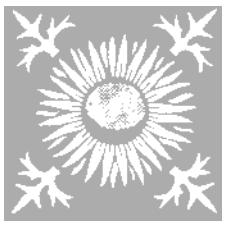
RHÖN-KLINIKUM AG



ANNUAL REPORT

2000

Contents

RHÖN-KLINIKUM GROUP AT A GLANCE

	1996	1997	1998	1999*	2000*
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Revenues	405,231	442,764	492,334	615,012	669,144
Cost of materials	103,330	113,713	126,740	152,040	161,577
Personnel expenses	168,883	185,597	215,093	297,102	329,565
Depreciation on tangible assets	35,631	33,094	44,397	37,037	37,030
Net profit*	23,834	28,675	37,985	44,616	61,899
Cash flow	72,821	74,949	79,605	86,185	105,019
Number of employees (at 31 December)	5,187	5,242	6,459	9,145	9,357
Tangible assets	436,843	440,805	533,694	511,681	565,878
Financial assets	1,548	3,685	2,154	1,901	2,056
Capital and reserves	116,887	127,949	147,278	265,836	319,013
Return on equity (in %)	16.40	16.90	18.70	18.50	21.20
Balance sheet total	590,281	624,146	716,815	734,532	775,420
Investments					
– tangible assets	61,026	39,661	145,305	94,100	92,243
– financial assets	153	2,148	0	79	84
DVFA/SG result	31,586	37,868	41,626	–	–
Earnings per preference share (in €)				1.74	2.40
Earnings per ordinary share (in €)				1.72	2.38
Dividends paid	6,111	8,761	7,215	8,726	10,541

** from 1999 according to IAS (International Accounting Standards)*

The photographs of this Annual Report have been selected from a photographic documentation by the Frankfurt-based photographer Martin Starl. In March 2001, he spent three days at DKD – Deutsche Klinik für Diagnostik, Wiesbaden, observing the clinic's every-day life from all angles and capturing with his camera situations that seemed typical to him. The captions have been contributed by Professor Dr. med. Günther Sachse, Medical Director and, since 1 February 2001, also Managing Director of DKD. He takes the reader to the different departments of "his" clinic as if accompanying him personally on a tour. Even if this Annual Report offers space for only a small selection, the photographs illustrate DKD's broad interdisciplinary service spectre and its patient-oriented approach across all disciplines.

With the exception of the photographs shown on pages 5, 15 and 69, all photographs are attributable to DKD.

Report of the Supervisory Board for the year ended 31 December 2000
(Section 171 of the Companies Act)

The Supervisory Board continues to consist of 12 members who have been elected in compliance with the provisions of the Codetermination Act (MitbestG). The Supervisory Board has established an Arbitration Committee and a Personnel Committee, in accordance with Sections 27 and 31 of the Codetermination Act and Section 107 (3) of the Companies Act (AktG), respectively. No other committees have been established. During financial year 2000, the Personnel Committee established by the Supervisory Board met, whenever required, for conferences and discussions with the Board of Management and took all necessary decisions, whilst for the Arbitration Committee established in accordance with Sections 27 and 31 of the Codetermination Act there was no need to take any action during the year under review.

During financial year 2000, the Supervisory Board held four meetings. At these meetings, in individual discussions and through reports given by the Board of Management, the Supervisory Board was continuously informed about the company's situation as well as all important projects and developments and considered these together with the Board of Management. The Supervisory Board examined, in particular, the regularly updated analyses presented by the Board of Management on the company's and the Group's planned capital spending, earnings and cash flows for the year 2000 as well as Management's projections of revenues, earnings and cash flows for the year 2001, which were presented on 14 November 2000, and passed all necessary resolutions. In addition, at each of its meetings, the Advisory Board was given detailed account both in writing and verbally on human resources and business developments within the company and the Group as well as the individual Group companies' situation.

When discussing the company's 1999 financial statements with the Board of Management and the independent auditors, the Supervisory Board deliberated upon the internal control system for early risk identification, which was implemented in accordance with the provisions of Section 91 (2) of the Companies Act, and approved the measures taken by the Board of Management.

As in previous years, great importance was given to discussing and deciding on new acquisitions of public-sector acute care hospitals. The Supervisory Board approved, among others, the acquisition of Krankenhaus Dippoldiswalde as well as the submission of tenders for several take-overs, including Klinikum Remscheid and Klinikum Berlin-Buch as well as Robert-Rössle-Klinik and Franz-Volhard-Klinik. In addition, the Supervisory Board approved major investment projects in Attendorn, Herzberg/Osterode and Bad Bevensen as well as the new construction projects of Park-Krankenhaus Leipzig-Südost, Psychiatrisches Krankenhaus Leipzig and Klinikum Uelzen.

The Supervisory Board has appointed Mrs. Andrea Aulkemeyer, Bachelor of Commerce, and Mr. Wolfgang Kunz, Bachelor of Commerce, as deputy members of the Board of Management for the periods from 1 January 2001 to 31 December 2005 and 1 October 2001 to 30 September 2006, respectively. Dr. Elmar Keller resigned from the Board of Management on 31 October 2000.

Prior to the preparation of the company's annual financial statements and the consolidated financial statements for the year 2000, the Supervisory Board decided in consultation with the Board of Management and the independent auditors that the consolidated financial statements for the year ended 31 December 2000 be prepared in accordance with the International Accounting Standards (IAS).

The 2000 financial statements of the company, the 2000 consolidated financial statements and Management's report on the company's and the Group's situation as at 31 December 2000 as well as the accounting principles applied were audited by PwC Deutsche Revision, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and found to be in conformity with the books and with statutory requirements. The financial statements of the company, the consolidated financial statements and Management's report on the company's and the Group's situation as well as Management's proposal for the appropriation of the net distributable profit were presented to and examined by the Supervisory Board and discussed with the Board of Management and representatives of the independent auditors. No exceptions have been taken.

The Supervisory Board has approved the financial statements prepared by the Board of Management; these are thus final and duly established. The Supervisory Board concurs with Management's proposal for the appropriation of the net distributable profit.

Bad Neustadt/Saale, 16 May 2001

THE SUPERVISORY BOARD

Dr. Friedrich-Wilhelm Graf von Rittberg
Chairman

CORPORATE BODIES

Supervisory board

Dr. Friedrich Wilhelm Graf von Rittberg, Munich,
Chairman, attorney at law

Ursula Pflieger, Bad Neustadt/Saale,
Deputy Chairwoman,
Managing Senior Nurse

Ursula Derwein, Stuttgart,
Member of the Chief Executive Board of the labour union "Public services, Transport and Traffic"

Karl-Heinz Geis, Bad Neustadt/Saale,
Sports therapist

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Munich,
Lawyer

Kurt Katzenberger, Burglauer,
Technician

Detlef Klimpe, Aachen,
Director of Administration

Wolfgang Mündel, Kehl,
Auditor and tax consultant

Thimothy Plaut, Frankfurt am Main,
Investment banker

Christine Reißner, Sülzfeld,
Director of Administration

Claudia Rühlemann, Erfurt,
Chairwoman in Thuringia of the labour union "Public Services, Transport and Traffic"

Dr. Richard Trautner, Munich,
Deputy Chairman of the Supervisory Board of Bayerische HypoVereinsbank AG

Board of management

Andrea Aulkemeyer, Mettingen,
Deputy board member, Regional Division Saxony (since 1 January 2001)

Eugen Münch, Bad Neustadt/Saale,
Chairman, Regional Divisions Baden-Württemberg, Hesse and North Rhine-Westphalia

Dr. Elmar Keller, Leipzig,
Regional Division Saxony
(until 31 October 2000)

Joachim Manz, Weimar,
Regional Divisions Thuringia, Lower Saxony and Saxony-Anhalt

Gerald Meder, Hammelburg,
Regional Division Bavaria; Synergy, Logistics, Quality and Development; Labour Relations

Manfred Wiehl, Bad Neustadt/Saale,
Financing, Investments, Controlling

ADVISORY BOARD

Wolf-Peter Hentschel, Bayreuth,
Chairman

Prof. Dr. Gerhard Ehninger, Dresden

Dr. Heinz Korte, Munich

Prof. Dr. Dr. Karl Lauterbach, Cologne

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale,
(since 28 July 2000)

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

A Year of Concentration

The countability of such variables as turnover and profit is what RHÖN-KLINIKUM Group distinguishes in the German hospital market. The effectiveness of our strategies has been proven for more than a decade in a series of successful years. The fact that, in achieving this success over the years, we have met the expectations of our shareholders in terms of performance and the security of their investment spurs us on to continuous efforts – the basis for future success.

The 2000 financial year of RHÖN-KLINIKUM Group is yet another chapter in our success story, one in which we have focussed our efforts and firmly established the framework for an exciting next chapter. We have managed our business well and consolidated what we have achieved in previous years, flexed our financial muscles and set up new positions for profitable future growth.

All Group hospitals have contributed to the good result in 2000. This applies to the hospitals that have recently joined RHÖN-KLINIKUM Group, which, with the implementation of our efficient organisational structures and business concepts, are successively advancing into new performance categories. This applies equally to our "older" group members, which, not least as a result of the implantation of Internet-based technology, are currently undergoing radical structural reorganisation. Driven by investments, they constantly produce profit-boosting optimisations in their services and workflows.

In the year under review, the total number of patients treated at RHÖN-KLINIKUM facilities exceeded the 300,000 mark for the first time – this was in spite of the continued high capacity utilisation in most of our hospitals and the factual service restrictions imposed by the federal government that curb internal growth.

True to the tradition of recent years, the key figures of our balance sheet once more showed double-digit growth. With an increase of 8.8 percent, the growth in Group revenues exceeded our own forecasts. The result before income tax (up 15 percent), consolidated profit (up 38.7 percent), cash flow (up 22 percent) and earnings per share (up 38.7 percent) all improved more than proportionally to revenue growth. This means that, since 1995, we have succeeded in almost doubling corporate performance and results.

Within the Group, we have once again invested heavily in securing our company's competitive edge in the future. Last year, visible progress were the start of the construction phase of the extension project Herzberg in early April, the topping-out ceremony for the new Somatic Clinic of Park-Krankenhaus Leipzig-Südost in late September, the opening of the new hospital building in Friedrichroda and the topping-out ceremony for the new wing of the OP unit of Krankenhaus Freital, both in December. And Klinikum Meiningen, Klinik für Herzchirurgie in Karlsruhe and the centre for bone marrow transplantation at Stiftung Deutsche Klinik für Diagnostik in Wiesbaden not only celebrated their fifth anniversary in 2000 but also an exceptionally positive development in performance as a result of extensive investing in previous years.

Less visible to the outside world, but for us a central factor in securing future success are our substantial investments in the training and development of our staff – because our employees are at the heart of performance, renewal and rationalisation. Within growth-oriented RHÖN-

KLINIKUM Group, an ongoing and particularly demanding process is that of building up management capacities that we need in order to cope with forseeable growth. We commenced this process years ago and are now reaping the benefits. With Andrea Aulkemeyer, who was appointed in November as a deputy board member of RHÖN-KLINIKUM AG, we were able to welcome an expert junior executive from our own ranks to the Board of Management. Andrea Aulkemeyer has been with the Group since 1991. With effect from 1 January 2001, she has taken over the Regional Division Saxony, making her responsible for all RHÖN-KLINIKUM hospitals in this federal state. In her new capacity, she is the successor to Dr. Elmar Keller, who retired from the Board of Management with effect from 31 October 2000.

As in previous years, throughout 2000 we were involved in take-over contacts with numerous public hospital operators and their supporting authorities. The discussions, often initiated by public hospital service providers, had reached different and, in some cases, very promising stages by the end of the business year. In 2000, we did succeed in concluding the acquisition of one general and standard care hospital, Krankenhaus Dippoldiswalde. Of course, this had, as might be expected, an impact on the bottom line of our balance sheet and inspired the international financial community: The image of RHÖN-KLINIKUM, in the year of the Olympics 2000, resembled a sprinter mounting his starting blocks, absolutely fit and highly concentrated.

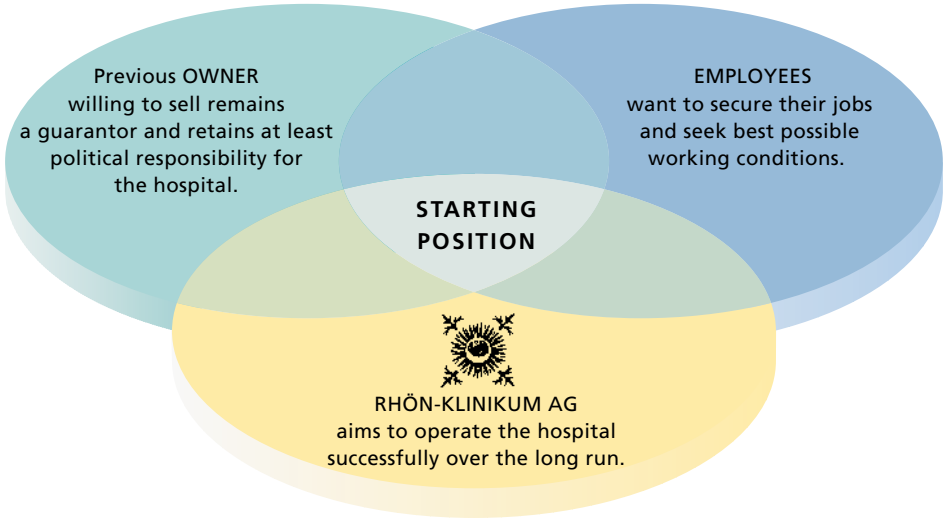
A good start into the current year

The market is moving in our direction, as potential problem solutions – such as offered by us – are increasingly recognised by politicians. The trend towards hospital privatisation is growing noticeably. We believe that new competitors arriving on the market are a confirmation of this trend. Driven by the results of many years of disinvestment, a huge deficit in resources for necessary modernisation and thus poor profitability, the German public hospital landscape and, along with this, the sponsoring authority landscape, is being fundamentally changed through privatisation and subsequent concentration. Under the pressure of the health reform of 2000, particularly the planned launch of DRGs (diagnosis related groups) for acute care in-patient treatments, the singling out of weaker competitors showing deficiencies in management and investment policies will be greatly accelerated.

This trend will benefit the RHÖN-KLINIKUM hospitals, which never ceases to invest in improving processes by rationalisation and innovation – with the result almost all our hospitals already satisfy the requirements of the DRG system.

The builder's treat: this traditional ceremony, which symbolises the completion of a construction phase, was celebrated during the year in several locations. It is at the same time a visible sign of our extensive investments in the future success of our hospitals.

The interests of the parties in public-private partnerships



Our goal is to provide the entire spectre of hospital services at a high level of quality and to do so in a rational, i.e. cost-efficient way. The idea behind is to keep health care services affordable, which, in turn, will support a growing demand and, what is more, the broader market as such. So what we aim at is not American-style top-notch service for only a few but breadth of high-quality care at the reach of all. Clearly, our market approach answers a social requirement, namely that of health care for everyone at any time, which is why our concepts have come to meet with a dwindling political opposition, meaning less political risk. This perspective, combined with our proven ability to master change through efficient managing and investing, makes us self-assured negotiation partners in new acquisition projects. This also implies that, in cases where the necessity of change is not sufficiently understood on the sell side, we may prefer to switch out of a project and leave it to competitors who are not as unremitting as ourselves in pursuing the necessary change.

Obviously, we benefit from the fact that, in light of an overwhelming need for action, municipal decision-makers now increasingly realise that hospital management does not necessarily have to be a public task. Importantly, they realise at the same time that soft privatisation, which fails to effect the decisive fundamental change, does present a danger for the social dimension of health care. Socially responsible health care is at the heart of RHÖN-KLINIKUM AG's philosophy – even if we go different ways to achieve it. This is why public-private partnerships have become a key topic in our take-over negotiations in the year under review. The partnership concepts we offer take account of our public partners' sense of responsibility and their interest in having an insight in "their" hospitals' future developments. We offer a choice of concepts ranging from complete take-overs by us or partnerships with a controlling interest of the public seller through to founding independent joint stock companies, including the option of employee participation. We believe that these joint ownership solutions, under our clear direction and with

local governments and the private hospital operator joining efforts, are in the interest of all parties concerned: the former owner as a guarantor of social health care, and RHÖN-KLINIKUM AG whose goal are and will remain high-quality blanket-coverage hospital services, though produced in a cost-efficient, resource-preserving way. Our novel partnership models are being discussed in all current take-over negotiations. We are open to solutions that combine global advantages while retaining their regional roots and potentials – also and particularly because we know that the requirements resulting from this will strengthen us in the long term.

Another platform for future growth (or for maintaining market positions) is the Internet. The interactive feature of this new medium will bring about radical change in consumer and supplier behaviour patterns, working methods and the way health services are provided to the market. Consequently, high importance has been given in all our hospitals to the implementation of intranet networks which will be the basis of a new concept for our Internet presence. The medium-term goal of this concept is to become the "first address" for an increasing number of people searching for information and treatment in the virtual environment. Quality content will be our prime instrument for building up confidence among potential patients. Over the long term, we expect to be able to win for our "real" hospitals – independently of their catchment areas – those mobile 10 to 20 percent of patients who can have a decisive impact on the profitability of a hospital.

At the same time, the internal orientation towards these customers cannot remain on the surface but will change processes and also bring our "producing" capacities ever closer to clients/patients. We believe that this will ultimately lead to higher responsiveness to market disturbances.

No doubt, innovative spirit in the now large RHÖN-KLINIKUM Group is wide awake. Evidence to this is another future-oriented project: the introduction of the so-called proton-heavy ion therapy in Germany. The objective of this project is to make this highly effective therapy for specific types of cancer affordable and widely available for everyone, in accordance with our corporate philosophy.

Other than in 1999, it was encouraging to see that the capital market in the year under review justly rewarded RHÖN-KLINIKUM Group's excellent performance and, above all, its outstanding growth prospects. Whoever followed the old stock market advice of "Sell in May and go away", hardly had the chance of coming back at "paying lows" for the rest of the year, since the prices of RHÖN-KLINIKUM ordinary and preference shares moved almost constantly in the range of their all-year highs. It also became clear that our shares behave anti-cyclically to stock market euphoria – proof of the fact that our investors regard us as a safe heaven in times of uncertainty.

However, not just in such times do our shares constitute a sound investment. The question of why shareholder value and our philosophy – quality health services for everyone at any time – harmonise, is answered on pages 8 to 14 of this Annual Report.

Shareholder value and socially responsible health care at the reach of all – contradiction or requirement?

While some parts of the stock market were struggling to find their feet, RHÖN-KLINIKUM AG presented itself towards the end of 2000 with a market capitalisation of € 1.5 billion. This equates to a 61 percent increase compared with the end of 1999 and a twenty-fold increase in goodwill in our eleven years of being listed on the stock market.

