RHÖN-KLINIKUM AG

ANNUAL REPORT

2002

Contents

RHÖN-KLINIKUM GROUP AT A GLANCE

	1998	1999*	2000*	2001*	2002*
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Revenues	492,334	615,012	669,144	697,013	879,492
Cost of materials	126,740	152,040	161,577	172,487	211,691
Personnel costs	215,093	297,102	329,565	340,093	456,090
Depreciation on tangible assets	44,397	37,037	37,030	38,652	48,930
Net consolidated profit*	37,985	44,616	61,899	66,080	67,428
Operating cash flow	79,605	86,185	105,019	109,464	131,275
Number of employees (at 31 December)	6,459	9,145	9,357	9,432	12,852
Tangible assets	533,694	511,681	565,878	614,093	717,941
Financial assets	2,154	1,901	2,056	1,973	1,999
Equity	147,278	265,836	319,013	374,090	429,375
Return on equity, in %	18.7	18.5	21.2	19.1	16.8
Balance sheet total	716,815	734,532	771,735	836,628	1,003,381
Investments					
– in tangible assets	145,305	94,100	92,243	87,088	168,218
– in financial assets	0	79	84	19	0
Earnings per preference share (€)**	1.35	1.74	2.40	2.56	2.62
Earnings per ordinary share (€)***	1.33	1.72	2.38	2.54	2.60
Total dividend amount	7,215	8,726	10,541	12,614	15,206

* *From 1999 according to IAS (International Accounting Standards)*
** *For comparison reasons, figures for all financial years shown are based on 8,640,000 preference shares.*
*** *For comparison reasons, figures for all financial years shown are based on 17,280,000 ordinary shares.*

The pictures of this annual report

Under the motto “A Hospital in the Information Age”, images and excerpts from the Group’s new Internet presentation have been selected as a mean of illustrating this year’s annual report.

A project group of experts from the hospitals of RHÖN-KLINIKUM AG convened exactly five times in the run-up to the official launch of the new Internet presentation. A concept for the “New Media Strategy” of the Group was adopted and implemented. One aim was to make the new Internet presentation clearer in terms of navigation and more standardised in its appearance, whilst leaving scope for all Group hospitals to customise aspects of the design themselves.

The redesigned web site is, however, just the visible “tip of the iceberg”, with the outcome of this project being a technological platform that makes content available in what is presently the most modern standard, otherwise known as “eXtended Media Language (XML)”, permitting rapid content administration and integration.

What does this mean in practical terms? Once entered and updated at one location, it is possible to find, for example, the description, the telephone numbers and the scope of services of a particular department everywhere on the site at the relevant locations. Regardless of whether these data are augmented with images for the Internet presentation or take the form of a post-code-based query on a mobile phone display (e. g. “Where is the nearest clinic?”) as well as for brochures and clinic prospectuses – the content is available irrespective of the media and can be made available everywhere on the basis of predefined templates.

For the clinics, a system for entering content has also been set up. This makes it possible to delegate to individual employees the task of maintaining and updating individual areas, with automatic submission to the person in charge. This is a system that is also used within the medical field and which helps promote a lively interchange of ideas between the hospitals and their specialist departments. By way of example, a medical text can be co-authored by all the experts across the Group and will then be available on the web site via the system to each and every hospital. What we have in mind in addition to this major technological step forward is a further enhancement with regard to content: since the site went live, more and more medical content for non-professionals has been, and will continue to be incorporated. In future, patients will be supplied with comprehensive content in a “holistic” way – thereby answering all such questions as “What form of treatment is generally provided for my type of illness?” to “What does a left-heart catheter examination entail?” through to “Where is this form of treatment available?”

Dr. med. Christian Elsner
Project Manager

Report of the Supervisory Board for the year ended 31 December 2002

[pursuant to § 171 of the Companies Act (AktG)]

In financial year 2002, the Board of Management and the Supervisory Board of RHÖN-KLINIKUM Group were faced with new internal and external challenges: the significant change in the Company's shareholder structure, the slump in equity markets, the coming into effect of the German Corporate Governance Code and the turbulences within the German healthcare system required a high degree of flexibility, judgement and determination. Against this background, the work of the Supervisory Board and its close collaboration with the Board of Management were of special importance.

With this report, the Supervisory Board not only documents about his composition and structure, but also informs shareholders about the most important decisions made in financial year 2002, as well as show the efficiency of the cooperation between the Board of Management and the Supervisory Board.

Composition and structure of the Supervisory Board

The Supervisory Board continues to consist of 16 members. Of these, eight members were elected by the Group's employees, in compliance with the provisions of the Codetermination Act (MitbestG), and the remaining eight members were elected by the shareholders at General Meeting of RHÖN-KLINIKUM AG. On termination of the General Meeting of 17 July 2002, Reichsfreiherr Karl Theodor von und zu Guttenberg resigned from the Supervisory Board; in his stead, the shareholders elected Dr. Brigitte Mohn as a member of the Supervisory Board.

The personal data of the Supervisory Board members are set out in the section "Corporate bodies of the Company" in this annual report, which also provides information on the professional qualifications of the Supervisory Board members.

Dr. F.-W. Graf von Rittberg continues to be chairman of the Supervisory Board; the first deputy chairman is Bernd Häring, and the second deputy chairman is Dr. Richard Trautner.

Committees of the Supervisory Board

The Supervisory Board endeavours to perform its task of advising and supervising the Board of Management within the scope of all-day plenary meetings in so far as there are no compelling reasons that would require the formation of committees. In financial year 2002, the Supervisory Board therefore only established a Mediation Committee, a Personal Affairs Committee and, at its meeting on 13 November 2002, an Ad-hoc Committee which was particularly concerned with the decision on the projected takeover of Klinikum Wuppertal.

The Mediation Committee was established in accordance with Sections 27 and 31 of the German Codetermination Act (MitBestG). The members of the Mediation Committee are Ursula Derwein, Bernd Häring, Detlef Klimpe, and Dr. F.-W. Graf von Rittberg. The Mediation Committee did not have to be convened during financial year 2002.

The Personal Affairs Committee established by the Supervisory Board in accordance with Section 107 of the Companies Act (AktG) presently comprises Bernd Häring, Dr. F.-W. Graf von Rittberg, Dr. Richard Trautner, and Michael Wendl. The Personal Affairs Committee deals with matters concerning the Board of Management; this refers, in particular, to the conclusion, operation and/or dissolution of contracts for members of the Board of Management. In so far as permitted by law, the Personal Affairs Committee is competent to make decisions in place of the Supervisory Board within its specific terms of reference. The Personal Affairs Committee met three times during financial year 2002.

Composition of the Board of Management

The Board of Management of RHÖN-KLINIKUM AG continues to be composed of six members, namely Eugen Münch, Gerald Meder, Manfred Wiehl, Wolfgang Kunz, Joachim Manz, and Andrea Aulkemeyer. The chairman of the Board of Management is Eugen Münch, and the deputy chairman is Gerald Meder who was also appointed director of labour relations, in accordance with Section 33 (1) of the Codetermination Act (MitbestG).

In financial year 2002, the Supervisory Board conducted the negotiations with Mr. Münch regarding the continuation of his service as chairman of the Board of Management from 1 April 2003. These negotiations were successfully concluded, and Mr. Münch has meanwhile been re-appointed a board member and confirmed as chairman of the Board of Management.

Details of the personal data of the members of the Board of Management are given elsewhere in this annual report.

The work of the Supervisory Board in 2002

The Supervisory Board held four meetings during financial year 2002. At these meetings, in individual discussions and through reports from the Board of Management, the Supervisory Board was continuously informed about the Company's and the Group's situation. Where specific transactions or measures required decisions by the Supervisory Board, as prescribed by law or the Articles of Association, votes were taken at the Supervisory Board meetings. The Supervisory Board paid particular attention to the further development of the risk monitoring system, as prescribed by Section 91 (2) of the Companies Act (AktG), and related reports to guarantee early risk identification.

Already at its meeting on 9 November 2001, the Supervisory Board was able to first discuss details of Management's projection for 2002 revenues, earnings, capital expanditure, cash flow and finance of the Company and the Group. These projections were regularly updated by the Board of Management and examined by the Supervisory Board at each of its meetings.

Based on these projections, the Supervisory Board discussed and approved a package of cost cutting measures proposed by the Board of Management at the beginning of 2002; this included a reduction in the remuneration for members of the Board of Management as well as area managers and managing directors, the sale of UCTMC in Cape Town (South Africa), and the discontinuation of the Company's dental clinic project.

As in previous years, the Supervisory Board was given regular account by the Board of Management of the development of human resources within the Company and the Group and dealt with this topic in each of its meetings. In this context, the Supervisory Board paid particular attention being informed on the personal data of regional managers and managing directors with executive functions below board level and, in some cases, confered directly with individuals from this executive group.

Of particular importance were the discussions held by the Supervisory Board and the Board of Management about the continued statutory limitation of hospital revenues, the health insurers' growing resistance to legitimate payment claims, the resulting additional charges in the form of costs of legal advice and administrative overheads, and the expected effects of the introduction of the payment system based on Diagnosis Related Groups (DRG).

The Company's growth strategy and new acquisitions of public-sector hospitals were key issues of consideration in 2002, with full interest being given to such aspects as corporate business poli-

cies, profitability goals and financing capabilities. This also included discussions on the long-term financial structure of the Group and the development of the loan financing capability of RHÖN-KLINIKUM AG. The Supervisory Board approved the acquisition of the hospitals in Pirna und Dohna-Heidenau.

German Corporate Governance Code

In several meetings during financial year 2002, the Supervisory Board dealt with the adoption of the German Corporate Governance Code and discussed in detail the practicability and usefulness of specific provisions of this Code. The Supervisory Board continues to believe that part of the text of the German Corporate Governance Code requires modification and clarification and that some of its provisions should be amended in the interest of shareholders. The Supervisory Board therefore decided that the German Corporate Governance Code be adopted with restrictions for financial year 2002. This decision was published by the Company pursuant to Section 161 of the Companies Act (AktG) and Section 15 of the Introduction Act (EGAktG).

Examination and approval of the 2002 financial statements

The Board of Management has prepared the 2002 financial statements of the Company in accordance with the German Companies Act and the German Commercial Code, while the consolidated financial statements for the year ended 31 December 2002 have been prepared in accordance with the principles set out in the International Accounting Standards (IAS).

By order of the Supervisory Board, PwC Deutsche Revision, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, beeing elected as independent auditors by the shareholders, audited the 2002 financial statements of the Company and the consolidated financial statements for the year ended 31 December 2002 as well as Management's report on the situation of the Company and the Group, including the bookkeeping, and found the financial statements to be in conformity with the books and with statutory requirements. In line with the auditing principles issued by the IDW, the auditors conducted their audit and reported its result without further reference to the ISA International Standards on Auditing.

The financial statements of the Company, the consolidated financial statements, Management's report on the situation of the Company and the Group as well as the reports of the independent auditors about the result of their audit were surrendered to every member of the Supervisory Board, together with Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and discussed with the Board of Management and representatives of the independent auditors. The examination has not given rise to any reservation.

The Supervisory Board approved the financial statements of the Company prepared by the Board of Management and authorised the consolidated financial statements; the financial statements of the Company are thus final.

The Supervisory Board welcomes the increase in dividends and their orientation toward the sustained earnings power of the Company and concurs with the Board of Management's proposal for the appropriation of the net distributable profit.

Bad Neustadt/Saale, 6 May 2003

THE SUPERVISORY BOARD

Dr. Friedrich-Wilhelm Graf von Rittberg
Chairman

Corporate bodies and Advisory Board of the Company

CORPORATE BODIES

Supervisory Board

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

Bernd Häring, Leipzig
deputy chairman, male nurse

Dr. Richard Trautner, Munich
deputy chairman, also deputy chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG

Helmut Bühner, Bad Bocklet
male nurse

Ursula Derwein, Berlin
Secretary of ver.di, Central Administration

Professor Dr. Gerhard Ehninger, Dresden
MD

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Munich
lawyer (until 17 Juli 2002)

Ursula Harres, Wiesbaden
medical-technical assistant

Detlef Klimpe, Aachen
director of administration

Bernd Kumpan, Bannewitz OT Possendorf
technician

Professor Dr. Dr. sc. Karl W. Lauterbach, Cologne
university professor

Dr. Brigitte Mohn, Gütersloh *(since 17 July 2002)*
member of the Board of Management of Bertelsmann Stiftung, responsible for healthcare issues

Wolfgang Mündel, Kehl
auditor and tax consultant

Anneliese Noe, Blankenheim
nurse

Timothy Plaut, Frankfurt am Main
investment banker

Joachim Schaar, Wasungen
director personnel

Michael Wendl, Munich
Secretary of ver.di, regional directorate of Public Services, Transport and Traffic (ÖTV).

Board of Management

Eugen Münch, Bad Neustadt/Saale
chairman, Regional Divisions Hesse/ Baden-Württemberg

Gerald Meder, Hammelburg
deputy chairman, Synergy, Logistics, Quality and Development; Labour Relations (Company) Regional Divisions Bavaria, Northern and Western Germany

Andrea Aulkemeyer, Leipzig
deputy board member, Regional Division Saxony

Wolfgang Kunz, Würzburg
deputy board member, Company and Group Accounting

Joachim Manz, Weimar
Regional Divisions Thuringia, Eastern Germany

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

ADVISORY BOARD OF RHÖN-KLINIKUM AG

Wolf-Peter Hentschel, Bayreuth *(chairman)*

Prof. Dr. Robert Hacker, Bad Neustadt/Saale

Dr. Heinz Korte, Munich

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Solid success with steady growth

At the end of an eventful financial year, 2002 RHÖN-KLINIKUM Group was once again able to present a positive balance, thus adding to an uninterrupted run of successful years going back to 1988. The unexpected weaker development at the beginning of the year led the management, and consequently our staff, to redouble their efforts to reverse the negative trend. We can all be proud of the success of our efforts, for which the figures on the following pages provide ample proof.

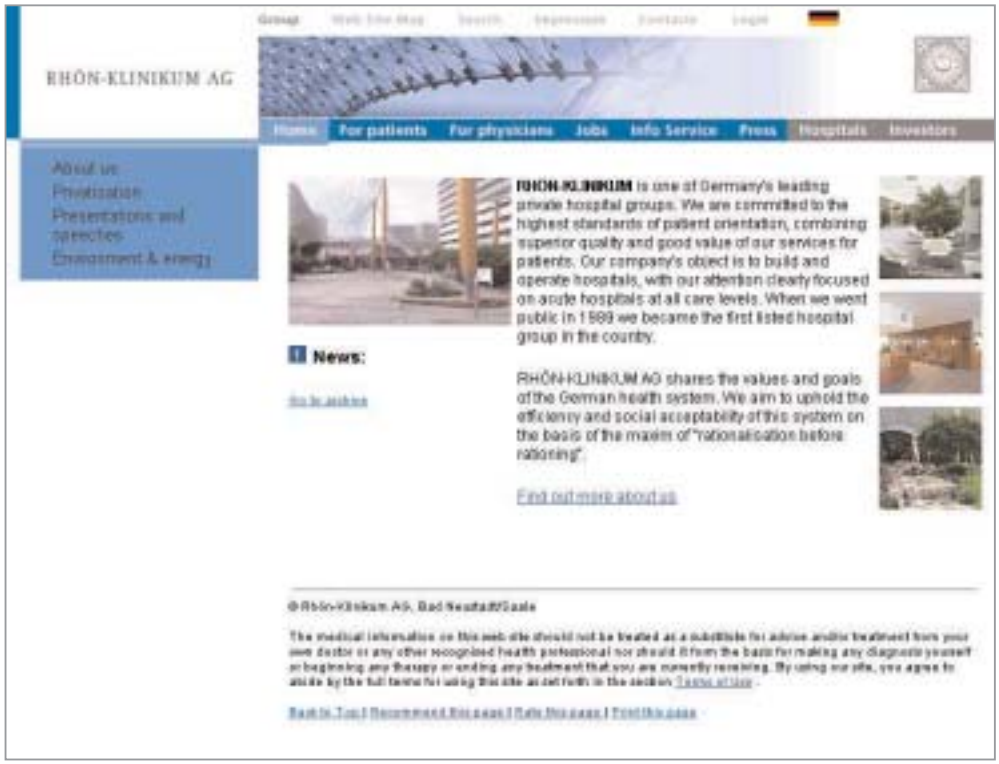
In the first quarter of 2002, against the background of positive revenue growth, our earnings came under pressure, which can be put down to a number of factors, one of these being the fact that the six hospitals acquired effective 1 January 2002 – namely Klinikum Frankfurt (Oder), the three district hospitals of Nienburg/Hoya/Stolzenau, the hospital for psychiatry and neuro logy of Hildburghausen, and Aukammklinik in Wiesbaden – were included in the scope of consolidation for the first time.

One of the capabilities that we have developed over the years, and that has now become one of the core factors of our business, is the reorganisation of hospitals that have only been sold to us because their public owners have not succeeded in making them profitable. By contrast, we do succeed in this, although not without considerable efforts in terms of cost and rationalisation management, and an investment of top management's time that must not be underestimated. The stringency of our takeover and investment models is a strong backing in meeting the challenge of reorientation, whilst it is equally important that this process is matched by new ways of thinking on the part of the existing workforce that we have to take over when concluding an acquisition.

Our turnaround experience usually results in excellent cost and performance levels on a sectoral comparison within one to four years. Any and every turnaround is, however, cost-intensive and entails extraordinary burdens over periods of time, starting with completely new hospital building or extensive redevelopment projects, through to equipping the newly acquired hospitals with state-of-the-art and, above all, ecological technology. We readily undertake to make such investments following an acquisition, as they are an indispensable instrument of rationalisation for us, while for the seller, which can be a district or municipality, for instance, our investments normally add to infrastructural improvements, providing wider benefits to the location.

The effects of investments made and start-up costs will seldom show simultaneously, with the result that takeovers are followed by a dilution of the results of the respective operations. One example of this type of charges is the move of Park-Krankenhaus Leipzig-Südost to its new buildings in February of the year under review, which of course involved curtailments of serviceability as well as additional costs. It is particularly during the phase of reorientation that there are sometimes cost factors that are assessed as being minor or more rapidly adjustable.

The second factor having a negative effect on our 2002 results was the weak macroeconomic trend, and this, we believe, should have been countered with more vigour. While it is common knowledge that the healthcare sector is a "sure-fire" success from the demand point of view – with service volumes growing continuously –, this does not automatically apply to the levels of remuneration. Because the provision of services in our industry is just as capital-intensive as it is labour-intensive, such themes as the rigidity of labour legislation and excessive wage claims of the labour unions have a significant effect on our business, though not automatically on the remuneration side, as the debate over incidental wages costs shows. So upgrading a newly acquired hospital and turning it into a performer within



A deliberate attempt has been made to structure the navigation system used for the new web site as simple as possible. In the horizontal plane, tabs are used to select the various categories of interests, whilst users navigate within the corresponding menu in the vertical plane.

our portfolio is by no means a "simple exercise" – this was very clearly demonstrated in 2002 at our Attendorn location, where we were confronted with excessive wage demands which we were able to fight off successfully, however, after a strike lasting several weeks.

There is no doubt that the disproportionately high level of growth of our Group over the last 18 years has led to ever increasing demands being placed on management and staff. However, it has also become apparent that these 18 years of growth in turnover and earnings have turned us into an enterprise that has become accustomed to success, a group in which wage claims underpinned by strikes such as in Attendorn, and the motto of "More income and more time off", e. g. quite simply more of everything, has tended to become a slogan chanted by many and at other times, too. The borderlines became visible in Attendorn, where the turn in direction was achieved, though with difficulty. In the case of our South African project we had to draw more far-reaching conclusions.

In the second quarter we decided to disassociate ourselves from our first foreign project, our investment in South Africa. We preferred to stop the project, which had been limited in scope from the outset, when it became clear that the venture might well be successful but that far more resources would have to be put at risk in the process. At last, the disposal proceeds realised helped to reduce the extraordinary loss to € 2.1 million.

Knowing that it was hardly feasible to compensate for all these negative developments by way of price increases in a market that continues to suffer from statutory restrictions to hospital budgets, we introduced a harsh group-wide cost-cutting program. Our shareholders will remember that at the Annual General Meeting in July 2002, we stated € 66.1 million plus as being a realistic target for consolidated profits for the year, and

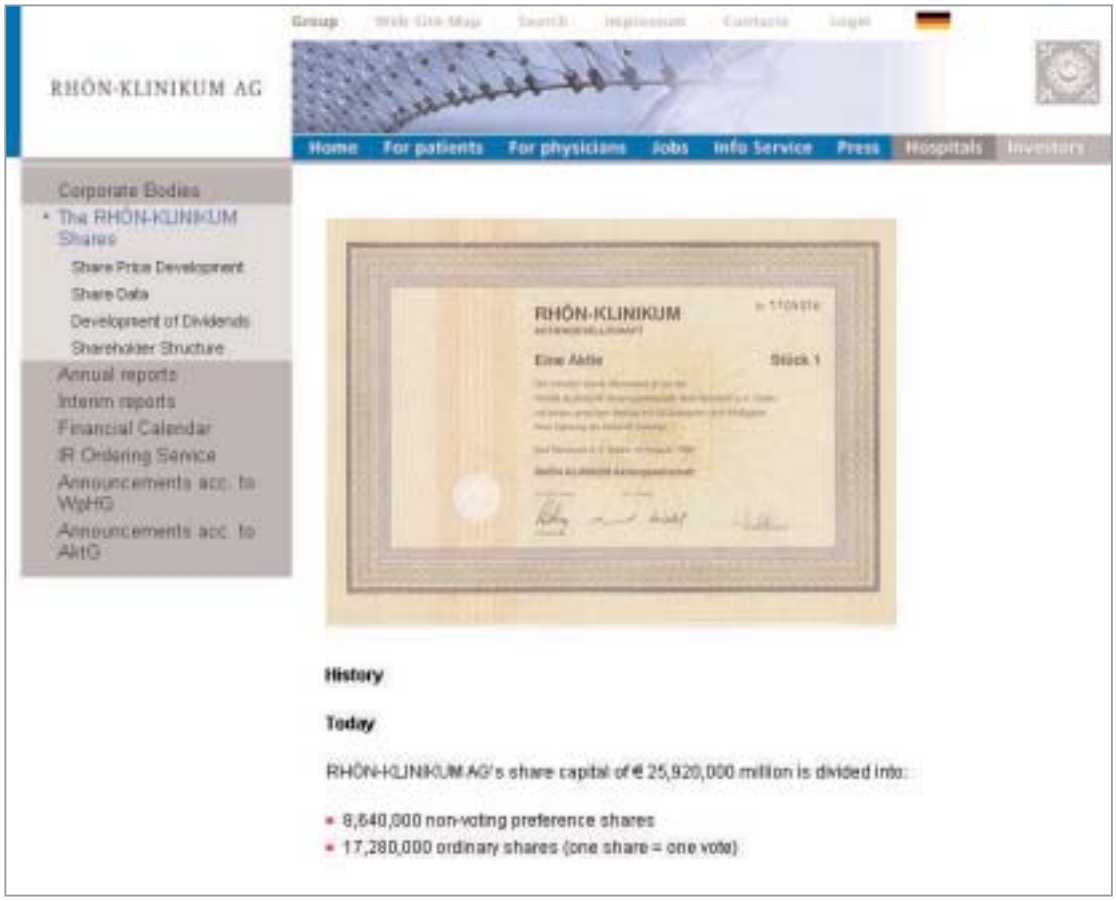
that this statement was backed up with self-prescribed reductions in top-management remunerations, should this target not be achieved. What we expected of this was to motivate our staff and to strengthen our credibility and our efforts were not in vane.

The measures we introduced – centred on significantly intensified monitoring of performance figures, combined with reductions in excessive staffing, in places caused by disorganisation or clinging to much-loved structures, and rigorous screening of materials consumption – led to a visible trend reversal across the Group in the second half of the year. We would like to thank everyone who was actively involved in achieving this.

During the year under review, the RHÖN-KLINIKUM hospitals treated a combined total of 473,775 patients; this figure includes the patients cared for at Klinikum Pirna GmbH, a subsidiary acquired in 2002. As in previous years, capacity at most of our longer-established operations was utilised in full, or close to 100 per cent. One exception to this for external reasons is Krankenhaus Freital: operations at this site were interrupted in the third quarter due to flooding, caused by the opening of three near-by dams. The hospital's patients had to be evacuated. The whole of the basement as well as parts of the ground floor were flooded, and the water destroyed much of the technical equipment on these levels. We were able to prevent injury to our patients and to confine material flood damages to a minimum. This has been possible thanks to the enormous efforts and commitment of our local staff who joined forces with technical staff from other Group hospitals, a large number of voluntary helpers, the fire brigade, the rescue services and the army, as well as all the companies commissioned to replace damaged equipment. It was because of this joint effort that we achieved what no one would have dared to predict: as early as five days after the flooding, the hospital – at that moment a kind of building site, using mobile aggregates – was able to respond to the service requirements in its catchment area, the district of Weisseritz, and to resume inpatient care, first on one of its wards for internal medicine. Capacities were increased step by step, and full serviceability was reached only three months later, on 15 November 2002. At his point, the Company would like to express its sincere thanks to all those who have made this achievement actually happen.

