitting more procedures to be performed on an outpatient basis, pharmaceutical advances and pressures to contain health care costs, have led to a shift from inpatient care to ambulatory or outpatient care. Tenet has responded to this trend by enhancing its hospitals' outpatient service capabilities, including (i) establishing freestanding outpatient surgery centers at or near certain of its hospital facilities, (ii) reconfiguring certain hospitals to more effectively accommodate outpatient treatment, by, among other things, providing more convenient, dedicated outpatient facilities and (iii) restructuring existing surgical and diagnostic capacity to allow a greater number and range of procedures to be performed on an outpatient basis. Tenet's facilities will continue to emphasize those outpatient services that can be provided on a quality, cost-effective basis and that the Company believes will meet the needs of the communities the facilities serve. The patient volumes and net operating revenues at both the Company's general hospitals and its outpatient surgery centers are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, seasonal cycles of illness, climate and weather conditions, vacation patterns of both patients and physicians and other factors relating to the timing of elective procedures.

In addition, inpatient care is continuing to move from acute care to sub-acute care, where a less-intensive level of care is provided. Tenet has been proactive in the development of a variety of sub-acute inpatient services to utilize a portion of its unused capacity. By offering cost-effective ancillary services in appropriate circumstances, Tenet is able to provide a continuum of care where the demand for such services exists. For example, in certain hospitals the Company has developed transitional care, rehabilitation and long-term care sub-acute units. Such units utilize less intensive staffing levels to provide the range of services sought by payors with a lower cost structure.

The largest concentrations of the Company's hospital beds are in California (26.4 percent), Texas (14.7 percent) and Florida (14.4 percent). While having concentrations of hospital beds within geographic areas helps the Company to reduce management and marketing expenses and more efficiently utilize resources, such concentrations also increase the risk that any adverse economic, regulatory or other developments that may occur within such areas may adversely affect the Company's business, results of operations or financial condition.

Tenet believes that its general hospitals are well-positioned to compete effectively in the rapidly evolving health care environment. Tenet continually analyzes whether each of its hospitals fits within its strategic plans and has and will continue to analyze ways in which such assets may best be used to maximize shareholder value. To that end, the Company occasionally may close, sell or convert to alternate uses certain of the Company's facilities and services in order to eliminate non-strategic assets, duplicate services and excess capacity or because of changing market conditions.

The following table lists, by state, the general hospitals owned or (if indicated below) leased by Tenet's subsidiaries and operated domestically as of May 31, 1999:

GEOGRAPHIC AREA/STATE	FACILITY	LOCATION	LICENSED BEDS	STATUS
Alabama.....	Brookwood Medical Center	Birmingham	586	Owned
	Lloyd Noland Hospital	Fairfield	319	Owned
Arizona.....	Community Hospital Medical Center	Phoenix	43	Owned
	Mesa General Hospital Medical Center	Mesa	143	Leased
	St. Luke's Medical Center	Phoenix	280	Leased
	Tempe St. Luke's Hospital	Tempe	106	Leased
	Tucson General Hospital	Tucson	106	Owned
Arkansas.....	Central Arkansas Hospital	Searcy	193	Owned
	Regional Medical Center of NEA (1)	Jonesboro	104	Owned

California (Southern).....	National Park Medical Center	Hot Springs	166	Owned
	St. Mary's Regional Medical Center	Russellville	170	Owned
	Alvarado Hospital Medical Center	San Diego	231	Owned
	Brotman Medical Center	Culver City	432	Owned
	Centinela Hospital Medical Center	Inglewood	400	Owned
	Century City Hospital	Los Angeles	190	Leased
	Chapman Medical Center	Orange	126	Leased
	Coastal Communities Hospital	Santa Ana	177	Owned
	Community Hospital of Huntington Park	Huntington Park	81	Leased
	Desert Hospital	Palm Springs	388	Leased
	Encino-Tarzana Regional Medical Center (2)	Encino	151	Leased
	Encino-Tarzana Regional Medical Center (2)	Tarzana	236	Leased
	Fountain Valley Regional Hospital and Medical Ctr	Fountain Valley	395	Owned
	Garden Grove Hospital and Medical Center	Garden Grove	167	Owned
	Garfield Medical Center	Monterey Park	210	Owned
	Greater El Monte Community Hospital	South El Monte	115	Owned
	Irvine Medical Center	Irvine	176	Leased
	John F. Kennedy Memorial Hospital	Indio	130	Owned
	Lakewood Regional Medical Center	Lakewood	161	Owned
	Los Alamitos Medical Center	Los Alamitos	173	Owned
	Midway Hospital Medical Center	Los Angeles	225	Owned
	Mission Hospital of Huntington Park	Huntington Park	109	Owned
	Monterey Park Hospital	Monterey Park	101	Owned
	Placentia Linda Hospital	Placentia	114	Owned
	Queen of Angeles-Hollywood Presbyterian Med Ctr	Los Angeles	409	Owned
	Rancho Springs Medical Center	Murrieta	99	Owned
	San Dimas Community Hospital	San Dimas	93	Owned
	Santa Ana Hospital Medical Center	Santa Ana	90	Leased
	Saint Luke Medical Center	Pasadena	165	Owned
	Suburban Medical Center	Paramount	182	Leased
	USC University Hospital (3)	Los Angeles	285	Owned
	Western Medical Center--Anaheim	Anaheim	193	Owned

4

GEOGRAPHIC AREA/STATE	FACILITY	LOCATION	LICENSED BEDS	STATUS	
California (Northern).....	Western Medical Center	Santa Ana	296	Owned	
	Whittier Hospital Medical Center	Whittier	181	Owned	
	Community Hospital of Los Gatos	Los Gatos	148	Leased	
	Doctors Hospital of Manteca	Manteca	73	Owned	
	Doctors Medical Center of Modesto	Modesto	459	Owned	
	Doctors Medical Center--San Pablo	San Pablo	233	Leased	
	Doctors Medical Center--Pinole	Pinole	136	Leased	
	Redding Medical Center	Redding	188	Owned	
	San Ramon Regional Medical Center	San Ramon	123	Owned	
	Sierra Vista Regional Medical Center	San Luis Obispo	201	Owned	
	Twin Cities Community Hospital	Templeton	84	Owned	
	Florida (Southern).....	Coral Gables Hospital	Coral Gables	273	Owned
		Delray Medical Center	Delray Beach	301	Owned
Florida Medical Center		Ft. Lauderdale	459	Owned	
Hialeah Hospital		Hialeah	378	Owned	
Hollywood Medical Center		Hollywood	324	Owned	
North Ridge Medical Center		Ft. Lauderdale	391	Owned	
North Shore Medical Center		Miami	357	Owned	
Palm Beach Gardens Community Hospital		Palm Beach Gardens	204	Leased	
Palmetto General Hospital		Hialeah	360	Owned	
Parkway Regional Medical Center		North Miami	382	Owned	
West Boca Medical Center	Boca Raton	185	Owned		
Florida (Tampa/ St. Petersburg).....	Memorial Hospital of Tampa	Tampa	174	Owned	
	Palms of Pasadena Hospital	St. Petersburg	307	Owned	
	Seven Rivers Community Hospital	Crystal River	128	Owned	
	Town & Country Hospital	Tampa	201	Owned	
Georgia.....	Atlanta Medical Center	Atlanta	460	Owned	
	North Fulton Regional Hospital	Roswell	167	Leased	
	Spalding Regional Hospital	Griffin	160	Owned	
	Sylvan Grove Hospital	Jackson	25	Leased	
	Culver Union Hospital	Crawfordsville	120	Owned	
Indiana.....	Winona Memorial Hospital	Indianapolis	277	Owned	
	Louisiana.....	Doctors Hospital of Jefferson	Metairie	138	Leased
		Kenner Regional Medical Center	Kenner	237	Owned
Meadowcrest Hospital		Gretna	203	Owned	
Massachusetts.....	Memorial Medical Center, Mid-City	New Orleans	272	Owned	
	Memorial Medical Center, Uptown	New Orleans	526	Owned	
	Minden Medical Center	Minden	121	Owned	
	Northshore Regional Medical Center	Slidell	174	Leased	
	St. Charles General Hospital	New Orleans	163	Owned	
	Mississippi.....	MetroWest Medical Center-- Leonard Morse	Natick	185	Owned
		MetroWest Medical Center--Union Hospital	Framingham	229	Owned
		Saint Vincent Hospital	Worcester	362	Owned
	Missouri.....	Gulf Coast Medical Center	Biloxi	189	Owned
		Columbia Regional Hospital	Columbia	289	Owned
Forest Park Hospital		Central St. Louis	516	Owned	
Des Peres Hospital	Des Peres	167	Owned		
Compton Heights Hospital	St. Louis	336	Owned		

5

GEOGRAPHIC AREA/STATE	FACILITY	LOCATION	LICENSED BEDS	STATUS
	Lucy Lee Hospital	Poplar Bluff	201	Leased
	SouthPointe Hospital	St. Louis	408	Owned
	Saint Louis University Hospital	St. Louis	356	Owned
	Twin Rivers Regional Medical Center	Kennett	116	Owned
Nebraska.....	Saint Joseph Hospital (4)	Omaha	388	Owned
Nevada.....	Lake Mead Hospital Medical Center	North Las Vegas	198	Owned
North Carolina.....	Central Carolina Hospital	Sanford	137	Owned
	Frye Regional Medical Center	Hickory	355	Leased
Pennsylvania.....	City Avenue Hospital	Philadelphia	228	Owned
	Elkins Park Hospital	Elkins Park	280	Owned
	Graduate Hospital	Philadelphia	330	Owned
	Hahnemann University Hospital	Philadelphia	618	Owned
	Medical College of Pennsylvania Hospital	Philadelphia	465	Owned
	Parkview Hospital	Philadelphia	200	Owned
	Saint Christopher's Hospital for Children	Philadelphia	183	Owned
South Carolina.....	Warminster Hospital	Warminster	180	Owned
	East Cooper Regional Medical Center	Mount Pleasant	100	Owned
	Hilton Head Medical Center and Clinics (5)	Hilton Head	79	Owned
Tennessee.....	Piedmont Medical Center	Rock Hill	268	Owned
	John W. Harton Regional Medical Center	Tullahoma	137	Owned
	Medical Center of Manchester	Manchester	49	Leased
	Saint Francis Hospital	Memphis	651	Owned
	University Medical Center	Lebanon	257	Owned
Texas (Dallas).....	Doctors Hospital	Dallas	228	Owned
	Garland Community Hospital	Garland	113	Owned
	Lake Pointe Medical Center	Rowlett	97	Owned
	RHD Memorial Medical Center	Dallas	150	Leased
	Trinity Medical Center	Carrollton	149	Leased
Texas (Houston).....	Cypress Fairbanks Medical Center	Houston	140	Owned
	Houston Northwest Medical Center	Houston	498	Owned
	Park Plaza Hospital	Houston	468	Owned
	Bayou City Medical Center	Houston	526	Owned
Texas (Other).....	Brownsville Medical Center	Brownsville	219	Owned
	Mid-Jefferson Hospital	Nederland	138	Owned
	Nacogdoches Medical Center	Nacogdoches	150	Owned
	Odessa Regional Hospital (6)	Odessa	100	Owned
	Park Place Medical Center	Port Arthur	244	Owned
	Providence Memorial Hospital	El Paso	501	Owned
	Sierra Medical Center	El Paso	365	Owned
	Southwest General Hospital	San Antonio	286	Owned
	Trinity Valley Medical Center	Palestine	153	Owned

- 
- (1) Owned by a limited liability company in which a Tenet subsidiary owns 95 percent interest and is the managing member.
  - (2) Leased by a partnership in which Tenet's subsidiaries own a 75 percent interest.
  - (3) Facility owned by Tenet; on land leased from a third party.

6

- (4) Owned by a limited liability company in which a Tenet subsidiary owns a 74 percent interest and is the managing member.
- (5) Owned by a partnership in which Tenet's subsidiaries own a 90 percent interest.
- (6) Owned by a partnership in which Tenet's subsidiaries own a 78.125 percent interest.

The following table shows certain information about the general hospitals owned or leased domestically by Tenet's subsidiaries (including OrNda, both before and after it was acquired by Tenet) for the fiscal years ended May 31:

	1997	1998	1999
Total number of facilities.....	128	122	130
Total number of licensed beds.....	27,959	27,867	30,791
Average occupancy during the period.....	42.5%	44.0%	45.4%

Note: The above tables do not include Tenet's general hospital in Barcelona, Spain, or Tenet's rehabilitation hospitals, long-term care facilities, psychiatric facilities, outpatient surgery centers or other ancillary facilities.

## B. BUSINESS STRATEGY

The Company's strategic objective is to provide quality health care services responsive to the needs of each community or region within the current managed care environment. Tenet believes that competition among health care providers occurs primarily at the local level. Accordingly, the Company tailors its local strategies to address the specific competitive characteristics of the geographic areas in which it operates, including the number of facilities operated by Tenet subsidiaries, the nature and structure of physician practices and physician groups, the extent of managed care penetration, the number and size of competitors and the demographic characteristics of the area. Key elements of the Company's strategy are:

- to develop integrated health care delivery systems by coordinating the operations and services of the Company's facilities with other hospitals and ancillary care providers and through alliances with physicians and physician groups;
- to reduce costs through enhanced operating efficiencies while maintaining the quality of care provided;
- to develop or maintain its strong relationships with physicians and generally to foster a physician-friendly culture;
- to enter into discounted fee-for-service arrangements and managed care contracts with third-party payors; and
- to acquire or enter into strategic partnerships with hospitals, groups of hospitals, other health care businesses, ancillary health care providers, physician practices and physician practice assets where appropriate to expand and enhance quality integrated health care delivery systems responsive to the current managed care environment.

7

Tenet's general hospitals serve as the hubs of its integrated health care delivery systems. Those systems are designed to provide a full spectrum of care throughout a community or region. For a further discussion of how Tenet's business strategy enhances its competitive position, see Competition on page 9 below. Tenet intends to continue its strategic acquisitions of and partnerships with additional general hospitals and related health care businesses in order to expand and enhance its integrated health care delivery networks.

Several factors have impacted the environment for acquisitions of general hospitals and have caused Tenet's pace for acquisitions to slow. First, many states have enacted and other states are considering enacting legislation that subjects conversions of not-for-profit hospitals to for-profit status and acquisitions of not-for-profit hospitals by for-profit companies to public hearings and/or state approval. These reviews and hearings have lengthened the process of acquiring not-for-profit hospitals. Second, not-for-profit boards have become more deliberative in the process of selling their hospitals and increasingly are engaging investment bankers or other third parties to assist with the sale process. Third, start-up companies and financially strong not-for-profit bidders--alone or in consortiums--are continuing to compete with Tenet for acquisitions.

## PROPERTIES

Tenet's principal executive offices are located at 3820 State Street, Santa Barbara, CA 93105. That building is leased by a Tenet subsidiary under a five-year lease that expires in 2001, with one five-year renewal option. The telephone number of Tenet's Santa Barbara headquarters is (805) 563-7000.

Hospital support services for Tenet's subsidiaries are located in space leased by a subsidiary in an operations center in Dallas, Texas. On May 14, 1998, the Company signed a ten-year lease for a new operations center in Dallas, Texas, that will replace its present leased office space. Construction is expected to be completed by December 1999. At May 31, 1999, Tenet and its subsidiaries also were leasing space for regional offices in Alabama, Arizona, Arkansas, California, Florida, Georgia, Louisiana, Pennsylvania and Texas. In addition, Tenet's subsidiaries operated domestically 158 medical office buildings, most of which are adjacent to Tenet's general hospitals.

The number of licensed beds and locations of the Company's general hospitals are described on pages 4 through 7 above. As of May 31, 1999, Tenet had approximately \$71 million of outstanding loans secured by property and equipment and approximately \$56 million of capitalized lease obligations. The Company believes that all of these properties, as well as the administrative and medical office buildings described above, are suitable for their intended purposes.

MEDICAL STAFF AND EMPLOYEES

Tenet's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. Members of the medical staffs of Tenet's hospitals also often serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Tenet hospital or shift some or all of their admissions to competing hospitals at any time. Although Tenet purchases physician practices and, where permitted by law, employs physicians, most of the physicians who practice at the Company's hospitals are not employees of the Company. In states where corporations are not permitted to purchase physician practices or employ physicians, Tenet manages physician practices. Nurses, therapists, lab technicians, facility maintenance staff and the administrative staff of hospitals, however, normally are employees of the Company, as are the staff of the physician practices.

Tenet's operations are dependent on the efforts, ability and experience of its officers, employees and physicians. Tenet's continued growth depends on (i) its ability to attract and retain skilled employees, (2) the ability of its officers to manage growth successfully and (iii) Tenet's ability to attract and retain physicians and other health care professionals at its hospitals. In addition, the success of Tenet is, in part, dependent upon the quality, number and specialties of physicians on its hospitals' medical staffs, most of whom have no long-term contractual relationship with Tenet and may terminate their association with Tenet's hospitals at any time. Although Tenet currently believes it will continue to successfully attract and retain key officers, qualified physicians and other health care professionals, the loss of some or all of its key officers or an inability to attract or retain sufficient numbers of qualified physicians and other health care professionals could have a material adverse impact on future results of operations.

The number of Tenet's employees (of which approximately 30 percent were part-time employees) at May 31, 1999, was approximately as follows:

General hospitals and related health care facilities(1).....	124,500
Dallas Operations Center and regional and support offices.....	1,300
Corporate headquarters.....	150
	-----
Total.....	125,950
	-----
	-----

-----

(1) Includes employees whose employment relates to the operations of the Company's general hospitals, rehabilitation hospitals, psychiatric facilities, specialty hospitals, outpatient surgery centers, managed services organizations, physician practices, debt collection subsidiary and

other health care operations.

Tenet is subject to the federal minimum wage and hour laws and maintains various employee benefit plans. Labor relations at Tenet's facilities have been satisfactory. A small percentage of Tenet's employees are represented by labor unions. Although the Company as a whole currently is not experiencing a shortage of nursing personnel at most of its facilities, there is a shortage of nurses in certain geographic areas, such as South Florida and Southern California, and in certain specialties, affecting hospitals throughout the country, which has resulted in increased costs to the Company for nursing personnel. The availability of nursing personnel fluctuates from year to year and the Company cannot predict the degree to which it will be affected by the future availability and cost of nursing personnel.

#### COMPETITION

Tenet's general hospitals and other health care businesses operate in competitive environments. A facility's competitive position within the geographic area in which it operates is affected by a number of competitive factors. Those factors include the scope, breadth and quality of services a hospital offers to its patients and their physicians; the number, quality and specialties of the physicians; nurses and other health care professionals employed by the hospital or on its staff; its reputation; its managed care contracting relationships; the extent to which it is part of an integrated network; the number of competitive facilities and other health care alternatives; the physical condition of its buildings and improvements; the quality, age and state of the art of its medical equipment; its location; its parking or proximity to public transportation; the length of time it has been a part of the community; and its charges for services. Tax-exempt competitors may have certain financial advantages, such as endowments, charitable contributions, tax-exempt financing and exemption from sales, property and income taxes, not available to Tenet facilities.

9

One factor of ever-increasing importance in the competitive position of Tenet's facilities is the ability of those facilities to obtain managed care contracts. The importance of obtaining managed care contracts has increased over the years and is expected to continue to increase as employers, private and government payors and others turn to the use of managed care in an attempt to control rising health care costs. The revenues and operating results of most of the Company's hospitals' are significantly affected by the hospitals' ability to negotiate favorable contracts with managed care payors. Under such contracts, health care providers agree to provide services on a discounted-fee or capitated basis in exchange for the payors agreeing to send some or all of their members/enrollees to those providers. With capitated contracts, a health care provider such as Tenet receives specific fixed periodic payments from a health maintenance organization, preferred provider organization or employer based on the number of members of such organization being serviced by the provider. In return, the provider agrees to provide health care services to such members regardless of the actual costs incurred and services provided. The profitability of such contracts depends upon the provider's ability to negotiate payments per patient that, in the aggregate, are adequate to cover the cost of meeting the health care needs of the covered persons. In some cases, a provider may contract with an insurance carrier to cover some or all of the costs of providing the necessary health care.

A health care provider's ability to compete for managed care contracts is affected by many factors, including the competitive factors referred to above. Among the most important of those factors is whether the hospital is part of an integrated health care delivery network and, if so, the scope, breadth and quality of services offered by such network and by competing networks. A hospital that is part of a network that offers a broad range of services in a wide geographic area is more likely to obtain managed care contracts than a hospital that is not. Tenet evaluates changing circumstances in each geographic area on an ongoing basis and positions itself to compete in the managed care market by forming its own, or joining with others to form, integrated health care delivery networks.

Tenet's networks in Southern California, South Florida, the greater New Orleans area, St. Louis and Philadelphia are models of how Tenet has developed regional networks of its own hospitals and related health care facilities and ancillary services to serve the full spectrum of health care needs of those communities. In addition to competing for managed care contracts, Tenet's hospitals and networks compete for traditional fee-for-service patients and contracts with traditional health care insurers and employers. Tenet's future success will depend, in part, on the ability of its hospitals to continue to attract and retain staff physicians, enter into managed care contracts and organize and structure integrated health care delivery networks, including those with other health care providers and physician practice groups, while continuing to provide quality, cost-effective care.

The health care industry, including Tenet, has been characterized in recent years by increased competition for patients and staff physicians, significant excess capacity at general hospitals, a shift from inpatient to outpatient treatment settings and increased consolidation. New competitive strategies of hospitals and other health care providers place increasing emphasis on the use of alternative health care delivery systems (such as home health care services, outpatient surgery and emergency and diagnostic centers) that eliminate or reduce lengths of hospital stays. The principal factors contributing to these trends are advances in medical technology and pharmaceuticals, cost-containment efforts by managed care payors, employers and traditional health care insurers, changes in regulations and reimbursement policies, increases in the number and type of competing health care providers and changes in physician practice patterns.

10

The Company's hospitals, and the health care industry as a whole, also face the challenge of continuing to provide quality patient care while dealing with strong competition for patients and with pressure on reimbursement rates not only by private payors, but also by government payors. National and state efforts to reform the health care system in the United States have adversely impacted and may further impact reimbursement rates. Changes in medical technology, existing and future legislation, regulations and interpretations and competitive contracting for provider services by payors may require changes in the Company's facilities, equipment, personnel, procedures, rates and/or services in the future.

Inpatient admissions, average lengths of stay and average occupancy at general hospitals throughout the industry, including the Company's general hospitals, continue to be adversely affected by payor-required preadmission authorization and utilization review and payor pressure to maximize outpatient and alternative health care delivery services for less acutely ill patients. Increased competition, admissions constraints and payor pressures are expected to continue. Inpatient acuity and intensity of services continue to increase as less intensive services shift from an inpatient to an outpatient basis or to alternative health care delivery services because of various factors such as technological improvements, pharmaceutical advances and payor pressures to limit or reduce payments. Those pressures imposed by government and private payors and the increasing percentage of business negotiated with purchasers of group health care services are expected to continue to adversely affect the per-patient revenues received by the Company.

To meet these challenges, the Company (i) has expanded or converted many of its general hospitals' facilities to include distinct outpatient centers, (ii) offers discounts to private payor groups, (iii) enters into capitation contracts in some service areas, (iv) upgrades facilities and equipment, and (v) offers new programs and services. The Company also has been reducing its costs. For example, the Company has implemented a case management system designed to maximize efficiency by identifying cost-per-procedure variables among physicians performing the same procedures, standardizing supplies used and negotiating volume discounts for purchases. In addition, the Company has developed a computerized outcomes management system that contains clinical and demographic information from the Company's hospitals and physicians and allows users to identify "best practices" for treating specific diagnostic-related groups.

Nevertheless, the Company cannot provide assurance that these measures will be successful, or that if they are successful, they will serve to compensate for the reduced inpatient admissions, average lengths of stay and average occupancy, and the consequent reductions in per-patient revenue, resulting from the payor pressures referred to above.

In fiscal 1999, the Company instituted further initiatives to cut costs not directly related to patient care, including reducing corporate overhead by cutting staffing above the hospital level, eliminating nonessential programs and finding more efficient ways to continue to deliver essential services. We have also begun to outsource so-called hotel services at the hospitals, such as laundry, dietary, housekeeping and maintenance services, to gain substantial cost savings.

As noted above, the Company also is responding to the challenges facing its hospitals by forming integrated health care delivery systems. Components of these systems include: (i) encouraging physicians practicing at its hospitals to form independent physician associations ("IPAs"), joining with those IPAs, physicians and physician group practices to form physician

11

hospital organizations ("PHOs") to contract with managed care and other payors as well as directly with employers and (iii) forming management services organizations ("MSOs") to provide management and administrative services to physicians, physician group practices and IPAs, and to enter into managed care contracts both on behalf of those groups and, in certain circumstances, on behalf of PHOs.

In large part, a hospital's revenues, whether from managed care payors, traditional health insurance payors or directly from patients, depends on the quality and scope of practices of physicians on staff. Physicians refer patients to hospitals on the basis of the quality of services provided by the hospital to patients and their physicians, the hospital's location, the quality of the medical staff affiliated with the hospital and the quality, age and state of the art of the hospital's facilities, equipment and employees. The Company attracts physicians to its hospitals by equipping its hospitals with technologically advanced equipment, sponsoring training programs to educate physicians on advanced medical procedures and otherwise creating an environment within which physicians prefer to practice. The Company also attracts physicians to its hospitals by using local governing boards, consisting primarily of physicians and community members, to develop short-and long-term plans for the hospital and review and approve, as appropriate, actions of the medical staff, including staff appointments, credentialing, peer review and quality assurance. While physicians may terminate their association with a hospital at any time, Tenet believes that by striving to maintain and improve the level of care at its hospitals and by maintaining ethical and professional standards, it will attract and retain qualified physicians with a variety of specialties.

There has been significant consolidation in the hospital industry over the past decade due, in large part, to continuing pressures on payments from government and private payors and increasing shifts away from the provision of traditional in-patient services. Those economic trends have caused many hospitals to close and many to consolidate either through acquisitions or affiliations. Tenet's management believes that these cost-containment pressures will continue and will lead to further consolidation in the hospital industry.

#### MEDICARE, MEDICAID AND OTHER REVENUES

Tenet receives payments for patient care from private insurance carriers, federal Medicare programs for elderly patients and patients with disabilities, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), state Medicaid programs for indigent and cash grant patients, the TriCare Program (formerly known as the Civilian Health and Medical Program of the Uniformed Services program, or CHAMPUS) ("Tri Care"), employers and patients directly. The approximate percentages of Tenet's net patient revenue by payment sources for Tenet's domestic general hospitals owned or operated by its subsidiaries are as follows:

	YEARS ENDED MAY 31,		
	1997	1998	1999
Medicare.....	40.2%	38.0%	34.2%
Medicaid.....	8.6	8.4	9.1
Managed Care.....	29.5	33.7	37.6
Private and Other.....	21.7	19.9	19.1

Payments from government programs, such as Medicare and Medicaid, account for a significant portion of Tenet's operating revenues. Recent legislative changes, including the Balanced Budget Act of 1997 (the "BBA"), have resulted in limitations on and, in some cases, significant reductions in levels of payments to health care providers under government programs. The BBA is being phased in gradually beginning October 1, 1997. The most significant changes were phased in by October 31, 1998. The BBA changes the method of paying health care providers under the Medicare and Medicaid programs, which has resulted and is expected to continue to result in significant reductions in payments to health care providers for their inpatient, outpatient, home health, capital and skilled nursing facilities costs.

In addition, private payors, including managed care payors, increasingly are demanding discounted fee structures or the assumption by health care providers of all or a portion of the financial risk through capitation arrangements. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required preadmission authorization and utilization review and by payor pressure to maximize outpatient and alternative health care delivery services for less acutely ill patients. Efforts to impose reduced allowances, greater discounts and more stringent cost controls by government and other payors also are expected to continue. Although Tenet is unable to predict the effect these changes will have on its operations, as the number of patients covered by managed care payors increases, significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on its business, financial condition and/or results of operations.

DESCRIPTION OF GOVERNMENT PROGRAMS

Medicare payments for general hospital inpatient services are based on a prospective payment system ("PPS"), referred to herein as the "DRG-PPS." Under the DRG-PPS, a general hospital receives for each Medicare patient discharged from the hospital a fixed amount based on the Medicare patient's assigned diagnostic related group ("DRG"). DRG payments are adjusted for area wage differentials but otherwise do not consider a specific hospital's operating costs. As discussed below, DRG payments exclude the reimbursement of (a) capital costs, including depreciation, interest relating to capital expenditures, property taxes and lease expenses, and (b) outpatient services. Payments for those items are made in advance based on estimates and later are increased or decreased, as the case may be based on the final audit of the cost report by program auditors. Payments from state Medicaid programs are based on reasonable costs with certain limits or are at fixed rates. Substantially all Medicare and Medicaid payments are below the retail rates charged by Tenet's facilities. Payments from other sources usually are based on the hospital's established charges, a percentage discount from such charges or all-inclusive per diem rates.

Historically, DRG rates were increased each year to take into account the increased cost of goods and services purchased by hospitals and non-hospitals (the "Market Basket"). With the exception of federal fiscal year 1997 (which ended September 30, 1997), in which the increase in DRG Rates was equal to the 2.5% Market Basket, the percentage increases to the DRG rates for the past several years have been lower than the Market Basket and, as a result, payments received by general hospitals under the DRG-PPS has not kept up with the cost of

goods and services. Moreover, the BBA froze DRG rates at their 1997 levels through federal fiscal year 1998 (which ended September 30, 1998). The BBA also limits the rate of increase in DRG rates thereafter to the annual Market Basket for such year minus (a) 1.9 percent from October 1, 1998 through September 30, 1999, (b) 1.8 percent from October 1, 1999 through September 30, 2000,

13

and (c) 1.1 percent from October 1, 2000 through September 30, 2003. Payments to be received by general hospitals under the DRG-PPS continue to be below the increases in the cost of goods and services purchased by hospitals. The update for the federal fiscal year beginning October 1, 1999, has been set at 1.1 percent (2.9 percent Market Basket minus 1.8 percent).

Medicare pays general hospitals' capital costs separately from DRG payments. Beginning in 1992, a PPS for Medicare reimbursement of general hospitals' inpatient capital costs ("PPS-CC") generally became effective with respect to the Company's general hospitals. Pursuant to the BBA, the PPS-CC rates paid to Tenet's general hospitals for their inpatient capital costs were reduced by approximately 15 percent in federal fiscal year 1998 from their prior-year levels.

Medicare historically has limited payment for outpatient services provided at general hospitals, physical rehabilitation hospitals and psychiatric facilities to the lower of customary charges or 94.2 percent of actual cost. In addition, Congress has established additional limits on the payment of operating costs for the following outpatient services: (a) clinical laboratory services, which have been paid based on a fee schedule, and (b) ambulatory surgery procedures and certain imaging and other diagnostic procedures, which have been paid based on a blend of the hospital's specific cost and the rate paid by Medicare to non-hospital providers for such services. The BBA corrects a flaw in the existing payment formula for ambulatory surgery services referred to as the "formula driven overpayment." That flaw resulted in general hospitals receiving payments that were higher than those anticipated by the Health Care Financing Administration ("HCFA") but were still below the actual cost of providing the services. The correction of the formula-driven overpayment has resulted in payments to general hospitals for outpatient services performed by them being reduced even further below the cost of providing those services. Under the BBA, the payment method for most outpatient services provided at general hospitals was to be converted from the cost-based system to a PPS effective January 1, 1999, and phased-in over a three-year period. HCFA has requested, and Congress has approved, postponing the implementation of the outpatient PPS systems. The stated reason for the delay is HCFA's need to focus its resources on correcting its computer systems to handle its Year 2000 Issues (discussed below). The implementation date has not been established, but is expected to be July 2000.

Hospitals and hospital units currently exempt from the DRG-PPS, such as qualified physical rehabilitation hospitals and psychiatric facilities ("Exempt Hospitals/Units"), traditionally have been paid by Medicare on a cost-based system under which target rates for each facility were used in applying various limitations and calculating incentive payments. Tenet's Exempt Hospitals/Units received no increase to their target rates for cost reporting periods beginning from October 1, 1997 through September 30, 1998. Increases in target rates for future periods will vary between a Market Basket increase and no increase at all, depending upon the extent to which the Exempt Hospitals/Units' actual costs are below their target rates. An additional change under the BBA is that the Company's Exempt Hospitals/Units will lose certain incentive payments they have been receiving for keeping their costs lower than their pre-established target limits.

Home health services historically have been exempt from the DRG-PPS and have been paid by Medicare at cost, subject to certain limits. The BBA requires that HCFA develop a PPS for home health services, which is to be phased in over a four-year period for cost-reporting periods beginning on or after October 1, 1999. In the interim, payment rates in effect under the current system have been reduced. In addition, a new limit based on a per beneficiary cost limit has been established. The BBA also provides that rates in effect on September 30, 1999 be reduced by

15 percent, even if HCFA does not begin to implement the PPS by October 1, 1999. The development and implementation of these provisions may be delayed. When implemented, the Company expects that its hospitals will receive significantly lower payment for home health services.

Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payment from the federal government in the form of Disproportionate Share Payments. The BBA provides that such payments will be reduced by 1 percent for each federal fiscal year from 1998 through 2002.

A general hospital historically has been paid its full DRG payment for patients discharged from an acute-care setting. Under the BBA, however, if a patient is discharged from a general hospital prior to being in the general hospital for the mean length of stay for the patient's DRG and receives home health services or rehabilitation, psychiatric or skilled nursing services in either a freestanding hospital or hospital unit, the general hospital will receive only a prorated payment for that DRG depending on the length of time the patient was in the hospital. This new provision became effective for discharges after October 1, 1998, and applies only to ten, high-volume DRG's selected by the Secretary of HHS.

Under current law, if a hospital is unable to collect a Medicare beneficiary's deductible or co-payment (a "Bad Debt"), the hospital may be paid by the federal government for the Bad Debt provided certain conditions are met. The BBA provides that the amount of a Bad Debt for which the Company otherwise would be paid will be reduced: 25 percent beginning October 1, 1997, 40 percent beginning October 1, 1998, and 45 percent beginning October 1, 1999.

As discussed above, the BBA significantly changes the manner in which the Company will be paid for services provided to Medicare beneficiaries. While none of the changes individually is expected to have a significant impact on the amount of payment received by the Company, the changes taken as a whole are expected to significantly reduce the amount of payment received by the Company from the federal government.

The purpose of the BBA is to balance the federal budget by federal fiscal year 2002. If the federal budget is not balanced by federal fiscal year 2002 and the federal deficit is not reduced thereafter, payment rates could be further reduced to ensure the solvency of the Social Security system. The Company is unable to predict at this time if there will be any further reductions in payment rates in future years and, if there are further reductions, how significant those reductions will be.

As part of the DRG-PPS, Congress has established additional payments to hospitals that treat patients who are costlier to treat than the average patient. These additional payments are referred to as "Outlier Payments." Congress has mandated that HCFA limit Outlier Payments to equal between 5% and 6% of total DRG payments. In order to bring expected Outlier Payments within the mandated limit, HCFA has raised the threshold cost used to determine the patients for which a hospital receives Outlier Payments, effective October 1, 1999. The increase in the outlier standard will significantly reduce the number of patients with respect to which Tenet hospitals will qualify for future Outlier Payments. This change is expected to result in a significant reduction in Outlier Payments to the Company in fiscal year 2000.

The Medicare, Medicaid and TriCare programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization

review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing

services and the timing of payments to facilities. The final determination of amounts earned under the programs often requires many years, because of audits by the program representatives, providers' rights of appeal and the application of numerous technical reimbursement provisions. Management believes that adequate provision has been made for such adjustments. Until final adjustment, however, significant issues remain unresolved and previously determined allowances could be more or less than ultimately required.

## HEALTH CARE REFORM, REGULATION AND LICENSING

### CERTAIN BACKGROUND INFORMATION

Health care, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. Changes in the Medicare, Medicaid and other programs, hospital cost-containment initiatives by public and private payors, proposals to limit payments and health care spending and industry-wide competitive factors are highly significant to the health care industry. In addition, the health care industry is governed by a framework of federal and state laws, rules and regulations that are extremely complex and for which the industry has the benefit of little or no regulatory or judicial interpretation. Although the Company believes it is in compliance in all material respects with such laws, rules and regulations, if a determination is made that the Company was in material violation of such laws, rules or regulations, its operations and financial results could be materially adversely affected.

As discussed under Medicare, Medicaid and Other Revenues on pages 12 through 16 above, the BBA has the effect of reducing payments to hospitals and other health care providers under the Medicare program. The reductions in payments and other changes mandated by the BBA, discussed above, have had, and are expected to continue to have, a significant impact on the Company's revenues under the Medicare program. In addition, there continue to be federal and state proposals that would, and actions that do, impose more limitations on payments to providers such as Tenet and proposals to increase copayments and deductibles from patients.

Tenet's facilities also are affected by controls imposed by government and private payors designed to reduce admissions and lengths of stay. For all providers, such controls, including what is commonly referred to as "utilization review," have resulted in fewer of certain treatments and procedures being performed. Utilization review entails the review of the admission and course of treatment of a patient by a third party. Utilization review by third-party peer review organizations ("PROs") is required in connection with the provision of care paid for by Medicare and Medicaid. Utilization review by third parties also is a requirement of many managed care arrangements.

Many states have enacted or are considering enacting measures that are designed to reduce their Medicaid expenditures and to make certain changes to private health care insurance. Various states have applied, or are considering applying, for a federal waiver from current Medicaid regulations to allow them to serve some of their Medicaid participants through managed care providers. Texas was denied a waiver under Section 1115 of the BBA but is in the process of implementing regional managed care programs under a more limited waiver. Texas also has applied for federal funds for children's health programs under the BBA. Louisiana is considering wider use of managed care for its Medicaid population. California has created a voluntary health insurance purchasing cooperative that seeks to make health care coverage more

affordable for businesses with five to 50 employees and, effective January 1, 1995, changed the payment system for participants in its Medicaid program in certain counties from fee-for-service arrangements to managed care plans. Florida also has legislation, and other states are considering adopting legislation, imposing a tax on net revenues of hospitals to help finance or expand the provision of health care to uninsured and underinsured persons. A number of other states are considering the enactment of managed care initiatives designed to provide universal low-cost coverage. These proposals also may

attempt to include coverage for some people who currently are uninsured.

#### CERTIFICATE OF NEED REQUIREMENTS

Some states require state approval for construction and expansion of health care facilities, including findings of need for additional or expanded health care facilities or services. Certificates of Need, which are issued by governmental agencies with jurisdiction over health care facilities, are at times required for capital expenditures exceeding a prescribed amount, changes in bed capacity or services and certain other matters. Following a number of years of decline, the number of states requiring Certificates of Need is once again on the rise as state legislators once again are looking at the Certificate of Need process as a way to contain rising health care costs. At May 31, 1999, Tenet operated hospitals in 12 states that require state approval under Certificate of Need Programs. Tenet is unable to predict whether it will be able to obtain any Certificates of Need in any jurisdiction where such Certificates of Need are required.

#### ANTIKICKBACK AND SELF-REFERRAL REGULATIONS

The health care industry is subject to extensive federal, state and local regulation relating to licensure, conduct of operations, ownership of facilities, addition of facilities and services and prices for services. In particular, Medicare and Medicaid antikickback and antifraud and abuse amendments codified under Section 1128B(b) of the Social Security Act (the "Antikickback Amendments") prohibit certain business practices and relationships that might affect the provision and cost of health care services payable under the Medicare, Medicaid and other government programs, including the payment or receipt of remuneration for the referral of patients whose care will be paid for by such programs. Sanctions for violating the Antikickback Amendments include criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as the Medicare and Medicaid programs.

The "Health Insurance Portability and Accountability Act of 1996," which became effective January 1, 1997, amends, among other things, Title XI (42 U.S.C. 1301 ET SEQ.) to broaden the scope of current fraud and abuse laws to include all health plans, whether or not they are reimbursed as a federal program.

Section 1877 of the Social Security Act (commonly referred to as the "Stark" laws) restricts referrals by physicians of Medicare, Medicaid and other government-program patients to providers of a broad range of designated health services with which they have ownership or certain other financial arrangements. Section 1877 was amended effective January 1, 1995, to significantly broaden the original scope of prohibited referrals. Many states have adopted or are considering similar legislative proposals, some of which extend beyond the Medicaid program to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of the source of the payment for the care. Tenet's participation in and development of joint ventures and other financial relationships with physicians could be adversely affected by these amendments and similar state enactments.

The federal government has issued regulations that describe some of the conduct and business relationships that are permissible under the Antikickback Amendments ("Safe Harbors"). The fact that certain conduct or a given business arrangement does not fall within a Safe Harbor does not render the conduct or business arrangement per se illegal under the Antikickback Amendments. Such conduct and business arrangements, however, do risk increased scrutiny by government enforcement authorities. Tenet may be less willing than some of its competitors to enter into conduct or business arrangements that do not clearly satisfy the Safe Harbors. Passing up certain of those opportunities of which its competitors are willing to take advantage may put Tenet at a competitive disadvantage. Tenet has a voluntary regulatory compliance program and systematically reviews all of its operations to ensure that they comply with the Antikickback Amendments, the Social Security Act and similar state statutes.

Both federal and state government agencies are continuing heightened and coordinated civil and criminal enforcement efforts. As part of an announced work plan, the government has begun to scrutinize, among other things, the terms of acquisitions of physician practices by companies that own hospitals. The Company has received a subpoena from the Department of Health and Human Services ("HHS") requesting information concerning the purchase of certain physician practices, primarily by a company subsequently acquired by Tenet. The Company is cooperating with the investigation and does not believe it will have a material adverse affect on the Company's business, financial condition or results of operations. The Company believes that the health care industry will continue to be subject to increased government scrutiny and investigations such as this.

Another trend impacting the health care industry today is the increased use of the False Claims Act by individuals. Such QUI TAM or "whistleblower" actions allow private individuals to bring actions on behalf of the government alleging that the defendant has defrauded the federal government. If the government intervenes in the action and prevails, the party filing the initial complaint may share in a portion of any settlement or judgment. If the government does not intervene in the action, the QUI TAM plaintiff may pursue the action independently. Although from time to time companies in the health care industry in general and the Company in particular may be subject to QUI TAM actions, the Company is unable to predict the impact of such actions on its business, financial condition or results of operations.

Tenet is unable to predict the future course of federal, state and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Further changes in the regulatory framework could have a material adverse effect on Tenet's business, financial condition and results of operations.

#### ENVIRONMENTAL REGULATIONS

The Company's health care operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. The Company's operations, as well as the Company's purchases and sales of facilities, also are subject to compliance with various other environmental laws, rules and regulations. Such compliance does not, and the Company anticipates that such compliance will not, materially affect the Company's business, financial condition and results of operations.