The starting point and basis of this development is our innovative market approach. The social entitlement in Germany to hospital services for everyone at any time and the resulting high volume of treatments in regional hospitals provide our incentive for rational production. This enables us to make hospital services inexpensive, i.e. affordable for the bulk of patients. At the same time, we improve quality by constantly deriving ways of improving performance from having to repeat procedures due to the volumes involved.

In the German hospital sector and beyond, our proven success has in many positions made us the benchmark for a cost-efficient and socially accepted form of hospital care. The result of this development is an above-industry-average increase in the value of our company, which illustrates the confidence of our shareholders in our consistent and target-oriented path. Today an example for success supported by facts, which we are indeed capable of setting, we will continue to advance the change in our market and, wherever possible, to shape it with a sure eye.

Marketing terms such as “more competition”, “performance orientation” and “profit” in hospitals have meanwhile become part of the picture of political requirements. However, the linking of shareholder value with hospitals still meets, in parts of the general public and the health sector itself, with the opinion that these two cannot be reconciled in terms of their objectives. But under the pressure of an ailing public health care system on both consumers and politicians, the knowledge should grow that shareholder value in hospitals will in future perhaps be the only bridge over which to save an efficient and affordable blanket-coverage health care in

Many patients use DKD’s entrance hall also as a rest area between medical examinations.

Germany, which is undoubtedly worth preserving.

Investment – a must for marketability

Since going public in 1989, RHÖN-KLINIKUM has successfully bridged the gap between the well-being of patients and shareholder value. Since then, our history has been a history of investment, with which we have laid the foundation for profitable growth and become the innovator and reference for reformers in our market. As in the past, this market is dominated by players who, not out of insight, but under increasingly more aggressive economic compulsion, are only just learning how to spell such terms as cost efficiency or profit in hospitals – terms that we have introduced and whose plausibility we have substantiated.

We can prove their viability, in particular, because our corporate goal, i.e. securing good quality health care for everyone, does not contradict those public and political forces that demand solidarity but are not aware of, or unable to achieve, the essential requirement for it – namely affordability. What distinguishes us from traditional hospital operators is our market approach: we work with our market.

As opposed to our public or non-profit competitors, we regard the provision of inexpensive hospital services, which precisely because of their prices can be made available to everyone, as a market requisite and a prerequisite for success. We do not see the increase in demand in our market as a threat but as an opportunity for greater achievement and growth.

Our criteria for market success are the same as those of any company that has to face competition: customer orientation – in our case patient orientation –, quality of services and competitive prices. By satisfying these requirements, our services find acceptance amongst patients and insurers. Market acceptance leads to market success, which in turn leads to the ability to create capital and, consequently, the ability to invest, which for its part is the key requirement for serving the market efficiently. The track record of our highly efficient hospitals – which now number 21 in seven federal states and in whose future effectiveness we constantly invest – provides conclusive evidence that story and reality tally with each other at RHÖN-KLINIKUM Group.

The first point of call upon arrival at DKD: Friendly staff, who are committed to caring for our patients, record the necessary admission data.

Structures oriented towards patients' needs

Whereas amongst many of our public competitors, due to their lack of financing strength, genuine process orientation towards patients' needs is less well defined and cost- intensive coexistence of doctor-oriented departments continues to prevail in many cases, RHÖN-KLINIKUM hospitals understand the change to consistently patient-oriented, cost- efficient service providing as an ongoing task.

The alignment of clinical structures and processes to the patient's condition, close interdisciplinary co-operation and systematic information flows have a lasting positive effect on working methods and results in terms of both quality and quantity. We achieve synergetic and thus more efficient and, above all, patient-friendly work-

"Thanks to our efficient, privately financed acute care hospital, we are capable of substituting government investments, of achieving profits and return on investment and, what's more, of absorbing a proportion of the costs to the economy in the hospital service sector as a result of relatively decreasing case prices per patient."

You will not find that typical "waiting room atmosphere" outside the consulting rooms of our "Personal Doctors".

flows which do not permit unnecessary strains on the patient, for instance, as a result of unnecessary medical services. Cutting out the unnecessary in medicine always means improved quality for the patient. It is convenient that such improvements in quality achieved through minimisation also lead to cost reductions.

One example of process-orientation, which puts the patient at the centre of all clinical workflows, and for unique medical complexity is DKD in Wiesbaden. DKD, from which the photos on these pages originate, is famous at home and abroad as an innovator for new paths in consulting, diagnostics and treatment.

Our operating concept enables us to exploit cost-efficiency potentials and thereby to achieve profits and to finance investment, re-investment and also dividends – return on investment for investors, who enable us to implement our strategies through their capital investment.

In this way, they support patient well-being which has numerous facets in hospitals, primarily, of course, that of good medical and nursing care, state-of-the-art medico-technical equipment and innovative procedures. However, other things, such as the equipment of patients' rooms, the architecture and the overall atmosphere of a hospital or its staff's understanding of service can be experienced as quality for the patient and has an impact on patient satisfaction. This is why a hospital that can invest in all facets that determine its quality will stand out from its competitors. Thus, the contented patient becomes a competitive factor, e.g. ultimately a factor that determines success.

The patient – a lever to market share and profitability

As a private provider in a market which is developing hesitantly, but unstoppably from a regulated to a competition-driven system, we attribute utmost priority to the customer aspect. Undoubtedly the bulk of our patients as of any hospital group, which, like ourselves, derives 96 percent of its turnover from the acute care sector, is still composed of 70 to 85 percent (depending on hospital type) of patients who, due to an emergency or because of traditional ties to "their" regional hospital, seek treatment at our facilities. However, seen from the opposite direction, this also means that of the 300,000 or more patients we registered last year, 15 to 30 percent (again depending on hospital type) deliberately opted for one of our facilities. This intensifies our awareness of the fact that even the smallest number of patients showing client behaviour can

An in-depth discussion between the patient and the "Personal Doctor" is always conducted prior to using medico-technical equipment.

make a difference between profit or loss in hospitals which, as a rule, are heavily burdened by fixed costs. It is the client/patient himself and he alone who holds the lever to one or the other. It is he who brings – or denies – the hospital decisive margins and who supports – or withholds – the power for rationalisation investment with its corresponding effects on market position, reputation and profitability.

Our staff fully understand that failure in the form of non-fulfilment of market and customer expectations leads to inability to compete and, as a result, to lack of profitability, bankruptcy and ultimately to the loss of their jobs. This awareness, which we help to build through our profit sharing scheme in which all our employees participate, is at RHÖN- KLINIKUM Group the driving force behind high personal achievement which adds up to corporate performance. Good service that benefits the taker is rewarded: with acceptance of our offer, visible in the above-average capacity utilisation at most of our hospitals, and with acceptance of the profit we derive from services rendered. In other words, patients and hospital employees meet on the same level in a relationship based on fair service value and fair consideration. It is a relationship that is characterised by openness, which makes no secret of each partner's intention – here, receiving services worth their money, there receiving adequate compensation – and which consequently leads to an entirely different way of dealing with each other. Even a seriously ill patient is still one that contributes, making him a valuable client in the sense of the market.

We believe that this kind of transparency in client relations will gain vital importance for health service providers as the number of informed patients is growing. The frequently cited "new patient", who is well informed through new media such as the Internet, will increasingly become the actual decision-maker. Grown out of the role of "patient only" and

Interdisciplinary expert discussions are part and parcel of everyday life at DKD.

motivated by the foreseeable increase in self-retention, he demands his right to self-determination and wants, health permitting of course, to make the choice himself, where, by whom and, increasingly, even how he is treated. Thus, patient/client orientation will, besides the efficiency of a provider, increasingly become the decisive factor in the patient's choice of hospital.

Rationalisation – the driving force behind demand in the broad-based market

In future, this patient will invest more in his health, and with the level of personal contributions to health care costs going up, the level of his service requirements and cost awareness will go up, too.

This is why a second, equal-ranking criterion for service acceptance will in future increasingly be price competitiveness. Our hospitals fulfil this requirement thanks to their highly productive interdisciplinary structures and employees who are both patient-oriented and business minded. Only this way can hospital services be provided at favourable prices for the patient/client.

"The progressive ageing of the population, coupled with advances in medicine, constantly produces rising numbers of patients that can no longer be coped with using conventional doctor-oriented instead of patient and process-oriented procedures."

"With our market approach, we satisfy – as a desired side effect – the social precept of health care for everyone and achieve acceptance amongst what is currently in excess of 300,000 patients that are cared for in our hospitals."

The background to our low-price leadership is that our business concept utilises what is classed by large sections of our public competitors as a weakness of the public health care system: the increasing demand for hospital services due to an ageing population and constant advances in medicine. Our concept makes this demand a factor for cost degression through targeted process rationalisation, which is driven and, at the same time, stabilised by investing.

This is where the strength of our focus on broad-based, blanket-coverage health care becomes apparent. It lies in the combination of high demand with our extremely productive manner of rendering services. It is precisely the social element of our system which in a broad-based market, densely populated with potential consumers of hospital services, leads to the frequent use of these services, thus enabling cost and price reductions which, in spite of increased usage, lead to the absorption of purchasing power being less than in other systems (e.g. the US-American system), where patients are selected on the basis of their purchasing power. Easy availability of inexpensive services, in turn, generates demand for health services regarded by the consumer as vital for his or her well-being. The consumer can now regard these services as an affordable consumer product, as they are available within the scope of his purchasing power. This way, he is not ruled out as a consumer, but contributes to the growth of our market.

Accordingly, qualifying our hospitals for productivity through rationalisation is the condition for preventing price-related rationing of hospital services and thus the fragmentation of our social system – and the thinning-out of our market.

We should mention two additional aspects which benefit not only the bulk of patients, but indirectly also high-net-worth consumers: Firstly, the fact that broad- bases health care strengthens the quality of service. Quality arises from repetition – the quantity of diagnostic and therapeutic measures increases the experience. And secondly, the fact that blanket-coverage health care attracts research interest also to those areas that would not be covered in a selective system oriented towards purchasing power. Think, for instance, of epidemic diseases for which a full-service hospital operator must be able to plan, if these are not to pose a threat to his own existence. Providers who combine experience from the multitude of treatments and innovation from wide-ranging research will, in future, provide the best answers not only for the critical hospital client but also the socially motivated health care system.

Good laboratory testing is frequently a key towards finding a diagnosis. What counts is the "right" choice of diagnostic procedures and expertise when it comes to assessing and classifying the results within the overall diagnosis.

Privatisation – vehicle for rationalisation instead of rationing

Our efficient hospitals that know how to creatively exploit scope for action through investing in both software, i.e. the quality of their staff, and hardware, will be amongst the successful players in the competitive arena of tomorrow. They have adapted to the challenges of our changing market and, in doing so, prove that the social approach of blanket-coverage health care can be preserved through inexpensive and innovative hospitals. As private organisations, they fulfil the humanitarian purpose of providing good and affordable hospital services for everyone, admittedly with a higher risk, but particularly for this reason with the highest efficiency. Their success generates new success and private capital such that state capital is largely dispensable.

The situation is entirely different for an important number of public hospitals which have to struggle with considerable finance gaps and which become increasingly difficult to fund in their present form. Many of our public competitors have for years been lacking the resources for sufficient replacement or even future-oriented rationalisation investments. The magnitude of the investments required and the necessity of having to deploy limited financial resources more precisely compel the state to withdraw more and more from the health sector. Accordingly, the decision in favour of privatisation is virtually unavoidable.

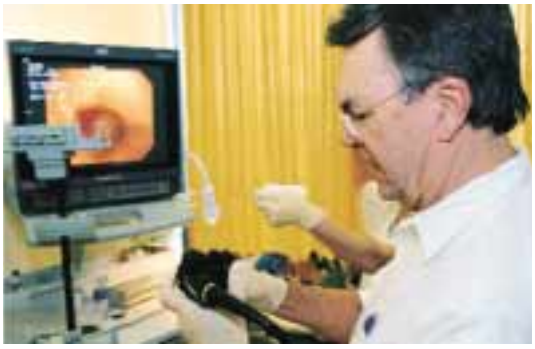
Nevertheless, the trend towards privatisation also presents a danger for universal health care. Particularly if the government failed to initiate competition in solidarity which is the only way of ensuring health care for everyone at any time. This implies developing rules which, within a system of independent hospital operators, direct the market participants' interests towards broad-based health care for all. In this regard, the attempts at reform since the 1980's leave important requirements unfulfilled. The fears regard-

For many medical questions, X-ray diagnosis, a relatively "old" investigation method, continues to provide important answers.

Advanced magnetic resonance tomography (MRT, or nuclear magnetic resonance tomography) provides important results, although this does not replace the doctor's knowledge and experience.

"Claustrophobia inside the tube" is no longer a problem in state-of-the-art devices. (CT = computer tomography).

In special cases, endoscopic examinations are still necessary in spite of numerous attempts to replace this method with other investigation techniques.



ing the rationalisation of health services and fragmentation of our health care system have not been overcome by a long way, and the increasing financial pressure fuels these fears. The courage of the responsible politicians leaders to take difficult and, in some cases, unpopular decisions will determine how far-reaching and how efficient the next stages in this reform process will be.

Shareholder value for patient well-being

"We are increasingly winning confidence amongst public hospital operators that have come under pressure, many of whom today no longer feel – unlike ten years ago – that it would be sacrilege to put their hospitals and thus the task of caring for their people into our hands."

Deregulation and competition in the health care market – both of which we believe are necessary, but in a socially responsible form – will have a decisive impact on the quality requirements of patients and insurers alike. Demand will focus on hospitals that satisfy these requirements in terms of quality results and good value for money. Providers who fail to meet these requirements will either disappear from the market or be taken over.

In light of our track record, we believe that RHÖN-KLINIKUM AG will be amongst those doing the taking over. The lasting success of our company over the long run is conclusive: constantly monitored by the market, measured against competitors and judged by the public, we have filled each chapter of our story with substance and turned this into the winning formula: investment as a prerequisite for quality, customer acceptance as a premise for market success, profitability and with it the financial muscle for new investment.

In summary, capital investment in hospitals serves the patient first and foremost. Since we have made it our mission to secure good quality, affordable hospital services for all, the investment by our shareholders benefits the broad mass of patients. Since private capital requires motivation in the form of an acceptable return on investment in order to be or to remain invested, shareholder value – only if taking the long-term view, however – is an essential requirement for high-quality health care at the reach of all.

The Hospitals of RHÖN-KLINIKUM Group

Kliniken Uelzen und
Bad Bevensen GmbH

Soteria-Klinik Leipzig GmbH

Herzzentrum Leipzig GmbH –
Universitätsklinik –

Kliniken Herzberg und
Osterode GmbH

Park-Krankenhaus Leipzig-
Südost GmbH

Krankenhaus St. Barbara
Attendorn GmbH

Krankenhaus Waltershausen-
Friedrichroda GmbH

Krankenhaus Freital GmbH

Zentralklinik Bad Berka GmbH

Klinikum Meiningen GmbH

Krankenhaus Dippoldiswalde
GmbH

Stiftung Deutsche Klinik für
Diagnostik GmbH in Wiesbaden

Neurologische Klinik in
Bad Neustadt/Saale

Herz- und Gefäß-Klinik GmbH
in Bad Neustadt/Saale

Psychosomatische
Klinik in Bad
Neustadt/Saale

Klinik „Haus
Franken“ GmbH
in Bad Neustadt/
Saale

Haus Saaletal GmbH in
Bad Neustadt/Saale

Klinik für Herzchirurgie GmbH in
Karlsruhe

Klinik Kipfenberg GmbH

RHÖN-KLINIKUM Group Management Report for the Year 2000

- **Change to International Accounting Standards underscores financial strength**
- **Revenues up 9 % at € 669.1 million**
- **Consolidated result up 39 % at € 61.9 million thanks to favourable tax effects**
- **Number of patient treated up 13 %**

As an answer to our shareholders' as well as international financial markets' requirements, we have adopted the International Accounting Standards (IAS), thus changing our previously rather conservative accounting policies for a more investor-oriented presentation of financial results. These consolidated financial results prepared in accordance with IAS now provide an internationally comparable basis for the assessment of the Group and its performance. Both consolidated profit and equity according to IAS are shown at substantially increased levels.

Our acquisition activities in 2000 led to the take-over of Krankenhaus Dippoldiswalde (150 beds).

All the hospitals acquired during the previous year have achieved the turnaround from debt into surplus even before concluding the planned and necessary capital expenditure programmes. Overall, revenues increased moderately by 9 % to € 669,1 million. The result before income tax improved by 15 % to € 90.4 million. The lowering of the corporate tax rate from 40 % to a future 25 % resulted in a decrease of deferred taxes by € 13.8 million, thereby reducing the income tax load to € 22.5 million. After deduction of minority interests in profit of € 6,1 million (previous year: € 4.5 million), the consolidated net profit rose from € 44.6 million in 1999 to € 61.9 million in 2000.

In the year under review, net capital expenditure totalled € 92.3 million; an additional capital expenditure of € 16.9 million was financed from lump-sum grants provided under the Hospital Financing Act (KHG). With the acquisition of Krankenhaus Dippoldiswalde, we took over tangible assets worth € 12.6 million which had been financed from grants under KHG. Capital expenditure was financed from a cash flow of € 105.0 million (previous year: € 86.2 million) and from cash items. Our financial strength has further improved. The equity ratio is higher at 41.1 % (previous year: 36.3 %). The equity according to IAS is shown at € 319.0 million (previous year: € 265,8 million). Long-term assets are almost fully funded by equity and long-term liabilities. The working capital decreased due to the health insurers having become slower in paying; we have provided for this contingency by appropriate allocations to the risk reserve. The net indebtedness to banks has slightly increased. The Group continues to show very sound financial structures.

High-tech measuring methods facilitate the diagnosis of breathing quality and volume.

Patients treated	2000	1999
In-patient and day clinic patient treatments at acute care hospitals	163,830	143,770
In-patient treatments at rehabilitation clinics	6,372	5,697
Out-patient treatments	143,938	128,083
Total	**314,140**	277,550

During the business year 2000, the number of patients treated at our hospitals increased by 13 %. As in the previous years, revenue growth was slower due to the stringent statutory limitations to revenues in the hospital sector remaining in place.

Revenues per case dropped from € 2.219 to € 2.130. This decline affects all business segments. The average duration of stays in hospital in terms of in-patients and day clinic patients including rehabilitation was further reduced from 11.6 days to 10.9 days.

