

RHÖN-KLINIKUM AG



ANNUAL REPORT

1 | 9 | 9 | 9

Contents

1	RHÖN-KLINIKUM Group at a Glance
2	Report of the Supervisory Board
3	Corporate Bodies and Advisory Board
4	Starting from the Pole Position into the 21 st Century
8	R&D – No End in itself but an Essential of Corporate Policy
21	The Hospitals of RHÖN-KLINIKUM Group
22	RHÖN-KLINIKUM Group Management Report
32	The RHÖN-KLINIKUM Share
34	Proactive Development of our Hospitals
42	RHÖN-KLINIKUM Consolidated Balance Sheet
44	RHÖN-KLINIKUM Consolidated Income Statement
45	RHÖN-KLINIKUM Consolidated Cash Flow Statement
46	RHÖN-KLINIKUM Notes to the Consolidated Financial Statements
59	Auditors' Certificate
60	Annual Financial Statements of RHÖN-KLINIKUM AG
61	Proposed Appropriation of Net Distributable Profit
62	Addresses of the RHÖN-KLINIKUM Hospitals

The Photographs of this Annual Report:

We have deliberately used

- black -and-white photographs in order to emphasise the documentary character of the chapter dealing with R&D activities at our hospitals entitled “No end in itself but an essential of corporate policy”; and
- colour photographs for the Group Management Report beginning on page 22. These pictures were taken on the occasion of the 15th anniversary of Herz- und Gefäß-Klinik in Bad Neustadt. This date inspired our staff to organise a “Health Fair” for patients and the broader public in the region demonstrating the hospital’s services spectrum. Throughout the day, many people came to visit the fair which offered a rich programme including information stands, speeches and expert rounds on health care, live music and gymnastics, a quiz and live demonstrations explaining the use of mediatechnical devices and equipment. All Group facilities located in Bad Neustadt contributed to this event which showed that the hospital complex in Bad Neustadt is indeed a unique “integrated health care centre”.

RHÖN-KLINIKUM GROUP AT A GLANCE

	1995	1996	1997	1998	1999
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Revenues	316,834	405,231	442,764	492,334	615,836
Material costs	82,562	103,330	113,713	126,740	152,040
Personnel expenses	132,030	168,883	185,597	215,093	296,795
Depreciation on tangible assets	30,445	35,631	33,094	44,397	51,873
Net profit	18,304	23,834	28,675	37,985	46,872
Cash flow	54,658	72,821	74,949	79,605	89,300
Number of employees (as at 31 December)	4,365	5,187	5,242	6,459	9,145
Tangible assets	398,426	436,843	440,805	533,694	615,752
Financial assets	1,655	1,548	3,685	2,154	1,926
Capital and reserves	99,685	116,887	127,949	147,278	180,504
Return on equity (in %)	15.70	16.40	16.90	18.70	18.10
Balance sheet total	510,408	590,281	624,146	716,815	817,984
Capital expenditure					
– tangible assets	98,560	61,026	39,661	145,305	139,573
– financial assets	10	153	2,148	0	79
DVFA/SG result	21,068	31,586	37,868	41,626	45,749
Dividends paid	6,111	6,111	8,761*	7,215	8,726

* Excluding bonus: € 6,553 thousand

Report of the Supervisory Board for the year ended 31 December 1999

(Section 171 of the Companies Act)

Since its constitution on 25 March 1996, the Supervisory Board of RHÖN-KLINIKUM AG has consisted of 12 members elected in compliance with the Codetermination Act (MitbestG). On conclusion of the Annual General Meeting held on 15 July 1999, Freiherr Johannes Heereman, Meerbusch, resigned from the Supervisory Board; in his place, Mr. Timothy C. Plaut, Frankfurt am Main, has been appointed to the Supervisory Board.

During the financial year 1999, the Supervisory Board held four meetings. At these meetings as well as in individual discussions and through reports given by the Board of Management, the Supervisory Board was continuously informed about the company's status as well as all important projects and developments and ruled on all matters submitted for approval in accordance with legal or statutory requirements.

At each of its meetings, the Supervisory Board was given detailed account, both in writing and verbally, on the business development of the company and of the individual Group companies, with special attention paid to the development of human resources. In particular, the Supervisory Board examined the regularly updated analyses presented by the Board of Management on the company's and the Group's planning for capital spending, revenues, earnings and cash flow for the business year 1999 as well as Management's analyses of projected revenues, earnings and cash flow for the business year 2000, which was presented on 3 November 1999, and passed all resolutions necessary. Subjects under discussion were repeatedly the increase in personnel expenses and the effects of the health care reform on the company's and the Group's earnings situation.

At the beginning of 1999, the Supervisory Board considered, together with the Board of Management, the implementation of a control system suitable for risk identification, as required under Section 91 (2) of the Companies Act (AktG), and

decided in this context that internal auditing be strengthened and additional external auditing measures be initiated.

Furthermore, the Board of Management informed the Supervisory Board at several meetings about the preparatory steps taken to achieve Year 2000 compliance of all computer systems (Y2K problem) and kept the Supervisory Board up to date on preventive measures and controls. In effect, no Y2K-related operational difficulties occurred.