18

#### HEALTH CARE FACILITY LICENSING REQUIREMENTS

Tenet's health care facilities are subject to extensive federal, state and local legislation and regulation. In order to maintain their operating licenses, health care facilities must comply with strict standards concerning medical care, equipment and hygiene. Various licenses and permits also are required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. Tenet's health care facilities hold all required governmental approvals, licenses and permits. Except for one small hospital that has not sought to be accredited, each of Tenet's facilities that is eligible for accreditation is fully accredited by the JCAHO, CARF (in the case of rehabilitation hospitals) or another appropriate accreditation agency. With such accreditation, the Company's hospitals are eligible to participate in government-sponsored provider programs such as the Medicare and Medicaid programs. The one hospital that is not accredited participates in the Medicare program through a special waiver that must be renewed each year.

#### UTILIZATION REVIEW COMPLIANCE AND HOSPITAL GOVERNANCE

Tenet's health care facilities are subject to and comply with various forms of utilization review. In addition, under the Medicare PPS, each state must have a PRO to carry out a federally mandated system of review of Medicare patient admissions, treatments and discharges in general hospitals. Medical and surgical services and practices are extensively supervised by committees of staff doctors at each health care facility, are overseen by each health care facility's local governing board, the members of which primarily are physicians and community

members, and are reviewed by Tenet's quality assurance personnel. The local governing boards also help maintain standards for quality care, develop long-range plans, establish, review and enforce practices and procedures and approve the credentials and disciplining of medical staff members.

#### COMPLIANCE PROGRAM

The Company maintains a multifaceted corporate compliance and ethics program that meets or exceeds all applicable federal guidelines and industry standards. The program is designed to raise awareness of various regulatory issues among employees and to stress the importance of complying with all governmental laws and regulations. As part of the program, the Company provides annual ethics and compliance training to every employee and encourages all employees to report any violations to a toll-free telephone hotline.

19

#### MANAGEMENT

On May 31, 1999, Michael H. Focht, Sr., who had served as President and Chief Operating Officer since 1993, retired after 20 years of service to the Company. Mr. Focht was instrumental in the Company's growth and development over the past five years. Mr. Focht plans to continue to serve on Tenet's Board of Directors. With the announcement of Mr. Focht's retirement, the Company created a new Office of the President, shared by Trevor Fetter, Chief Corporate Officer, and Thomas B. Mackey, Chief Operating Officer.

The executive officers of the Company who are not also Directors as of August 27, 1999 are:

NAME	POSITION	AGE
Trevor Fetter.....	Chief Corporate Officer and Chief Financial Officer	39
Thomas B. Mackey.....	Chief Operating Officer	51
Raymond L. Mathiasen.....	Executive Vice President and Chief Accounting Officer	56
Barry P. Schochet.....	Vice Chairman	48
Christi R. Sulzbach.....	Executive Vice President and General Counsel	44

Mr. Fetter was elected to the position of Chief Corporate Officer, Office of the President, on January 13, 1999. Mr. Fetter joined Tenet as an Executive Vice President in October 1995. In March 1996, he was elected to the additional position of Chief Financial Officer, a position he still holds. Prior to joining Tenet, Mr. Fetter served as Executive Vice President and Chief Financial Officer of Metro-Goldwyn-Mayer, Inc. ("MGM") from 1990 to October 1995, and as Senior Vice President of MGM from 1988 to 1990. From 1982 to 1988, Mr. Fetter worked in the investment banking division of Merrill Lynch Capital Markets. Mr. Fetter hold a bachelor's degree in economics from Stanford University and an MBA from Harvard Business School.

Mr. Mackey was elected Chief Operating Officer, Office of the President, on January 13, 1999. Mr. Mackey has 25 years experience in health care. He joined Tenet in 1985 and has since held a variety of senior regional and divisional management positions, most recently serving as Executive Vice President, Western Division from March 1995 to January 1999. Before joining Tenet, Mr. Mackey was vice president, operations, for Greatwest Hospitals in California. He began his health care career at the University of California, San Diego University Hospital. Mr. Mackey holds a bachelor's degree in industrial engineering from Northeastern University and a master's degree in business administration from Cornell University.

Mr. Mathiasen was elected Executive Vice President on March 22, 1999. Since March 1996, Mr. Mathiasen has been Chief Accounting Officer of the Company. From February 1994 to March 1996, Mr. Mathiasen served as Senior Vice President and Chief Financial Officer of the Company and from September 1993 to February 1994, Mr. Mathiasen served as Senior Vice President and acting Chief Financial Officer. Mr. Mathiasen was elected to the position of Senior Vice President in 1990 and Chief Operating Financial Officer in 1991. Prior to joining Tenet as a

Vice President in 1985, he was a partner with Arthur Young & Company (now known as Ernst & Young).

20

Mr. Schochet was elected Vice Chairman of Tenet on January 25, 1999. Mr. Schochet joined Tenet in 1979 and has held a variety of executive positions since that time, most recently serving as Executive Vice President of Operations from March 1995 to January 1999. Mr. Schochet graduated from the University of Maine with a bachelor's degree in zoology and received a master's degree in hospital administration from George Washington University in Washington D.C. He is a diplomate of the American College of Healthcare Executives and is past president of the board of governors of the Federation of American Health Systems and a member of its board of directors.

Ms. Sulzbach was elected Executive Vice President and General Counsel on February 22, 1999. Prior to that appointment, Ms. Sulzbach served as Associate General Counsel in charge of compliance and litigation and as Senior Vice President, Public Affairs. She joined Tenet in 1983 and has held a variety of positions in the law department since that time. Ms. Sulzbach earned a juris doctorate degree from Loyola University in Los Angeles in 1979. She serves on the boards of directors of the National Health Foundation in Los Angeles and the Federal Bar Association. She also serves on the Strategic Planning Committee for the American Hospital Association.

#### PROFESSIONAL AND GENERAL LIABILITY INSURANCE

The Company insures substantially all of its professional and comprehensive general liability risks in excess of self-insured retentions through a majority-owned insurance subsidiary. These self-insured retentions currently are \$1 million per occurrence and varied in prior years by hospital and by policy period from \$500 thousand to \$3 million per occurrence. A significant portion of these risks is, in turn, reinsured with major independent insurance companies. Prior to fiscal 1995, the Company insured its professional and comprehensive general liability risks related to its psychiatric and rehabilitation hospitals through a wholly owned insurance subsidiary, which reinsured risks in excess of \$500 thousand per occurrence with major independent insurance companies. The Company has reached the policy limits provided by this insurance subsidiary related to the psychiatric hospitals in most of its coverage years. In addition, damages, if any, arising from fraud and conspiracy claims in psychiatric malpractice cases (described under Legal Proceedings below) may not be insured. If actual payments of claims materially exceed projected payments of claims, Tenet's financial condition could be materially adversely affected.

#### THE YEAR 2000 ISSUE

The Company is continuing its six-phase Year 2000 Compliance program. The first phase of the program, conducting an inventory of systems and programs that may be affected by the Year 2000 issue, the second phase, assessment of how the Year 2000 issues may affect each piece of equipment and system, and the third phase, planning corrections of any problems discovered, have been completed for both the Company's information technology systems ("IT Systems") and non-IT Systems such as bio-medical equipment ("Non-IT Items"), except for the 12 general hospitals and related operations that were acquired in fiscal year 1999, with respect to which the first three phases have been substantially completed. Phases four through six (executing the plans developed, testing the corrections and implementing the corrections across all of the Company's systems and programs) are well under way and will run concurrently through the fall of calendar 1999 for both IT-Systems and Non-IT Items.

21

The costs the Company has incurred to date in connection with its Year 2000 compliance program amount to approximately \$51 million. This amount and the estimated total cost do not include internal salaries and other internal costs of the year 2000 compliance program. The Company estimates that its total cost for addressing all Year 2000 issues will be approximately \$100 million, substantially all of which will be accounted for as capital expenditures. The

Company cautions that its estimate is based on the information available to the Company at this time. As the Company continues to evaluate the full scope of its Year 2000 issues, its estimate of the costs it may incur may change. Although the total cost of the Company's Year 2000 compliance program is presently not expected to have a material adverse effect on its operations, liquidity or financial condition, many factors, such as the number of pieces of equipment and systems with Year 2000 issues and the cost of replacing equipment or systems that cannot be brought into compliance or with respect to which it is more cost-effective in the long run to replace or take out of service, are not fully known at this time and could have an aggregate material impact on the Company's estimate. The Company will receive additional information concerning these and other matters as it completes each phases 4-6 of its Year 2000 compliance program.

The Company is continuing to develop contingency plans to address any Year 2000 issues that do arise. Since any piece of equipment that is not Year 2000 compliant will be made compliant, replaced or taken out of service, the Company does not expect the Year 2000 Issues to have an adverse impact on patient care. Furthermore, the Company has developed or is developing a back-up plan for each piece of critical equipment in case it unexpectedly fails. Many contingency plans already are in place since contingency plans are required in order for a hospital to obtain and retain its license. The Company's contingency plans also include plans to address third parties' Year 2000 issues that may arise. Examples include (i) making certain that each hospital's back-up power generator is operational if there is a power failure, (ii) if the Company does not receive assurance that delivery of key medical supplies will not be interrupted by Year 2000 issues, the Company will identify reliable alternative sources for those supplies or will make appropriate alternative arrangements, and (iii) if regular payments from a principal payor might be adversely affected by Year 2000 issues, the Company will endeavor to negotiate an alternative payment system.

The Securities and Exchange Commission's recent guidance for Year 2000 disclosure also calls on companies to describe their most likely worst case Year 2000 scenarios. While one can imagine a scenario in which medical equipment fails as a result of a Year 2000 problem, which could lead to serious injury or death, the Company does not believe that such a scenario is likely to occur. As noted above, since any piece of equipment that is not Year 2000 compliant will be made compliant, replaced or taken out of service, the Company does not expect the Year 2000 issues to have an adverse impact on patient care. Furthermore, there will be a back-up plan for each piece of critical equipment in case it unexpectedly fails. The most likely worst case scenario is that the Company will have to replace or take out of service some of its existing equipment and add additional staff and/or reassign existing staff during the time period leading up to and immediately following December 31, 1999, in order to address any Year 2000 issues that unexpectedly arise.

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K, including, without limitation, statements containing the words "believes", "anticipates", "expects", "will", "may", "might", "estimate", "should" and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management's current expectations and involve known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; industry capacity; demographic changes; existing laws and government regulations and changes in, or the failure to comply with laws and governmental regulations; legislative proposals for health care reform; the ability to enter into managed care provider arrangements on acceptable terms; a shift from fee-for-service payment to capitated and other risk-based payment systems; changes in Medicare and Medicaid reimbursement levels;

liability and other claims asserted against the Company; competition; the loss of any significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for, health care; changes in business strategy or development plans; the ability to attract and retain qualified personnel, including physicians; the significant indebtedness of the Company; the availability and suitable acquisition opportunities and the length of time it takes to accomplish acquisitions; the availability and terms of capital to fund the expansion of the Company's business, including the acquisition of additional facilities; and the impact of the Year 2000 Issues. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Tenet disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

ITEM 2. PROPERTIES.

The response to this item is included in Item 1.

ITEM 3. LEGAL PROCEEDINGS.

The Company has been involved in significant legal proceedings of an unusual nature related principally to its subsidiaries' discontinued psychiatric business and, although it has settled the most significant of these matters, continues to defend a greater-than-normal level of civil litigation relating to certain of its subsidiaries' former psychiatric operations. In prior fiscal years the Company resolved these matters primarily through settlement. Based on its experience in these cases, however, and on recent lawsuits generated by continued advertisements by certain lawyers seeking former patients in order to file claims against the Company and certain of its subsidiaries, the Company now believes that the vigorous defense and trial of these cases, and any additional lawsuits that may be filed, ultimately will be the most cost-effective means of resolving these issues.

In prior years, the Company recorded provisions to estimate the cost of the ultimate disposition of all of these proceedings and to estimate the legal fees that it expected to incur. The remaining reserves are for unusual litigation costs and fees that relate to matters that had not been settled as of May 31, 1999 and primarily represent management's estimate of the legal fees

23

and other related costs to be incurred subsequent to May 31, 1999. There can be no assurance that the ultimate liability will not exceed such estimates. Although, based upon information currently available to it, management believes that the amount of damages, if any, in excess of its reserves for unusual litigation costs that may be awarded in any unresolved legal proceedings cannot reasonably be estimated, management does not believe it is likely that any such damages will have a material adverse effect on the Company's results of operations, liquidity or capital resources. All of the costs associated with these legal proceedings are classified in discontinued operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The response to this item is included on page 45 of the Registrant's Annual Report to Shareholders for the year ended May 31, 1999. The required information hereby is incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA.

The response to this item is included on page 7 of the Registrant's Annual Report to Shareholders for the year ended May 31, 1999. The required information

hereby is incorporated by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The response to this item is included on pages 8 through 18 of the Registrant's Annual Report to Shareholders for the year ended May 31, 1999. The required information hereby is incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The response to this item is included on pages 15 and 16 of the Registrant's Annual Report to Shareholders for the year ended May 31, 1999. The required information hereby is incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The response to this item is included on pages 19 through 45 of the Registrant's Annual Report to Shareholders for the year ended May 31, 1999. The required information hereby is incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

24

PART III

ITEMS 10 AND 11. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; EXECUTIVE COMPENSATION.

Information concerning the Directors of the Registrant, including executive officers of the Registrant who also are Directors, and other information required by Items 10 and 11, is included on pages 2 through 13 of the definitive Proxy Statement for Registrant's 1999 Annual Meeting of Shareholders and hereby is incorporated by reference. Similar information regarding executive officers of the Registrant who, except as noted therein, are not Directors is set forth on pages 20 and 21 above. Information regarding compensation of executive officers and Directors of the Registrant is included on pages 14 through 19 and pages 27 through 31 of the definitive Proxy Statement for the Registrant's 1999 Annual Meeting of Shareholders and hereby is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The response to this item is included on pages 7 and 31 of the definitive Proxy Statement for the Registrant's 1999 Annual Meeting of Shareholders. The required information hereby is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

25

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K.

(A) 1. FINANCIAL STATEMENTS.

The consolidated financial statements to be included in Part II, Item 8, are incorporated by reference to the Registrant's 1999 Annual Report to Shareholders. (See Exhibit (13))

2. FINANCIAL STATEMENT SCHEDULES.

Schedule II--Valuation and Qualifying Accounts and Reserves (included on page 32).

All other schedules and Condensed Financial Statements of Registrant are omitted because they are not applicable or not required or because the required information is included in the consolidated financial statements or notes thereto.

3. EXHIBITS.

(3) Articles of Incorporation and Bylaws

(a) Restated Articles of Incorporation of Registrant, as amended October 13, 1987 and June 22, 1995 (Incorporated by reference to Exhibit 3(a) to Registrant's Annual Report on Form 10-K, dated August 25, 1995, for the fiscal year ended May 31, 1995)

(b) Restated Bylaws of Registrant, as amended March 10, 1999

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(a) Indenture, dated as of March 1, 1995, between Tenet and The Bank of New York, as Trustee, relating to 9 5/8% Senior Notes due 2002 (Incorporated by reference to Exhibit 4(a) to Registrant's Quarterly Report on Form 10-Q, dated April 14, 1995, for the fiscal quarter ended February 28, 1995)

(b) First Supplemental Indenture, dated as of October 30, 1995, between Tenet and The Bank of New York, as Trustee, relating to 9 5/8% Senior Notes due 2002 (Incorporated by reference to Exhibit 4(c) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

(c) Second Supplemental Indenture, dated as of August 21, 1997, between Tenet and The Bank of New York, as Trustee, relating to 9 5/8% Senior Notes due 2002 (Incorporated by reference to Exhibit 4(d) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

(d) Indenture, dated as of March 1, 1995, between Tenet and The Bank of New York, as Trustee, relating to 10 1/8% Senior Subordinated Notes due 2005 (Incorporated by reference to Exhibit 4(b) to Registrant's Quarterly Report on Form 10-Q, dated April 14, 1995, for the fiscal quarter ended February 28, 1995)

(e) First Supplemental Indenture, dated as of October 27, 1995, between Tenet and The Bank of New York, as Trustee, relating to 10 1/8% Senior Subordinated Notes due 2005 (Incorporated by reference to Exhibit 4(f) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

26

(f) Second Supplemental Indenture, dated as of August 21, 1997, between Tenet and The Bank of New York, as Trustee, relating to 10 1/8% Senior Subordinated Notes due 2005 (Incorporated by reference to Exhibit 4(g) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

(g) Indenture, dated as of October 16, 1995, between Tenet and The Bank of New York, as Trustee, relating to 8 5/8% Senior Notes due 2003 (Incorporated by reference to Exhibit 4(d) to Registrant's Annual Report on Form 10-K, dated August 26, 1996, for the fiscal year ended May 31, 1996)

(h) First Supplemental Indenture, dated as of October 30, 1995, between Tenet and The Bank of New York, as Trustee, relating to 8 5/8%

Senior Notes due 2003 (Incorporated by reference to Exhibit 4(i) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

- (i) Second Supplemental Indenture, dated as of August 21, 1997, between Tenet and The Bank of New York, as Trustee, relating to 8 5/8% Senior Notes due 2003 (Incorporated by reference to Exhibit 4(j) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)
- (j) Indenture, dated as of January 10, 1996, between Tenet and The Bank of New York, as Trustee, relating to 6% Exchangeable Subordinated Notes due 2005 (Incorporated by reference to Exhibit 4(a) to Registrant's Quarterly Report on Form 10-Q, dated January 15, 1996, for the fiscal quarter ended November 30, 1995)
- (k) Escrow Agreement, dated as of January 10, 1996, among Tenet, NME Properties, Inc., NME Property Holding Co., Inc. and The Bank of New York, as Escrow Agent (Incorporated by reference to Exhibit 4(b) to Registrant's Quarterly Report on Form 10-Q, dated as of January 15, 1996, for the fiscal quarter ended November 30, 1995)
- (l) Indenture, dated January 15, 1997, between Tenet and The Bank of New York, as Trustee, relating to 7 7/8% Senior Notes due 2003 (Incorporated by reference to Exhibit 4(m) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)
- (m) Indenture, dated January 15, 1997, between Tenet and The Bank of New York, as Trustee, relating to 8% Senior Notes due 2005 (Incorporated by reference to Exhibit 4(n) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)
- (n) Indenture, dated January 15, 1997, between Tenet and The Bank of New York, as Trustee, relating to 8 5/8% Senior Subordinated Notes due 2007 (Incorporated by reference to Exhibit 4(o) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)
- (o) Indenture, dated May 21, 1998, between Tenet and The Bank of New York, as Trustee, relating to 7 5/8% Senior Notes due 2008 (Incorporated by reference to Exhibit 4(o) to Registrant's Annual Report on Form 10-K, dated August 28, 1998, for the fiscal year ended May 31, 1998)

27

- (p) Indenture, dated May 21, 1998, between Tenet and The Bank of New York, as Trustee, relating to 8 1/8% Senior Subordinated Notes due 2008 (Incorporated by reference to Exhibit 4(p) to Registrant's Annual Report on Form 10-K, dated August 28, 1998, for the fiscal year ended May 31, 1998)
- (q) Shareholder Rights Plan, adopted December 7, 1998 (incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on December 11, 1998)

#### (10) Material Contracts

- (a) \$91,350,000 Amended and Restated Letter of Credit and Reimbursement Agreement, dated as of February 28, 1995, among the Company, as Account Party, and Bank of America National Trust and Savings Association, The Bank of New York, Bankers Trust Company and Morgan Guaranty Trust Company of New York, as Banks, and The Bank of New York, as Issuing Bank (Incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q, dated April 14, 1995, for the fiscal quarter ended February 28, 1995)

- (b) Amendment to Reimbursement Agreement, dated as of March 1, 1996, among the Company, as Account Party, Bank of America National Trust and Savings Association, The Bank of New York, Bankers Trust Company and Morgan Guaranty Trust Company of New York, as Banks, and The Bank of New York, as the Issuing Bank (Incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q, dated as of April 12, 1996, for the fiscal quarter ended February 29, 1996)
- (c) Amendment No. 2 to Reimbursement Agreement, dated January 30, 1997, among the Company, as Account Party, Bank of America National Trust and Savings Corporation, The Bank of New York and Morgan Guaranty Trust Company of New York, as Banks, and The Bank of New York, as Issuing Bank (Incorporated by reference to Exhibit 10(c) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)
- (d) Agreement, dated August 22, 1995, among the Company, The Hillhaven Corporation and Vencor, Inc. (Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K, dated August 25, 1995, for the fiscal year ended May 31, 1995)
- (e) \$2,800,000,000 Credit Agreement, dated as of January 30, 1997, among the Company, as Borrower, the Lenders, Managing Agents and Co-Agents party thereto, the Swingline Bank party thereto, The Bank of New York and the Bank of Nova Scotia, as Documentation Agents, Bank of America National Trust and Savings Association, as Syndication Agent, and Morgan Guaranty Trust Company of New York, as Administrative Agent (Incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q, dated as of April 14, 1997, for the fiscal quarter ended February 28, 1997)
- (f) Amendment, dated as of July 25, 1997, to the Credit Agreement, dated as of January 30, 1997, among the Company, the Lenders, Managing Agents and Co-Agents party thereto, the Swingline Bank party thereto, The Bank of New York

28

and The Bank of Nova Scotia, as Documentation Agents, Bank of America National Trust and Savings Association, as Syndication Agent, and Morgan Guaranty Trust Company of New York, as Administrative Agent (Incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K, dated August 27, 1997, for the fiscal year ended May 31, 1997)

- (g) Amendment No. 2 to Credit Agreement, dated as of March 16, 1999 (Incorporated by reference to Exhibit 99.1 to Registrant's Quarterly Report on Form 10-Q, dated as of April 14, 1999, for the fiscal quarter ended February 28, 1999)
- (h) Letter from the Registrant to Jeffrey C. Barbakow, dated May 26, 1993
- (i) Letter from the Registrant to Jeffrey C. Barbakow, dated June 1, 1993
- (j) Memorandum from the Registrant to Jeffrey C. Barbakow, dated June 14, 1993
- (k) Memorandum of Understanding, dated May 21, 1996, from Jeffrey C. Barbakow to the Company (Incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K, dated as of August 26, 1996, for the fiscal year ended May 31, 1996)
- (l) Deferred Compensation Agreement, dated May 31, 1997, between Jeffrey C. Barbakow and the Company (Incorporated by reference to Exhibit 10(l) to Registrant's Annual Report on Form 10-K, dated August 28, 1998, for the fiscal year ended May 31, 1998)

- (m) Memorandum of Understanding, dated May 21, 1996, from Michael H. Focht, Sr. to the Company (Incorporated by reference to Exhibit 10(u) to Registrant's Annual Report on Form 10-K, dated as of August 26, 1996, for the fiscal year ended May 31, 1996)
- (n) Consulting and Non-Compete Agreement between Michael H. Focht, Sr. and the Company, dated as of January 12, 1999.
- (o) Letter from the Company to Trevor Fetter, dated January 13, 1999
- (p) Letter from the Company to Thomas B. Mackey, dated January 13, 1999
- (q) Letter from the Company to Barry P. Schochet, dated February 23, 1999
- (r) Executive Officers Relocation Protection Agreement (Incorporated by reference to Exhibit 10(v) to Registrant's Annual Report on Form 10-K, dated as of August 26, 1996, for the fiscal year ended May 31, 1996)
- (s) Executive Officers Severance Protection Plan (Incorporated by reference to Exhibit 10(w) to Registrant's Annual Report on Form 10-K, dated as of August 26, 1996, for the fiscal year ended May 31, 1996)
- (t) Board of Directors Retirement Plan, effective January 1, 1985, as amended August 18, 1993, April 25, 1994 and July 30, 1997 (Incorporated by reference to Exhibit 10(p) to Registrant's Annual Report on Form 10-K, dated August 28, 1998, for the fiscal year ended May 31, 1998)
- (u) Supplemental Executive Retirement Plan, dated as of November 1, 1984, as amended May 21, 1986, April 25, 1994, July 25, 1994 and January 28, 1997

29

(Incorporated by reference to Exhibit 10(q) to Registrant's Annual Report on Form 10-K, dated August 28, 1998, for the fiscal year ended May 31, 1998).

- (v) 1994 NME Supplemental Executive Retirement Plan Trust Agreement, dated as of May 25, 1994, as amended July 25, 1994, between the Registrant, and United States Trust Company of New York (Incorporated by reference to Exhibit 10(uu) to Registrant's Annual Report on Form 10-K, dated August 25, 1994, for the fiscal year ended May 31, 1994)
- (w) Agreement, dated October 30, 1996, between Tenet and United States Trust Company of New York, as Trustee, regarding the First Amendment to the 1994 Tenet Supplemental Executive Retirement Plan Trust (Incorporated by reference to Exhibit 10(b) to Registration Statement on Form S-3 (Registration No. 333-26621) dated May 7, 1997, filed with the Commission on May 7, 1997)
- (x) 1994 Annual Incentive Plan
- (y) 1997 Annual Incentive Plan (Incorporated by reference to Exhibit B to the Definitive Proxy Statement, dated as of August 26, 1997, for the Registrant's 1997 Annual Meeting of Shareholders)
- (z) Deferred Compensation Plan, effective March 23, 1983 (Incorporated by reference to Exhibit 10(gg) to Registrant's Annual Report on Form 10-K, dated August 26, 1996, for the fiscal year ended May 31, 1996)
- (aa) First Amendment to Deferred Compensation Plan, dated as of August 15, 1994

- (bb) 1994 NME Deferred Compensation Plan Trust Agreement, dated as of May 25, 1994, as amended July 25, 1994, between the Registrant and United States Trust Company of New York
- (cc) Agreement, dated October 30, 1996, between Tenet and United States Trust Company of New York, as Trustee, Regarding the First Amendment to the 1994 Tenet Deferred Compensation Plan Trust (Incorporated by reference to Exhibit 10(d) to Registration Statement on Form S-3 (Registration No. 333-26621) dated May 7, 1997, filed with the Commission on May 7, 1997)
- (dd) First Amended and Restated 1994 Directors Stock Option Plan (Incorporated by reference to Exhibit A to the Definitive Proxy Statement, dated as of August 26, 1997, for the Registrant's 1997 Annual Meeting of Shareholders)
- (ee) 1991 Stock Incentive Plan (Incorporated by reference to Exhibit 10(kk) to Registrant's Annual Report on Form 10-K, dated as of August 26, 1996, for the fiscal year ended May 31, 1996)
- (ff) Amended and Restated 1995 Stock Incentive Plan (Incorporated by reference to Annex D to the Proxy Statement/Prospectus, dated as of December 18, 1997, for the Registrant's Special Meeting of Shareholders held on January 28, 1997)
- (gg) First Amended and Restated 1995 Employee Stock Purchase Plan (Incorporated by reference to Exhibit C to the definitive Proxy Statement, dated as of August 26, 1997, for the Registrant's 1997 Annual Meeting of Shareholders)

30

- (hh) Second Amended and Restated 1995 Employee Stock Purchase Plan (Incorporated by reference to Registrant's Registration Statement on Form S-8, dated December 10, 1997)
- (13) 1999 Annual Report to Shareholders of Registrant
- (21) Subsidiaries of the Registrant
- (23) Consent of Experts
  - (a) Accountants' Consent and Report on Consolidated Schedule (KPMG LLP)
- (27.1) Financial Data Schedule for fiscal year 1999 (included only in the EDGAR filing)
- (B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

31

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 26, 1999.

TENET HEALTHCARE CORPORATION

By:	/s/ TREVOR FETTER ---	By:	/s/ RAYMOND L. MATHIASSEN
-----	-----------------------------	-----	---------------------------------

Trevor Fetter CHIEF CORPORATE OFFICER AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER)	--- Raymond L. Mathiasen EXECUTIVE VICE PRESIDENT AND CHIEF ACCOUNTING OFFICER (PRINCIPAL ACCOUNTING OFFICER)
--	--

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on August 26, 1999, by the following persons on behalf of the registrant and in the capacities indicated:

SIGNATURE -----	TITLE -----
/s/ JEFFREY C. BARBAKOW ----- Jeffrey C. Barbakow	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
/s/ LAWRENCE BIONDI, S.J ----- Lawrence Biondi, S.J.	Director
/s/ BERNICE BRATTER ----- Bernice Bratter	Director
/s/ SANFORD CLOUD, JR. ----- Sanford Cloud, Jr.	Director
/s/ MAURICE J. DEWALD ----- Maurice J. DeWald	Director
/s/ MICHAEL H. FOCHT, SR. ----- Michael H. Focht, Sr.	Director
/s/ RAYMOND A. HAY ----- Raymond A. Hay	Director
/s/ LESTER B. KORN ----- Lester B. Korn	Director
/s/ FLOYD D. LOOP, M.D. ----- Floyd D. Loop, M.D.	Director
/s/ RICHARD S. SCHWEIKER ----- Richard S. Schweiker	Director



RESTATED BY-LAWS OF  
TENET HEALTHCARE CORPORATION  
A NEVADA CORPORATION

AS AMENDED MARCH 10, 1999

ARTICLE I

SHAREHOLDERS' MEETINGS

SECTION 1.1 PLACE OF MEETINGS.

All meetings of the shareholders shall be held at the principal office of the Corporation in the State of California, or at any other place within or without the State of Nevada as may be designated for that purpose from time to time by the Board of Directors.

SECTION 1.2 ANNUAL MEETINGS.

The Annual meeting of the shareholders shall be held not later than 210 days after the close of the fiscal year, on the date and at the time set by the Board of Directors, at which time the shareholders shall elect by plurality vote an annual Class of the Board of Directors, consider reports of the affairs of the Corporation, and transact such other business as may properly be brought before the meeting.

SECTION 1.3 SPECIAL MEETINGS.

Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Chief Executive Officer or by the Board of Directors.

SECTION 1.4 NOTICE OF MEETINGS.

1.4.1. Notice of each meeting of shareholders, whether annual or special, shall be given at least 10 and not more than 60 days prior to the day thereof by the Secretary or any Assistant Secretary causing to be delivered to each shareholder of record entitled to vote at such meeting a written notice stating the time and place of the meeting and the purpose or purposes for which the meeting is called. Such notice shall be signed by the Chief Executive Officer, the President, the Secretary or any Assistant Secretary and shall be mailed postage prepaid to each shareholder at his address as it appears on the stock books of the Corporation. If any shareholder has failed to supply an address, notice shall be deemed to have been given if mailed to the address of the principal office of the Corporation, or published at least once in a newspaper having general circulation in the county in which the principal office is located.

1.4.2. It shall not be necessary to give any notice of the adjournment of or the business to be transacted at an adjourned meeting other than by announcement at the meeting

at which such adjournment is taken; provided that when a meeting is adjourned for 30 days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

SECTION 1.5 CONSENT BY SHAREHOLDERS.

Any action which may be taken at a regular meeting of the shareholders, except election of directors, may be taken without a meeting, if authorized by a writing signed by holders of the number of shares required under the law

to give their approval for such purpose.

#### SECTION 1.6 QUORUM.

1.6.1. The presence in person or by proxy of the persons entitled to vote a majority of the voting shares at any meeting constitutes a quorum for the transaction of business. Shares shall not be counted in determining the number of shares represented or required for a quorum or in any vote at a meeting, if voting of them at the meeting has been enjoined or for any reason they cannot be lawfully voted at the meeting.

1.6.2. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

1.6.3. In the absence of a quorum, a majority of the shares present in person or by proxy and entitled to vote may adjourn any meeting from time to time, but not for a period of more than 30 days at any one time, until a quorum shall attend.

#### SECTION 1.7 VOTING RIGHTS.

1.7.1. Every shareholder of record of the Corporation shall be entitled at each meeting of the shareholders to one vote for each share of stock standing in his name on the books of the Corporation. Except as otherwise provided by law, or by the Articles of Incorporation or any amendment thereto, or by the By-Laws, if a quorum is present, the majority of votes cast in person or by proxy shall be binding upon all shareholders of the Corporation.

1.7.2. The Board of Directors shall designate a day not more than 60 days prior to any meeting of the shareholders as the day as of which shareholders entitled to notice of and to vote at such meetings shall be determined.

#### SECTION 1.8 PROXIES.

Every shareholder entitled to vote or to execute consents may do so either in person or by written proxy executed in accordance with the provisions of Section 78.355 of the Nevada Revised Statutes and filed with the Secretary of the Corporation.

#### SECTION 1.9 MANNER OF CONDUCTING MEETINGS.

To the extent not in conflict with the provisions of the law relating thereto, the Articles of Incorporation, or express provisions of these By-Laws, meetings shall be conducted pursuant

-3-

to such rules as may be adopted by the chairman presiding at, or a majority of the shares represented at, the meeting.

#### SECTION 1.10. NATURE OF BUSINESS AT MEETINGS OF SHAREHOLDERS.

1.10.1 No business may be transacted at an annual meeting of shareholders, or at any special meeting of shareholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof) or the Chief Executive Officer, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or the Chief Executive Officer or (c) otherwise properly brought before the meeting by any shareholder of the Corporation (i) who is a shareholder of record on the date

of the giving of the notice provided for in this Section 1.10 and on the record date for the determination of shareholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 1.10.

1.10.2 In addition to any other applicable requirements, for business to be properly brought by a shareholder before an annual meeting, or at any special meeting, of shareholders, such shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

1.10.3 To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of the annual meeting, not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of shareholders; PROVIDED, HOWEVER, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs; and (b) in the case of a special meeting of shareholders, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

1.10.4 To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting, or at any special meeting, of shareholders (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and record address of such shareholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (v) a representation that such shareholder intends to appear in person or by proxy at the meeting to bring such business before the meeting.

-4-

1.10.5 No business shall be conducted at the annual meeting, or at any special meeting, of shareholders except business brought before the meeting in accordance with the procedures set forth in this Section 1.10. If the chairman of any meeting determines that business was not properly brought before the meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

## ARTICLE II

### DIRECTORS - MANAGEMENT

#### SECTION 2.1 POWERS.

Subject to the limitation of the Articles of Incorporation, of the By-Laws, and of the laws of the State of Nevada as to action to be authorized or approved by the shareholders, all corporate powers shall be exercised by or under authority of, and the business and affairs of this Corporation shall be controlled by, a Board of Directors.

SECTION 2.2 NUMBER AND QUALIFICATION.

The authorized number of directors of this Corporation shall be not less than eight nor more than 15, with the exact number to be established from time to time by resolution of the Board of Directors of this Corporation. All directors of this Corporation shall be at least 21 years of age and at least a majority shall be citizens of the United States.

SECTION 2.3 CLASSIFICATION AND ELECTION.

The Board of Directors shall be classified into three annual Classes, with four directors in Class 1, four directors in Class 2, and five directors in Class 3. Each Class of directors shall be elected for terms of three years. Each term shall continue for the number of years stated and until their successors are elected and have qualified. Their term of office shall begin immediately after election. These By-Laws are being adopted subsequent to the initial classification of directors in 1975. The directors in office as of the date of adoption hereof shall continue to serve the terms for which they have been previously elected.

SECTION 2.4. NOMINATION OF DIRECTORS.

2.4.1. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation, except as may be otherwise provided in the Articles of Incorporation or any amendment thereto with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders, or at any special meeting of shareholders, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any shareholder of the Corporation (i) who is a shareholder of record on the date of the

-5-

giving of the notice provided for in this Section 2.4 and on the record date for the determination of shareholders entitled to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 2.4.

2.4.2. In addition to any other applicable requirements, for a nomination to be made by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

2.4.3. To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of shareholders; PROVIDED, HOWEVER, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs; and (b) in the case of a special meeting of shareholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

2.4.4. To be in proper written form, a shareholder's notice to the Secretary must set forth (a) as to each person whom the shareholder proposes to nominate for election as a director (i) the name, age, business

address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (iv) a representation that such shareholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

2.4.5. No person shall be eligible for election as a director of the Corporation by the shareholders unless nominated in accordance with the procedures set forth in this Section 2.4. If the chairman of the meeting determines that a nomination was not made in

-6-

accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

#### SECTION 2.5 INCREASE IN THE NUMBER OF DIRECTORS.

The Board of Directors may change the number of directors from time to time; provided, however, neither the Board of Directors nor the shareholders may ever increase the number of directorships by more than one during any twelve-month period, except upon the affirmative vote of two-thirds of the directors of each Class, or the affirmative vote of the holders of two-thirds of all outstanding shares voting together and not by class. This provision may not be amended except by a like vote.

#### SECTION 2.6 VACANCIES.

2.6.1. Any vacancies in the Board of Directors, except vacancies first filled by the shareholders, may be filled by the affirmative vote of two-thirds of the remaining directors of each Class, though less than a quorum, or by a sole remaining director. Each director so elected shall hold office for the balance of the term of the resigning director and until his successor is elected. The power to fill vacancies shall in no event be delegated to any committee appointed in accordance with these By-Laws.

2.6.2. The shareholders may at any time elect a director to fill any vacancy not filled by the directors, and may elect the additional directors at the meeting at which an amendment of the By-Laws is voted authorizing an increase in the number of directors.

2.6.3. A vacancy or vacancies shall be deemed to exist in case of the death, resignation, or removal of any director, or if the directors or shareholders shall increase the authorized number of directors but shall fail at a meeting at which such increase is authorized or at an adjournment thereof to elect the additional director so provided for, or in case the

shareholders fail at any time to elect the full number of authorized directors.

2.6.4. If the Board of Directors accepts the resignation of a director tendered to take effect at a future time, the Board or the shareholders shall have power to immediately elect a successor who shall take office when the resignation shall become effective.

2.6.5. No reduction of the number of directors shall have the effect of removing any director prior to the expiration of his term of office.

#### SECTION 2.7 REMOVAL OF DIRECTORS.

The entire Board of Directors or any individual director may be removed from office, with or without cause, by the vote or written consent of shareholders representing two-thirds of the issued and outstanding capital stock entitled to vote.

#### SECTION 2.8 RESIGNATIONS.

-7-

Any director of the Corporation may resign at any time either by oral tender of resignation at any meeting of the Board or by giving written notice thereof to the Secretary, the Chief Executive Officer or the President. Such resignation shall take effect at the time it specifies, and the acceptance of such resignation shall not be necessary to make it effective.

#### SECTION 2.9 PLACE OF MEETINGS.

Meetings of the Board of Directors shall be held at the principal office of the Corporation in the State of California, or at such other place within or without the State of Nevada as may be designated for that purpose by the Board of Directors. Any meeting shall be valid, wherever held, if held by the written consent of all members of the Board of Directors, given before or after the meeting and filed with the Secretary of the Corporation.

#### SECTION 2.10 MEETINGS AFTER ANNUAL SHAREHOLDERS' MEETING.

The first meeting of the Board of Directors held after the annual shareholders' meeting shall be held at such time and place within or without the State of Nevada as shall be fixed by announcement of the Chief Executive Officer or the President given at the annual shareholders' meeting, and no other notice of such meeting shall be necessary, provided a majority of the whole Board shall be present. Alternatively, such meeting may be held at such time and place as shall be fixed pursuant to notice given under other provisions of these By-Laws.

#### SECTION 2.11 OTHER REGULAR MEETINGS.

2.11.1. Regular meetings of the Board of Directors shall be held at such time and place within or without the State of Nevada as may be agreed upon from time to time by the Board.

2.11.2. No notice need be given of regular meetings, except that a written notice shall be given to each director of the resolution establishing specific meeting dates or a regular meeting date, which notice shall set forth the date of the month, the time, and the place of the meetings.

#### SECTION 2.12 SPECIAL MEETINGS.

Special meetings of the Board of Directors shall be held whenever called by the Chief Executive Officer or the President or by two-thirds of the directors of each Class. Notice of any such meeting shall be mailed to each

director not later than three days before the day on which the meeting is to be held, or shall be sent to him by telegraph, or delivered personally or by telephone, not later than midnight of the day before the day of the meeting. Any meeting of the Board of Directors shall be a legal meeting without any notice thereof having been given, if each director consents to the holding thereof or waives notice by a writing filed with the Secretary, or is present thereat and their oral consents are entered on the minutes, or they take part in the deliberations thereat without objection. Except as otherwise provided in the By-Laws or as may be indicated in the notice thereof, any and all business may be transacted at any special meeting.

SECTION 2.13 WAIVER OF NOTICE.

-8-

Anything herein to the contrary notwithstanding, notice of any meeting of directors shall not be required as to any director who shall waive notice in writing (including telex, facsimile telephonic transmission, telegram, cablegram or radiogram) before or after such meeting.

SECTION 2.14 NOTICE OF ADJOURNMENT.

Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place is fixed at the meeting adjourned.

SECTION 2.15 QUORUM.

A majority of the number of directors as fixed by the Articles of Incorporation or By-Laws shall be necessary to constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which there is a quorum, when duly assembled, is valid as a corporate act; provided, that a minority of the directors, in the absence of a quorum, may adjourn from time to time or fill vacant directorships in accordance with Section 2.5 but may not transact any business.

SECTION 2.16 ACTION BY UNANIMOUS WRITTEN CONSENT.

Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing thereto. Such written consent shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors.

SECTION 2.17 COMPENSATION.

The directors may be paid their expenses of attendance at each meeting of the Board of Directors. Additionally, the Board of Directors may from time to time, in its discretion, pay to directors either or both a fixed sum for attendance at each meeting of the Board of Directors or a stated salary for services as a director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like reimbursement and compensation for attending committee meetings.

SECTION 2.18 TRANSACTIONS INVOLVING INTERESTS OF DIRECTORS.

In the absence of fraud, no contract or other transaction of the Corporation shall be affected or invalidated by the fact that any of the directors of the Corporation are in any way interested in, or connected with, any other party to, such contract or transaction or are themselves parties to such contract or transaction, provided that such transaction satisfies Section 78.140 of the Nevada Revised Statutes; and each and every person who may become a director of the Corporation is hereby relieved, to the extent

permitted by law, from any liability that might otherwise exist from contracting in good faith with the Corporation for the benefit of himself or

-9-

any person in which he may be in any way interested or with which he may be in any way connected. Any director of the Corporation may vote and act upon any matter, contract or transaction between the Corporation and any other person without regard to the fact that he is also a stockholder, director or officer of, or has any interest in, such other person.

#### SECTION 2.19 EMERITUS POSITIONS.

The Board of Directors may authorize parties to serve in an emeritus position with respect to the Board of Directors, included by way of example but not by way of limitation, as an Emeritus Director, as a Chairman Emeritus of the Board of Directors or as a Vice-Chairman Emeritus of the Board of Directors. These positions shall be honorary positions and parties elected to those positions may be asked to attend meetings of the board of directors and meeting of the shareholders from time to time. A party holding an emeritus position shall not be an officer or director of the Company, shall have no vote at a director's meeting, shall receive no fees for service in that position and shall not be given access to material, non-published information pertaining, to the Company. A party filling an emeritus position shall be requested to do so because of his or her experience with and contributions to the Company.