Market environment

The overall economic environment was favourable in the year under review. Germany's gross national product rose by 2.6 %, inflation remained subdued, and the unemployment rate was lower at 9.6 % while personal incomes increased by 3.3 %. The public indebtedness at the level of bodies politic was only slightly above EU reference values. Health insurance contribution rates remained nearly unchanged and, on the whole, the panel health insurers were not in the deficit, although there were important structural membership changes within the individual health insurance funds.

In Germany's regulated hospital market, the legislative power lies with the federal government. Under the pressure of having to keep incidental wage costs stable, the principle of contribution rate stability has been reinforced in the framework of the Health Reform 2000 such that hospitals negotiating budgets are no longer able to enforce additional services against the vote of the health insurers. Cost cutting measures are being built up as the health insurers run the risk of losing members to competing insurers if they increase their contribution rates; this trend became already apparent in the strong membership fluctuations in recent years. Therefore, revenues for in-patient hospital services were – with very few exceptions – in 2000 again confined to previous-year levels plus an increase of 1.43 % reflecting the increase in the income from compulsory contributions of all health insurers. With these ceiling mechanisms in force, additional services supplied are compensated at prices below marginal unit costs.

Such revenue limitations, combined with wage increases above earnings growth and inflationary price developments, will result in more and more hospitals working out heavy losses, as they lack financing strength and are thus unable to tap rationalisation reserves. Though limited, our insight into the economic conditions of public hospitals has made this tendency quite obvious.

By contrast, our patient-oriented and process-optimised hospital concept, coupled with independence from public investment promotion, enabled us in 2000 to exploit existing rationalisation reserves, i.e. to improve cost structures, thus avoiding negative effects on our result, in spite of the hurdles to revenue growth. All hospital taken over in 1999 achieved positive results in the year under review, and with regard to the other hospitals, we were able to maintain the results as a whole.

In the market segment of rehabilitation, the improved economic environment spurred a better general capacity utilisation. At our own rehabilitation clinics, which in 2000 accounted for 4.7 % of total revenues, the number of patients treated rose by 12 % whilst the capacity utilisation was up 6 % only, this being due to reduced stays in hospital. Revenues increased also by 6 % to € 31.7 million.

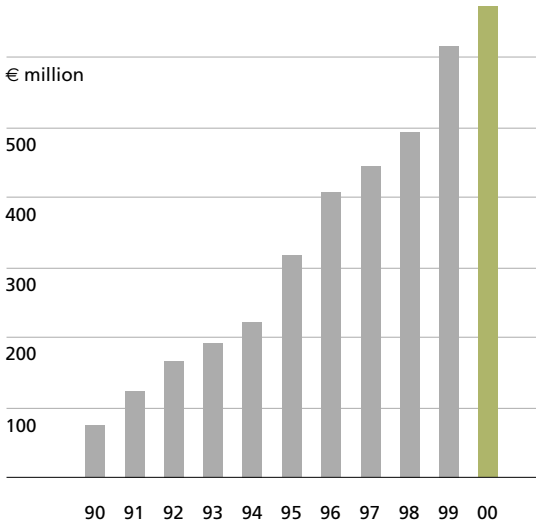
REVIEW OF OPERATIONS

Development of revenues and earnings

In the year under review, revenues increased by 9 % to € 669.1 million. Internal growth accounted for approximately 3 %, with growth effects of about 5 % coming from hospitals taken over in 1999, which have been consolidated for less than one year. The hospital take-over concluded in 2000 accounted for less than 1 % of total revenues.

Other operating income (€ 22.6 million; previous year: € 20.3 million) mainly reflects subsidiary and incidental receipts, income from rental and lease agreements as well as allowances for science, research and development.

Development of revenues



Operating expenses rose slightly less than proportionally to the increase in revenues.

	2000	1999	Change	
	€ million	€ million	€ million	%
Materials	161.6	152.0	9.6	6.3
Personnel	329.6	297.1	32.5	10.9
Depreciation	37.0	37.0	–	–
Other expenditure	60.5	54.7	5.8	10.6

The cost of materials grew less than proportionally. The cost of materials ratio was 24.2 % (previous year: 24.7 %). This decline reflects the continued tendency towards lower material consumption in our hospitals. Despite unfavourable exchange rate effects and our partial dependence on oil price developments, we were able to maintain the purchasing prices. An exception to this are the energy costs, however, thanks to our energy-efficient concepts, we achieve energy costs far below industry averages.

Personnel expenses rose more than proportionally. The personnel cost ratio increased from 48.3 % to 49.3 % of total revenues. This increase reflects collective wage increases and higher profit-sharing of our staff. The ongoing restructuring of hospitals acquired during the past two years, which brought about the increased personnel cost ratio, has not yet deployed its full effects.

Depreciation of fixed assets remained unchanged due to our extensive construction projects not having been concluded before the end of the business year or being still in progress. Other operating expenditure increased slightly more than proportionally to revenues, due mainly to maintenance measures in the fourth quarter of 2000 as well as higher provisions against risks from increasingly slower payments by health insurers.

The decrease in long-term debts, combined with more favourable conditions for long-term borrowings as well as short-term investment of available cash, resulted in an improvement in the financial result by € 2.9 million to € 12.6 million.

The current income tax load led in 2000 to a tax rate of 40 % (€ 36.2 million). Special tax write-downs on investments in buildings in the new federal states, which in previous years were taken in full, were charged with deferred income tax liabilities of € 52.9 million. As a result of the reduction in the income tax rate with effect from 2001, these special write-downs, released on a time basis, are subject to lower deferred taxation. This has led to a non-recurring reduction in tax expenditure of € 13.8 million, which brought the tax rate down to 24.8 % (previous year: 37.8 %).

The minority interests in profit amounted to € 6.1 milion (previous year: € 4.5 million).

The net consolidated profit for the business year 2000 rose by € 17.3 million or 39 % to € 61.9 million.

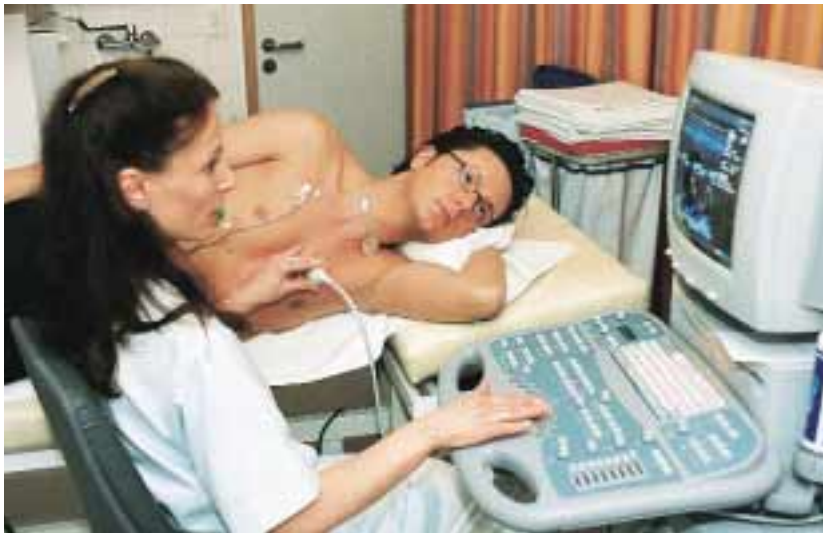
Over the past three years, profitability has developed as shown below:

in %	2000	1999	1998*
Return on equity	21.2	18.5	16.9
Return on sales	9.3	7.3	7.7
Cost of materials ratio	24.2	24.7	25.7
Personnel cost ratio	49.3	48.3	43.7
Depreciation rate	5.5	6.1	6.4

** according to German Commercial Code (HGB)*

Capital spending

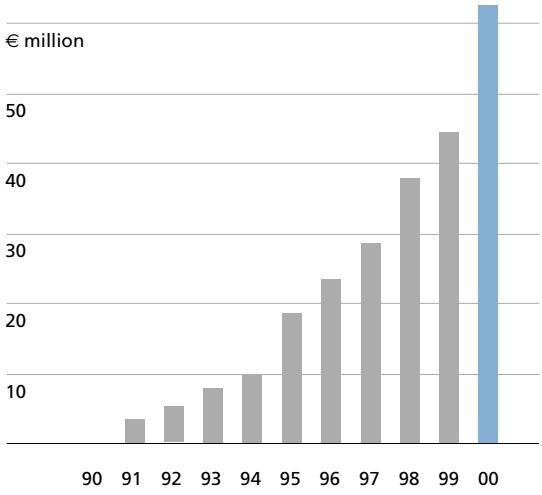
During 2000, we invested a total of € 121.8 million in fixed tangible and intangible assets. The newly acquired Krankenhaus Dippoldiswalde accounted for € 19.6 million of which € 12.6 million were grants under the Hospital Financing Act (KHG) without impact on liquidity. Part of the capital expenditure (€ 16.9 million) was funded from grants under KHG. Since, according to IAS, grants used are to be deducted from capital expenditure, the consolidated financial statements for the year 2000 show a net capital expenditure of € 92.3 million.



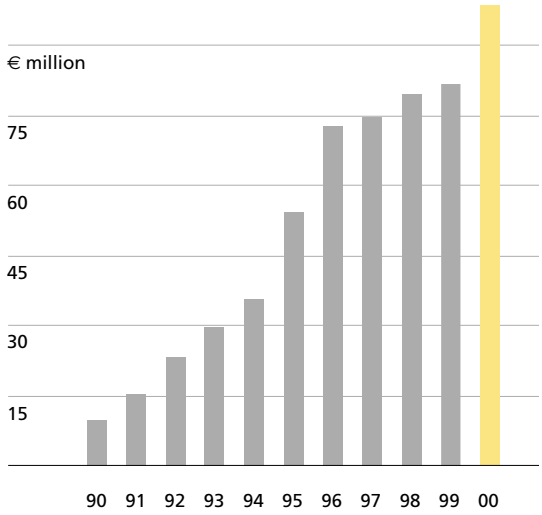
The increasing spread of cardiovascular diseases is a worldwide problem. Early investigating and preventive measures offer viable solutions not only for the individual patient but also in terms of health economics.

	€ million	€ million
Bavaria		14.3
Baden-Württemberg		3.2
Hesse		13.2
Lower Saxony		7.0
North Rhine-Westphalia		1.1
Saxony	55.6	
of which grants under KHG	12.6	43.0
Thuringia		27.4
Total		**109.2**
of which grants under KHG		16.9
Net capital expenditure		**92.3**

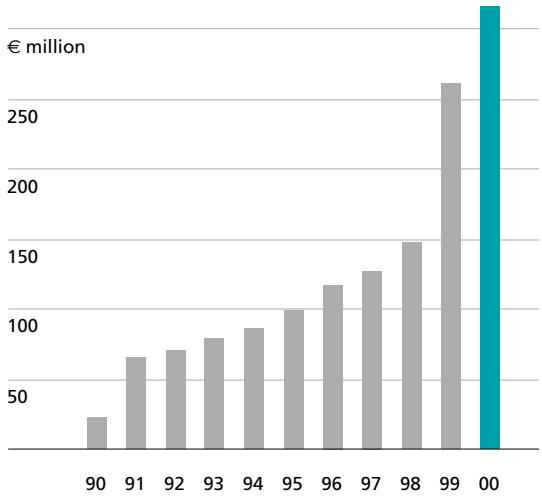
Development of net profit



Development of cash flow



Development of capital



Major investment projects concluded in 2000 were:

- the extension of DKD Stiftung Deutsche Klinik für Diagnostik; and
- the second phase of the extension of Krankenhaus Waltershausen-Friedrichroda.

The following projects have reached the construction phase:

- the first phase of the extension of Krankenhaus St. Barbara, Attendorn;
- the extension of Krankenhaus Freital's facilities in Freital and Herzberg;
- the new construction of a somatic clinic for Park-Krankenhaus Leipzig-Südost;
- the extension of Herzzentrum Leipzig.
- the new construction of a psychiatric clinic for Park-Krankenhaus Leipzig-Südost

Construction work on all of the above projects will be largely concluded by the end of 2001.

A total of € 32.7 million went into new medico-technical equipment as well as IT hardware and software for our hospitals. Of this, € 8.4 million were financed from lump-sum investment allowances under KHG. The difference between € 8.4 million – being the normal investment volume at public hospitals – and the amount actually invested by us explains in part the technological leadership of our hospitals.

Internal financing power

In 2000, consolidated cash flow increased by € 18.8 million to € 105.0 million. Besides the dividend payments to our shareholders, we were able to fund 98 % of the total capital expenditure and acquisitions from the cash flow.

Structure of assets and liabilities

Since our expansion in the past years has been financed to a considerable extent from the cash flow, interest-bearing debts are shown only slightly above 1995 levels, in spite of the fact that

Structure of assets and liabilities

ASSETS	31.12.2000		31.12.1999	
	€ million	%	€ million	%
Long-term assets	591.1	76.2	541.8	73.8
Current assets	184.3	23.8	192.7	26.2
	775.4	**100.0**	734.5	100.0

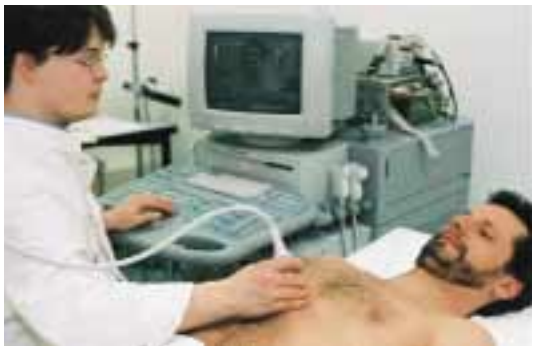
LIABILITIES	31.12.2000		31.12.1999	
	€ million	%	€ million	%
Equity	319.0	41.1	265.8	36.2
Long-term loan capital	267.9	34.6	299.5	40.8
Short-term loan capital	188.5	24.3	169.2	23.0
	775.4	**100.0**	734.5	100.0

revenues doubled compared with that year. Our financing strength has improved year by year, and the structure of assets and liabilities continues to be very sound. The change to International Accounting Standards (IAS) makes this much more visible than the accounting standards of the German Commercial Code (HGB) applied so far.

Due to unscheduled amortisation of long-term interest-bearing debts, asset coverage by equity and long-term loan capital decreased to 99 % (previous year: 104 %). We plan for the current year to return to longer terms for loan capital.

Environment

As a health service provider, we have a natural interest in caring for the environment. Our efforts in this field go well with our economic targets, since environmental protection very often embrace considerable cost cutting potentials. When taking over hospitals, we often find an obsolete technical infrastructure and safety deficiencies, particularly in the field of environmental protection, which can only be remedied by implementing new technologies as quickly as possible. Even where public hospitals have been newly constructed or redeveloped, we discover misplannings – including overdimensioned or even superfluous equipment –, which show that the opportunities for an ecologically beneficial operation were utterly neglected. The outsourcing approach to such problems, i. e. external facility management, does not convince us, because it entails giving up core competencies of



Careful ultrasound examinations require great experience of the examiner and fine-tuned diagnostic equipment.

Allergies are becoming a mass problem: Only experienced medical staff specialised in diagnostics will put the right questions and thus find the appropriate therapies.

Medical disciplines represented within RHÖN-KLINIKUM Group (As at 31. 12. 2000)

I. Field or subject:
General medicine
Anaesthesiology → of which:
– specifically anaesthetic intensive medicine
Ophthalmology
Surgery → of which:
– specifically surgery intensive medicine
– Emphasis: thoracic surgery
– Emphasis: vascular surgery
– Emphasis: emergency (accident) surgery
– Emphasis: visceral surgery
Diagnostic radiology → of which:
– Emphasis: neuroradiology
Gynaecology and obstetrics
– specifically operative gynaecology
Otorhinolaryngology
Hand surgery
Skin diseases and venereal diseases
Cardiac, thoracic and cardiovascular surgery
– specifically cardiosurgical intensive medicine
Hygiene and environmental medicine
Internal medicine → of which:
– specifically internal intensive medicine
– Emphasis: angiology
– Emphasis: endocrinology
– Emphasis: gastroenterology
– Emphasis: hematology and internal oncology
– Emphasis: cardiology
– Emphasis: nephrology
– Emphasis: pneumology
– Emphasis: rheumatology
Paediatrics → of which:
– specifically paediatric intensive medicine
– Emphasis: paediatric cardiology
– Emphasis: neonatology
Microbiology
Neural medicine
Neurosurgery
Neurology
Nuclear medicine
Orthopaedics → of which:
– Emphasis: rheumatology
Pharmacology and toxicology
Physical and rehabilitation medicine
Plastic surgery
Psychiatry
Psychotherapeutic medicine
Transfusion medicine
Urology
Dentistry

II. Other areas
Allergology
Occupational medicine
Blood transfusions
Chirotherapy
Phlebology
Physical therapy
Psychoanalysis
Psychotherapy
Rehabilitation
Rescue medicine
Social medicine
Sports medicine
Environmental medicine

paramount importance for the successful development of the hospitals concerned.

We aim to optimise our hospitals' consumption of energy, fresh water and waste water by implementing state-of-the-art technologies and by making sensible use of resources, in line with the real requirements for optimised patient care. Thanks to our targeted environmental investments, we achieve energy efficiency terms far above industry averages.

The focus lies on continuously optimising energy savings at our existing hospitals and on developing energy-saving and ecologically beneficial concepts for new construction and extension projects. We register the best cost-benefit relation when adjusting newly acquired facilities to our standards. Here, we often find that, even without capital expenditure, considerable savings in electricity and gas consumption (in cases 30 % and more) can be realised by mere know-how transfer supported by motivated employees.

The new construction project at Park-Krankenhaus Leipzig-Südost is the Group's première for a novel energy-saving refrigeration technology. Moreover, the complete cabling of the new building will be PVC-free. This implies higher costs but is important not only for environmental reasons but also because it considerably reduces possible fire hazards for patients and employees.

Insofar as dangerous materials are not indispensable (f. e. nitrous oxide, cytostatica), we aim to replace them gradually by non-pollutive products. Equally, we try to continually improve our waste management through optimising in-house organisational structures. Notwithstanding this, we observe practically unavoidable special refuse increases due to infectious waste and cytostatica.

Details of our fuel cell project are given on page 24 of this report.

Our fifth Environmental Report for the year 2000 will disclose the environmental performance of our hospitals and outline the developments over the past years.

Research and development

Leading-edge knowledge, technologies and expertise are the decisive factors of success for a hospital group. If we are to keep our lead in the future we must create permanent internal dynamics through innovation and development. This is why scientific work is an essential of RHÖN-KLINIKUM Group's corporate policy. We aim to continuously improve existing procedures and to perfect working mechanisms proven to be functional such that they will eventually serve the supply of affordable qualitiy services to the entire population.

The highest hygene standards apply for the patient's environment; this also requires highly qualified and responsible employees.