The number of patients treated within the Group surged by 38 per cent. By comparison, the increase in revenue was a "moderate" 25 per cent, this difference in percentage growth being essentially a result of the effect of statutory budget restraints. This same mechanism, which we have learned to counter with rationalisation and investing, is extremely bad for public-sector hospitals with a potential scope for action that is just a fraction of ours, turning them into candidates for takeover. Even so, public-sector hospital owners and the trade unions do not always have the clear understanding of cause and effect that would be necessary to accept or, more to the point, support change in the hospital sector or, for that matter, in our society as a whole. This situation, which from our point of view is manageable but demands more of us than just routine, will be aggravated in 2003 by the politically motivated, so-called "zero round" for the hospital sector, which we refer to in more detail elsewhere in this annual report.

With increased revenues of € 879.5 million and a net consolidated profit of € 67.4 million, we achieved the target we set ourselves for the year under review. Cash flow rose to € 131.3 million – another satisfactory performance figure with which we can be happy. Earnings per preference share improved to € 2.62 and per ordinary to € 2.60.



Information for shareholders is available in a corresponding section and, what is more, in a standardised form on the individual web sites of each of our hospitals.

After intensive consultation and consideration of the argument that dividend increases could also be seen as an expression of weakness in growth, the Board of Management decided to continue undeterred along its successful path with regard to dividend policy. We confirm our intention announced at last year's Annual General Meeting, which is in substance to pay out increasingly attractive dividends without neglecting our appetite for growth, with a strong and unchanging focus on qualitative growth. At the forthcoming Annual General Meeting the Board of Management will propose to shareholders a dividend of € 0.58 per ordinary share and € 0.60 per preference share.

Even after the restructuring of the equity indices our preference shares continue on the M-DAX. We have achieved qualification for the Prime Standard created in the course of the exchange reform. The price of our shares was not able to escape the downtrend in the extremely difficult equity market environment of 2002. We regard this price trend as an irrational development, though one that has to be taken into account. We are in agreement with the majority of analysts when they say that the Company continues to be extremely well positioned within its market, and that its operations are highly efficient and its future prospects bright. We believe that developments in the healthcare sector will certainly bring us hard work, but will greatly benefit us thanks to our strong position based on high levels of investing. So our starting position in what is judged to be one of the most exciting

markets of the future, the healthcare sector, is extremely favourable.

The withdrawal of the von und zu Guttenberg family as one of RHÖN-KLINIKUM AG's major shareholders in the spring of 2002 threw up a number of questions as to why this step was taken. Here, too, the answer is not to be found within in the Company but rather in the individual situation of this major shareholder who was also a founder member: the von und zu Guttenberg family had given its support to our Company since 1970. Now the natural change of generations within the family has made room for other ambitions in the fields of politics, society and business. The family's exposure in RHÖN-KLINIKUM shares was increasingly damaging the even balance of a family estate that needs to be well organised for following generations. The withdrawal of the Guttenberg family changes nothing about the fact that our investor of so many years, whom we were sad to see go but who left with our thanks, will in future continue to be part of the "RHÖN-KLINIKUM family" whose success story he helped to write.

We are committed to adding new chapters to this success story by pursuing our tried and tested strategy of qualified growth. Our recently concluded acquisitions in Pirna and Dohna-Heidenau will promote this goal. With the takeover of these two hospitals we are aiming to optimise the provision of hospital services in the district of Sächsische Schweiz on the left side of the Elbe. Plans include the consolidation of these hospitals' mandates and the construction of a new hospital building at one of the two sites. In the meantime, we have embarked on what has proved its worth in all previous takeovers: dedicated project group work for the design of the projected new hospital building.

We are determined to continue on our course of "internal trend reversal" which we have followed consistently ever since the second half of 2002. Our year-to-date results underscore the value of this policy. Besides our ongoing efforts to achieve short-term earnings targets, we concentrate on strengthening our strategic long-term position which we believe will be well secured by the further development of our "Tele-Portal Clinic" concept, in particular, along with other trailblazing developments in various therapeutic and diagnostic segments. In fact, we are working on nothing less than a paradigm change in medi-

cine, with the aim of turning our idea of affordable, universally accessible medical care into reality.

We know that every step we take along this path may, and will, enhance our competitive strength at a time when the talk is of nothing but prohibitive prices and increasing costs.

Finally, through intensified cost control and effective benchmarking we will create for ourselves additional scope for action – knowing that "our freedoms lie in what we get out of ourselves". This is why we are confident that we will be able to close the current financial year once again with significantly improved financial as well a operational results.

As always, our forecast for the whole of 2003, as contained in this annual report, does not take into account any potential new acquisitions. As in previous periods, we have been negotiating numerous takeover projects at various stages of negotiation both in the year under review and year-to-date. Against the background of the dramatic changes in the healthcare sector in the next two or three years, we expect a rising wave of privatisation. When evaluating sales offers on the market, we give top priority to the prevailing local demand situation, i. e., we only buy what is needed for care provision in line with demand. In second place comes the willingness and ability of the takeover candidates to undergo constructive change. Our third criterion is the return on investment to be expected, i. e., the combination of our own capabilities with points 1 and 2 above must be sure to lead to satisfactory results.

We are convinced that this approach matches up to the philosophy of investors with an eye to the longer term. It seems to us that, in a time of largely disoriented equity markets, this could be a crucial motivating factor for investors to stay in a quality investment that is fitting for today and tomorrow.

Bad Neustadt/Saale, May 2003

Eugen Münch
Chairman

If someone would print out all the information from the system, he would fill up a staggering 1,800 sheets of A4 paper. It's therefore reassuring to know that our website offers this information in a user-friendly structure.

Quo vadis healthcare market?

After many parliamentary terms marked by unsuccessful healthcare policies of every political hue, the course is finally about to be set in 2003 for the future financial viability and modernisation of the German healthcare sector. We want to be involved because healthcare is our profession and because we want to make a contribution to ensuring that politics and society find a way out of the dead end of healthcare socialism towards a future-oriented development platform. The challenge is to create a healthcare system for our aging society as part of a social, growth-promoting market economy.

The pressure to make savings is undisputed, but it can only apply to the parts of the system that are financed by social security contributions, otherwise the story of the healthcare sector as a growth market would remain a fairytale. What is important in the healthcare sector, which in contrast to other industries enjoys ample demand, is making goods and services affordable to everyone, and hence socially available. Because only if it proves possible to design cost-effective, blanket-coverage care, taking up opportunities for growth on a wide front, can a genuine growth market of any significant size be created.

Analysis of the current situation indicates that our entire system is suffused by the idea that the healthcare system should be pursuing one, all-dominating social principle, as if it were exclusively about providing help for those victims of illness who are dependent on the broad society's solidarity. Whereas the fact is that our system to a considerable extent cares for and finances patients who practise age-related consumption, and the problem is merely the creation of smooth transitions between the conflicting user groups, namely the young and the old.

The basic structure of our new web presentation is designed to be "media-independent", with the content and layout being managed entirely separate from each other. This means that it doesn't matter whether the texts are output for the web site, for print media or – as in this case – on a mobile phone display.

The drama about the situation that has built up lies in the fact that those who project the image of themselves as defenders of the social good (be they ideologically or financially motivated) draw enormous benefit and acclaim from declaring the consumers within that system to be individuals in need of solidarity, and from zealously representing their interests. On the other hand, those who are asked to pay their dues as contributors are exploited by the interest group representing the market economy as it contrives to justify its own existence. These polarised positions have solidified, they offer each other mutual justification for their existence and, as the proportion of consumptive demand within the system grows ever larger, they are experiencing financing problems. Any change to the system is vehemently opposed as soon as it disturbs the balance between these groups, which, in the truest sense of the word, live on this balance. This makes any reform that deserves the name both an ideological change of mentality and one that realigns vested rights in the extreme.

We are a company that entered the system under conditions of extremely social orientation, and one that has learned how to hold its own successfully against a background of market economy structures. As we know our way around in both

RHÖN-KLINIKUM's web site contains a wealth of information that is of interest to patients whilst staying at one of our hospitals. The idea thus suggested itself of installing Internet terminals in the rest or waiting areas within our hospitals.

worlds, we see it as our task to propagate and – where feasible – to explain in the form of models the changes that are necessary in order to retain the social component of market economy. As a company that is considered to run its business successfully, and one that is believed to be credible in terms of its sense of responsibility and its use of all its professional expertise for the benefit of its patients, we are being listened to increasingly. There is, however, such an enormous gap between the rigidity of existing structures and the need for change, that political efforts – insofar as they have been at all visible to date – have not been adequate to set change in motion.

Waiting lists lead to quality impairments and are unwanted in our system. It sometimes helps in difficult negotiations if the protagonists can agree on what they DON'T want. According to discussion forums and publications, all parties to the German healthcare system are at least agreed on this point: what is not wanted is a system in which health services are kept in short supply by administrative means, i. e., we do not want rationed medical care with waiting lists for treatment. Furthermore, most probably no one wants the younger generations to pay disproportionately for the old to consume healthcare services virtually like food – without any contribution on their part and with an increasing proportion of consumptive demand – at the cost of the young, even if medical treatment is in many cases thoroughly vital to their existence. Add to this that health services consumption by the old is being continuously expanded due to ever higher levels of effectiveness in medicine.

The system used for the new Internet presentation allows pages to be created in a free definable structure or – as in the case of press releases, job announcements and events – on the basis of a structure defined by forms. This streamlines the process of structuring, locating and exchanging the information via XML with other locations.

The situation is aggravated as a result of the doubly negative effect that comes about because the consumption of healthcare goods and services is financed exclusively from social security contributions and thus falls as a burden on the earnings of productive generations. Statistics show that this makes consumption more expensive for the young; their purchasing power dwindles, while at the same time the "old" industries are suffering from excessive incidental wages costs, with the familiar consequences for employment growth, domestic demand, social security funds, public budgets, and so forth. The consequence is a spending blockade, with first signs of rationing of medical care, and prevention of growth in "new" service industries, i. e., exactly where the highest demand growth rates will occur in future. The volume growth of healthcare services ranges from 1.5 per cent to 2.5 per cent per year, driven by demographic trends and advances in medicine. If this growth potential were to be added on to the broad economy by using a suitable system, our economy would have a growth engine, the strength of which can be confidently assessed at an additional 0.3 per cent to 0.5 per cent of growth.

In most countries, the lack of intelligent solutions has already led to the question of distribution being arranged by keeping healthcare in short supply, using administrative means. There are waiting lists, sorted according to purchasing power and the willingness to pay. Those who can afford to pay head for the private healthcare sector, and contribute to considerable growth there. However, this kind of system approach creates not just social tension but also a qualitative problem: separating out the privately financed segment destroys the basis for mixed pricing across the entire healthcare system and prevents the accumulation of volumes necessary for cost-efficient production. It thus also blocks continuous quality improvements which are based on the experience that originates from working with high volumes.

More competition and self-responsibility will unburden the younger generations without massive social cutbacks

In the healthcare sector, selection determined by price leads to two-tier medicine: it makes services more expensive or does not provide them in adequate volume, in the first place. The result is inadequate care for individuals, and good, expensive care for those who can afford it, or conversely, bankruptcy of the financing social security systems because health services "without a price" drive demand up and up.

The solution would be a relative price, geared to consumers' individual financial conditions. Everyone would be charged in the form of a net retention in line with his/her financial strength for his/her use of healthcare services. The consequence would be price sensitivity on the consumer side, leading to differentiating competition. There would be no social exclusion, just desirable efficiency and benefit weighing.

Patients and insurance members who do not regard health insurance schemes as instruments for the recovery of premiums paid in, because they are themselves involved in paying for the services they require, would also encourage completely new behaviour patterns on the part of the health insurance funds. For, then it would be interesting for health insurers who want to improve on their competitiveness to see how they can help their members to obtain high-quality services quickly and safely, insofar as these are medically necessary or covered by members' net retention.

We are all familiar with this pattern on the contribution side, where a high level of income also means high contributions. We should apply it in the same way to the suggested net retention: by creating proportionally graded retention rates, or what we call socially related prices. The consequences would be increased transparency and competition among service providers, relief for the health insurance schemes, leading to acceptable premiums and a direct reduction in incidental wages costs – in summary, no excessive strain on the young, combined with fair absorption of the purchasing power of the elderly. One important by-product would be a renewed, considerably heightened identity of interest and a stronger relationship between health insurers and their members. The health insurers, geared to genuine competition, would move "from competing for lucrative members to competing for the most favourable service" for their members. And their current alignment on the artificial construct of structural risk spreading would then give way to strict orientation towards the interests of the contributors to statutory health insurance schemes as a whole.

As a result, contributions to health insurance funds, and insurance benefits, would be split up as follows:

firstly, a mutually supportive element, with insurance benefits financed by the universe of contributors, taking into account patients' retention rates, and with contributions set out and extrapolated in a uniform manner for all health insurers, along with a uniform catalogue of benefits, including healthcare services and pharmaceuticals; and secondly, a competitive element, focusing specific service components exclusively, i. e., insurance benefits within the individual member's sphere of interest, and consequently not forming part of parity financing.

The hospital selection facility interlinks all the individual presentations of our hospitals. So patients can select the hospital they want to view at any time via text menus or using the map of Germany.

Today's migration of members between health insurance funds already shows that even the slightest changes in a fixed-cost organisation produce enormous pressures to adapt. Increased net retention rates would even out the imbalance between the old and the younger generations, which has resulted from the fact that the elderly make up to eight times as much use of healthcare services, and in the long term remove social tensions that will destroy the system in its present form. The alternative – cuts in services and

control of consumption by means of waiting lists – would of necessity lead to two-tier medicine, or, in other words, a free market for the privileged few.

Is the role of the panel doctors' association still appropriate for the future?

Now that people are coming to the fundamentally old realisation that systematic separation between outpatient and inpatient medical care is a considerable efficiency problem for the healthcare sector, or to put it bluntly, a booster for health costs, a reform of the Kassenärztliche Vereinigung (German panel doctors' association) has increasingly become the focus of political attention.

To put efficiency deficits in the healthcare sector into perspective, the following maxim was devised years ago: "As much outpatient care as possible and as much inpatient care as necessary". More correctly, according to current insights, it should read: specialist services are to be organised and delivered "in good quality and economically within and across sectors". Recent concepts aimed at correcting the misdirection of resources therefore start with the question of how the care chain can be realigned to ensure quality and efficiency. In our opinion, one way of achieving this could be specialist treatment in hospitals, which ought to be possible if the initial or basic case management function for all or selected medical conditions were to be assigned to general practitioners. As regards the existing system of panel practices, an opening up of in-hospital outpatient departments ought to be brought about by further developing the law governing the panel system – and not by destroying it. To achieve this, it would be necessary to amend that law such as to allow hospitals (or possibly legal persons with the appropriate specialist knowledge) to own and operate panel practices and to enable these practices to participate in care provision.

The consequences of such a change would be as follows, with the panel doctors' association's authority over planning and admission remaining intact: For patients treated within the framework of processes managed by general practitioners, there would be competition in terms of quality; for patients outside this system who make an own contribution in the form of net retention, there would also be price competition. If, at the same time, payments for specialist services were to be settled directly with the health insurance funds, thus replacing fee distribution under the panel system, the panel doctors' association could revert to concluding master agreements similar to skeleton wage agreements under labour law.

The solutions described above, in combination with others that are not detailed here, would do justice to a panel doctors' association that is set up as a public corporation to fulfil its sovereign role as a guarantor of broad care provision through area planning and the registration of general and specialist practices. A system change in the direction outlined above would encourage a process of getting to know each other, bringing completely new experiences with considerable learning effects for both sides. In this context, we consider the proposition that the hospital should play a role as system leader, and is probably well positioned to do so, to be perfectly reasonable.

Optimising hospitals' cost-benefit ratio through investing

As ever, the hospital sector represents the biggest "cost block" in healthcare. However, despite all the aberrations of our healthcare system, hospitals are ultimately only a function of patients' requirements, so hospital structures and forms will continue to be dependent on patients' will. This will to make use of hospital services feeds on our system's capacity to deliver and the ever-extending horizons of medical treatment options.

"Which clinic in the area offers the treatment I am looking for?" Once entered in the system, the information is available in the Internet or as a printout and even on the display of a mobile phone. This is made possible by the "media-independent" XML format.

The likelihood of advances in medicine and the logical demand for advanced services thus determine the service profile of a hospital in a decisive fashion, just as much as the associated investments.

As already indicated, there is an increasing realignment of competition toward patients' interests, with medical progress and demographic shifts as determinants for what in the free market economy would be called increasing consumption. This increase in consumption is leading to the erosion of the "old" system, which was designed as an insurance and aid system for needy members of a younger society and not for an ageing consumer society. In other words: because of its charitable nature, which was justified when it came into being, but especially because of the intrinsic rigidity of statutory planning, the existing system is not in any position to satisfy the much more rapidly changing needs of consumption-driven demand.

Looking at the universe of patients, the sensitivity and numbers of those who react to competitive stimuli such as best price or best service have not yet been the focus of scientific investigation, although it's exactly these insights that would permit a clear picture of the competitive position of today's hospitals. We have observed the following: 70 per cent to 80 per cent of the patients of general hospitals (as opposed to specialist hospitals) will attend the facility in the area where they live. But 20 per cent to 30 per cent of patients could opt for another hospital, because of their greater mobility and better information. Of these, between 5 per cent and 15 per cent do in fact change hospital. It is this group of patients that creates competition, and which successful hospital companies are aiming for.

Hospitals must be able to act if they are to stand competition and, in doing so, safeguard their own interests. We have learned that this ability to act has to do with above-average productivity, leading to above-average margins, e. g. innovative

financing power. High capacity utilisation – usually brought about by service volume increases driven by demand – implies repetition, e. g. practice and rationalisation, which in turn will lead to higher service quality, in itself a decisive parameter of competitiveness. So the question is how the different types of hospitals should position themselves in the market of broad medical care in order to be able to survive in an increasingly competitive environment.

A market- and future-oriented solution: the "Tele-Portal Clinic"

To sum up the outcomes of comprehensive research and many years of trend-watching: we believe that, with the hectic pace of advances in medicine and technology (key words: gene technology and genetic testing, digitisation of patient data and electronic patient file, ultramodern imaging techniques and one-stop diagnostics, to name but a few), the old patterns of thinking, restricted by barriers between sectors, could soon be obsolete. New forms of division of labour will develop along new process chains between referring doctors and hospitals, and hospitals of different types with graded functionalities.

It is no longer an indistinct vision of the future to think of a process chain created by means of Intranet-based patient files and controlled by knowledge and consulting, i. e., not by structural constraints as happens in current attempts at disease management. This strengthens the position of the patient because he/she decides on access rights, and quality is ensured because all those involved in the process have immediate access to relevant process data, so there is continuous mutual plausibility monitoring of all professionals involved in the process. The patient's "data ownership" (= his/her key function) turns the system into a self-monitoring quality model for the benefit of the patient.

Successful implementation of the system could be ensured by involving the patient: he/she is the one to permit access by giving his/her insurance card to the doctor in charge at the time. This means that independent practitioners can log in in exactly the same way – provided the patient wants them to. If not, the patient will have to justify this to the doctor. The convenience it offers will help this system to spread rapidly, and even practitioners will readily adopt it, as current field tests (in Wiesbaden, for instance) have shown.

RHÖN-KLINIKUM AG, who has advocated high-quality and affordable broad-based care provision since its inception, has developed the idea of using latest telemedical technology to foster blanket-coverage delivery of medical skills. With new forms of division of labour becoming practicable through combining advanced imaging technology "on site" and virtual medical skills, we see compelling opportunities to make high-quality medicine available to the local patient in a way that has so far been unthinkable – a quantum leap in cost-effective, high-quality care at the reach of all.

Background information is an essential part of our hospitals' Internet presence.

Our Tele-Portal Clinic concept combines 24-hour availability of high-efficiency diagnostics, with the hardware (diagnostic equipment) provided under the supervision of medically qualified operators at the local level, and expert knowledge in diagnosis and therapy sourced from partner hospitals whose specialists are available online around the clock. Through collaboration with practising specialist doctors under part-time contracts, the Tele-Portal Clinic offers comprehensive day clinic services, including outpatient surgical services, and an inpatient unit with emphasis on internal medicine, which will accommodate patients requiring significant nursing care and patients without indication for transfer to specialist facilities.

Where diagnostic findings and subsequent therapeutic recommendations reveal the need for specialist treatment, patients are transferred to cooperating specialist centres, making full use of day clinic options. The scope of invasive (above all, surgical) treatment forms of any kind will end where specialist know-how beyond the local capabilities is required and also in cases where day-clinic care is not possible; in any of these cases, patients will be referred to cooperating specialist hospitals. With this restriction we avoid unwanted specialisation, bringing instead considerable gains in care quality at the local level. This approach contrasts sharply with what is being practiced today, i. e., nonsensical and, in terms of service delivery, inefficient specialisation of many small general hospitals with a mandate for broad basic care.

Located close to where its patients live and easily accessible, the Tele-Portal Clinic will concentrate on inpatient and day-case diagnosis and therapy, while additional services – in line with the demand situation in its catchment area – will be provided in collaboration with specialist service providers to create a comprehensive health centre. The online access to the electronic files of patients referred to the clinic will not only help referring general practitioners to provide better care for their patients but also strengthen the relationship between doctors and patients, which in turn will enhance the opportunities for effective follow-up treatment and prevention.

Along with our new Internet presentation, a media-neutral image database has been set up. This allows images the size of a postage stamp through to large-format printable copies to be made available whenever requested.

The routine involvement of specialist know-how sourced online from the specialist departments of its partner hospitals, e. g. major regional centres or specialist clinics, combined with optimum technological equipment "on site", makes the Tele-Portal Clinic an access point for regional patients that is equal to specialist hospitals in terms of quality and far superior in terms of accessibility and speed – altogether a decisive advantage in terms of competition.

Looking ahead, the demand for telemedical services generated by this hospital concept will also change the major hospitals, as it leads to a different mix of patients referred to top-level facilities. Patients who attend the Tele-Portal Clinics and can be treated there will not appear in the major centres unless they live within their immediate catchment areas. Their treatment will be the responsibility of lower-level units such as our Tele-Portal Clinic, where the balance of quality

and cost is right. Regarding the higher-level centres, this will result in a concentration of patients who do require this amount of top-tier services and expenditure. The outcome of this reorientation should be a significant reduction in idle capacity expenses across the industry, and provided the DRGs (diagnosis-related flat rates per treatment) allow the money to flow to where superior performance is granted, the conditions for successful rationalisation will be in place. Hospitals operating within this system would profit from improvements in quality and a better use of resources, leading to new freedoms to act and, consequently, competitive strength.

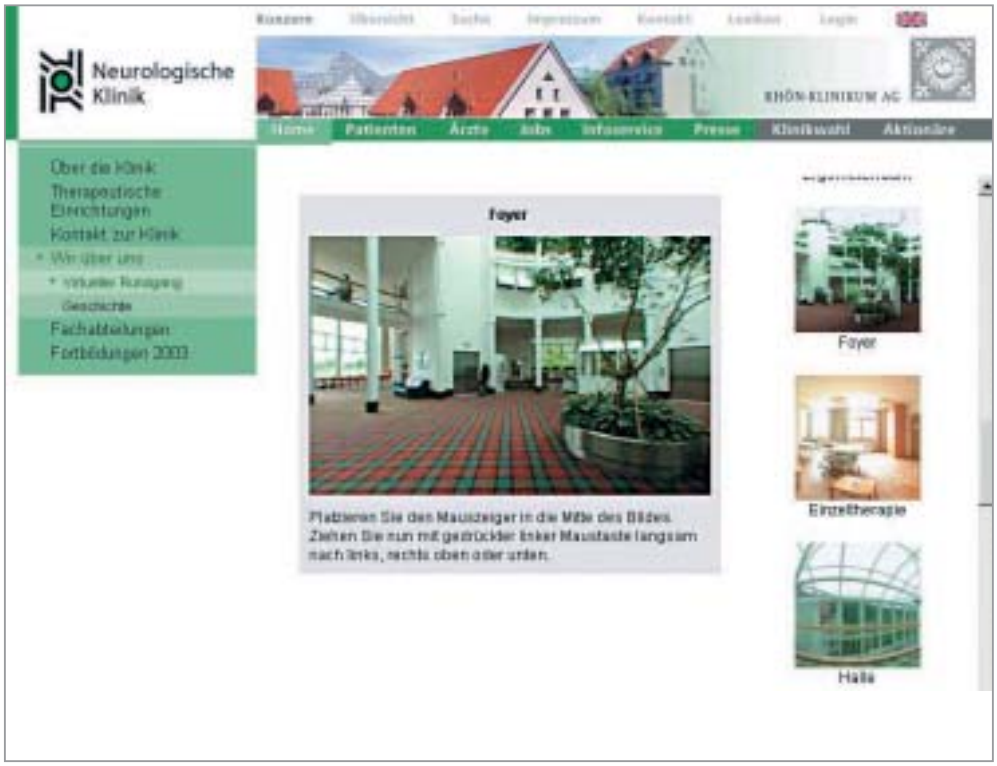
There may be many objections to a market model of this kind, and there may still be some changes to our concept as a result of findings from trials under real market conditions. However, the concept in itself is leading a trend that will be impossible to halt, as it brings lasting benefit in terms of quality and good value for the patient – and we are very certain on this point. If it can be realised successfully, it will help safeguard what is considered one of the values of our society: the social element of our healthcare system, ensuring quality medical services for everybody at any time.