### ARTICLE III

#### OFFICERS

#### SECTION 3.1 EXECUTIVE OFFICERS.

The executive officers of the Corporation shall be a Chairman, a Vice Chairman, a Chief Executive Officer, a President, one or more Senior Executive Vice Presidents, one or more Executive Vice Presidents, one or more Group Presidents and Chief Executive Officers, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, and a Treasurer. Any person may hold two or more offices. The executive officers of the Corporation shall be elected annually by the Board of Directors and shall hold office for one year or until their respective successors shall be elected and shall qualify.

#### SECTION 3.2 APPOINTED OFFICERS: TITLES.

3.2.1. The Chief Executive Officer or the Secretary in the case of Assistant Secretaries or the Treasurer in the case of Assistant Treasurers may appoint one or more Assistant Secretaries or one or more Assistant Treasurers, each of whom shall hold such title at the pleasure of the appointing officer, have such authority and perform such duties as are provided in the By-Laws, or as the Chief Executive Officer or the appointing officer may determine from time to time. Any person appointed under this Section 3.2.1 to serve in any of the foregoing positions shall be deemed by reason of such appointment or service in such capacity to be an "officer" of the corporation.

-10-

3.2.2. The Chief Executive Officer or a person designated by the Chief Executive Officer may also appoint a president, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents and one or more assistant vice presidents for each operating group

and division of the Corporation and one or more senior vice presidents, one or more vice presidents and one or more assistant vice presidents for each corporate staff function and a corporate controller and one or more assistant controllers. Each of such persons will hold such title at the pleasure of the Chief Executive Officer and have authority to act for and shall perform duties with respect to only the group, division or corporate staff function for which the person is appointed. Any person appointed under this Section 3.2.2 to serve in any of the foregoing positions shall not be deemed by reason of such appointment or service in such capacity to be an "officer" of the Corporation.

### SECTION 3.3 REMOVAL AND RESIGNATION.

3.3.1. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board. Any appointed person may be removed from such position at any time by the person making such appointment or his successor.

3.3.2. Any officer may resign at any time, by giving written notice to the Board of Directors, the Chief Executive Officer, the President or the Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice, or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

### SECTION 3.4 VACANCIES.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the By-Laws for regular appointments to such office.

### SECTION 3.5 CHAIRMAN AND VICE CHAIRMAN.

The Chairman shall preside at all meetings of the Board of Directors and shall exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors. The Vice Chairman shall, in the absence of the Chairman, preside at all meetings of the Board of Directors and shall exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors.

### SECTION 3.6 CHIEF EXECUTIVE OFFICER.

The Chief Executive Officer shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and affairs of the Corporation. He shall preside at all meetings of the shareholders and, in the absence of the Chairman of the Board and the Vice Chairman of the Board, at all meetings of the Board of Directors. He shall be ex officio a member of the Executive Committee and shall have the general powers and duties

-11-

of management usually vested in the office of chief executive officer of a corporation and such other powers and duties as may be prescribed by the Board of Directors.

### SECTION 3.7 PRESIDENT.

In the absence or disability of the Chief Executive Officer, the President shall perform all of the duties of the Chief Executive Officer and when so acting shall have all the powers and be subject to all the restrictions upon the Chief Executive Officer, including the power to sign all instruments and to take all actions which the Chief Executive Officer is authorized to perform by the Board of Directors or the By-Laws. The President shall have the general powers and duties usually vested in the

office of president of a corporation and such other powers and duties as may be prescribed by the Chief Executive Officer or the Board of Directors.

SECTION 3.8 SENIOR EXECUTIVE VICE PRESIDENT, EXECUTIVE VICE PRESIDENT, SENIOR VICE PRESIDENT AND VICE PRESIDENT.

In the absence or disability of the Chief Executive Officer and the President, a Senior Executive Vice President, an Executive Vice President or a Group President and Chief Executive Officer, in the order of his rank and seniority shall perform all of the duties of the Chief Executive Officer, and when so acting shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer, including the power to sign all instruments and to take all actions which the Chief Executive Officer is authorized to perform by the Board of Directors or the By-Laws. The Senior Executive Vice Presidents, Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have the general powers and duties usually vested in the office of a vice president of a corporation; the Group Presidents and Chief Executive Officers shall have the general powers and duties of a principal executive officer of an operating group of a corporation; and each of them shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, the Executive Committee of the Board of Directors, the Chief Executive Officer or the By-Laws.

SECTION 3.9 SECRETARY AND ASSISTANT SECRETARIES.

3.9.1. The Secretary shall (1) attend all sessions of the Board and all meetings of the shareholders; and (2) record and keep, or cause to be kept, all votes and the minutes of all proceedings in a book to be kept for that purpose at the principal office of the Corporation, or at such other place as the Board of Directors may from time to time determine, specifying therein (i) the time and place of holding, (ii) whether regular or special, and if special, how authorized, (iii) the notice thereof given, (iv) the names of those present at directors' meetings, (v) the number of shares present or represented at shareholders' meetings, and (vi) the proceedings thereof; and (3) perform like duties for the Executive and other standing committees, when required. In addition, he shall keep or cause to be kept, at the principal office of the Corporation in the State of Nevada, those documents required to be kept thereat by Section 5.2 of the By-Laws and Section 78.105 of the Nevada Revised Statutes.

-12-

3.9.2. The Secretary shall give, or cause to be given, notice of meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer, under whose supervision he shall be. He shall keep in safe custody the seal of the Corporation, and, when authorized by the Board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary. The Secretary is hereby authorized to issue certificates, to which the corporate seal may be affixed, attesting to the incumbency of officers of this Corporation or to actions duly taken by the Board of Directors or the shareholders.

3.9.3. The Assistant Secretaries, in the order of their seniority, shall in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary, and shall perform such other duties as the Chief Executive Officer or the Secretary shall prescribe.

SECTION 3.10 TREASURER AND ASSISTANT TREASURERS.

3.10.1. The Treasurer shall deposit all moneys and other valuables in the name, and to the credit, of the Corporation, with such depositories as may be ordered by the Board of Directors. He shall disburse

the funds of the Corporation as may be ordered by the Board of Directors, shall render to the Chief Executive Officer and directors, whenever they request it, an account of all his transactions as Treasurer, and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or the By-Laws.

3.10.2. The Assistant Treasurers, in the order of their seniority, shall in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer, and shall perform such other duties as the Chief Executive Officer or the Treasurer shall prescribe.

#### SECTION 3.11 ADDITIONAL POWERS, SENIORITY AND SUBSTITUTION OF OFFICERS.

In addition to the foregoing powers and duties specifically prescribed for the respective officers, the Board of Directors may from time to time by resolution (i) impose or confer upon any of the officers such additional duties and powers as the Board of Directors may see fit, (ii) determine the order of seniority among the officers, and/or (iii) except as otherwise provided above, provide that in the absence of any officer or officers, any other officer or officers shall substitute for and assume the duties, powers and authority of the absent officer or officers. Any such resolution may be final, subject only to further action by the Board of Directors, or the resolution may grant such discretion, as the Board of Directors deems appropriate, to the Chairman, the Vice Chairman, the Chief Executive Officer, the President (or in his absence the Senior Executive Vice President or the Executive Vice President serving in his place) to impose or confer additional duties and powers, to determine the order of seniority among officers, and/or to provide for substitution of officers as above described.

#### SECTION 3.12 COMPENSATION.

-13-

The officers of the Corporation shall receive such compensation as shall be fixed from time to time by the Board of Directors. No officer shall be prohibited from receiving such salary by reason of the fact that he is also a director of the Corporation.

#### SECTION 3.13 TRANSACTION INVOLVING INTEREST OF OFFICER.

In the absence of fraud, no contract or other transaction of the Corporation shall be affected or invalidated by the fact that any of the officers of the Corporation are in any way interested in, or connected with, any other party to such contract or transaction, or are themselves parties to such contract or transaction, provided that such transaction complies with Section 78.140 of the Nevada Revised Statutes; and each and every person who is or may become an officer of the Corporation is hereby relieved, to the extent permitted by law, when acting in good faith, from any liability that might otherwise exist from contracting with the Corporation for the benefit of himself or any person in which he may be in any way interested or with which he may be in any way connected.

### ARTICLE IV

#### EXECUTIVE AND OTHER COMMITTEES

#### SECTION 4.1 STANDING COMMITTEES.

The Board of Directors shall appoint an Executive Committee, an Audit Committee and a Compensation and Stock Option Committee, consisting of such number of its members as it may designate, consistent with the Articles of Incorporation, the By-Laws and the laws of the State of Nevada.

4.1.1. The Executive Committee shall have and may exercise, when

the Board is not in session, all of the powers of the Board of Directors in the management of the business and affairs of the Corporation, but the Executive Committee shall not have the power to fill vacancies on the Board, or to change the membership of or to fill vacancies in the Executive Committee or any other Committee of the Board, or to adopt, amend or repeal the By-Laws, or to declare dividends.

4.1.2. The Audit Committee shall select and engage on behalf of the Corporation, subject to the consent of the shareholders, and fix the compensation of, a firm of certified public accountants whose duty it shall be to audit the books and accounts of the Corporation and its subsidiaries for the fiscal year in which they are appointed, and who shall report to such Committee. The Audit Committee shall confer with the auditors and shall determine, and from time to time shall report to the Board of Directors upon, the scope of the auditing of the books and accounts of the Corporation and its subsidiaries. The Audit Committee shall also be responsible for determining that the business practices and conduct of employees and other representatives of the Corporation and its subsidiaries comply with the policies and

-14-

procedures of the Corporation. None of the members of the Audit Committee shall be officers or employees of the Corporation.

4.1.3. The Compensation and Stock Option Committee shall establish a general compensation policy for the Corporation and shall have responsibility for the approval of increases in directors' fees and in salaries paid to officers and senior employees earning in excess of an annual salary to be determined by the Committee. The Compensation and Stock Option Committee shall have all of the powers of administration under all of the Corporation's employee benefit plans, including any stock option plans, long-term incentive plans, bonus plans, retirement plans, stock purchase plans and medical, dental and insurance plans. In connection therewith, the Compensation and Stock Option Committee shall determine, subject to the provisions of the Corporation's plans, the directors, officers and employees of the Corporation eligible to participate in any of the plans, the extent of such participation and the terms and conditions under which benefits may be vested, received or exercised. None of the members of the Compensation and Stock Option Committee shall be officers or employees of the Corporation.

#### SECTION 4.2 OTHER COMMITTEES.

Subject to the limitations of the Articles of Incorporation, the By-Laws and the laws of the State of Nevada as to action to be authorized or approved by the shareholders, or duties not delegable by the Board of Directors, any or all of the corporate powers may be exercised by or under authority of, and the business and affairs of this Corporation may be controlled by, such other committee or committees as may be appointed by the Board of Directors. The powers to be exercised by any such committee shall be designated by the Board of Directors.

#### SECTION 4.3 PROCEDURES.

Subject to the limitations of the Articles of Incorporation, the By-Laws and the laws of the State of Nevada regarding the conduct of business by the Board of Directors and its appointed committees, any committee created under this Article may use any procedures for conducting its business and exercising its powers, including but not limited to actions by the unanimous written consent of its members in the manner set forth in Section 2.15. A majority (but not less than two members) shall constitute a quorum. Notices of meetings may be in any reasonable manner and may be waived as for meetings of directors.

### ARTICLE V

CORPORATE RECORDS AND REPORTS - INSPECTION

SECTION 5.1 RECORDS.

The Corporation shall maintain adequate and correct accounts, books and records of its business and properties. All of such books, records and accounts shall be kept at its principal place of business in the State of California, as fixed by the Board of Directors from time to time.

-15-

SECTION 5.2 ARTICLES, BY-LAWS AND STOCK LEDGER.

The Corporation shall maintain and keep the following documents at its principal place of business in the State of Nevada: (i) a certified copy of the Articles of Incorporation and all amendments thereto; (ii) a certified copy of the By-Laws and all amendments thereto; and (iii) a statement setting forth the following: "The Secretary of the Corporation, whose address is 2700 Colorado Avenue, Santa Monica California 90404, is the custodian of the duplicate stock ledger of the Corporation."

SECTION 5.3 INSPECTION.

Any person who has been a shareholder of record for at least six months immediately preceding his demand, or any person holding, or thereunto authorized in writing by the holders of, at least five percent of all of the Corporation's outstanding shares, upon at least five days' written demand, or any judgment creditor without prior demand, shall have the right to inspect in person or by agent or attorney, during usual business hours, the duplicate stock ledger of the Corporation and to make extracts therefrom; provided, however, that such inspection may be denied to any shareholder or other person upon his refusal to furnish to the Corporation an affidavit that such inspection is not desired for a purpose which is in the interest of a business or object other than the business of the Corporation and that he has not at any time sold or offered for sale any list of shareholders of any corporation or aided or abetted any person in procuring any such record of shareholders for any such purpose.

SECTION 5.4 CHECKS, DRAFTS, ETC.

All checks, drafts, or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of, or payable to, the Corporation, shall be signed or endorsed by such person or persons, and in such manner as shall be determined from time to time by resolution of the Board of Directors.

ARTICLE VI

OTHER AUTHORIZATIONS

SECTION 6.1 EXECUTION OF CONTRACTS.

The Board of Directors, except as the By-Laws otherwise provide, may authorize any officer or officers or agent or agents to enter into any contract or execute any instrument in the name of and on behalf of the Corporation. Such authority may be general, or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority, except in the ordinary course of business, to bind the Corporation by any contract or engagement or to pledge its credit, or to render it liable for any purpose or in any amount.

SECTION 6.2 REPRESENTATION OF OTHER CORPORATIONS.

All shares of any other corporation, standing in the name of the Corporation, shall be voted, represented, and all rights incidental thereto exercised as directed by written consent or resolution of the Board of Directors expressly referring thereto. In general, such rights shall be delegated by the Board of Directors under express instructions from time to time as to each exercise thereof to the Chief Executive Officer, the President, any Senior Executive Vice President, any Executive Vice President, any Senior Vice President, any Vice President, the Treasurer or the Secretary of this Corporation, or any other person expressly appointed by the Board of Directors. Such authority may be exercised by the designated officers in person, or by any other person authorized so to do by proxy, or power of attorney, duly executed by such officers.

SECTION 6.3 DIVIDENDS.

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and on the terms and conditions provided by the laws of the State of Nevada, and the Articles of Incorporation, subject to any contractual restrictions to which the Corporation is then subject.

ARTICLE VII

CERTIFICATES FOR AND TRANSFER OF SHARES

SECTION 7.1 CERTIFICATES FOR SHARES.

7.1.1. Certificates for shares shall be of such form and device as the Board of Directors may designate and shall be numbered and registered as they are issued. Each shall state the name of the record holder of the shares represented thereby; its number and date of issuance; the number of shares for which it is issued; the par value; a statement of the rights, privileges, preferences and restrictions, if any; a statement as to rights of redemption or conversion, if any; and a statement of liens or restrictions upon transfer or voting, if any, or, alternatively, a statement that certificates specifying such matters may be obtained from the Secretary of the Corporation.

7.1.2. Every certificate for shares must be signed by the Chief Executive Officer or the President and the Secretary or an Assistant Secretary, or must be authenticated by facsimiles of the signatures of the Chief Executive Officer or the President and the Secretary or an Assistant Secretary. Before it becomes effective, every certificate for shares authenticated by a facsimile or a signature must be countersigned by a transfer agent or transfer clerk, and must be registered by an incorporated bank or trust company, either domestic or foreign, as registrar of transfers.

7.1.3. Even though an officer who signed, or whose facsimile signature has been written, printed, or stamped on a certificate for shares ceases, by death, resignation, or otherwise, to be an officer of the Corporation before the certificate is delivered by the Corporation, the certificate shall be as valid as though signed by a duly elected, qualified and authorized officer, if it is countersigned by the signature or facsimile signature of a transfer clerk or transfer agent and registered by an incorporated bank or trust company, as registrar of transfers.

7.1.4. Even though a person whose facsimile signature as, or on behalf of, the transfer agent or transfer clerk has been written, printed or stamped on a certificate for shares ceases, by death, resignation, or

otherwise, to be a person authorized to so sign such certificate before the certificate is delivered by the Corporation, the certificate shall be deemed countersigned by the facsimile signature of a transfer agent or transfer clerk for purposes of meeting the requirements of this section.

#### SECTION 7.2 TRANSFER ON THE BOOKS.

Upon surrender to the Secretary or transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

#### SECTION 7.3 LOST OR DESTROYED CERTIFICATES.

The Board of Directors may direct, or may authorize the Secretary to direct, a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate for shares so lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors or Secretary may, in its or his discretion, and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

#### SECTION 7.4 TRANSFER AGENTS AND REGISTRARS.

The Board of Directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, who may be the same person, and may be the Secretary of the Corporation, or an incorporated bank or trust company, either domestic or foreign, who shall be appointed at such times and places as the requirements of the Corporation may necessitate and the Board of Directors may designate.

#### SECTION 7.5 FIXING RECORD DATE FOR DIVIDENDS, ETC.

-18-

The Board of Directors may fix a time, not exceeding 50 days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the shareholders entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares, and, in such case, only shareholders of record on the date so fixed shall be entitled to receive such dividend, distribution, or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid.

#### SECTION 7.6 RECORD OWNERSHIP.

The Corporation shall be entitled to recognize the exclusive right of a person registered as such on the books of the Corporation as the owner of shares of the Corporation's stock to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as otherwise provided by law.

### ARTICLE VIII

## AMENDMENTS TO BY-LAWS

### SECTION 8.1 BY SHAREHOLDERS.

New or restated by-laws may be adopted, or these By-Laws may be repealed or amended, at the annual shareholders' meeting or at any other meeting of the shareholders called for that purpose, by a vote of shareholders entitled to exercise a majority of the voting power of the Corporation.

### SECTION 8.2 BY DIRECTORS.

Subject to the right of the shareholders to adopt, amend, or repeal by-laws, as provided in Section 8.1, the Board of Directors may adopt, amend, or repeal any of these By-Laws by the affirmative vote of two-thirds of the directors of each Class except as otherwise provided in Section 2.4. This power may not be delegated to any committee appointed in accordance with these By-Laws.

### SECTION 8.3 RECORD OF AMENDMENTS.

Whenever an amendment or a new By-Law is adopted, it shall be copied in the book of minutes with the original By-Laws, in the appropriate place. If any By-Law is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted, or written assent was filed, shall be stated in said book.

## ARTICLE IX

-19-

### INDEMNIFICATION OF DIRECTORS AND OFFICERS

#### SECTION 9.1 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS OTHER THAN THOSE BY OR IN THE RIGHT OF THE CORPORATION.

Subject to Section 9.3 of this Article IX, each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding") (other than an action by or in the right of the Corporation), by reason of the fact that he, or a person of whom he is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action or inaction in an official capacity or in any other capacity while serving as a director, officer, employee, fiduciary or agent shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the laws of Nevada, as the same exist or may hereafter be amended, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, employee benefit plan exercise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection with such proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of NOLO CONTENDERE or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 9.2 POWER TO INDEMNIFY IN ACTIONS, SUITS OR PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION.

Subject to Section 9.3 of this Article IX, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he, or a person of whom he is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or agent of enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action or inaction in an official capacity or in any other capacity while serving as a director, officer, employee, fiduciary or agent, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

-20-

SECTION 9.3 AUTHORIZATION OF INDEMNIFICATION.

Any indemnification under this Article IX (unless ordered by a court or advanced pursuant to Section 9.6 hereof) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 9.1 or Section 9.2 of this Article IX, as the case may be. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if a majority vote of a quorum consisting of directors who were not parties to the act, suit or proceeding so orders, by independent legal counsel in a written opinion, or (iii) if such a quorum is not obtainable, by independent legal counsel in a written opinion, or (iv) by the shareholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

SECTION 9.4 GOOD FAITH DEFINED.

For purposes of any determination under Section 9.3 of this Article IX, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 9.4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at

the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 9.4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 9.1 or 9.2 of this Article IX, as the case may be.

#### SECTION 9.5 INDEMNIFICATION BY A COURT.

If a claim under Sections 9.1 or 9.2 is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final

-21-

disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Nevada law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including the Board, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he has met such standard of conduct, nor an actual determination by the Corporation (including the Board, independent legal counsel, or its shareholders) that the claimant has not met such standard of conduct, shall be a defense to the action or create a presumption that the claimant has failed to meet such standard of conduct.

#### SECTION 9.6 EXPENSES PAYABLE IN ADVANCE.

The right to indemnification conferred in this Article IX shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Nevada General Corporation Law required, the payment of such expenses incurred by a director or officer in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to any employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section 9.6 or otherwise.

#### SECTION 9.7 NONEXCLUSIVITY OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article IX shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, By-Law, agreement, vote of shareholders or disinterested directors or otherwise.

#### SECTION 9.8 INSURANCE.

The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee, fiduciary or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under Nevada law.

SECTION 9.9 CERTAIN DEFINITIONS.

For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person

-22-

who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article IX with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article IX, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article IX.

SECTION 9.10 SURVIVAL OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES.

The indemnification and advancement of expenses provided by or granted pursuant to, this Article IX shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, fiduciary or agent and shall inure to the benefit of his heirs, executors and administrators.

SECTION 9.11 LIMITATION ON INDEMNIFICATION.

Notwithstanding anything contained in this Article IX to the contrary, except as provided in Section 9.3, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized or consented to by the Board.

SECTION 9.12 INDEMNIFICATION OF EMPLOYEES AND AGENTS.

The Corporation may, by action of the Board, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

SECTION 9.13 INDEMNIFICATION OF WITNESSES.

To the extent that any director, officer, employee, fiduciary or agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any action, suit or proceeding, he shall be indemnified against all costs and expenses actually and reasonably incurred by him or on his behalf in connection therewith.

SECTION 9.14 INDEMNIFICATION AGREEMENTS.

The Corporation may enter into agreements with any director, officer, employee, fiduciary or agent of the Corporation providing for indemnification

to the full extent permitted by Nevada law.

-23-

SECTION 9.15 DEFINITION OF BOARD.

For purposes of this Article IX, the term "Board" shall mean the Board of Directors of the Corporation or, to the extent permitted by the laws of Nevada, as the same exist or may hereafter be amended, its Executive Committee. On vote of the Board, the Corporation may assent to the adoption of this Article IX by any subsidiary, whether or not wholly owned.

SECTION 9.16 ACTIONS PRIOR TO ADOPTION OF ARTICLE IX.

The rights provided by this Article IX shall be available whether or not the claim asserted against the director, officer, employee, fiduciary or agent is based on matters which antedate the adoption of this Article IX.

SECTION 9.17 SEVERABILITY.

If any provision of this Article IX shall for any reason be determined to be invalid, the remaining provisions hereof shall not be affected thereby but shall remain in full force and effect.

SECTION 9.18 APPLICABILITY TO FEDERAL ELECTION CAMPAIGN ACT OF 1971, AS AMENDED.

The rights provided by this Article IX shall be applicable to the officers (including without limitation the Chairman, Vice Chairman, treasurer and assistant treasurer) appointed from time to time by the Chief Executive Officer of the Corporation or his designee to serve in the administration and management of any separate, segregated fund established for purposes of collecting and distributing voluntary employee political contributions to federal election campaigns pursuant to the Federal Election Campaign Act of 1971, as amended.

ARTICLE X

CORPORATE SEAL

The corporate seal shall be circular in form and shall have inscribed thereon the name of the Corporation, and the date of its incorporation, and the word "Nevada".

ARTICLE XI

INTERPRETATION

-24-

Reference in these By-Laws to any provision of the Nevada Revised Statutes shall be deemed to include all amendments thereto and the effect of the construction and determination of validity thereof by the Nevada Supreme Court.

ARTICLE XII

APPLICABILITY OF CONTROL SHARE ACT

The provisions of Nevada Revised Statutes Sections 78.378 to 78.3792, inclusive, shall not apply to any acquisition of a controlling interest by OrNda HealthCorp in the Corporation pursuant to the terms of that certain

Stock Option Agreement between the Corporation and OrNda HealthCorp, as the same may be amended, modified, supplemented or otherwise changed.

NATIONAL MEDICAL ENTERPRISES, INC.  
2700 COLORADO AVENUE  
SANTA MONICA, CALIFORNIA 90404

May 26, 1993

Mr. Jeffrey C. Barbakow  
559 C San Ysidro Road  
Santa Barbara, California 93108

Dear Jeff:

The purpose of this letter is to set forth the terms of your compensation as President and Chief Executive Officer of National Medical Enterprises ("NME") which have been approved by the Compensation and Stock Option Committee (the "Committee").

1. Your employment as President and Chief Executive Officer of NME will commence on June 1, 1993.
2. Your initial annual base salary will be \$850,000. Your base salary will be reviewed by the Committee on an annual basis when the base salaries for other senior executive officers are reviewed.
3. You will be eligible to participate in the annual and long-term cash incentive plans which are in effect from time to time for the other senior executive officers of NME. The plans which are currently in effect are the Annual Incentive Plan ("AIP") and the Long-Term Incentive Plan ("LTIP").
4. You will be eligible to participate in pension and welfare plans and to receive other fringe benefits and perquisites on the same terms as other senior executive officers of NME.
5. You will receive a grant of a non-qualified stock option for 2,000,000 shares of NME common stock on June 1, 1993. The grant will be made under NME's 1991 Stock Incentive Plan and will be in the form attached hereto as Exhibit "A." The stock option will have the following principal terms:
  - (i) The stock option will be granted when you become an employee of NME on June 1, 1993.
  - (ii) The exercise price will be the closing NME market price on the New York Stock Exchange on June 1, 1993.
  - (iii) The stock option will have a term of ten years.

Mr. Jeffrey C. Barbakow  
May 26, 1993  
Page 2

- (iv) The stock option will vest at the rate of one-third (1/3) per year on June 1, 1994, 1995 and 1996, subject to acceleration as provided in Exhibit "A."

The Committee does not presently anticipate that it will make any other stock option grants to you before June 1, 1996.

6. You will devote your full time and attention to the performance of your duties as President and Chief Executive Officer of NME during normal working hours.

7. You have not requested and will not have a formal employment agreement. You will serve at the will of the Board of Directors of NME. In the event of termination of your employment, the only severance benefits which you will be entitled to receive are (i) any additional vesting of your stock option pursuant to the terms set forth in Exhibit "A," (ii) any other severance benefits which may be approved by the Committee or Board of Directors of NME in its discretion, and (iii) any benefits to which you may be entitled under the terms of NME pension and welfare plans (other than severance plans) in which you are then participating.

On behalf of the Committee, I want to express our appreciation for the manner in which you have negotiated the terms of your employment. We are delighted that you have agreed to serve as President and Chief Executive Officer of NME.

Sincerely,

PETER DE WETTER

Peter de Wetter  
Chairman of Compensation and  
Stock Option Committee

rgt  
c: Alan R. Ewalt

EXHIBIT "A"

NATIONAL MEDICAL ENTERPRISES, INC.  
1991 STOCK INCENTIVE PLAN  
NON-STATUTORY STOCK OPTION CERTIFICATE NO. 1 \_\_\_\_

On June 1, 1993, National Medical Enterprises, Inc. in consideration of services to be performed for the company or subsidiary thereof, hereby grants to Jeffrey C. Barbakow, a Non-Statutory Stock Option, to purchase 2,000,000 shares of the \$.075 per value Common Stock of the Company at a price equal to 100% of the fair market value of a share of Common Stock on the Date of Grant, of \$\_\_\_\_\_ per Share.

This Option shall not be exercisable until one year after the Date of Grant, at which time it shall become exercisable as to one-third of the Option Shares. On each succeeding anniversary of the Date of Grant, this Option shall become exercisable as to an additional one-third of the Option Shares, so that on the third anniversary of the Date of Grant, it shall be exercisable in full. This Option shall expire on June 1, 2003.

These options are granted under and governed by the terms and conditions of the National Medical Enterprises, Inc. 1991 Stock Incentive Plan and by the additional special terms and conditions set forth in Addendum I hereto.

Please refer to the enclosed National Medical Enterprises, Inc. 1991 Stock Incentive Plan and Key Features of the Non-Statutory Stock Options summary for details of the Plan, both of which are attached and made part of this document.

National Medical Enterprises, Inc.

By \_\_\_\_\_  
Alan R. Ewalt  
Assistant Secretary

ADDENDUM I TO  
NATIONAL MEDICAL ENTERPRISES, INC.  
1991 STOCK INCENTIVE PLAN  
NON-STATUTORY STOCK OPTION CERTIFICATE NO. 1  
-----

1. In the event of involuntary termination of employment without cause or constructive termination of employment of Jeffrey C. Barbakow ("Employee") at any time after a Change in Control, the Option will become fully exercisable for the 2,000,000 shares covered by the Option as of the date of such termination of employment.
2. In the event of involuntary termination of employment without cause or constructive termination of employment of Employee without a Change in Control, the Option shall be exercisable for a pro-rata portion of the 2,000,000 shares covered by the Option based on (i) the number of full months which have elapsed from June 1, 1993 to the date of termination of employment divided by (ii) 36 months, but in no event for less than 500,000 shares. The shares which shall be exercisable under this paragraph shall include any shares which have previously vested pursuant to the general terms of the Option.

Examples:  
-----

- A. Termination between 0 and 9 months  
-----  
500,000 shares (the minimum) will be vested.
  - B. Termination after 10 months  
-----  
555,556 shares will be vested ( $10/36 \times 2,000,000$  shares).
  - C. Termination after 12 months  
-----  
666,667 shares will be vested ( $12/36 \times 2,000,000$  shares).
  - D. Termination after 18 months  
-----  
1,000,000 shares will be vested ( $18/36 \times 2,000,000$  shares).
  - E. Termination after 24 months  
-----  
1,333,333 shares will be vested ( $24/36 \times 2,000,000$  shares).
  - F. Termination after 30 months  
-----  
1,666,667 shares will be vested ( $30/36 \times 2,000,000$  shares).
  - G. Termination after 36 months  
-----  
2,000,000 shares will be vested ( $36/36 \times 2,000,000$  shares).
3. For purposes of this Addendum, the term "Change in Control" shall have the meaning ascribed to that term in Section 11(d) (A) of the Plan, except that the definition of "Person" in Section 11(d) (D) shall include (rather than exclude) any Person who acquires 20% or more of the general voting power of NME in a transaction or series of transactions approved prior to such transaction or series of transactions by NME's Board of Directors. The term "constructive termination" shall mean voluntary termination of

employment by Employee following (i) removal of Employee as President or

Chief Executive Officer of NME, (ii) a reduction in the annual base salary then paid to Employee, or (iii) transfer of Employee's principal office to a location outside of Los Angeles, Ventura or Santa Barbara County. The term "Cause" shall mean (i) any conduct on the part of Employee which constitutes a material breach of any statutory or common law duty of loyalty to NME which continues for thirty days after written notice from NME's Board of Directors, provided that notice will not be required for any deliberate conduct on the part of Employee which Employee knows constitutes a breach of his duty of loyalty to NME, (ii) any illegal or publicly immoral act by Employee which materially and adversely affects the business of NME, or (iii) any willful and continued failure of Employee, after written notice from NME's Board of Directors, to devote substantially full time and attention to the performance of his duties as President and Chief Executive Officer of NME during normal working hours.

4. In no event may any shares acquired pursuant to exercise, in whole or in part, of the Option be sold or otherwise disposed of by Employee prior to December 1, 1993.
5. In the situations described in Section 11(a) and 11(b) of the Plan or in the event of payment of a special, large and non-recurring dividend, whether in cash, securities or other property (exceeding fifteen percent (15%) of the closing market price of NME common stock on the day before the dividend is declared), an appropriate and proportionate adjustment will be made by the Compensation and Stock Option Committee in the terms of the Option (including the number of shares covered by the Option and/or the exercise price under the Option) in a manner which is equitable to Employee and is permitted for accounting purposes without resulting in a new measurement date and a charge to NME's earnings under Emerging Issues Task Force ("EITF") Issue No. 90-9.
6. Employee shall be entitled to exercise the Option to the same extent and for the same period in the event of involuntary termination of employment without cause or constructive termination of employment of Employee (as those terms are defined in Paragraph 3 herein) as is provided under Section 13(d)(i) of the Plan upon involuntary termination of employment other than for cause.

(LOGO OF NATIONAL MEDICAL ENTERPRISES INCORPORATED APPEARS HERE)

(LETTERHEAD OF NATIONAL MEDICAL ENTERPRISES, INCORPORATED APPEARS HERE)

June 1, 1993

Mr. Jeffrey C. Barbakow  
559 C San Ysidro Road  
Santa Barbara, California 93108

Dear Jeff:

The purpose of this letter is to set forth additional terms of your compensation as President and Chief Executive Officer of National Medical Enterprises ("NME") which have been approved by the Compensation and Stock Option Committee (the "Committee").

1. NME will pay you a minimum guaranteed annual bonus under the NME Annual Incentive Plan (or any successor annual bonus plan) ("AIP") of \$500,000 for the fiscal year ending in 1994, if the average closing price of NME common stock on the New York Stock Exchange during the months of April and May in 1994 exceeds \$12.00 per share.
2. NME will pay you a minimum guaranteed annual bonus under the AIP of \$500,000 for the fiscal year ending in 1995, if the average closing price of NME common stock on the New York Stock Exchange during the months of April and May in 1995 exceeds \$13.25 per share.
3. NME will pay you a minimum guaranteed annual bonus under the AIP of \$500,000 for the fiscal year ending in 1996, if the average closing price of NME common stock on the New York Stock Exchange during the months of April and May in 1996 exceeds \$14.50 per share.
4. The average closing prices of NME common stock set forth in Paragraphs 1, 2 and 3 above will be subject to appropriate adjustment by the Committee upon any event which results in an adjustment of the terms of the Non-Qualified Stock Option granted to you on June 1, 1993.
5. Any guaranteed annual bonuses which you are entitled to received under Paragraphs 1, 2 and 3 above will be paid to you at the same time when annual bonuses are or would be paid to senior executive officers under the AIP (or any successor annual bonus plan) and will be offset against (and will not be in addition to) any annual bonus which you are entitled to receive under the AIP and any other annual bonus plan of NME for NME's fiscal years ending in 1994, 1995 and 1996, respectively.
6. If the average closing market price of NME common stock on the New York Stock Exchange during the months of April and May in 1996 exceeds \$14.50 per share, NME will pay you the difference between \$1,500,000 and the cumulative annual bonuses paid

Mr. Jeffrey C. Barbakow  
June 2, 1993  
Page 2

to you for NME's fiscal years ending in 1994, 1995 and 1996 under the AIP and any other bonus plan of NME. This payment will be made after annual bonuses are or would be paid to senior executive officers of NME for the fiscal year ending in 1996.

7. In the event of involuntary termination without cause or constructive

termination of your employment with NME (as these terms are defined in the non-qualified stock option for 2,000,000 shares granted to you on June 1, 1993 ("Option")), payment of the foregoing aggregate guaranteed bonus amounts will be accelerated to the extent of the lesser of (i) the product of \$1,500,000 multiplied by the fraction of which the numerator is (A) the cumulative number of shares which are vested pursuant to the terms of the Option, and the denominator is (B) 2,000,000 shares, or (ii) \$500,000, \$1,000,000, \$1,500,000 if the average closing price of NME common stock on the New York Stock Exchange during the sixty days preceding your termination of employment exceeds \$12.00, \$13.25 or \$14.50 per share, respectively. Payment of any guaranteed bonus amounts under this Paragraph 7 will be reduced by the cumulative bonuses previously paid to you.

Sincerely,

PETER DE WETTER

Chairman of Compensation and  
Stock Option Committee

c: Alan Ewalt

NME  
National Medical Enterprises

Memorandum

DATE: June 14, 1993  
TO: Jeff Barbakow  
FROM: Alan R. Ewalt  
SUBJECT: Perquisites & Benefits

In addition to benefits available to you through the flexible benefit program (TGIF), the following is a listing of perquisites and other benefits for which you are eligible.

1. AUTOMOBILE ALLOWANCE - An allowance of \$20,100 per year will be paid  
-----  
to you through the regular semi-monthly payroll. The tax department has advised that if the limo is provided in lieu of a car allowance on a temporary basis and consistent with the company's requirement to provide security to our CEO, it will not be treated as a taxable benefit. Therefore, I would propose your auto allowance to begin after the limo is released. Please let me know if you would like it handled differently.
  
2. EXECUTIVE MEDICAL PLAN - The benefit provides you and your family  
-----  
reimbursement for healthcare expenses not covered under the basic medical, dental, and vision plans up to a maximum of \$10,000 per year. Since it is an insured plan, you will not have a tax liability.  
  
The plan encourages executive health and wellness by requiring regular physical exams as a condition for continued participation.
  
3. NME CREDIT CARDS - You will receive an American Express and  
-----  
MasterCard credit card for paying business and travel expenses. The billings will come to NME. You should clear the billings by submitting receipts for expenses on an expense report.
  
4. ANNUAL INCENTIVE PLAN (AIP) - You will be named to be a participant  
-----  
in the Annual Incentive Plan with a target award of 70% of your base salary for attainment of 100% of stated goals for the year. (Goals are for EPS, quality, and personal performance).
  
5. LONG-TERM INCENTIVE PLAN (LTIP) - You will be named to participate  
-----  
in the LTIP with a target award equal to 37.5% of your total targeted cash compensation (TCC). TCC is your base salary plus target AIP amount determined as of the entry date in the cycle. Awards are payable at the end of the three year cycle for attainment of stated business goals.
  
6. CLUB MEMBERSHIP - The company will pay for membership in a business  
-----  
lunch club such as the Regency Club. This membership will not be considered taxable. You are eligible for reimbursement for membership in a country club if you wish - such costs are considered taxable income and would be imputed to you at year-end.

7. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) - You will be named to  
-----  
participate in the SERP which supplements the basic NME 401-k Retirement Savings Plan. Eligibility for enrollment in the 401-k is after twelve months of employment. Details of the SERP will be provided under separate cover. There is no current tax consequence of participation in the SERP.
8. SERP LIFE INSURANCE - As a participant in the SERP plan, you will be  
-----  
eligible for a life insurance benefit of two times your annual salary. The benefit is provided through split-dollar insurance and you will have taxable income based on the economic value of the benefit. I will provide you an estimate for your tax planning purposes. Although there is no requirement to do so, the company will pay you a bonus each year approximately equal to the amount of the imputed income.
9. SERP LIFE ACCIDENTAL DEATH & DISMEMBERMENT (AD&D) - You are covered  
-----  
for AD&D in an amount equal to the SERP Life Insurance of two times annual salary.
10. SERP LONG-TERM DISABILITY (LTD) - As a SERP participant, you will be  
-----  
eligible for an executive LTD benefit equal to 60% of your base pay to maximum of \$25,000 per month. The cost of this plan will be imputed to you at year-end. The amount of the premium is \$1,330 for the seven months of 1993 which at a 38% marginal tax rate, has an after tax cost to you of \$505.40. Because you are paying the premium, the benefit will be delivered tax free.
11. BUSINESS TRAVEL ACCIDENT - NME Owned Aircraft - Coverage is provided  
-----  
in the amount of \$400,000 per person to an aggregate of \$7,200,000 insured by The Hartford.
12. DIRECTORS LIFE INSURANCE PLAN - You are eligible, as a board member,  
-----  
for the \$1,000,000 second-to-die life insurance policy. On November 18, 1991, you indicated you did not wish to participate however, that program is still available to you.

## CONSULTING AND NON-COMPETE AGREEMENT

This Consulting and Non-Compete Agreement ("Agreement") is made and entered into by and between Michael H. Focht, Sr. (hereinafter referred to as "Mr. Focht") and Tenet Healthcare Corporation (hereinafter referred to as "Tenet").

WHEREAS, Mr. Focht has served as the President and Chief Operating Officer of Tenet Healthcare Corporation; and

WHEREAS, Mr. Focht has indicated his plans to resign from employment with Tenet and retire on or about December 31, 1999; and

WHEREAS, Tenet desires to retain Mr. Focht as a consultant for a period of time to perform certain consulting services for Tenet in conjunction with matters with which he has had previous experience with Tenet or which are within his area of expertise or experience, and Mr. Focht desires to provide such consulting services to Tenet;

NOW, THEREFORE, the parties hereto agree as follows:

1. This Agreement shall become effective on January 1, 2000 following Mr. Focht's retirement and resignation from employment with Tenet ("the Effective Date") and shall continue for the next thirty-six months ("the Consulting Period"). Notwithstanding any other provision of this Agreement, Tenet shall have no obligation to renew or continue this Agreement beyond the Consulting Period and shall have no further obligation to Mr. Focht if this Agreement or Mr. Focht's services hereunder are terminated by Tenet for cause as defined below or this Agreement expires by its terms.

2. Mr. Focht agrees that during the Consulting Period, he will provide consulting services and hold himself available to provide such services to Tenet and/or its representatives in connection with any matter with which he previously has had experience at Tenet or which is otherwise within his area of expertise or experience. Mr. Focht acknowledges and agrees that he shall make himself available at reasonable time(s) and place(s) for such consulting services upon reasonable notice from Tenet's Chairman and Chief Executive Officer or his/her authorized designee.

3. Mr. Focht acknowledges and agrees that he shall not be an employee of Tenet during the Consulting Period, and that he shall perform all consulting services under this Agreement as an independent contractor. Mr. Focht shall have no authority to bind Tenet to any obligation except with prior written authorization from Tenet's Chairman and Chief Executive Officer or his/her authorized designee.

4. As compensation for Mr. Focht's holding himself available to provide consulting services and for providing such services under this Agreement, Tenet agrees to pay Mr. Focht a monthly gross fee of Forty Three Thousand Six Hundred Sixty Six Dollars (\$43,666). Mr. Focht agrees that he is responsible to report his own taxes; however, Tenet will, as an accommodation to Mr. Focht, withhold taxes from its payments to him. Mr. Focht further acknowledges that Tenet makes no warranties as to any tax consequences of such payments, and specifically agrees that the determination of any tax liability or other consequences of the payments set forth above is

-1-

Mr. Focht's sole and complete responsibility and that he will pay all state, federal and/or local taxes, if any, assessed against him on such payments.