Research and development at RHÖN-KLINIKUM hospitals was the theme of a special section contained in our 1999 annual report. These clinical research and development projects continued in business year 2000. Research activities within the Group actually rest on a broader basis: Decentralised and highly specialised, research takes place in many of our hospitals, with the driving force behind being the special leanings of the individual head physicians and their medical teams. An exception to this is Herzzentrum Leipzig which, having the status of a university clinic, defines its objectives in science, research and development in close co-operation with the Free State of Saxony. Chief among the challenges of the next few years will be to develop our existing Intranet capacities such as to become an interdisciplinary knowledge pool and information hub, accessible for all units across the Group.

In the extremely sensitive area of bone marrow transplantations, DKD's principle of interdisciplinarity is permanently put to trial.

Besides clinical research and development, we work for progress in other hospital areas, too. An example are our efforts to optimise energy consumption. Hospitals rank among the biggest consumers of electricity and heat. We cover about 75 % of our energy requirements in a highly ecological way from own combined heating and power stations. In order to stay at the top of technological progress, we initiated a high-tempera-

Professionalism, routine and, at the same time, individualism – these factors determine every single step in the operating theatre.

ture fuel cell project in autumn 2000. This is a trail-blazing new power station technology for the production of electricity and heat from natural gas with the lowest environmental impact and the highest efficiency grades known so far. Thanks to the total combustion of natural gas in the high-temperature fuel cell, atmospheric nitrogen will not transform into environmental load in the form of nitric oxides which usually accompany combustion processes. Moreover, the system prevents the formation of carbon monoxide and sulphur oxides. Instead of impure exhaust gas, the system releases exhaust air containing water vapour. The commissioning of this project by RHÖN-KLINIKUM AG heralds the second installation of this system worldwide and the very first in a hospital. This field test is expected to confirm the viability of this new technique under the extremely complex conditions of a high-duty hospital. Besides ecological advantages, we expect higher operational safety for the benefit of patients. The increasing number of computerised systems, especially highly sensible diagnostic and therapeutic equipment in hospitals, require an uninterrupted energy supply even in cases of failure of public networks. Another feature of the project is the production of process vapour, f.e. for the sterilisation of operation instruments. The plant in Bad Neustadt will feed existing systems with vapour at a temperature of about 200° C. In light of its special importance, the project is sponsored by the Free State of Bavaria.

Procurement

The Group's procurement is decentralised, i. e. decision-making on resource input involves the medical and nursing staff responsible for patients at the operative level in our hospitals. This leads to highly flexible procurement processes and responsiveness to the specific needs of each individual hospital.

In order to benefit from the Group's purchasing power, we have implemented a data warehouse system which, in a first phase, serves the supply of medical goods. This system collects and assesses product information from different sources and makes them available to all our hospitals. By packaging and selecting information on product, volume and price conditions, the system facilitates purchasing decisions and processing via the Intranet.

Our aim is to improve communication structures for a permanent flow of information on products, prices and suppliers throughout the Group. This will offer many advantages such as instant availability of the best purchasing conditions from all our hospitals. Moreover, the system enables an overview of purchasing requirements and effective bundling of purchasing interests within the Group. Another important system advantage is that newly acquired hospitals can rapidly be integrated in intergroup purchasing procedures and structures. Notwithstanding the advantages arising from integration, the Group will maintain its decentralised procurement structures. The inter-hospital comparability of conditions promotes a sound competition within the Group and, what is more, creates the necessary drive for the development of new treatment

concepts and permanent decentralised process optimisation, which would be curbed by a uniform listing, as would be the responsibility at the individual hospitals.

In the field of e-commerce, several pilot applications are being tested in co-operation with different providers. We expect to achieve lower purchasing prices and external transaction costs in the medium term. Internal logistics development and internal transaction cost cutting will be promoted on our own account.

Particularly patients suffering from extremely severe illnesses require responsive care, coupled with the use of state-of-the-art equipment.

Staff

As at the end of 2000, the Group employed 9,357 persons, 2 % more than at the end of 1999 (9,145). This rise was exclusively due to the takeover of Krankenhaus Dippoldiswalde.

The year under review saw the successful continuation of our Junior Executive Development Programme. Besides completing their trainings at different hospital units and locations, our prospective junior executives had the opportunity of actively proving their skills in various projects. After completion of their two-year training programme, further junior executives have taken on management functions within the Group.

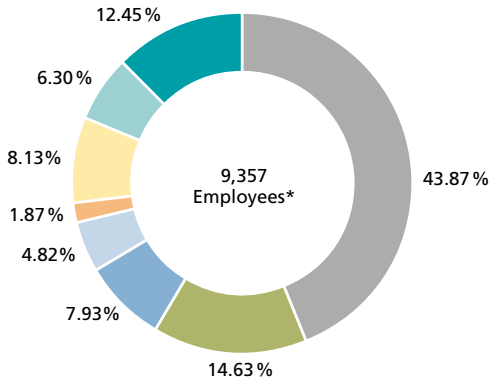
The diploma course "Health Economics", which we introduced in 1998 in co-operation with the health insurer Techniker Krankenkasse at the University of Bayreuth, continues to attract many students. The first successful graduates will start their professional lives by the end of 2002. The regularly high enrolment figures at the beginning of each academic year are evidence to the attractiveness of this job-oriented course. Mentors nominated by us support the students and help them find trainee vacancies or prepare term paper themes. Representatives of the Group regularly participate in events hosted by the chair.

Another important pillar of professional training are our nursing schools. They enable the training of qualified nursing staff at our own hospitals. With each hospital acquisition, we also take over and integrate the respective nursing schools and/or training capacities. In Bad Neustadt, we continue to co-operate successfully with the medical training centres for physiotherapy, ergotherapy and logopedics of our subsidiary, ESB Bad Neustadt.

Our hospitals conclude individual in-house wage agreements consistent with local labour market conditions and business structures. Profit-sharing is an integral part of all wage agreements. Our profit-sharing scheme encourages employees to be economical and rewards individual performance. In the year under review, we paid out € 29.9 million (previous year: € 26.8 million) of profit to employees. To assist shift workers and employees having child care responsibilities, some of our hospitals run own nurseries and kindergartens. Their opening hours match with working hours as far as legally feasible. In addition, the Group provides more than 800 company flats for staff members.

- Nursing care
- Medico-technical service
- Support functions
- Supplies and misc. service
- Technical services
- Administrative service
- Other personnel
- Medical service

* As at 31 December 2000



Analysis of Personnel at RHÖN-KLINIKUM Group

As an important enhancement to existing in-house wage agreements, the Group offers its employees a collectively agreed pension scheme. This scheme was introduced in 1999 and adopted by further Group hospitals in 2000. It features a direct old-age insurance outside the scope of the national insurance system as well as lump-sum wage tax payments. All property-creating allowances paid to employees in the past now go to this direct insurance. In addition, the employer absorbs the lump-sum wage tax payments. The premiums charged to support the system are relatively low, since the collective bargainers have agreed to annually re-negotiate additional allocations for one further year in each case, if and when required, in order not to become the slaves of distribution automatisms which, in the long run, would curtail the autonomy of both employer and employees. Furthermore, employees are free to pay in extra amounts derived from one-time payments such as, for instance, their shares in profit.

Flexible and financially attractive, our pension scheme is clearly superior to the supplementary pension insurance system within the purview of BAT (Bundesangestelltentarifvertrag), which is contribution-based and thus subject to demographic developments.

The doctor's visit is part of the every-day life at hospitals. At DKD, these visits serve the direct communication between the patient and his doctor and not the presentation of "hierarchic retinue".

Risk management

Due to its growth strategy, RHÖN-KLINIKUM Group is exposed to a number of risks of different nature. These risks are inherent in growth-oriented economic activity and recognised as being part of the challenge of seizing market opportunities that are considered significant to the fulfilment of the Group's business objectives.

Our risk management system serves to identify risks that go beyond normal – and necessary – risk-taking, to control such risks and to initiate alternative action, where appropriate. The basic "signal chain" for early risk identification consists of a system of consistent internal controls including authorisation requirements and reporting duties on all organisational levels of the Group's operative units. The functioning of this internal control system and the compliance with its requirements is included in the scope of annual auditing as a standing special order and is subject to direct reporting to the supervisory bodies.

The build-up and continuous update of high uniform safety standards and safety consciousness throughout the Group is secured by a group-wide network of risk management units and the establishment of inter-group project teams.

Additional quality control functions lie with our centralised complaint management.

Central to the monitoring and controlling of operating risk is our reporting and information system. At the operative level, the performance of each of our hospitals is recorded daily. The aggregate monthly data facilitate an appropriate amount of in-depth information, thus enabling the different management levels to track changes in the performance at an early stage. Short-term income statements, which are prepared on a monthly basis using uniform standards applied across the Group, allow the management the early identification of variations in revenues and expenses in comparison to previous periods and to initiate appropriate countermeasures. Material consumption is analysed by way of monthly cost centre evaluations. Personnel cost evaluations are standardised across the Group. Routine capital expenditure is subject to consistent inter-group authorisation guidelines.

Financial risk is controlled by using transaction authorisation catalogues and by effective liquidity management. The Group does not use derivative financial instruments.

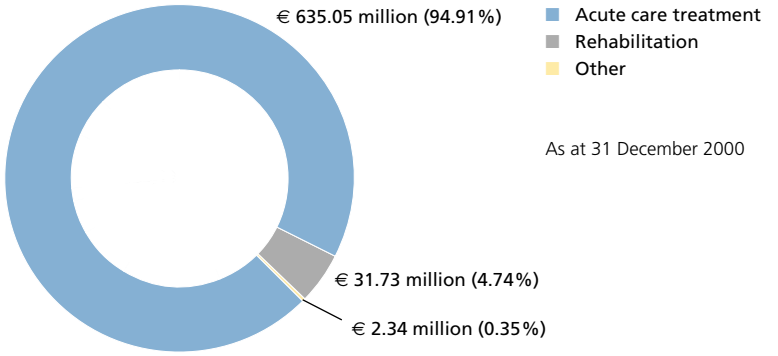
By concluding third party indemnity and consequencial damages insurance contracts, we provide against potential physical risk ensuing from our activities, the primary objective being to minimise business risk that could endanger our operational existence and to safeguard the Group's assets and earning capacity.

The hospital market is highly regulated. Therefore, corporate decision-making must take into account possible legal risks. Our policy is to secure our decisions by comprehensive legal advice from independent expert consultants. It is, however, important that the management of legal risk be commensurate with the Group's profitability goals. Here, too, trying to reach absolute safety would mean missing growth and earnings opportunities.

In the case of acquisitions, the Group endeavours to verify possible risks and uncertainties with regard to future economic potentials by comprehensive due diligence reviews. Supported by data available throughout the Group, we are able to provide in-depth analyses of the hospitals which we intend to acquire.

Risks of cost overruns in the frame of major investment projects are rapidly identified through permanent cost controlling.

Group revenues breakdown by business areas at RHÖN-KLINIKUM Group



Day clinic beds are necessary ... but not every day clinic patient needs a bed.

At the diabetes day clinic, diabetics get in-depth information about their individual clinical pictures along with extensive education and out-patient treatment.

The primary element of managing operative risk is to enhance our employees' risk consciousness, i.e., to educate them to actively eliminate risks for patients, business partners and the company. In doing so, none of our employees is relieved of his or her self-responsibility.

Risks of future developments

These risks encompass such areas as potential changes in legal and economic conditions, especially in health care funding and reimbursement schemes within the national health care sector. The Group's philosophy is to be on the relevant panels in order to early identify and actively shape such developments and to prepare for future requirements through gathering in-depth market knowledge.

Despite the shift to out-patient treatment, we expect the number of in-patients and day clinic patients treated at hospitals to increase by 1% to 2% p.a., as demand is driven by the requirements of an ageing society and continuously enhanced therapeutic possibilities due to medical progress. The federal government's Health Reform 2000 has little power to counter the growth tendencies of the health care market in the short term. Contribution stability has, in fact, become the overriding principle. While the number of treatments will increase in the short and the medium term, the hospitals' revenue gains will continue to be linked to the growth rate of the panel insurance funds' income from compulsory contributions. Against this background, there is very little room for price increases in the hospital market. We do not expect any further far-reaching health reform steps before the next national elections. Since health reform measures affect all market participants in a similar way, it is – just like with mountain climbing – not a matter of trying to reach the peak all by ourselves but rather of being better prepared than others in order to stay ahead of the rest.

With the Health Reform 2000, the industry's self-administration, consisting of the insurers' associations and Deutsche Krankenhausgesellschaft, was required to decide on the introduction of a consistent price system based on diagnosis related groups (DRG) by 30 June 2000. This system provides that, with the exception of psychiatric treatments, all hospital services will be paid on the basis of diagnosis-related rates per case. The decision was made in favour of the Australian DRG system. This system, which will be introduced in 2003 in a first phase without impact on revenues, followed by an adjustment phase of several years, will ultimately lead to diagnosis-related fixed prices. We welcome this price system, because it promotes higher transparency ("money follows performance"), allowing demand and supply mechanisms to take effect. We hope that those who advocate the maintenance of the status quo will not prevail.

Intensive preparatory work for the introduction of the DRG system is going on across the Group.

With the introduction of a consistent price system, the question of investment financing comes to the fore. Our future-oriented hospital concept and our ability to exploit rationalisation potentials through investing will boost our competitive strength. Some of our public competitors will not be able to keep pace, which gives us reason to believe that the market share of private hospital operators will increase sharply in the medium term. Underlining this trend is the appearance of new market participants and a growing interest in our solutions.

In light of this, we see at present no risks in future developments that could lead to enduring impairments of our assets and earning capacity.

Outlook

The year 2001 has so far not seen any events that could have unforeseen effects on our business.

We expect our hospitals taken over in 1999 and 2000 to continue their positive development trends and our other hospitals to maintain their earnings levels. Potential further acquisitions not taken into account, 2001 consolidated revenues are forecast to increase by 3 % to € 690 million, with earnings growing slightly more than proportionally. The corporate tax rate reduction from 40 % to 25 % will lower the tax rate substantially to the level of the previous year, which was influenced by deferred taxes.

Following the dividend increase of about 21 % proposed for financial year 2000, we are confident that dividends for 2001 will again be satisfactory.

Dialysis is vital for patients suffering from kidney failure. This technique helps bridge the waiting time – until a kidney transplantation becomes possible.

"Back office" teams come seldom to the fore, but they are central to the hospital's smooth functioning.

Besides current capital spending estimated at approximately € 25 million, our extension projects in Herzberg and Freital as well as the new construction project at Park-Krankenhaus Leipzig-Südost will largely be concluded in 2001. At Krankenhaus St. Barbara Attendorn, the second extension phase is underway. The start of the new construction of Krankenhaus Uelzen is scheduled for the second quarter of 2001. During 2001, overall investments in new building projects will reach about € 70 million, part of which will be financed from long-term loan capital.

The Group aims to achieve continuity of two-digit growth rates in revenues and earnings over the long run. Given the conditions prevailing in the hospital market, this goal cannot be reached by internal growth. Growth opportunities lie in take-overs of public hospitals which seek a strong partner to cope with future risks or which are disinvested or showing losses. In light of an increasing number of new take-over projects in discussion, we believe to be able to continue the course of our 1999 external growth in the current business year. However, the uncertainties of negotiations conducted in a political environment do not permit a safe forecast for the near and medium term. Notwithstanding this, we are very sure to reach our goals.

Bad Neustadt a. d. Saale, 30 March 2001

Andrea Aulkemeyer Joachim Manz Gerald Meder Eugen Münch Manfred Wiehl

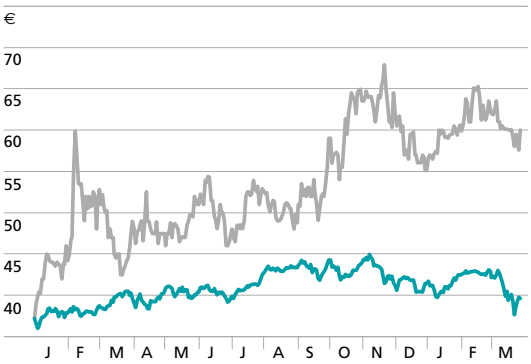
Since it was founded, DKD has been strongly committed to science, research and development and has hosted numerous medical seminars and continuation courses.

Safety and continuity of our development and our industry's long-term growth potentials have strengthened the share price

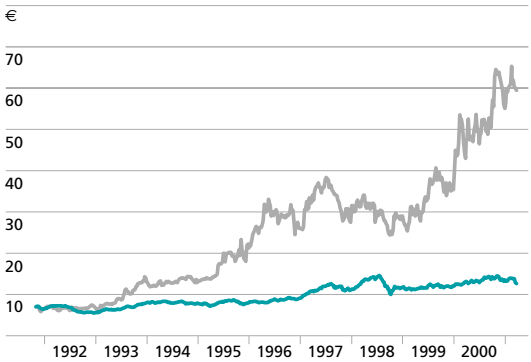
The positive course of our business and its long-term prospects are reflected in the development of the RHÖN-KLINIKUM share price. Contrary to the negative trend prevailing on the German stock exchanges, RHÖN-KLINIKUM shares showed a strong price gain and closed the year at very satisfactory year-end prices of € 59.80 (previous year: € 36,50) for ordinary shares and € 55.10 (previous year: € 35.40) for preference shares.

RHÖN-KLINIKUM AG (preference shares)

Short-term performance compared with MDAX 2000/2001



Long-term performance compared with MDAX



RHÖN-KLINIKUM preference shares

MDAX

The growing trend towards privatisation in the German hospital market, which we are pioneering and spearheading, explains why an investment in RHÖN-KLINIKUM shares is, and will remain, attractive. Other than with technology shares, our growth may not be "smashing", but it is one that lasts, and it encompasses less risks. Highest possible safety, quality and client satisfaction are at the heart of our business and determine the way we do business. This is why we believe that RHÖN-KLINIKUM shares are an ideal instrument for investors who seek long-term appreciation in value. The constantly growing demand for our services, driven by demographic developments, and our ability to make hospital services affordable through rationalised workflows will generate steady growth and lasting improvements in the value of our company over the long term. We trust that these factors, combined with a growing importance of health care markets on a global scale, will continue to support the positive development of our share price.

Compared to the MDAX, the performance track record of our shares since their first listings shows that RHÖN-KLINIKUM shares are, indeed, an attractive long-term investment.

Outpacing both the MDAX, which gained 13 % in 2000, and the CDAX Pharma & Health, which lost 8 %, our preference share showed a 56 % appreciation in value, and the year-end price of the ordinary share was 64 % higher than at the end of the previous year. Ordinary share prices ranged between € 38.22 and € 69.90, and preference shares traded at prices between € 34.77 and € 68.00.