Last but not least, such Tele-Portal Clinic structure could be extremely appealing for hospitals that have failed to adapt their basic concept and therefore lost competitive strength to such an extent that, without radical reorganisation and a new systematic approach, both these facilities and broad-based care provision as such would have no future. The talk is about conventional basic-care hospitals. The concept of these small, all-inclusive facilities was adequate 50 years ago when there were hardly any other alternatives. Today's mobile and well-informed patients drive straight past hospitals of this type and attend the nearest major centre with its many specialists. However, many patients would likely not travel that far if they'd find the required specialist skills in their immediate neighbourhood. And by making use of the good services offered locally, they'd secure the customer base of small local hospitals.

Information on RHÖN-KLINIKUM AG and selected Group hospitals is also available in English and accessible via a language selection facility, with further languages being planned for the future.

Reform factor: DRGs (Diagnosis Related Groups)

With the introduction of the DRGs, competition in the hospital sector – formerly demonised and today almost completely strangled by stringent budgeting – will increase significantly. The new remuneration system may be regarded as progress, although there is still need for improvements. However, as the DRGs in themselves will not automatically lead to competitive differentiation, the emancipation of the patient should be supported by introducing a system of net retention as an effective means to encourage consumer behaviour. Moreover, this would significantly increase the pressure on healthcare providers to increase productivity while maintaining or improving the level of patient care.



Take a look around the clinic even before visiting it? Not a problem. All our hospitals' web sites feature the option of taking a virtual tour, allowing users to view the main facilities in a three-dimensional presentation.

From the beginning of 2003, the hospital sector in Germany has been split into those providers who have adopted the new remuneration system since January 2003, and are thus excluded from what is known as the "zero round", and those who are not changing over until the mandatory deadline for all hospitals in 2004. In future, hospitals will no longer be paid on the basis fixed daily rates, but will instead apply flat rates per treatment. The new remuneration system is intended to increase the efficiency of hospitals, and to enhance the market's transparency so as to simplify, or even permit for the first time, quality and performance comparisons within the hospital sector.

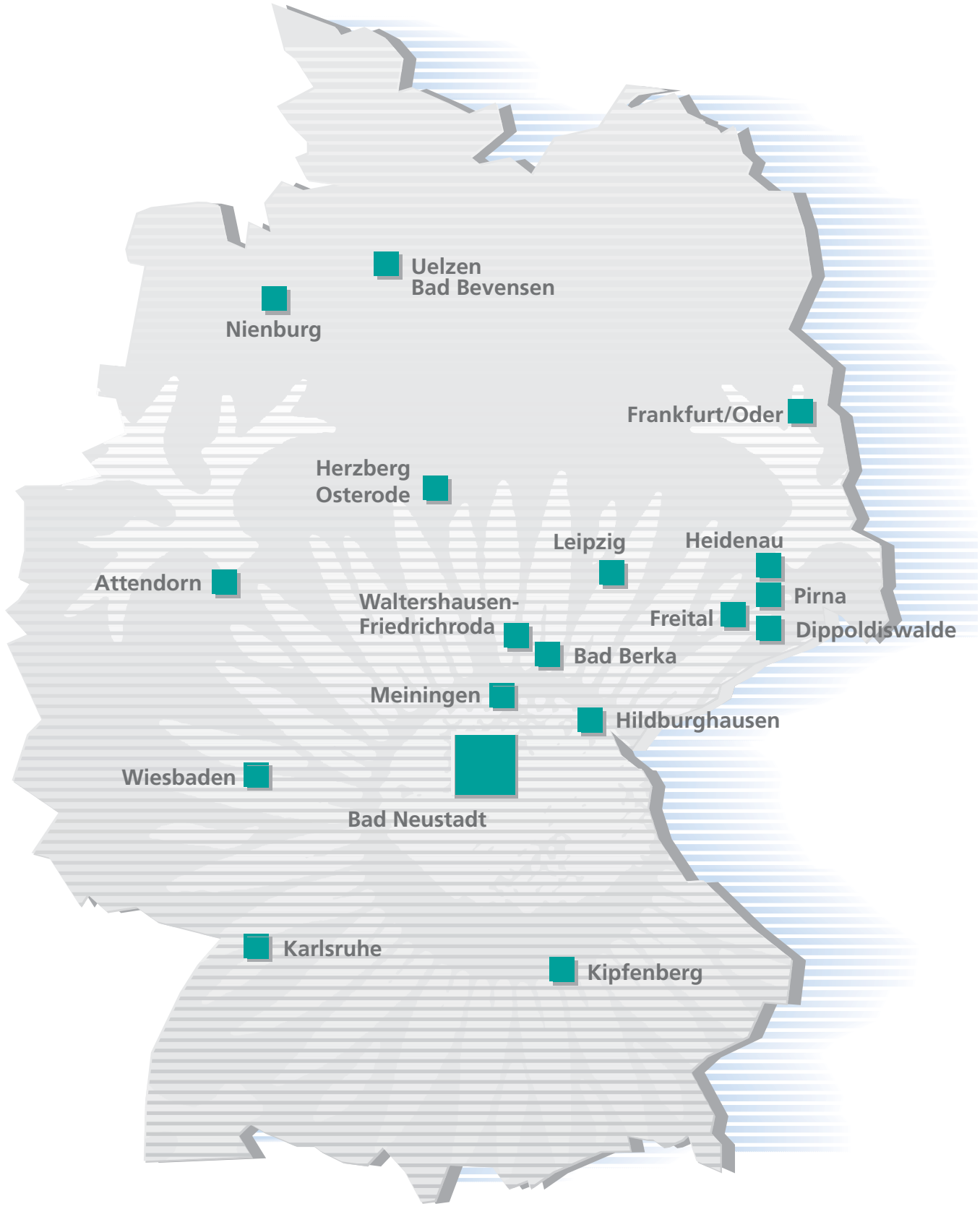
Industry experts expect private hospital operators to benefit more from the DRG system than public-sector or non-profit hospitals, as many private players have already been applying flat rates per treatment in the run-up to the introduction of the DRGs, or because they are better organised and thus more efficient, financially and operationally. Insiders expect the privatisation pressure to rise and a growing number of small hospitals that will have to close down in the process.

It is assumed that the balancing of the so far merely state-related price development, with considerable differences between the individual federal states, will be promoted by competition. Expectations are that hospitals and registered specialists will increasingly become cost-conscious and customer-oriented health service providers in a market that still features a social net and, because of its special function, excludes nobody completely while providing high supply volumes.

We welcome the DRGs, because we believe that social market economy can work in the healthcare sector if competition for patients, supported by suitable pricing and incentive systems, makes it profitable to offer a large number of patients affordable access to good medical care and to turn them into "customers" by applying the

laws of the market and business arts. The preconditions for growth in our market are intact, as is our ability to take advantage of our system's claim to social-mindedness. For us, social-minded care provision and competition do not represent a contradiction but a unique opportunity marked out in our tradition. We intend to grasp it, and we will – one way or the other!

The sites of RHÖN-KLINIKUM Group



RHÖN-KLINIKUM Group Management Report for the Year 2002

- **Revenue and earnings growth within targeted range**
- **External growth produced revenue increase of 26 %**
- **Number of patients treated up 38 %**
- **Operating cash flow improved by 20 %**
- **Net consolidated profit up 2 % at € 67.4 million**

PRELIMINARY REMARKS

The RHÖN-KLINIKUM Group consolidated financial statements and Management's report for the year ended 31 December 2002 have been prepared in accordance with the principles of the International Accounting Standards (IAS). Amendmends, further improvements or revisions of existing standards during the year under review have been accounted for. Also, recommendations and suggestions by the Government Commission German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex) have been considered to a very high extent. These financial statements thus provide our investors with nationally and internationally comparable corporate data for the assessment of the Group and its performance.

A. ECONOMIC AND FINANCIAL REPORT

1. Summary

In business year 2002, the focus of our activities was on the integration of the six hospitals acquired at the beginning of the year, besides continuing our acquisition activities, which led to the purchase of Krankenhaus Pirna on 1 October 2002 and the takeover of Krankenhaus Dohna-Heidenau on 1 January 2003. We currently operate a total of 8,055 beds in 29 hospitals at 21 locations in eight federal states.

With the completion of new hospital buildings in Freital, Herzberg and Leipzig, we have created the investive preconditions for further earnings growth and patient satisfaction. We invested a total of € 168.3 million, of which € 85.5 million within the scope of hospital takeovers.

The latest annual reports are available on our web site for viewing, printing or downloading.

Investments were financed from the cash flow and short-term loan capital. As a result, net indebtedness increased to € 246.0 million (previous year: € 196.0 million), which with a ratio to earnings before interest, taxes, depreciation and amortisation (EBITDA) of 1.4 (previous year: 1.3) is still very favourable. The equity ratio decreased from 44.7 % in the previous year to 42.8 %. We see ourselves well positioned for further growth.

Revenues rose in 2002 by 26.2 % to € 879.5 million, with newly acquired hospitals accounting for about 83.6 % of revenue growth. Despite the prevailing statutory budget ceiling aimed at contribution stability, restricting budget growth to 1.84 % in the old and 1.87 % in the new federal states, we were able to achieve internal growth of around 4 % through assertion of exceptional facts as well as services rendered in excess of agreed budgets.

Due to the fact that the contributions to results generated by newly acquired hospitals continued at levels far below those of the hospitals that have been Group members for longer, improvements in earnings were moderate, compared to the increase in revenues (see table).

A combination of extraordinary losses from the withdrawal from our South African project, cost of the interruption of operations and material damages due to flooding at Krankenhaus Freital, and significantly increased shares in profit of outside shareholders resulted in an increase in the consolidated profit of only 2.0 % to € 67,428 thousand.

The aggregate number of patients treated rose to 473,775 patients, up 131,193 from the previous year. Of these, some 110,000 patients were treated at our newly acquired hospitals, with the remaining about 21,000 patients, or 6.1%, accounting for increases recorded at hospitals consolidated prior to 2002. The steadily rising flow of patients into our hospitals once more confirmed the positive development of previous years.

	2002	2001	Change	
	€ thousand	€ thousand	€ thousand	%
Revenues	879,492	697,013	182,479	26.2
EBITDA	171,468	145,300	26,168	18.0
Operating cash flow	131,275	109,464	21,811	19.9
Earnings from ordinary operations	101,205	93,647	7,558	8.1
Consolidated net profit	67,428	66,080	1,348	2.0

	2002	2001	Change	
	Patients	Patients	Patients	%
Inpatients, acute	235,155	171,145	64,010	37.4
Inpatients, rehab	6,953	6,798	155	2.3
Outpatients , acute	231,667	164,639	67,028	40.7
Total	473,775	342,582	131,193	38.3

2. Macroeconomic environment

Concerns about an imminent war and terror attacks continued to weigh on the global economy in 2002 in its efforts to overcome its lows of 2001. The economic recovery which was expected by nearly all market participants for 2002 did not gain momentum and realised only in part, if at all. Adjusted for inflation, the German gross domestic product (GDP) grew in the past year (basis 1995) by a moderate 0.2 %, compared to 2001, and the average unemployment rate increased by 0.4 % to 9.8 %. According to the Federal Office for Statistics (Statistisches Bundesamt), corporate capital spending and private consumption decreased in 2002. The weakness of consumer spending is mainly explained by the unfavourable employment trend as well as consumer concerns about the Euro, following the introduction of Euro notes and coins (TEURO debate), while the dramatic decline in investments in durable business equipment is to be seen in the context of the slower growth pace of both the global and national economies, according to industry experts.

Interactivity is a major aspect of our new web site. Want to register as participant in an event or order the latest annual report? Everything is possible quick and convenient – simply by mouse click.

As in previous periods, far-reaching reforms, particularly in the areas of social security systems and labour market conditions, were postponed in 2002 again and again, and the resulting reform jam has increasingly nurtured concerns about the prospects of recovery and the health of the German economy.

3. Industry environment

Even for us as a hospital operator, the macroeconomic environment was disappointing in 2002. The prevailing basic conditions in the German healthcare sector continue to be characterised by strict regulation and inefficient allocation and use of resources.

Under the pressure of having to keep incidental wages costs under control, the principle of stable contributions to statutory health insurance funds was maintained in 2002, with the instruction to insurers not to pay for hospital services rendered in excess of agreed volumes, whilst the remuneration rates for hospital services were linked to the growth rates of the income from mandatory contributions of all health insurers, which – as in previous years – were lower than the increases in personnel and material costs. This has caused the negative development of revenues per treatment to continue in 2002.

Public-sector hospitals which, due to lack of investment strength, are not in a position to tap rationalisation reserves, have increasingly slipped into deficit. At the same time, their deficiency of means and financing capabilities has kept on narrowing public hospital operators' room for deficit coverage, which has led to privatisation pressures increasing dramatically. The market has already seen sales offers for municipal hospitals which, because of their economic or legal conditions, can no longer be privatised and will thus have to be closed down in the medium term. On the other hand, the constantly growing number of privatisation objects on the market

is easing the competitive situation on the buyer side.

Thanks to our patient-oriented and process-optimised hospital concept, coupled with independence from public investment promotion, we are in a position to offer optimal solutions to public hospital owners who are willing to sell. However, at the centre of what we do will always be our principle of "quality goes before quantity", i. e., potential takeover candidates must go well with our service and care profile, and be able to contribute to optimising it.

4. Corporate overview

CORPORATE GOVERNANCE AT RHÖN-KLINIKUM AG

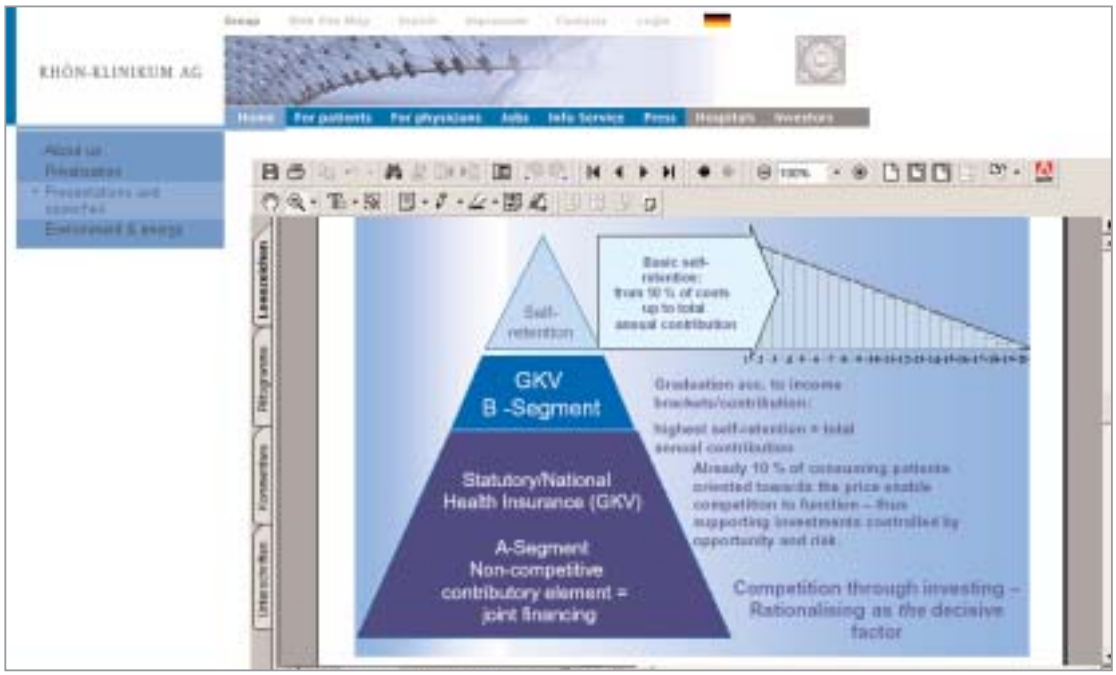
The central focus of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG has consistently been on measures and activities that are suitable to enable, and ensure, responsible and transparent corporate management and supervision, oriented toward long-term value increment.

It is our opinion that, in a service company such as RHÖN-KLINIKUM AG, this can only be achieved if all staff members across all hierarchical levels subscribe to this goal and actively support it with their own way of thinking and acting. In our view, mere declaration of intention by the Board of Management and the Supervisory Board, will not suffice.

The Board of Management and all staff have for years pledged themselves to living up to what our Corporate Code of Ethics states: "Do nothing that you would not want to be done to yourself, and leave nothing undone that you would want to be done to yourself".

This principle is our leitmotif in our relationship not only with patients but also with employees and shareholders, and this is why any recommendations or suggestions from outside will hardly find room for improvements within our company.

So our own internal rules have, with very few exceptions, anticipated the German Corporate Governance Code which came into effect in



Navigate in the usual Windows Explorer style, where the individual categories display their respective subcategories when clicked on.

"How do I get to the clinic?" One frequently used functionality is that of downloading travel directions on how to get to the individual clinics.

2002. Since the tasks and responsibilities of the Supervisory Board are laid down in full detail in the articles of association of RHÖN-KLINIKUM AG, we consider the formulation of specific terms of reference as being dispensable. We provide timely interim reports on corporate developments on both a regular and ad-hoc basis, which greatly facilitates careful closing and auditing of annual accounts and, consequently, the preparation of annual financial statements. In light of this, we reject mandatory publication of corporate data within 90 days, and will in 2003 hold on to our proven time schedule. Other points of our Declaration of Compliance, dated 22 November 2002 and published on our web site, include precise statements made in the interest of national and international investors to clarify details of the importance of diverging internal rules, as well as our status and standpoint, where we are of the opinion that uncommented reading of the German Corporate Governance Code could lead to wrong conclusions.

BUSINESS DEVELOPMENT

Our hospitals progressed in line with expectations, with the great majority showing positive results for the year. Besides some of our real estate subsidiaries, only Park-Krankenhaus Leipzig-Südost and Krankenhaus Freital recorded mentionable losses, due to relocation costs and, following relocation, significantly increased capacity utilisation at Park-Krankenhaus Leipzig-Südost, with the latter being inadequately compensated for under prevailing statutory budget restrictions, and extraordinary charges due to flooding at Krankenhaus Freital. As a group, the hospitals first consolidated in 2002

	2002	2001
	%	%
Return on equity	16.8	19.1
Return on sales	7.7	9.5
Cost of materials ratio	24.1	24.7
Personnel cost ratio	51.9	48.8
Depreciation ratio	5.6	5.5
Other cost ratio	9.4	8.7

were able to contribute positively, though moderately to overall results – this they achieved despite the fact that necessary rationalisation investments have not been realised yet. Against this background, Group performance figures have developed as shown in the table on page 28.

Development of revenues and earnings

In business year 2002, revenues increased by 26.2 % to € 879.5 million. Growth effects of about 83.6 % came from the hospitals taken over in 2002, while internal growth of our other hospitals accounted for 16.4 %. Although patient numbers increased, we recorded a slightly reduced utilisation of inpatient capacities, as the duration of stays in hospitals across the Group was once more reduced by 0.9 to 9.8 days, and capacity utilisation at newly acquired hospitals normally underperforms Group averages. As expected, revenues per treatment decreased in 2002 from € 2,035 to € 1,856, due to statutory revenue restrictions and an above-proportion increase in outpatient treatments.

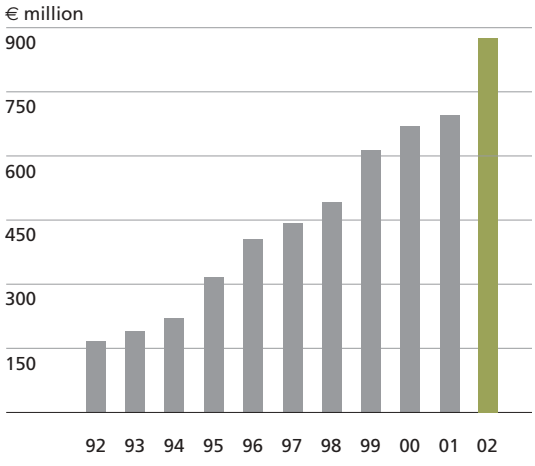
Other operating income in the amount of € 37.2 million (previous year: € 21.4 million) includes income from ancillary and incidental activities, income from rental and lease agreements, and allowances for science and research, in addition to insurance benefits of € 8.4 million for various damages within the Group, and proceeds of € 4.5 million from the conversion of the company pension scheme of one subsidiary to a defined contribution pension plan.

Overall, the development of operating expenses was mixed, as shown in the table above.

Helped by a less than proportional increase in material costs, the cost of materials ratio declined from 24.7 % to 24.1 %, the reason being normally lower material costs in general hospitals (acquired). While there is a noticeable trend toward increased use of higher-priced implants and pharmaceuticals in our facilities, too, we have been able to counter this trend by negotiating purchase prices far below industry averages.

	2002	2001	Change	
	€ thousand	€ thousand	€ thousand	%
Cost of materials	211,691	172,487	39,204	22.7
Personnel costs	456,090	340,093	115,997	34.1
Depreciation	48,930	38,652	10,278	26.6
Other operating expenditure	82,546	60,515	22,031	36.4
Total	799,257	611,747	187,510	30.7

By contrast, the more than proportional increase in personnel costs led to a personnel cost ratio of 51.9 % as a share of total revenues, compared with 48.8 % in the previous year. This increase was not unexpected in the light of the more than proportional personnel cost ratios at our newly acquired hospitals, even as our established hospitals continue to optimise personnel structures and processes, and recently consolidated hospitals report first signs of achievement in their efforts to adjust personnel structures. Here, we see fair chances of positive developments with effect on earnings in coming business years.



Development of revenues

The depreciation ratio was close to flat, reflecting increased depreciation expenses related to completed building measures at our established hospitals, whilst recently acquired hospitals show comparatively low depreciation with effect on results, this being due to investment financing from public allowances.

On a relative basis, the increase in operating expenses was slightly higher than that in revenues; this is explained by book losses of € 4.6 million, compared with the previous year, in connexion with losses of fixed tangible assets due to flood damages in Freital, in particular. Add to this incidental expenses for the removal of (insured) damages. Without these extra charges, other operating expenditure would not have exceeded the previous-year level.

Due to the increase in loans for the financing of acquisitions, the financial result for 2002 stood at – € 16.2 million, down € 3.2 million from the previous year.

The withdrawal from our South African project, a joint venture with the University of Cape Town, represents a charge on results of € 2.1 million.

Taxes payable on earnings increased by € 1.1 million to € 23.9 million. The 2002 tax rate of 24.2 % nearly equalled its previous-year level at 24.4 %.

Minority shares in the profit for the year increased to € 7.7 million (previous year: € 4.7 million). This increase has resulted from the first consolidation of a newly acquired hospital, in which one minority shareholder is invested, as well as from above-proportion improvements in the results of a long-standing Group member with minority shareholders.

Net consolidated profit for the year improved by € 1.3 million or 2.0 % to € 67.4 million (previous year: € 66.1 million).