5. Tenet further agrees to reimburse Mr. Focht for any and all reasonable expenses incurred at Tenet's request and with Tenet's consent in connection with his providing consulting services during the consulting period, including, but not limited to, such expenses as (i) local automobile mileage at the rate established by the United States Internal Revenue Service; (ii) first class airline tickets purchased for domestic travel; (iii) first class airline tickets purchased for international travel; and (iv) all authorized reasonable hotel, meal, telephone, fax and other out-of-pocket expenses incurred in connection with Mr. Focht's approved travel and consulting services, so long as Mr. Focht provides to Tenet acceptable documentation of or receipts for such expenses. Tenet further agrees to provide secretarial support as required to support Mr. Focht's consulting assignments and during the first twenty-four months of the consulting period Tenet will provide a full-time executive assistant acceptable to Mr. Focht to assist Mr. Focht in the transition from his office as President and Chief Operating Officer. Tenet will pay for the necessary and reasonable travel and lodging expenses of the executive assistant as required to provide the support to Mr. Focht. Such travel and lodging shall be limited to no more than one round trip from Dallas, Texas to Santa Ynez, California every 45 days and two nights of lodging per trip.

6. Tenet acknowledges that Mr. Focht is retiring from the company with its consent. Tenet further agrees that, as a retiree, Mr. Focht also may exercise, for a period of three (3) years after the Effective Date, and in accordance with the terms of the applicable Tenet benefit plan, any stock options he may have been granted under the NME 1983 Stock Incentive Plan prior to the Effective Date. Tenet further agrees that, as a retiree, Mr. Focht also may exercise any stock options he may have been granted under the NME 1991 Stock Option Plan, or the Tenet 1995 Stock Incentive Plan, in accordance with the terms of the applicable Tenet stock option plan. Mr. Focht acknowledges that the stock options granted June 24, 1998 will not be permitted to vest and will not be exercisable since Mr. Focht will not be in compliance with the terms of that grant.

7. Tenet further agrees that the Consulting Period shall be considered for purposes of determining Mr. Focht's final SERP benefit under the Tenet Supplemental Executive Retirement Plan and that Mr. Focht will be eligible to receive the early retirement benefit from that plan as of the end of the consulting period. The SERP benefit payable as of the end of the consulting period will be approximately \$546,430 per year with the final amount to be determined when Mr. Focht's actual salary and bonus through December 31, 1999 are known. Tenet agrees to provide such payment if the plan does not.

8. Tenet agrees that during the Consulting Period, Tenet will continue to provide health insurance benefits either by Tenet's paying the COBRA premium for health coverage or such benefits to be provided under a commercially available health insurance policy from a carrier which is acceptable to Mr. Focht to be purchased by Tenet, unless such policy is impracticable to obtain due to preexisting conditions (as defined by such policy) or other limitations, in which event Tenet shall continue to provide such health insurance benefits under Tenet's existing benefit plan(s). Tenet further agrees that any health insurance coverage provided to Mr. Focht and his spouse during the Consulting Period shall be the same as provided to Tenet's then current President and Chief Operating Officer or substantially equal to the health insurance coverage previously provided to Mr. Focht.

-2-

9. Should Mr. Focht become disabled and otherwise be unable to perform under this agreement, all consulting payments under the agreement shall cease and the SERP benefits described in Paragraph 7 above shall become immediately payable. If Mr. Focht dies during the term of this agreement, the consulting payments under this agreement shall cease and the survivor benefits as appropriate under the SERP shall begin to be paid at fifty percent (50%) of the amount shown in Paragraph 7 above.

10. Mr. Focht agrees that either by mutual agreement with the Chairman and Chief Executive Officer or by instruction from the Board of Directors of Tenet, Mr. Focht will surrender his positions, titles and responsibilities as President and Chief Operating Officer, or either of such positions, prior to December 31, 1999. Following the date of any such surrender and until the Effective Date, Mr. Focht shall continue to be an employee of Tenet and shall continue to receive salary, benefits and Annual Incentive Plan awards as in effect before such surrendering of title, position and responsibilities, and shall provide such similar services and in a similar manner to Tenet as set forth in Paragraph 2.

11. Mr. Focht agrees that should he continue to be a member of the Board of Directors of Tenet during all or any portion of the Consulting Period, he shall not receive any fees including the normal fees and retainer paid to non-employee directors. Further, Mr. Focht shall not be entitled to receive benefits under the Director's Retirement Plan or the 1994 Directors Stock Option plan.

12. Mr. Focht acknowledges that he has held sensitive executive positions with Tenet and its subsidiaries and that, by virtue of having held such positions, he has had access to, and has received or developed confidential information and trade secrets pertaining to Tenet's operations which are proprietary to Tenet and which have not been disclosed to the public. Mr. Focht agrees that he shall keep all such information confidential and that he shall not disclose any such information to any other person, except as may be required by law or with the consent of Tenet. Without limiting the generality of the foregoing, Mr. Focht agrees that he will not respond to or in any way participate in or contribute to any public discussion, notice or other publicity concerning or in any way related to the confidential information concerning Tenet, its operations, officers or directors which is proprietary to Tenet and which has not been disclosed to the public, or any other matters concerning his employment with Tenet. Mr. Focht further agrees that he will not talk to or provide any documents to any non-governmental third party concerning any allegation of unlawful or fraudulent activity or conduct, except as may be required by law. Mr. Focht further agrees that he promptly will notify Tenet's General Counsel, Scott M. Brown, or his successor, in the event that any request is made of him by anyone for the disclosure or release of any information or documents referred to herein. Mr. Focht further agrees that any disclosure by him or any of Tenet's confidential or proprietary information referred to herein in violation of this agreement, which disclosure is materially adverse to Tenet, its subsidiaries or related companies or entities, or its and/or their operations, officers or directors, shall constitute a material breach of this Agreement.

13. Mr. Focht agrees that during the Consulting Period he will cooperate fully with Tenet, upon request, in relation to Tenet's defense, prosecution or other involvement in any continuing or future claims, lawsuits, charges, and internal or external investigations which arise out of events or business matters which occurred during Executive's prior employment by Tenet. Such continuing duty of cooperation shall include making himself available to Tenet, upon reasonable notice, for depositions, interviews, and appearance as a witness, and furnishing information to Tenet and its legal counsel upon request. Tenet will reimburse Mr. Focht for any expenses, including legal expenses, incurred by Mr. Focht in satisfying his obligation under this Paragraph 13.

-3-

14. Mr. Focht agrees not to accept any employment, provide any services to any entity or person or engage in any enterprise during the Consulting Period that would interfere or conflict with his ability to provide the consulting services or other services required under this Agreement. Mr. Focht agrees that during the Consulting Term, unless express prior written permission is granted by Tenet, he shall not, directly or indirectly, for his

own benefit or as agent for another, carry on or participate in the ownership, management or control of, or be employed by, or serve as a director of, or consult for, or license or provide know how to, or otherwise render services to, or allow his name or reputation to be used in or by, any other present or future business enterprise that competes with Tenet or its subsidiaries or affiliates in any of the lines of business in which Tenet or such subsidiaries or affiliates are then engaged anywhere in the world; PROVIDED that nothing contained herein shall limit the right of Mr. Focht, as an investor, to hold and make investments in securities of any corporation or other entity that competes in the lines of business in which Tenet, its subsidiaries or its affiliates are engaged. Mr. Focht acknowledges that he considers the restrictions set forth in this Paragraph 14 to be reasonable and necessary both individually and in the aggregate for the proper fulfillment of his consulting obligations hereunder. Mr. Focht further acknowledges and agrees that if he engages in any activity proscribed by this Paragraph 14, Tenet shall have no further obligation to make any payments to Mr. Focht under this Agreement. If Tenet should cease to make payments under this agreement then Mr. Focht would be free to compete.

15. Tenet agrees to indemnify, defend and hold harmless Mr. Focht to the fullest extent permitted by Tenet's by-laws and articles of incorporation, in connection with any action brought against Mr. Focht involving his proper performance of the consulting services required of him under this Agreement.

16. The parties agree that no provision in this Agreement shall be construed or interpreted in any way to limit, restrict or preclude either party hereto from cooperating with any internal or external investigation or of any governmental agency in the proper performance of its investigatory or other lawful duties.

17. Tenet may terminate this agreement for cause. For purposes of this Agreement, "cause" shall be defined to include, without limitation, Mr. Focht's dishonesty, fraud, willful misconduct, willful breach of his duties, self-dealing, failure or habitual neglect or refusal to perform his duties in any material respect, violation of law in the performance of his consulting duties (except traffic violations or similar minor infractions), continued incapacity to perform his duties and any failure or refusal by Mr. Focht to comply with any reasonable instructions from Tenet, including instructions to surrender his position as further set forth in Paragraph 10.

18. The parties agree that any dispute, controversy or claim whatsoever arising out of or relating to this Agreement or the termination thereof, or otherwise between Tenet and Mr. Focht shall, in lieu of a jury or other civil trial, be settled by final and binding arbitration in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association before an arbitrator selected by mutual consent who is a member of the National Academy of Arbitrators. This includes all claims whether arising in tort or contract and whether arising under statute or common law. The obligation to arbitrate such claims shall survive the termination of this Agreement, and the arbitrator shall have jurisdiction to determine the arbitrability of any claim. The arbitrator shall not have the right to add to, subtract from or modify any of the terms of this Agreement. Judgment on any award rendered by the arbitrator may be entered or enforced by any court having jurisdiction thereof. The arbitrator's fees shall be borne equally by the parties, and each party shall be

-4-

responsible for paying its own costs for the arbitration, including without limitation, attorneys' fees, witness fees, transcripts or other expenses. However, the arbitrator may award attorneys' fees and costs to the prevailing party where expressly authorized by statute.

19. This Agreement shall in all respects be interpreted, enforced and governed under the laws of the State of California without regard to conflicts of laws principles. The language of all parts of this Agreement

shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

20. Should any provision of this Agreement be declared and/or be determined by any court to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby, and said illegal or invalid part, term or provision shall be deemed not to be a part of this Agreement. Notwithstanding the foregoing, Mr. Focht acknowledges and agrees that if Paragraph 14 of this Agreement is found to be illegal, invalid or in any way unenforceable or if Mr. Focht initiates any proceeding of any nature or kind or seeks to challenge the validity or enforceability of Paragraph 14, Tenet shall have no further obligation to make any payments to Mr. Focht under this Agreement and Mr. Focht shall have no responsibility to continue to provide services

21. The parties hereby agree that this Agreement contains the entire agreement between the parties hereto regarding the subject matter hereof, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof.

22. Tenet further agrees that all of its obligations under this Agreement shall be binding and enforceable against any and all of its successor companies and entities. Tenet hereby represents that it has the authority to so bind such successor(s).

IN WITNESS WHEREOF, the parties hereto, having first read the same, have executed this Consulting and Non-Compete Agreement on the dates hereinafter set forth and hereby warrant and represent that they have the authority to enter into this agreement.

DATED \_\_\_\_\_, 199\_

\_\_\_\_\_  
Michael H. Focht, Sr.

DATED \_\_\_\_\_, 199\_

TENET HEALTHCARE CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

January 13, 1999

PERSONAL & CONFIDENTIAL

Trevor Fetter  
Corporate Offices  
Santa Barbara, California

Dear Trevor:

I am pleased to confirm the offer for you to become Chief Corporate Officer and Chief Financial Officer for Tenet Healthcare Corporation in the Office of the President in Santa Barbara. Your new responsibilities will commence immediately.

1. COMPENSATION AND BENEFITS: You will be entitled to compensation and benefits as follows:

a. BASE COMPENSATION: Your base salary will be increased to the rate of \$550,000 per year, payable bi-weekly effective January 15, 1999.

b. ANNUAL INCENTIVE PLAN: Your target award percentage in the Tenet Annual Incentive Plan will be 60% with a maximum award of 90% of target and a growth award level to be determined.

Jeff has committed a further elevation of your salary and AIP percentage in late summer or early fall. Your pay would again be revisited at fiscal year end (May 31, 2000).

c. CAR ALLOWANCE: You will receive a car allowance in the amount of \$20,000 per year paid bi-weekly.

d. BENEFITS: You will continue to be eligible for the employee benefits for which you are currently eligible.

e. EXECUTIVE MEDICAL: You will participate in Tenet's ExecuPlan which provides reimbursement for out of pocket health and dental expenses and premiums at a \$7,500 annual level.

f. STOCK OPTIONS: You will receive 260,000 non-qualified stock options as granted on January 12, 1999, by the Compensation and Stock Option Committee. This grant coupled with the grant of 140,000 options in December 1998 is to be viewed as a two-year grant so that you would normally not be considered for further option grants prior to December 2000. The vesting of the new options will be one-third each year over three years.

Trevor Fetter  
January 13, 1999  
Page 2

g. SEVERANCE PROTECTION AGREEMENT: You will participate in the Tenet Severance Protection Plan at the same level provided to our current Chairman and President which provides severance equal to two times base salary plus target bonus, benefits continuation and legal fees reimbursement for a qualifying termination following a change of control of Tenet. No severance is due in the event of a termination for "cause" described below or voluntary termination except as provided under the Plan for "good reason".

Should your employment with Tenet be terminated by the company without cause within three years from this date, you shall receive severance benefits

of two years' salary and benefits continuation (excluding AIP). If within three years from this date Mr. Jeffrey Barbakow ceases to be Chairman and Chief Executive Officer of Tenet ("the triggering event") then you may voluntarily terminate your employment and receive the above severance benefits so long as, within 120 days of such triggering event, you notify the Chief Human Resources Officer of Tenet in writing that you intend to voluntarily terminate under these provisions. You may not receive benefits both under this severance arrangement and any other severance program, plan or arrangement with Tenet. You will be paid under the plan, program or arrangement for which you are eligible which provides the greatest benefit.

Finally, your employment with the company will be continue to be on an at-will basis which means that either you or the company may terminate the employment relationship with or without notice or with or without cause at any time. The term "cause" as used above shall include, but not be limited to, dishonesty, fraud, willful misconduct, self dealing or violation of the company's Standards of Conduct, breach of fiduciary duty (whether or not involving personal profit), failure, neglect or refusal to perform your duties in any material respect, violation of law (except traffic violations or similar minor infractions), violation of the company's Human Resources Operations or other Policies, or any material breach of this agreement; provided, however, that a failure to achieve or meet business objectives as defined by the company shall not be considered "cause" so long as you have devoted your best and good faith efforts and full attention to the achievement of those business objectives.

This letter contains the entire agreement between you and Tenet regarding the terms and conditions of your employment, and fully supersedes any and all prior agreements that may have existed between you and Tenet regarding the terms and conditions of your employment.

Trevor, assuming these terms are agreeable, please sign this letter indicating your acceptance and return to me.

We are enthusiastic about you accepting this new assignment. Please call me if you have any questions.

Sincerely,

ACCEPTED AND AGREED TO:

Alan R. Ewalt  
Senior Vice President Human Resources

\_\_\_\_\_  
Trevor Fetter Date

c: Jeffrey Barbakow

January 13, 1999

PERSONAL & CONFIDENTIAL  
(Revised January 13, 1999)

Thomas B. Mackey  
Western Division  
Carlsbad, California

Dear Tom:

I am pleased to confirm the offer for you to become the Chief Operating Officer for Tenet Healthcare Corporation in the Office of President in Santa Barbara. Your new responsibilities will commence immediately.

1. COMPENSATION AND BENEFITS: You will be entitled to compensation and benefits as follows:

a. BASE COMPENSATION: Your base salary will be increased to the rate of \$550,000 per year, payable bi-weekly effective January 15, 1999.

b. ANNUAL INCENTIVE PLAN: Your target award percentage in the Tenet Annual Incentive Plan will be 60% with a maximum award of 90% of target and a growth award level to be determined.

Jeff has committed a further elevation of your salary and AIP percentage in late summer or early fall. Your pay would again be revisited at fiscal year end (May 31, 2000).

c. CAR ALLOWANCE: You will receive a car allowance in the amount of \$20,000 per year paid bi-weekly.

d. BENEFITS: You will continue to be eligible for the employee benefits for which you are currently eligible.

e. EXECUTIVE MEDICAL: You will participate in Tenet's ExecuPlan which provides reimbursement for out of pocket health and dental expenses and premiums at a \$7,500 annual level.

f. STOCK OPTIONS: You will receive 260,000 non-qualified stock options as granted on January 12, 1999, by the Compensation and Stock Option Committee. This grant coupled with the grant of 140,000 options in December 1998 is to be viewed as a two-year grant so that you would normally not be considered for further option grants prior to December 2000. The vesting of the new options will be one-third each year over three years.

Thomas B. Mackey  
January 13, 1999  
Page 2

g. RELOCATION: Tenet will:

-- pack, move and unpack household goods

-- reimburse the reasonable selling expenses to sell your home

-- provide you a swing loan interest free secured by equity in your home to be liquidated when your home is sold

-- if your home does not sell promptly, Tenet will buy your home at the appraised value using our standard appraisal method (average of two

professional appraisals). If the appraisals are more than 5% apart, a third appraisal will be requested and the purchase price will be the average of the two closest appraisals.

- indemnify you for property improvements for which you will not receive full value totaling approximately \$280,000, which will be grossed up.
- pay a housing differential based on actual additional housing expenses you incur for property taxes and mortgage interest but not to exceed \$170,000 per year. The differential will be paid at 100% for the first four years, 75% in year five, 50% in year six, 25% in year seven and zero after seven years. The differential will be paid monthly and is not subject to gross up. The differential amount assumes you will invest all the equity from your present home in the new home.
- extend provisions of the general Relocation Policy #609 including appropriate temporary or duplicate housing.

h. RELOCATION PROTECTION: If for some reason within the next three years you do not continue in this position, the company will pay for your relocation from Santa Barbara to a destination as far away as San Diego and will guaranty the resale of your home at cost plus documented capital improvements so long as your original purchase price of the Santa Barbara home is within plus or minus five percent of the appraised value of the property at the time of purchase.

i. SEVERANCE PROTECTION AGREEMENT: You will participate in the Tenet Severance Protection Plan at the same level provided to our current Chairman and President which provides severance equal to two times base salary plus target bonus, benefits continuation and legal fees reimbursement for a qualifying termination following a change of control of Tenet. No severance is due in the event of a termination for "cause" described below or voluntary termination except as provided under the Plan for "good reason".

Should your employment with Tenet be terminated by the company without cause within three years from this date, you shall receive severance benefits of two years' salary and benefits continuation (excluding AIP). If within three years from this date Mr. Jeffrey Barbakow ceases to be Chairman and Chief Executive Officer of Tenet ("the triggering event") then you may voluntarily terminate your employment and receive the above severance benefits so long as, within 120 days of such triggering event, you notify the Chief Human Resources Officer of Tenet in writing that you intend to voluntarily terminate under these provisions. You may not receive benefits both under this severance arrangement and any other severance program, plan or arrangement with Tenet. You will be paid under the plan, program or arrangement for which you are eligible which provides the greatest benefit.

Thomas B. Mackey  
January 13, 1999  
Page 3

Finally, your employment with the company will be continue to be on an at-will basis which means that either you or the company may terminate the employment relationship with or without notice or with or without cause at any time. The term "cause" as used above shall include, but not be limited to, dishonesty, fraud, willful misconduct, self dealing or violation of the company's Standards of Conduct, breach of fiduciary duty (whether or not involving personal profit), failure, neglect or refusal to perform your duties in any material respect, violation of law (except traffic violations or similar minor infractions), violation of the company's Human Resources Operations or other Policies, or any material breach of this agreement; provided, however, that a failure to achieve or meet business objectives as defined by the company shall not be considered "cause" so long as you have devoted your best and good faith efforts and full attention to the

achievement of those business objectives.

This letter contains the entire agreement between you and Tenet regarding the terms and conditions of your employment, and fully supersedes any and all prior agreements that may have existed between you and Tenet regarding the terms and conditions of your employment.

Tom, assuming these terms are agreeable, please sign this letter indicating your acceptance and return to me.

We are enthusiastic about you accepting this new assignment. Please call me if you have any questions.

Sincerely,

ACCEPTED AND AGREED TO:

Alan R. Ewalt  
Senior Vice President Human Resources

\_\_\_\_\_  
Thomas B. Mackey Date

c: Jeffrey Barbakow

February 23, 1999

PERSONAL & CONFIDENTIAL

Barry Schochet  
Dallas Operations Center  
Dallas, Texas

Dear Barry:

I am pleased to confirm the offer for you to become Vice Chairman for Tenet Healthcare Corporation reporting to Jeffrey Barbakow. Your new responsibilities will commence immediately.

Barry, we are excited about your accepting this important new role. Jeff advises that you could office in either Santa Barbara or the Dallas Operations Center. Practically, although you will have an office in Santa Barbara, given your anticipated travel, you will probably want to retain your primary office in the Dallas Operations Center. Also you may find it more suitable to your personal situation to not to have to relocate.

Your compensation and benefit arrangements will continue as at present with the exception that we will recommend to the Compensation Committee to make a special grant of stock options in an amount to be determined at their next meeting. This grant, if made, will be in place of any further grants in calendar year 1999.

You, Jeff, Tom and Trevor have discussed certain job responsibilities. This position is a top level executive assignment which will include the following general areas:

- a. Develop or acquire new lines of business which complement the hospital business.
- b. Create strategic initiatives to improve the performance and growth of operations.
- c. Represent the company in industry associations and policy groups. Be Tenet's lead board member at FAHS.
- d. Manage the government relations department and lobbying activities.
- e. Advise the Chairman and Office of the President on strategic and operational plans and other matters as need be.
- f. Other duties as agreed with senior management.

You will participate in the Tenet Severance Protection Plan at the same level provided to our current Chairman and President which provides severance equal to two times base salary plus target bonus, benefits continuation and legal fees reimbursement for a qualifying termination following a change in control of Tenet. No severance is due in the event of a termination for "cause" described below or voluntary termination except as provided under the Plan for "good reason".

Absent a change in control, should your employment with Tenet be terminated by the company without cause within three years from this date, you shall receive severance benefits of two years' salary and benefits continuation (excluding AIP). If within three years from this date Mr. Jeffrey Barbakow ceases to be Chairman and Chief Executive Officer of Tenet ("the triggering event") then you may voluntarily terminate your employment and receive severance benefits described in this paragraph so long as, within 120 days of such

Barry Schochet  
February 23, 1999  
Page 2

triggering event, you notify the Chief Human Resources Officer of Tenet in writing that you intend to voluntarily terminate under these provisions. You may not receive benefits both under this severance arrangement and any other severance program, plan or arrangement with Tenet. You will be paid under the plan, program or arrangement for which you are eligible which provides the greatest benefit.

Finally, your employment with the company will be continue to be on an at-will basis which means that either you or the company may terminate the employment relationship with or without notice or with or without cause at any time. The term "cause" as used above shall include, but not be limited to, dishonesty, fraud, willful misconduct, self dealing or violation of the company's Standards of Conduct, breach of fiduciary duty (whether or not involving personal profit), failure, neglect or refusal to perform your duties in any material respect, violation of law (except traffic violations or similar minor infractions), violation of the company's Human Resources Operations or other Policies, or any material breach of this agreement; provided, however, that a failure to achieve or meet business objectives as defined by the company shall not be considered "cause" so long as you have devoted your best and good faith efforts and full attention to the achievement of those business objectives.

This letter contains the entire agreement between you and Tenet regarding the terms and conditions of your employment, and fully supersedes any and all prior agreements that may have existed between you and Tenet regarding the terms and conditions of your employment.

Barry, assuming these terms are agreeable, please sign this letter indicating your acceptance and return to me.

We are enthusiastic about you accepting this new assignment. Please call me if you have any questions.

Sincerely,

ACCEPTED AND AGREED TO:

Alan R. Ewalt  
SVP, Human Resources

\_\_\_\_\_  
Barry Schochet Date

c: Jeffrey Barbakow

1994 ANNUAL INCENTIVE PLAN  
OF  
NATIONAL MEDICAL ENTERPRISES, INC.

1. PURPOSE. The purpose of the Annual Incentive Plan (the "Plan") of National Medical Enterprises, Inc. and its subsidiaries (the "Company") is to provide an incentive to enhance shareholder value and promote the attainment of significant business objectives of the Company by basing a portion of selected employees' compensation on the performance of such employee, the Company, and/or the employee's Business Unit (as defined below).

2. DEFINITIONS.

a. "Award Agreement" means the agreement entered into between the Company and a participant, setting forth the terms and conditions applicable to an award granted to the participant.

b. "Award Schedule" means the Award Schedule established pursuant to Article 4.

c. "Business Unit" means any division, group, subsidiary or other unit within the Company which is designated by the Committee to constitute a Business Unit.

d. "Code" means the Internal Revenue Code of 1986, and any successor statute, and the regulations promulgated thereunder, as it or they may be amended from time to time.

e. "Code Section 162(m) Award" means an Award intended to satisfy the requirements of Code Section 162(m) and designated as such in the Award Agreement.

f. "Covered Employee" means a Covered Employee within the meaning of Code Section 162(m)(3).

g. "Performance Criteria" means one or more of the following criteria selected by, and as further defined by, the Committee each Year to measure achievement of Performance Goals for a Year:

1. A. Income, either before or after income taxes, including or excluding interest, depreciation and amortization, extraordinary items and other material non-recurring gains or losses, discontinued operations, the cumulative effect of changes in accounting policies and the effects of any tax law changes;

B. Return on average equity, which shall be income calculated in accordance with paragraph g.1.A. above, divided by the average of stockholders' equity as of the beginning and as of the end of the Year;

C. Primary or fully diluted earnings per share of common stock, which shall be income calculated in accordance with paragraph g.1.A. above, divided by the weighted average number of shares and share equivalents of common stock;

D. Net cash provided by operating activities based upon income calculated in accordance with paragraph g.1.A. above; or

E. Quality of service and/or patient care, measured by the extent to which pre-set quality objectives are achieved by the Company.

2. Any other criteria related to performance, including the

performance of one or more of the Business Units, individual performance or any other category of performance selected by the Committee.

B-1

h. "Performance Goals" are the annual performance objectives with respect to Performance Criteria established by the Committee for the Company, a Business Unit or an individual for the purpose of determining whether, and the extent to which, awards under the Plan will be made for that Year.

i. "Target Award" means the amount payable for meeting 100% of Performance Goals for the Year.

j. "Year" means the Company's fiscal year.

3. ADMINISTRATION. The Plan shall be administered by the Compensation and Stock Option Committee (the "Committee") of the Company's Board of Directors (the "Board").

The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated. Without limiting the generality of the foregoing, the Committee will be entitled, among other things, to make non-uniform and selective determinations and to establish non-uniform and selective Performance Criteria, Performance Goals, the weightings thereof, and Target Awards. Whenever the Plan refers to a determination being made by the Committee, it shall be deemed to mean a determination by the Committee in its sole discretion.

It is the intent of the Company that this Plan and Code Section 162(m) Awards hereunder satisfy, and be interpreted in a manner that satisfy, in the case of participants who are or may be Covered Employees, the applicable requirements of Code Section 162(m), including the administration requirement of Code Section 162(m)(4)(C), so that the Company's tax deduction for remuneration in respect of such an award for services performed by such Covered Employees is not disallowed in whole or in part by the operation of such Code section. If any provision of this Plan would otherwise frustrate or conflict with the intent expressed in this Article, that provision, to the extent possible, shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with such intent, such provision shall be deemed void as applicable to Covered Employees with respect to whom such conflict exists. Nothing herein shall be interpreted so as to preclude a participant who is or may be a Covered Employee from receiving an award that is not a Code Section 162(m) Award.

The Committee shall have the discretion, subject to the limitations described in Article 4 below relating to Code 162(m) Awards, to (a) determine the Plan participants; (b) determine who will be treated as a Covered Employee; (c) determine Performance Criteria and Performance Goals each Year within the time period required by Code Section 162(m); (d) establish an Award Schedule; (e) establish performance thresholds for payment of any awards; (f) determine whether and to what extent the Performance Goals have been met or exceeded; (g) make discretionary awards as may be appropriate in order to assure the proper motivation and retention of personnel and attainment of business goals; (h) make adjustments to Performance Criteria, Performance Goals and thresholds; and (i) determine the total amount of funds available for distribution as awards each Year. Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan, to make, amend and rescind such rules as it deems necessary for the proper administration of the Plan, to make all other determinations necessary or advisable for the administration of the Plan and to correct any defect or supply any omission or reconcile an inconsistency in the Plan in the manner and to the extent the Committee deems desirable to carry the Plan into effect. Any action taken or determination made by the Committee shall be conclusive on all parties.

4. CODE SECTION 162(m) AWARDS. A participant who is or may be a Covered Employee may receive a Code Section 162(m) Award and/or an award that is not a Code Section 162(m) Award. The Committee will determine who is to be treated as a Covered Employee, determine who is eligible to be granted Code Section 162(m) Awards and establish the Target Awards and Award Schedules for Code Section 162(m) Awards. Such determinations will be made in a timely manner, as required by Code Section 162(m). Each award shall be evidenced by an Award Agreement setting forth the Award

B-2

Schedule and such other terms and conditions applicable to the award, as determined by the Committee, not inconsistent with the terms of the Plan. Notwithstanding anything else in this Plan to the contrary, the aggregate maximum amount payable under the Plan to a Covered Employee with respect to a Year shall be \$1,500,000. In the event of any conflict between an Award Agreement and the Plan, the terms of the Plan shall govern.

5. ALL AWARDS. Performance Criteria and Performance Goals will be established by the Committee for each Year, which, in the case of Performance Criteria and Performance Goals for Covered Persons, will be established within the time period required by Code Section 162(m). The Committee also shall determine the extent to which each Performance Criteria shall be weighted in determining awards. The Committee will establish an Award Schedule for each award to each participant setting forth the percentage of the Target Award for such participant payable at specified levels of performance, based on the Performance Goal for each of the Performance Criteria and the weighting established for such criteria. The Committee may vary the Performance Criteria, Performance Goals and weightings from participant to participant, award to award and Year to Year. Notwithstanding the foregoing, the Performance Criteria with respect to a Code Section 162(m) Award shall be limited to the Performance Criteria set forth in Article 2.g.1.

6. ELIGIBLE PERSONS. Any key employee of the Company who the Committee determines, in its discretion, is responsible for producing profits for the Company or otherwise has a significant effect on the operations of the Company shall be eligible to participate in the Plan. Committee members are not eligible to participate in the Plan. No employee shall have a right (a) to be selected under the Plan, or (b) having once been selected, to (i) be selected again or (ii) continue as an employee.

7. AMOUNT AVAILABLE FOR AWARDS. The amount available for awards in any Year shall be determined by the Committee.

8. DETERMINATION OF AWARDS. The Committee shall select the participants and determine which participants, if any, are to be treated as Covered Employees and which awards, if any, are to be Code Section 162(m) Awards. Except in the case of Code Section 162(m) Awards, the Committee shall determine the actual award to each participant for each Year, taking into consideration, as it deems appropriate, the performance for the Year of the Company and/or a Business Unit, as the case may be, in relation to the Performance Goals theretofore established by the Committee, and the performance of the respective participants during the Year. The fact that an employee is selected as a participant for any Year shall not mean that such employee necessarily will receive an award for that Year. Except in the case of Code Section 162(m) Awards, notwithstanding any other provisions of the Plan to the contrary, the Committee may make discretionary awards as it sees fit under the Plan.

A Code Section 162(m) Award payable to any Covered Employee may range from zero (0) to one hundred and fifty (150) percent of the Covered Employee's Target Award, depending upon whether, or the extent to which, the Performance Goals with respect to such Code Section 162(m) Award have been achieved. Actual Code Section 162(m) Awards will be derived from the Award Schedule based on the level of performance achieved and the participant's

Target Award. All such determinations regarding the achievement of Performance Goals and the determination of actual Code Section 162(m) Awards will be made by the Committee; provided, however, that with respect to a Code Section 162(m) Award, the Committee may, in its sole discretion, decrease, but not increase, the amount of the Award that otherwise would be payable.

9. DISTRIBUTION OF AWARDS. Awards under the Plan for a particular Year shall be paid in cash as soon as practicable after the end of that Year. To the extent that the Company's tax deduction for remuneration in respect of the payment of an Award to a Covered Employee would be disallowed under Code Section 162(m) by reason of the fact that such Covered Employee's applicable employee remuneration, as defined in Code Section 162(m) (4), either exceeds or, if such Award were paid, would

B-3

exceed the \$1,000,000 limitation in Code Section 162(m) (1), the Committee may, in its sole discretion, defer the payment of such Award, but only to the extent that, and for so long as, the Company's tax deduction in respect of the payment thereof would be so disallowed; provided that the Committee may, nevertheless, accelerate the payment of previously deferred Awards if it determines that the amount of the tax deduction that would be disallowed is not significant. Deferred Awards will be deemed credited with interest at a rate determined by the Committee from time to time.

10. TERMINATION OF EMPLOYMENT. A participant must be actively employed by the Company on the date his or her award is determined by the Committee ("the Payment Date") in order to be entitled to payment of any award for that Year. In the event active employment of a participant shall be terminated before the Payment Date for any reason other than discharge for cause or voluntary resignation, such participant may receive such portion of his or her award for the Year as may be determined by the Committee. A participant discharged for cause shall not be entitled to receive any award for the Year. A participant who voluntarily resigns prior to the Payment Date shall not be entitled to receive any award for the Year unless otherwise determined by the Committee.

11. MISCELLANEOUS.

a. NONASSIGNABILITY. No award will be assignable or transferable without the written consent of the Committee in its sole discretion, except by will or by the laws of descent and distribution.

b. WITHHOLDING TAXES. Whenever payments under the Plan are to be made, the Company will withhold therefrom an amount sufficient to satisfy any applicable governmental withholding tax requirements related thereto.

c. AMENDMENT OR TERMINATION OF THE PLAN. The Board of Directors of the Company may at any time amend, suspend or discontinue the Plan, in whole or in part. The Committee may at any time alter or amend any or all Award Agreements under the Plan to the extent permitted by law. No such action may, however, without approval of the stockholders of the Company, be effective with respect to any Code Section 162(m) Award to any Covered Employee if such approval is required by Code Section 162(m) (4) (C).

d. OTHER PAYMENTS OR AWARDS. Nothing contained in the Plan will be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

e. PAYMENTS TO OTHER PERSONS. If payments are legally required to be made to any person other than the person to whom any amount is available under the Plan, payments will be made accordingly. Any such payment will be a complete discharge of the liability of the Company.

f. LIMITS OF LIABILITY.

1. Any liability of the Company to any participant with respect to an award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

2. Neither the Company, nor any member of its Board of Directors or of the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken or not taken in good faith under the Plan.

g. RIGHTS OF EMPLOYEES.

1. Status as an employee eligible to receive an award under the Plan shall not be construed as a commitment that any award will be made under this Plan to such employee or to other such employees generally.

B-4

2. Nothing contained in this Plan or in any Award Agreement (or in any other documents related to this Plan or to any award or Award Agreement) shall confer upon any employee or participant any right to continue in the employ or other service of the Company or constitute any contract or limit in any way the right of the Company to change such person's compensation or other benefits or to terminate the employment or other service of such person with or without cause.

h. SECTION HEADINGS. The section headings contained herein are for the purposes of convenience only, and in the event of any conflict, the text of the Plan, rather than the section headings, will control.

i. INVALIDITY. If any term or provision contained herein will to any extent be invalid or unenforceable, such term or provision will be reformed so that it is valid, and such invalidity or unenforceability will not affect any other provision or part hereof.

j. APPLICABLE LAW. The Plan, the Award Agreements and all actions taken hereunder or thereunder shall be governed by, and construed in accordance with, the laws of the state of California without regard to the conflict of law principles thereof.

k. EFFECTIVE DATE. The Plan shall be effective as of June 1, 1994.

B-5

FIRST AMENDMENT TO  
DEFERRED COMPENSATION PLAN

I, Scott M. Brown, the Secretary of National Medical Enterprises, Inc. ("NME"), hereby certify that on December 1, 1993 and April 13, 1994, the Compensation and Stock Option Committee of the Board of Directors of NME approved the following amendments to the Deferred Compensation Plan (the "Plan"):

1. The second paragraph of Section 5 of the Plan is hereby amended by deleting such paragraph in its entirety and replacing it with the following:

"In the event of the death of the Participant, compensation that has been deferred together with the accumulated interest will be distributed to the beneficiary named by the Participant or to the estate of the Participant in 120 approximately equal monthly payments unless the Committee, in its sole discretion, determines upon written request of the beneficiary that payment shall be made over a shorter period or in a lump sum. Payment shall commence within 30 days after the death of the Participant, with interest continuing to accrue pursuant to Section 3(b) hereof until the full amount of deferred compensation is paid."

2. The following language shall be added as new Paragraph 8 to the Plan:

"8. LUMP SUM DISTRIBUTIONS. At any time either (a) prior to an event causing distribution in accordance with Paragraph 4 hereto or (b) after a Participant or his or her beneficiary is receiving distributions in installments in accordance with Paragraph 5 hereof and has not received the entire balance of a Participant's deferred compensation account, a Participant in the Plan or his or her beneficiary may elect to receive a lump sum payment, in an amount determined below, sixty (60) days after giving notice to the Committee of the Participant's or beneficiary's desire to receive such lump sum benefit. The date of the notice shall be the "Commencement Date." The lump sum payment shall be equal to (a) the Participant's remaining deferred compensation account under the Plan or (b) a beneficiary's share of the Participant's remaining deferred compensation account under the Plan, whichever is applicable, reduced by a penalty equal to ten percent (10%) of such account which shall be forfeited to the Company. However, the penalty shall not apply if the Committee determines, based on the advice of counsel or a final determination by the Internal Revenue Service or any court of competent jurisdiction, that by reason of the foregoing elective provisions of this Paragraph 8 any Participant or beneficiary has recognized or will recognize gross income for federal income tax purposes under this Plan in advance of payment to him or her of Plan benefits. The Company shall notify all Participants or beneficiaries of any such determination. Wherever any such determination is made, the Company shall refund all penalties which were imposed hereunder on account of making lump sum payments at any time during or after the first year to which such determination applies (I.E., the first year when gross income is

recognized for federal income tax purposes). Interest shall be paid on any such refunds based on an interest factor determined under Paragraph 3(b) hereof. The Committee may also reduce or eliminate the penalty if it determines that this action will not cause any Participant or beneficiary to recognize gross income for federal income tax purposes under this Plan in advance of payment to him or

her of Plan benefits.

Notwithstanding any other provision of this Plan, a penalty shall not apply if a retired Participant receives a lump sum distribution pursuant to Paragraph 5 hereof.

Any Participant who receives a lump-sum distribution in accordance with this Paragraph 8 shall be prohibited from making any deferral of compensation under this Plan for a period of one-year commencing on the date on which the lump-sum distribution is made to such Participant."

IN WITNESS WHEREOF, I have caused this certificate to be executed as of August 15, 1994.

National Medical Enterprises, Inc.

By: /s/ Scott M. Brown

-----  
Name: Scott M. Brown

Title: Secretary

1994 NME DEFERRED COMPENSATION PLAN TRUST  
AS AMENDED JULY 25, 1994

This Trust Agreement (the "Agreement") is made and entered into this 25th day of May, 1994, by and between National Medical Enterprises, Inc., a Nevada corporation (the "Company") and United States Trust Company of New York (the "Trustee") with reference to the following facts:

A. Company has adopted the National Medical Enterprises, Inc. Deferred Compensation Plan (the "Plan"), a copy of the Plan is attached hereto as EXHIBIT A.

B. Company has incurred or expects to incur liability under the terms of such Plan with respect to the individuals participating in such Plan.

C. Company wishes to establish a trust (hereinafter called "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to Plan participants and for their beneficiaries in such manner and at such times as specified in this Plan.

D. It is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA").

E. It is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan.

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. ESTABLISHMENT OF TRUST.

(a) Company hereby deposits with Trustee in trust Five Hundred Thousand shares of the \$.075 par value per share common stock of Company, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Agreement.

(b) The Trust shall become irrevocable upon approval by the Board of Directors. Company shall provide a certified copy of the resolution of the Board of Directors stipulating that the trust has been approved by them.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of participants in the Plan and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred

claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of

Insolvency, as defined in Section 3(a) herein.

(e) Upon a Change of Control, as defined in Section 13(d) herein, and on the last day of every calendar quarter commencing with the first calendar quarter beginning after the month in which a Change in Control occurs (a "Quarter"). Company shall, as soon as possible, but in no event longer than thirty (30) days following the Change of Control and no longer than ten (10) days after the end of each Quarter, make an irrevocable contribution to the Trust in an amount that is sufficient together with all assets held by the Trust as of such date to pay to each Plan participant or beneficiary, on a pre-tax basis, the benefits to which Plan participants or their beneficiaries would be entitled pursuant to the terms of the Plan as of the date on which the Change of Control occurred, and as of the last day of each Quarter. Company shall notify the Trustee immediately following verification that a Change of Control has occurred.

## Section 2. PAYMENTS TO PLAN PARTICIPANTS AND THEIR BENEFICIARIES.

(a) Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of

commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall not be responsible for determining the accuracy of the amounts to be paid according to the Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

## Section 3. TRUSTEE RESPONSIBILITY REGARDING PAYMENTS TO TRUST BENEFICIARY WHEN COMPANY IS INSOLVENT.

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of Company shall have the duty to inform Trustee in writing of Company's

Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

(3) If at any time Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Plan or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Agreement only after Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

#### Section 4. PAYMENTS TO COMPANY.

Except as provided in Section 3 hereof, after the Trust has become irrevocable, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

#### Section 5. INVESTMENT AUTHORITY.

It is the intent of Company that the Trustee shall invest the contributions to the Trust in shares of common stock of Company. Trustee may invest in securities (including stock or right to acquire stock) or obligations issued by Company. All rights associated with assets of the Trust shall be exercised by Trustee, or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants. Company shall have the right at any time, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity. The Trustee shall hold the stock until such time as the stock must be liquidated to pay Plan participants or their beneficiaries or until such time as the Trustee determines it to be clearly imprudent to retain the stock to preserve the principal balance required to maintain adequate funding for future payments due to Plan participants or their beneficiaries.

Company represents and warrants that it has filed and will file with the Securities and Exchange Commission and with all applicable state agencies or authorities all required registration statements relating to shares of Company stock and other interests which may be issued under the Plan. Company acknowledges that it is and shall be responsible for, and that the

Trustee shall

not be responsible for, preparing or filing such registration statements or for the accuracy of statements contained therein, or for preparing or filing any other reports, statements or filings required under federal or state securities laws with respect to the Trusts' investment in Company stock.

Section 6. DISPOSITION OF INCOME.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. ACCOUNTING BY TRUSTEE.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within sixty (60) days following the close of each calendar year and within sixty (60) days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 8. RESPONSIBILITY OF TRUSTEE.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by Company. In the event of a dispute between Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, Company agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) Notwithstanding any powers granted to Trustee pursuant to this Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure

and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(g) Notwithstanding any provision in this Agreement to the contrary, in the event of a Change of Control, the Trustee is hereby directed to sell any and all shares of Company stock, or other stock that is received by the Trustee in exchange for such Company stock as a result of the Change of Control, which the Trustee holds as a Trust asset, within thirty (30) days of such Change of Control. The Trustee shall invest any and all proceeds that it receives as a result of such sales that are not immediately needed in order to make distributions to Plan participants and their beneficiaries in United States government securities and/or securities of United States government agencies with average portfolio maturity of two (2) years. Additionally, if the Trustee sells any Company stock prior to a Change in Control the proceeds from any such sale that are not immediately needed in order to make distributions to Plan participants and their beneficiaries shall also be invested by the Trustee in United States government securities and/or securities of United States government agencies with average portfolio maturity of two (2) years.