Institutional investors' interests decreased slightly in the year under review. Our major institutional investors continue to be German, British and U.S. funds. Close to 24 % of the total of RHÖN-KLINIKUM shares are held by international funds.

At the end of the year, market capitalisation was € 1.509 billion, an increase of 61 % compared to the previous year (€ 0.936 billion). Consequently, RHÖN KLINIKUM AG now ranks 26th (previous year: 37th) among the 70 MDAX shares.

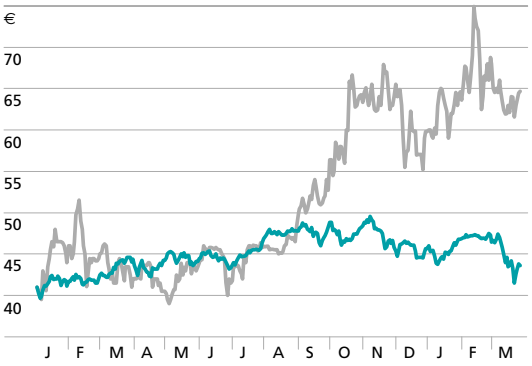
In 2000, the average daily turnover volume decreased slightly to 9,817 ordinary shares and 8,482 preference shares (previous year: 9,866 and 9,946, respectively). The highest single-day turnover was 92,931 ordinary shares and 54,800 preference shares (previous year: 116,023 and 72,553, respectively). The trend towards Xetra trading strengthened further, with Xetra trading in ordinary shares accounting for 31 % and in preference shares for 39 % of total trading (previous year: 8 % and 16 %, respectively).

Our communication with investors and financial analysts is open-minded and credible. In numerous one-to-one talks, we discuss current business developments and corporate strategies, with insider rules being strictly observed. Although we still believe that personal visits at our hospitals provide the best insight into our business, we have started to organise road shows and special conferences.

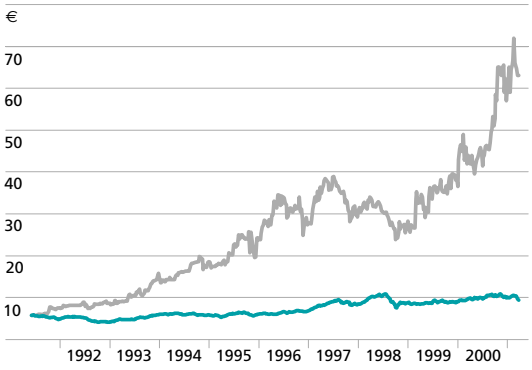
Besides communicating directly with us, our shareholder will find useful information about the company and its shares on the Internet. Our website includes annual reports and interim reports, copies of which can also be requested via e-mail.

RHÖN-KLINIKUM AG (ordinary shares)

Short-term performance compared with MDAX 2000/2001



Long-term performance compared with MDAX



Market trends: Between 1993 and 1999 (more recent figures were not available at the date of this report), 119 hospitals (– 5.1 %) were closed down in Germany, and 63,390 hospital beds were eliminated (– 10.1 %). During the same period, the number of in-patients treated increased by just under 1.9 million (+ 13 %). The market share of private hospital operators continued to increase.

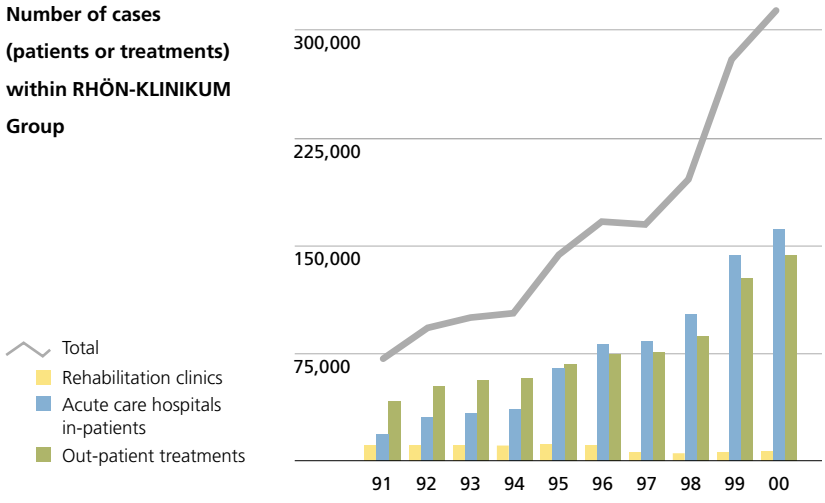
In the period from 1993 to 1999, the number of privately owned hospitals rose by 81 (+23 %), the number of beds added was 9,881 (+35.4 %), and in-patient treatments at private hospitals increased by 419,532 (+64.5 %). From 1998 to 1999 alone, the private-sector bed capacity improved by 10 % and the number of treatments at privately run hospitals increased by 73,112. Despite this expansion, the market share of private hospital operators as measured by hospital beds is still only 6.7 %.

In the year under review, RHÖN-KLINIKUM Group was again involved in numerous preliminary talks and negotiations on hospital take-overs, but concluded only one acquisition, a hospital with 150 beds. Negotiations in one privatisation project failed even though we offered a slightly higher purchase price than our competitors, as the required protection against rationalisation was definitely incompatible with our principles. Notwithstanding this, we will adhere to our policy of seizing external growth opportunities only if we can be sure that the underlying conditions will not obstruct the full implementation of our concepts. The pre-condition for long-term success, which for us ranks absolutely first in priority, are far-going changes for existing employees of take-over candidates. We use to be quite frank about this when negotiating acquisitions. This is why our reputation with personnel representatives and short-sighted employees is that of a "hard liner", even if our visible privatisation successes are given full marks. We continue to reject hospital management contracting, as we believe that such contracts inhibit the re-shaping of investment policies, which we consider as being the critical factor in successful hospital development.

Our contacts and ongoing negotiations with public-sector parties willing to privatise open up realistic take-over chances in the near future, particularly in some cases, where we are in the "finals", with only a few competitors left.

Due to regulated regional hospital capacity planning, which does not permit additional bed capacities under the Hospital Plan if demand is saturated, hospitals are regional monopolies with a defined statutory mission. Because of the close interrelations between hospitals and their respective political and economic environment, we have opted for a decentralised structure of our Group. With the exception of the historically grown structures at our headquarters, each of our hospitals is operated by a fully viable and legally independent operating company. No branch establishments are operated.

Number of cases (patients or treatments) within RHÖN-KLINIKUM Group



Group know-how is communicated via inter-group project teams and, increasingly, via our group-wide Intranet.

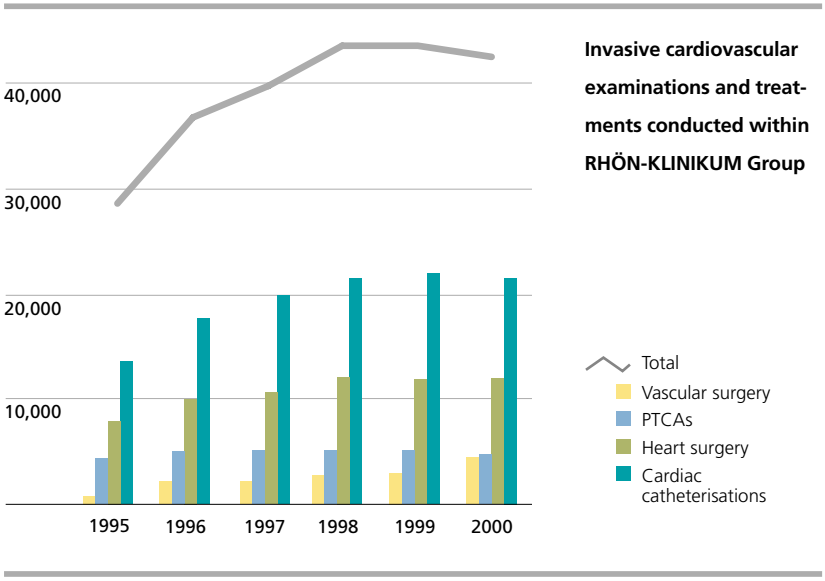
Developments in Baden-Württemberg

In the year under review, **Klinik für Herzchirurgie** in **Karlsruhe** celebrated its fifth anniversary. Due to capacity bottlenecks, a new Intermediate Care unit with 16 beds was established and commissioned. The number of patients treated stood at 2,392, confirming the high previous-year level (2,395). Capacity utilisation in terms of the hospital's 65 beds under the Hospital Plan increased from 104 % to 108 %. The number of heart operations conducted remained nearly stable at 1,878. Increasingly, the hospital applies novel procedures which enable patient-friendly surgery including interventions on the beating heart (342; previous year: 102).

In view of the demand situation, Klinik für Herzchirurgie in Karlsruhe lodged an application for an increase of its bed capacity from 65 to 84 beds under the Hospital Plan, which was rejected in the first instance. Following this, an action was filed. The hospital's head physician is probably Germany's most experienced surgeon in the field of heart transplantations. In spite of this fact, the federal state of Baden-Württemberg is of the opinion that heart transplantations should be conducted at universitary heart centres only. In this context, too, we have instituted legal proceedings.

Developments in Bavaria

In Bavaria, we operate six hospitals of which five are located in Bad Neustadt and one in Kipfenberg. The combined number of in-patients treated in 2000 was 28,561 (previous year: 27,007). In both rehabilitation (5,641) and acute care (22,920), treatments increased substantially compared with previous-year figures (5,048 and 21,959, respectively).



Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group

Herz- und Gefäß-Klinik in Bad Neustadt continued to be the focus of our activities in Bavaria in 2000. One of Germany's leading special hospitals for the treatment of cardiovascular disorders, its services spectrum includes intensive diagnostics as well as surgical and invasive treatments of the heart and the vessels.

The hospital (298 beds) has for years worked close to or at capacity. In the year under review, its medical teams performed 4,066 (previous year: 4,063) heart operations of which 3,311 (previous

The cafeteria is a popular meeting point for patients, visitors and employees alike.

Foreign patients are cared for individually by DKD's international patient service.

year: 3,359) with the heart-lung machine. Due to growing competition by practitioners, the number of cardiac catheterisations decreased to 5,776 (previous year: 5,922) and that of PTCAs (percutaneous transluminal coronary angioplasty) to 1,504 (previous year: 1,685). The number of vascular operations rose once more to 1,977 (previous year: 1,884).

We noticed a growing acceptance of day-clinic and out-patient treatments in the vascular surgery and cardiology departments. Day-clinic treatments rose to 1,207 and out-patient treatments to 2,516 (previous year: 791 and 2,312, respectively).

At the end of 2000, we took advantage of a change of management generations and restructured the cardiology department in two units, non-invasive imaging and interventional electrophysiology. In the area of cardiology, the next few years will see important developments across the entire spectre of diagnostic and therapeutic procedures. We register extremely accelerated medical progress in cardiology with an enormous spread of developments in both diagnosis and therapy. Therefore, we believe that our multiple-focus approach in this resort will lead to success.

Within cardiology, the specialised non-invasive imaging unit will concentrate on the development of effective procedures for diagnosing heart diseases using magnetic resonance tomography and multislice computer tomography. These procedures will in the next few years enable early identification of high-risk patients with regard to myocardiac infarction and heart muscle diseases.

The specialised interventional electrophysiology unit offers all diagnostic procedures for highly efficient treatment of arrhythmias, with particular importance placed on non-pharmacological therapy, the ablation of tachycardia produced by arrhythmias. Experience shows that even special types of atrial fibrillation have become treatable by means of catheterisation, also in combination with surgical interventions.

The orientation of therapy and diagnosis towards quality and effectiveness for the patient and the prevention of cardiovascular diseases rather than the personal preferences of head physicians requires close co-operation between both fields.

At **Klinik für Handchirurgie** in Bad Neustadt, 5,652 (previous year: 5,635) in-patients and 16,477 (previous year: 16,492) out-patients were treated in the year under review. The number of surgical interventions rose from 5,265 in 1999 to 5,351 in 2000. Besides providing specialised medical services to its patients, the hospital plays an active role in the development of hand surgery. Testimony to its international reputation are numerous scientific publications, a great number of invitations to medical congresses, scientific lectures in Germany and abroad as well as a strong domestic and international demand for guest physician vacancies at Klinik für Handchirurgie.

Psychosomatische Klinik in Bad Neustadt operates a special hospital with 180 beds and a rehabilitation clinic with 160 beds. The special hospital has been working to capacity for years. In the area of rehabilitation, capacity utilisation went up continuously from 48 % in January to 72 % in December 2000. Research work at Psychosomatische Klinik focuses on stress tolerance testing and the problems of elder employees in their working environment.

Franken Klinik operates a rehabilitation centre for cardiac, circulatory and vascular diseases as well as the Diabetes Centre Bad Neustadt. The number of patients treated in 2000 rose by approximately 12 % to 2,074.

Saaletal Klinik (166 beds) treats addictive diseases. Complementing this facility, we operate a separate drug therapy facility, Neumühle, and an adaption facility with a capacity for 48 and 18 patients, respectively. Demand has developed well, with both facilities fully booked and phases of longer waiting times. Saaletal Klinik maintains close contacts to psychiatric clinics, public health authorities, health education centres and self-help groups.

Neurologische Klinik Bad Neustadt operates 250 beds for acute care and follow-up treatments. Especially its service offer for patients suffering from acute neurological diseases including stroke patients has boosted the number of acute care treatments by 48 % to 2,615 patients. This prompted the construction of a new wing, which improves intensive care capacities (now 30 beds) and concentrates diagnostic services, thus optimising organisational structures. In the field of rehabilitation, patient figures remained stable (1,369).

In answer to its patients' complex requirements, the clinic maintains close contacts to patients' families as well as self-help groups. Evidence to its doctors' professionalism are several conferences hosted by the clinic, featuring neurological diseases such as multiple sclerosis, the Parkinson's syndrome and epileptic diseases as well as stroke treatment ("Every minute counts").

At **Neurologische Klinik Kipfenberg**, the acute care unit recorded 9 % more patients than last year. Since mid-2000, demand in this area surged and had to be covered in part to the detriment of the long-term rehabilitation unit. There are waiting times. Out-patient treatment capacities have been further increased.

Neurologische Klinik Kipfenberg's professional training centre has significantly enhanced its training programmes which are offered to the hospital's own staff as well as to external participants. In close co-operation with the chair for educational sociology at the Catholic University of Eichstätt, the hospital researches themes such as "patient-oriented teamwork at hospitals" or "patient satisfaction through cooperative-communicative teaming-up in patient care".

Today's possibilities for diagnosis in the field of neurology are, indeed, fascinating. Other than in the past, patients have easy access to very promising treatment and rehabilitation techniques.

The precondition for good results of the pain therapy is perfect teamwork, involving doctors and psychologists ...

Developments in Hesse

Stiftung **Deutsche Klinik für Diagnostik (DKD)** is included in the Hospital Plan of the federal state of Hesse as a central (or specialised) medical service provider with a total of 92 beds and 60 day care beds. DKD runs a centre for bone marrow transplantations which accounts for 18 beds of the hospital's total bed capacity. DKD's day clinic offers interdisiplinary diagnosis and treatment of problematic cases with unclear symptoms, which cannot be handled under out-patient conditions, as well as the therapy of complicated chronic diseases. The focus of DKD's out-patient services is on special examinations and preventive medicine, with particular attention given to individual risk profiles.

At DKD's general in-patient unit, treatments increased by 2 % compared to the previous year, with the average duration of stays in hospital being further reduced. The centre for bone marrow transplantations conducted 75 (previous year: 69) transplantations. The day clinic for adults and children treated 10,813 patients, an increase of 8 %. The number of out-patient treatments was nearly unchanged at 20,209.

A significant enhancement in its services to patients is DKD's new five-storey extension which was commissioned in November 2000. The complete modernisation and restructuring of the existing old building at a cost of € 7.5 million is scheduled for 2001/2002.

Developments in Lower Saxony

Kliniken Herzberg and Osterode, an academic training hospital for the University of Göttingen, was able to further increase the number of patients treated. In-patient treatments rose to 11,121 (previous year: 10,860) and out-patient treatments to 14,578 (previous year: 14,292).

When taking over these hospitals mid-1998, we committed ourselves by contract to realising a new construction project designed to integrate both the Herzberg and the Osterode facilities at one location, Herzberg. This project was started in early April 2000; completion is scheduled for mid-2001. In a further phase, we plan an extension of the existing Herzberg facility with a view to operating 290 beds at one single location. In parallel, we will completely restructure and modernise the existing old building. The project will be largely completed by the end of 2001. The Osterode facility, where modernisation is not viable, will be closed down in early 2002.

Kliniken Uelzen und **Bad Bevensen**, which we took over in August 1999, showed diverging development trends in 2000. While Uelzen (296 beds) reported a 3 % decrease in patient numbers compared to the previous year, Bad Bevensen (193 beds) topped the previous-year figures by 10 %. Capacity utilisation in both facilities was lower due to planned reduction of the duration of stays in hospital, which had been above industry average at the time of acquisition.

Significant initial service improvements for patients were achieved in Uelzen through integrating internal and anaesthesiological intensive care in one interdisciplinary intensive care unit, commissioning of an Intermediate Care unit, and equipping both units with state-of-the-art medical technology. By moving the paediatric department to the main building at Uelzen, we achieved a higher grade of interdisciplinarity and subsequent improvements in paediatric services. The installation of computer tomographs at both Uelzen and Bad Bevensen significantly improved radiology. In Bad Bevensen, we installed a new Stroke Unit which will benefit many stroke patient in the region.

Our project for the construction of a new complex designed to integrate certain specialties of both facilities is in the permission process; we expect construction work to start in the second quarter of 2001.

Developments in North Rhine-Westphalia

Krankenhaus **St. Barbara Attendorn**, a general and standard care hospital with 309 beds, covers six medical disciplines and operates a geriatric day clinic with 12 beds which was inaugurated in 2000. In its first year after the take-over, the hospital treated 8,794 in-patients and out-patients, an increase of 4 %.

When acquiring the hospital, we agreed by contract to an extension project including the construction of a new building. Since one building to be stripped continued to be uses as a public school we decided to divide the construction work in two phases. The extension, integration and modernisation of the existing operating theatres was started in October 2000. As the hospital's working order must not be disturbed, these measures will not be concluded before October 2001. In a second construction phase, the extension will be built.

Developments in Saxony

In Saxony, we operate five hospitals: Herzzentrum Leipzig – Universitätsklinik – with 308 beds, Park-Krankenhaus Leipzig-Südost with 541 beds plus 35 day clinic beds, Soteria Klinik Leipzig with 20 acute care beds plus 177 rehabilitation beds and an adaption facility having capacities for 20 patients, Krankenhaus Freital with 301 beds, and Krankenhaus Dippoldiswalde with 150 beds, which was taken over effective 1 September 2000.