As in previous years, great importance was given to discussing and deciding on new acquisitions of public-sector acute care hospitals. The Supervisory Board approved, among others, the takeover of Städtisches Krankenhaus St. Barbara in Attendorn, the purchase of Kreiskrankenhaus Uelzen and Hamburgisches Krankenhaus Bad Bevensen as well as the submission of tenders for the new construction of the university clinic in Leipzig and of Klinikum Berlin-Buch.

Prior to the preparation of the 1999 financial statements of the company and the Group, the Supervisory Board decided in consultation with the Board of Management and the external auditors that the financial statements for the year ended 31 December 1999 be again prepared in accordance with the German Commercial Code (HGB) and that switching to "International Accounting Standards" (IAS) be postponed.

The Supervisory Board established a Personnel Committee and an Arbitration Committee under Section 107 (3) of the Companies Act (AktG) and Sections 27 and 31 of the Codetermination Act (MitbestG), respectively. Whenever required during the period under review, the Personnel Committee established by the Supervisory Board met for internal discussions and discussions with the Board of Management and took all necessary decisions. There was no need for the Arbitration Committee to take any action during that period. No other committees have been established.

Corporate Bodies and Advisory Board

The 1999 financial statements of the company, the 1999 Group financial statements and Management's report on the company's and the Group's status as at 31 December 1999 were audited by PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, together with the accounting practises, and were found to be in conformity with the books and with statutory requirements. The financial statements of the company and the Group and Management's report on the company's and the Group's status as well as Management's proposal for the appropriation of net distributable income were presented to and examined by the Supervisory Board and discussed with the Board of Management and representatives of the external auditors. No exception was taken.

The Supervisory Board has approved the financial statements prepared by the Board of Management; these are thus final and duly adopted. The Supervisory Board concurs with the proposal of the Board of Management regarding the appropriation of net distributable income.

Bad Neustadt/Saale, 18 May 2000

THE SUPERVISORY BOARD

Dr. Friedrich-Wilhelm Graf von Rittberg

Chairman

CORPORATE BODIES

Supervisory Board

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

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

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

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

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

Johannes Freiherr Heereman,
Meerbusch,
Attorney at law (until 15 July 1999)

Kurt Katzenberger, Burglauer,
Technician

Detlef Klimpe, Aachen,
Director of Administration

Wolfgang Mündel, Kehl,
Auditor and tax consultant

Timothy C. Plaut,
Frankfurt am Main,
Investment banker (since 16 July 1999)

Christine Reißner, Sülzfeld,
Director of Administration

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

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

Board of Management

Eugen Münch, Bad Neustadt/Saale,
Chairman, Regional Division Bavaria

Dr. Elmar Keller, Leipzig,
Regional Division Saxony

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

Gerald Meder, Hammelburg,
*Regional Divisions Hesse, Baden-
Württemberg, North Rhine-Westphalia;
Synergy, Logistics, Quality and
Development; Labour Relations*

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

ADVISORY BOARD

Wolf-Peter Hentschel, Bayreuth
Chairman

Prof. Dr. Gerhard Ehninger, Dresden
(since 1 January 1999)

Dr. Heinz Korte, Munich
(since 1 October 1999)

Prof. Dr. Dr. Karl Lauterbach,
Cologne

Dr. Günther Neis, Hildesheim
(until 1 January 2000)

Prof. Dr. Michael-J. Polonius,
Dortmund
(since 1 January 1999)

Helmut Reubelt, Dortmund

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Starting from the Pole Position into the 21st Century

Progress was the determinant of RHÖN-KLINIKUM Group's business year 1999. Anything else would probably have surprised our shareholders as well as market observers, analysts and competitors.

The year started with the official takeover of two hospitals, Städtische Klinik Leipzig-Südost and Kreiskrankenhaus Freital. In February, the world's first special operating theatres for robot-assisted surgery were commissioned at Herz-zentrum Leipzig – Universitätsklinik –, and Klinik für Herzchirurgie in Karlsruhe performed its five thousandth heart operation with cardiopulmonary bypass. In April, we welcomed Städtisches Krankenhaus St. Barbara Attendorn as a new Group member. June and July saw a number of active events; among these were the builder's treat for the new east wing of Zentral-klinik Bad Berka and the fifteenth anniversary of Herz- und Gefäß-Klinik Bad Neustadt. Also in July, we were able to increase the number of our Group hospitals to 21 by adding two hospitals of the County of Uelzen. The October highlight was the switch of the RHÖN-KLINIKUM share's denomination to 1 Euro in connection with a capital increase from corporate funds. In November, we celebrated the tenth anniversary of our going public. Finally, at year end, the problem-free turn of the millennium at all our hospitals confirmed the success of our comprehensive Y2K programmes in preparation for this critical moment in time.

Our 1999 results once more underline our company's strength. For the sixth consecutive year, we lived up to our tradition of double-digit increases in all relevant performance figures: Group revenues improved by 25 %, which is slightly above our own forecast. For the first time, group revenues exceeded DM 1 billion. Growth was mainly generated by new acquisitions and higher contributions from the hospitals acquired in previous years. The growth rates of Group net profit, cash flow and earnings per share were also well into double figures.