#### Section 9. COMPENSATION AND EXPENSES OF TRUSTEE.

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust. In the event of a Change of Control or any other matter, which in the Trustee's reasonable discretion requires the Trustee to perform services in addition to the Trustee's custodial and investment responsibilities under this Agreement, the Trustee shall be entitled to an addition fee as provided in this Section 9. The Trustee shall be compensated at its normal hourly rates for all reasonable additional services and for the reasonable fees and expenses of its counsel or other experts required to be engaged by the Trustee. Such amounts shall be paid by Company to the Trustee within thirty (30) days of billing, provided that if timely payment is not made by the Company, the Trustee may discharge any such obligation out of the Trust assets, regardless of whether the Trust is fully funded. In the event of the termination of the Trust or the removal or resignation of the Trustee, the Trustee shall be entitled to withhold out of the Trust assets all amounts due to the Trustee pursuant to this Section 9. This Section 9 shall supersede any conflicting provision of this Agreement or the Plan.

#### Section 10. RESIGNATION AND REMOVAL OF TRUSTEE.

(a) Trustee may resign at any time by written notice to Company, which shall be effective ninety (90) days after receipt of such notice unless Company and Trustee agree otherwise.

(b) Subject to Section 10(c), Trustee may be removed by Company on ninety (90) days notice or upon shorter notice accepted by Trustee.

(c) Upon a Change of Control, as defined herein, Trustee may not be removed by Company for ten (10) years.

(d) If Trustee resigns or is removed within ten (10) years of a Change of Control, as defined herein, Trustee shall select a successor Trustee in accordance with the provisions of Section 11(b) hereof prior to the effective date of Trustee's resignation or removal.

(e) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within ninety (90) days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

(f) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in

connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. APPOINTMENT OF SUCCESSOR.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

(b) If Trustee resigns or is removed pursuant to the provisions of Section 10(e) hereof and selects a successor Trustee, Trustee may appoint any third party such as a bank trust department or other party that may be granted corporate trustee powers under state law. The appointment of a successor Trustee shall be effective when accepted in writing by the new Trustee. The new Trustee shall have all the rights and powers of the former Trustee, including ownership rights in Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the successor Trustee to evidence the transfer.

(c) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. AMENDMENT OR TERMINATION.

(a) This Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan unless sooner revoked in accordance with Section 1(b) hereof. Upon termination of the Trust any assets remaining in the Trust shall be returned to Company.

(c) Upon written approval of all participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan, Company may terminate this Trust prior to the time all benefit payments under the Plan have been made. Company shall provide verification to the Trustee that all Plan participants or beneficiaries entitled to benefits under the Plan have in fact approved the termination of the Trust. All assets in the Trust at termination shall be returned to Company.

(d) Sections 1(e), 4, 5, 8(g), 10(c), 10(d), 12(d) and 13(d) of this Agreement may not be amended by Company for ten (10) years following a Change in Control, as defined herein.

Section 13. MISCELLANEOUS.

(a) Any provision of this Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy,

execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of New York, except to the extent pre-empted by ERISA.

(d) For purposes of this Trust, a Change of Control shall be deemed to have occurred if after April 1, 1994 (a) any person (as defined in Section 13(c) or 14(d)(2) of the Securities Exchange Act of 1934, as amended), becomes the beneficial owner directly or indirectly of twenty percent (20%) or more of the combined voting power of Company's then outstanding securities or (b) individuals who, as of April 1, 1994, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that (i) any individual who becomes a director of the Company subsequent to April 1, 1994, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be deemed to have been a member of the Incumbent Board and (ii) no individual who was elected initially (after April 1, 1994) as a director as a result of an actual or threatened election contest, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, or any other actual or threatened solicitations of proxies or consents by or on behalf of any person other than the Incumbent Board shall be deemed to have been a member of the Incumbent Board.

(e) If a Plan participant or beneficiary of a Plan participant is required to institute a legal proceeding in order to enforce his or her rights under this Agreement and such Plan participant or beneficiary prevails in such legal proceeding then the Company shall reimburse such Plan participant or beneficiary for the reasonable legal fees and expenses incurred in bringing and prosecuting such legal proceeding.

Section 14. EFFECTIVE DATE.

The effective date of this Agreement shall be the date first written above.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

"COMPANY"

NATIONAL MEDICAL ENTERPRISES, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

"TRUSTEE"

UNITED STATES TRUST COMPANY OF NEW YORK

By: \_\_\_\_\_

Its: \_\_\_\_\_

Tenet Healthcare Corporation

TENET  
1999 ANNUAL REPORT

TENET and its subsidiaries own and operate general hospitals and many related health care services. In communities across the U.S., our 126,000 dedicated employees treated millions of patients last year. Their work embodied the core business philosophy reflected in our name: the importance of shared values among partners providing a full spectrum of quality health care.

1	Letter to Shareholders
7	Financial Summary
8	Management's Discussion and Analysis
19	Report of Independent Auditors
20	Consolidated Balance Sheets
21	Consolidated Statements of Operations
22	Consolidated Statements of Comprehensive Income
22	Consolidated Statements of Changes in Shareholders' Equity
23	Consolidated Statements of Cash Flows
24	Notes to Consolidated Financial Statements
45	Supplementary Financial Information
46	Directors and Management
48	Corporate Information

[LOGO]

3820 State Street, Santa Barbara, California 93105  
805.563.7000  
www.tenethealth.com

LETTER TO SHAREHOLDERS

NO DOUBT ABOUT IT: 1999 was a tough year for U.S. hospitals.

Funding cuts legislated by the Balanced Budget Act of 1997 (BBA) dramatically reduced Medicare reimbursement to hospitals and health systems across the country. When Congress passed the BBA, it did so with the intent of saving \$103 billion over the course of five years. In fact, according to the latest Congressional Budget Office estimates, the actual savings will be approximately \$206 billion - twice what was originally intended.

In this harsh economic climate, however - and despite the overall decline in earnings Tenet experienced in fiscal 1999 - one fact remains clear: Our strategy of developing integrated health care delivery systems in specific regions is working. Tenet hospitals are gaining market share, growing revenues and holding the line on costs, with the notable exception of bad debt expense, which I will return to later.

The effectiveness of our strategy is underscored by the substantial progress we have made in turning around operations in our newest integrated market - Philadelphia - where we acquired eight hospitals out of bankruptcy in November 1998. Only two months after taking over this troubled system - reportedly the largest nonprofit health care system failure in U.S. history - we had stopped the financial hemorrhaging and achieved positive operating income before depreciation and amortization.

PUTTING FISCAL 1999 INTO PERSPECTIVE

If ever there was a year in which the statistics alone failed to tell the whole story, it was Tenet's fiscal 1999. That's why I think it's crucial to put our financial performance for the year in the proper perspective.

Earnings per share from operations before special charges declined 5 percent in fiscal 1999 - to \$1.65 per share versus \$1.73 in the prior year. It should be noted, however, that this decline in fiscal 1999 comes after three years of strong, uninterrupted growth in earnings per share from operations before special charges, with average gains of more than 17 percent over the preceding 12 quarters.

A major cause of this recent decline in Tenet's earnings was the impact of the BBA. Simply stated, our single biggest customer, the federal government, decided to pay us about \$100 million less in fiscal 1999 - with no corresponding reduction in the level of services we provide. That cost us 20 cents per share.

To help mitigate the adverse financial impact of the BBA, we've launched initiatives to dramatically cut costs not directly related to patient care. In fiscal 1999, we reduced our corporate overhead expense by cutting our staffing above the hospital level, eliminating nonessential programs and

1 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

LETTER TO SHAREHOLDERS (continued)

finding more efficient ways to continue to deliver essential services. As part of that process, we reexamined how we support our hospitals and looked for ways to do so more cost-effectively. Though difficult, we expect these reductions will better position us in fiscal 2000 and beyond.

At the hospital level, we sought to reduce our costs by taking full advantage of the inherent strengths of our integrated delivery systems. For example, by leveraging our size, we are able to negotiate reduced-rate volume contracts with vendors for supplies and services, as well as gain access to new managed care contracts - or achieve better terms in existing contracts. We have also begun outsourcing so-called hotel services - things like laundry, dietary, housekeeping and maintenance - to gain substantial cost savings. This presents a significant opportunity for us companywide and is one we intend to pursue in fiscal 2000.

To appreciate the underlying strength of our integrated delivery system strategy, it's important to focus on the performance of hospitals we've owned for more than a year. For example, excluding the impact of bad debts, we managed to absorb all the BBA cuts and still hold same-facility operating margins before depreciation, amortization and special charges essentially flat for the year - down only one-tenth of one percent. Labor expense was excellent, declining to 40 percent of revenues, down from 40.8 percent in the prior year. Some of this decline is explained by outsourcing, but we believe it also shows that our employees are highly productive. We held supply expense at 13.9 percent. Other operating expense for the year increased somewhat - to 21.8 percent, compared to 20.9 percent in the prior year, largely as a result of outsourcing.

While our expense control has been excellent in most areas, the greater-than-expected increase in our bad debt expense in fiscal 1999 was a source of great frustration. Same-facility bad debt expense as a percent of revenues rose to 6.8 percent for the year, compared to 5.9 percent in the prior year, costing us approximately 18 cents a share on a same-facility basis in fiscal 1999, plus an additional 5 cents per share to finance higher receivables. Among the many factors influencing this increase are a shift in our payor mix from Medicare to managed care, "slow-pay" initiatives by certain managed care companies and an increase in care provided to uninsured patients at certain hospitals.

To help reduce our bad debt expense, we consolidated responsibility for patient financial services - all the steps from admission through the billing and collections process - in a new department specially created for that purpose. Actions taken so far by the department include focusing on admitting procedures at our hospitals to identify best practices; simplifying certain managed care contracts to reduce disputes over bills; developing special teams

to focus on hospitals with significant bad debt problems, and enhancing our information systems so that we can better monitor and respond to those problems. We saw some improvement in bad debt expense toward the end of fiscal 1999 as a result of these initiatives. On a same-facility basis, our bad debt expense dropped slightly from the second to third quarter, and again from the third to the fourth quarter.

#### STRENGTHENING OUR INTEGRATED DELIVERY SYSTEMS

To better support our integrated delivery systems, we made some major changes to our operational structure in fiscal 1999, grouping our 130 hospitals into three operating divisions instead of two. This enabled our most-senior divisional managers to focus their attention on fewer hospitals. Instead of being responsible for 60 or 70 hospitals, they will oversee 30 to 40 facilities. Similarly, each of our 11 regions or markets will be responsible for between five and 12 hospitals, instead of as many as 18.

Although integrated delivery systems have been central to our strategy for four years, there are some hospitals in our portfolio that either are not part of - or are not essential to - a network. For that reason, we have identified 20 hospitals as candidates for sale in fiscal 2000 and we are currently evaluating bids for many of them. The first definitive agreement was announced in July 1999 and we expect other announcements to follow in the coming months. Divesting hospitals that do not fit our strategic profile is part of our continuing effort to strengthen our overall portfolio.

We also strengthened our existing integrated delivery systems through strategic acquisitions in fiscal 1999.

Further augmenting our strong Southern California network, we acquired Queen of Angels-Hollywood Presbyterian Medical Center, a 409-bed hospital located in the densely populated area of Los Angeles, and Rancho Springs Medical Center, a 99-bed hospital in Murrieta, Calif. Additionally, we expanded our assets in New England with the acquisition of an 80 percent interest in MetroWest Medical Center, a two-hospital system in Framingham and Natick, Mass. The remaining 20 percent interest in the medical center is owned by a local not-for-profit organization.

Philadelphia - the site of our largest acquisition in fiscal 1999 - dramatically illustrates our strategy for entering a new market. By acquiring the eight Allegheny Health, Education and Research Foundation (AHERF) hospitals out of bankruptcy in November 1998, we gained instant access to a new market for Tenet and immediately became an important force in the market.

The AHERF hospitals were losing vast sums of money and near collapse when we acquired them. We quickly mobilized an extensive array of

### 3 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

LETTER TO SHAREHOLDERS (continued)

in-house expertise to evaluate the system, diagnose its problems and develop solutions. On the day we completed the acquisition we had a management team in place, ready to quickly implement those solutions. The result was an immediate improvement in profitability.

Today, our Philadelphia operations are performing better than we initially expected. Operating income before depreciation and amortization turned positive in January 1999, our second full month of operation. We are stabilizing and enhancing physician relations at these facilities and rebuilding the community's confidence in them. We've also made significant progress in cutting costs - by reducing the work force through attrition and layoffs, renegotiating contracts to lower supply costs, buying out expensive equipment leases and negotiating regional purchasing contracts for local services, leveraging the network's size to obtain volume discounts.

Philadelphia has been a crucial test of what we believe is a unique competency of Tenet - our ability to diagnose and treat ailing large hospital systems. While fiscal 1999 was certainly a difficult year for Tenet, we believe the reimbursement and other pressures affecting us are even tougher on not-for-profit hospitals and systems, which typically have slimmer margins and less-effective cost controls. Going forward, we believe this will lead to the kind of acquisition opportunities we are looking for - carefully selected acquisitions that offer significant growth opportunities.

#### A NEW MANAGEMENT TEAM

Fiscal 1999 brought significant changes within the company's leadership. After 20 years with the company, Michael H. Focht Sr. retired as Tenet's President and Chief Operating Officer. While he is no longer involved in day-to-day operations, Mike remains a member of Tenet's Board of Directors and is available as a consultant. Mike and I joined the board of Tenet's predecessor company on the same day, and he was the one I turned to in 1993 to help fix what was then a very troubled company. Mike helped turn our company into an industry leader, growing core revenues from approximately \$2 billion to nearly \$11 billion in the space of five short years. The leadership, integrity and intelligence he displayed during his career with Tenet will be greatly missed.

Instead of replacing Mike directly, we took this opportunity to reorganize our senior management structure, emphasizing a hands-on management approach that is consistent with our strategy of focusing more intently on improving our existing operations. We created a new Office of the President consisting of Trevor Fetter, Chief Corporate Officer and Chief Financial Officer, and Thomas B. Mackey, Chief Operating Officer. Trevor, whose previous title was Executive Vice President and Chief Financial Officer, now

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 4

LETTER TO SHAREHOLDERS (continued)

is also responsible for all of the company's corporate functions, while Tom, who previously served as Executive Vice President for Operations in the western half of the country, is responsible for all hospital operations.

We also appointed three highly regarded new members to our Board of Directors within the last 16 months - Sanford Cloud Jr., President and Chief Executive of The National Conference for Community and Justice (NCCJ); The Rev. Lawrence Biondi S.J., President of Saint Louis University, and Floyd D. Loop M.D., Chairman and Chief Executive Officer of The Cleveland Clinic Foundation.

Mr. Cloud, the first African-American leader of the NCCJ (known for most

of its 70-year history as The National Conference of Christians and Jews), is a board member for various corporations and philanthropic organizations, as well as a lecturer, lawyer, former legislator and corporate executive. His insight and counsel have been invaluable in helping us meet the diverse needs of the many communities we serve. Fr. Biondi, a Catholic, Jesuit priest, brings his expertise as the successful head of a major university with a renowned medical school, as well as his insight into medical ethics. Dr. Loop, a noted thoracic and cardiovascular surgeon, adds his background in health care administration with the prestigious Cleveland Clinic Foundation, known worldwide for the quality of its clinical care, research and education.

#### LOOKING AHEAD

We continue to face a number of serious challenges in fiscal 2000, the most significant of which is an additional \$100 million reduction in government reimbursement. This estimate, based on information currently available, includes incremental Medicare reimbursement cuts from the BBA, as well as proposed reductions in both Medicare "outlier" payments and disproportionate share Medicaid reimbursement to some of our California hospitals. These outlier payments are intended to reimburse hospitals for high-acuity patients whose length of stay and cost of treatment is well beyond the averages established in the diagnostic-related group (DRG) payment. The California disproportionate share program compensates hospitals that care for a higher-than-average mix of Medicaid and uninsured patients.

As discussed earlier in this letter, we have developed and are implementing various strategies to absorb these cuts and grow in spite of them. Our actual results will depend importantly on the success of each of these initiatives.

Further, Tenet has many inherent strengths, as well as strategic advantages, that give me cause for optimism in fiscal 2000 and beyond. Our portfolio of hospitals is strong - and will be even stronger when our divestiture program is complete. It includes facilities that are cornerstones in their communities,

#### 5 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

#### LETTER TO SHAREHOLDERS (continued)

institutions that are renowned for the quality care they provide their patients. Two of our hospitals - Saint Louis University Hospital and Memorial Medical Center in New Orleans - were recently included in U.S. News & World Report's list of America's Top Hospitals. Both facilities are key components of our integrated delivery systems in their markets.

Our integrated market strategy continues to reward us with significant cost-saving opportunities, market share gains and better pricing for commercial customers.

We continue to enjoy all the advantages of a large national provider network. Our hospitals represent 130 individual learning laboratories in which we can develop and test innovative ideas and approaches, then pass along the best of them to our other facilities and integrated systems.

Above all, we are fortunate in the quality and professionalism of our 126,000 employees, the vast majority of whom work at our hospitals. Their dedication to providing quality, compassionate care to our patients remains one of this company's strongest assets.

I thank you for supporting Tenet in fiscal 1999. We are working very hard to make fiscal 2000 a better year for our

company, our employees and our shareholders.

Sincerely,

/s/ Jeffrey C. Barbakow

Jeffrey C. Barbakow  
Chairman and Chief Executive Officer

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 6

FINANCIAL SUMMARY

SELECTED FINANCIAL DATA CONTINUING OPERATIONS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEARS ENDED MAY 31,				
	1995	1996	1997	1998	1999
OPERATING RESULTS					
Net operating revenues	\$ 5,161	\$ 7,706	\$ 8,691	\$ 9,895	\$ 10,880
Operating expenses:					
Salaries and benefits	2,170	3,139	3,595	4,052	4,412
Supplies	668	1,056	1,197	1,375	1,525
Provision for doubtful accounts	260	436	498	588	743
Other operating expenses	1,189	1,658	1,878	2,071	2,342
Depreciation	232	319	335	347	421
Amortization	44	100	108	113	135
Merger, impairment and other unusual charges	37	86	619	221	363
Operating income	561	912	461	1,128	939
Interest expense, net of capitalized portion	(251)	(425)	(417)	(464)	(485)
Investment earnings	32	27	27	22	27
Equity in earnings of unconsolidated subsidiaries	43	25	--	--	--
Minority interests in income of consolidated subsidiaries	(10)	(30)	(27)	(22)	(7)
Net gains (losses) on disposals of facilities and long-term investments	31	346	(18)	(17)	--
Income from continuing operations before income taxes	406	855	26	647	474
Taxes on income	(128)	(373)	(89)	(269)	(225)
Income (loss) from continuing operations	\$ 278	\$ 482	\$ (63)	\$ 378	\$ 249
Basic earnings (loss) per common share from continuing operations	\$ 1.17	\$ 1.71	\$ (0.21)	\$ 1.23	\$ 0.80
Diluted earnings (loss) per common share from continuing operations	\$ 1.12	\$ 1.65	\$ (0.21)	\$ 1.22	\$ 0.79

BALANCE SHEET DATA	AS OF MAY 31,				
	1995	1996	1997	1998	1999
Working capital	\$ 273	\$ 499	\$ 621	\$ 1,182	\$ 1,940
Total assets	9,787	10,768	11,606	12,774	13,771
Long-term debt, excluding current portion	4,287	4,421	5,022	5,829	6,391
Shareholders' equity	2,385	3,267	3,224	3,558	3,870
Book value per common share	9.15	11.09	10.65	11.50	12.44

7 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The health care industry continues to undergo tremendous change, driven primarily by (1) cost-containment pressures by government payors, managed care providers and others, and (2) technological advances that require increased capital expenditures. To address these changes, Tenet has implemented various cost-control programs and overhead-reduction plans and continues to create strong integrated health care delivery systems.

The Company reported income from continuing operations before income taxes of \$26 million in 1997, \$647 million in 1998 and \$474 million in 1999. The most significant items affecting the results of continuing operations in the last three years have been: (1) acquisitions and disposals (see Note 3 of Notes to Consolidated Financial Statements herein), and (2) merger, impairment and other unusual charges (see Note 4 of Notes to Consolidated Financial Statements herein). Fiscal 1997 also includes a noncash charge relating to increases in the index value of certain of the Company's long-term debt. Fiscal 1998 includes losses on the disposition of shares of common stock in unconsolidated affiliates and a reversal of the noncash charge taken in fiscal 1997. The pretax impact of these items is shown below:

(DOLLARS IN MILLIONS)	1997	1998	1999
Losses on sales of facilities and long-term investments, net	\$ (18)	\$ (17)	\$ --
Merger, impairment and other unusual charges	(619)	(221)	(363)
Net pretax impact (after tax, diluted per share: \$(1.44) in 1997, \$(0.51) in 1998 and \$(0.86) in 1999)	\$ (637)	\$ (238)	\$ (363)

Excluding the items in the table above, income from continuing operations before income taxes would have been \$663 million in 1997, \$885 million in 1998 and \$837 million in 1999.

In November 1998, subsidiaries of the Company purchased eight general hospitals and certain other assets, including several physician practices, in the Philadelphia, Pennsylvania area that were in bankruptcy proceedings. This acquisition was dilutive to its earnings per share in fiscal 1999 by approximately \$0.05 per share. The operations of these hospitals have been improving steadily since the date of acquisition and the Company expects that they will continue this trend in fiscal 2000.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 8

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following is a summary of operating income for the past three fiscal years:

	1997	1998	1999	1997	1998	1999
	(DOLLARS IN MILLIONS)			(PERCENTAGE OF NET OPERATING REVENUES)		
Net operating revenues:						
Domestic general hospitals	\$ 7,932	\$ 8,997	\$ 9,958	91.3%	90.9%	91.5%
Other operations (1)	759	898	922	8.7%	9.1%	8.5%
	\$ 8,691	\$ 9,895	\$10,880	100.0%	100.0%	100.0%
Operating expenses:						
Salaries and benefits	(3,595)	(4,052)	(4,412)	41.4%	41.0%	40.6%
Supplies	(1,197)	(1,375)	(1,525)	13.8%	13.9%	14.0%
Provision for doubtful accounts	(498)	(588)	(743)	5.7%	5.9%	6.8%
Other operating expenses	(1,878)	(2,071)	(2,342)	21.6%	20.9%	21.5%
Depreciation	(335)	(347)	(421)	3.9%	3.5%	3.9%
Amortization	(108)	(113)	(135)	1.2%	1.2%	1.2%

Operating income before merger, impairment and other unusual charges	1,080	1,349	1,302	12.4%	13.6%	12.0%
Merger, impairment and other unusual charges	(619)	(221)	(363)	7.1%	2.2%	3.4%
Operating income	\$ 461	\$ 1,128	\$ 939	5.3%	11.4%	8.6%

- (1) Net operating revenues of other operations consist primarily of revenues from (i) physician practices; (ii) rehabilitation hospitals, long-term-care facilities, psychiatric and specialty hospitals that are located on or near the same campuses as the Company's general hospitals; (iii) health care joint ventures operated by the Company; and (iv) subsidiaries of the Company offering managed care and indemnity products.

The table below sets forth certain selected historical operating statistics for the Company's domestic general hospitals:

	1997	1998	1999	INCREASE (DECREASE) 1998 TO 1999
Number of hospitals (at end of period)	128	122	130	8 (2)
Licensed beds (at end of period)	27,959	27,867	30,791	10.5%
Net inpatient revenues (in millions)	\$ 5,227	\$ 5,843	\$ 6,516	11.5%
Net outpatient revenues (in millions)	\$ 2,515	\$ 2,978	\$ 3,185	7.0%
Admissions	786,887	872,433	940,247	7.8%
Equivalent admissions (1)	1,124,397	1,268,264	1,360,024	7.2%
Average length of stay (days)	5.2	5.2	5.2	--
Patient days	4,099,709	4,547,312	4,881,439	7.3%
Equivalent patient days (1)	5,817,251	6,557,525	6,997,079	6.7%
Net inpatient revenues per patient day	\$ 1,275	\$ 1,285	\$ 1,335	3.9%
Net inpatient revenues per admission	\$ 6,643	\$ 6,697	\$ 6,930	3.5%
Utilization of licensed beds	42.5%	44.0%	45.4%	1.4% (2)
Outpatient visits	9,997,266	10,402,957	9,654,975	(7.2)%

- (1) Equivalent admissions/patient days represents actual admissions/patient days adjusted to include outpatient and emergency room services by multiplying actual admissions/patient days by the sum of gross inpatient revenues and outpatient revenues and dividing the result by gross inpatient revenues.

- (2) The change is the difference between the 1998 and 1999 amounts shown.

## 9 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The table below sets forth certain selected operating statistics for the Company's domestic general hospitals, on a same-facility basis:

	1998	1999	INCREASE (DECREASE)
Average licensed beds	25,948	25,777	(0.7)%
Patient days	4,393,956	4,418,992	0.6%
Net inpatient revenue per patient day	\$ 1,294	\$ 1,317	1.8%
Admissions	845,202	859,330	1.7%

Net inpatient revenue per admission	\$ 6,725	\$ 6,770	0.7%
Outpatient visits	10,006,646	8,819,694	(11.9)%
Average length of stay (days)	5.2	5.1	(0.1)

The table below sets forth the sources of net patient revenue for the Company's domestic general hospitals:

	1997	1998	1999	INCREASE (DECREASE) 1998 TO 1999 (1)
Medicare	40.2%	38.0%	34.2%	(3.8)%
Medicaid	8.6%	8.4%	9.1%	0.7%
Managed care	29.5%	33.7%	37.6%	3.9%
Indemnity and other	21.7%	19.9%	19.1%	(0.8)%

(1) The change is the difference between the 1998 and 1999 amounts shown.

Changes in Medicare payments mandated by the Balanced Budget Act of 1997 (the "BBA"), which became effective October 1, 1997, as well as certain proposed changes to various states' Medicaid programs, have reduced and will continue to reduce revenues and earnings significantly as these changes are phased in over the next two years. The most significant changes were phased in by October 1, 1998.

The Company continues to experience increases in inpatient acuity and intensity of services as less intensive services shift from an inpatient to an outpatient basis or to alternative health care delivery services because of technological and pharmaceutical improvements and continued pressures by payors to reduce admissions and lengths of stay. In spite of the historical shifts from inpatient to outpatient services, the Company experienced a 4.7% decline in the number of same-facility outpatient visits during 1998 compared to 1997 and an 11.9% decline during 1999 compared to 1998. In response to the changes in Medicare payments to home health agencies mandated by the BBA, the Company has consolidated or closed several home health care agencies, which resulted in the decline in visits.

Pressures to control health care costs and a shift from traditional Medicare to Medicare managed care plans after the BBA was enacted have resulted in an increase in the number of patients whose health care coverage is provided

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

under managed care plans. The Company anticipates that its managed care business will continue to increase in the future. The Company generally receives lower payments per patient from managed care payors than it does from traditional indemnity insurers. The Company has been assuming a greater share of risk by entering into capitated arrangements with managed care payors and employers. The Company estimates that approximately 5.5% of its revenues were derived from capitated arrangements in the year ended May 31, 1999 compared to 5.0% in 1998. However, the Company expects its capitated business to decline in the future since, in most of the large markets served by the Company, capitation arrangements generally have been disappointing to both physicians and hospitals.

To address the effect of reduced payments for services, while continuing to provide quality care to patients, the Company has implemented strategies to reduce inefficiencies, create synergies, obtain additional business and control costs. Such strategies include hospital cost-control programs and overhead reduction plans and the formation of integrated health care delivery systems. In certain markets the Company has outsourced many services such as housekeeping, laundry, dietary and plant maintenance. In each case it has gained significant cost savings by doing so and is now rolling out this strategy to all its hospitals. Further consolidations or implementation of additional cost-control programs may be implemented in the future to offset the reduced payments under the BBA and the continuing shift from traditional Medicare to managed care.

Net operating revenues from the Company's other operations were \$759 million in 1997, \$898 million in 1998 and \$922 million in 1999. The increases are primarily the result of new physician practices acquired as part of hospital acquisitions. The Company has employed or entered into full-risk management agreements with physicians in most of its markets. A large percentage of these physician practices were acquired as part of large hospital acquisitions or through the formation of integrated health care delivery systems. However, the physician practice business has not been profitable.

The Company is in the process of reevaluating its physician strategy in every one of its markets and is developing plans to allow a significant number of its existing contracts to expire. Such plans could result in a decision to exit the physician practice business during fiscal 2000. The Company would expect to incur significant charges on the disposal of this business, including estimated operating losses during the phase-out period, if it decides to exit the business entirely. Such charges may require significant cash expenditures as contract settlements with physicians and physician groups are made. The benefits of such a strategy, which could be significant, would not be expected to occur until fiscal 2001 and beyond.

Salaries and benefits expense as a percentage of net operating revenues was 41.4% in 1997, 41.0% in 1998 and 40.6% in 1999. The decreases have primarily resulted from continuing cost control measures and the outsourcing of certain hospital services.

Supplies expense as a percentage of net operating revenues was 13.8% in 1997, 13.9% in 1998 and 14.0% in 1999. These increases relate primarily to greater patient acuity and higher supplies expenses at recently acquired facilities. The Company continues to focus on reducing supplies expense by incorporating acquired facilities into the Company's existing group-purchasing program and by developing and expanding various other programs designed to improve the purchasing and utilization of supplies.

The provision for doubtful accounts as a percentage of net operating revenues was 5.7% in 1997, 5.9% in 1998 and 6.8% in 1999. Management believes the rise in bad debts is generally attributable to a number of factors, including (a) the continuing shift of business from traditional Medicare, which has no associated bad debts, to managed care, (b) a rise in the volume of care provided to uninsured patients in certain of the Company's hospitals and (c) delays in payment and denial of claims by managed care payors. Although management is unable to quantify

## 11 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

the effect of each factor, management believes that, to the extent that the Company continues to experience a fundamental shift in its payor mix, this expense is likely to remain at higher levels than in past years. The Company is taking a series of actions to mitigate these recent increases in bad debt

expense. In March 1999, the Company created a new, corporate-level department combining all patient billing and account collection activities in order to improve collection of receivables, accelerate payments from managed care payors, standardize and improve billing systems and develop best practices in the patient admissions and registration process. The Company is strengthening its medical eligibility programs, as well as its business office and related operations, including admitting, medical records and coding, and the recruitment, training and compensation of business office staff. In certain markets, the Company is also setting up dedicated managed care collection units to focus on problem accounts, problem payors and the highly complex reimbursement terms in managed care contracts.

Other operating expenses as a percentage of net operating revenues were 21.6% in 1997, 20.9% in 1998 and 21.5% in 1999. The expenses in 1997 include unusual operating expenses of \$17 million to conform accounting methodologies used to estimate professional liability and other self-insurance reserves in connection with the January 30, 1997 acquisition of OrNda HealthCorp (the "OrNda Merger") and \$32 million for the estimated costs to settle a government investigation of an OrNda facility and other OrNda litigation. The increase in 1999 is primarily due to the outsourcing of certain hospital services mentioned earlier.

Depreciation and amortization expense was \$443 million in 1997, \$460 million in 1998 and \$556 million in 1999. The increases are primarily due to the effects of facility acquisitions and increased capital expenditures partially offset by the effect of disposals, write-downs for impairment of the carrying values of long-lived assets of certain general hospitals and medical office buildings and the write-off of goodwill and other long-lived assets related to the Company's physician practices. Goodwill amortization is approximately \$105 million annually or \$0.29 per share.

Merger, impairment and other unusual charges of \$619 million, \$221 million and \$363 million were recorded in fiscal 1997, 1998 and 1999, respectively.

The charges recorded in fiscal 1999 consisted of (1) \$277 million of impairment losses for the Company's plan to sell 20 general hospitals and close one general and one specialty hospital, (2) \$48 million of restructuring charges related to the implementation of hospital cost-control programs and general overhead reduction plans, and (3) \$38 million for the impairment of carrying values of property, equipment and goodwill at facilities and physician practices to be held and used.

The charges recorded in fiscal 1998 consisted of asset impairment losses related primarily to (1) the planned closure or sale of three general hospitals, two specialty hospitals and 29 home health agencies, (2) the write-down of the carrying values of certain long-lived assets of one additional general hospital and 16 home health agencies to be held and used to their fair values and (3) the write-off of goodwill and other assets and additional costs to terminate contracts related to physician practices and an increase to the charges incurred in 1997 for the planned closures and sales.

The fiscal 1997 charges include impairment losses of \$413 million, related to the planned closure, sale or conversion to alternate uses of certain of the Company's facilities and services in order to eliminate duplication of services and excess capacity following the OrNda Merger and the write-off of goodwill and other assets related to the Company's physician practices. In fiscal 1997, the Company recorded other charges in connection with the OrNda Merger of \$188 million, which included: investment banking and other professional fees, other transaction costs, severance payments for substantially all of OrNda's corporate and regional employees, closure of OrNda's corporate office and regional offices, reorganization of operations and information systems consolidation, primarily related to

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

the buy-out of vendor contracts and the write-down of computer equipment and capitalized software. The Company also recorded \$18 million to restructure its physician practices in fiscal 1997.

The Company begins its process of determining if its facilities are impaired (other than those related to the elimination of duplicate facilities or excess capacity) by reviewing all of the facilities' three-year historical and one-year projected cash flows. Facilities whose cash flows are negative or trending significantly downward on this basis are selected for further impairment analysis. Their future cash flows (undiscounted and without interest charges) are estimated over the expected useful life of the facility and consider patient volumes, changes in payor mix, revenue and expense growth rates and reductions in Medicare payments due to the BBA, which vary by facility. In 1997, 1998 and 1999, these factors caused significant declines in cash flows at certain facilities such that estimated future cash flows were inadequate to recover the carrying values of the long-lived assets. Marked deterioration of operating results relative to past trends for certain of the Company's physician practices also led to impairment and restructuring charges related to these businesses in all three years. Impairment charges have resulted in minor reductions in depreciation and amortization expense.

In addition to striving to continuously improve its portfolio of general hospitals through acquisitions, the Company also divests, from time to time, hospitals that are not essential to its strategic objectives. In April 1999, the Company announced a plan to sell approximately 20 non-strategic hospitals. For the most part, these facilities are not part of an integrated delivery system. The size and performance of these facilities varies, but on average they are smaller, with lower margins. The hospitals in the divestiture plan also include certain rural facilities. These divestitures will allow the Company to streamline its organization by concentrating on markets where it already has a strong presence. The anticipated proceeds from these sales will be used to reduce debt. The Company expects to close these sales by the end of the third quarter of fiscal 2000.

The charges recorded in fiscal 1999 included approximately \$298 million for noncash write-downs of assets and \$65 million for accruals requiring future cash disbursements, most of which are expected to occur in fiscal 2000. The charges recorded in fiscal 1998 included approximately \$140 million for noncash write-downs of assets and \$81 million for accruals requiring future cash disbursements. The charges recorded in fiscal 1997 included approximately \$387 million for noncash write-downs of assets and \$232 million for cash disbursements of \$68 million in fiscal 1997 and accruals requiring future cash disbursements estimated to be approximately \$164 million.

Costs remaining in the accrued liability at May 31, 1999 for the 1998 charges include \$7 million for the estimated costs to sell or close hospitals, \$4 million in home health agency severance costs and \$6 million in estimated costs to terminate physician contracts, all of which are expected to be spent in fiscal 2000.

Costs remaining in the accrued liability at May 31, 1999 for the 1997 charges include \$19 million for estimated costs to sell or close facilities, \$20 million of accruals for unfavorable lease commitments and \$8 million of costs relating to the OrNda Merger. Cash payments are expected to be \$41 million in fiscal 2000 and \$6 million thereafter, primarily for unfavorable lease commitments.

Interest expense, net of capitalized interest, was \$417 million in 1997, \$464 million in 1998 and \$485 million in 1999. The increases are primarily due to increased borrowings for acquisitions and increases in working capital offset by the effect of interest rate reductions.

Investment earnings were \$27 million in 1997, \$22 million in 1998 and \$27 million in 1999 and were derived primarily from notes receivable and

investments in debt securities.

Minority interests in income of consolidated but not wholly owned subsidiaries were \$27 million in 1997, \$22 million in 1998 and \$7 million in 1999. The decline in 1999 was primarily due to the purchase of the minority

### 13 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

interests in two hospitals and one insurance subsidiary in fiscal 1999.

The \$17 million of net losses from the disposals of facilities and other long-term investments in 1998 is comprised of \$35 million in losses on the disposals of the Company's investments in the common stock of Vencor, Inc. ("Vencor") (received as a dividend from Ventas, Inc. ("Ventas")) and Total Renal Care Holdings, Inc. ("TRC"), and an \$18 million gain from changes in the index value of the Company's 6% Subordinated Exchangeable Notes.

The Company's tax provision in 1997 includes the effect of certain nondeductible merger costs and impairment charges that provide no tax benefits. The tax provision in 1998 includes a benefit for the charitable contribution of TRC common stock, offset by nondeductible amortization of goodwill. The Company's 1999 tax provision includes certain nondeductible impairment charges related to certain facilities held for sale that provide no tax benefits. The Company's tax rate in 1999 before the effect of impairment and other unusual charges was 38.3%. The Company expects this tax rate to increase slightly in fiscal 2000.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity for the year ended May 31, 1999 was derived principally from the proceeds from borrowings under its unsecured revolving bank agreement ("Credit Agreement") and net cash proceeds from operating activities. Net cash provided by operating activities for the years ended May 31, 1997, 1998 and 1999 was \$512 million, \$788 million and \$657 million, respectively, before net expenditures for discontinued operations, merger, impairment and other unusual charges of \$108 million in 1997, \$385 million in 1998 and \$75 million in 1999. The expenditures in 1998 include the settlement of significant litigation related to the Company's discontinued psychiatric business.

Management believes that future cash provided by recurring operating activities, the availability of credit under the Credit Agreement, the sale of assets and, depending on capital market conditions and to the extent permitted by the restrictive covenants of the Credit Agreement and the indentures governing the Company's Senior and Senior Subordinated notes, other borrowings or the sale of equity securities should be adequate to meet known debt-service requirements and to finance planned capital expenditures, acquisitions and other presently known operating needs for the next three years. The Company expects to refinance the Credit Agreement on or before its January 31, 2002 maturity date.

Proceeds from borrowings under the Credit Agreements amounted to \$3.1 billion in 1997, \$2.0 billion in 1998 and \$5.6 billion in 1999. Loan repayments under the Credit Agreement were \$1.9 billion during 1997, \$1.3 billion in 1998 and \$5.1 billion in 1999.

In May 1998, the Company sold \$1.355 billion of Senior and Senior Subordinated notes due 2008. The aggregate proceeds to the Company were \$1.32 billion, after underwriting discounts and commissions, and were used to redeem certain of the Company's Senior and Senior Subordinated notes.

During fiscal 1997, 1998 and 1999, the Company received net proceeds from the sales of assets of \$50 million, \$170 million and \$72 million,

respectively. As discussed earlier, the Company has announced a plan to sell 20 hospitals in fiscal 2000, the proceeds of which will be used to repay borrowings under the Credit Agreement. The Company expects that it may divest other hospitals in the future if it determines they are not essential to its strategic objectives.

Cash payments for property and equipment were \$406 million in fiscal 1997, \$534 million in fiscal 1998 and \$592 million in fiscal 1999. The Company expects to spend approximately \$400-\$500 million annually on capital expenditures, before any significant acquisitions of facilities and other health care operations and before an estimated \$216 million commitment to complete construction of two new hospitals over the next two years. Such capital expenditures relate primarily to the development of health care service networks in selected geographic areas, design

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 14

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

and construction of new buildings, expansion and renovation of existing facilities, equipment additions and replacements, introduction of new medical technologies and various other capital improvements, including those related to its year 2000 compliance program.

During fiscal 1997, 1998 and 1999, the Company spent \$787 million, \$679 million and \$646 million, respectively, for purchases of new businesses, net of cash acquired. These acquisitions were financed primarily by borrowings. The Company does not expect its acquisition activity to continue at these levels in fiscal 2000.

The Company's strategy includes the prudent development of integrated health care systems, including the possible acquisition of general hospitals and related health care businesses or joining with others to develop integrated health care delivery networks. In addition, as previously discussed herein, the Company is reevaluating its physician strategy. These strategies may be financed by net cash provided by recurring operating activities, the availability of credit under the Credit Agreement, sales of assets and, to the extent permitted by the restrictive covenants of the Credit Agreement and the indentures governing the Company's Senior and Senior Subordinated notes, and depending on capital market conditions, the sale of additional debt or equity securities or other bank borrowings. The Company's unused borrowing capacity under the Credit Agreement was \$632 million at May 31, 1999.

The Company's Credit Agreement and the indentures governing its Senior and Senior Subordinated notes have, among other requirements, affirmative, negative and financial covenants with which the Company must comply. These covenants include, among other requirements, limitations on other borrowings, liens, investments, the sale of all or substantially all assets and prepayment of subordinated debt, a prohibition against the Company declaring or paying a dividend or purchasing its common stock unless its senior long-term unsecured debt securities are rated BBB- or higher by Standard and Poors' Rating Services and Baa3 or higher by Moody's Investors Service, Inc., and covenants regarding maintenance of specified levels of net worth, debt ratios and fixed charge coverages. Current debt ratings on the Company's senior debt securities are BB+ by Standard and Poors and Ba1 by Moody's. The Company is in compliance with its loan covenants.

MARKET RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The table below presents information about certain of the Company's market-sensitive financial instruments as of May 31, 1999. The fair values were determined based on quoted market prices for the same or similar instruments.