... as well as physical trainers and therapists.

Children and parents benefit from the highly professional out-patient services of the children's day clinic. They come to the clinic for treatment during the day ...

In the year under review, **Herzzentrum Leipzig – Universitätsklinik** – was given approval to increase its bed capacity from 250 to 308 beds in order to meet an increasing demand for its services. This specialised maximum supply hospital covers three medical disciplines: heart surgery, cardiology and paediatric cardiology. In co-operation with the Free State of Saxony and the University of Leipzig, the centre and its head physicians, who are professors in ordinary of the University of Leipzig, conduct research and development work for the above disciplines. This makes Leipzig a focal point of the Group's R&D activities.

Herzzentrum Leipzig once more topped its performance in all service areas, but the centre comes closer and closer to its capacity limits. In the context of our new construction project for a somatic clinic for Park-Krankenhaus Leipzig-Südost, we also provide an extension to Herzzentrum Leipzig. Commissioning is expected to take place as early as in 2001 but requires some adaptions in the centre's existing building, which was errected in 1994.

With the acquisition of **Park-Krankenhaus Leipzig-Südost** in 1999, we incurred the obligation of reconstructing this hospital on company-owned land in Leipzig. Construction work for a new somatic clinic (including the extension to Herzzentrum Leipzig) started in December 1999. Following intensive fine-tuning in project groups and several visits to comparable special clinics in Germany and abroad, construction of a psychiatric clinic began in mid-2000. Both units will move to their new buildings by March 2002. The then necessary reduction of staff is being prepared with due care.

As a result of the improved utilisation of the day-clinic capacity for child and adolescent psychiatry, which soared to 98 % compared with 48 % in the previous year, the duration of in-patient stays in hospital increased by one day to 17.8 days, and bed capacity utilisation rose to 90 % (previous year: 88 %).

Soteria Klinik offers comprehensive holistic treatment for adult alcohol and/or drug addicts; its services range from detoxication to rehabilitation and resettlement. The clinic's unit for inner medicine (detoxication) operated at an average rate of 90 % of capacity, and rehabilitation bed capacity utilisation increased from 78 % to 84 %, whilst the clinic's adaption facility was fully booked throughout the year.

At **Krankenhaus Freital** in the Weisseritz District, the number of patients treated remained nearly unchanged, however, capacity utilisation improved by 3 %. This resulted from patients participating in a pilot programme titled "Integrated care for the diabetic foot" staying longer in hospital. This programme is offered in co-operation with the panel insurer AOK Sachsen and Klinik Bavaria in Kreischa.

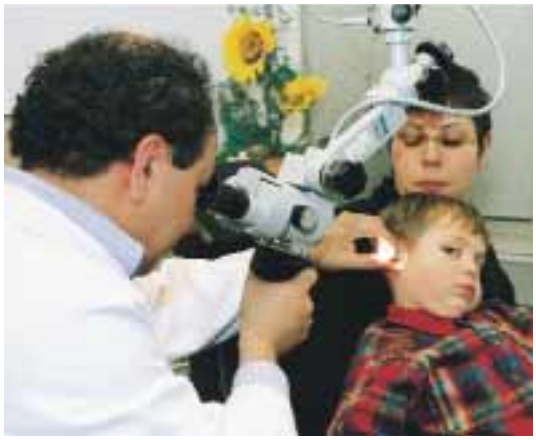
When acquiring Krankenhaus Freital at the beginning of 1999, we agreed to undertake the necessary extension of this hospital and the modernisation of its existing buildings. These measures will be concluded by the end of 2001.

Effective 1 September 2000, we took over **Krankenhaus Dippoldiswalde**, which is also located in the Weisseritz District. The smooth integration of this hospital, which covers inner medicine, surgery and gynaecology/obstetrics, enabled cost savings in many areas. An in-house collective bargaining agreement was concluded, which came into full effect at the beginning of 2001.

Developments in Thuringia

Thuringia is another focal area of the Group's activities. In this federal state, we operate hospitals with a total of 1,432 acute care beds at three different locations.

Zentralklinik Bad Berka, a specialty hospital with 657 beds, is very active in the field of research and development. Testimony to this is the hospital's involvement in a great variety of scientific projects, seminars, lectures and workshops. Innovation is a central feature of Zentralklinik Bad Berka and of its services to patients: Within the Group, the hospital's spinal surgery unit was the first to conduct a surgical intervention using the open magnetic resonance tomograph (MRT). The open MRT allows image-assisted surgical interventions, enabling the surgeon to safely identify all tissue layers without incision. The system uses ultra-rapid image sequences enabling real-time images of the instruments' position, angle and penetration in critical organs such as the brain or the spine. Zentralklinik Bad Berka was also the first Group hospital to acquire a multislice computer tomograph in replacement of the electron beam tomograph, which had been tested during the year.



... and pass the night at home in their own beds.

Capacity utilisation at Zentralklinik Bad Berka maintained the high previous-year level at 96 %. Whilst the average duration of stays in hospital was reduced by almost one day to 11.35 days, the number of in-patients treated increased by 8 % to 20,363. Out-patient treatments decreased considerably (by 29 %) due to the hospital being no longer permitted to offer chemotherapies to out-patients, in spite of the urgent demand for these services, on the ground that its authorisation for out-patient treatments as granted by Kassenärztliche Vereinigung Thüringen (panel doctors' association in Thuringia) is limited.

The ear, nose and throat practice at DKD is an example for the politically desired interlinking of out-patient and in-patient health service structures.

The hospital's Hyperbaric Oxygenation therapy project proved to be unworkable, as the health insurers refused the financing of this therapy. Therefore, the project was stopped and the equipment was written down.

Excellent craftmanship, experience and good vocational training guarantee the smooth functioning of the hospital's high-tech medical equipment.

Most of our technicians' work is done behind the scenes.

As in the previous year, **Klinikum Meiningen**, a standard care and specialty hospital with 545 beds, continued to operate at a rate of 98 % of capacity. The average duration of stays in hospital was further reduced to 8.9 days (previous year: 9.4 days), and the number of in-patients treated rose to 21,752 (previous year: 20,565).

Klinikum Meiningen, which celebrated its fifth anniversary in 2000, is the prototype of a modern, competitive hospital. In Meiningen, RHÖN-KLINIKUM's hospital concept with its unique investive, architectural and organisational features focussing short distances, bottleneck elimination and flow principles has fully been put into effect.

Following the commissioning of its new wing (housing wards) in 1999, **Krankenhaus Waltershausen-Friedrichroda**, a standard care hospital with 230 beds, finalised the second construction phase towards the end of 2000. All hospital units are now concentrated in the completely new facility in Friedrichroda. With the average duration of stays in hospital and treatment days reduced, the hospital was able to improve the number of in-patient treatments by 6 %. It is expected that the commissioning of the new facility will drive the hospital's performance.

In the year under review, the hospital's department of inner medicine established five focal areas: radiology, pulmology, angiology, gastroenterology and oncology. And at the beginning of 2001, the gynaecological unit (which previously took in bookings from practitioners) was restructured to form a central department offering medical counselling and co-operation to practising gynaecologists.

RHÖN-KLINIKUM Consolidated Income Statement for the year ended 31 December 2000

			2000	1999
	Notes	€ thousand	€ thousand	€ thousand
Revenues	VI. 1.	669,114		615,012
Other operating income	VI. 2.	22,568		20,289
			691,682	635,301
Cost of materials	VI. 3.			
Materials and merchandise		119,816		110,451
Services		41,761		41,589
			161,577	152,040
Personnel expenses	VI. 4.			
Wages and salaries		278,366		250,262
Social security contributions and cost of pensions		51,199		46,840
			329,565	297,102
Depreciation	VI. 5.			
on tangible and intangible assets		37,030		37,037
Other operating expenditure	VI. 6.	60,453		54,684
		97,483		91,721
Income from operations			103,057	94,438
Income from investments		42		63
Other interest and similar income		2,816		2,288
Amortisation of financial assets		0		767
Interest and similar expenses		15,474		17,092
Financial result			−12,616	−15,508
Result before income tax*			90,441	78,930
Taxes on income and earnings	VI. 8.		22,452	29,802
Net profit for the year			67,989	49,128
Minority interests in profit			6,090	4,512
Consolidated profit after minority interests			61,899	44,616
Earnings per preference share (in €)	VI. 9.		2.40	1.74
Earnings per ordinary share (in €)			2.38	1.72

* *corresponds to headline earnings/income from the ordinary activity*

RHÖN-KLINIKUM Consolidated Balance Sheet 31 December 2000

ASSETS

	Notes	31 December 2000 € thousand	2000 € thousand	31 December 1999 € thousand
Fixed assets				
Intangible assets	VII.1.			
Concessions, industrial and similar rights and assets		2,744		2,064
Goodwill		15,101		15,319
Negative goodwill		−1,979		−2,145
			15,866	15,238
Tangible assets	VII. 2.			
Land, land rights and buildings, including buildings on third-party land		447,286		439,519
Technical plant and machinery		11,719		12,868
Other plant and equipment		50,450		46,627
Payments on account and construction in progress		56,423		12,667
			565,878	511,681
Financial assets	VII. 3.			
Shares in affiliated companies		1,762		1,690
Investments		25		0
Other loans		269		211
			2,056	1,901
			583,800	528,820
Deferred taxes	VII. 4.		7,285	12,838
Current assets				
Inventories	VII. 5.			
Materials		9,752		11,082
Merchandise		21		27
Payments on account		170		12
			9,943	11,121
Receivables and other assets		99,907		88,265
Receivables from supplies and services	VII. 6.	5,566		3,163
Tax claims	VII. 7.	5,019		5,688
Other receivables and other assets	VII. 8.		110,492	97,116
Cash and cash equivalents	VII. 9.		63,581	84,231
			184,016	192,468
Prepayments			319	406
			775,420	734,532

EQUITY AND LIABILITIES

	Notes	31 December 2000 € thousand	2000 € thousand	31 December 1999 € thousand
Equity	VII. 10.			
Subscribed capital		25,920		25,920
Capital reserve		37,582		37,582
Consolidated retained earnings		193,699		157,806
Consolidated profit		61,899		44,616
Own interests		– 87		– 88
			319,013	265,836
Minority interests	VII. 11.		19,809	16,240
Provisions				
Provisions for pensions and similar obligations	VII. 12.	8,487		7,982
Other provisions	VII. 13.	4,004		3,206
			12,491	11,188
Deferred taxes	VII. 4.		39,506	58,833
Liabilities				
Long-term financial debts	VII. 14.	209,956		225,340
Tax liabilities	VII. 15.	12,908		17,679
Other liabilities	VII. 16.	161,200		138,590
			384,064	381,609
Deferred income			537	826
			775,420	734,532

RHÖN-KLINIKUM Consolidated Statement of Changes in Shareholders' Interests

	Subscribed capital						
	Ordinary shares	preference shares	Capital reserve	Consolidated retained earnings	Consolidated profit	Own interests	Equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at 1 January 1999 acc. to HGB	14,725	7,363	41,414	65,937	10,797	– 90	140,146
Adjustments thereto arising from the change to IAS				88,285			88,285
Balance at 1 January 1999 acc. to IAS	14,725	7,363	41,414	154,222	10,797	– 90	228,431
Consolidated profit	0	0	0	0	44,616	0	44,616
Distributions	0	0	0	0	– 7,213	0	– 7,213
Capital increases and allocation to reserves	2,555	1,277	– 3,832	3,584	– 3,584	0	0
Own interests	0	0	0	0	0	2	2
Balance at 31 December 1999	17,280	8,640	37,582	157,806	44,616	– 88	265,836
Balance at 1 January 2000	17,280	8,640	37,582	157,806	44,616	– 88	265,836
Consolidated profit	0	0	0	0	61,899	0	61,899
Distributions	0	0	0	0	– 8,723	0	– 8,723
Allocation to reserves	0	0	0	35,893	– 35,893	0	0
Own interests	0	0	0	0	0	1	1
Balance at 31 December 2000	17,280	8,640	37,582	193,699	61,899	– 87	319,013

RHÖN-KLINIKUM Consolidated Cash Flow Statement for the year ended 31 December 2000

	2000	1999
	€ million	€ million
Result before income taxes	90.4	78.9
Elimination of financial result	12.6	15.5
Amortisation of fixed assets	37.0	37.0
EBITDA	**140.0**	**131.4**
Change in inventories	1.2	– 3.3
Change in receivables from supplies and services	–11.7	–18.4
Change in other receivables	– 4.1	0.7
Change in liabilities	4.0	27.1
Change in provisions	2.2	4.7
Other changes	– 0.2	–1.0
Taxes paid on income and earnings	– 29.9	–18.3
Interest paid	–15.5	–17.1
Cash generated by operating activities	**86.0**	**105.8**
Investments in tangible and intangible assets	– 86.3	– 56.7
Investments in financial assets	– 0.9	0
Acquisition of subsidiary companies less cash acquired	– 5.0	– 37.6
Proceeds from the disposal of fixed assets	0.0	1.3
Interest received	2.9	2.4
Cash utilised in investing activities	**–89.3**	**– 90.6**
Increase in short-term financial debts	9.2	0.0
Redemption of short-term financial debts	0.0	–12.8
Increase in long-term financial debts	4.6	6.9
Redemption of long-term financial debts	–19.8	– 6.9
Dividends paid	–11.3	– 8.9
Cash generated by financing activities	**–17.3**	**– 21.7**
Change in liquidity	– 20.6	– 6.5
Cash at beginning of year	84.2	90.7
Cash at 31 December	**63.6**	**84.2**

I. ACCOUNTING PRINCIPLES

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2000 have for the first time been prepared in accordance with the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) insofar as these standards were effective on the date of this report and applicable for the year 2000, at the latest. IAS 12 (revised 2000), which came into effect on 1 January 2001, has been applied retrospectively. The interpretations by the Standing Interpretations Committee (SIP) have been taken into account insofar as their application was mandatory for the year 2000.

The preconditions, as set out in Section 292 (a) of the German Commercial Code (HGB), for the exemption from preparing consolidated financial statements in accordance with German accounting rules have been complied with. In accordance with the interpretation by the Contact Committee of the European Commission, these consolidated financial statements comply, in particular, with the relevant rule issued by the European Union (Rule 83/349/EWG). In order to obtain equivalence with previous consolidated financial statements prepared in accordance with HGB, all disclosures and explanatory notes, which are required by HGB but go beyond IASC rules, have been included. The exemption of RHÖN-KLINIKUM AG from the obligation of preparing consolidated financial statements according to HGB is thus admissible.

The first application of IAS has, with relation to 1 January 1999, resulted in the following material changes in the accounting and valuation principles previously applied in accordance with German accounting standards:

- Goodwill or negative goodwill resulting from acquisitions of subsidiary companies consolidated since 1 January 1995 is capitalised and amortised on a systematic basis, as required by SIC 8 in connection with IAS 22 (revised 1998).
- Deferred tax assets are recognised for tax loss carry forwards, as required by IAS 12 (revised 2000).
- Contingent assets and contingent liabilities arising from future income tax credits or charges are recognised using the liability method and applying the tax rates expected to apply when the assets are recovered or the liabilities are settled, as required by IAS 12 (revised 2000).
- Minority interests are no longer included in the equity, as required by IAS 1.
- The special reserve item with equity portion has been released, since values derived from tax regulations are no longer recognised in the consolidated financial statements.
- Provisions for pensions are valued using the projected unit credit method and taking into account future developments in wages and pensions as well as actuarial biometric assumptions, as required by IAS 19 (revised 1998).
- Provisions in accordance with IAS 37 are recognised insofar as there exist liabilities to third parties.

The first application of the standards issued by the IASC is consistent with SIC 8. Accordingly, the adaption of accounting and valuation principles to IAS with relation to 1 January 1999 has been effected without impact on the balance sheet, crediting or charging the consolidated retained earnings, instead.

Compared with the consolidated financial statements in accordance with the German Commercial Code (HGB), the adoption of IAS has the following effect on equity:

	2000	1999
	€ million	€ million
Consolidated equity 1.1. HGB (excluding minority interests)	**169.9**	140.1
Dissolution of special tax write-offs	97.0	95.6
Dissolution of provisions for expenses	19.1	17.4
Adaption of useful lives of buildings	14.8	12.3
Capitalisation of goodwill	9.5	8.2
Deferred taxation on tax loss carry forwards	12.0	10.2
Deferred taxation (other)	– 54.2	– 52.5
Other items	– 2.3	– 2.9
Consolidated equity 1. 1. IAS	**265.8**	228.4

The adaptions have had the following effect on the consolidated income statement:

	1999 acc. to HGB	Change due to adaptions	1999 acc. to IAS
	€ million	€ million	€ million
Income from operations	92.4	2.0	94.4
Consolidated profit after deduction of minority interests	41.7	2.9	44.6

II. PRINCIPLES OF CONSOLIDATION

1. Scope of consolidation

The Group parent company is RHÖN-KLINIKUM Aktiengesellschaft, headquartered in Bad Neustadt/Saale and registered with the district court of Schweinfurt, Company Registration (HRB) Number 1670. In addition to RHÖN-KLINIKUM AG, the scope of consolidation comprises 31 subsidiaries, in which RHÖN-KLINIKUM AG directly holds the majority of voting rights.

A subsidiary company is consolidated from the date at which RHÖN-KLINIKUM Group obtains the power to control the financial and operating policies of that companies.

In the year under review, the following changes to the scope of consolidation have occurred:

Consolidated companies	Number
As at 31 December 1999	31
Acquisition of Krankenhausgesellschaft Dippoldiswalde mbH	1
As at 31 December 2000	**32**

Effective 1 September 2000, RHÖN-KLINIKUM AG acquired 100 % of the interests in Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde, at a cost of € 6.3 million. The resulting goodwill of € 1.0 million will be amortised over a period of 15 years.

During financial year 1999, five hospitals at a total cost of € 47.3 million were acquired. The resulting goodwill totalling € 2.5 million will also be amortised over a period of 15 years.

The change to the scope of consolidation has resulted in the following material changes in the consolidated balance sheet:

	€ million
Fixed assets	5.9
Cash and cash items	1.3
Other current assets	1.1
Liabilities	3.0

The effects on the earnings situation are as follows:

	€ million
Revenues and other income	4.6
Cost of materials	0.9
Personnel expenses	2.8
Depreciation	0.5
Other expenses	0.4

Seven subsidiaries of secondary importance to the Group's financial position and earnings situation have not been consolidated.

Details of the interests held in subsidiaries are shown in Note VIII to the financial statements.