Investing activities

During 2002, we invested € 280.1 million in fixed tangible and intangible assets. Of this total, € 111.8 million were funded from grants under the Hospital Financing Act (KHG). The latter amount was deducted from the total amount invested, in accordance with the relevant IAS, bringing the 2002 net investments to € 168.3 million, compared with € 87.1 million in the previous year. Acquisitions and related assets accounted for € 85.7 million, and current capital expenditure for € 82.6 million of the net amount invested. 2002 capital expenditure breaks down by regions as follows:

	€ million
Bavaria	15.2
Baden-Württemberg	1.0
Brandenburg	125.2
Hesse	10.4
Lower Saxony	40.1
North Rhine-Westphalia	2.8
Saxony	51.9
Thuringia	33.5
Total	**280.1**
Grants under KHG	111.8
Net capital expenditure	**168.3**

The first quarter of 2002 saw the commissioning of the new buildings of the Somatic and Psychiatric Clinics of Park-Krankenhaus Leipzig-Südost, as well as the extension of Herzzentrum Leipzig and Krankenhaus Freital. The new wing of our Herzberg facility was completed mid-2002, and our new subsidiary, Klinikum Frankfurt (Oder), was able to complete its new ward building in autumn 2002. At our Freital location, assets lost due to the flood disaster had to be replaced. The extension of Deutsche Klinik für Diagnostik (DKD), which was realised in several steps, was approaching completion toward the turn of the year.

Current construction projects include the second phase of the new building of Krankenhaus St. Barbara, Attendorn, the new hospital building in Uelzen, and the extension of the hospital for psychiatry and neurology in Hildburghausen.

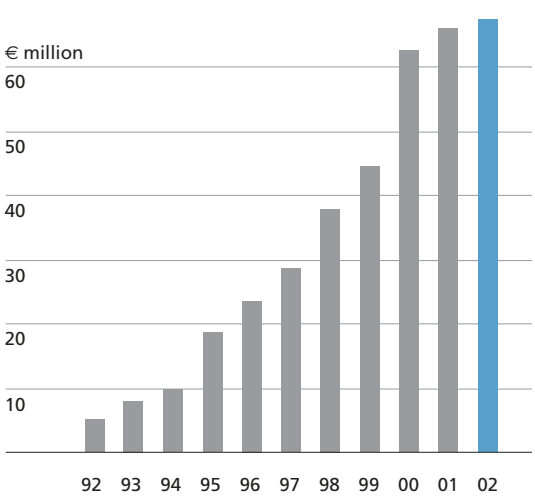
Projects in the planning stage include new hospital buildings at our Nienburg and Pirna locations, as well as a new wing designed to house the forensic unit of our Hildburghausen facility. Furthermore, we project the reconstruction of an existing ward building in Frankfurt (Oder). It is intended to realise first Tele-Portal Clinic projects in Nienburg and Dippoldiswalde.

A total of € 52.6 million was invested in hospital equipment, primarily medical-technical equipment and advanced information technology; of this, € 28.3 million were funded from investment allowances under the Hospital Financing Act (KHG). These figures show that we actually invested almost as much using own means as was funded from allowances. Particularly these investments on top of public grants greatly contribute to securing our technological leadership in the hospital market.

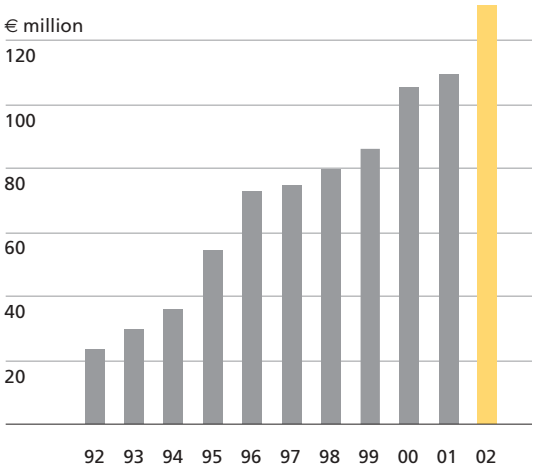
Financing

Due to the leverage factor being higher in 2002, the equity ratio decreased slightly from 44.7 % to 42.8 %. Equity is now shown at € 429.4 million (previous year: € 374.1 million). 94 % of long-term assets are covered by equity and long-term liabilities. Net indebtedness to banks increased in 2002 by € 50.0 million to € 246.0 million, in line with investing activities. Our balance sheet and financial structures continue to be sound and fitted for further growth.

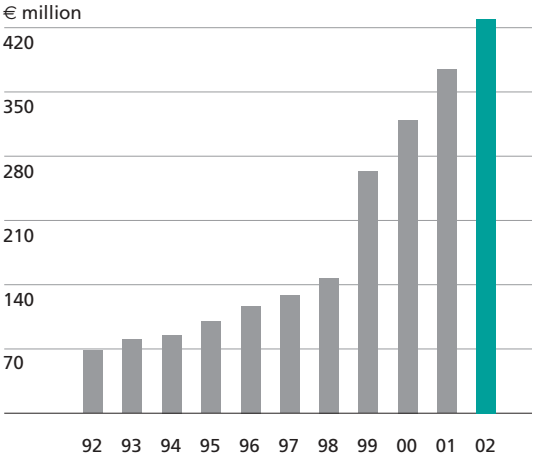
In business year 2002, the operating cash flow increased by € 21.8 million to € 131.3 million. Besides dividend payments (€ 12.6 million), we financed 70 % (€ 118.7 million) of all investing activities from the cash flow. As a result of strong cash flow generation, nothing has changed in



Development of net profit



Development of cash flow



Development of capital

Medical specialties represented by physicians within RHÖN-KLINIKUM Group (as at 31 December 2002)

I. Medical fields
General medicine
Anaesthesiology → including:
– Special anaesthesiological intensive medicine
Ophtalmology
Surgery → including:
– Special surgical intensive medicine
– Focus: Thoracic surgery
– Focus: Vascular surgery
– Focus: Emergency (accident) surgery
– Focus: Visceral surgery
Diagnostic radiology → including:
– Focus: Neuroradiology
Gynaecology and obstetrics
– Special interventional gynaecology
Otorhinolaryngology (ENT)
Hand surgery
Skin and venereal diseases
Cardiac surgery, thoracic and cardiovascular surgery
– Special cardiosurgical intensive medicine
Hygiene and environmental medicine
Internal medicine → including:
– Special internal intensive medicine
– Focus: Angiology
– Focus: Diabetiology
– Focus: Endocrinology
– Focus: Gastroenterology
– Focus: Geriatrics
– Focus: Haematology and internal oncology
– Focus: Cardiology
– Focus: Nephrology
– Focus: Pneomology
– Focus: Rheumatology
Paediatric surgery
Paediatrics → including:
– Special paediatric intensive medicine
– Focus: Paediatric cardiac surgery
– Focus: Neonatology
Microbiology
Neural medicine
Neurosurgery
Neurology
Nuclear medicine
Oncology
Orthopaedics → including:
– Focus: Rheumatology
Pharmacology and toxicology
Physical and rehabilitive medicine
Plastic surgery
Psychiatry
Psychotherapeutic medicine
Transfusion medicine
Urology
Dental medicine

II. Other additions
Allergology
Occupational medicine
Blood stem cell and bone marrow transplantations
Transfusion medicine
Chirotherapy
Phlebology
Physical therapy
Psychoanalysis
Psychotherapy
Rehabilitation
Rescue medicine
Pain therapy
Social medicine
Sports medicine
Diving and excess pressure medicine
Environmental medicine

our capacity to repay our net debts to banks within 22 months.

Structure of assets and liabilities

Despite the fact that we financed part of our expansion in 2002 from loan capital, interest-bearing liabilities exceed their 1995 level by only 40 %, while revenues have almost tripled, compared with that year. The Group's financial status continues to be comfortable. The table below reflects our balance sheet structure:

ASSETS	31 Dec. 2002		31 Dec. 2001	
	€ mill.	%	€ mill.	%
Long-term assets	752.0	74.9	640.5	76.6
Short-term assets	251.4	25.1	196.1	23.4
	1,003.4	100.0	836.6	100.0

LIABILITIES	31 Dec. 2002		31 Dec. 2001	
	€ mill.	%	€ mill.	%
Equity	429.4	42.8	374.1	44.7
Long-term loan capital	278.9	27.8	272.7	32.6
Short-term loan capital	295.1	29.4	189.8	22.7
	1,003.4	100.0	836.6	100.0

Group assets increased by 19.9 %, driven by acquisitions. Equity increased by only 14.7 % so that the equity ratio decreased from 44.7 % to 42.8 %.

Due to scheduled redemption of long-term debts and short-term debt financing of hospital acquisitions, coverage of long-term assets by equity and long-term liabilities declined from 101 % to 94 %. Correspondingly, short-term assets are not fully covered by short-term liabilities. In light of the present interest rate levels, and considering our cash flows, we have decided to opt for temporary short-term refinancing of hospital acquisitions.

Environment

Environmental issues have at all times enjoyed careful attention throughout the Group. We attach high priority to them, not only because we recognise that healthy people need a healthy environment but also because we have learned that active environmental protection, related investing, and efficient environmental management policies will deploy positive economic effects on our hospitals in the medium term.

Against this background, we continued our proactive programmes aimed at sustainable improvements through sensible use of resources and avoidance of environmental pollution in the framework of a vast number of smaller projects targeting optimal environmental protection at all our sites.

Following commissioning of the high-temperature fuel cell in Bad Neustadt in May 2001, it is planned to implement a fuel cell in Bad Berka, too; commissioning is scheduled for 2003. Fuel cells, a highly innovative technology for power and heat generation from natural gas, distinguish themselves by the lowest environmental impact and the highest efficiency grades known so far. Being involved in this trailblazing technology will enable us to take the lead in gearing the serviceability of fuel cells to the very special conditions of hospitals.

Human resources and social issues

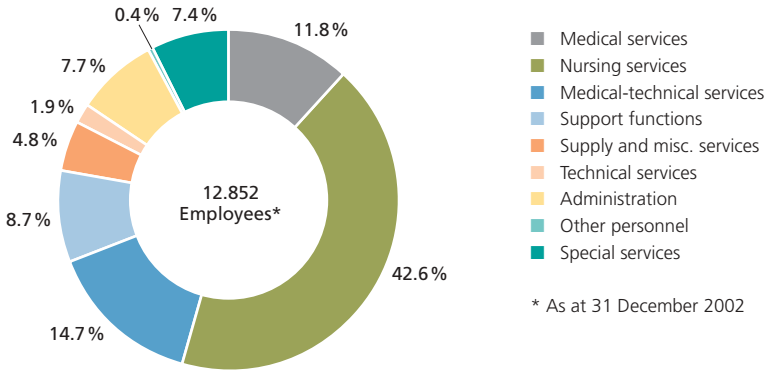
At the end of 2002, the Group employed 12,852 persons, an increase of 36.3 % compared with the previous year. Medical staff accounted for 11.8 % (previous year: 12.4 %), and nursing and medical-technical staff for 66.0 % (previous year: 67.1 %) of the workforce. Statutory social security contributions and pension costs as a share of the wages bill amounted to 18.8 % (previous year: 18.1 %) of total salaries and wages costs.

As a labour-intensive service provider, we depend on our employees' professionalism and high personal commitment to their work. At the same time, all our staff are required to ensure that working processes are strictly oriented toward patients' needs and wishes. To provide assurance that this goal is met, our Corporate Code of Conduct and Ethics with its guiding principle of "Do nothing that you would not want to be done to yourself, and leave nothing undone that you would want to be done to yourself" has been made binding for all our staff.

One of our Group's long-standing traditions is its focus on systematic training of qualified nursing staff at our own nursing schools. This training is aimed at acquainting students from the beginning with RHÖN-KLINIKUM AG's demanding care concepts so as to facilitate their entering upon a professional career within the Group. Also, we have extended our Junior Executive Development Programme in order to provide for managerial talent that is needed for future hospital takeovers.

A major issue in 2002 was the discussion with labour unions and other pools of interests about the prospective implementation of an EU court decision that designates stand-by duty as working

Analysis of personnel at RHÖN-KLINIKUM Group



* As at 31 December 2002

hours. On several occasions, we have made proposals for the adoption of this ruling in our company wage agreements in such a way as to ensure its implementation without effects on the cost side.

Procurement

In line with our principle of decentralised profit and loss responsibilities, the Group has no central purchasing department. Instead, we provide purchasing managers at the subsidiary level with ample and transparent procurement data from across the Group, using our Intranet which we've continuously upgraded in the past years. Price comparisons with newly acquired hospitals and comparisons of our materials cost structures with industry statistics show that the Group enjoys favourable purchasing price levels relative to industry averages. In addition, all our staff are motivated to control and optimise material consumption, not least through our efficient profit sharing schemes which reward responsible use of materials.

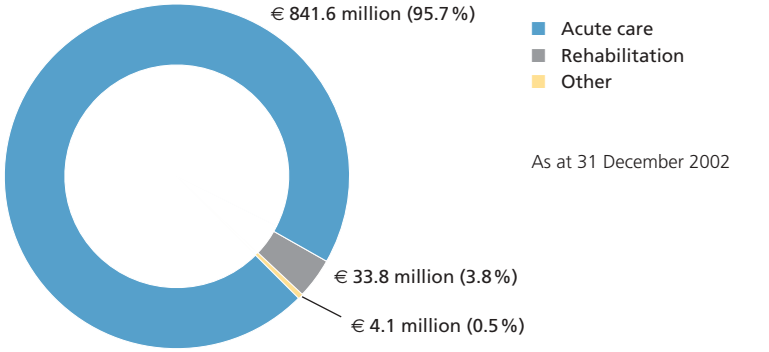
B. RISK REPORT

As a market-driven organisation, RHÖN-KLINIKUM Group is exposed to a variety of risks of different nature. These risks are intrinsic in our business as they are to any entrepreneurial activity, which, at the same time, offers the opportunity of creating added value in the form of earnings and asset growth at both the individual subsidiaries and at Group level. The assessment of business risks and opportunities is a key managerial responsibility. To enable us to met this responsibility, i.e., to early identify risks and initiate adequate countermeasures, an internal warning system has been established throughout the Group.

As one might expect, the shareholders' section contains the latest share price developments: being directly connected to a stock market information system, this page displays the daily share price in the form of a ticker and chart.

The structures of this warning system have been prescribed by the mother company and adapted by the individual subsidiaries to their specific needs. All our subsidiaries are bound to regularly review and assess defined and identified risks in the administrative and medical areas, and to present timely risk reports. We have evaluated their 2002 risk reports, taking as a measure the degree of probability and the extent of possible damages, and have come to the following results:

- Our hospitals' exposure to **macroeconomic and cyclical risks** is extremely limited. Since our activities are almost exclusively centred on the domestic healthcare market, with our subsidiaries enjoying sound financial conditions, external economic factors and interest rate developments are of minor importance.
- In Germany's heavily regulated healthcare market, **industry-specific risks** are closely related to governmental healthcare policies and the labour unions' wage policies for the public services sector. Within the industry itself, there is a notable difference in opinion as regards opportunities and risks from healthcare reform legislation and collective bargaining agreements. For instance, while many public hospital operators fear the effects of the new DRG-based remuneration system, our hospitals see that system as an opportunity for sound competition, which they are well prepared to stand, thanks to their favourable cost structures. Moreover, our hospitals are less exposed to pressures from labour unions, as they have already flexible and differentiated company wage agreements in place. With regard to the recent legislative initiatives and court decisions on working hours and stand-by duties in hospitals, we expect significant advantages from our flexible working time models when adopting these rulings at our facilities. We therefore believe to be able to keep any resulting additional charges well under control and to strengthen our competitive position.



Group revenues breakdown by business areas at RHÖN-KLINIKUM Group

- Since all our acute hospitals are either included in state hospital planning ore have signed corresponding service contracts with health insurance funds, they actually enjoy a monopoly-type status in their respective regions. This is why typical **market or sales risks** affect them to a very limited extent, if at all, provided that they deliver acceptable medical service quality. The healthcare sector as a whole is undergoing far-reaching change, however. Cost cutting pressures and/or medical progress will lead to the duration of stays in hospital being further reduced, while the range of outpatient and day-clinic services on offer will widen, and this will support the trend toward reducing acute bed capacity, which has set in years ago. We have accompanied these developments constructively and with great with far-sight. Our flexible hospital design and personnel management concepts that are geared toward future demand patterns actively promote continued operational and financial success and thus help mitigate potential sales risks of our operations in their respective markets.
- **Operating risks** at hospitals may result from the fact that hospital services are rendered in an environment that requires extremely

The new RHÖN-KLINIKUM web site attaches special importance to provide information about diseases and their treatments. A special search functionality allows users to select clinics that offer specific treatment options.

high standards of sterility and hygiene. Specific **production risks** may be derived from diagnostic and therapeutic procedures, which are hazardous by nature, due to their being highly complex and involving direct interventions on patients. However, this risk potential is monitored very efficiently by means of RHÖN-KLINIKUM's proprietary flow organisation which not only supports top professional performance at each individual work place but also creates a type of self-controlling system through strictly patient-oriented division of labour. We strive to minimise production risks by conducting regular and systematic employee trainings, by close monitoring of clinical structures and processes, and strict orientation toward patients' needs. In this context, it is worth noting that the chairman of the Board of Management has taken on direct and group-wide responsibility for monitoring patient complaints. Since production risks cannot be fully eliminated even with the most efficient control mechanisms in place, the Group provides for adequate insurance coverage which is regularly reviewed and updated, where appropriate.

- Typical **procurement risks** such as, for instance, single sourcing risks are relatively infrequent in the healthcare sector, compared with other industries. RHÖN-KLINIKUM Group strives to avoid dependence on single suppliers of products and services as far as possible and from the beginning. In doing so, we recognise that medical progress may lead to temporary dependence on certain suppliers of advanced technologies such as, for instance, implants, special medical-technical equipment or innovative therapies. However, such obviously temporary dependence is judged to be of minor or no importance within the Group. Internally, we see strict administrative separation of procurers from users as an indispensable means to counter corruption.
- Notwithstanding their high investment ratios per work place and employee, hospitals form part of the tertiary or services sector. Their business success is highly dependent on individual and collective staff performance. This is why employees who lack **motivation** or **skills** may represent a significant risk potential. To attract and retain efficient staff, the Group offers efficient profit-sharing schemes and ongoing further training and higher qualification programmes. In cooperation with professional organisations as well as technical colleges and universities, we promote the development of new managerial talent for all hierarchical levels, as we strive to recruit capable junior executives for our company.
- The **labour shortage** coming into focus in the area of medical professions is being addressed at RHÖN-KLINIKUM Group through offering a combination of flexible performance-based compensation, continuous improvements in work processes, and work places that are both demanding and attractive. Rationalisation gains that we achieve will normally also reduce the workload on our staff.

- Our group-wide strategy of **decentralising profit and loss responsibilities** combines with a sophisticated system of internal **communication and know-how sharing**. We believe that comprehensive entrepreneurial responsibility at the subsidiary level will strengthen our subsidiaries' competitiveness and thus contribute indirectly to minimising economic and organisational risks at Group level. Expert knowledge and synergies are extended from the centre to the subsidiary level by means of focused project group work and special task forces, organised by the mother company.

- All subsidiaries are required to prepare **monthly, quarterly and annual accounts**, using uniform reporting methods to enable inter-company comparisons, which are then analysed at Group level. Regular comparisons of previous-period and target figures enable us to early identify variances and take action, where appropriate.

- The assessment of **financial risks** also includes regular analyses of debtor accounts. We have in 2002 again observed a worsening of the age structure of accounts receivable, which is explained by the fact that the health insurance funds tend to delay payments and dispute payment claims even by reasons of volume. However, any risks resulting from this have but conditional effects on liquidity, because the Group regularly recognises repayment obligations to health insurers, due to services rendered in excess of budgets, and these obligations are offset in full against receivables from health insurers. Through regular contacts with banks we make sure that possible short-term loan capital needs in the context of acquisition projects will be provided for, if and when required. To this end, we cooperate with several well-established bank names.

- **Legal risks** may arise in so far as there are diverging judicial conceptions of health insurance funds, on the one hand, and hospital

The new Internet presentation allows each department to convey its own character besides portraying the scope of services it has to offer. The pages alternate between structured information and free text.

service providers, on the other hand. This applies to payment-related facts, in particular. Given the ever shorter time intervals between healthcare reform moves and related legislative initiatives, concerns among the parties to contract in healthcare are growing. Where payers' diverging judicial conceptions affect us prejudicially, payers are often primarily motivated by own cost-cutting targets. To clarify diverging judicial conceptions, we take seasoned legal advice on a regular basis, and we do not hesitate to take legal action, where necessary. This situation may in some cases give room to uncertainty in planning, because agreements of vital importance to hospitals, especially budget agreements, can no longer be concluded prospectively, as is prescribed by law, but are often delayed or signed under reserve. In our opinion, such legal risks may in isolated cases have significant effects at the subsidiary level, but in light of RHÖN-KLINIKUM Group's continued success and financial strength, aggregate legal risks are judged to be of marginal importance at Group level.

- Based on the results of our group-wide review and analysis of the risk situation, we have come to the **conclusion** that there are no risks that could endanger the existence of any of our subsidiaries or of RHÖN-KLINIKUM AG in the foreseeable future. Compared with the previous year, there have been no material changes in the overall risk situation, including all known risk categories (macroeconomic, industry, sales, production, procurement, operating, financial, and legal risks).
- In consultation with the independent Group auditors, we aim to continually improve our **internal risk monitoring** and **early warning systems** in order to enhance their effectiveness in terms of content, timeliness and quality of information. In 2002, we have significantly extended the scope of mandatory risk monitoring in the medical field, in particular.

On the new web site, scientific work is presented on the basis of a clearly defined structure, depicting which department performs research on which topics and into which diseases ...

C. EVENTS OCCURED AFTER THE END OF THE YEAR

No events of significance for assessing the financial status and earnings situation of RHÖN-KLINIKUM AG and the Group have occurred after the close of financial year 2002.

D. OUTLOOK

While uncertainty is in the nature of forecasts, it is certainly correct to assume that the foreseeable demographic shifts will drive the trend toward an increasing demand for hospital services. For business year 2003, we expect at best stagnation (if not negative growth) of the German economy, involving continued high unemployment and, as a consequence, high pressures on social budgets. It is becoming clear that targeted legislative initiatives that could dissolve the

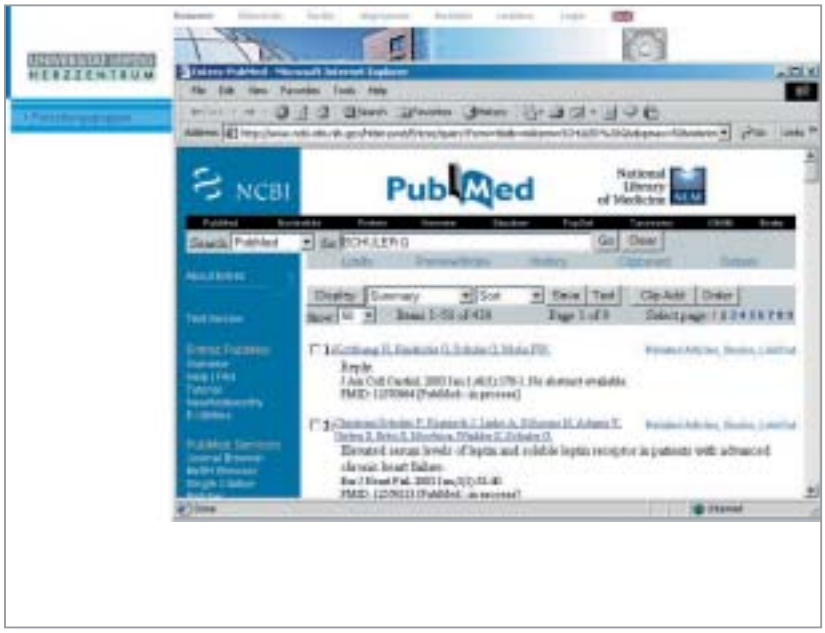
existing reform jam will rather not realise in 2003. Against this background, the health insurance funds will have to stick to their cost containment policy with the known effect of limited revenue growth on the hospital service provider side. It is anticipated that revenue growth somewhat below price inflation rates will be feasible as we meet the demand for services in excess of budgets.

The outcome of the 2003 wage negotiation rounds will be of major importance for the national healthcare industry and also for RHÖN-KLINIKUM AG. As always, we will make every effort to compensate wage rate increases by rationalisation gains.

The financial status of public corporations will continue to worsen as the overall economic environment remains difficult. Therefore, we expect the privatisation pressures on public hospitals to increase, which should lead to further hospital takeovers in 2003.

Based on an emergency bill, the federal government has imposed a zero-revenue-growth round on all hospitals across Germany, which will apply for the whole of 2003, and excepted only those hospitals who have opted for early adoption of the new DRG-based flat rate remuneration system. This limitation to revenue growth means for the majority of our hospitals that internal growth can only be achieved through assertion of exceptional facts or income from services rendered in excess of budgets, which income is not repayable in full. To avoid drops in profits in the face of these adverse conditions, our hospitals have implemented far-reaching cost-containment programmes.

As a group, the hospitals first included in the scope of consolidation in 2002 and 2003, respectively, should be able to contribute positively to consolidated results for 2003, while the other hospitals in RHÖN-KLINIKUM's portfolio are expected to stabilise earnings at their current high levels.