(DOLLARS IN MILLIONS)	MATURITY DATE, FISCAL YEAR ENDING MAY 31,						TOTAL	FAIR VALUE
	2000	2001	2002	2003	2004	THEREAFTER		
Fixed-rate long-term debt	\$ 45	\$ 11	\$ 8	\$464	\$505	\$3,330	\$4,363	\$4,252
Average interest rates	13.2%	13.2%	13.2%	8.6%	9.1%	8.4%	8.6%	--
Variable-rate long-term debt	--	--	\$2,168	--	--	--	\$2,168	\$2,168
Average interest rates	--	--	5.9%	--	--	--	5.9%	--
Interest rate swaps:								
Notional amounts for agreements under which the Company pays fixed rates	\$ 18	\$ 50	--	--	--	--	\$ 68	\$ 2
Average pay rate	8.8%	8.3%	--	--	--	--	8.4%	--
Average received rate	5.2%	5.2%	--	--	--	--	5.2%	--
Euro denominated foreign currency forward exchange contracts	\$ 22	--	--	--	--	--	\$ 22	\$ 18

15 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company utilizes, to a limited extent, interest rate swaps and foreign currency forward exchange contracts to manage certain of its interest rate and currency exchange rate risk exposures. The interest rate swaps and foreign currency contracts were entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. In entering into these contracts, the Company has assumed the risk, which it considers slight, that might arise from the possible failure of the counterparties to perform. Because the other parties are creditworthy financial institutions, generally commercial banks, the Company does not expect any losses as a result of counterparty defaults.

At May 31, 1999, the Company's principal long-term investments sensitive to changes in market price are shown in the following table. They are carried at market value on the Company's consolidated balance sheets:

(DOLLARS IN MILLIONS)	NUMBER OF SHARES	MARKET VALUE
Ion Beam Applications, S.A. common stock	511,045	\$166
iVillage, Inc. common stock	962,679	46
Total Renal Care Holdings, Inc. common stock	2,865,000	44
Ventas, Inc. common stock	8,301,067	45
Investment portfolio of debt securities	n.a.	77
		-----
		\$378
		-----

At May 31, 1999, the investment portfolio of debt securities consisted of investments in U.S. Treasury Bills, and Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association Notes, with an average maturity of 180 days. The Company's market risk associated with its short-term investments in debt securities is substantially mitigated by the frequent turnover of the portfolio.

Included in the Company's fixed-rate long-term debt are 6% Exchangeable Subordinated Notes due 2005 with an aggregate principal balance of \$320 million. These notes are exchangeable at the option of the holder for 25.9403 shares of Ventas, Inc. common stock plus \$239.36 in cash per \$1,000 principal amount of the notes, subject to the Company's right to also pay an amount in

cash equal to the market price of the Ventas shares in lieu of delivery of such shares. To the extent that the fair market value of the Company's investment in Ventas common stock and the related portfolio of debt securities exceeds the carrying value of the notes, the Company must adjust the carrying value of the notes to such fair market value through a charge or credit to earnings. Corresponding adjustments to the carrying values of the investments are credited or charged directly to other comprehensive income.

#### THE YEAR 2000 ISSUE

The Company is continuing its six-phase Year 2000 compliance program. The first phase of the program, conducting an inventory of systems and programs that may be affected by the Year 2000 issue, the second phase, assessment of how the Year 2000 issues may affect each piece of equipment and system, and the third phase, planning corrections of any problems discovered, have been completed for both the Company's information technology systems ("IT Systems") and its non-IT Systems such as bio-medical equipment ("Non-IT Items"), except for the 12 general hospitals and related operations that were acquired in fiscal year 1999, with respect to which the first three phases have been substantially completed. Phases four through six (executing the plans developed, testing the corrections

#### TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 16

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

and implementing the corrections across all of the Company's systems and programs) are well under way and will run concurrently through the fall of calendar 1999 for both IT-Systems and Non-IT Items.

The costs the Company has incurred to date in connection with its Year 2000 compliance program amount to approximately \$51 million. This amount and the estimated total cost do not include internal salaries and other internal costs of the year 2000 compliance program. The Company estimates that its total cost for addressing all Year 2000 issues will be approximately \$100 million, substantially all of which will be accounted for as capital expenditures. The Company cautions that its estimate is based on the information available to the Company at this time. As the Company continues to evaluate the full scope of its Year 2000 issues, its estimate of the costs it may incur may change. Although the total cost of the Company's Year 2000 compliance program is presently not expected to have a material adverse effect on its operations, liquidity or financial condition, many factors, such as the number of pieces of equipment and systems with Year 2000 issues and the cost of replacing equipment or systems that cannot be brought into compliance or with respect to which it is more cost-effective in the long run to replace or take out of service, are not fully known at this time and could have an aggregate material impact on the Company's estimate. The Company will receive additional information concerning these and other matters as it completes phases 4-6 of its Year 2000 compliance program.

The Company is continuing to develop contingency plans to address any Year 2000 issues that do arise. Since any piece of equipment that is not Year 2000 compliant will be made compliant, replaced or taken out of service, the Company does not expect the Year 2000 issues to have an adverse impact on patient care. Furthermore, the Company has developed or is developing a back-up plan for each piece of critical equipment in case it unexpectedly fails. Many contingency plans already are in place since contingency plans are required in order for a hospital to obtain and retain its license. The Company's contingency plans also include plans to address third parties' Year 2000 issues that may arise. Examples include (i) making certain that each hospital's back-up power generator is operational if there is a power failure, (ii) if the Company does not receive assurance that delivery of key medical supplies will not be interrupted by Year 2000 issues, the Company will identify reliable alternative sources for those supplies or will make appropriate alternative arrangements, and (iii) if regular payments from a

principal payor might be adversely affected by Year 2000 issues, the Company will endeavor to negotiate an alternative payment system.

The Securities and Exchange Commission's recent guidance for Year 2000 disclosure also calls on companies to describe their most likely worst case Year 2000 scenarios. While one can imagine a scenario in which medical equipment fails as a result of a Year 2000 problem, which could lead to serious injury or death, the Company does not believe that such a scenario is likely to occur. As noted above, since any piece of equipment that is not Year 2000 compliant will be made compliant, replaced or taken out of service, the Company does not expect the Year 2000 issues to have an adverse impact on patient care. Furthermore, there will be a back-up plan for each piece of critical equipment in case it unexpectedly fails. The most likely worst case scenario is that the Company will have to replace or take out of service some of its existing equipment and add additional staff and/or reassign existing staff during the time period leading up to and immediately following December 31, 1999, in order to address any Year 2000 issues that unexpectedly arise.

#### BUSINESS OUTLOOK

The general hospital industry in the United States and the Company's general hospitals continue to have significant unused capacity, and thus there is substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required pre-admission authorization and by payor pressure to maximize outpatient and

### 17 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

alternative health care delivery services for less acutely ill patients. Increased competition, admission constraints and payor pressure are expected to continue.

The ongoing challenge facing the Company and the health care industry as a whole is to continue to provide quality patient care in an environment of rising costs, strong competition for patients and a general reduction of reimbursement rates by both private and government payors. Because of national, state and private industry efforts to reform health care delivery and payment systems, the health care industry as a whole faces increased uncertainty. The Company is unable to predict whether any new health care legislation at the federal and/or state level will be passed in the future and what action it may take in response to such legislation, but it continues to monitor all proposed legislation and analyze its potential impact in order to formulate its future business strategies.

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report, including, without limitation, statements containing the words believes, anticipates, expects, will, may, might, should, estimates, and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management's current expectations and involve known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; industry capacity; demographic changes; existing laws and government regulations and changes in, or the failure to comply with, laws and governmental regulations; legislative proposals for health care reform; the ability to enter into managed care provider arrangements on acceptable terms; a shift from fee-for-service

payment to capitated and other risk-based payment systems; changes in Medicare and Medicaid reimbursement levels; liability and other claims asserted against the Company; competition; the loss of any significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for, health care; changes in business strategy or development plans; the ability to attract and retain qualified personnel, including physicians; the significant indebtedness of the Company; the availability and terms of capital to fund the expansion of the Company's business, including the acquisition of additional facilities; and the impact of the Year 2000 Issues. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 18

REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Tenet Healthcare Corporation:

We have audited the accompanying consolidated balance sheets of Tenet Healthcare Corporation and subsidiaries as of May 31, 1998 and 1999, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended May 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tenet Healthcare Corporation and subsidiaries as of May 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 1999, in conformity with generally accepted accounting principles.

/s/ Jeffrey C. Barbakow

Los Angeles, California  
July 27, 1999

19 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN MILLIONS)	MAY 31,	
	1998	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23	\$ 29
Short-term investments in debt securities	132	130

Accounts receivable, less allowance for doubtful accounts (\$191 in 1998 and \$287 in 1999)	1,742	2,318
Inventories of supplies, at cost	214	221
Deferred income taxes	275	196
Assets held for sale, at the lower of carrying value or fair value less estimated costs to sell	33	655
Other current assets	471	413
Total current assets	2,890	3,962
Investments and other assets	498	569
Property and equipment, net	5,987	5,839
Costs in excess of net assets acquired, less accumulated amortization (\$270 in 1998 and \$339 in 1999)	3,317	3,283
Other intangible assets, at cost, less accumulated amortization (\$55 in 1998 and \$70 in 1999)	82	118
	\$12,774	\$13,771
-----		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 10	\$ 45
Accounts payable	657	713
Employee compensation and benefits	355	390
Accrued interest payable	106	163
Other current liabilities	580	711
Total current liabilities	1,708	2,022
Long-term debt, net of current portion	5,829	6,391
Other long-term liabilities and minority interests	1,256	1,048
Deferred income taxes	423	440
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.075 par value; authorized 700,000,000 shares; 313,044,417 shares issued at May 31, 1998 and 314,778,323 shares issued at May 31, 1999	23	24
Additional paid-in capital	2,475	2,510
Accumulated other comprehensive income	50	77
Retained earnings	1,080	1,329
Less common stock in treasury, at cost, 3,754,891 shares at May 31, 1998 and 3,754,708 at May 31, 1999	(70)	(70)
Total shareholders' equity	3,558	3,870
	\$12,774	\$13,771
-----		

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 20

### CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEARS ENDED MAY 31,		
	1997	1998	1999
Net operating revenues	\$ 8,691	\$ 9,895	\$ 10,880
Operating expenses:			
Salaries and benefits	3,595	4,052	4,412
Supplies	1,197	1,375	1,525
Provision for doubtful accounts	498	588	743
Other operating expenses	1,878	2,071	2,342
Depreciation	335	347	421
Amortization	108	113	135
Merger, impairment and other unusual charges	619	221	363
Operating income	461	1,128	939
Interest expense, net of capitalized portion	(417)	(464)	(485)
Investment earnings	27	22	27
Minority interests in income of consolidated subsidiaries	(27)	(22)	(7)
Net losses on disposals of facilities and long-term investments	(18)	(17)	--
Income from continuing operations before income taxes	26	647	474

Taxes on income	(89)	(269)	(225)
Income (loss) from continuing operations	(63)	378	249
Discontinued operations	(134)	--	--
Extraordinary charges from early extinguishment of debt	(47)	(117)	--
Net income (loss)	\$ (244)	\$ 261	\$ 249

Earnings (loss) per common and common equivalent share:

Basic:

Continuing operations	\$ (0.21)	\$ 1.23	\$ 0.80
Discontinued operations	(0.44)	--	--
Extraordinary charges	(0.16)	(0.38)	--
	\$ (0.81)	\$ 0.85	\$ 0.80

Diluted:

Continuing operations	\$ (0.21)	\$ 1.22	\$ 0.79
Discontinued operations	(0.44)	--	--
Extraordinary charges	(0.16)	(0.38)	--
	\$ (0.81)	\$ 0.84	\$ 0.79

Weighted shares and dilutive securities outstanding (in thousands):

Basic	303,947	306,255	310,050
Diluted	303,947	312,113	313,386

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

21 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(DOLLARS IN MILLIONS)	YEARS ENDED MAY 31,		
	1997	1998	1999
Net income (loss)	\$ (244)	\$ 261	\$ 249
Other comprehensive income (loss):			
Unrealized gains (losses) on securities held as available for sale:			
Unrealized net holding gains (losses) arising during period	134	(56)	51
Less: reclassification adjustment for realized gains included in net income	--	(40)	--
Foreign currency translation adjustments	--	--	(5)
Other comprehensive income (loss), before income taxes	134	(96)	46
Income tax benefit (expense) related to items of other comprehensive income	(52)	36	(19)
Other comprehensive income (loss)	82	(60)	27
Comprehensive income (loss)	\$ (162)	\$ 201	\$ 276

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(DOLLARS IN MILLIONS, SHARE AMOUNTS IN THOUSANDS)	OUTSTANDING SHARES	ISSUED AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	TREASURY STOCK
Balances, May 31, 1996	294,561	\$ 22	\$ 2,171	\$ 28	\$ 1,086	\$ (40)
Net loss					(244)	
Other comprehensive income				82		
Issuance of common stock	1,171		22			1
Stock options exercised	7,093	1	118			

Pooling adjustment related to the OrNda Merger					(23)	
Balances, May 31, 1997	302,825	23	2,311	110	819	(39)
Net income					261	
Other comprehensive loss				(60)		
Issuance of common stock	997		26			
Stock options exercised	5,468		138			(31)
Balances, May 31, 1998	309,290	23	2,475	50	1,080	(70)
Net income					249	
Other comprehensive income				27		
Issuance of common stock	1,044	1	22			
Stock options exercised	690		13			
Balances, May 31, 1999	311,024	\$ 24	\$ 2,510	\$ 77	\$ 1,329	\$ (70)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 22

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN MILLIONS)	YEARS ENDED MAY 31,		
	1997	1998	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (244)	\$ 261	\$ 249
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	443	460	556
Provision for doubtful accounts	494	588	743
Additions to reserves for discontinued operations, merger, impairment and other unusual charges	955	221	363
Deferred income taxes	(200)	131	101
Extraordinary charges from early extinguishment of debt	47	117	--
Other items	44	38	17
Increases (decreases) in cash from changes in operating assets and liabilities, net of effects from purchases of new businesses:			
Accounts receivable	(791)	(988)	(1,347)
Inventories and other current assets	(7)	(100)	(114)
Accounts payable, accrued expenses and other current liabilities	(145)	143	197
Other long-term liabilities and minority interests	(84)	(83)	(108)
Net expenditures for discontinued operations, merger, impairment and other unusual charges	(108)	(385)	(75)
Net cash provided by operating activities	404	403	582
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(406)	(534)	(592)
Purchases of new businesses, net of cash acquired	(787)	(679)	(646)
Proceeds from sales of facilities, long-term investments and other assets	50	170	72
Other items	18	(40)	19
Net cash used in investing activities	(1,125)	(1,083)	(1,147)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings	5,117	3,349	5,634
Loan payments	(4,512)	(2,762)	(5,085)
Proceeds from exercises of stock options	59	80	13
Proceeds from sales of common stock	12	17	23
Other items	(23)	(16)	(14)
Net cash provided by financing activities	653	668	571
Net increase (decrease) in cash and cash equivalents	(68)	(12)	6
Cash and cash equivalents at beginning of year	107	35	23

Pooling adjustment related to the OrNda Merger	(4)	--	
Cash and cash equivalents at end of year	\$ 35	\$ 23	\$ 29

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

23 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Tenet Healthcare Corporation (together with its subsidiaries, "Tenet" or the "Company") conform to generally accepted accounting principles and prevailing practices for investor-owned entities within the health care industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. THE COMPANY

Tenet is an investor-owned health care services company that owns or operates, through its subsidiaries and affiliates (collectively, "subsidiaries"), general hospitals and related health care facilities and holds investments in other companies, including health care companies. The Company's provision of health care through its domestic general hospitals, physician practices and related health care facilities comprises a single reportable operating segment under Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." At May 31, 1999, the Company's subsidiaries operated 130 domestic general hospitals serving urban and rural communities in 18 states, with a total of 30,791 licensed beds. The Company's subsidiaries also owned or operated physician practices, a small number of rehabilitation hospitals, specialty hospitals, long-term-care facilities and psychiatric facilities located on the same campus as, or nearby, the Company's general hospitals and various other ancillary health care businesses.

At May 31, 1999, the Company's largest concentration of hospital beds was in California with 26.4%, Texas with 14.7% and Florida with 14.4%. The concentration of hospital beds in these three states increases the risk that any adverse economic, regulatory or other developments that may occur in such states may adversely affect the Company's results of operations or financial condition.

The Company is subject to changes in government legislation that could impact Medicare and Medicaid payment levels and to increased levels of managed care penetration and changes in payor patterns that may impact the level and timing of payments for services rendered.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Tenet and its wholly owned and majority-owned subsidiaries. Significant investments in other affiliated companies generally are accounted for using the equity method. Intercompany accounts and transactions are eliminated in consolidation. The results of operations of acquired businesses in purchase transactions are included from their respective acquisition dates.

## C. NET OPERATING REVENUES

Net operating revenues consist primarily of net patient service revenues, which are based on established billing rates less allowances and discounts, principally for patients covered by Medicare, Medicaid and other contractual programs. Payments under these programs are based on either predetermined rates or the costs of services. Settlements for retrospectively determined rates are estimated in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Such adjustments have not been material during the years presented herein. These estimates of governmental contractual allowances (Medicare and Medicaid) are based on historically developed models adjusted for currently effective reimbursement or contract rates, the results of which are adjusted as final settlements of filed cost reports are reached, and are determined on a hospital-by-hospital year-by-year basis. Estimates of commercial contractual allowances are based primarily on the terms of contractual arrangements with commercial payors. Contractual allowances and discounts are deducted from accounts receivable in the accompanying consolidated balance sheets. Management believes that adequate provision has been made for adjustments that may result from final determination of amounts earned under these programs. There are no known material claims, disputes or unsettled matters with third-party payors not adequately provided for in the consolidated financial statements. Approximately 45% of consolidated net operating revenues were from participation of the Company's hospitals in Medicare and Medicaid programs in 1997. It was approximately 42% in 1998 and 41% in 1999.

The Company provides care to patients who meet certain financial or economic criteria without charge or at amounts substantially less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported in net operating revenues or in operating and administrative expenses.

## D. CASH EQUIVALENTS

The Company treats highly liquid investments with an original maturity of three months or less as cash equivalents. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

## E. INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities are classified as available-for-sale, held-to-maturity or as part of a trading portfolio. At May 31, 1998 and 1999, the Company had no significant investments in securities classified as either held-to-maturity or trading. Securities classified as available-for-sale are carried at fair value if unrestricted and their unrealized gains and losses, net of tax, are reported as accumulated other comprehensive income. Realized gains or losses are included in net income on the specific identification method.

## F. LONG-LIVED ASSETS

The Company uses the straight-line method of depreciation for buildings, building improvements and equipment over their estimated useful lives as follows: buildings and improvements, 25 to 40 years; equipment, three to 15 years. Capital leases are recorded at the beginning of the lease term as assets and liabilities at the lower of the present value

of the minimum lease payments or the fair value of the assets, and such assets, including improvements, are amortized over the shorter of the lease term or their estimated useful life. The Company capitalizes interest costs related to construction projects. Capitalized interest was \$12 million in 1997, \$16 million in 1998 and \$20 million in 1999.

Costs in excess of the fair value of the net assets of purchased businesses (goodwill) generally are amortized over 20 to 40 years. The straight-line method is used to amortize most intangible assets. Deferred financing costs are amortized over the lives of the related loans using the interest method.

Impairment of long-lived assets, including goodwill related to such assets, is recognized whenever events or changes in circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be fully recoverable from estimated future cash flows. The Company also assesses the recoverability of goodwill at the enterprise level in a similar manner. Measurement of the amount of impairment may be based on appraisal, market values of similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the asset.

The Company begins its process of determining if its facilities are impaired at each fiscal year-end by reviewing all of the facilities' three-year historical and one-year projected cash flows. Facilities whose cash flows are negative or trending significantly downward on this basis are selected for further impairment analysis. Their future cash flows (undiscounted and without interest charges) are estimated over the expected useful life of the facility and consider patient volumes, changes in payor mix, revenue and expense growth rates and reductions in Medicare payments due to the Balanced Budget Act of 1997 (the "BBA") and other regulatory actions, which assumptions vary by hospital, home health agency and physician practice. The sum of those expected future cash flows is compared to the carrying value of the assets. If the sum of the expected future cash flows is less than the carrying amount of the assets, the Company recognizes an impairment loss.

#### G. INDEXED DEBT INSTRUMENTS

Changes in liability resulting from increases or decreases in the index value of the Company's 6% Exchangeable Subordinated Notes are accounted for as adjustments of the carrying amount of the notes with corresponding charges (or credits) to earnings.

#### H. INCOME TAXES

The Company accounts for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

#### NOTE 3 - ACQUISITIONS AND DISPOSALS OF FACILITIES

-----

On January 30, 1997, the Company acquired OrNda HealthCorp ("OrNda") by issuing 81,439,910 shares of its common stock in a tax-free exchange for all of OrNda's outstanding common stock in a transaction accounted for as a pooling-of-interests.

Tenet's subsidiaries acquired 11 other general hospitals in fiscal 1997, six general hospitals in fiscal 1998 and 12 general hospitals in fiscal 1999. During the past three years, the Company also acquired a number of physician

practices, home health agencies and other health care operations. All of these transactions have been accounted for as purchases. The results of operations of the acquired businesses have been included in the Company's consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows from the dates of acquisition. During the year ended May 31, 1998, the Company sold or closed 10 general hospitals, exchanged its ownership interest in one hospital for a minority interest in a joint venture, combined the operations of two other general hospitals and sold certain ancillary health care operations. During the year ended May 31, 1999, the Company sold two general hospitals, closed one and combined the operations of two general hospitals and closed 29 home-health agencies. The results of operations of the sold or closed businesses were not significant.

NOTE 4 - MERGER, IMPAIRMENT AND OTHER UNUSUAL CHARGES

1999

In the fourth quarter of the year ended May 31, 1999, the Company recorded impairment and restructuring charges of \$363 million relating to (in millions):

The Company's 1999 Plan to sell 20 general hospitals and close one general and one specialty hospital by February 28, 2000	\$277
Impairment of the carrying values of property, equipment and goodwill at 20 physician practices and other ancillary health care businesses to be held and used	38
Implementation of hospital cost control programs and general overhead reduction plans	48
	-----
	\$363

The charges in the 1999 Plan above primarily consist of \$264 million in impairment charges to value property and equipment and other assets at the lower of carrying value or estimated fair values for those facilities included in the Company's plan that are to be closed or expected to be sold at losses, including \$10 million for estimated costs to sell, and \$13 million in other costs of closure, primarily lease cancellations. The Company expects to dispose of other facilities at gains that will be recorded in the periods of sale. The \$38 million impairment charge includes \$19 million for the write-off of goodwill, \$10 million for the write-down of property and equipment to estimated fair values and \$9 million for the write-down of other assets. The principal elements of the \$48 million restructuring charge for the implementation of hospital cost control programs and general overhead reduction plans are \$18 million in lease cancellation costs, \$15 million in severance costs related to the termination of 233 employees in facilities and 120 employees in corporate overhead departments and \$15 million in other exit costs.

The Company decided to sell or close the above facilities because, for the most part, they are in non-strategic markets and are not essential to the Company's strategic objectives. The hospitals in the 1999 Plan also include certain rural facilities. The execution of the plan will allow the Company to concentrate on markets where it already has a strong presence.

The aggregate carrying amount of assets held for sale following the above charges was \$631 million and is included in assets held for sale in the accompanying consolidated balance sheet at May 31, 1999. The results of operations of the assets held for sale and the effect of suspending future depreciation and amortization on these assets are not significant.

In the fourth quarter of the year ended May 31, 1998, the Company recorded impairment charges of \$221 million relating to (in millions):

The Company's 1998 Plan to close or sell:	
Three general hospitals by May 31, 1999	\$ 77
Two specialty hospitals by May 31, 1999	24
Twenty-nine home health agencies by August 31, 1998	38
Write-off of goodwill and other assets and additional costs to terminate contracts related to 33 of the Company's physician practices by May 31, 1999	41
Impairment of the carrying value of goodwill at an additional general hospital	20
Impairment of the carrying values of property, equipment, goodwill and other assets at 16 home health agencies to be held and used	7
A net increase in the estimate for losses from the 1997 Plan described below	14
	-----
	\$ 221

The charges in the 1998 Plan above primarily consisted of \$42 million in impairment charges to value property and equipment and other assets and \$40 million to value goodwill at estimated fair values, which included, in the case of facilities to be sold, \$1 million for costs to sell. For the hospitals to be closed, the charges also include \$36 million of lease commitments, demolition and other costs of closure. For the home health agencies to be closed, the charges above also include (a) \$14 million in severance costs related to the termination of 489 employees at the agencies and in the corporate overhead departments involved with these exit activities, and (b) \$6 million in other exit costs. The Company decided to terminate the physician contracts because they were generating and were projected to continue to generate operating losses. The \$41 million charge includes \$32 million for the write-off of goodwill and other assets and \$9 million for the estimated costs to cancel the employment or management service agreements with the physicians. The \$14 million increase in the estimate for losses from the 1997 Plan was primarily to record \$33 million of additional impairment charges at five hospitals from the 1997 Plan based on revised estimates of fair value and costs to sell or close, less \$19 million of favorable adjustments at two other hospitals while they were held for disposal and whose fair market values increased during the year ended May 31, 1998. The aggregate carrying amount of assets held for disposal following the above charges was \$38 million. The results of operations of the assets held for disposal and the effect of suspending future depreciation on impaired assets are not significant.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1997

In the third and fourth quarters of the year ended May 31, 1997, the Company recorded merger, restructuring and impairment charges totaling \$619 million, relating to (in millions):

The OrNda Merger, including the following:	
Closure of OrNda's corporate and regional offices; consolidation of operations	\$ 90
Severance for 230 identified employees	56
Investment banking, professional fees and other transaction costs	27
Information systems consolidations, primarily related to the buy-out of vendor contracts, and the write-down of computer equipment and capitalized software	15
The Company's 1997 Plan to close seven general hospitals and to sell eight general hospitals and one other health care business in order to eliminate	

the duplication of services and excess capacity following the OrNda Merger	219
Impairment of the carrying values of long-lived assets to their estimated fair values and other related costs at four general hospitals and three medical office buildings and unfavorable lease commitments at six medical office buildings acquired from OrNda	134
Write-off of goodwill and other long-lived assets related to some of the Company's physician practices which are deemed not to be fully recoverable based on the trends of operating results	60
A restructuring of physician practices, including severance for physicians, write-offs of computer equipment and software, physician contract terminations and the costs to reorganize regional management service organizations	18
	-----
	\$ 619

The \$219 million charge for the Company's 1997 Plan consists of \$129 million of impairment losses to value property, equipment and other assets at estimated fair values, \$34 million of impairment losses to write-down goodwill and \$56 million of estimated costs to sell or close facilities subject to the 1997 Plan (including demolition costs). The other impairment charges of \$134 million above consist of \$65 million in write-downs of property and equipment, \$44 million in write-downs of goodwill to estimated fair values and \$25 million for the unfavorable lease commitments.

Three of the hospitals to be closed under the 1997 Plan were converted to alternate uses. The aggregate carrying amount of assets held for disposal following the above charges was \$130 million. The results of operations of assets held for disposal and the effect of suspending future depreciation on impaired assets were not significant. At May 31, 1998 management reclassified two of these facilities from assets to be disposed of to assets to be held and used, adjusted the fair values while they were held for disposal based on the Company's revised expectation of future positive cash flows from operations and eliminated the portion of the reserve set aside in fiscal 1997 for estimated costs to sell. All sold facilities were sold for amounts that approximated the estimated sales proceeds.

In the third and fourth quarters of the year ended May 31, 1997 the Company also recorded unusual operating expenses related to OrNda, which expenses are reflected in the related expense line item in the consolidated statement of operations for the following:

Costs to terminate or convert OrNda's employee benefit programs	\$ 18
Costs to conform accounting methodologies used to estimate allowances for doubtful accounts	5
Costs to conform accounting methodologies for estimating allowance for self-insurance reserves	19
Estimated costs to settle a government investigation of an OrNda facility and other OrNda litigation	32
	-----
	\$ 74

## 29 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below presents a reconciliation of beginning and ending liability balances in connection with merger and impairment charges recorded in fiscal 1997, 1998 and 1999, as of May 31, 1997, 1998 and 1999.

DESCRIPTION OF CHARGES	TRANSACTIONS IN FISCAL 1998				TRANSACTIONS IN FISCAL 1999				
	BALANCES AT MAY 31, 1997 (2)	CHARGES	CASH PAYMENTS	OTHER ITEMS (1)	BALANCES AT MAY 31, 1998 (2)	CHARGES	CASH PAYMENTS	OTHER ITEMS (1)	BALANCES AT MAY 31, 1999 (2)
The OrNda Merger:									
Closure of corporate and regional offices	\$ 39	\$--	\$ (15)	\$ (12)	\$ 12	\$--	\$ (4)	\$--	\$ 8
Severance costs	21	--	(16)	--	5	--	(5)	--	--

Transaction costs	3	--	(2)	--	1	--	(1)	--	--
Information systems consolidation	11	--	(10)	--	1	--	(1)	--	--
Estimated costs to close or sell facilities in 1997 Plan	56	14	(35)	--	35	--	(2)	(14)	19
Accruals for unfavorable lease commitments at six medical office buildings	25	--	(3)	--	22	--	(2)	--	20
Restructuring of physician practices	18	--	(13)	(5)	--	--	--	--	--
Impairment losses to value property, equipment and goodwill at estimated fair values	141	--	(141)	--	--	--	--	--	--
Estimated costs to close or sell facilities in 1998 Plan	37	--	--	--	37	--	(8)	(22)	7
Severance costs in connection with the closure of 29 home health agencies	14	--	--	--	14	--	(10)	--	4
Other home health agency exit costs	6	--	--	--	6	--	(6)	--	--
Physician contract termination costs	9	--	--	--	9	--	(3)	--	6
Impairment losses to value property, equipment and goodwill at estimated fair values						292	--	(292)	--
Estimated costs to sell facilities in 1999 Plan						10	--	(6)	4
Severance costs in connection with the implementation of hospital cost-control programs and general overhead reduction plans						15	--	--	15
Lease cancellation and other exit costs						46	--	--	46
Total	\$ 173	\$ 221	\$ (94)	\$ (158)	\$ 142	\$ 363	\$ (42)	\$ (334)	\$ 129

- (1) Other items primarily include write-offs or write-downs of long-lived assets, including property and equipment, goodwill and other assets.
- (2) The above liability balances are included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 30

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - OTHER CURRENT ASSETS

Other current assets consist of the following:

(DOLLARS IN MILLIONS)	1998	1999
Other receivables	\$ 361	\$ 278
Prepaid expenses and other current items	110	135
	\$ 471	\$ 413

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less any impairment write-downs related to assets held and used and consists of the following:

(DOLLARS IN MILLIONS)	1998	1999
Land	\$ 524	\$ 527
Buildings and improvements	4,511	4,348
Construction in progress	409	388

Equipment	2,304	2,440
	-----	-----
	7,748	7,703
Less accumulated depreciation and amortization	(1,761)	(1,864)
	-----	-----
Net property and equipment	\$ 5,987	\$ 5,839
	-----	-----

31 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - LONG-TERM DEBT AND LEASE OBLIGATIONS

A. LONG-TERM DEBT

Long-term debt consists of the following:

(DOLLARS IN MILLIONS)	1998	1999
Loans payable to banks--Unsecured	\$ 1,587	\$ 2,168
8 5/8% Senior Notes due 2003, \$500 million face value, net of \$8 million unamortized discount	491	492
7 7/8% Senior Notes due 2003, \$400 million face value, net of \$5 million unamortized discount	394	395
8% Senior Notes due 2005, \$900 million face value, net of \$18 million unamortized discount	879	882
7 5/8% Senior Notes due 2008, \$350 million face value, net of \$6 million unamortized discount	343	344
8 5/8% Senior Subordinated Notes due 2007, \$700 million face value, net of \$14 million unamortized discount	685	686
8 1/8% Senior Subordinated Notes due 2008, \$1,005 million face value, net of \$25 million unamortized discount	979	980
6% Exchangeable Subordinated Notes due 2005, \$320 million face value, net of \$7 million unamortized discount	312	313
Zero-coupon guaranteed bonds due 2002	30	33
Notes and capital lease obligations, secured by property and equipment payable in installments to 2016	121	125
Other notes, primarily unsecured	18	18
	-----	-----
	5,839	6,436
	-----	-----
Less current portion	(10)	(45)
	-----	-----
	\$ 5,829	\$ 6,391
	-----	-----

LOANS PAYABLE TO BANKS -- In January 1997, in connection with the OrNda Merger, the Company entered into a revolving credit agreement (the "Credit Agreement") with a syndicate of banks that allows the Company to borrow, repay and reborrow up to \$2.8 billion prior to the agreement's January 31, 2002 maturity date. This agreement replaced the Company's previous unsecured revolving credit agreement with a syndicate of banks. As a result of this refinancing, as well as the refinancing of OrNda's debt, the Company recorded an extraordinary charge from early extinguishment of debt in the amount of \$47 million, net of taxes of \$29 million.

Loans under the Credit Agreement are unsecured and generally bear interest at a base rate equal to the prime rate or, if higher, the federal funds rate plus 0.50%, or, at the option of the Company, an adjusted London interbank offered rate ("LIBOR") for one-, two-, three-, or six-month periods plus an interest margin of from 22.50 to 68.75 basis points. The Company has agreed to pay the lenders an annual facility fee on the total loan commitment at rates ranging from 12.50 to 31.25 basis points. The interest margins and facility fee rates are based on the ratio of the Company's consolidated total debt to net earnings before interest, taxes, depreciation, amortization and certain other similar noncash charges. During the year ended May 31, 1999 the weighted average interest rate on loans payable to banks under the Credit Agreement was 5.9%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

SENIOR NOTES AND SENIOR SUBORDINATED NOTES -- In May 1998, the Company sold \$350 million of 7 5/8% Senior Notes due 2008 and \$1.005 billion of 8 1/8% Senior Subordinated Notes due 2008. The senior notes are redeemable at any time at the option of the Company. The senior subordinated notes are not redeemable by the Company prior to June 1, 2003. The net proceeds from the sales of these notes were used to redeem \$286 million of the Company's 9 5/8% Senior Notes due 2002 and \$897 million of 10 1/8% Senior Subordinated Notes due 2005. In connection with this redemption, the Company recorded an extraordinary charge from early extinguishment of debt in the amount of \$117 million, net of tax benefits of \$72 million.

In connection with the OrNda Merger and related refinancing, the Company issued, on January 30, 1997, \$400 million of 7 7/8% Senior Notes due January 15, 2003, \$900 million of 8% Senior Notes due January 15, 2005 and \$700 million of 8 5/8% Senior Subordinated Notes due January 15, 2007. These Senior Notes and the \$500 million of 8 5/8% Senior Notes due 2003 are not redeemable by the Company prior to maturity. Subject to certain limitations in the Credit Agreement, these Senior Subordinated Notes are redeemable at the option of the Company, in whole or from time to time in part, at any time on or after January 15, 2002.

The senior notes are unsecured obligations of the Company ranking senior to all subordinated indebtedness of the Company, including the senior subordinated notes, and equally in right of payment with all other indebtedness of the Company, including borrowings under the Credit Agreement described above. The senior subordinated notes also are all unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt, including the senior notes and borrowings under the Credit Agreement.

6% EXCHANGEABLE SUBORDINATED NOTES -- The 6% Exchangeable Subordinated Notes due 2005 are exchangeable at the option of the holder for shares of common stock of Ventas, Inc., formerly known as Vencor, Inc. ("Ventas"), at an exchange rate of 25.9403 shares and \$239.36 in cash (see Note 14) per \$1,000 principal amount of the notes, subject to the Company's right to also pay an amount in cash equal to the market price of the shares of Ventas common stock in lieu of delivery of such shares. Subject to certain limitations in the Credit Agreement, the notes are now redeemable at the option of the Company at any time. The notes also are unsecured obligations of the Company subordinated in right of payment to all existing and future senior and senior subordinated debt and borrowings under the Credit Agreement.

In May 1998, Ventas, in connection with a plan of reorganization, split into two public companies: a self-administered, self-managed realty company (Ventas), and an operating company now known as Vencor, Inc. ("Vencor"), which leases hospitals and nursing facilities from Ventas. In May 1998, the Company sold its Vencor common stock and invested the proceeds in a portfolio of investments in U.S. government and U.S. government-sponsored agency securities. These investments, which are held in escrow for the benefit of the holders of the 6% Exchangeable Subordinated Notes, are treated as available for sale.

To the extent that the fair market value of the Company's investment in the common stock of Ventas and, from May 1998, the related investment portfolio, exceeds the carrying value of the notes at the end of any accounting period, the Company adjusts the carrying value of the notes to the fair market value of the investments through a charge or credit to earnings. Corresponding adjustments to the carrying value of the investments are credited or charged directly to other comprehensive income as unrealized gains or losses. At May 31, 1997, the market price of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Ventas' common stock was \$2.20 per share over the then-existing exchange price of the stock. The Company accordingly recognized a noncash charge to earnings in the amount of \$18 million. This charge was included with the net gain (or loss) on disposals of facilities and long-term investments in the accompanying consolidated statement of operations for the year ended May 31, 1997. At the end of the Company's second quarter in fiscal 1998, the Company reversed that charge because the market price of Ventas' common stock had dropped below the exchange price. The combined value of the Ventas common stock and the investment portfolio remained below the exchange price through May 31, 1999.

LOAN COVENANTS -- The Credit Agreement and the indentures governing the Company's outstanding public debt have, among other requirements, limitations on borrowings by, and liens on the assets of, the Company or its subsidiaries, investments, the sale of all or substantially all assets and prepayment of subordinated debt, a prohibition against the Company declaring or paying dividends on or purchasing its stock unless its senior long-term unsecured debt securities are rated BBB- or higher by Standard and Poors' Rating Services and Baa3 or higher by Moody's Investors Service, Inc., and covenants regarding maintenance of specified levels of net worth, debt ratios and fixed-charge coverage ratios. Because of the dividend restrictions, all of the Company's retained earnings are restricted. The Company is in compliance with its loan covenants. There are no compensating balance requirements for any credit line or borrowing.

B. LONG-TERM DEBT MATURITIES AND LEASE OBLIGATIONS

Future long-term debt cash maturities and minimum operating lease payments are as follows:

(DOLLARS IN MILLIONS)	2000	2001	2002	2003	2004	LATER YEARS
Long-term debt	\$ 45	\$ 11	\$2,176	\$ 464	\$ 505	\$3,330
Long-term leases	174	165	149	133	120	383

Rental expense under operating leases, including short-term leases, was \$253 million in 1997, \$283 million in 1998 and \$290 million in 1999.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - INCOME TAXES

Taxes on income from continuing operations consist of the following amounts:

(DOLLARS IN MILLIONS)	1997	1998	1999
Currently payable:			
Federal	\$ 131	\$ 66	\$ 97
State	27	28	25
	-----	-----	-----
	158	94	122

Deferred:

Federal	(97)	112	83
State	(4)	19	18
	(101)	131	101
Other	32	44	2
	\$ 89	\$ 269	\$ 225

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying income before tax by the statutory Federal income tax rate is shown below:

(DOLLARS IN MILLIONS)	1997	1998	1999
Tax provision at statutory federal rate of 35%	\$ 9	\$ 227	\$ 166
State income taxes, net of federal income tax benefit	17	27	28
Goodwill amortization	26	26	25
Donation of TRC common stock	--	(25)	--
Nondeductible merger costs	14	--	--
Nondeductible asset impairment charges	29	12	38
Change in valuation allowances and tax contingency reserves	--	10	(35)
Other items	(6)	(8)	3
	\$ 89	\$ 269	\$ 225

35 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred tax assets and liabilities as of May 31, 1998 and 1999 relate to the following:

(DOLLARS IN MILLIONS)	1998		1999	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Depreciation and fixed-asset basis differences	\$ --	\$824	\$ --	\$754
Reserves related to discontinued operations, merger, impairment and other unusual charges	32	--	152	--
Receivables-- doubtful accounts and adjustments	50	--	44	--
Accruals for insurance risks	121	--	101	--
Intangible assets	--	13	--	8
Other long-term liabilities	235	--	64	--
Benefit plans	80	--	98	--
Other accrued liabilities	150	--	92	--
Investments and other assets	--	57	--	75
Federal and state net operating loss carryforwards	87	--	41	--
Other items	--	9	1	--
	\$ 755	\$903	\$ 593	\$837

-----

Management believes that realization of the deferred tax assets is more likely than not to occur as temporary differences reverse against future taxable income.

At May 31, 1999, the Company's carryforwards from prior OrNda tax returns available to offset future federal net taxable income consisted of 1) net operating loss carryforwards of approximately \$118 million, expiring in 2000 through 2008, and 2) approximately \$6 million in alternative minimum taxes with no expiration.

Allowable federal deductions relating to net operating losses of OrNda and certain of its subsidiaries are subject to annual limitations. These limitations are not expected to significantly affect the ability of the Company to ultimately recognize the benefit of these net operating loss deductions in future years.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 36

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - CLAIMS AND LAWSUITS

-----

A. PROFESSIONAL AND GENERAL LIABILITY INSURANCE

In its normal course of business, the Company is subject to claims and lawsuits relating to patient treatment. The Company believes that its liability for damages resulting from such claims and lawsuits is adequately covered by insurance or is adequately provided for in its consolidated financial statements.

The Company insures substantially all of its professional and comprehensive general liability risks in excess of self-insured retentions through a majority-owned insurance subsidiary. These self-insured retentions currently are \$1 million per occurrence and in prior years varied by hospital and by policy period from \$500,000 to \$3 million per occurrence. A significant portion of these risks is, in turn, reinsured with major independent insurance companies. Prior to fiscal 1995, the Company insured its professional and comprehensive general liability risks related to its psychiatric and rehabilitation hospitals through a wholly owned insurance subsidiary, which reinsured risks in excess of \$500,000 per occurrence with major independent insurance companies. The Company has reached the policy limits provided by this insurance subsidiary related to the psychiatric hospitals in most of its coverage years. In addition, damages, if any, arising from fraud and conspiracy claims in psychiatric malpractice cases (described under Legal Proceedings below) may not be insured.

In addition to the reserves recorded by the above insurance subsidiaries, the Company maintains an unfunded reserve based on actuarial estimates for the self-insured portion of its professional liability risks. Reserves for losses and related expenses are estimated using expected loss-reporting patterns and have been discounted to their present value. Adjustments to the reserves are included in results of operations.

B. SIGNIFICANT LEGAL PROCEEDINGS

The Company has been involved in significant legal proceedings of an unusual nature related principally to its subsidiaries' discontinued psychiatric business and, although it has settled the most significant of these matters, continues to defend a greater-than-normal level of civil litigation relating to certain of its subsidiaries' former psychiatric operations. In prior fiscal years the Company resolved these matters primarily through settlement. Based on its experience in these cases,

however, and on recent lawsuits generated by continued advertisements by certain lawyers seeking former patients in order to file claims against the Company and certain of its subsidiaries, the Company now believes that the vigorous defense and trial of these cases, and any additional lawsuits that may be filed, ultimately will be the most cost-effective means of resolving these issues.