2. Methods of consolidation

The consolidated financial statements are based on the financial statements of RHÖN-KLINIKUM AG and those of the subsidiaries included in the consolidation. These financial statements have been prepared in accordance with the German Commercial Code (HGB), using uniform accounting and valuation methods. They have been audited by independent auditors and adapted to IAS principles at Group level.

Capital consolidation is effected using the benchmark method. Since 1 January 1995, any differences between the acquisition costs of participations and the value of the acquired attributable assets at the date of acquisition are capitalised as goodwill and amortised over the expected useful lives of the assets to which they relate. Where there is an excess of the attributable assets acquired over the acquisition costs, these differences are recognised as negative goodwill and amortised over the weighted residual lives of the non-monetary wearable assets acquired, with effect on the operating result.

Intragroup transactions are eliminated in full. Elimination is not provided for interim results due to the amounts involved being negligible.

III. ACCOUNTING AND VALUATION METHODS

Items summarised in the balance sheet and the income statement are reflected separately in the notes to the consolidated financial statements.

Revenues from services are recognised at rendering the services or, in case of sales, at the transfer of risk to buyer. Revenues from lump-sum payments per case are recorded in proportion to the progress in the services to which the payments relate. **Operating expenditure** is charged against income at utilising the services received or as incurred. Interest income and interests paid are recognised in the period in which they arise; distributions of profit are recognised at the respective dates of distribution.

Research costs are expensed as incurred, in accordance with IAS 38. The Group does not show any **development costs** requiring capitalisation.

Intangible assets are shown at acquisition costs and amortised on a systematic basis over their respective useful lives (3 - 15 years).

Goodwill resulting from consolidation entries is capitalised since 1 January 1995 and amortised over its expected useful life, principally 15 years, using the straight-line method. The value of goodwill is revised regularly; value adjustments are made, where appropriate, as required by IAS 36.

Goodwill accrued before 1 January 1995 continues to be offset against equity, in accordance with the transitional provisions of SIC 8 in connection with IAS 22.101.

Negative goodwill is recorded in accordance with IAS 22 (revised 2000) in the amount of existing non-monetary wearable assets and included in the same item as goodwill; it is amortised over the average residual lives of the non-monetary wearable assets acquired, with effect on income.

Amortisation of goodwill and of negative goodwill is reflected in the income statement under depreciation.

Tangible assets are valued at acquisition or production cost and depreciated on a systematic basis over their expected useful lives using the straight-line method:

	Years
Buildings	33 1/3
Technical plant and machinery	5 - 15
Other plant and equipment	3 - 12

Government grants are deducted from the carrying values of the assets to which they relate, making use of the choice about presenting grants, as allowed by IAS 20.

In cases of **unscheduled depreciation** of fixed assets including intangible assets, it is decided on the basis of expected future payment flows whether the assets affected are to be written off, using as a measure the higher of the net realisable sales price or the use value. Write-ups are made if and when the reason for the impairment of value ceases to exist.

Financial assets are valued at acquisition cost. They are depreciated if there is an impairment of value considered to be of a permanent nature.

Inventories are carried at acquisition or production cost using the average cost method in order to simplify valuation processes.

Receivables from supplies and services rendered as well as **other assets** are valued at face value less value adjustments. Where value adjustments are made, due account is taken of all identifiable risks, using as a basis individual risk assessments and/or empirical values. Due to the short-terms nature of these items, carrying values essentially correspond to **market values**.

Cash and cash items comprise payment means, exclusively, and are valued at nominal value.

Provisions are made insofar as there are legal or effective obligations to third parties, which have been incurred in the past, which will probably lead to an outflow of assets in the future and the amount of which can be assessed with reasonable assurance. Interests accrued are deducted, provided the interest effect is material.

Provisions for pensions and compensatory obligations are determined in accordance with IAS 19 (revised 1998) using the projected unit credit method. Further details are set out in Note VII, 12 to the consolidated financial statements.

Deferred taxes are recorded, in accordance with IAS 12 (revised 2000), for timing differences in valuations in the tax balance sheets as compared with the commercial balance sheets of the consolidated companies, for variances arising from adaptions to consolidated accounting and valuations as well as for consolidation measures. Expected realisable tax loss carry forwards are capitalised in the amount of the deferred tax assets. Deferred taxes have been calculated using a corporate tax rate of 25 % (previous year: 40 %, cumulative) plus the 5.5 % solidarity surtax on the corporate tax.

Financial debts and liabilities are valued at redemption value, and pension commitments are recognised at cash value.

Interests and other costs of loan capital are recorded as current expenditure.

Some items contained in the consolidated financial statements have been valued taking into account **assumptions** and **estimates**, with corresponding effect on the balance sheet or the income statement. The effective figures may vary from these assumptions or estimates. Estimates relate, inter alia, to the extent of value adjustments to receivables from supplies and services rendered, the assessment of provisions for legal risks and revenue deducts.

IV. CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method in accordance with IAS 7 (revised), classifying cash flows from operating, investing and financing activities. Cash and cash equivalents include cash on hand and cash in banks.

V. SEGMENT INFORMATION

IAS 14 (revised 1997) requires segment information, classified in reporting on business segments and geographical segments, which are characterised by different business opportunities and risks and which show a defined minimum size.

RHÖN-KLINIKUM Group operates in the German market, exclusively, with its business risks and opportunities being basically the same in the various federal states. Since the Group's rehabilitation business does not show the minimum size as defined by IAS (revised 1999), there are no other business segments requiring segment information besides the acute care business.

An analysis of revenues by business areas and regions appears in Note VI. below.

VI. INCOME STATEMENT

The income statement has been prepared using the total cost method.

1. Revenues

The development of revenues by business areas and regions has been as follows:

	2000	1999
	€ million	€ million
Business areas		
Acute care	635.1	583.6
Rehabilitation	31.7	29.8
Other	2.3	1.6
	669.1	615.0
Regions		
Thuringia	169.3	170.0
Bavaria	164.5	158.6
Saxony	164.1	148.9
Hesse	47.7	47.1
Baden-Württemberg	29.5	29.2
Lower Saxony	70.4	46.4
North Rhine-Westphalia	23.6	14.8
	669.1	615.0

2. Other operating income

Other operating income comprises:

	2000	1999*
	€ million	€ million
Income from services rendered	11.0	10.7
Income from grants and other allowances	4.2	4.9
Income from the release of provisions	0.4	2.0
Other	7.0	2.7
	22.6	20.3

** Breakdown in part based on estimates*

Income from services rendered includes income from ancillary and subsidiary undertakings as well as income from rental and lease agreements.

3. Cost of materials

Reduced material consumption and stable purchase conditions resulted in the cost of materials increasing moderately by € 9.5 million to € 161.6 million, which was less than proportionally in relation to revenue growth.

4. Personnel expenses

Personnel expenses rose by € 32.5 million to € 329.6 million, the reasons being the higher number of employees compared with the previous year and an average increase of 2.5 % in wages and salaries as well as higher performance-based pays to employees.

The retirement benefit costs including contributions to external insurance funds amounted to € 4.6 million.

5. Depreciation

Depreciation on tangible and intangible assets, shown at € 37.0 million, was unchanged compared to the previous year. Unscheduled depreciation of € 0.7 million relates to intangible assets. This amount was determined on the basis of expected future benefits.

6. Other operating expenditure

Other operating expenditure breaks down as follows:

	31 December 2000	31 December 1999*
	€ million	€ million
Maintenance	19.6	18.7
Charges, subscriptions and consulting fees	8.3	7.4
Administrative overheads	4.2	3.6
Write-downs on receivables	3.9	2.6
Rents and leaseholds	2.3	3.5
Secondary taxes	0.8	0.5
Other	21.4	18.4
	60.5	54.7

** Allocation in part based on estimates*

7. Research costs

Our annual research costs, which are recognised as an expense, account for about 2 % to 3 % of revenues.

8. Income taxes

Income taxes decreased by € 7.4 million to € 22.4 million compared with the previous year. Income taxes comprise the corporate tax including the solidarity surtax. In accordance with IAS (revised 2000), this item also reflects deferred taxes on valuation differences in the tax balance sheets as compared with the trade balance sheets of consolidated companies, on variances arising from consolidation entries and on expected realisable tax loss carry forwards which, as a rule, can be brought forward without timing limits. The application of tax loss carry forwards resulted in a tax reduction of approximately € 1.7 million.

Secondary taxes are recognised in the operating result.

The income taxes are composed as follows:

	2000	1999
	€ million	€ million
Current income taxes	36.2	29.0
Deferred taxes	–13.8	0.8
	22.4	29.8

The benefit from deferred taxes arising from timing differences in valuations was € 19.4 million less tax liabilities of € 5.6 million arising from tax loss carry forwards.

The transition from result before income tax to income tax expenditure is as follows:

	2000		1999	
	€ million	%	€ million	%
Result before income tax	**90.4**	**100.00**	78.9	100.0
Calculated tax expenditure*	36.2	40.0	31.6	40.1
Solidarity surtax	2.0	2.2	1.7	2.2
Excess taxation due to non-deductible expenditure	1.1	–1.2	– 0.9	–1.1
Effects of tax reform legislation**	–14.5	–16.0	0.0	0.0
Other	– 2.4	– 2.7	– 4.4	– 5.6
Effective tax expenditure	**22.4**	**24.8**	29.8	37.8

* *Based on a tax rate of 40 %*
** *Reduction of corporate tax rate for deferred taxes to 25 %*

Further details regarding the assignment of deferred taxes to individual assets and liabilities are given in Note VII to the consolidated financial statements.

9. Earnings per share

Earnings per share are computed based on the consolidated profit and the weighted average number of shares in issue in the respective period.

	Ordinary shares	Preference shares
Interests in consolidated profit		
€ thousand	41,157	20,741
(previous year)	(29,634)	(14,982)
Weighted average number of shares in issue		
in thousand	17,277	8,634
(previous year)	(17,277)	(8,634)
Earnings per share, €	2.38	2.40
(previous year)	(1.72)	(1.74)
Dividend per share, €	0.40	0.42
(previous year)	(0.33)	(0.35)

Diluted earnings per share correspond to non-diluted earnings per share, since there were no options or convertible debentures outstanding at the respective dates of the reports. Preference shares rank as regards dividends in priority to the ordinary shares for the sum of € 0.02 per share, but have no voting rights.

VII. CONSOLIDATED BALANCE SHEET

1. Intangible assets

Concessions, industrial and similar rights and assets relate primarily to software.

There are no restrictions on title and/or disposing rights.

	Concessions, industrial and similar rights and assets	Goodwill	Negative Goodwill	Total
	€ million	€ million	€ million	€ million
Acquisition costs				
1 January 2000	4.1	18.2	– 2.5	19.8
Additions	1.8	1.0	0.0	2.8
Disposals	0.1	0.0	0.0	0.1
31 December 2000	5.8	19.2	– 2.5	22.5
Cumulative depreciation				
1 January 2000	2.0	2.8	– 0.3	4.5
Depreciation in 2000	1.1	1.3	– 0.2	2.2
Disposals	0.1	0.0	0.0	0.1
Transfers				
31 December 2000	3.0	4.1	– 0.5	6.6
Balance-sheet value at 31 December 2000	**2.8**	**15.1**	**– 2.0**	**15.9**
Balance-sheet value at 31 December 1999	2.1	15.4	– 2.2	15.3

2. Tangible assets

	Land, land rights and similar rights incl. buildings on third-party land	Technical plant and machinery	Other plant and equipment	Payments on account and construction in progress	Total
	€ million	€ million	€ million	€ million	€ million
Acquisition costs					
1 January 2000	519.6	24.7	123.2	13.3	680.8
Change to the scope of consolidation	5.7	0.1	1.0	0.0	6.8
Additions	11.0	1.3	21.3	50.0	83.6
Disposals	0.1	0.1	5.3	0.0	5.5
Transfers	10.0	0.9	– 4.0	6.9	0.0
31 December 2000	546.2	26.9	136.2	56.4	765.7
Cumulative depreciation					
1 January 2000	80.1	11.8	76.5	0.7	169.1
Change to the scope of consolidation	0.4	0.1	0.4	0.0	0.9
Depreciation in 2000	14.7	2.6	17.6	0.0	34.9
(of which unscheduled)	(0.0)	(0.7)	(0.0)	(0.0)	(0.7)
Disposals	0.3	0.0	4.7	0.0	5.0
Transfers	4.0	0.7	– 4.1	– 0.7	– 0.1
31 December 2000	98.9	15.2	85.7	0.0	199.8
Balance-sheet value at 31 December 2000	**447.3**	**11.7**	**50.5**	**56.4**	**565.9**
Balance-sheet value at 31 December 1999	439.5	12.9	46.7	12.6	511.7

Property in land is charged as security for bank loans and other liabilities in the amount of the total residual carrying value of € 204.4 million.

Government grants and allowances for the financing of investments are offset against the acquisition or production costs of the assets for which they have been granted, thus reducing current depreciation. This item includes appropriated grants under the Hospital Financing Act (KHG) with a residual carrying value of € 80.6 million (previous year: € 73.9 million) as well as investment allowances under the Investment Promotions Act (InvZulG) and other public grants with a residual carrying value of € 54.6 million (previous year: € 47.9 million). Nothing has come to the attention of the Board to indicate that the repayment of these grants is necessary.

3. Financial assets

	Interests in associated companies	Other loans	Total
	€ million	€ million	€ million
Acquisition costs			
1 January 2000	4.0	0.4	4.4
Additions	0.9	0.1	1.0
Disposals	0.8	0.0	0.8
31 December 2000	4.1	0.5	4.6
Cumulative depreciation			
1 January 2000/31 December 2000	2.3	0.2	2.5
Balance-sheet value at 31 December 2000	**1.8**	**0.3**	**2.1**
Balance-sheet value at 31 December 1999	1.7	0.2	1.9

Interests held in associated companies are shown at acquisition cost or, in cases of permanent impairment of value, at the appropriate lower values. The carrying values correspond to the market values of the financial assets.

Interest-bearing loans are recognised at nominal value.

4. Tax deferrals

Tax deferrals result from temporary differences of valuations in the tax balance sheets as compared to the commercial balance sheets of the consolidated companies, from consolidation entries as well as the expected reversal of tax loss carry forwards in accordance with IAS 12 (revised 2000).

Deferred tax assets and tax liabilities are shown for tax loss carry forwards as well as determined balance-sheet items as follows:

	31 December 2000		31 December 1999	
	Assets	Liabilities	Assets	Liabilities
	€ million	€ million	€ million	€ million
Loss carry forwards	6.4		12.0	
Tax-exempt reserves		25.0		42.6
Tangible assets		6.2		8.8
Provisions		0.9		0.7
Taxes payable		6.9		6.5
Other items	0.9	0.5	0.8	0.2
Total	**7.3**	**39.5**	12.8	58.8

At the balance-sheet date, tax loss carry forwards of € 24.6 million (previous year: € 28.9 million) were not yet settled; there are no limitation with regard to the timing of the reversal. The tax base used for the tax deferral is € 24.1 million (previous year: € 28.4 million). As at the balance-sheet date, the tax loss carry forwards resulted in deferred tax assets of € 6.4 million.

Deferred tax liabilities include deferred taxes of € 0.8 million (previous year: € 1.2 million) arising from consolidation entries.

5. Inventories

Stores and materials valued at € 9.8 million are primarily accounted for by medical supplies. Write-downs have been taken on the acquisition costs of inventories; these value adjustments amounted to € 0.9 million (previous year: € 1.0 million) at the respective valuation dates. The carrying value of the depreciated inventories is of secondary importance. Inventories are owned in full by RHÖN-KLINIKUM Group; there are no assignments or pledges of goods.

6. Receivables from supplies and services rendered

	31 December 2000	of which long-term	31 December 1999	of which long-term
	€ million	€ million	€ million	€ million
Receivables from clients	107.3	0.0	93.2	0.1
Value adjustments	7.4		4.9	
	99.9	**0.0**	88.3	0.1

The value of receivables from supplies and services at cost corresponds to the book value. Discernible single risks are accounted for by value adjustments. These are assessed on the basis of the probable business risk. Accounts accrued in the business year are shown under other operating expenditure in the income statement, accounts settled are included in other operating income.

7. Tax claims

Tax claims include corporate tax reimbursement claims of consolidated subsidiaries.

8. Other receivables and other assets

Other receivables and other assets are shown less value adjustments made.

	31 December 2000	of which long-term	31 December 1999	of which long-term
	€ million	€ million	€ million	€ million
Receivables under the hospital financing law	2.2	0.0	1.7	0.0
Receivables from associated companies	0.1	0.0	0.6	0.0
Other assets	2.7	0.3	3.4	0.0
	5.0	**0.3**	5.7	0.0

Receivables under the hospital financing law mainly relate to outstanding compensations in accordance with the federal hospital compensation scheme (Bundespflegesatzverordnung).

No write-ups or unscheduled write-downs have been effected on other receivables and other short-term assets.

Because of the short-term nature of other receivables and other assets, balance-sheet values and market values are identical in the majority of cases.

9. Cash and cash items

Cash and cash items comprise cash on hand and cash in banks, exclusively.

10. Equity

In accordance with IAS 1 (revised 1997), equity development is presented separately in the statement of changes in shareholders' interests, which forms part of the consolidated financial statement.

The share capital of RHÖN-KLINIKUM AG is divided into:

		Arithmetical interest in the share capital
	Number of shares	€
Ordinary shares to bearer	17,280,000	17,280,000
Non-voting preference shares	8,640,000	8,640,000
	25,920,000	**25,920,000**

Each no-par share equals an arithmetical interest of € 1.00 in the share capital.

The capital reserve includes the agio derived from capital increases.

Own interests in the share capital of the company are valued at € 0.1 million and netted against the share capital. As at the balance sheet date, the portfolio of own shares included 3,054 ordinary shares and 5,589 preference shares.

In accordance with the provisions of the Companies Act (Aktiengesetz), dividends distributable to shareholders are computed on the basis of the net distributable profit shown in the annual financial statements of RHÖN-KLINIKUM AG prepared in accordance with the German Commercial Code (HGB). The following appropriation of the net distributable profit of € 21.3 million will be proposed by the Board of Management and the Supervisory Board at the forthcoming general meeting:

	Dividend	Total
	€ per share	€
On ordinary shares	0.40	6,912,000.00
On preference shares	0.42	3,628,800.00
Transfer to other retained earnings		10,713,140.24
		21,253,940.24

11. Minority interests

Minority interests include the interests of outside shareholders in the capital of consolidated subsidiary companies.

	Outside shareholders' interests
	%
Altmühltalklinik-Leasing GmbH, Kipfenberg	49.0
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	25.0
Zentralklinik Bad Berka GmbH, Bad Berka	25.0

Outside shareholders' interests in the consolidated net profit for the year amount to € 6.1 million (previous year: € 4.5 million).