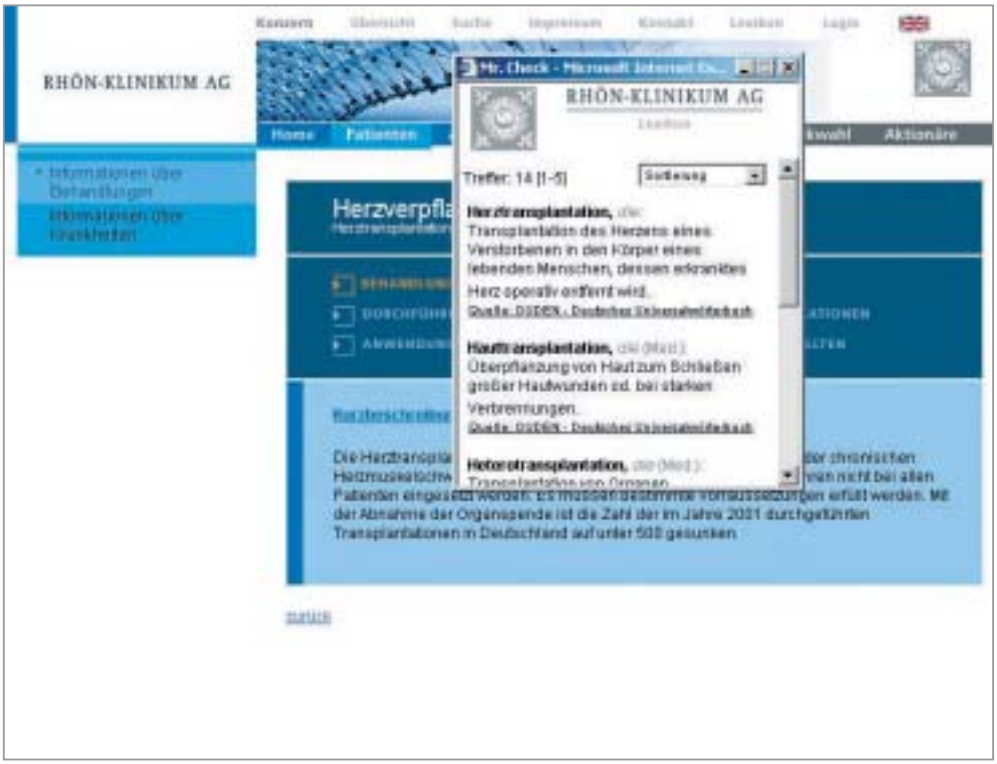


... in addition we provide information which papers have been published by the respective authors. At selected locations, the presentation refers directly to the papers featured in the National Library of Medicine.

For the whole of 2003, we expect the positive development of performance figures to continue. Based on the scope of consolidation at the date of this report, the Board of Management expects the current financial year to close with consolidated revenues of around € 924 million and a consolidated profit in excess of € 70 million, not taken into account potential further acquisitions. Planned investing activities excluding acquisitions in 2003 will absorb a combined total of € 106 million.

E. RESEARCH AND DEVELOPMENT

As a leading private hospital group in Germany, RHÖN-KLINIKUM AG is committed to research and development in its hospitals, its focus being primarily on applied medical research, including the development of advanced diagnostic and therapeutic concepts that provide solutions for the benefit of patients, as well as adding to our competitive strength.



Any questions regarding a specific term? The encyclopaedia functionality is never more than a mouse click away on our new web site.

Here are some examples of our activities in the fields of research and science during business year 2002:

- Good progress was made in designing cost-efficient structural and operational concepts for what is known as proton and heavy ion therapy. The traditional methods of radiotherapy for cancer patients are limited in their efficiency by law of nature. Moreover, they entail a number of unwanted side effects that cannot be eliminated even with the most modern radiation technologies available today.

  It has been known for many years that radiation using protons and heavy ions can substantially improve treatments for cancer patients. However, the introduction of this technology for routine application in hospitals has so far failed for cost reasons: the high capex requirements and, consequently, high treatment costs would go beyond the scope of our existing healthcare system's financing capabilities.

  In cooperation with several technology partners, we have found ways of reducing investment charges considerably, so the launch of this ground-breaking innovation has come within reach. We are optimistic that the proton and heavy ion therapy can be established as a method for broad application, since we are now able to avoid major cost advances for health insurers while ensuring markedly improved therapeutic outcomes.

- In spring 2002, we installed the world's first 16-line computer tomograph at our Bad Neustadt site. By using this innovative technology, we have been able to develop a new range of patient-friendly diagnostic procedures that are suitable to substitute diagnostic cardiac catheterisation in many cases. This advanced CT system will help to early detect and assess the severity and progress of coronary heart diseases much more frequently without applying catheter examinations than has been possible in the past.

- Our spinal surgery experts in Bad Berka have developed a vertebral body implant of so far unknow precision; it is this feature that enables its implantation using patient-friendly minimally invasive ("keyhole") surgical techniques.
- Deutsche Klinik für Diagnostik (DKD) in Wiesbaden has been able to further develop its trailblazing day-clinic treatment concepts for diabetics and to prove their high value for better care provision to patients within the framework of a long-term (three-year) study. These concepts are very supportive to sustainable reform in this area of healthcare provision, as well as encouraging the political debate about ways and means of securing our healthcare system's future affordability.
- Also led by our professionals at DKD, a major EU project was launched in December 2002: a multidisciplinary Europe-wide network of scientists from currently five countries will research into the infectious disease known as "Morbus Whipple", with the aim of gaining further insight into this clinical picture.
- In September 2002, Herzzentrum Leipzig participated via satellite in a cardiological congress in Washington, where more than 2,500 participants were able to watch our heart centre's live demonstration of therapeutic procedures that are in part unique in the world of medicine.

The foundations of our activities in the fields of research and science lie in close collaborative links with universities, with some of our hospitals acting as academic teaching hospitals, as well as with technical colleges and other technology partners. We see the basis for sustainable success in the long term in a well-functioning interplay of research and development on the one side, and orientation toward clinical needs and practical applicability on the other side, coupled with never-failing efforts to make patients' requirements the focus of attention.

Bad Neustadt/Saale, 4 April 2003

The Boad of Management

Andrea Aulkemeyer | Wolfgang Kunz | Joachim Manz

Gerald Meder | Eugen Münch | Manfred Wiehl

The RHÖN-KLINIKUM Shares

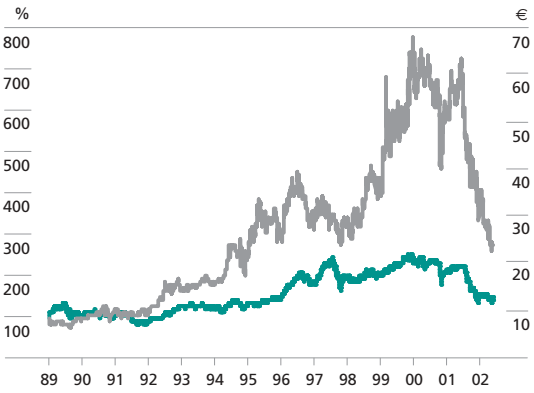
Sustained and primarily quality-oriented corporate growth, combined with transparent financial reporting, has been and will continue to be at the centre of our investor relations. RHÖN-KLINIKUM AG was admitted as a member of the new Prime Standard segment which came into being when the new segmentation of the German equity market took effect on 1 January 2003.

The sufficiently known equity market sentiment in the year under review weighed on our share prices as they tended to follow the general down-trend. The situation was aggravated by the public debate about how to get the balance in future healthcare policies right, and about what could be expected of recently taken emergency measures such as the statutory zero-revenue-growth round imposed on hospitals for 2003. Obviously, we have not been able to make investors see that it is exactly at this critical turn of the market where RHÖN-KLINIKUM AG gains competitive strength. The reason behind seems to be the complexity of the German healthcare system, the subtleties of which are hard to explain to national investors, let alone the international financial community.

RHÖN-KLINIKUM AG preference shares

Short-term performance comparison versus M-DAX 2002/2003

Long-term performance comparison versus M-DAX



RHÖN-KLINIKUM preference shares
M-DAX

Our ordinary shares reached their 2002 high at € 69.90 in April, but were then not able to hold out against the negative general trend: at year end, they traded at € 32.25 (previous year: € 58.50). Similarly, preference share prices declined sharply and closed the year at € 28.20 (previous year € 57.75).

The M-Dax and the C-Dax Pharma & Health also suffered heavy losses in 2002: the M-Dax fell by 30.08 % to 3024.82 points, and the C-Dax Pharma & Health declined by 29.77 % to 663.16 points. At 31 December 2002, RHÖN-KLINIKUM AG's market capitalisation stood at € 801 million (previous year: € 1,509 million). We no rank 36th (previous year: 23rd) on the M-Dax.

The general trend toward Xetra trading has further intensified during 2002. In business year 2002, we recorded a daily average trading volume of 12,157 (previous year: 8,343) RHÖN-KLINIKUM preference shares, with close to 82 % being accounted for by Xetra trading. The highest single-day turnover was 80,414, and the lowest 1,075 units. RHÖN-KLINIKUM ordinary shares showed a daily average trading volume of 14,115 (previous year: 8,984), of which just under 89 % were traded via Xetra. The highest single-day

RHÖN-KLINIKUM share data

Share prices, in €	2002	2001	2000
Ordinary shares			
Year-end	32.25	58.50	59.80
High	69.90	74.45	69.90
Low	30.80	42.50	38.22
Preference shares			
Year-end	28.20	57.75	55.10
High	63.75	65.49	68.00
Low	27.10	39.60	34.77

Per share key figures, in €			
Dividends			
Ordinary shares	0.58	0.48	0.40
Preference shares	0.60	0.50	0.42
Earnings			
Ordinary shares	2.60	2.54	2.40
Preference shares	2.62	2.56	2.38
Cash flow	5.06	4.22	4.05
Shareholders' equity	16.57	14.43	12.30

turnover in ordinary shares was 110,410 and the lowest 100 units. At year end, a total of 108 (previous year: 100) mutual funds were invested in RHÖN-KLINIKUM shares.

The massive loss in market value corresponds in no way with this company's positive business development. In fact, we even see the intrinsic value of RHÖN-KLINIKUM AG far from being fairly reflected in the prevailing share prices between 25 and 30 Euros.

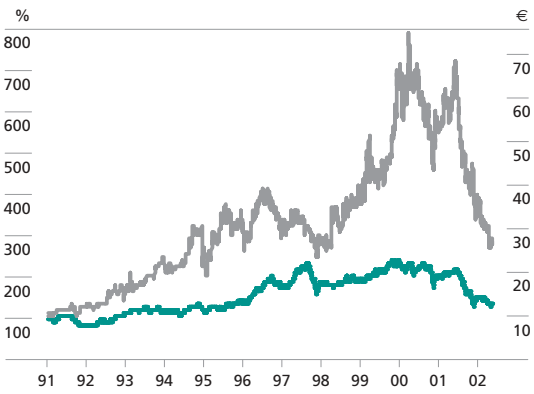
While maintaining our focus on qualitative growth, we decided that it was appropriate to continue our policy of steadily improving dividends, as we believe it's only fair for high-performing companies to share their success with investors, particularly in times of weak equity markets. For financial year 2002, the Board of Management and the Supervisory Board will recommend to shareholders at the forthcoming general meeting a dividend of € 0.58 (previous year: € 0.48) on ordinary shares, and € 0.60 (previous year: € 0.50) on preference shares.

As in previous years, we have done much to build up trust through an open dialogue with our shareholders, the broader investor community, financial analysts, the media and news agencies. In 2002, we were able to attract new institutional investors through extensive IR activities such as roadshows and investor conferences (in Germany and abroad). We also conducted numerous one-to-one talks to explain current business develop-

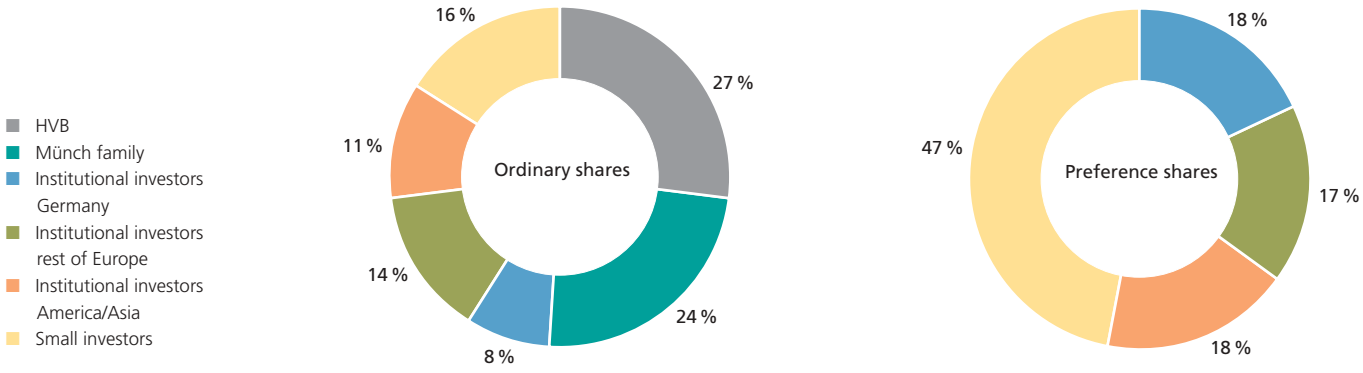
RHÖN-KLINIKUM AG ordinary shares

Short-term performance comparison versus M-DAX 2001/2002

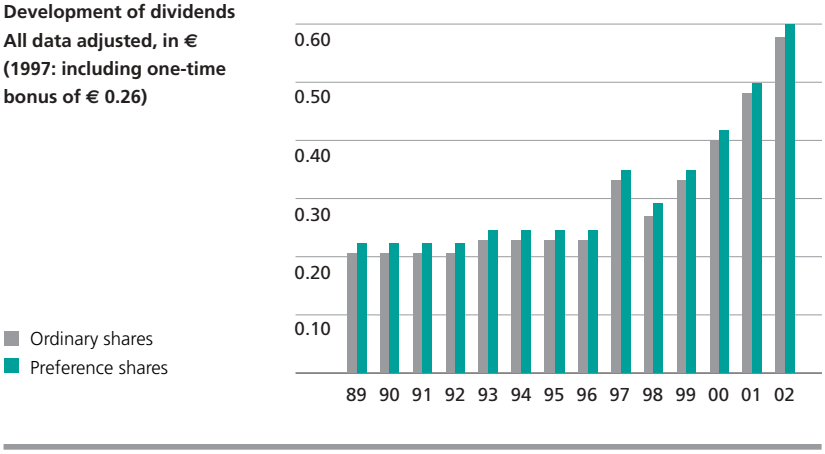
Long-term performance comparison versus M-DAX



Shareholder structure of RHÖN-KLINIKUM AG



Development of dividends All data adjusted, in € (1997: including one-time bonus of € 0.26)



ments and corporate strategies, which we do quite openly while strictly observing insider rules. We prefer to conduct such talks at our sites and/or our headquarters in Bad Neustadt, because "on site", our visitors will usually gain the best insight into what we do and the way we do things. Finally, with the relaunch of our web site, we have created a highly efficient communication tool that meets today's requirements of timely and investor-friendly corporate reporting. The web site provides extensive corporate data, including the company's annual reports and quarterly reports in three languages. An integrated ordering service enables easy online ordering of information materials via e-mail.

Establishing a careful balance between individuality and corporate identity: having the same basic structure, each of our hospitals has selected its own structural topic and colour for its web site.

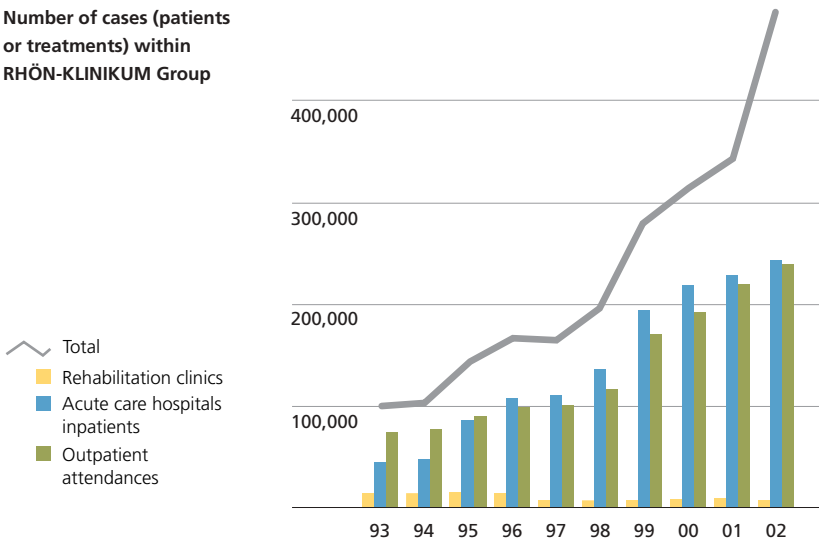
Proactive development of our hospitals

According to the latest data available from the Federal Statistical Office, which refer to the year 2001, the trend toward reducing surplus acute bed capacities has continued in Germany's hospital market. This trend is driven by a combination of ever shorter stays in hospital and improved service offers for outpatient and day-case treatment. Compared with financial year 2000, the combined number of inpatient beds operated in 2001 declined by 7,000 to around 553,000 beds.

During the same period, following the long-term uptrend in inpatient treatments, the number of inpatients treated in German acute care hospitals increased by 2.6 % to 16.6 million. The average duration of stays in hospital was reduced by 0.3 days to 9.8 days in 2001. This led to the reduction in demand for bed capacities exceeding the actual reduction in bed capacities, so that the average capacity utilisation rate of all hospitals decreased by 0.7 % to 80.7 %, compared with its previous-year level. On balance, the surplus bed capacities increased in 2001, compared with 2000.

Between 2000 and 2001, the number of privately owned hospitals increased by 22. Overall, private-sector owners accounted for 468 of the total of 2,240 acute care hospitals still existing in Germany in 2001. Private-sector players continued to gain market share in 2002. In the year under review, RHÖN-KLINIKUM AG alone added another seven hospitals to its portfolio.

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



Developments within RHÖN-KLINIKUM Group

Between 1993 and 2002, the combined bed capacity within the Group increased by 233 % from 2,419 to 8,055 beds (all included in the various federal states' hospital plans). During the same period, we recorded an above-proportion increase in the aggregate number of patient treatments of 473 % to 473,775. These figures – which translate into earnings power – are evidence of high patient satisfaction and acceptance of our hospital concept and business model.

Developments in Baden-Württemberg

One of Europe's most modern centres for cardiac surgery, **Klinik für Herzchirurgie** in **Karlsruhe** has lived up to its motto ("We have your heart at heart") since its inception in October 1995: this specialist hospital offers the entire range of surgical treatments for cardiac diseases in adults. Its surgeons specialise in patient-friendly (minimally invasive) cardiosurgical techniques. It was for reasons of capacity and budget limitations that the number of patients treated was nearly unchanged, compared with 2001, with 2,286 inpatients attending the hospital in 2002. As in previous years, the hospital was fully booked. Effective 1 January 2003, inpatient care capacity was increased to 75 beds under the hospital plan of Baden-Württemberg, which should help address latent surplus demand.

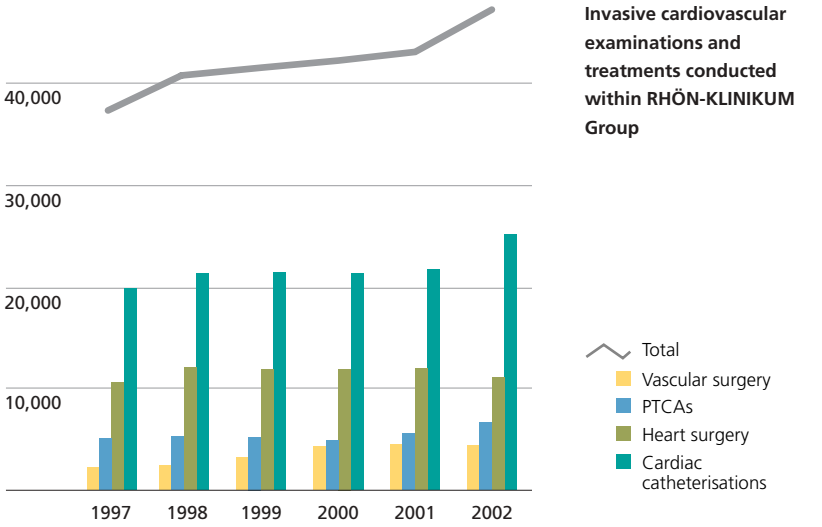
Developments in Bavaria

Herz- und Gefäss-Klinik in **Bad Neustadt** is one of the world's leading centres for cardiovascular diseases. Its team of specialists and state-of-the-art technology for the diagnosis and therapy of diseases of the heart and the vessels ensure top-quality medical care for patients. The number of inpatients treated in 2002 increased to 13,178, up almost 5 % from last year's 12,551; this was achieved despite the fact that the hospital has already worked close to or at capacity for many years. The average duration of stays in hospital was reduced by 0.3 days to 8.8 days without making any concessions in terms of quality.

The hospital's cardiologists and radiologists are "top of ranks" in the field of cardiac imaging diagnostics, nationally and globally. Top-tier medical expertise at Herz- und Gefäss-Klinik's managerial level, coupled with RHÖN-KLINIKUM's innovative strength in terms of ground-breaking technology, will provide excellent opportunities for building up capabilities in "non-invasive imaging" and "interventional electrophysiology" – the focal areas of Herz- und Gefäss-Klinik's cardiological department. This has already translated into marked increases in services rendered in the year under review, confirming the trend toward higher cardiological service volumes.

2002 saw the commissioning of the world's first 16-line Cardio CT, a technology that heralds nothing less than a change of paradigms in diagnostics; this innovation underscores our claim to leadership in both the application of advanced cardiac diagnostics and the further development of the specialist field of cardiology.

In light of the high demand for its services, Herz- und Gefäss-Klinik was given "green light" for an addition of 35 beds to its capacity under the state hospital plan, which came into operation on 1 July 2002.



Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group

Modern hand surgery is set to undergo radical change, as advanced surgical techniques will increasingly enable surgical interventions that so far required hospitalisation to be performed on a day-case or outpatient basis. **Klinik für Handchirurgie** in **Bad Neustadt** has embraced these new challenges in good time, and its professionals welcome this reorientation as being an integrative process that will ultimately benefit patients.

In 2002, the number of patients treated rose to 25,450 (including 149 rehab cases), up 3,021 from last year's 22,429 (including 152 rehab cases). As already in the previous year, the trend toward outpatient surgical services continued, supported by ultramodern surgical techniques which the clinic introduced during the year as well as certain modifications to remuneration rates. It is worth noting that the clinic was able to absorb this additional demand by offering more outpatient services and to further increase inpatient treatments, at the same time: the number of inpatients treated rose by 70 to 5,479, compared with 5,409 in the previous year. Outpatient attendances increased by 17.5 % to 19,822 (previous year: 16,868) cases, and the number of outpatient

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surgical treatments was 76.4 % higher at 1,009 (previous year: 572).

Psychosomatische Klinik Bad Neustadt, a specialist hospital with 180 acute and 160 rehab beds, recorded improved utilisation of both acute care and rehab capacities. Rehab capacity utilisation increased by 6.1 % to 94.7 % (previous year: 88.6 %), and acute care capacity utilisation reached 100.0 %, up 1.3 % from last year's 98.7 %. Overall, the hospital treated 45 patients more than in the previous year. Current research programmes – focusing such themes as employment reintegration and retraining, for instance – serve to continuously adapt the hospital's therapeutic concepts to the latest requirements. After completion of extensive renovation measures in the first quarter of 2002, the hospital now offers its patients a much more attractive and comfortable physical environment.

Klinik "Haus Franken" in **Bad Neustadt** integrates a rehabilitation centre for patients suffering from cardiac, circulatory and vascular disorders, as well as the Diabetes Centre Bad Neustadt. The facility operates a total of 122 beds and treated 2,033 patients in the year under review.

Haus Saaletal, also located in **Bad Neustadt**, is a 166-bed centre for addictive diseases. Complementary to this, though physically separated, Haus Saaletal operates a clinic for drug therapy, Klinik Neumühle, with a capacity for 48 patients, and a centre for reintegration, Maria Stern, with a capacity for 18 patients. As in previous years, all facilities were working to capacity in 2002. Haus Saaletal's focus of development was in 2002 on interlinking its treatment offers with psychiatric clinics and public welfare consultancies for addicts (Suchtbehandlungsstellen). Its therapeutic concepts are reviewed annually in close collaboration with the Bundesversicherungsanstalt für Angestellte, with a view to enhancements in line with most recent scientific findings.