In prior years, the Company recorded provisions to estimate the cost of the ultimate disposition of all of these proceedings and to estimate the legal fees that it expected to incur. The remaining reserves are for unusual litigation costs and fees that relate to matters that had not been settled as of May 31, 1999 and primarily represent management's estimate of the legal fees and other related costs to be incurred subsequent to May 31, 1999. There can be no assurance that the ultimate liability will not exceed such estimates. Although, based upon information currently available to it, management believes that the amount of damages, if any, in excess of its reserves for unusual litigation costs that may be awarded in any unresolved legal proceedings cannot reasonably be estimated, management does not believe it is likely that any such damages will have a material adverse effect on the Company's results of operations, liquidity or capital resources. All of the costs associated with these legal proceedings are classified in discontinued operations.

### 37 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 10 - SHAREHOLDERS' EQUITY

---

##### A. PREFERRED STOCK PURCHASE RIGHTS AND PREFERRED STOCK

On December 7, 1998, the Company's Board of Directors adopted a new stockholder rights plan to replace a similar plan upon its expiration on December 22, 1998. The rights generally will be exercisable 10 business days after a person or group acquires beneficial ownership of, or commences a tender offer or exchange offer that would result in such person or group beneficially owning, 15% or more of Tenet's common stock, unless such transaction is approved by a majority of Board members not affiliated with the acquiring person or group.

When exercisable, each right entitles the holder thereof to purchase from the Company one one-thousandth of a share of Series B Junior Participating Preferred Stock ("Preferred Stock") at a price of \$120.00, subject to adjustment. Each share of Preferred Stock will entitle its holder (other than the acquiring person or group) to purchase shares of the Company's common stock having a value of \$240.00, as adjusted.

Subject to the foregoing, in the event the Company is acquired in a merger or other business combination transaction in which shares of the Company's common stock are exchanged for shares of another company or more than 50% of the Company's assets are sold (in each case without approval of the Board of Directors), each holder of a right generally will be entitled upon exercise to purchase, for \$120.00 as adjusted, common stock of the surviving company having a market value equal to \$240.00, as adjusted.

The Company may redeem the rights in whole but not in part at any time prior to their becoming exercisable for \$0.01 per right. The rights will expire on the earlier to occur of (i) the Board ordering their redemption and (ii) December 22, 2008.

The Series B Preferred Stock is nonredeemable and has a par value of \$0.01 per share. None of the 350,000 authorized shares of Series B Preferred Stock are issued or outstanding.

##### B. WARRANTS

At May 31, 1999, there were warrants outstanding to purchase 124,064 shares of common stock at an exercise price of \$13.25 per share. These warrants may be exercised through April 30, 2000.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 - STOCK BENEFIT PLANS

The Company has stock-based compensation plans, which are described below. The Company has elected to continue to apply Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for stock options under the plans because the exercise prices for all options granted during 1997, 1998 and 1999 were the quoted market prices on the option grant dates and all option grants were to employees or directors.

At May 31, 1999, there were 9,844,397 shares of common stock available for future grants of stock options and performance-based incentive awards to the Company's key employees, advisors and consultants. The exercise price of each option generally equals the market price of the Company's stock on the date of grant and options are normally exercisable at the rate of one-third per year beginning one year from the date of grant. Stock options generally expire 10 years from the date of grant. No performance-based incentive stock awards have been made since fiscal 1994.

The Company has a Directors Stock Option Plan that makes available for issuance to nonemployee directors options to purchase shares of common stock. At May 31, 1999 there were 192,500 shares available for future grant. Under this plan each nonemployee director receives a stock option for 7,500 common shares upon initially being elected to the Board of Directors and on the fourth Thursday of each January thereafter. Awards have an exercise price equal to the fair market value of the Company's shares on the date of grant, vest one year after the date of grant and expire 10 years after the date of grant.

All awards granted under the foregoing plans will vest under circumstances defined in the plans or under certain employment arrangements, including a change in control of the Company without the approval of the Board of Directors.

The following table summarizes certain information about the Company's stock options outstanding at May 31, 1999:

RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
		WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE		
\$4.69 to \$9.88	2,531,493	4.4 years	\$ 9.39	2,531,493	\$ 9.39		
\$11.11 to \$15.88	4,872,734	5.4	13.46	4,872,734	13.46		
\$16.25 to \$21.63	5,035,236	7.0	20.51	3,904,402	20.65		
\$22.44 to \$26.38	5,685,735	6.9	24.28	3,655,391	24.18		
\$29.94 to \$35.13	13,262,321	9.0	31.30	1,869,541	33.11		
	<u>31,387,519</u>	<u>7.4</u>	<u>23.76</u>	<u>16,833,561</u>	<u>19.02</u>		

39 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of the status of the Company's stock option plans as of May 31, 1997, 1998 and 1999, and changes during the years ending on those dates is presented below:

	1997		1998		1999	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	26,299,166	\$ 14.20	24,850,790	\$ 17.25	23,284,572	\$ 21.58
Granted	6,436,800	24.07	5,608,259	33.07	9,144,750	28.89
Exercised	(7,093,224)	13.85	(6,547,332)	14.89	(690,102)	15.69
Forfeited	(791,952)	19.92	(627,145)	22.27	(351,701)	28.07
Outstanding at end of year	24,850,790	17.25	23,284,572	21.58	31,387,519	23.76
Options exercisable at year-end	14,450,670	14.08	12,169,407	15.63	16,833,561	19.02
Weighted average fair value of options granted during the year		11.62		14.66		13.48

The fair values of the option grants in the table above, and for purposes of the pro forma disclosures below, have been estimated as of the date of each grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

(DOLLARS IN MILLIONS)	1997	1998	1999
Expected volatility	40%	33%	35%
Risk-free interest rates	6.5%	5.9%	4.9%
Expected lives, in years	5.8	6.1	7.2
Expected dividend yield	0%	0%	0%

Had compensation cost for the Company's stock options been determined based on these fair values for awards granted during the past four years, the Company's net income (loss) and earnings (loss) per share would have been the pro forma amounts indicated below:

(DOLLARS IN MILLIONS)	1997	1998	1999
Net income (loss):			
As reported	\$ (244)	\$ 261	\$ 249
Pro forma	(260)	231	199
Basic earnings (loss) per share:			
As reported	(0.81)	0.85	0.80
Pro forma	(0.86)	0.76	0.65
Diluted earnings (loss) per share:			
As reported	(0.81)	0.84	0.79
Pro forma	(0.86)	0.75	0.64

These pro forma disclosures only account for stock options granted since June 1, 1995. The pro forma impact is likely to increase in future years as additional options are granted and amortized ratably over the vesting period.

NOTE 12 - EMPLOYEE STOCK PURCHASE PLAN

---

The Company has an Employee Stock Purchase Plan under which it is authorized to issue up to 5 million shares of common stock to eligible employees of the Company or its designated subsidiaries. Under the terms of the plan, eligible employees can elect to have between 1% and 10% of their base earnings withheld each calendar quarter to purchase, on the last day of the quarter, shares of the Company's common stock at a purchase price equal to 85% of the lower of the closing price on the first day of the quarter or its closing price on the last day of the quarter. Under the plan, the Company sold 727,954 shares to employees in the year ended May 31, 1997 at a weighted average price of \$17.64 per share, 703,832 shares in the year ended May 31, 1998 at a weighted average price of \$24.87 per share and 1,043,804 shares in the year ended May 31, 1999 at a weighted average exercise price of \$21.58 per share.

NOTE 13 - EMPLOYEE RETIREMENT PLANS

---

Substantially all employees who are employed by the Company or its subsidiaries, upon qualification, are eligible to participate in a defined contribution 401(k) plan. Employees who elect to participate generally make contributions from 1% to 20% of their eligible compensation, and the Company matches such contributions up to a maximum percentage. Company contributions to the plans were approximately \$32 million for fiscal 1997, \$39 million for fiscal 1998, and \$49 million for fiscal 1999.

NOTE 14 - INVESTMENTS

---

The Company's principal long-term investments in unconsolidated affiliates at May 31, 1999 included 511,045 shares of common stock of Ion Beam Applications, S.A., 962,679 shares of iVillage, Inc., 8,301,067 shares of Ventas and 2,865,000 shares of Total Renal Care Holdings, Inc. ("TRC"). Also included in the Company's long-term investments at May 31, 1999 is an investment portfolio of U.S. government securities aggregating \$77 million, which resulted from the investment of the proceeds from the Company's sale of 8,301,067 shares of Vencor common stock that it received as a dividend from Ventas in May 1998. This sale resulted in a pretax loss to the Company of \$30 million in 1998. The portfolio is being held in an escrow account for the benefit of the holders of the Company's 6% Exchangeable Notes (see Note 7). The Company classifies all these investments as "available for sale" whereby the carrying values of the shares and debt instruments are adjusted to market value at the end of each accounting period through a credit or charge, net of income taxes, to other comprehensive income. At May 31, 1998 and 1999, the aggregate market value of these investments was approximately \$299 million and \$378 million, respectively.

In March 1998, the Company contributed 2,135,000 shares of its TRC common stock, with a fair market value of \$75 million and an original cost basis of \$4 million, to the newly created Tenet Healthcare Foundation, a charitable foundation through which Tenet conducts substantially all of the Company's philanthropic grant making. The effect of the contribution to the foundation, less the gain on the disposition of the TRC shares, has been reflected in net losses on disposals of facilities and long-term investments in the 1998 consolidated statement of operations.

41 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 - DISCONTINUED OPERATIONS -- PSYCHIATRIC HOSPITAL BUSINESS

---

In fiscal 1997, the Company recorded \$215 million (less income tax benefits of \$81 million) to reflect settlements of patient and other litigation and to record the estimated future costs to settle the remaining litigation all related to certain of its former psychiatric hospitals and to increase the reserves of its wholly owned insurance subsidiary for professional liability claims related to its former psychiatric hospitals by an additional \$42 million.

NOTE 16 - EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the Company's basic and diluted earnings (loss) per share computations for income or loss from continuing operations for each of the three years ended May 31, 1997 through 1999. Income or loss is expressed in millions and weighted average shares are expressed in thousands:

		EFFECT OF DILUTIVE SECURITIES		
		BASIC EARNINGS (LOSS) PER SHARE	STOCK OPTIONS AND WARRANTS	DILUTIVE EARNINGS (LOSS) PER SHARE
1997	Income (Numerator)	\$ (63)	--	\$ (63)
	Weighted average shares (Denominator)	303,947	--	303,947
	Per share amount	\$ (0.21)		\$ (0.21)
1998	Income (Numerator)	\$ 378	--	\$ 378
	Weighted average shares (Denominator)	306,255	5,858	312,113
	Per share amount	\$ 1.23		\$ 1.22
1999	Income (Numerator)	\$ 249	--	\$ 249
	Weighted average shares (Denominator)	310,050	3,336	313,386
	Per share amount	\$ 0.80		\$ 0.79

Outstanding options to purchase 18,948,056 shares of common stock were not included in the computation of earnings per share for fiscal 1999 because the options' exercise prices were greater than the average market price of the common stock.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, current portion of long-term debt, accounts payable and accrued interest payable approximate fair value because of the short maturity of these instruments. The carrying values of investments, both short-term and long-term (excluding investments accounted for by the equity method) are reported at fair value. Long-term receivables are carried at cost and are not materially different from their estimated fair values. The fair value of long-term debt is based on quoted market prices and approximates its carrying value.

NOTE 18 - SUPPLEMENTAL DISCLOSURES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The Company paid interest (net of amounts capitalized) of \$346 million, \$489 million and \$417 million for the years ended May 31, 1997, 1998 and 1999, respectively. Income taxes paid, net of refunds received, during the years ended May 31, 1997 and 1998 amounted to \$147 million and \$11 million, respectively. Income tax refunds, net of taxes paid, during the year ended

May 31, 1999 were \$7 million. The fair value of common stock issued for acquisitions of hospitals and other assets was \$11 million in 1997 and \$9 million in 1998. During 1998, the Company received 1,078,800 shares of common stock having a fair market value of \$31 million as payment for a note and the exercise of stock options.

NOTE 19 - SUPPLEMENTAL DISCLOSURES FOR OTHER COMPREHENSIVE INCOME

The following table sets forth the tax effects allocated to each component of other comprehensive income for the years ended May 31, 1997, 1998 and 1999.

(DOLLARS IN MILLIONS)	BEFORE-TAX AMOUNT	TAX (EXPENSE) OR BENEFIT	NET-OF-TAX AMOUNT
Year ended May 31, 1997			
Unrealized gains (losses) on securities held as available for sale	\$ 134	\$ (52)	\$ 82
Year ended May 31, 1998			
Unrealized gains (losses) on securities held as available for sale	\$ (56)	\$ 36	\$ (20)
Less: reclassification adjustment for realized gains included in net income	(40)	--	(40)
	\$ (96)	\$ 36	\$ (60)
Year ended May 31, 1999			
Foreign currency translation adjustment	\$ (5)	\$ 2	\$ (3)
Unrealized gains (losses) on securities held as available for sale	51	(21)	30
	\$ 46	\$ (19)	\$ 27

43 TENET HEALTHCARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 - RECENTLY ISSUED ACCOUNTING STANDARDS

The Company has adopted Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information." Because the Company's business of providing health care through its domestic general hospitals, physician practices, and related health care facilities is a single reportable operating segment under this accounting standard, no new or additional disclosures are required of the Company. The Company's chief operating decision maker, as that term is defined in the accounting standard, regularly reviews financial information about each of the Company's facilities and subsidiaries for assessing performance and allocating resources. Operating and resource allocation decisions are not made on a market, regional or other geographical basis.

In March and in April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued two Statements of Position ("SOPs") that are effective for financial statements for fiscal years beginning after December 15, 1998, which will apply to the Company beginning June 1, 1999. SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," provides guidance on the circumstances under which the costs of certain computer software should be capitalized and/or expensed. SOP 98-5, "Reporting on the Costs of Start-Up Activities," requires such costs to be expensed as incurred instead of capitalized and amortized.

As of June 1, 1999, the Company changed its method of accounting for start-up costs in accordance with SOP 98-5. The change in accounting principle will result in the write-off of the start-up costs capitalized as of May 31, 1999 (\$19 million, net of tax benefit). The write-off will be shown as a cumulative effect of a change in accounting principle.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is effective for financial statements for fiscal years beginning after June 15, 2000, and which will apply to the Company beginning June 1, 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities.

The Company does not expect the adoption of these new accounting standards and statements of position to have a material effect on its future results of operations.

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 44

SUPPLEMENTARY FINANCIAL INFORMATION

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	FISCAL 1998 QUARTERS				FISCAL 1999 QUARTERS			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
Net operating revenues	\$2,331	\$2,429	\$2,564	\$2,571	\$2,553	\$2,563	\$2,822	\$2,942
Income (loss) from continuing operations	116	138	148	(24)	137	125	124	(137)
Net income (Loss)	116	138	148	(141)	137	125	124	(137)
-----								
Earnings (loss) per share from continuing operations:								
Basic	\$ 0.38	\$ 0.45	\$ 0.48	\$(0.08)	\$ 0.44	\$ 0.40	\$ 0.40	\$(0.44)
Diluted	\$ 0.38	\$ 0.44	\$ 0.47	\$(0.08)	\$ 0.44	\$ 0.40	\$ 0.40	\$(0.44)
-----								

Quarterly operating results are not necessarily representative of operations for a full year. For example, fiscal 1997 includes expenses of \$151 million recorded in the third quarter and \$37 million recorded in the fourth quarter in connection with the OrNda Merger, and restructuring charges of \$18 million, impairment losses of \$413 million and an \$18 million loss for the additional liability related to the Company's indexed debt instruments, recorded in the fourth quarter, as well as a \$47 million extraordinary charge from early extinguishment of debt in the third quarter and a \$134 million charge to discontinued operations in the fourth quarter. Fiscal 1998 includes an \$18 million gain recorded in the second quarter related to a change in the index value of the Company's 6% Exchangeable Notes, and a \$35 million loss from disposal of long-term investments, impairment charges of \$221 million, as well as a \$117 million extraordinary charge from early extinguishment of debt in the fourth quarter. Fiscal 1999 includes impairment and restructuring charges of \$363 million recorded in the fourth quarter.

COMMON STOCK INFORMATION (UNAUDITED)

Price range:	FISCAL 1998 QUARTERS				FISCAL 1999 QUARTERS			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
High	31 1/2	33 1/4	37 1/2	40 15/16	35 3/8	31 1/4	31 15/16	26 3/4
Low	25 1/2	26 7/16	30 3/8	34 3/4	25 3/8	25 5/8	19	16

At May 31, 1999, there were approximately 16,500 holders of record of the Company's common stock. The Company's common stock is listed and traded on the New York and Pacific stock exchanges. The stock prices above are the high and low sales prices as reported in the NYSE Composite Tape for the last two fiscal years. The Company's credit facility prohibits the declaration or payment of dividends unless its senior long-term unsecured debt securities are rated BBB-or higher by Standard and Poors Rating Services and Baa3 or higher by Moody's Investors Services, Inc.

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

Jeffrey C. Barbakow 1, 4  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
TENET HEALTHCARE CORPORATION

Lawrence Biondi, S.J. 2, 4, 5  
PRESIDENT, ST. LOUIS UNIVERSITY

Bernice B. Bratter 1, 3, 4  
PRESIDENT, LOS ANGELES WOMEN'S FOUNDATION

Sanford Cloud Jr. 5, 6, 7  
PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
NATIONAL CONFERENCE FOR COMMUNITY AND JUSTICE

Maurice J. DeWald 1, 2, 3, 7  
CHAIRMAN, VERITY FINANCIAL GROUP, INC.

Michael H. Focht Sr. 1, 5  
RETIRED PRESIDENT AND CHIEF OPERATING  
OFFICER, TENET HEALTHCARE CORPORATION

Raymond A. Hay 2, 4, 5, 7  
CHAIRMAN, ABERDEEN ASSOCIATES

Lester B. Korn 1, 3, 6  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
KORN TUTTLE CAPITAL GROUP

Floyd D. Loop, M.D. 2, 6  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
THE CLEVELAND CLINIC FOUNDATION

Richard S. Schweiker 2, 5  
RETIRED PRESIDENT,  
AMERICAN COUNCIL OF LIFE INSURANCE

BOARD COMMITTEES

- 1 Executive Committee
- 2 Audit Committee
- 3 Compensation and Stock Option Committee
- 4 Nominating Committee
- 5 Ethics and Quality Assurance Committee
- 6 Pension Committee
- 7 Shareholder Proposals Committee

PRINCIPAL MANAGEMENT

Jeffrey C. Barbakow  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Trevor Fetter  
OFFICE OF THE PRESIDENT, CHIEF CORPORATE

OFFICER AND CHIEF FINANCIAL OFFICER

Thomas B. Mackey  
OFFICE OF THE PRESIDENT, CHIEF OPERATING OFFICER

Stephen F. Brown  
EXECUTIVE VICE PRESIDENT  
AND CHIEF INFORMATION OFFICER

Alan R. Ewalt  
EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES

Reynold J. Jennings  
EXECUTIVE VICE PRESIDENT, SOUTHEAST DIVISION

Raymond L. Mathiasen  
EXECUTIVE VICE PRESIDENT  
AND CHIEF ACCOUNTING OFFICER

David R. Mayeux  
EXECUTIVE VICE PRESIDENT,  
ACQUISITION & DEVELOPMENT

Barry P. Schochet  
VICE CHAIRMAN

W. Randolph Smith  
EXECUTIVE VICE PRESIDENT,  
CENTRAL-NORTHEAST DIVISION

Neil M. Sorrentino  
EXECUTIVE VICE PRESIDENT, WESTERN DIVISION

Christi R. Sulzbach  
EXECUTIVE VICE PRESIDENT,  
GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER

SENIOR VICE PRESIDENTS

William L. Bradley  
CENTRAL STATES AND MASSACHUSETTS REGION

Dennis M. Brown  
NORTHERN REGION

David S. Dearman  
OPERATIONS FINANCE

Lee Domanico  
PENNSYLVANIA REGION

Steven Dominguez  
GOVERNMENT PROGRAMS

Michael W. Gallo  
PATIENT FINANCIAL SERVICES

Jeffrey S. Heinemann  
TENET PHYSICIAN SERVICES

Bruce L. Johnson  
AUDIT SERVICES

T. Dennis Jorgensen  
ETHICS, BUSINESS CONDUCT AND ADMINISTRATION

Ben F. King  
FINANCE, CENTRAL-NORTHEAST DIVISION

Kenneth B. Love Jr.  
FINANCE, WESTERN DIVISION

David S. McAdam  
CORPORATE COMMUNICATIONS

Martin J. Paris, M.D., M.P.H.  
MEDICAL AFFAIRS AND QUALITY IMPROVEMENT

Suzanne T. Porter  
STRATEGY & DEVELOPMENT

Timothy L. Pullen  
CONTROLLER

David C. Ricker  
MATERIEL RESOURCE MANAGEMENT

Paul J. Russell  
INVESTOR RELATIONS

Don S. Steigman  
FLORIDA REGION

Michael E. Tyson  
FINANCE, SOUTHEAST DIVISION

Kenneth K. Westbrook  
ORANGE COUNTY MARKET

Barry A. Wolfman  
QUAD COUNTIES MARKET

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 46

VICE PRESIDENTS

Jacinta Titialii Abbott  
ASSISTANT GENERAL COUNSEL

Michael P. Appelhans  
ASSISTANT GENERAL COUNSEL

Craig C. Armin  
GOVERNMENT PROGRAMS

William A. Barrett  
ASSISTANT GENERAL COUNSEL

Steven R. Blake  
FINANCE, NORTHERN REGION

Monica L. Bowman  
OPERATIONS, TENET PHYSICIAN SERVICES

Sanford M. Bragman  
RISK MANAGEMENT

Sam I. Brandt, M.D.  
MEDICAL INFORMATICS & CLINICAL PROCESSES

Mark H. Bryan  
FLORIDA REGION

Gregory H. Burfitt

SOUTHERN STATES REGION

Lourdes Cordero  
HUMAN RESOURCES, OPERATIONS

Alan N. Cranford  
OPERATIONS, INFORMATION SYSTEMS

Stephen F. Diaz  
CORPORATE FINANCIAL PLANNING

Curtis L. Dosch  
FINANCE, SOUTHERN STATES REGION

William R. Durham  
FINANCE, SOUTHEAST DIVISION

Robert Duzan  
FINANCE, WESTERN DIVISION

Donna E. Erb  
ASSISTANT GENERAL COUNSEL

Deborah J. Ettinger  
BUSINESS DEVELOPMENT, WESTERN DIVISION

Stephen D. Farber  
TREASURER

Richard W. Fiske  
ACQUISITION & DEVELOPMENT

Lynn S. Hart  
GOVERNMENT RELATIONS

Robert S. Hendler, M.D.  
MEDICAL EDUCATION & TECHNOLOGY ASSESSMENT

Lawrence G. Hixon  
CORPORATE FINANCIAL REPORTING

Michael S. Hongola  
FINANCIAL SYSTEMS

Jeffrey Koury  
FINANCE, WESTERN DIVISION

Matthew A. Kurs  
ST. LOUIS MARKET

Paul Kusserow  
CORPORATE STRATEGY & VENTURES

William W. Leyhe  
INTEGRATED DELIVERY, WESTERN DIVISION

William Loorz  
CONSTRUCTION & DESIGN

John A. Lynn  
COMPENSATION

Deborah A. Maicach  
PATIENT MANAGEMENT APPLICATIONS

Stephen L. Newman, M.D.  
GULF STATES REGION

Paul E. O'Neill  
ACQUISITION & DEVELOPMENT

Steven T. Pfeil  
BUYPOWER

Douglas E. Rabe  
TAX

Rodney Reasoner  
FINANCE, CENTRAL STATES & MASSACHUSETTS REGION

Norma Resneder  
HUMAN RESOURCES, OPERATIONS

J. Scott Richardson  
FINANCE, TEXAS REGION

Gary W. Robinson  
ASSISTANT GENERAL COUNSEL

Mario E. Rodriguez  
GOVERNMENT PROGRAMS

Leonard H. Rosenfeld  
QUALITY MANAGEMENT

C. David Ross  
FINANCE, FLORIDA REGION

Richard B. Silver  
ASSOCIATE GENERAL COUNSEL AND  
CORPORATE SECRETARY

Charles R. Slaton  
TEXAS REGION

Gerald L. Stevens  
STRATEGIC PROJECTS

Donald W. Thayer  
ACQUISITION & DEVELOPMENT

Eric A. Tuckman  
ACQUISITION & DEVELOPMENT

Gustavo A. Valdespino  
LOS ANGELES COUNTY MARKET

Paul A. Walker  
PENNSYLVANIA REGION

Davis L. Watts  
BUSINESS OFFICE SERVICES

Steven Weiss  
FINANCE, ST. LOUIS MARKET

William R. Wilson  
FINANCE, PENNSYLVANIA REGION

SUBSIDIARIES

Jay A. Silverman  
CHIEF EXECUTIVE OFFICER, SYNDICATED  
OFFICE SYSTEMS

COMMON STOCK LISTING

The Company's common stock is listed under the symbol THC on the New York and Pacific stock exchanges.

Debt securities listed on the New York Stock Exchange are:

9 5/8% Senior Notes due 2002  
7 7/8% Senior Notes due 2003  
8 5/8% Senior Notes due 2003  
6% Exchangeable Subordinated  
Notes due 2005  
8% Senior Notes due 2005  
10 1/8% Senior Subordinated  
Notes due 2005  
8 5/8% Senior Subordinated  
Notes due 2007  
7 5/8% Series B Senior Notes  
due 2008  
8 1/8% Series B Senior Subordinated  
Notes due 2008

INVESTOR CONTACTS

TRUSTEE/REGISTRAR

The Bank of New York  
101 Barclay Street  
New York, NY 10286  
(800) 524-4458

COMMON STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York  
(800) 524-4458  
shareowner-svcs@bankofny.com

Holder of National Medical Enterprises, Inc. (NME) stock certificates who would like to exchange them for Tenet certificates may do so by contacting the transfer agent. Former shareholders of American Medical Holdings, Inc. (AMI) and OrNda HealthCorp who have not yet redeemed their AMI or OrNda stock for cash and Tenet stock should also contact the transfer agent.

Please send certificates for transfer and address changes to:

Receive and Deliver Dept. - 11W  
P.O. Box 11002  
Church Street Station  
New York, NY 10286

Please address other inquiries for the transfer agent to:

Shareholder Relations Dept. - 11E  
P.O. Box 11258  
Church Street Station  
New York, NY 10286

COMPANY INFORMATION

The Company reports annually to the Securities and Exchange Commission on Form 10-K. The Company also publishes an annual report to shareholders and reports quarterly earnings. You may obtain copies of these and other

documents as listed below. Please note that the Company no longer mails quarterly letters to shareholders; instead it has made available new means for shareholders to obtain information on a more timely basis:

VIA THE WORLD WIDE WEB

The Company's web site, [www.tenethealth.com](http://www.tenethealth.com), offers extensive information about the Company's operations and financial performance, including a comprehensive series of investor pages. Current and archived quarterly earnings reports, annual reports and other documents can be accessed and/or downloaded.

VIA FACSIMILE

To request that the Company's current quarterly earnings report be delivered via facsimile, please call (888) 896-9016.

VIA MAIL

To request any financial literature be mailed to you, please call the Company's literature request hotline at (805) 563-6969 or write to Tenet Investor Relations.

INVESTOR RELATIONS

For all other shareholder inquiries, please contact:

Paul J. Russell  
Senior Vice President,  
Investor Relations  
P.O. Box 31907  
Santa Barbara, CA 93130  
Phone: (805) 563-7188  
Fax: (805) 563-6877  
E-mail: [paul.russell@tenethealth.com](mailto:paul.russell@tenethealth.com)

Diana L. Takvam  
Senior Director, Investor Relations  
P.O. Box 31907  
Santa Barbara, CA 93130  
Phone: (805) 563-6883  
Fax: (805) 563-6877  
E-mail: [diana.takvam@tenethealth.com](mailto:diana.takvam@tenethealth.com)

ANNUAL MEETING

The annual meeting of shareholders of Tenet Healthcare Corporation will be held at 11:00 a.m. on Wednesday, October 6, 1999, at the Westin Galleria Hotel, 13340 Dallas Parkway, Dallas, Texas.

CORPORATE HEADQUARTERS

Tenet Healthcare Corporation  
3820 State Street  
Santa Barbara, CA 93105  
(805) 563-7000  
[www.tenethealth.com](http://www.tenethealth.com)

TENET HEALTHCARE CORPORATION AND SUBSIDIARIES 48

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Tenet HealthSystem Holdings, Inc.

- (a) Tenet HealthSystem Medical, Inc.
  - (b) Tenet Management Services, Inc.
    - (c) Tenet Health Integrated Services, Inc.
    - (c) Quality Medical Management, Inc.
    - (c) Mid-Orange Medical Management, Inc.
    - (c) Alexa Integrated Medical Management, Inc.
  - (b) AHS Management Company, Inc.
  - (b) Alabama Health Connection, Inc.
  - (b) Alabama Medical Group, Inc.
    - (c) Alabama Medical Group-Gadsden Family Medicine
    - (c) Alabama Medical Group-Obstetrics and Gynecology, Inc.
    - (c) Alabama Medical Group-Primary Care I, Inc.
    - (c) Alabama Medical Group-Primary Care II, Inc.
  - (b) American Medical (Central), Inc.
    - (c) Amisub (Heights), Inc.
    - (c) Tenet Texas Employment, Inc.
    - (c) Amisub of Texas, Inc., OWNERSHIP - LIFEMARK HOSPITAL, INC.  
(63.68%)
      - TENET HEALTHSYSTEM MEDICAL, INC. (19.75%)
      - BROOKWOOD HEALTH SERVICES, INC. (5.10%)
      - AMI INFORMATION SYSTEMS GROUP, INC. (.42%)
      - AMERICAN MEDICAL (CENTRAL), INC. (11.05%)
    - (c) Amisub (Twelve Oaks), Inc.
    - (c) Lifemark Hospitals, Inc.
      - (d) Tenet Healthcare, Ltd. - OWNERSHIP - LIFEMARK  
HOSPITALS, GP (1%)
        - AMISUB OF TEXAS, INC., LP (70.1%)
        - AMISUB (HEIGHTS), INC., LP (10.3%)
        - AMISUB (TWELVE OAKS), INC., LP (18.6%)
      - (e) Odessa Hospital, Ltd. - OWNERSHIP-TENET  
HEALTHCARE LTD., GP (78.125%);  
INDIVIDUAL PHYSICIANS, LP (21.875%)
      - (d) Texas Healthcare Physician Services, Inc.
      - (d) 6103 Webb Road Ltd. - OWNERSHIP - LIFEMARK HOSPITALS,  
INC. (88%)
        - PHYSICIANS DEVELOPMENT, INC. + EPP (9%)
        - DR. ROBERT SHERRILL (3%)
      - (d) Lifemark Hospitals of Florida, Inc.
        - (e) Palmetto Medical Plan, Inc.
        - (e) Pain Management Center of Tampa, Inc.
        - (e) T&C and USF Ob/Gyn Center, Inc.
        - (e) Hospital Constructors - OWNERSHIP - LIFEMARK  
HOSPITALS OF FLORIDA, INC. (88%)  
EASTERN PROFESSIONAL PROPERTIES, INC. (12%)
      - (d) Lifemark Hospitals of Louisiana, Inc.
        - (e) Kenner Regional Clinical Services, Inc.
      - (d) Lifemark Hospitals of Missouri, Inc.
        - (e) Lifemark RMP Joint Venture - OWNERSHIP - LIFEMARK  
HOSPITALS OF MISSOURI, INC. (50%),  
RMP, L.L.C. (50%)
        - (e) Procure Network II, Inc.
      - (d) Regional Alternative Health Services, Inc.
        - (e) Mid-Missouri Lithotripter Center - OWNERSHIP -  
PHYSICIANS (68.33%)  
REGIONAL ALTERNATIVE HEALTH SERVICES,  
INC. (31.67%)
      - (d) Houston Specialty Hospital, Inc.
      - (d) Memphis Specialty Hospital, Inc.
      - (d) Tenet Investments-Kenner, Inc.

- (d) Tenet HealthSystem RMA, Inc.
- (c) Texas Southwest Healthservices, Inc.
  - (d) Diagnostic and Therapeutic Cardiology Services, L.P. - OWNERSHIP - PHYSICIANS (7.143%)  
TEXAS SOUTHWEST HEALTHSERVICES, INC. (92.857%)
- (b) American Medical Finance Company
- (b) American Medical Home Care, Inc.
- (b) American Purchasing Services, Inc.
- (b) AMI Ambulatory Centres, Inc.
  - (c) Surgical Services, Inc.
    - (d) Ambulatory Care - Broward Development Corp.
    - (d) Surgical Services of West Dade, Inc.
      - (e) Am-Med Associates - OWNERSHIP - SURGICAL SERVICES OF WEST DADE, INC. (50%)  
PALMED ASSOCIATES (50%)
- (b) AMI Arkansas, Inc.
  - (c) Healthstar Properties Limited Partnership - OWNERSHIP-AMI ARKANSAS, INC., G.P (1%), LP (49%)  
ST. VINCENT TOTALHEALTH CORPORATION, G.P (1%), L.P. (49%)
  - (d) Healthstar Ultima, L.L.C.- OWNERSHIP - HEALTHSTAR PROPERTIES LIMITED PARTNERSHIP (70 UNITS)  
ARKANSAS CHILDREN'S HOSPITAL (1 UNIT)  
QUORUM HEALTH RESOURCES, INC. (1 UNIT)  
NORTHWEST MEDICAL CENTER (1 UNIT)  
REBSAM REGIONAL MEDICAL CENTER (1 UNIT)
- (b) AMI Brokerage Services, Inc.
- (b) AMI Diagnostic Services, Inc.
  - (c) UCSD Medical Center Magnetic Resonance Diagnostic Center - OWNERSHIP - AMI DIAGNOSTIC SERVICES, INC. (50%)  
THE REGENTS OF THE UNIVERSTIY OF CALIFORNIA (50%)
- (b) AMI Information Systems Group, Inc.
  - (c) American Medical International B.V.
    - (d) American Medical International N.V.
- (b) AMI/HTI Tarzana Encino Joint Venture - OWNERSHIP - TENET HEALTHSYSTEM MEDICAL, INC. (30%)  
AMISUB OF CALIFORNIA, INC. (26%)  
NEW H ACUTE, INC. (12%)  
AMI INFORMATION SYSTEMS GROUP, INC. (7%)  
ENCINO HOSPITAL CORPORATION (25%)
- (b) Tenet System Services, Inc.
- (b) Amisub (Culver Union Hospital), Inc.
  - (c) Choice Care Network, Inc.
- (b) Tenet Physician Services - Hilton Head, Inc.
  - (c) Hilton Head Clinics, Inc.
  - (c) Hilton Head Health Systems, L.P. - OWNERSHIP - TENET PHYSICIAN SERVICES - HILTON HEAD, INC. (21%)  
AMISUB (HILTON HEAD), INC. (49%)  
HILTON HEAD HEALTH FOUNDATION (30%)
  - (c) Hilton Head Medical Group - Cardiology, L.L.C.
  - (c) Hilton Head Medical Group - ENT, L.L.C.
  - (c) Hilton Head Medical Group - Oncology, L.L.C.
  - (c) Hilton Head Medical Group - Urology - HH, L.L.C.
  - (c) Hilton Head Medical Group - Urology - Beaufort, L.L.C.
  - (d) Beaufort Hilton Head Healthcare System, L.L.C. - OWNERSHIP - HILTON HEAD HEALTH

- SYSTEM, L.P. (50%)
- BROAD RIVER HEALTHCARE, INC. (50%)
- (d) Hilton Head Home Care Services, Inc.
- (c) Piedmont Medical Equipment, G.P. - OWNERSHIP - AMISUB OF SOUTH CAROLINA, INC. (50%)
- AMERICA HOME PATIENT, INC. (50%)
- (c) Rock Hill Surgery Center, L.P. - OWNERSHIP - AMISUB OF SOUTH CAROLINA, INC. (72%)
- SURGICAL CENTER OF ROCK HILL (28%)
- (b) Amisub (Florida Ventures), Inc.

2

- (c) PBG Outpatient Services, Inc.
- (c) Brookwood Diagnostic Center of Tampa, Inc.
- (c) Clinical Services, Inc.
- (c) Ft. Lauderdale Surgery Center, Inc.
- (c) Tampa MOB 107, Inc.
- (c) Tampa MOB 104, Inc.
- (c) Tampa 8313 West Hillsborough, Inc.
- (c) Tampa 4802 Gunn Highway, Inc.
- (c) Center for Quality Care, Inc.
- (c) Tampa 418 W. Platt St., Inc.
- (b) Amisub (GTS), Inc.
- (b) Amisub (Hilton Head), Inc.
- (b) Amisub (Irvine Medical Center), Inc.
- (b) Tenet HealthSystem Bartlett, Inc.
- (b) Tenet HealthSystem Spalding, Inc.
  - (c) Tenet Physician Services - FMC, Inc.
  - (c) Tenet Physician Services - Spalding, Inc.
  - (c) Spalding Health System, L.L.C. - OWNERSHIP - TENET HEALTHSYSTEM SPALDING, INC. (50%)
  - PHYSICIANS (50%)
  - (c) Tenet EMS/Spalding 911, LLC - OWNERSHIP - TENET HEALTHSYSTEM SPALDING, INC. (64.1%)
  - SPALDING COUNTY (35.9%)
- (b) Amisub (North Ridge Hospital), Inc.
  - (c) FL Health Complex, Inc.
  - (c) North Ridge Carenet, Inc.
  - (c) North Ridge Partners, Inc.
    - (d) SFHCA Walk-In Centers, G.P. - OWNERSHIP - NORTHRIDGE PARTNERS, INC. (50%)
    - SOUTH FLORIDA HEALTH CARE ASSOCIATES (50%)
- (b) Amisub of California, Inc.
  - (c) Valley Doctors' Hospital
    - (d) Family Medical Services
    - (d) L.A. Surgery Center, Ltd. - OWNERSHIP - VALLEY DOCTORS' HOSPITAL (30.3%) OTHERS (69.7%)
    - (d) Cypress Specialty Hospital, Inc.
  - (c) Physician Practice Management Corporation
  - (c) Park Plaza Retail Pharmacy, Inc.
  - (c) Tarzana Regional Medical Center MRI Center - OWNERSHIP - AMISUB OF CALIFORNIA, INC. (7.8%)
  - NON-TENET ENTITY (92.2%)
  - (c) AMI (Canada), Ltd.
- (b) Amisub of North Carolina, Inc.
- (b) Central Carolina Management Services Organization, Inc.
- (b) Tenet Central Carolina Physicians for Women, Inc.
- (b) Amisub (SMHS), Inc.
- (b) Amisub of South Carolina, Inc.
  - (c) Piedmont Medical Services Company
  - (c) Tenet Physician Services - Piedmont, Inc.

- (c) Piedmont Seven, Inc.
- (c) Tenet Piedmont West Urgent Care Center, Inc.
- (b) Amisub (Saint Joseph Hospital), Inc.
  - (c) Creighton Saint Joseph Regional HealthCare System, L.L.C. - OWNERSHIP - AMISUB (SAINT JOSEPH HOSPITAL), INC. (73.82%)
    - CREIGHTON HEALTHCARE, INC. (26.18%)
  - (d) Home-based Psychiatric Services, Inc.- OWNERSHIP - CREIGHTON SAINT JOSEPH REGIONAL HEALTHCARE SYSTEM, L.L.C. (75%)
    - JAMES T. WHITE PH.D. (25%)
- (c) Saint Joseph Mental Health Plans, Inc.
  - (c) Saint Joseph Mental Health Physicians, Inc.

3

- (b) Amisub (SFH), Inc.
  - (c) Tenet HealthSystem SF-SNF, Inc.
  - (c) Tenet Regional Infusion South, Inc. - OWNERSHIP - CENTRAL AK HOSPITAL INC. (11%)
    - AMISUB (CLUVER UNION HOSPITAL), INC. (11%)
    - NATIONAL MEDICAL HOSPITAL OF TULLAHONA (11%)
    - LUCY LEE HOSPITAL, INC. (11%)
    - JONESBORO HEALTH SERVICES, LLC (11%)
    - AMISUB (SFH), INC. (11%)
    - S.C. MANAGEMENT INC. (11%)
    - NATIONAL MEDICAL HOSPITAL OF WILSON COUNTY, INC. (11%)
    - WINONA MEMORIAL HOSPITAL, L.P. (11%)
- (b) Amisub (Sierra Vista), Inc.
  - (c) MRI of San Louis Obispo, G.P. - OWNERSHIP - AMISUB (SIERRA VISTA), INC. (45%) MEDIQ (55%)
- (b) Tenet Finance Corp.
- (b) Arkansas Healthcare Services, Inc.
- (b) Brookwood Center Development Corporation
  - (c) BWP Associates, Ltd. - OWNERSHIP- BROOKWOOD CENTER DEVELOPMENT CORPORATION (80%)
    - W+R, INC. (20%)
  - (c) Med Plex Land Associates - OWNERSHIP - BROOKWOOD CENTER DEVELOPMENT CORPORATION (49%)
    - HOOVER DOCTORS' GROUP II (51%)
  - (c) Medplex Outpatient Surgery Center, Ltd. - OWNERSHIP - BROOKWOOD CENTER DEVELOPMENT CORPORATION (83%) OTHERS (17%)
    - (c) Hoover Doctors Group, Inc.
    - (c) Medplex Outpatient Medical Centers, Inc.
- (b) Brookwood Development, Inc.
  - (c) Alabama Health Services, Inc. - OWNERSHIP - BROOKWOOD DEVELOPMENT, INC. (50%)
    - EASTERN HEALTH SYSTEM, INC. (50%)
  - (c) Alabama Health Services (St. Clair), L.L.C. - OWNERSHIP - BROOKWOOD DEVELOPMENT, INC. (50%)
    - HEALTH SERVICES EAST, INC. (50%)
- (b) Brookwood Health Services, Inc.
  - (c) Brookwood Medical Center of Tampa, Inc.
    - (d) Memorial Hospital of Tampa, L.P. - OWNERSHIP - BROOKWOOD MEDICAL CENTER OF TAMPA, INC. (76%)
      - EASTERN PROFESSIONAL PROPERTIES, INC. (24%)
    - (c) Brookwood - Riverchase Primary Care Center, Inc.
    - (c) Estes Health Care Centers, Inc.
- (b) Central Arkansas Hospital, Inc.