12. Provisions for pensions and similar obligations

The Group provides retirement benefits for part of its employees through its legally independent company pension scheme, which is in substance a defined benefit pension plan. The Group recognises the costs of both current pension payments and future entitlements under the scheme.

Pension obligations are financed in full from internal pension provisions, i. e. coverage of these obligations is not provided by means of outside insurance funds.

All obligations arising from the defined benefit pension plan and pension costs have been valued using the projected unit credit method, in accordance with IAS 19 (revised 1998).

Obligations relate to pension commitments to executives of one consolidated company in the form of defined benefit post retirement, disablement and survivor's pensions. Provisions for the company pension scheme cover commitments to employees still in service, former employees holding non-forfeitable titles and pensioners. Benefits are determined on the basis of employees' service lives and pensionable salaries.

In addition, RHÖN-KLINIKUM AG recognises compensatory commitments to board members and one executive, which are also included in pension obligations, as required by IAS 19 ("Employee Benefits").

The costs of pension schemes and compensatory commitments break down as follows:

	2000	1999
	€ million	€ million
Entitlements accrued (based on service lives)	0.4	0.3
Unaccrued interest on expected entitlements	0.5	0.5
	0.9	0.8

Pension payments in 2000 amounted to € 0.4 million. The total expenditure of € 0.9 million is included in personnel expenses.

The situation regarding entitlements and financing of pensions and compensations is as follows:

	2000	1999
	€ million	€ million
Defined benefit obligation	9.2	8.7
Excess of defined benefit obligation over planning ability	9.2	8.7
Actuarial gains or losses not yet put to account	– 0.8	– 0.8
Transitional obligations not yet put to account	0.0	0.0
Defined benefit liability	8.4	7.9

In 2000 and 1999, **provisions for pensions** have developed as follows:

	2000	1999
	€ million	€ million
As at 1 January	7.9	7.5
Retirement benefits paid	0.4	0.4
Allocations	0.9	0.8
As at 31 December	8.4	7.9

The calculation is based on the following **assumptions:**

	31 Dec. 2000	31 Dec. 1999
	%	%
Rate of interest	6.5	6.5
Expected increase in wages and salaries	2.5	2.5
Expected increase in pensions	1.5	1.5
Average fluctuation	0.0	0.0

The **biometrical basis of calculation** used are the 1998 Tables as issued by Dr. Klaus Heubeck.

The company pays contributions to the Versorgungswerk des Bundes und der Länder (VBL) for eligible employees in the framework of collective bargaining agreements. The VBL pension scheme is, in substance, a defined benefit pension plan, as described by IAS 19, since post retirement benefits of former employees of VBL member companies are not determined by contributions paid in. However, in light of the great variety of VBL member companies, this form of pension scheme must be regarded as a multi-employer plan, subject to special rules according to IAS 19, meaning that the creation of provisions according to IAS 19 is not permitted due to lack of information for a detailed assessment of the share of RHÖN-KLINIKUM companies in future pension obligations. These obligations are, therefore, recognised as obligations under defined contribution pension plans, as required by IAS 19.30a.

Current contributions are recognised as cost of pensions in the operating result of the respective business years. Contributions to VBL amount to approximately € 3.5 million per year. Provided continued VBL membership, there are no other obligations for RHÖN-KLINIKUM companies besides paying in contributions.

13. Other provisions

Other provisions recorded in 2000 developed as follows:

	1 Jan. 2000	Consumed	Released	Allocated	31 Dec. 2000	of which short-term
	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for business risk	2.0	0.2	0.1	0.3	2.0	2.0
Provisions for third-party risks	1.0	0.0	0.3	0.6	1.3	1.3
Other provisions	0.2	0.0	0.0	0.5	0.7	0.7
	3.2	**0.2**	**0.4**	**1.4**	**4.0**	**4.0**

Provisions for business risk relate mainly to risks arising from rental agreements.

Provisions for third-party risks relate to damage compensation claims. With the exception of agreed deductible amounts (net retention), these risks are covered by existing insurance contracts and corresponding rights of recourse. The Group provides for the financial effects of net retention in conformity with probable demand.

14. Long-term financial debts

	2000 short-term	2000 long-term	1999 short-term	1999 long-term
	€ million	€ million	€ million	€ million
Liabilities to banks	9.3	200.1	8.8	216.0
Other liabilities	0.5	0.0	0.5	0.0
	9.8	**200.1**	9.3	216.0

Other liabilities include an annually redeemable loan, which is continuously prolonged.

The table shown below details the terms and conditions of financial debts as well as their book values and nominal values.

End of interest limitation	Interest rate*	31 December 2000 Nominal value	31 December 2000 Book value	31 December 1999 Nominal value	31 December 1999 Book value
	%	€ million	€ million	€ million	€ million
Liabilities to banks					
2000		–	–	18.4	16.5
2001		16.6	14.4	16.6	15.1
2002		55.3	49.5	55.3	51.4
2003		58.8	50.3	58.8	52.0
2004		34.8	29.1	34.8	30.5
2005		62.6	44.9	52.9	43.6
2006		13.8	12.0	11.8	10.9
2007		5.1	4.2	5.1	4.8
2011		5.0	5.0	0.0	0.0
Other liabilities	**5.97**	**252.0**	**209.4**	253.7	224.8
2001	7.50	0.5	0.5	0.5	0.5
		252.5	**209.9**	254.2	225.3

* *weighted rate of interest*

The book values shown correspond to the market values of financial debts.

Of the amounts stated, € 204.4 million are secured by mortgages, in the first place.

Total liabilities with a residual term of more than five years amount to € 143.9 million.

15. Tax liabilities

Tax liabilities include corporate tax payable plus the solidarity surtax. They cover tax liabilities incurred in the current year as well in previous periods.

16. Other liabilities

	31 December 2000	of which long-term	31 December 1999	of which long-term
	€ million	€ million	€ million	€ million
Liabilities from supplies and services	42.6	0.2	28.2	0.3
Personnel liabilities	38.8	0.0	33.3	0.0
Financial debts	38.2	0.0	29.5	0.0
Liabilities under the Hospital Financing Act (KHG)	19.6	0.0	16.0	0.0
Operating taxes and social security	10.8	0.0	10.2	0.0
Prepayments received	0.3	0.0	2.4	0.0
Other	10.9	0.3	19.0	0.2
	161.2	**0.5**	138.6	0.5

Personnel liabilities are mainly accounted for by performance-based wage elements as well as leave compensation.

Short-term financial debts relate to debts arising within the ordinary course of business, exclusively.

Liabilities under the German Hospital Financing Act (KHG) include not yet appropriated global allowances granted under state legislation for hospital financing as well as compensatory obligations under the federal hospital compensation scheme (Bundespflegesatzverordnung).

The book values of the liabilities included in these items correspond to their market values.

Other liabilities with a residual term of more than five years amount to € 0.1 million.

VIII. SHAREHOLDINGS

a) Consolidated affiliated companies

	Share in capital	Equity **	Result for the year **
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing GmbH, Kipfenberg	51.0	2,012	204
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	16,862	–193
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	9,991	– 83
GTB Grundstücksgesellschaft mbH, Bad Neustadt/Saale	100.0	24,798	– 577
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	195	41
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,727	204
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	7,928	1,158 *
Herzberger Klinik Leasing GmbH, Herzberg	100.0	7,973	115
Herzklinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,983	120
Herzzentrum Leipzig GmbH, Leipzig	100.0	17,139	10,915
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	– 5,261	505
Klinik „Haus Franken" GmbH, Bad Neustadt/Saale	100.0	555	50
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	46	– 4
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	6,395	3,723
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	75.0	17	0
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	5,028	1,805
Kliniken Herzberg und Osterode GmbH, Herzberg	100.0	6,520	834
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	11,198	975
Klinikum Meiningen GmbH, Meiningen	100.0	11,698	6,531
Krankenhaus Freital GmbH, Freital	100.0	15,350	750
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	11,077	1,077
Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde	100.0	5,261	–1,095
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,374	1,045
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	6,618	915
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	5	– 4
RK Klinik Besitz GmbH Nr. 5, Bad Neustadt/Saale	100.0	47	– 2
RK Klinik Betriebs GmbH Nr. 5, Bad Neustadt/Saale	100.0	47	– 2
Soteria Klinik Leipzig GmbH, Leipzig	100.0	2,722	423
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	7,899	568
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	10,928	2,249
Zentralklinik Bad Berka GmbH, Bad Berka	75.0	44,832	16,366

** after profit transfer*
*** according to German Commercial Code (HGB)*

b) Non-consolidated affiliated companies

	Share in capital	Equity **	Result for the year **
	%	€ thousand	€ thousand
ESB-Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt/Saale	100.0	1,817	135
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH, Leipzig	100.0	344	12*
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt/Saale	100.0	264	34
KS Krankenhaussysteme Gesellschaft für Unternehmensberatung mbH, Bad Neustadt/Saale	100.0	66	37
Kurverwaltung Bad Neustadt GmbH, Bad Neustadt/Saale	60.0	82	31*
RK Bauträger GmbH, Bad Neustadt/Saale	100.0	254	–21
Wolfgang Schaffer GmbH, Bad Neustadt/Saale	100.0	471	12

* *Figures according to 1999 financial statements*
** *according to German Commercial Code (HGB)*

IX. ADDITIONAL INFORMATION

1. Average number of employees*

	2000	1999	Change	
	Number	Number	Number	%
Medical service	1,139	1,082	57	5.3
Nursing service	4,007	3,709	298	8.0
Medico-technical service	1,346	1,275	71	5.6
Support functions	719	650	69	10.6
Supply and misc. services	471	482	–11	– 2.3
Technical service	172	156	16	10.3
Administration	723	666	57	8.6
Other personnel	45	38	7	18.4
	8,622	8,058	**564**	**7.0**

* *by heads, excluding board members, managing directors, apprentices, trainees and civilian alternative servants.*

2. Contingent liabilities

	31 Dec. 2000	31 Dec. 1999
	€ million	€ million
Warranties and guarantees	0.8	0.1
Collateral for liabilities of third parties	26.0	26.0
(of which affiliated companies)	(26.0)	(26.0)

3. Other financial obligations

	31 Dec. 2000	31 Dec. 1999
	€ million	€ million
Capital expenditure contracted for	15.0	6.4
Rental and lease agreements		
Maturity subsequent year	0.7	0.6
Maturity 2 – 5 years	4.4	1.4
Maturity more than 5 years	0.0	3.9
Pre-tax adjustments		
Maturity subsequent year	0.1	0.2
Maturity 2 – 5 years	5.6	6.8
Maturity more than 5 years	0.0	0.0
Other		
Maturity subsequent year	13.7	11.1
Maturity 2 – 5 years	6.3	6.1
Maturity more than 5 years	5.2	5.8

In addition, the Group recognises capital expenditure obligations in the amount of € 138.0 million (previous year: € 138.5 million) arising from hospital take-over agreements. The Group has agreed to incur this expenditure within 36 months from the respective contract dates.

4. Related parties

Mr. Eugen Münch, Bad Neustadt/Saale, chairman of the Board of Management of RHÖN-KLINIKUM AG, holds more than 10 % of the voting rights in the capital of the company.

5. Publication of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2000 will be published on 17 May 2001.

6. Total remuneration of Supervisory Board, Board of Management and Advisory Board

	2000	1999
	€ million	€ million
Supervisory Board	0.70	0.40
Board of Management	5.40	4.00
Advisory Board	0.01	0.02

No loans were granted to board members. Total remuneration for the Board of Management includes € 1.2 million in the form of salaries and € 4.2 million in the form of performance-linked payments.

7. Corporate Bodies

Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg, Munich,
Chairman, attorney at law
Also a member of the Supervisory Boards of Nordsaat Holding GmbH, Böhnshausen, and Nordsaat Saatzuchtgesellschaft, Böhnshausen

Ursula Pflieger, Bad Neustadt/Saale,
Deputy Chairwoman, Managing Senior Nurse

Ursula Derwein, Stuttgart,
member of the Chief Executive Board of the labour union "Public services, Transport and Traffic"
Also a member of the Supervisory Board of Signal Iduna AG, Hamburg

Karl-Heinz Geis, Bad Neustadt/Saale,
Sports therapist

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Munich,
Lawyer

Kurt Katzenberger, Burglauer,
Technician

Detlef Klimpe, Aachen,
Director of Administration

Wolfgang Mündel, Kehl,
Auditor and tax consultant

Timothy Plaut, Frankfurt am Main,
Investment banker

Christine Reißner, Sülzfeld,
Director of Administration

Claudia Rühlemann, Erfurt,
Chairwoman in Thuringia of the labour union "Public Services, Transport and Traffic"

Dr. Richard Trautner, Munich,
Deputy Chairman of the Supervisory Board of Bayerische HypoVereinsbank AG
Also a member of the supervisory boards of Aktien Brauerei-Kaufbeuren AG, Kaufbeuren; Allgäuer Brauhaus AG, Kempten; AVECO Holding AG, Frankfurt am Main; MEA Meisinger AG, Aichach; Weltbild Verlag GmbH, Augsburg; and Kraft Verkehr Bayern GmbH, Munich.

Board of Management

Andrea Aulkemeyer, Mettingen,
Deputy board member, Regional Division Saxony
(since 1 January 2001)

Eugen Münch, Bad Neustadt/Saale,
Chairman, Regional Divisions Baden-Württemberg, Hesse and North Rhine-Westphalia
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Dr. Elmar Keller, Leipzig,
Regional Division Saxony (until 31 October 2000)

Joachim Manz, Weimar,
Regional Divisions Thuringia, Lower Saxony and Saxony-Anhalt

Gerald Meder, Hammelburg,
Regional Division Bavaria; Synergy, Logistics, Quality and Development; Labour Relations
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Manfred Wiehl, Bad Neustadt/Saale
Financing, Investments, Controlling
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

8. Advisory Board

Wolf-Peter Hentschel, Bayreuth *(Chairman)*

Prof. Dr. Gerhard Ehninger, Dresden

Dr. Heinz Korte, Munich

Prof. Dr. Dr. Karl Lauterbach, Cologne

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale
(since 28 July 2000)

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Bad Neustadt/Saale, 30 March 2001

The Board of Management

Andrea Aulkemeyer Joachim Manz Gerald Meder Eugen Münch Manfred Wiehl

Auditors' Certificate

Based on the result of our audit, we have issued the following unqualified auditors' certificate with date of 19 April 2001:

"We have audited the consolidated financial statements of RHÖN-KLINIKUM Aktiengesellschaft, comprising the balance sheet, the income statement, the statement of changes in shareholders' interests, the cash flow statement and the notes to the consolidated financial statements for the year ended 31 December 2000. The preparation and the disclosures of these consolidated financial statements in accordance with the International Accounting Standards (IAS) issued by the IASC are the responsibilities of the Board of Management of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to verify their compliance with the provisions of the IAS.

We conducted our audit in accordance with generally accepted German auditing principles based on the standards for professional auditing issued by the Institut der Wirtschaftsprüfer (IDW). These standards require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures included in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made by the management, and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the result of our audit, these consolidated financial statements give a true and fair view of the Group's assets and financial position, the results of operations and the cash flows for the year, in accordance with the IAS.

No defences have resulted from our audit which, in accordance with German auditing standards, also included the consolidated management report for the year ended 31 December 2000. In our opinion, this management report fairly presents the Group's overall position and the potential risks of its future development. Furthermore, we confirm that these consolidated financial statements and the consolidated management report for the year ended 31 December 2000 comply with the conditions for the exemption of the company from the obligation of preparing consolidated financial statements including a consolidated management report in acordance with German law."

Frankfurt am Main, 19 April 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Lieberum) Auditor

(Schmidt) Auditor

The promenade at RHÖN-KLINIKUM AG's headquarters in Bad Neustadt/Saale.

Balance Sheet

	31 Dec. 2000 € million	31 Dec. 1999 € million
ASSETS		
Intangible assets	0.2	0.2
Tangible assets	31.3	31.1
Financial assets	202.6	171.7
Fixed assets	**234.1**	**203.0**
Inventories	2.0	2.0
Receivables and other assets	25.3	19.7
Securities, cash and cash equivalents	0.2	0.3
Current assets	**27.5**	**22.0**
	261.6	**225.0**

	31 Dec. 2000 € million	31 Dec. 1999 € million
EQUITY AND LIABILITIES		
Subscribed capital	25.9	25.9
Capital reserve	37.6	37.6
Retained earnings	97.0	72.0
Net distributable profit	21.3	12.5
Equity	**181.8**	**148.0**
Tax provisions	1.4	0.8
Other provisions	22.7	18.5
Provisions	**24.1**	**19.3**
Liabilities	**55.7**	**57.7**
	261.6	**225.0**

Income statement

	2000 € million	1999 € million
Revenues	113.0	109.8
Changes in services in progress	0.2	– 0.2
Other operating income	7.5	5.9
Cost of materials	26.0	26.2
Personnel expenses	53.1	49.5
Depreciation	3.0	2.7
Other operating expenditure	25.5	22.4
Income from operations	**13.1**	**14.7**
Income from investments	60.5	30.0
Financial result	– 2.5	– 2.3
Headline earnings	**71.1**	**42.4**
Taxes	28.6	17.5
Net income for the year	**42.5**	**24.9**
Allocation to retained earnings	21.2	12.4
Net distributable profit	**21.3**	**12.5**

The annual financial statements of RHÖN-KLINIKUM AG, which have been certified by PwC Deutsche Revision, Wirtschaftsprüfungsgesellschaft, will be published in the Bundesanzeiger and deposited with the Registrar of the Amtsgericht of Schweinfurt.

Should you wish to receive a full copy, please write to RHÖN-KLINIKUM AG.

Proposed Appropriation of Net Distributable Profit

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2000, which have been prepared by the Board of Management and approved by the Supervisory Board and are thus final, show a net distributable profit of € 21,253,940.24. The Board of Management will propose to shareholders at the forthcoming general meeting that this profit be appropriated as follows:

	€
Distribution of a dividend of € 0.40 per ordinary share on 17,280,000 ordinary shares	6,912,000.00
Distribution of a dividend of € 0.42 per non-voting preference share on 8,640,000 preference shares	3,628,800.00
Allocation to other retained earnings	10,713,140.24
Net distributable profit	21,253,940.24

Shareholders receive a tax credit of 3/7 of the dividend amount.

Bad Neustadt/Saale, 17 May 2001

RHÖN-KLINIKUM AKTIENGESELLSCHAFT

The Board of Management

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This Annual Report is also available in German and Spanish as well as in English, German and Spanish on CD-ROM (financial years 1995 to 1998 in English and German only, from 1999 in the three languages).

This Annual Report was printed on paper bleached without chlorine.