Neurologische Klinik in **Bad Neustadt** increased its bed capacity in two steps from 250 acute and rehab beds in the previous year to a combined total of 260 beds in the year under review. The clinic was awarded this addition to capacity under the hospital plan in consideration of its outstanding neurological acute care capabilities. In particular, its ultramodern stroke unit which caters for the needs of patients referred from across the country has won full recognition by the Bavarian Secretary of State for Social Affairs. In the year under review, the clinic introduced further significant improvements in specific service areas. The combined number of inpatients (acute care and rehabilitation) increased by 252 to 3,698 (previous year: acute 2,050; rehab 1,410), with acute care accounting for 202 and rehabilitation for 50 of inpatients added. The number of outpatient attendances rose from 110 to 124.

To be able to meet the increased demand for intensive care – in particular, for patients with severe craniocerebral trauma – in Southern Germany, **Neurologische Klinik** in **Kipfenberg** has extended its (physical) intensive care capacities in the year under review. The hospital has consistently built up its reputation as a supraregional centre for patients with extremely severe neuro-

logical conditions. This is evidenced by the fact that it records continuously increasing numbers of patients suffering from multiple diseases with very high care requirements. Ongoing process optimisation has helped to reduce the duration of stays in hospital, as well as enhancing the quality of services. The hospital's outpatient rehabilitation centre shows an impressive 25.6 % gain in performance: attendances rose by 4,094 to 20,072.

Developments in Brandenburg

Klinikum Frankfurt (Oder), which joined the Group on 1 January 2002, is a leading regional centre in the federal state of Brandenburg. It operates 910 beds and houses a wide variety of specialist clinics. Klinikum Frankfurt (Oder) has in recent years developed into a modern high-efficiency centre for medical care provision to patients referred from across the state. 27,340 patients attended the hospital in 2002, which corresponds to an increase of 6.5 %, compared with the previous year (25,670). Besides inpatient care in its 22 specialist clinics, the hospital also provides a wide range of outpatient and day-case services. Outpatient attendances increased to 15,463 in 2002. Commissioning of a second multi-storey ward building in February this year has marked the first step of site amalgamation at the hospital's main location, Markendorf, which will open up great opportunities for targeted process optimisation and quality enhancements.

Developments in Hesse

Also on 1 January 2002, we welcomed **Aukammklinik** in **Wiesbaden** as a new Group member. A specialist acute care centre for interventional rheumatology and orthopaedics, this practitioners hospital operates 63 beds; in 2002, a total of 1,518 inpatients (previous year: 1,496) were treated at Aukammklinik. The hospital maintains close links with the rheumatological departments of other Wiesbaden-based hospitals and rehabilitation clinics, as well as with Deutsche Klinik für Diagnostik, also a RHÖN-KLINIKUM Group member, whose specialists meet their colleagues from Aukammklinik for regular counselling. Furthermore, the hospital is a partner to the Rheumazentrum Rhein-Main.

Stiftung Deutsche Klinik für Diagnostik (DKD) in **Wiesbaden** is known for its exceptionally wide range of medical specialties, close interdisciplinary collaboration of all its professionals, and smooth interlacing of outpatient, day-case and inpatient services. A recognised national acute care centre (categorised as Krankenhaus der Zentralversorgung), DKD operates 92 beds, of which 18 for bone marrow transplantations, as well as a day clinic for adults and children with a capacity for 60 patients.

Patients generally do not search by clinics or departments but by diseases and types of treatment. This is why both of these have been linked on our site. Users can move directly from the clinical treatment to the clinic or department offering these services – and vice versa.

In 2002, the total number of patients treated at DKD rose by 3.9 % to 35,865. Outpatient services contributed most to this gain, with an increase by 1,046 to 20,559 outpatient attendances in 2002 (previous year: 19,513). Together, inpatient and day-case services showed an increase by

305 to 15,306 patients (including 477 not requiring in-hospital care). The number of bone marrow transplantations declined from 79 in the previous year to 67 in 2002, due to the spectrum of alternative medicinal treatment methods widening. The year under review saw the completion of DKD's several years' extension and modernisation project at a total cost of € 16.9 million; DKD now boosts optimised structures that have enabled decisive further improvements in clinical processes.

Developments in Lower Saxony

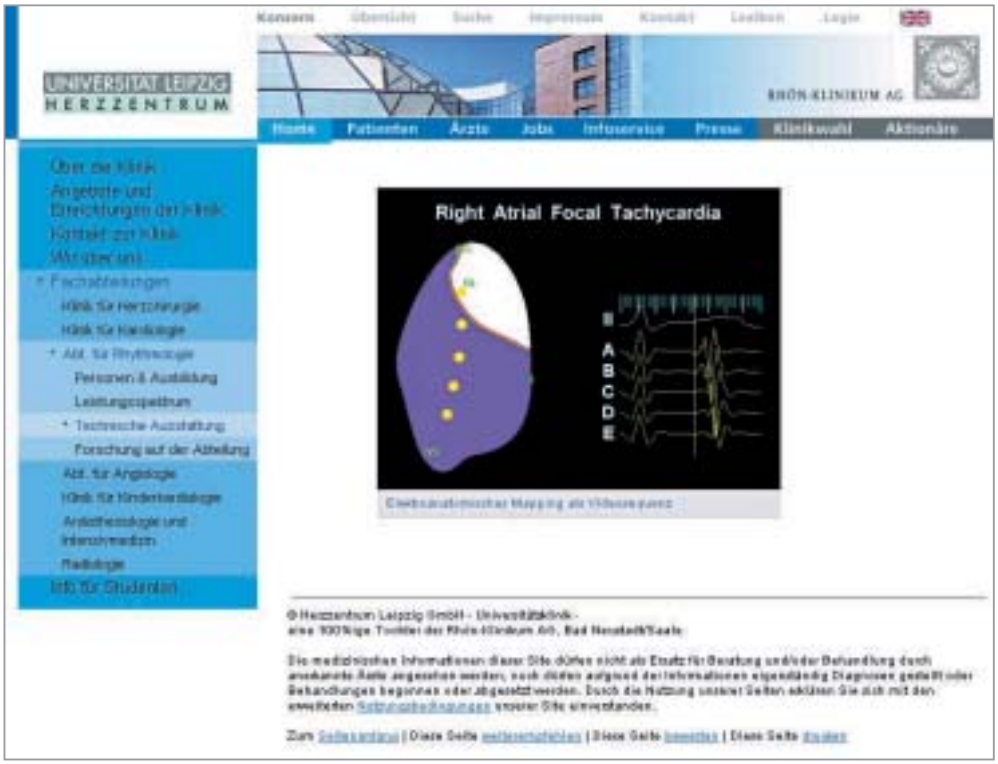
Krankenhaus Herzberg, which serves as a teaching hospital for the University of Göttingen, was able to slighty improve capacity utilisation, despite considerable handicaps due to building activities that lasted until mid-year. The hospital treated 11,180 inpatients, with the duration of stays in hospital remaining unchanged. Outpatient services were significantly extended during the year, with the result that outpatient attendances increased to 17,257, up 23.3 % from last year's 13,996. On completion of the extension project at the Herzberg site, the facility in Osterode was closed down and all services were amalgamated in Herzberg. As expected, this has resulted in major rationalisation gains, as well as enabling important enhancements in care quality for those patients previously accommodated in Osterode.

Mittelweser Kliniken, with its three sites in **Nienburg**, **Hoya** and **Stolzenau**, joined RHÖN-KLINIKUM Group on 1 January 2002. Formerly district hospitals, these facilities with a combined total of 401 beds under the state hospital plan are responsible for hospital care provision in the district of Nienburg. The aggregate number of inpatients treated in 2002 was slightly higher at 13,613 (Nienburg 7,099; Hoya 2,968; Stolzenau 3,546), compared with 13,387 in the previous year (Nienburg 7,028; Hoya 2,989; Stolzenau 3,370). Outpatient attendances decreases marginally from 33,636 in the previous year (Nienburg 16,502; Hoya 8,142; Stolzenau 8,992) to 33,463 in 2002 (Nienburg 16,269; Hoya 8,349; Stolzenau 8,845). It's in the district of Nienburg where we plan to realise RHÖN-KLINIKUM's proprietary concept for blanket-coverage care provision for the first time in Germany; this concept combines top-notch medical expertise sourced from high-efficiency centres with what we call "Tele-Portal-Clinics" at the local level. Planning and developing has made good progress, and Mittelweser Kliniken already own the property required for new building projects. The new construction of a 280-bed hospital in Nienburg, which we contracted for, will be completed within the next four years. Meanwhile, the hospital management know-how that we've brought in has helped our subsidiary to considerably improve its 2002 bottom line.

At **Kliniken Uelzen** und **Bad Bevensen** – in combination a teaching hospital serving the Medical College of Hannover –, the aggregate number of inpatients treated increased by around 7.9 % to 16,354 (previous year: 15,159). In October 2002, we celebrated the topping-out ceremony for the new € 72.5 million hospital building in Uelzen, which will be completed before the end of the current year, as scheduled.

Developments in North Rhine-Westfalia

Krankenhaus **St. Barbara** in **Attendorn** is a general hospital (basic and standard care) with 309 beds under the state hospital plan. In business year 2002, strike actions led to significant temporary declines in outpatient capacity utilisation, in particular. Thanks to the efforts of those willing and motivated – and the support that came from the Group – the hospital was able to make up for these losses by year end: with a total of 17,001 patients treated, the hospital was up to the previous-year level.



Moving pictures have also been integrated into the web sites of the individual clinics, with video clips being incorporated in the right "dosage" and wherever practical.

The redevelopment project at a cost of € 13.0 million, which had been stopped due to the strike, was resumed and we expect the new building – including related renovation and reorganisation measures – to be completed by the end of 2003.

Developments in Saxony

Herzzentrum Leipzig – Universitätsklinik – operates 316 beds under the hospital plan of the Free State of Saxony. Its mandate is that of a university hospital with responsibilities in medical education, teaching and research, and a maximum-care provider in its specialist fields.

One of the most modern facilities of its kind, Herzzentrum Leipzig houses three specialist clinics which provide the entire range of diagnosis and therapy for diseases of the cardiovascular system. In the year under review, the centre treated a total of 16,435 inpatients, compared with 16,198 in the previous year. Outpatient treatments increased by 71 % to 4,246, up 1,756 from last year's 2,490 treatments. The average duration of stays in hospital was reduced by 0.3 days to 6.2 days. This above-proportion reduction resulted in a somewhat lower capacity utilisation of 89 %.

Herzzentrum Leipzig, which will be storied as a prototype of a privately funded and operated university hospitals in Germany, has proved that economic efficiency, world-class medical services and top-tier medical research and teaching do not contradict each other.

Park-Krankenhaus Leipzig-Süd-Ost started business year 2002 with the move to its new buildings now housing the hospital's Somatic Clinic (255 beds) and Psychiatric Clinic (245 beds plus day-case capacity for 40 patients), which, together, represent an investment of € 82.0 million. Taking up operation at the new sites coincided with a rearrangement in hospital capacity planning, whereby addictive diseases will no longer be treated by Park-Krankenhaus, but patients with

Up-to-date announcements, notices of events and press releases appear automatically on the homepage of the parent company and/or the individual hospitals. These announcements are archived after 14 days.

such conditions will be referred to Soteria Klinik, also a RHÖN-KLINIKUM Group member. This is why 36 beds under the state hospital plan have been transferred from Park-Krankenhaus to Soteria Klinik. Commissioning of the new Somatic Clinic and the fact that we've succeeded in attracting excellent senior consultants brought about important enhancements in both capacity and the spectrum of services. The hospital's close links with its neighbour, Herzzentrum Leipzig, have enabled valuable synergies and quality improvements.

In 2002, Park-Krankenhaus Leipzig-Südost recorded 10,029 inpatients – only 521 less than in the previous year. This was achieved despite the relocation and the above-mentioned realignment of mandates. Adjusted for these factors, the hospital shows significantly increased patient numbers, which is proof to the high acceptance it enjoys within its catchment area. The number of outpatient attendances was almost flat at 13,459 (previous year: 13,420). Following relocation, the hospital has consistently worked close to or at capacity (average utilisation: 97.7 %).

Following the aforementioned realignment of mandates and the resulting increase in its bed capacity by 36 to 56 acute care beds under the hospital plan, **Soteria Klinik** in **Leipzig** now boosts a total of 230 beds plus therapeutic capacity for 10 patients. The necessary restructuring measures to accommodate the additional beds were completed in 2002. A specialist centre for alcohol and drug addicts, Soteria Klinik provides holistic treatment for patients with such conditions.

In the year under review, the centre treated 2,517 patients, 945 more than in the previous year. The average duration of stays increased from 7.6 to 9.7 days in the area of acute care, but declined from 86.4 to 84.7 days in the area of rehabilitation. Overall capacity utilisation was higher at 90.2 %, compared with 81.4 % in the previous year.

A major challenge for **Krankenhaus Freital** was the flood disaster in August 2002: the waters flooded the entire basement as well as parts of the ground floor, and technical equipment installed there was completely destroyed. Thanks to the enormous efforts of its own employees and the support that came from local people and many handicraft businesses as well as technical staff from other Group hospitals, Krankenhaus Freital was able to return to full serviceability within only two months; the number of inpatients treated was 9,270, down only about 6 % from last year's level.

In 2002, Krankenhaus Freital was awarded the status of a teaching hospital for Technische Universität Dresden.

Krankenhaus Dippoldiswalde, a general hospital (standard care), operates 150 beds under the state hospital plan; it covers a relatively large, though thinly populated catchment area. In 2002, the number of inpatients treated increased by 485 to 5,414 (previous year: 4,929).

Our Dippoldiswalde site is being redeveloped to become a “Tele-Portal Clinic”. This initiative will provide the basis for competitiveness even under the new DRG system, as it ensures cost-efficient hospital care provision at the local level, as well as delivering top-quality medical services at the reach of all.

Klinikum Pirna has been a Group member since 1 October 2002. This general hospital (standard care) provides 370 acute care beds, including day-case capacity for 16 patients.

It is planned to amalgamate this hospital with **Klinikum Dohna-Heidenau** (142 beds; 6 km away from Pirna), which we took over effective 1 January 2003, and to concentrate the activities of both facilities on one single site. To this purpose, we project a totally new centre, designed to cater for the needs of the population of the entire district of Sächsische Schweiz. This project is aimed at creating an organisation that will significantly improve patient care in the region, as well as enabling cost efficiencies – a concept that corresponds to what has long been a No. 1 target of the Saxon Minister for Social Affairs.

Developments in Thuringia

Klinikum Meiningen performed very well in 2002, as it did in previous years, ensuring a consistently high level of patient care in its catchment area. In the year under review, the hospital added to its bed capacity which now stands at 568 beds under the state hospital plan. Despite a further reduction in the average duration of stays in hospital by 0.4 to 8.1 days, capacity utilisation was once again far above industry standards, reaching an annual average of 94.2 %. The hospital recorded 24,268 inpatients (previous year: 22,595). Outpatient attendances increased by 22 % to 18,271 (previous year: 15,010).

Klinikum Meiningen continues to focus on state-of-the-art technology. In 2002, particular emphasis was put on applying and further developing patient-friendly surgical techniques such as, for instance, laparoscopic surgery of the colon

With the new Internet presentation, a Corporate Design has been created for our hospitals and for other fields of application. A central system within the group-wide Intranet provides access to these templates and images.

or fundoplication as a routine procedure in general and visceral surgery. In the special field of neurosurgery, intervertebral disk protheses were successfully implanted.

Krankenhaus Waltershausen-Friedrichroda, a general hospital (standard care) with 234 beds, showed a slight increase in inpatient treatments: 10,312 inpatients attended the hospital in the year under review, compared with 9,919 in the previous year. By closely linking with Zentralklinik Bad Berka in the areas of laboratory medicine and purchase management, the hospital was able to tap economic efficiency reserves. Ongoing process optimisation has allowed the average duration of stays in hospital to be further reduced from 7.5 to 6.6 days. This has led to the hospital's capacity utilisation declining from 85.9 % to 80.8 %, however.

New key appointments at the senior consultant level in the departments for gynaecology, internal medicine and surgery have opened up new opportunities in terms of medical service enhancements that have meanwhile been recognised by the health insurers as constituting exceptional facts, meaning that such service enhancements in excess of budgets will be paid for from 2003, with corresponding positive effects on the hospital's earnings situation.

In financial year 2002, **Zentralklinik Bad Berka** once more underscored its status as one of the Group's top performers. A leading national centre with a wide range of medical specialties (categorised as Krankenhaus der Schwerpunktversorgung), Zentralklinik Bad Berka responded to the increasing demand for its services by adding another 12 beds to its capacity: the centre now operates a total of 669 beds. The number of inpatients treated increased to 22,092 (previous year: 20,555), whilst outpatient attendances declined to 7,620 (previous year: 8,471). Capacity utilisation at 93.1 % was up to its high levels of previous years.

25 clinical studies conducted in the specialist fields of pneumonologie, nuclear medicine, cardiology, neurology and laboratory medicine, as well as its leading role as a host to numerous medical symposia, make Zentralklinik Bad Berka a top contributor to RHÖN-KLINIKUM Group's research and development activities.

Effective 1 January 2002, we took over **Fachkrankenhaus Hildburghausen**, a specialist hospital for psychiatry and neurology, with a total of 411 beds, including capacity for 16 day care patients. This is our first portfolio hospital to cover the typical areas of responsibility of a psychiatric hospital, i. e., acute psychiatric services, institutional nursing care, and forensic services. By conferring the mandate for the latter on a private-sector owner/operator as is RHÖN-KLINIKUM AG, the federal state of Thuringia has pioneered the privatisation of sovereign powers in forensic medicine.

In the year under review, the number of patients treated increased by some 10 % to 7,168 (previous year: 6,512), with overall capacity utilisation reaching 98.7 %. Besides initial improvements in organisational structures, activities during the year focused on planning for structural redesign: we envisage several construction phases which will be needed to concentrate all facilities at not more than two locations on the existing property. The first phase will comprise an extension to the existing psychiatric and neurological acute clinic. This project at a cost of about € 11.0 million has been started in spring 2003. After completion and relocation, which is scheduled for the end of 2004, we plan to build a completely new hospital to house the forensic department.

RHÖN-KLINIKUM Consolidated Income Statement for the year ended 31 December 2002

	Notes	€ thousand	2002 € thousand	2001 € thousand
Revenues	VI. 1.	879,492		697,013
Other operating income	VI. 2.	37,214		21,377
			916,706	718,390
Cost of materials	VI. 3.			
Materials, materials and merchandise		157,380		127,260
Services		54,311		45,227
			211,691	172,487
Personnel costs	VI. 4.			
Wages and salaries		383,913		288,019
Social security contributions and pension costs		72,177		52,074
			456,090	340,093
Depreciation on tangible and intangible assets	VI. 5.	48,930		38,652
Other operating expenses	VI. 6.	82,546		60,515
			131,476	99,167
Income from operations			117,449	106,643
Income from investments		0		28
Other interest and similar income		3,045		3,049
Interest and similar expenses		19,289		16,073
Financial result			– 16,244	– 12,996
Income from ordinary activities			101,205	93,647
Discontinued activities	VI. 8.		– 2,129	0
Earnings before taxes			99,076	93,647
Taxes on income and earnings	VI. 9.		23,948	22,835
Net profit for the year			75,128	70,812
Minority interest in profit			7,700	4,732
Net consolidated profit			67,428	66,080
Earnings per preference share, in €	VI. 10.		2.62	2.56
Earnings per ordinary share, in €			2.60	2.54

RHÖN-KLINIKUM Consolidated Balance Sheet
31 December 2002

ASSETS

	Notes	€ thousand	31 December 2002 € thousand	31 December 2001 € thousand
Fixed assets				
Intangible assets	VII.1.			
Industrial and similar rights and assets		2,413		2,355
Goodwill		20,985		14,315
Negative goodwill		–20		0
			23,378	16,670
Tangible assets	VII. 2.			
Land, land rights and buildings, including buildings on third-party land		609,077		469,816
Technical plant and machinery		12,516		11,537
Other plant and equipment		60,199		57,947
Payments on account and construction in progress		36,149		74,793
			717,941	614,093
Financial assets	VII. 3.			
Interests in associated companies		1,773		1,748
Other loans		226		225
			1,999	1,973
			743,318	632,736
Deferred taxes	VII. 4.		8,013	7,665
Current assets				
Inventories	VII. 5.			
Materials		12,885		10,018
Merchandise		26		24
Payments on account		979		320
			13,890	10,362
Receivables and other assets				
Receivables from supplies and services	VII. 6.	128,077		107,463
Tax claims	VII. 7.	9,820		2,975
Other receivables and other assets	VII. 8.	10,612		3,571
			148,509	114,009
Liquid funds	VII. 9.		89,098	71,455
			251,497	195,826
Prepaid expenses			553	401
			1,003,381	836,628

EQUITY AND LIABILITIES

	Notes	€ thousand	31 December 2002 € thousand	31 December 2001 € thousand
Equity	VII. 10.			
Subscribed capital		25,920		25,920
Capital reserve		37,582		37,582
Consolidated retained earnings		298,530		245,061
Consolidated profit		67,428		66,080
Own shares		–85		–86
Currency translation adjustments		0		–467
			429,375	374,090
Minority interests	VII. 11.		30,568	22,402
Provisions				
Provisions for pensions and similar obligations	VII. 12.	8,795		8,966
Other provisions	VII. 13.	4,625		2,936
			13,420	11,902
Deferred taxes	VII. 4.		32,127	33,232
Liabilities				
Long-term financial debts	VII. 14.	218,986		238,412
Tax liabilities	VII. 15.	6,384		9,197
Other liabilities	VII. 16.	272,006		146,893
			497,376	394,502
Deferred income			515	500
			1,003,381	836,628

RHÖN-KLINIKUM Consolidated Statement of Changes in Shareholders' Equity

	Subscribed capital							
	Ordinary shares	Preference shares	Capital reserve	Consolidated retained earnings	Consolidated profit	Own shares	Currency translation adjustments	Shareholders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at 1 Jan. 2001	**17,280**	**8,640**	**37,582**	**193,699**	**61,899**	**–87**	**0**	**319,013**
Consolidated profit					66,080			66,080
Dividends paid					–10,537			–10,537
Allocation to reserves				51,362	–51,362			0
Own shares						1		1
Currency translation adjustments							–467	–467
Balance at 31 Dec. 2001/ 1 Jan. 2002	**17,280**	**8,640**	**37,582**	**245,061**	**66,080**	**–86**	**–467**	**374,090**
Consolidated profit					67,428			67,428
Dividends paid					–12,611			–12,611
Allocation to reserves				53,469	–53,469			0
Own shares						1		1
Currency translation adjustments							467	467
Balance at 31 Dec. 2002	**17,280**	**8,640**	**37,582**	**298,530**	**67,428**	**–85**	**0**	**429,375**

RHÖN-KLINIKUM Consolidated Cash Flow Statement for the year 2002

	2002	2001
	€ million	€ million
Earnings before taxes	99.1	93.6
Elimination of financial result	16.2	13.0
Depreciation and book losses on fixed assets	56.1	38.7
EBITDA	**171.4**	**145.3**
Change in inventories	– 1.1	– 0.4
Change in receivables from supplies and services	1.7	– 7.6
Change in other receivables	35.8	1.4
Change in liabilities	– 38.4	– 5.2
Change in provisions	– 4.6	– 0.6
Other changes	– 0.7	– 0.6
Earnings taxes paid	– 34.8	– 30.6
Interest paid	– 19.3	– 16.1
Cash generated by operating activities	**110.0**	**85.6**
Investments in tangible and intangible fixed assets	– 82.7	– 90.1
Acquisitions of subsidiaries less cash acquired	– 66.1	0.0
Surplus on realisation of fixed assets	2.1	3.5
Interest received	3.0	3.1
Cash utilised in investing activities	**– 143.7**	**– 83.5**
Change in short-term financial debts	83.6	– 12.3
Change in long-term financial debts	– 20.5	31.6
Payments by outside shareholders	3.9	0.0
Dividends paid and dividend distributions to minority shareholders	– 15.7	– 13.1
Cash generated by financing activities	**51.3**	**6.2**
Change in liquidity	17.6	8.3
Change in cash resources arising from changes in currency exchange rates	0.0	– 0.4
Net cash resources at 1 January	71.5	63.6
Net cash resources at 31 December	**89.1**	**71.5**

I. ACCOUNTING POLICIES

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2002 have been prepared in accordance with the standards issued by the International Accounting Standards Board (IASB), London, in so far as these standards were applicable for the year 2002. These financial statements are in conformity with the requirements set out in the European Union's Directive on consolidated financial statements (Directive 83/349/EEC).