- (c) Amisub (Central Arkansas), Inc.
- (b) Central Care, Inc.
- (b) Columbia Land Development, Inc.
- (b) Culver Health Network, Inc.
- (b) Cumming Medical Ventures, Inc.
- (b) East Cooper Community Hospital, Inc.
  - (c) Charleston Health Services Organization, Inc.
- (b) Eastern Professional Properties, Inc.
- (b) Florida Health Network, Inc.
- (b) Frye Regional Medical Center, Inc.
  - (c) Frye Home Infusion, Inc.
  - (c) Piedmont Health Alliance, Inc. - OWNERSHIP -
    - FRYE REGIONAL MEDICAL CENTER, INC. (50%);
    - PHYSICIANS (50%)
  - (c) Shared Medical Ventures, L.L.C. - OWNERSHIP - FRYE
    - REGIONAL MEDICAL CENTER, INC. (30%)
    - GRACE HOSPITAL INC. (30%)
    - CALDWELL MEMORIAL HOSPITAL INCORPORATED (30%)

4

- (c) Tenet Claims Processing, Inc.
- (c) Ten Broeck/Frye Partnership - OWNERSHIP -
  - FRYE REGIONAL MEDICAL CENTER, INC. (50%)
  - UNITED MED CORP. OF NC (50%)
- (c) Unifour Infusion Care, L.L.C. - OWNERSHIP -
  - FRYE REGIONAL MEDICAL CENTER, INC. (33%)
  - CALDWELL MEMORIAL HOSPITAL, INC. (67%)
- (b) Georgia Health Services, Inc.
- (b) Heartland Corporation
  - (c) Prairie Medical Clinic, Inc.
  - (c) Heartland Physicians, Inc.
- (b) Kenner Regional Medical Center, Inc.
- (b) Lucy Lee Hospital, Inc.
  - (c) HMS, L.P. - OWNERSHIP - LUCY LEE
    - HOSPITAL, INC. (35%);
    - HOME MEDICAL OF P.B. (65%)
- (b) Medical Center of Garden Grove
  - (c) Orange County Kidney Stone Center, L.P. - OWNERSHIP -
    - MEDICAL CENTER OF GARDEN GROVE, INC. (42.5805%)
    - OCKSC ASSOC. + INC. + 11 OTHERS (57.4195%)
  - (c) Orange County Kidney Stone Center Assoc., G. P. -
    - OWNERSHIP -
      - PHYSICIANS (67.9%)
      - MEDICAL CENTER OF GARDEN GROVE (32.1%)
- (b) Medical Collections, Inc.
- (b) Mid-Continent Medical Practices, Inc.
- (b) Missouri Health Services, Inc.
- (b) National Medical Services III, Inc.
- (b) National Medical Services IV, Inc.
- (b) National Park Medical Center, Inc.
  - (c) Garland Managed Care Organization, Inc.
  - (c) NPMC Healthcenter - Cardiology Care Center, Inc.
  - (c) NPMC Healthcenter - Family Healthcare Clinic, Inc.
  - (c) NPMC Healthcenter - Malvern, Inc.
  - (c) NPMC Healthcenter - Physician Services for Women, Inc.
  - (c) NPMC Healthcenter - The Heart Clinic, Inc.
  - (c) NPMC Healthcenter - National Park Surgery Clinic, Inc.
  - (c) NPMC Healthcenter - Cardiology Services, Inc.
  - (c) NPMC Healthcenter - Hot Springs Village, Inc.
  - (c) NPMC Healthcenter - Gastroenterology Center of Hot Springs, Inc.

- (c) NPMC Healthcenter - Physician Services, Inc.
- (c) Tenet HealthSystem NPMC Hamilton West, Inc.
- (c) Hot Springs Outpatient Surgery, G.P. - OWNERSHIP -  
NATIONAL PARK MEDICAL CENTER, INC. (50%)  
HOT SPRINGS OUTPATIENT SURGERY (50%)
- (b) New H Holdings Corp. - OWNERSHIP - TENET HEALTHSYSTEM  
MEDICAL, INC. (99%)  
AMISUB OF CALIFORNIA, INC. (.5%)  
BROOKWOOD HEALTH SERVICES, INC. (.5%)
  - (c) New H Acute, Inc.
  - (d) New H South Bay, Inc.
- (b) North Carolina Health Services, Inc.
- (b) North Fulton Imaging Ventures, Inc.
- (b) North Fulton Medical Center, Inc.
  - (c) Northwoods Ambulatory Surgery, Inc.
  - (c) North Fulton Health Care Associates, Inc.
  - (c) North Fulton Occupational Medicine, Inc.
  - (c) North Fulton Regional Cancer Center, Inc.
  - (c) North Fulton 002, Inc.
  - (c) Tenet Physician Services - North Fulton, Inc.
  - (c) North Fulton 008, Inc.
  - (c) North Fulton 009, Inc.
  - (c) North Fulton 010, Inc.
- (b) North Fulton MOB Ventures, Inc.

5

- (c) North Fulton Professional Building I, L.P. - OWNERSHIP -  
NORTH FULTON MOB VENTURES, INC. (15.4917%)  
NORTH FULTON MEDICAL VENTURES, INC.  
(84.5083%)
- (b) North Point Medical Ventures, Inc.
- (b) Occupational Health Medical Services of Florida, Inc.
- (b) Palm Beach Gardens Community Hospital, Inc.
- (b) Partners in Service, Inc.(1)
- (b) Physicians Development, Inc.
- (b) Piedmont Home Health, Inc.
- (b) Pinnacle Healthcare Services, Inc.
- (b) Professional Healthcare Systems Licensing Corporation
- (b) ProMed Pharmicenter, Inc.
- (b) Roswell Medical Ventures, Inc.
  - (c) North Fulton Parking Deck, L.P. - OWNERSHIP -  
ROSWELL MEDICAL VENTURES, INC. (89.9361%)  
NORTH FULTON PROFESSIONAL BUILDING I, L.P.  
(10.1639%)
- (b) Saint Joseph Mental Health Physicians, Inc.
- (b) San Dimas Community Hospital
- (b) SEMO Medical Management Company, Inc.
- (b) Sierra Vista Hospital, Inc.
  - (c) Tenet HealthSystem Sierra Vista Venture I, Inc.
  - (c) Tenet HealthSystem Sierra Vista Ventures II, Inc.
- (b) South Carolina Health Services, Inc.
- (b) Southern Medical Holding Corporation
  - (c) Bio Medical Resources, Inc.
- (b) St. Mary's Regional Medical Center, Inc.
  - (c) Amisub (St Mary's), Inc.
    - (d) Priority Industrial Physical Therapy Sports  
Rehab, G.P. - OWNERSHIP -  
AMISUB (ST. MARY'S), INC. (51%)  
DANNY LYONS (43%); LARRY ENGLA (6%)
  - (c) St. Mary's Medical Group, Inc.
  - (c) Dedicated Health PHO, Inc.
- (b) Tenet (Brookwood Development), Inc.
  - (c) Health Advantage Plans, Inc. - OWNERSHIP -

TENET (BROOKWOOD DEVELOPMENT), INC. (33 1/3%)  
TENET HEALTHSYSTEM LLOYD NOLAND PROPERTIES,  
INC. (33 1/3%)  
EASTSIDE VENTURES, INC. (33 1/3%)

- (d) Group Administrators, Inc.
- (b) Tennessee Health Services, Inc.
  - (b) Texas Healthcare Services, Inc.
  - (b) Texas Professional Properties, Inc.
  - (b) Tenet Ashley River OB/GYN, Inc.
  - (b) Tenet Caldwell Family Physicians, Inc.
  - (b) Tenet Catawba Nurse Midwives, Inc.
  - (b) Tenet Choices, Inc. - OWNERSHIP - TENET HEALTHSYSTEM MEDICAL,  
INC. 5,000 SHARES  
RICHARD FREEMAN - 1 SHARE; ROGER FRIEND-  
1 SHARE

NOTE: Total issued and outstanding - 5,002 shares.

- (b) Tenet DeLaine Adult Medical Care, Inc.
- (b) Tenet East Cooper Spine Center, Inc.
- (b) Tenet Goodman Family Practice Associates, Inc.
- (b) Tenet Health Network, Inc.
- (b) Tenet HealthSystem GB, Inc.

-----  
(1) Mailing address: 900 Market Street, Wilmington, Delaware 19801

6

- (b) Tenet HealthSystem Hilton Head, Inc.
- (b) Tenet HealthSystem Lloyd Noland Medical, Inc.
- (b) Tenet HealthSystem Lloyd Noland Properties, Inc.
- (b) Tenet HealthSystem Nacogdoches ASC, G.P., Inc.
  - (c) NMC Lessor, L.P.
  - (c) NMC Surgery Center, L.P.
- (b) Tenet HealthSystem Nacogdoches ASC, L.P., Inc.
- (b) Tenet HealthSystem North Shore, Inc.
  - (c) Tenet HealthSystem North Shore (BME), Inc.
- (b) Tenet HealthSystem Partners, Inc.
- (b) Tenet HealthSystem Philadelphia, Inc.
  - (c) Philadelphia Health & Education Corporation
  - (c) Tenet HealthSystem Bucks County, LLC
  - (c) Tenet HealthSystem City Avenue, LLC
  - (c) Tenet HealthSystem Elkins Park, LLC
  - (c) Tenet HealthSystem Graduate, LLC
  - (c) Tenet HealthSystem Hahnemann, LLC
  - (c) Tenet HealthSystem MCP, LLC
  - (c) Tenet HealthSystem Parkview, LLC
  - (c) Tenet HealthSystem St. Christopher Hospital, LLC
- (b) Tenet HealthSystem SGH, Inc.
- (b) Tenet HealthSystem SL, Inc.
  - (c) Tenet HealthSystem DI-SUB, Inc.
- (b) Tenet HealthSystem SL-HLC, Inc.
- (b) Tenet Hildebran Medical Clinic
- (b) Tenet HomeCare Information Systems, Inc.
- (b) Tenet Home Care of South Florida, Inc.
- (b) Tenet Home Care Tampa/St. Pete, Inc.
- (b) Tenet Investments, Inc.
- (b) Tenet Riverbend Family Medicine, Inc.
- (b) Tenet Physician Services - Fort Mill, Inc.
- (b) Tenet Physician Services - Frye Regional, Inc.
- (b) Tenet Physician Services - Georgia Baptist, Inc.
  - (c) Tenet Fayette Medical Group, Inc.
- (b) Tenet Physician Services - East Cooper, Inc.
- (b) Tenet Physician Services - Piedmont, Inc.
  - (c) Tenet Physician Services - Walker, L.L.C.

- (c) Tenet Physician Services - Delaine, L.L.C.
- (c) Tenet Physician Services - Lewisville, L.L.C
- (c) Tenet Physician Services - Herlong, L.L.C.
- (c) Tenet Physician Services - Village Oaks, L.L.C.
- (c) Tenet Physician Services - Rock Hill Psych, L.L.C.
- (c) Tenet Physician Services - Piedmont West, L.L.C.
- (b) Tenet Physician Services - York, Inc.
- (b) Tenet Physician Services of the Southeast, Inc.
- (b) Tenet Physician Services of Mississippi, L.L.C.
- (b) Tenet Physician Partners, L.L.C.
- (b) Brookwood Parking Associates, Ltd. - OWNERSHIP - TENET HEALTHSYSTEM MEDICAL, INC. (99%)  
BROOKWOOD PARKING, INC. (1%)
- (b) Northwind Medical Building Associates, Ltd. - OWNERSHIP - TENET HEALTHSYSTEM MEDICAL INC. (1.44%)  
OTHERS (98.56%)

HUG Services, Inc. (77%)

Assured Investors Life Company

H.F.I.C. Management Company, Inc.

- (a) Health Facilities Insurance Corp., Ltd. - Bermuda

International-NME, Inc.

- (a) N.M.E. International (Cayman) Limited - Cayman Islands, B.W.I.

7

- (b) B.V. Hospital Management - Netherlands
- (b) Pacific Medical Enterprises Sdn. Bhd. - Malaysia
- (c) Hyacinth Sdn. Bhd.

- (a) Medicalia International, B.V. - Netherlands

- (a) NME Spain, S.A.

- (a) Tenet UK Properties Limited

NME Headquarters, Inc.

- (a) Ortega Development Group

- (a) Tenet IL, Inc.

Tenet HealthSystem Hospitals, Inc.

- (a) Brookhaven Hospital, Inc.

- (b) Brookhaven Pavilion, Inc.

- (a) Manteca Medical Management, Inc.

- (a) Tenetsub Texas, Inc.

- (a) Tenet D.C., Inc.

- (a) Tenet Funding, Inc.

- (a) Tenet Hospitals Limited - OWNERSHIP - TENET HEALTHSYSTEM HOSPITALS, INC. G.P. (1%)  
TENETSUB TEXAS, INC., L.P. (99%)

- (b) Sierra Providence Healthcare Enterprises

- (b) Sierra Providence Health Network

- (b) Greater El Paso Healthcare Enterprises

- (a) National Managed Med, Inc.

- (a) National Med, Inc.

- (a) National Medical Hospital of Tullahoma, Inc.

- (b) Harton Medical Group, Inc.

- (a) National Medical Hospital of Wilson County, Inc.

- (b) Wilson County Management Services, Inc.

- (b) Middle Tennessee Therapy Services, Inc.

- (a) National Medical Services, Inc.

- (b) Barron, Barron & Roth, Inc.

- (a) National Medical Services II, Inc.

- (a) National Medical Ventures, Inc.

- (b) Litho I - LP - OWNERSHIP - NATIONAL MEDICAL VENTURES, INC. (63.75%); PHYSICIANS (36.75%)

- (b) McHenry Surgery Center Partners, Ltd - LP - OWNERSHIP - NATIONAL MEDICAL VENTURES, INC. (49.75%)  
PHYSICIANS (50.25%)

- (b) Redding Surgicenter - LP - OWNERSHIP - NATIONAL MEDICAL

VENTURES, INC. (52.857%) PHYSICIANS (47.143%)

- (a) Tenet El Mirador Surgical Center, Inc.
- (a) Tenet Hialeah HealthSystem, Inc.
  - (b) Hialeah Real Properties, Inc.
  - (b) Tenet Hialeah (H.H.A.) HealthSystem, Inc.
  - (b) Tenet Hialeah (ASC) HealthSystem, Inc.
  - (b) Tenet Hialeah Ancillary Services, Inc.
  - (b) Edgewater Provider Insurance Company, Ltd. (25%)
- (a) NM Ventures of North County, Inc.
  - (b) North County Outpatient Surgery Center, Ltd. - OWNERSHIP - PHYSICIANS (35.47%)  
NM VENTURES OF NORTH COUNTY, INC. (64.53%)
- (a) Tenet HealthSystem Hospitals Dallas, Inc.
- (a) NME Medical de Mexico, S.A. de C.V.
- (a) NMV - Tennessee, Inc.
- (a) Physician Network Corporation of Louisiana
- (a) Physician Network Corporation of Missouri
- (a) Jefferson County Surgery, Inc.
  - (b) Jefferson City ASC, LLC - OWNERSHIP - JEFFERSON COUNTY SURGERY;  
TENET HEALTHSYSTEM DI, INC.
- (a) Laughlin Pavilion, Inc.
- (a) NMV- II, Inc.
  - (b) Delray Outpatient Surgery and Care Center, Ltd. - OWNERSHIP - NMV-II, INC. (10%); OTHERS (90%)

8

- (a) Preferred Medical Systems of California, Inc.
- (a) San Ramon ASC, Inc.
- (a) San Ramon ASC, LLC
- (a) San Ramon ASC, L.P. - OWNERSHIP - THV 1 (100%)
- (a) West Coast PT Clinic, Inc.
- (a) Tenet HealthSystem CFMC, Inc.
- (a) Tenet HealthSystem Desert, Inc.
- (a) Tenet HealthSystem DI, Inc.
- (a) Tenet HealthSystem DI-SNF, Inc.
- (a) Tenet HealthSystem DI-TPS, Inc.
- (a) Tenet HealthSystem Memorial Medical Center, Inc.
- (a) Tenet HealthSystem Metroplex Hospitals, Inc.
- (a) Tenet Healthcare-Florida, Inc.
  - (c) TCC Partners GP
- (a) Tenet Beaumont Healthsystem, Inc.
  - (b) Baptist/Tenet JV - OWNERSHIP - TENET BEAUMONT HEALTHSYSTEM, INC. (50%)  
BAPTIST HEALTHCARE SYSTEM, L.L.C. (50%)
- (a) Tenet Network Management, Inc.
- (a) THV I, Inc.
- (a) South Bay Practice Administrators, Inc.
- (a) Tenet Missouri JV, Inc.
- (a) Tenet Birmingham Management, Inc.
- (a) Practice Partners, Inc.
- (a) MHJ, Inc.
  - (b) Jonesboro Health Services, L.L.C. - OWNERSHIP - MHJ, INC. (95%)  
ST. VINCENT TOTAL HEALTH CORPORATION (5%)
    - (c) Starcare of Jonesboro, Inc.
- (a) Tenet California Medical Ventures I, Inc.
- (a) Diagnostic Imaging Services, Inc.
- (a) Metro Physicians Management Organization, Inc.
- (a) Tenet Regional Infusion North, Inc. - OWNERSHIP - TENET HEALTHSYSTEM, SL, INC. (50%)  
TENET HEALTHSYSTEM DI, INC. (40%)  
TENET HEALTHSYSTEM HOSPITALS, INC. (5%)  
LIFEMARK HOSPITALS OF MISSOURI, INC. (5%)
- (a) Tenet Louisiana Medical Ventures I, Inc.

- (a) Northeast Texas Healthcare Enterprises
- (a) Mid-Tennessee Health Partners, L.L.C. - OWNERSHIP -
  - TENET HEALTHSYSTEM HOSPITALS, INC. (50%)
  - SMITHVILLE HEALTHCARE VENTURES, L.P. (50%)

NME Properties Corp.

- (a) Cascade Insurance Company, Ltd.
- (a) NME Properties, Inc.
  - (b) Lake Health Care Facilities, Inc.
  - (b) NME Properties West, Inc.
- (a) NME Property Holding Co., Inc.
- (a) Tenet HealthSystem SNF-LA, Inc.

NME Rehabilitation Properties, Inc.

- (a) R.H.S.C. Prosthetics, Inc.
- (a) Rehabilitation Facility at San Ramon, Inc.
- (a) Rehabilitation Facility at San Diego, Inc.
- (a) R.H.S.C. Modesto, Inc.
- (a) Pinecrest Rehabilitation Hospital, Inc.
- (a) R.H.S.C. El Paso, Inc.
- (a) Tenet HealthSystem Pinecrest Rehab, Inc.

NME Specialty Hospitals, Inc.

- (a) National Medical Specialty Hospital of Redding
- (a) NME Management Services, Inc.
- (a) NME New Beginnings, Inc.

- (b) Addiction Treatment Centers of Maryland, Inc.
- (b) Alcoholism Treatment Centers of New Jersey, Inc.
- (b) Health Institutes, Inc.
  - (c) Fenwick Hall, Inc.
  - (c) Health Insitutes Investments, Inc.
- (b) NME New Beginnings-Western, Inc.
  - (c) Norquest/RCA-W Bitter Lake Partnership

- (a) NME Partial Hospital Services Corporation
- (a) NME Psychiatric Hospitals, Inc.
  - (b) The Huron Corporation
- (a) NME Rehabilitation Hospitals, Inc.
- (a) Psychiatric Management Services Company

NME Psychiatric Properties, Inc.

- (a) Alvarado Parkway Institute, Inc.
- (a) Baywood Hospital, Inc.
- (a) Brawner Hospital, Inc.
- (a) Contemporary Psychiatric Hospitals, Inc.
- (a) Elmcrest Manor Psychiatric Hospitals, Inc.
- (a) Gwinnett Psychiatric Institute, Inc.
- (a) Jefferson Hospital, Inc.
- (a) Lake Hospital and Clinic, Inc. - OWNERSHIP - NME PSYCHIATRIC
  - PROPERTIES, INC. (97.875%)
  - RALPH MOLLYCHECK, M.D. (2.125%)
- (a) Lakewood Psychiatric Hospitals, Inc.
- (a) Laurel Oaks Residential Treatment Center, Inc.
- (a) Leesburg Institute, Inc.
- (a) Manatee Palms Residential Treatment Center, Inc.
- (a) Manatee Palms Therapeutic Group Home, Inc.
- (a) Medfield Residential Treatment Center, Inc.
- (a) Modesto Psychiatric Hospitals, Inc.
- (a) Modesto Psychiatric Realty, Inc.
- (a) Nashua Brookside Hospital, Inc.
- (a) North Houston Healthcare Campus, Inc.
- (a) Northeast Behavioral Health, Inc.
- (a) Northeast Psychiatric Associates - 2, Inc.
- (a) Outpatient Recovery Centers, Inc.
- (a) P.D. at New Baltimore, Inc.

- (a) P.I.A. Alexandria, Inc.
- (a) P.I.A. Canoga Park, Inc.
- (a) P.I.A. Cape Girardeau, Inc.
- (a) P.I.A. Capital City, Inc.
- (a) P.I.A. Central Jersey, Inc.
- (a) P.I.A. Colorado, Inc.
- (a) P.I.A. Connecticut Development Company, Inc.
- (a) P.I.A. Cook County, Inc.
- (a) P.I.A. Denton, Inc.
- (a) P.I.A. Detroit, Inc.
- (b) Psychiatric Facility at Michigan Limited Partnership
- (a) P.I.A. Educational Institute, Inc.
- (a) P.I.A. of Fort Worth, Inc.
- (a) P.I.A. Green Bay, Inc.
- (a) P.I.A. Highland, Inc.
- (b) Highland Psychiatric Associates - OWNERSHIP -  
P.I.A. HIGHLAND, INC. (50%)  
PSYCHIATRIC FACILITY AT ASHEVILLE,  
INC. (50%)
- (a) P.I.A. Highland Realty, Inc.
- (b) Highland Realty Associates - OWNERSHIP -  
(LIMITED PARTNERSHIP) -  
P.I.A. HIGHLAND REALTY, INC. (49%)  
PSYCHIATRIC FACILITY AT ASHEVILLE,  
INC. (49%)

10

(GENERAL PARTNERSHIP) - P.I.A.  
HIGHLAND REALTY, INC. (1%)  
PSYCHIATRIC FACILITY AT ASHEVILLE,  
INC. (1%)

- (a) P.I.A. Indianapolis, Inc.
- (a) P.I.A. Kansas City, Inc.
- (a) P.I.A. Lincoln, Inc.
- (a) P.I.A. Long Beach, Inc.
- (a) P.I.A. Maryland, Inc.
- (a) P.I.A. Michigan City, Inc.
- (a) P.I.A. Milwaukee, Inc.
- (a) P.I.A. Modesto, Inc.
- (a) P.I.A. Naperville, Inc.
- (a) P.I.A. New Jersey, Inc.
- (a) P.I.A. North Jersey, Inc.
- (a) P.I.A. Northern New Mexico, Inc.
- (a) P.I.A. Panama City, Inc.
- (a) P.I.A. Randolph, Inc.
- (a) P.I.A. Rockford, Inc.
- (a) P.I.A. of Rocky Mount, Inc.
- (a) P.I.A. Salt Lake City, Inc.
- (a) P.I.A. San Antonio, Inc.
- (a) P.I.A. San Ramon, Inc.
- (a) P.I.A. Sarasota Palms, Inc.
- (a) P.I.A. Seattle, Inc.
- (a) P.I.A. Slidell, Inc.
- (a) P.I.A. Solano, Inc.
- (a) P.I.A. Specialty Press, Inc.
- (a) P.I.A. Stafford, Inc.
- (a) P.I.A. Stockton, Inc.
- (a) P.I.A. Tacoma, Inc.
- (a) P.I.A. Tidewater Realty, Inc.
- (b) I.P.T. Associates
- (a) P.I.A. Topeka, Inc.
- (a) P.I.A. Visalia, Inc.
- (a) P.I.A. Waxahatchie, Inc.

- (a) P.I.A. Westbank, Inc.
- (a) P.I.A.C. Realty Company, Inc.
- (a) PIAFCO, Inc.
- (a) Pinewood Hospital, Inc.
- (a) Potomac Ridge Treatment Center, Inc.
- (a) Psychiatric Facility at Amarillo, Inc.
- (a) Psychiatric Facility at Asheville, Inc.
- (a) Psychiatric Facility at Azusa, Inc.
- (a) Psychiatric Facility at Evansville, Inc.
- (a) Psychiatric Facility at Lafayette, Inc.
- (a) Psychiatric Facility at Lawton, Inc.
- (a) Psychiatric Facility at Medfield, Inc.
- (a) Psychiatric Facility at Memphis, Inc.
- (a) Psychiatric Facility at Palm Springs, Inc.
- (a) Psychiatric Facility at Yorba Linda, Inc.
- (a) Psychiatric Institute of Alabama, Inc.
- (a) Psychiatric Institute of Atlanta, Inc.
- (a) Psychiatric Institute of Bedford, Inc.
- (a) Psychiatric Institute of Bucks County, Inc.
- (a) Psychiatric Institute of Chester County, Inc.
- (a) Psychiatric Institute of Columbus, Inc.
- (a) Psychiatric Institute of Delray, Inc.
- (a) Psychiatric Institute of Northern Kentucky, Inc.

11

- (a) Psychiatric Institute of Northern New Jersey, Inc.
- (a) Psychiatric Institute of Orlando, Inc.
- (a) Psychiatric Institute of Richmond, Inc.
- (a) Psychiatric Institute of San Jose, Inc.
- (a) Psychiatric Institute of Sherman, Inc.
- (a) Psychiatric Institute of Washington, D.C., Inc.
- (a) Residential Treatment Center of Memphis, Inc.
- (a) Residential Treatment Center of Montgomery County, Inc.
- (a) The Residential Treatment Center of the Palm Beaches, Inc.
- (a) River Wood Center, Inc.
- (a) Sandpiper Company, Inc.
- (a) Southern Crescent Psychiatric Institute, Inc.
- (a) Southwood Psychiatric Centers, Inc.
- (a) Springwood Residential Treatment Centers, Inc.
- (a) Tidewater Psychiatric Institute, Inc.
- (a) The Treatment Center at Bedford, Inc.
- (a) Tucson Psychiatric Institute, Inc.
- (a) Tulsa County Health Services, Inc.

Northshore Hospital Management Corporation (LA)

Tenet Healthcare Foundation

Tenet HealthSystem HealthCorp

- (a) OrNda Hospital Corporation
  - (b) AHM Acquisition Co., Inc.
    - (c) OrNda Investments, Inc.
      - (d) AHM CGH, Inc.
      - (d) AHM GEMCH, Inc.
      - (d) AHM Jackson Hospital, Inc.
      - (d) AHM JV, Inc.
      - (d) AHM Minden Hospital, Inc.
      - (d) AHM SMC, Inc.
      - (d) AHM WCH, Inc.
      - (d) American Healthcare Management Development Company
      - (d) CHHP, Inc.
      - (d) EGH, Inc.
      - (d) GCH, Inc.
      - (d) HCW, Inc.
      - (d) LBPG, Inc.

- (d) LCMH, Inc.
- (d) Lake Mead Holdings - OWNERSHIP - ORNDA INVESTMENTS, INC., GP (25%)  
DOCTORS GROUP, LP (75%).
- (d) Monterey Park Hospital
- (d) MPC, Inc.
- (d) NLVH, Inc.
  - (e) Pollamead Partnership - OWNERSHIP - NLVH, INC., GP (50%)  
DOCTORS GROUP, LP (50%)
  - (e) Pollamead Partnership II - OWNERSHIP - NLVH, INC., GP (50%)  
DOCTORS GROUP, LP (50%)
- (d) NLVPG of Nevada, Inc.
- (d) OrNda Management Services, Inc.
- (d) Tenet HealthSystem Heritage, Inc.PSH, Inc.
  - (e) Foot and Ankle Specialty Institute of Tacoma - OWNERSHIP - PSH, INC., GP (50%)  
INTEGRATED HEALTHCARE ALLIANCE, LP (50%)
- (d) RHCP, Inc.
- (d) USDHC, Inc.
- (d) WCH Management Services, Inc.
- (d) WPH Management Services, Inc.
- (d) Tenet HealthSystem WP, Inc.

12

- (b) CFMC LP, Inc.
- (b) CGH Realty Holding, Inc.
- (b) Coastal Communities Health Systems, Inc.
  - (c) Coastal Communities Hospital, L.P. - OWNERSHIP - COASTAL COMMUNITIES HEALTH SYSTEMS, INC., GP (50%)  
DOCTORS GROUP, LP(50%)
- (b) Commonwealth Continental Health Care, Inc.
- (b) Commonwealth Continental Health Care III, Inc.
- (b) Coral Gables Hospital, Inc.
  - (c) CGH Hospital, Ltd. - OWNERSHIP - CORAL GABLES HOSPITAL, INC., GP (94.25%)  
GREATER MIAMI MEDICAL GROUP, LTD., LP (5.75%)
- (b) Coral Gables Hospital Partners, Inc.
  - (c) South Florida Physicians Services, Inc.
- (b) CVHS Hospital Corporation
- (b) Cypress Fairbanks Medical Center, Inc.
  - (c) New Medical Horizons II, Ltd. - OWNERSHIP - CYPRESS FAIRBANKS MEDICAL CENTER, INC., GP (99%)  
ORNDA HOSPITAL CORPORATION, LP (1%)
- (b) Tenet HealthSystem DMC, Inc.
  - (c) The Davenport Clinic, Inc.
- (b) DHPG of Georgia, Inc.
- (b) Doctors' Hospital Medical Center, Inc.
- (b) FMC Acquisition, Inc.
  - (c) FMC Hospital, Ltd. - OWNERSHIP - FMC ACQUISITION, INC., GP (85%)  
FLORIDA INSTITUTE OF HEALTH, LTD., LP (15%)
- (b) FMC Medical, Inc.
- (b) Fountain Valley Health Care, Inc.
- (b) Fountain Valley Imaging Center, LP
- (b) Fountain Valley Outpatient Surgical Center, LP
- (b) Fountain Valley Imaging Corporation
- (b) Fountain Valley Pharmacy, Inc.
- (b) Fountain Valley Regional Hospital and Medical Center
- (b) GCPG, Inc.

- (c) Garland Community Hospital, Ltd. - OWNERSHIP - GCPG,  
INC., GP (1%)  
REPUBLIC HEALTH CORPORATION OF MESQUITE,  
LP (99%)
- (b) General Hospital of Sequatchie, Inc.
- (b) Harbor View Health Systems, Inc.
  - (c) Harbor View Physician Services, Inc.
  - (c) Harbor View Health Partners, L.P. - OWNERSHIP - HARBOR  
VIEW HEALTH SYSTEMS, INC. GP (50%)  
REPUBLIC HEALTH CORPORATION OF SAN  
BERNARDINO, LP (50%)
- (b) Harbor View Medical Center, Inc.
- (b) Health Choice Arizona, Inc.
- (b) Health Holding Company, Inc.
  - (c) Tenet HealthSystem Biltmore, Inc.
  - (c) OrNda Healthcorp of Phoenix, Inc.
  - (d) Biltmore Surgery Center, Inc.
  - (d) CHR Service Corp.
- (b) Health Resources Corporation of America - California
- (b) Health Resources Corporation of America - Florida
  - (c) RHC Florida, Inc.
  - (d) RHC Parkway, Inc.
  - (e) Republic Health Corporation of North Miami, Inc.
  - (f) OrNda of South Florida Services Corporation
  - (g) San Juan Medical Center, Inc.
- (b) Houston Northwest Medical Center, Inc.
  - (c) HNMC, Inc.
    - (d) C.T. Joint Venture - OWNERSHIP - HNMC, INC., GP (50%)  
DOCTORS GROUP, LP (50%)

13

- (d) Houston Northwest Radiotherapy, L.L.C. - OWNERSHIP -  
HNMC, INC., MANAGING  
MEMBER (6.79%)  
DOCTORS GROUP, MEMBER (93.21%)
- (d) Houston Rehabilitation Associates - OWNERSHIP - HNMC,  
INC., GP (20%)  
DOCTORS GROUP, LP (80%)
- (d) MRI-North Houston Venture - OWNERSHIP - HNMC,  
INC., GP (12%)  
DOCTORS GROUP, LP (88%)
- (d) HNW GP, Inc.
- (d) HNW Holdings, Inc.
- (d) HNW Lessor GP, Inc.
  - (e) Houston Northwest Lessor, Ltd. - OWNERSHIP -  
HNW LESSOR GP, INC., GP  
HNW HOLDINGS, INC. LP
- (d) Houston Northwest Management Services, Inc.
- (c) Northwest Houston Providers Alliance, Inc.
- (b) Indianapolis Health Systems, Inc.
  - (c) MMC Cardiology Venture - OWNERSHIP - INDIANAPOLIS  
HEALTH SYSTEMS, INC., GP (50%)  
REPUBLIC HEALTH CORPORATION OF  
INDIANAPOLIS, LP (50%)
- (b) La Hacienda Treatment Center, Inc.
- (b) Lewisburg Community Hospital, Inc.
- (b) Managed Health Alliance
- (b) MCF, Inc.
  - (c) Bone Marrow/Stem Cell Transplant Institute of Florida, Inc.
    - (d) Bone Marrow/Stem Cell Transplant Institute of  
Florida, Ltd. - OWNERSHIP -  
BONE MARROW/STEM CELL TRANSPLANT  
INSTITUTE OF FLORIDA,

- INC., GP (51%)
- STEM CELL, INC., LP (49%)
- (c) Florida Medical Center, Ltd. - OWNERSHIP - MCF, INC.,  
GP (50%)
- ORNDA HOSPITAL CORPORATION, LP (50%)
- (b) MCS Administrative Services, Inc.
- (b) Meridian Regional Hospital, Inc.
- (b) Mesa General Hospital Medical Center, Inc.
- (b) Midway Hospital Medical Center, Inc.
- (c) Midway Surgery Center, Ltd. - OWNERSHIP - MIDWAY HOSPITAL  
MEDICAL CENTER (100%)
- (c) Westside Hospital, L.L.C. - OWNERSHIP - MIDWAY HOSPITAL  
MEDICAL CENTER, INC. - MANAGING  
MEMBER
- ORNDA HOSPITAL CORPORATION -  
PARTICIPATING MEMBER
- (b) NAI Community Hospital of Phoenix, Inc.
- (b) OrNda Access, Inc.
- (b) OrNda Ambulatory Network, Inc.
- (c) Central Coast Surgery Center, Ltd.- OWNERSHIP - ORNDA  
AMBULATORY NETWORK, INC., GP (69.8%)  
DOCTORS GROUP, LP (30.2%)
- (c) Magnolia Ambulatory Surgi-Center, L.P. - OWNERSHIP -  
ORNDA AMBULATORY NETWORK, INC., GP (71.8%)  
DOCTORS GROUP, LP (28.2%)
- (c) Metro Ambulatory Surgery Center, L.P. - OWNERSHIP -  
ORNDA AMBULATORY NETWORK, INC., GP (75%)  
DOCTORS GROUP, LP (25%)
- (b) OrNda Health Initiatives, Inc.
- (b) OrNda Health Choice, Inc.
- (c) Health Choice HMO
- (c) Health Choice Partners, Inc.
- (b) OrNda Healthcorp of Florida, Inc.
- (b) Saint Vincent Healthcare System, Inc.
- (c) Saint Vincent Hospital, Inc.
- (c) OrNda Metro Surgery, Inc.
- (d) Saint Vincent Hospital, L.L.C. - OWNERSHIP - ORNDA  
HOSPITAL INVESTMENT CORP. -  
MANAGING MEMBER
- (c) Clini-Tech Laboratories, Inc.
- (c) OHM Health Initiatives, Inc.

14

- (c) Provident Nursing Homes, Inc.
- (c) Fallon Clinic, Inc. - OWNERSHIP - ORNDA HEALTHCORP OF  
MASSACHUSETTS, INC. (35%)  
SAINT VINCENT HOSPITAL, L.L.C. (10%),  
INDIVIDUAL PHYSICIANS (55%)
- (b) OrNda HomeCare, Inc.
- (b) OrNda of South Florida, Inc.
- (c) OrNda FMC, Inc.
- (c) TriLink Provider Services Organization, Inc.
- (b) OrNda of South Florida Holdings, Inc.
- (b) OrNda Physicians Services, Inc.
- (b) OrNda Receivables Co.
- (b) Portland Health Centers, Inc.
- (b) PoWay Health Systems, Inc.
- (b) Qualicare of Mississippi, Inc.
- (c) Gulf Coast Community Health Care Systems, Inc.
- (c) Gulf Coast Community Hospital, Inc.
- (b) Republic Health Corporation of Arizona
- (b) Republic Health Corporation of California
- (b) Republic Health Corporation of Central Georgia
- (b) Republic Health Corporation of Hayward

- (b) Republic Health Corporation of Indianapolis
  - (c) Indianapolis Physician Services, Inc.
  - (c) Winona Memorial Hospital, Ltd. - OWNERSHIP -
    - REPUBLIC HEALTH CORPORATION OF INDIANAPOLIS, INC., GP (99%)
    - ORNDA HEALTHCORP, LP (1%)
- (b) Republic Health Corporation of Meridian
- (b) Republic Health Corporation of Mesquite
- (b) Republic Health Corporation of North Miami
  - (c) North Miami Medical Center, Ltd. - OWNERSHIP -
    - REPUBLIC HEALTH CORPORATION OF NORTH MIAMI, GP (60.845%)
    - DOCTORS GROUP, LP
- (b) Republic Health Corporation of Rockwall County
  - (b) Republic Health Corporation of San Bernardino
- (b) Republic Health Corporation of Texas
- (b) Republic Health of North Texas
- (b) Republic Health Partners, Inc.
  - (c) Lake Pointe Medical Center, Ltd. - OWNERSHIP -
    - REPUBLIC HEALTH PARTNERS, INC., GP (1%)
    - REPUBLIC HEALTH CORPORATION OF ROCKWALL COUNTY, INC., LP (99%)
- (b) RHC Texas, Inc.
- (b) RHCMS, Inc.
- (b) S.C. Cal, Inc.
  - (c) Tenet HealthSystem CM, Inc.
- (b) S.C. Management, Inc.
- (b) S.C. San Antonio, Inc.
  - (c) Southwest Physician Management Services, Inc.
- (b) Sacramento Community Hospital
- (b) Santa Ana Hospital Medical Center, Inc.
- (b) SHL/O Corp.
- (b) South Park Medical Center, Inc.
- (b) St. Luke Medical Center
- (b) St. Vincent Healthcare System, Inc.
- (b) Tenet HealthSystem QA, Inc.
  - (c) Tenet HealthSystem QA Medical Groups, Inc.
- (b) Tenet HealthSystem MCS-AZ, Inc.
- (b) Tenet HealthSystem MW, Inc.
- (b) Tucson General Hospital, Inc.
- (b) UWMC Hospital Corporation

15

- (b) UWMC Anaheim Hospital Corporation
- (b) UWMC Bartlett Hospital Corporation
- (b) Valley Community Hospital
- (b) West Los Angeles Health Systems, Inc.
  - (c) Brotman Partners, L.P. - OWNERSHIP - WEST LOS ANGELES HEALTH SYSTEMS, INC. GP (55.75%)
    - ORNDA INVESTMENTS, INC., LP (44.25%)
  - (d) Foot and Ankle Specialty Institute of Culver City - OWNERSHIP -
    - BROTMAN PARTNERS, L.P., GP (50%)
    - INTEGRATED HEALTHCARE ALLIANCE, INC., LP (50%)
  - (d) Gynecological Specialty Institute of Culver City - OWNERSHIP -
    - BROTMAN PARTNERS, L.P., GP (50%)
    - INTEGRATED HEALTHCARE ALLIANCE, INC., LP (50%)
- (b) Westcenter Rehabilitation Facility, Inc.
- (b) Whittier Hospital Medical Center, Inc.
  - (c) Head & Neck Specialty Institute of Whittier - OWNERSHIP -

WHITTIER HOSPITAL MEDICAL CENTER,  
INC. GP (50%)  
INTEGRATED HEALTHCARE ALLIANCE, LP (50%)

- (a) Horizon Health Group, Inc.
- (a) Tenet HealthSystem Metro G.P., Inc.
  - (b) Metro Phoenix Surgery, Inc. - OWNERSHIP - ORNDA METROSURGERY,  
INC. (99%)  
TENET HEALTHSYSTEM METRO G.P., INC. (1%)

- (a) Tenet HealthSystem Occupational Medicine, Inc.

- (a) Tenet HealthSystem Sub, Inc.

Tenet Healthsystem Consulting Ltd.

Tenet HealthSystem Investments, Inc.

- (a) Proton Therapy Corporation of America, Inc.
  - (b) Proton Therapy Center of St. Louis, Inc.
  - (c) PTCA Investments, Inc.

Syndicated Office Systems

Wilshire Rental Corp.

ACCOUNTANTS' CONSENT AND REPORT ON CONSOLIDATED SCHEDULE

The Board of Directors  
Tenet Healthcare Corporation:

Under date of July 27, 1999, we reported on the consolidated balance sheets of Tenet Healthcare Corporation and subsidiaries as of May 31, 1999 and 1998, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended May 31, 1999, as contained in the 1999 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for fiscal year 1999. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the index of exhibits to the Annual Report on Form 10-K for fiscal year 1999. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We consent to the incorporation by reference of our report dated July 27, 1999, in the Company's Registration Statements on Form S-3 (Nos. 33-57801, 33-57057, 33-55285, 33-62591, 33-63451, 333-17907, 333-24955, 333-21867, 333-26621 and 333-41907), Registration Statements on Form S-4 (Nos. 33-57485, 333-18185 and 333-64157) and Registration Statements on Form S-8 (Nos. 2-87611, 33-11478, 33-35688, 33-50182, 33-57375, 333-00709, 333-01183, 333-38299 and 333-41903).

/s/ KPMG LLP

Los Angeles, California  
August 27, 1999

<ARTICLE> 5  
<MULTIPLIER> 1,000

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		MAY-31-1999
<PERIOD-END>		MAY-31-1999
<CASH>		29,000
<SECURITIES>		130,000
<RECEIVABLES>		2,605,000
<ALLOWANCES>		287,000
<INVENTORY>		221,000
<CURRENT-ASSETS>		3,962,000
<PP&E>		7,703,000
<DEPRECIATION>		1,864,000
<TOTAL-ASSETS>		13,771,000
<CURRENT-LIABILITIES>		2,022,000
<BONDS>		6,391,000
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		24,000
<OTHER-SE>		3,846,000
<TOTAL-LIABILITY-AND-EQUITY>		13,771,000
<SALES>		0
<TOTAL-REVENUES>		10,880,000
<CGS>		0
<TOTAL-COSTS>		9,578,000
<OTHER-EXPENSES>		363,000
<LOSS-PROVISION>		743,000
<INTEREST-EXPENSE>		485,000
<INCOME-PRETAX>		474,000
<INCOME-TAX>		225,000
<INCOME-CONTINUING>		249,000
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		249,000
<EPS-BASIC>		0.80
<EPS-DILUTED>		0.79