For RHÖN-KLINIKUM AG, these consolidated financial statements exempt it, as set out in § 292a of the German Commercial Code (HGB), from the requirement to prepare consolidated financial statements in accordance with German accounting standards. To achieve equivalence with consolidated financial statements prepared in accordance with HGB, all disclosures and explanatory statements required by HGB but going beyond IASB standards have been included.

There are no material differences between the accounting and valuation methods applied nationally and those used in preparing these financial statements.

For the financial statements of the companies included in the consolidated financial statements, uniform accounting and valuation principles have been used. Where valuations are based on tax regulations, they are not adopted in the consolidated financial statements. The annual financial statements of companies in which the group holds an interest show the same balance-sheet date as the consolidated financial statement.

In preparing the consolidated financial statements, some items have been valued taking into account assumptions and estimates, though to a very limited extent, which affect the amounts and the presentation of assets and liabilities, income and expenses as well as contingent liabilities disclosed in the consolidated financial statements. The effective values might differ from the assessed values.

II. PRINCIPLES OF CONSOLIDATION

1. Scope of consolidation

The Group parent company is RHÖN-KLINIKUM Aktiengesellschaft, headquartered in Bad Neustadt/Saale and registered at the district court of Schweinfurt (company registration number 1670). In addition to the parent company, RHÖN-KLINIKUM AG, the scope of consolidation comprises 36 domestic subsidiaries in which RHÖN-KLINIKUM AG directly or indirectly holds a majority of the voting rights. The number of companies included in the consolidated financial statements has remained unchanged, compared with the previous year. Six subsidiaries of minor importance for the Group's asset, financial and earnings situation have not been included in the consolidated financial statements; their combined revenues account for less than one per cent of consolidated revenues.

Acquisitions are consolidated using the purchase method. Accordingly, results of subsidiaries are included in the consolidated financial statements from their effective dates of acquisition, i. e., from the date on which control by RHÖN-KLINIKUM Group became operative.

The following changes to the scope of consolidation have occurred in financial year 2002:

Companies consolidated	Number
At 31 December 2001	37
Acquisition of Aukammklinik für operative Rheumatologie und Orthopädie GmbH, Wiesbaden	1
Sale of UCT Medical Centre (Proprietary) Ltd., Cape Town/South Africa	–1
At 31 December 2002	**37**

In addition, four subsidiaries that have already been consolidated since the previous year acquired six hospitals by way of asset deals:

	Number of beds	Date of acquisition	Interest held
			%
Aukammklinik, Wiesbaden	63	1 January 2002	100
Mittelweser Kliniken Nienburg Hoya Stolzenau	405	1 January 2002	100
Fachkrankenhaus für Psychiatrie und Neurologie, Hildburghausen	372	1 January 2002	74.7
Klinikum Frankfurt (Oder)	910	1 January 2002	100
Klinikum Pirna	358	1 October 2002	100
Johanniter Krankenhaus Dohna-Heidenau	142	1 January 2003	100

For acquisitions concluded in 2002, a total amount of € 88.2 million was invested – of which € 61.4 million for Klinikum Frankfurt (Oder) and € 10.7 million for the hospital for psychiatry and neurology in Hildburghausen – and funded in full from cash resources. Overall, this has resulted in goodwill of € 8.8 million and negative goodwill of € 1.1 million. In so far as negative goodwill has not already been offset against expected losses in 2002, it will be amortised in the same way as goodwill over a period of 15 years, using the straight-line method.

In financial year 2002, RHÖN-KLINIKUM AG disposed of its investment (81 %) in UCT Medical Centre (Proprietary) Limited, Cape Town/South Africa, and thus stopped operations outside Germany. The resulting changes are shown separately in the income statement and the cash flow statement under discontinued business activities.

The 2002 changes in fixed assets have had the following effects on Group assets and liabilities at the respective dates of acquisition or disposal:

	€ million
Fixed assets	82.0
Deferred taxes	0.2
Liquid funds	22.1
Other current assets	53.8
Outside shareholders' interests	3.6
Provisions	6.1
Liabilities	63.1

Details of the Group's interests in major subsidiaries are given in note VIII.

2. Methods of consolidation

The consolidated financial statements incorporate the annual financial statements of RHÖN-KLINIKUM AG and all subsidiaries included in the scope of consolidation. These financial statements are prepared in accordance with the German Commercial Code (HGB), using uniform accounting and valuation methods, 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 excess of the purchase price over the fair value of the attributable assets of a subsidiary at date of acquisition is recognised as goodwill and amortised over the expected useful life of the assets to which

it relates. Where there is an excess of the attributable assets acquired over the purchase price, these differences are recognised as negative goodwill and offset against expected future expenditure or amortised over the weighted residual life of the non-monetary wearable assets acquired, with effect on results.

All intercompany transactions and balances between consolidated companies as well as resulting intercompany profits have been eliminated on consolidation.

III. ACCOUNTING AND VALUATION METHODS

Where items have been summarised in the consolidated income statement and the consolidated balance sheet, their components are shown separately in the notes to the consolidated financial statements.

Revenues are realised at delivery of services or, in case of sales, at transfer of risks to buyer. Revenues from payments per treatment are reflected in proportion to the progress in the services to which the payments relate. **Operating expenses** are charged against income at utilising the services received or as incurred. Interest income and interest paid is recognised in the respective period; profit distributions are included at the date of distribution.

Research costs are shown as current expenditure, in accordance with IAS 38. There are no **development costs** that would require presenting as capital expenditure.

Intangible assets are stated at acquisition cost 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 the expected useful life of the assets to which it relates, principally within a period of 15 years, using the straight-line method. The value of assets is reviewed regularly; value adjustments are made, where appropriate, in accordance with IAS 36.

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

Depreciation of goodwill is reflected in the income statement under depreciation, reversal of negative goodwill is included in other operating income.

Tangible assets are valued at acquisition or production cost and depreciated systematically over their expected useful lives, using the straight-line method:

	Years
Buildings	33⅓
Technical plant and machinery	5 – 15
Other plant and equipment	3 – 12

Public grants are deducted from the carrying values of the assets to which they relate, making use of the choice about presenting grants, in accordance with IAS 20.

Where there is **unscheduled depreciation** in the value of fixed assets, including intangible assets, the Board of Management decides, based on expected future cash flows, whether the respective assets are to be written off, using as a measure the higher of the net realisable sales price or the use value. Impairment write-downs are reversed if and when the reason for the impairment in value ceases to exist.

Financial assets are reflected at acquisition cost. Write-downs are made where, in Management's opinion, the value of an asset has been permanently impaired.

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

Receivables from supplies and services as well as **other receivables** are shown at their nominal 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 empirical values. Due to the short-term nature of these items, carrying values essentially correspond to **market values**.

Liquid funds comprise payment means exclusively and are stated at their nominal value.

Provisions are made in so far as there are legal or factual obligations to third parties, which have been incurred in the past and are likely to produce asset outflows in the future, and the amounts of which can be assessed with reasonable assurance. Interests accrued are deducted if the interest effect is significant.

Provisions for pensions and compensatory obligations are determined in accordance with IAS 19 (revised 1998), using the projected unit credit method. Further details are given in the notes to the consolidated balance sheet.

Deferred taxes have been provided on taxable temporary differences arising from variances in the balancing of accounts and valuations in the tax balance sheets and commercial balance sheets of subsidiaries, on adjustments made at the consolidation level as well as on consolidation measures, in accordance with IAS 12 (revised 2000). Where expected to be reversible, tax-loss carry forwards are provided in the amount of the deferred tax assets. As in the previous year, deferred taxes have been calculated using a corporation tax rate of 25 % (plus the 5.5 % solidarity surtax on corporation tax). We have refrained from adjusting the tax rate used to the temporary change in the corporation tax rate under the Flood Victim Solidarity Act (Flutopfersolidaritätsgesetz), as this variance is of negligible importance for the asset, financial and earnings situation of the Group.

Financial debts and other liabilities are reflected at redemption value, pension commitments are recognised at present value.

Interests and other costs of loan capital are included in current expenditure.

IV. CASH FLOW STATEMENT

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

V. SEGMENT INFORMATION

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

With the exception of its temporary foreign investment in South Africa, which was sold in August 2002, RHÖN-KLINIKUM Group operates in the German market, exclusively. Since business risks and opportunities are basically the same in the various federal states and the Group's rehabilitation business, which accounts for only 3 % of the total of inpatients recorded, does not show the minimum size as defined by IAS 14 (revised 1997), there are no other business segments that would require segment information besides the acute care business.

An analysis of revenues by business areas and regions appears in the notes to the consolidated income statement.

VI. CONSOLIDATED INCOME STATEMENT

The consolidated 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:

	2002	2001
	€ million	€ million
Business areas		
Acute care	841.6	661.3
Rehabilitation	33.8	32.7
Other	4.1	3.0
	879.5	697.0

	2002	2001
	€ million	€ million
Regions		
Thuringia	213.3	176.8
Bavaria	177.8	170.7
Saxony	188.1	179.2
Brandenburg	83.6	0.0
Hesse	51.2	45.4
Baden-Württemberg	31.5	30.8
Lower Saxony	108.5	69.8
North Rhine-Westfalia	25.1	24.3
Other	0.4	0.0
	879.5	697.0

Of the increase in revenues, € 152.6 million are accounted for by acquisitions concluded in financial year 2002.

2. Other operating income

Other operating income comprises:

	2002	2001
	€ million	€ million
Income from services rendered	13.2	11.4
Indemnifications received	8.4	0.3
Income from grants and other allowances	3.4	4.5
Income from the release of provisions	5.2	1.2
Income from the reversal of negative goodwill	1.2	0.0
Other income	5.8	4.0
	37.2	21.4

Income from services rendered includes income from ancillary and incidental activities as well as income from rental and lease agreements. Of the income from the release of provisions, € 4.5 million are accounted for by the change of one subsidiary's pension scheme to a defined contribution scheme. The increase in indemnifications received is due to fire damages at one of our Leipzig sites and flood damages at Krankenhaus Freital.

3. Cost of materials

Compared to the previous year, the cost of materials increased by € 39.2 million to € 211.7 million. This increase has resulted from the acquisitions effected in 2002.

4. Personnel expenses

Personnel expenses rose by € 116.0 million to € 456.1 million, compared with the previous year, the main reasons being the acquisitions in 2002, an average increase of 2.0 % in wages, and increased performance-linked payments to employees.

Retirement benefit costs, including contributions to external insurance funds, amounted to € 7.4 million (previous year: € 4.7 million).

5. Depreciation

Depreciation on tangible and intangible assets increased to € 48.9 million (previous year: € 38.7 million), due to acquisition and investment activities during the year. Included in this amount are extraordinary write-downs of € 0.9 million.

6. Other operating expenses

Other operating expenses break down as follows:

	2002	2001
	€ million	€ million
Maintenance	25.9	18.9
Charges, subscriptions and consulting fees	9.0	8.3
Administrative and EDP costs	8.6	6.4
Depreciation of receivables	5.3	4.0
Losses from changes in fixed assets	5.3	0.7
Rents and leaseholds	3.2	3.1
Secondary taxes	0.7	0.7
Other	24.5	18.4
	82.5	60.5

€ 4.5 million of the losses from changes in fixed assets are accounted for by fire and flood damages.

7. Research costs

The Group's annual research costs account for about 2 % to 3 % of revenues. They are primarily made up of personnel costs and other operating expenses.

8. Discontinued business activities

Following signature of a contract dated 6 August 2002, the Group disposed of its interest (81 %) in UCT Medical Centre (Proprietary) Limited, Cape Town/South Africa. The reason for this decision was that we faced difficulties in the local environment which to overcome would have required disproportionate financial and organisational efforts. In view of the fact that our original concept for broad-based quality care provision was not realisable within a reasonable period of time, we limited the employment of funds to minimise risks. The consolidated financial statements record the losses from disconsolidation of the investment, including the losses of RHÖN-KLINIKUM AG, who has renounced its claim to partial repayment of a loan. These measures have resulted in a tax credit of € 0.3 million. For reasons of simplification, the ordinary result of UCT Medical Centre (Proprietary) Limited has been included in the consolidated operating result; overall, it is of minor importance for the assessment of the Group's earnings situation.

9. Earnings taxes

Taxes on earning increased by € 1.1 million to € 23.9 million, compared with the previous year. Earnings taxes comprise the corporation tax and the solidarity surtax. In accordance with IAS 12 (revised 2000), this item also reflects deferred taxes provided on differences in valuations in the tax balance sheets and commercial balance sheets of subsidiaries as well as on consolidation measures and reversible tax- loss carry forwards which, as a rule, can be brought forward without timing limits. By utilising tax-loss carry forwards, the tax load was reduced by approximately € 1.3 million.

Earnings taxes are composed as follows:

	2002	2001
	€ million	€ million
Current taxes	25.1	22.5
Deferred taxes	– 1.2	0.3
	23.9	22.8

Deferred tax assets of € 1.2 million resulted from the reversal of tax-loss carry forwards of € 0.3 million, in addition to € 0.9 million due to deductible timing differences.

The table below sets out details of taxes on earnings:

	2002		2001	
	€ million	%	€ million	%
Earnings before taxes	**99.1**	**100.0**	93.6	100.0
Arithmetical tax load *	24.8	25.0	23.4	25.0
Solidarity surtax	1.4	1.4	1.3	1.4
Reduction in corporation taxes due to profit distribution	– 2.2	– 2.2	– 2.3	– 2.4
Increase in taxes due to non-deductible charges	0.8	0.8	0.5	0.5
Other	– 0.9	– 0.9	– 0.1	– 0.1
Effective tax load	**23.9**	**24.1**	22.8	24.4

* Tax rate 25 %

Further details of tax deferrals and how they break down by assets and liabilities are explained in the notes to the consolidated balance sheet.

Secondary taxes are reflected in the operating result.

10. Earnings per share

Earnings per share are calculated using the net consolidated profit and the weighted average number of shares in issue during the year.

	Ordinary shares	Preference shares
Share in net consolidated profit, in € '000	44,843	22,585
(previous year)	(43,945)	(22,135)
Weighted average number of shares in issue, in units '000	17,277	8,635
(previous year)	(17,277)	(8,634)
Earnings per share, in €	2.60	2.62
(previous year)	(2.54)	(2.56)
Dividend per share, in €	0.58	0.60
(previous year)	(0.40)	(0.42)

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

VII. CONSOLIDATED BALANCE SHEET

1. Intangible assets

The item of "Industrial and similar rights and assets" mainly refers to software.

	Industrial and similar rights and assets	Goodwill	Negative goodwill	Total
	€ million	€ million	€ million	€ million
Acquisition costs				
1 January 2002	6.5	19.7	0.0	26.2
Additions due to changes in the scope of consolidation*	0.1	8.8	–1.1	7.8
Additions	1.1	0.0	0.0	1.1
Losses due to changes in the scope of consolidation	0.0	0.5	0.0	0.5
Losses	0.1	0.0	0.0	0.1
Transfers	0.1	0.0	0.0	0.1
31 December 2002	7.7	28.0	–1.1	34.6
Cumulative depreciation				
1 January 2002	4.1	5.4	0.0	9.5
Write-downs/reversals	1.2	1.7	–1.1	1.8
Losses	0.1	0.0	0.0	0.1
31 December 2002	5.2	7.1	–1.1	11.2
Balance sheet value at 31 December 2002	**2.5**	**20.9**	**0.0**	**23.4**
Balance sheet value at 31 December 2001	2.4	14.3	0.0	16.7

* Including acquisitions

Additions of goodwill due to changes in the scope of consolidation comprise additions of € 4.5 million resulting from the consolidation of Klinikum Frankfurt (Oder) GmbH, and € 4.3 million resulting from the consolidation of RK Klinik Besitz GmbH Nr. 1 (in future: Klinikum Pirna GmbH). Losses due to changes in the scope of consolidation refer to the deconsolidation of UCT Medical Centre (Proprietary) Ltd., Cape Town/South Africa.

Additions of negative goodwill resulted from the purchase of the hospitals of the district of Nienburg/Weser (€ 0.5 million) and the hospital for psychiatry and neurology in Hildburghausen/Thuringia (€ 0.6 million). The reversal of negative goodwill in the amount of € 1.1 million is reflected in the consolidated income statement under other operating income.

There are no restrictions on ownership titles and/or disposing rights.

2. Tangible assets

	Land, land rights and buildings 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 2002	584.7	29.4	155.9	74.9	844.9
Additions due to changes in the scope of consolidation*	73.7	0.9	1.6	1.5	77.7
Additions	28.3	4.1	21.5	27.7	81.6
Losses due to changes in the scope of consolidation	0.5	0.1	2.4	0.0	3.0
Losses	4.7	2.0	11.2	0.1	18.0
Transfers	64.2	0.5	3.1	–67.9	–0.1
31 December 2002	745.7	32.8	168.5	36.1	983.1
Cumulative depreciation					
1 January 2002	114.9	17.9	98.0	0.0	230.8
Depreciation	22.3	3.1	20.6	0.0	46.0
(of which unscheduled)	(0.9)	(0.0)	(0.0)	(0.0)	(0.9)
Losses	0.6	0.7	10.3	0.0	11.6
31 December 2002	136.6	20.3	108.3	0.0	265.2
Balance sheet value at 31 December 2002	**609.1**	**12.5**	**60.2**	**36.1**	**717.9**
Balance sheet value at 31 December 2001	469.8	11.5	57.9	74.9	614.1

* Including acquisitions

The Group has registered mortgages on real estate property as a collateral for bank loans and other liabilities with a total residual carrying value of € 222.0 million.

Public grants and allowances for investment financing are offset against acquisition or production costs of the assets for which they have been granted and thus reduce current depreciation. This item includes appropriated grants under the Hospital Financing Act (KHG) with a residual carrying value of € 166.7 million (previous year: € 89.4 million) as well as investment allowances under the Investment Promotions Act (InvZulG) and other public subsidies with a residual carrying value of € 62.9 million (previous year: € 62.9 million).

To provide for conditional repayment of determined single grants under KHG totalling € 98.0 million, the Group has registered mortgages on real estate in the amount of € 141.1 million. Nothing has come to the attention of the Board to indicate that the repayment of these grants and allowances is required in the foreseeable future.

3. Financial assets

	Interests in associated companies	Other loans	Total
	€ million	€ million	€ million
Acquisition costs			
1 January 2002	4.1	0.3	4.4
Additions	0.0	0.0	0.0
Losses	0.0	0.0	0.0
31 December 2002	4.1	0.3	4.4
Cumulative depreciation			
1 January/31 December 2002	2.3	0.1	2.4
Balance sheet value at 31 December 2002	**1.8**	**0.2**	**2.0**
Balance sheet value at 31 December 2001	1.8	0.2	2.0

Interests in associated companies are shown at acquisition cost or, where the value of an associate has been permanently impaired, at an appropriate lower value. The carrying values of financial assets correspond to market values.

Interest-bearing loans are recognised at nominal value.

4. Tax deferrals

Tax deferrals result from variances in valuations in the tax balance sheets and commercial balance sheets of consolidated subsidiaries, from consolidation adjustments and from tax-loss carry forwards expected to be reversible, in accordance with IAS 12 (revised 2000).

Deferred tax assets and liabilities break down by tax-loss carry forwards and balance-sheet items as shown below:

	31 December 2002		31 December 2001	
	Assets	Liabilities	Assets	Liabilities
	€ million	€ million	€ million	€ million
Tax-loss carry forwards	6.7	0.0	6.6	0.0
Tax-exempt reserves	0.0	20.1	0.0	22.4
Tangible assets	0.0	10.5	0.0	8.9
Provisions	0.0	1.1	0.0	1.4
Other items	1.3	0.4	1.1	0.5
Total	**8.0**	**32.1**	7.7	33.2

At the balance sheet date, deferred tax assets of € 26.3 million (previous year: € 25.5 million) were not yet utilised; there are no time limits with regard to carrying forward such assets. The tax base used for tax deferrals was € 25.3 million (previous year: € 25.0 million). At the balance-sheet date, deferred tax assets resulting from tax-loss carry forwards stood at € 6.7 million.

5. Inventories

Stores and materials valued at € 12.9 million (previous year: € 10.0 million) are primarily accounted for by medical supplies. Write-downs have been taken on acquisition costs; at the respective balance sheet dates, these value adjustments amounted to € 0.9 million in 2002, compared with € 1.1 million in the previous year. The carrying value of depreciated inventories is of secondary importance. Inventories are fully owned by RHÖN-KLINIKUM Group; there are no assignments or pledges of inventories.

6. Receivables from supplies and services

	31 December 2002	of which long-term	31 December 2001	of which long-term
	€ million	€ million	€ million	€ million
Receivables from clients	138.8	0.0	117.0	0.0
Value adjustments	10.7		9.5	
	128.1	0.0	107.5	0.0

The actual value of receivables from supplies and services corresponds to their book value. Discernible single risks are accounted for by value adjustments, measured by the likely risk of default. Increases and decreases in receivables are reflected as other operating expenditure and other operating income, respectively, in the consolidated income statement.

7. Tax claims

Tax claims in the amount of € 9.8 million (previous year: € 3.0 million) comprise corporation tax reimbursement claims of consolidated subsidiaries.

8. Other receivables and other assets

Other receivables and other assets are shown at nominal value less value adjustments.

Receivables under hospital financing law mainly relate to compensation claims for services rendered under the federal compensatory scheme (Bundespflegesatzverordnung).

	31 December 2002 of which long-term		31 December 2001 of which long-term	
	€ million	€ million	€ million	€ million
Receivables under hospital financing law	5.1	0.0	0.8	0.0
Receivables from associated companies	0.1	0.0	0.1	0.0
Other assets	5.4	0.7	2.7	0.1
	10.6	**0.7**	3.6	0.1

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

Due to the short-term nature of other receivables and other assets, their carrying values essentially correspond to market values.

9. Liquid funds

Liquid funds comprise balances of cash on hand and cash in banks, exclusively. The Group shows a credit balance of € 35.9 million with Bayerische Hypo- und Vereinsbank AG.

10. Equity

In accordance with IAS 1 (revised 1997), changes in equity are presented in a separate statement of changes in shareholders' equity which forms part of the consolidated financial statements.

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

		Arithmetical interest in the share capital as at 31 Dec. 2002
	Number	€
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.

Agio derived from capital increases is included in the capital reserve.

Group retained earnings include retained earnings from previous periods of consolidated subsidiaries, as well as consolidation effects.

Own share holdings are valued at € 0.1 million and deducted from equity. At the balance sheet date, the portfolio of own shares consisted of 3,054 ordinary shares (previous year: 3,054) and 5,349 preference shares (previous year: 5,394).

In accordance with the provisions of the Companies Act (AktG), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of the parent company, RHÖN-KLINIKUM AG, which is prepared in accordance with the German Commercial Code (HGB). The Board of Management and the Supervisory Board will propose to shareholders at the forthcoming general meeting to appropriate the Company's net distributable profit of € 23.7 million as shown below and to carry forward the dividend on own share holdings.

	Dividend	Total
	€ per share	€
Ordinary shares	0.58	10,022,400.00
Preference shares	0.60	5,184,000.00
Transfer to other retained earnings		8,478,148.29
		23,684,548.29

11. Minority interests

Minority interests in the amount of € 30.6 million (previous year: € 22.4 million) include outside shareholders' interests in the capital of consolidated subsidiaries:

	Outside shareholders' interests
	%
Altmühltalklinik-Leasing GmbH. Kipfenberg	49.00
Klinik für Wirbelsäulenrehabilitation GmbH. Bad Berka	25.00
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH	25.27
Zentralklinik Bad Berka GmbH, Bad Berka	25.00

Profit attributable to minorities as a share of net consolidated profit for the year amounted to € 7.7 million (previous year: € 4.7 million).

12. Provisions for pensions and similar obligations

The Group provides post-retirement benefits for eligible employees under its company pension scheme which is in substance a defined benefit pension plan. Obligations under this scheme comprise both current pension payments and future entitlements.

Pension obligations are funded in full from provisions, meaning that these obligations are not covered by outsourced assets (= external insurance funds).

All obligations arising from the defined benefit pension plan and related pension costs have been assessed using the projected unit credit method, in accordance with IAS 19 (revised 2000).

Obligations include pension liabilities to executive staff members of one Group company in the form of defined benefit post-retirement, disablement and survivor's pensions. Provisions for pensions under the company pension scheme cover commitments to existing employees as well as 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; these commitments are also included in pension obligations, as required by IAS 19 ("Employee Benefits").

The cost of pension plans and compensatory commitments breaks down as follows:

	2002	2001
	€ million	€ million
Current service costs (accrued entitlements)	0.4	0.3
Interests (projected entitlements)	0.6	0.6
Amortisation	0.1	0.0
	1.1	0.9

In financial year 2002, pension payments amounted to € 1.2 million (previous year: € 0.4 million). The total cost of € 1.1 million (previous year: € 0.9 million) is included in personnel expenses.

Defined benefit obligation and funding status of pensions and compensations:

	31 Dec. 2002	31 Dec. 2001
	€ million	€ million
Defined benefit obligation	10.0	10.5
Obligation in excess of plan assets	10.0	10.5
Actuarial gains or losses not yet recognised	– 1.2	– 1.5
Provision for pensions (defined benefit liability)	**8.8**	9.0

Provisions for pensions developed as follows:

	2002	2001
	€ million	€ million
Balance at 1 January	**9.0**	8.4
Additions due to extended scope of consolidation	4.5	0.0
Pensions paid	1.2	0.4
Releases	4.5	0.0
Allocations	1.0	1.0
Balance at 31 December	**8.8**	9.0

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

	31 Dec. 2002	31 Dec.2001
	%	%
Rate of interest	5.75	6.0
Projected increase in wages and salaries	2.5	2.5
Projected increase in pensions	1.5	1.5
Average fluctuation	0.0	0.0

Consistently with previous years, Prof. Dr. Klaus Heubeck's 1998 Tables were used as **biometrical bases of calculation**.

The release of pension provisions has resulted from the change of one subsidiary's pension scheme to a defined contribution plan, with corresponding effects on actuarial valuations.

The Group pays contributions to the Versorgungswerk des Bundes und der Länder (VBL) for the benefit of a defined group of employees within 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 for pensioners of VBL member companies are not determined by contributions. However, in light of the great variety of VBL member companies, this form of pension scheme must be regarded as a multi-employer pension plan, subject to special rules according to IAS 19. In particular, IAS 19 does not allow the creation of provisions, due to lack of sufficient information for a detailed assessment of the share of RHÖN-KLINIKUM companies in future pension obligations under that scheme. Obligations under the VBL scheme are therefore recognised as obligations under defined contribution pension plans, as required by IAS 19.30a.

Current contributions to the VBL are reflected as pension costs in the operating result for the respective financial years. In 2002, total contributions to VBL amounted to approximately € 5.8 million (previous year: € 2.9 million). Provided continued VBL membership, there are no other obligations for RHÖN-KLINIKUM companies besides paying in contributions.

13. Other provisions

Other provisions developed in financial year 2002 as shown below:

	1 Jan. 2002	Changes in the scope of consolidation	Consumed	Released	Allocated	31 Dec. 2002	Of which short-term
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for risks of default	1.9	0.0	0.6	0.0	0.1	1.4	1.4
Provisions for third-party risks	0.4	0.0	0.1	0.1	0.6	0.8	0.8
Other provisions	0.6	2.2	0.0	0.6	0.2	2.4	2.4
	2.9	**2.2**	**0.7**	**0.7**	**0.9**	**4.6**	**4.6**

Provisions for risks of default mainly relate to risks arising from rental agreements.

Provisions for third-party risks are built to cover damage compensation claims. Except for agreed deductible amounts (net retention), these risks are covered by existing insurance contracts and corresponding rights of recourse. The Group provides for potential negative effects of net retention, taking as a measure the likely utilisation of deductible amounts.

Other provisions comprise primarily provisions for obligations incurred in the context of acquisitions concluded in 2002.

14. Long-term financial debts

	31 December 2002		31 December 2001	
	Long-term	Short-term	Long-term	Short-term
	€ million	€ million	€ million	€ million
Liabilities to banks	205.2	13.3	207.1	30.8
Other liabilities	0.0	0.5	0.0	0.5
	205.2	**13.8**	207.1	31.3

€ 192.2 million of long-term financial debts are accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG.

Other liabilities refer to an annually redeemable revolving loan.

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

		31 December 2002		31 December 2001	
Terms of fixed-interest agreements	Interest rate *	Nominal value	Book value	Nominal value	Book value
	%	€ million	€ million	€ million	€ million
Liabilities to banks					
2002				58.5	51.4
2003	6.46	58.8	47.5	58.8	48.5
2004	5.45	34.8	26.2	34.8	27.6
2005	5.95	72.6	49.3	55.0	52.3
2006	5.34	60.6	51.8	60.6	54.6
2007	5.22	39.4	36.8	5.1	3.5
2011	5.70	7.7	6.9	0.0	0.0
		273.9	218.5	272.8	237.9
Other liabilities					
2002	7.50	0.5	0.5	0.5	0.5
		274.4	**219.0**	273.3	238.4

* Weighted rate of interest

Book values shown correspond to market values of financial debts.

Of the amounts stated, € 210.8 million are primarily secured by mortgages.

Long-term financial debts with a residual term of more than five years total € 150.2 million.

15. Tax liabilities

Tax liabilities in the amount of € 6.4 million (previous year: € 9.2 million) comprise corporation tax payable plus the solidarity surtax; reflected in this item are tax liabilities incurred in the current year and in previous periods.

16. Other liabilities

	31 December 2002	Of which long-term	31 December 2001	Of which long-term
	€ million	€ million	€ million	€ million
Liabilities from supplies and services	35.1	0.2	33.7	0.3
Personnel liabilities	51.9	0.0	41.8	0.0
Financial debts	116.1	0.0	29.0	0.0
Liabilities under hospital financing law	27.6	0.0	19.9	0.0
Operating taxes and social security	16.9	0.0	9.9	0.0
Prepayments received	1.9	0.0	0.5	0.0
Other	22.5	1.6	12.1	0.2
	272.0	**1.8**	146.9	0.5

Personnel liabilities are mainly accounted for by performance-linked wage components as well as leave compensation.

Short-term financial debts relate to debts incurred in the ordinary course of business and short-term refinancing of acquisitions, of which € 28.0 million are accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG,

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

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

Other liabilities with a residual term of more than five years amount to € 0.3 million.

VIII. INTERESTS IN MAJOR SUBSIDIARY COMPANIES

1. Consolidated subsidiaries

	Percentage held	Equity** 31 Dec. 2002	Result for the year ** 31 Dec. 2002
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing GmbH, Kipfenberg	51.0	2,641	332
Aukammklinik für operative Rheumatologie und Orthopädie GmbH, Wiesbaden	100.0	900	–28
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	22,350	3,440
RK Klinik Besitz GmbH Nr. 5, Bad Neustadt/Saale (in future: Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH)	74.7	18,044	3,932
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	9,539	–389
GTB Grundstücksgesellschaft mbH, Leipzig	100.0	33,298	–371
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	172	60
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,934	418
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	7,928	0 *
Herzberger Klinik Leasing GmbH, Herzberg am Harz	100.0	7,532	–319
Herzklinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,681	197
Herzzentrum Leipzig GmbH, Leipzig	100.0	22,967	16,679
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	–3,471	944
Klinik „Haus Franken" GmbH, Bad Neustadt/Saale	100.0	450	25
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	43	–2
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	7,507	4,714
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	75.0	17	0
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	4,781	1,687
Kliniken Herzberg und Osterode GmbH, Herzberg am Harz	100.0	6,922	1,164
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	23,113	3,113
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	67,977	1,988
Klinikum Meiningen GmbH, Meiningen	100.0	12,901	7,770
Krankenhaus Freital GmbH, Freital	100.0	16,563	–2,486
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	8,493	45
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	12,550	786
Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde	100.0	8,353	605
Mittelweser Kliniken GmbH, Nienburg Hoya Stolzenau	100.0	12,792	–188
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,264	1,054
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	5,659	–1,825
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	6	3
RK Klinik Besitz GmbH Nr. 1, Bad Neustadt/Saale (in future: Klinikum Pirna GmbH)	100.0	–199	–249
RK Klinik Besitz GmbH Nr. 2, Bad Neustadt/Saale	100.0	45	–3
RK Klinik Betriebs GmbH Nr. 2, Bad Neustadt/Saale	100.0	20	–28
Soteria Klinik Leipzig GmbH, Leipzig	100.0	3,286	904
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	17,793	1,880
Zentralklinik Bad Berka GmbH, Bad Berka	75.0	69,538	24,567

* after profit distribution ** Accounting in acc. with HGB

2. Associated companies not included in the scope of consolidation

	Percentage held	Equity** 31 Dec. 2002	Result for the year ** 31 Dec. 2002
	%	€ thousand	€ thousand
ESB-Gemeinnützige Gesellschaft für berufliche Bildung mbH. Bad Neustadt/Saale	100.0	1,606	– 310
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH. Leipzig	100.0	464	86
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH. Bad Neustadt/Saale	100.0	332	17
Kurverwaltung Bad Neustadt GmbH. Bad Neustadt/Saale	60.0	85	1 *
RK Bauträger GmbH. Bad Neustadt/Saale	100.0	215	0
Seniorenpflegeheim GmbH Bad Neustadt/Saale. Bad Neustadt/Saale	25.0	99	– 1
Wolfgang Schaffer GmbH. Bad Neustadt/Saale	100.0	497	10

* According to 2001 financial statements
** Accounting in acc. with HGB

IX. ADDITIONAL INFORMATION

1. Annual average number of staff*

	2002	2001	Change	
	Number	Number	Number	%
Medical	1,453	1,146	307	26.8
Nursing	5,316	4,105	1,211	29.5
Medical-technical	1,831	1,373	458	33.4
Functional	1,070	767	303	39.5
Support functions	617	406	211	52.0
Technical	234	166	68	41.0
Administrative	940	731	209	28.6
Other	84	46	38	82.6
	11,545	**8,740**	**2,805**	**32.1**

* Headcount; excluding board members, managing directors, apprentices, trainees and civilian alternative servants.

2. Contingent liabilities

Warranties and guarantees furnished in 2002 are reflected at a total of € 0.4 million (previous year: € 0.8 million).

3. Other financial obligations

	31 Dec. 2002	31 Dec. 2001
	€ million	€ million
Capital expenditure contracted for	8.3	9.9
Rental and lease agreements		
Maturity subsequent year	1.4	0.4
Maturity 2 – 5 years	1.8	3.2
Maturity 5 years	0.1	0.1
Pre-tax adjustments		
Maturity subsequent year	1.3	1.4
Maturity 2 – 5 years	1.4	2.7
Maturity 5 years	0.0	0.0
Other		
Maturity subsequent year	22.5	14.3
Maturity 2 – 5 years	16.1	8.2
Maturity 5 years	4.3	4.4

Financial obligations arising from acquisition agreements total € 220.6 million (previous year: € 191.9 million); this includes purchase prices and capital expenditure obligations that have largely to be met within a period of up to 84 months.

4. Related parties and persons

RHÖN-KLINIKUM Group companies, in given instances, enter into transactions with related companies, which are usually arranged under market terms. Expenses and income as well as open accounts resulting from such transactions are of negligible importance at group level.

In the year under review, companies and entities related with members of the Supervisory Board of RHÖN-KLINIKUM AG rendered the following services at market prices:

Related persons	Related companies (as defined by IAS 24.3e)	Nature of services	€ thousand
Dr. Friedrich-Wilhelm Graf von Rittberg	Seufert Rechtsanwälte	Consulting	1,590
Timothy Plaut	Goldman Sachs OHG	Rating-Advisory	107
Prof. Dr. Dr. Karl W. Lauterbach		Consulting	77
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	93

These expenses are reflected in other operating expenses in the consolidated income statement, and resulting open accounts are included in liabilities from supplies and services.

Since 2 May 2002, Bayerische Hypo- und Vereinsbank AG, Munich, holds 26.52 % of the voting capital of RHÖN-KLINIKUM AG. The Group has long maintained relations with that bank as a provider of credit lines and other financial services at market conditions. In addition, the bank provides defined services under a Designated Sponsor Agreement. In 2002, interests received as reflected in the consolidated income statements amounted to € 0.9 million; interests paid, including other expenses, totalled € 10.1 million. The corresponding asset and liability items are shown in the consolidated balance sheet under liquid funds, long-term financial debts, and other liabilities, respectively.

Mr. Eugen Münch, Bad Neustadt/Saale, the chairman of the Board of Management of RHÖN-KLINIKUM AG, and his wife continue to own together more than 20 % of the voting shares of the Company.

5. Total remuneration for the Supervisory Board, the Board of Management and the Advisory Board

	2002	2001
	€ million	€ million
Supervisory Board	0.88	0.71
Board of Management	5.68	5.50
Advisory Board	0.03	0.02

No loans were granted to members of the Supervisory Board, the Board of Management or the Advisory Board.

Details of the remuneration for Supervisory Board members are given in the table below:

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Chairholders' representatives			
Dr. Friedrich-Wilhelm Graf von Rittberg	34	114	148
Dr. Richard Trautner	22	76	98
Detlef Klimpe	10	33	43
Prof. Dr. Dr. Karl W. Lauterbach	10	33	43
Wolfgang Mündel	10	33	43
Prof. Dr. Gerhard Ehninger	9	30	39
Timothy Plaut	8	28	36
Karl-Theodor Reichsfreiherr von und zu Guttenberg	5	16	21
Dr. Brigitte Mohn	3	12	15
	111	375	486
Staff representatives			
Aggregate amount	90	304	394
Total Supervisory Board	**201**	**679**	**880**

Of the total remuneration for the Board of Management, € 1.3 million (previous year: € 1.2 million) are accounted for by salaries, and € 4.4 million (previous year: € 4.3 million) by performance-linked payments. The chairman of the Board of Management received salaries totalling € 0.3 million (previous year: € 0.3 million) and performance-linked payments amounting to € 1.9 million (previous year: € 1.7 million). The Group does not provide any long-term incentive plans for executives.

6. Statement of Corporate Governance

Following a joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG, the Company issued a Statement of Corporate Governance in compliance with § 161 of the German Companies Act (AktG) and § 15 of the related Introduction Act (EG AktG), regarding the application of the German Corporate Governance Code in financial year 2002. This statement was published on the web site of RHÖN-KLINIKUM AG.

7. Corporate bodies of RHÖN-KLINIKUM AG

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

Bernd Häring, Leipzig
Deputy Chairman, male nurse

Dr Richard Trautner, Munich
Deputy Chairman
Also deputy chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG,
and 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 (until 29 July 2002); Weltbild Verlag GmbH, Augsburg; Kraft Verkehr Bayern GmbH, Munich; and ERGO Versicherungsgruppe AG, Dusseldorf

Helmut Bühner, Bad Bocklet
male nurse

Ursula Derwein, Berlin
Secretary of ver.di, Central Administration
Also a member of the Supervisory Board of ADLER Versicherung AG, Berlin

Professor Dr. Gerhard Ehninger, Dresden
MD
Also a member of the Supervisory Boards of deutsche eccplus AG, Frankfurt am Main, and Universitätsklinikum Carl Gustav Carus Dresden AöR;
Other mandates: DKMS Deutsche Knochenmarkspenderdatei gemeinnützige Gesellschaft mbH, Tübingen (chairman of the Board of Directors); Deutsche Klinik für Diagnostik GmbH, Wiesbaden (Advisor KMT); Stiftung Leben spenden (member of the Board of Trustees)

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Munich (until 17 Juli 2002)
lawyer

Ursula Harres, Wiesbaden
Medical-technical assistant

Detlef Klimpe, Aachen
director of administration

Bernd Kumpan, Bannewitz OT Possendorf
technician

Professor Dr. Dr. sc. Karl W. Lauterbach, Cologne
university professor

Dr. Brigitte Mohn, Gütersloh (since 17 July 2002)
Member of the Board of Management of Bertelsmann Stiftung, responsible for healthcare issues;
member of the Advisory Boards of Philipps-Universität, Marburg, and startsocial 2002

Wolfgang Mündel, Kehl
auditor and tax consultant

Anneliese Noe, Blankenheim
nurse

Timothy Plaut, Frankfurt am Main
investment banker

Joachim Schaar, Wasungen
director of personnel

Michael Wendl, Munich
Secretary of ver.di, Bavaria
Also a member of the Supervisory Board of Stadtwerke München GmbH

Board of Management

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

Gerald Meder, Hammelburg
Deputy Chairman, Synergy, Logistics, Quality and Development; Labour Relations (Company) Regional Divisions Bavaria, Northern and Western Germany
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Andrea Aulkemeyer, Leipzig
Deputy board member, Regional Division Saxony

Wolfgang Kunz, Würzburg
Deputy board member, Company and Group Accounting

Joachim Manz, Weimar
Regional Divisions Thuringia, Eastern Germany

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

8. ADVISORY BOARD OF RHÖN-KLINIKUM AG

Wolf-Peter Hentschel, Bayreuth (chairman)

Dr. Heinz Korte, Munich

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Prof. Dr. Robert Hacker, Bad Neustadt/Saale

Bad Neustadt, 4 April 2003

The Board of Management

Andrea Aulkemeyer

Wolfgang Kunz

Joachim Manz

Gerald Meder

Eugen Münch

Manfred Wiehl

Auditors' Certificate

Based on the result of our audit, we have issued the following unqualified certificate with date of 7 March 2003:

Auditors' Certificate

We have audited the consolidated financial statements (comprising the consolidated balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement, and the notes to the consolidated financial statements) of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt/Saale, for the year ended 31 December 2002. The preparation of and the disclosures made in these consolidated financial statements, which have been prepared in accordance with International Accounting Standards (IAS) issued by the IASC, are the responsibility of the Board of Management. Our responsibility is to express an opinion, based on our audit, on these consolidated financial statements and to verify their compliance with IAS.

We conducted our audit in accordance with generally accepted German auditing principles, taking account of the standards for professional auditing issued by the Institut der Wirtschaftsprüfer (IDW). These standards require that an audit be planned and performed such as to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our audit also includes an assessment of the accounting principles applied and significant estimates made by Management, as well as an evaluation of the overall presentation of the consolidated financial statements. 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 are in accordance with IAS and give a true and fair view of the Group's asset, financial and earnings position as well as the results of its operations and cash flows for the year.

No defences have resulted from our audit which, in accordance with German auditing standards, also included Management's report for the year ended 31 December 2002. In our opinion, this management report fairly presents the Group's overall position and the potential risks for its future development. Furthermore, we confirm that these consolidated financial statements and Management's report for the year ended 31 December 2002 comply with the conditions for the Company's exemption from the obligation of preparing consolidated financial statements and a consolidated management report in accordance with German law.

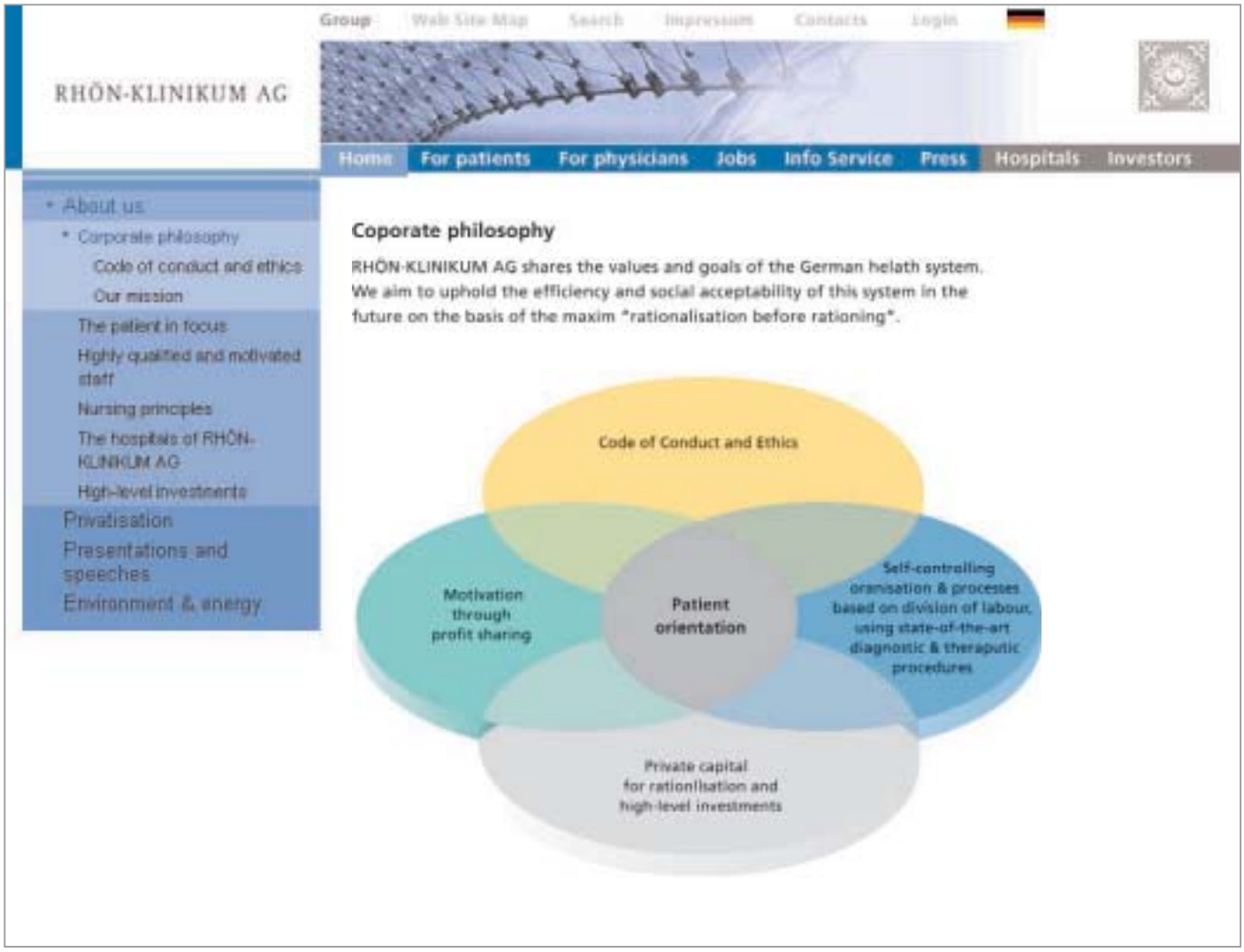
In addition, we point to the fact that the Statement of Corporate Governance which was issued in November 2002 pursuant to Section 161 of the Companies Act (AktG) and Section Section 15 of the related Introduction Act (EG AktG), is by its terms limited to financial year 2002.

Frankfurt am Main, 7 April 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dreissig)
Auditor

(ppa. Burkhart)
Auditor



Patient orientation is at the heart of RHÖN-KLINIKUM's philosophy.

RHÖN-KLINIKUM Aktiengesellschaft annual financial statements for the year ended 31 December 2002

Balance sheet

	31 Dec. 2002 € million	31 Dec. 2001 € million
ASSETS		
Intangible assets	0.8	0.2
Tangible assets	31.3	29.0
Financial assets	322.2	212.2
Fixed assets	**354.3**	241.4
Inventories	2.2	1.9
Receivables and other assets	45.5	44.4
Securities, cash and cash equivalents	0.1	0.1
Current assets	**47.8**	46.4
Prepaid expenses	**0.0**	0.1
	402.1	287.9

	31 Dec. 2002 € million	31 Dec. 2001 € million
EQUITY AND LIABILITIES		
Subscribed capital	25.9	25.9
Capital reserve	37.6	37.6
Retained earnings	159.8	128.2
Net distributable profit	23.7	20.5
Equity	**247.0**	212.2
Tax provisions	0.0	0.1
Other provisions	23.3	24.0
Provisions	**23.3**	24.1
Liabilities	**131.8**	51.6
	402.1	287.9

Income statement

	2002 € million	2001 € million
Revenues	123.3	118.7
Changes in services in progress	0.2	– 0.2
Other operating income	5.3	5.4
Cost of materials	29.0	28.4
Personnel expenses	59.0	56.6
Depreciation	3.1	3.0
Other operating expenses	26.9	26.6
Operating result	**10.8**	9.3
Income from investments	48.5	55.1
Financial result	– 4.1	– 2.0
Headline earnings	55.2	62.4
Extraordinary charges	3.8	0.0
Taxes	4.0	21.4
Net profit for the year	**47.4**	41.0
Allocation to retained earnings	23.7	20.5
Net distributable profit	**23.7**	20.5

The annual financial statements of RHÖN-KLINIKUM AG, which have been audited and 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 2002, 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 € 23,684,548.29. 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 € 0.58 per ordinary share on 17,280,000 ordinary shares	10,022,400.00
Distribution of a dividend of € 0.60 per non-voting preference share on 8,640,000 preference shares	5,184,000.00
Allocation to other retained earnings	8,478,148.29
Net distributable profit	23,684,548.29

Bad Neustadt/Saale, 6 May 2003

RHÖN-KLINIKUM AKTIENGESELLSCHAFT
The Board of Management

Andrea Aulkemeyer

Wolfgang Kunz

Joachim Manz

Gerald Meder

Eugen Münch

Manfred Wiehl

The hospitals of RHÖN-KLINIKUM AG

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This Annual Report is also available in German and Spanish.

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