Against this background, the development of the RHÖN-KLINIKUM share price fell short of our expectations. It reflected the company's performance in 1999 inadequately, if at all. However, we believe that the effected split will make our shares an easier buy, and this should stimulate trading and enhance their attractiveness for new investors.

As in previous years, capital spending in 1999 was high in both construction work, modernisation, expansion projects and technical upgradings at our existing facilities and structural improvements at newly acquired hospitals. Those who are familiar with our strategy know that, if the newcomers to our Group quickly turn into jewels, this is a function of our readiness and our ability to invest. The effects will take us to new performance heights during the first decade of this century.

The principle of total-coverage supply of hospital services remains at the heart of RHÖN-KLINIKUM's corporate philosophy. This is why the focus of our strategy is on maintaining and effectively tailoring quality hospital services which are affordable and available to everybody. The fact that we successfully combine this principle with profitability – without compromising quality – has in recent years earned us a name as a prototype performer and the role of a speaker for change in the fraction of reformers. There is no secret about our success, but its ingredients can be studied at RHÖN-KLINIKUM hospitals: architecture, infrastructure and technologies that support our hospital concepts in all respects; strict patient-orientation at every single point of the work flow developed by us for hospitals; well-trained and highly motivated staff; and management teams committed to continuously optimising quality and economic efficiency.

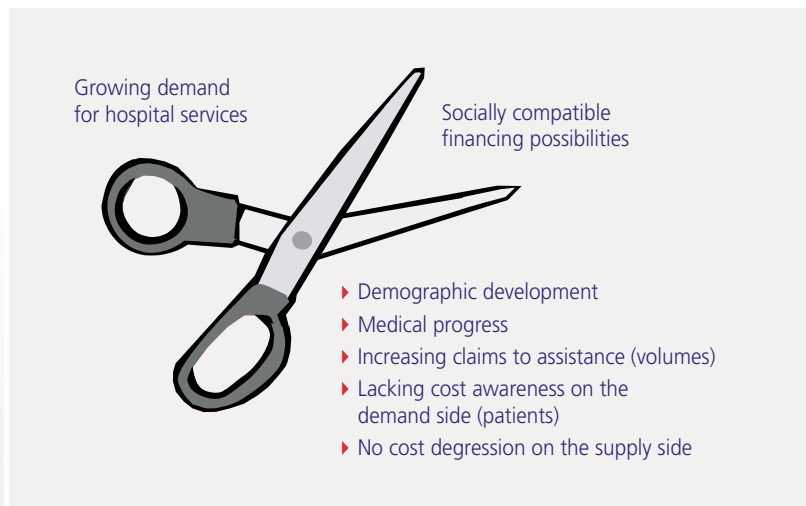
The difference between problem-solving private-sector corporate strategies and public-sector efforts is shown by the present developments in health care legislation in Germany. The “mini”-health care reform effective 1 January 2000 lacks some important elements originally planned, for instance, the introduction of a global budget and monistic financing. Instead, sector budgets have been maintained. Such half-hearted legislative steps are but soothing remedies without effect in the long term as they have little power to counter the megatrends in the health care market.

These trends are a growing demand for hospital services, driven by the requirements of an ageing society and by medicotechnical progress, and, as a consequence, dramatically increasing hospital services costs.

The “scissors” will open further, because the majority of public-sector hospitals continues with economically obsolete organisational structures and productive conditions. This is why cost degression, which normally accompanies increases in volume, is not achieved. By contrast, our highly rationalised, well-equipped and well-managed hospitals produce overall cost advantages of up to 20 %; this translates into 40 % or more if measured by operating costs. So, while it is true that the legal framework will put limits to internal growth in the foreseeable future, we shall be able to activate rationalisation reserves. This applies, in the first place, to newly acquired hospitals and defined business segments in which special legal provisions enable growth.

We must, however, fight the health insurers’ attempts to pocket our rationalisation gains by blocking or cutting budgets instead of using them for unit price reductions and volume increases to the benefit of their members.

Lacking the necessary mobility and unable to catch up with us in investing, most of our public-sector competitors will not be strong enough to take our course but will increasingly fail to resist the growing rationalisation pressures. This will



enhance our opportunities for takeovers and, consequently, for external growth. In the year under review, the Board was again very busy with negotiating takeover projects of which some are still in their initial stages and others are well advanced. Negotiations tend to be difficult sometimes as, due to differing local or regional conditions, practically each individual case requires a specific solution. However, our potential contract partners and, in cases, also our competitors envisage ready-made solutions. Such solutions are supposed not to hurt anybody, but it is exactly this approach that blocks qualified patient-oriented and economically sound solutions.

Our concept sets the pains of change before the gains. It does so in a very open and sometimes uncompromising way. The proven positive results which we achieve in the medium or long term – and which usually entail more jobs and more qualified jobs after change has been enforced – are the reason why we receive so many inquiries that the rate of rejections is higher than that of affirmative replies. We are therefore confident that our concept and our strategy will enable us to stand our pace of development in the years ahead.

**“The scissors will open further”:
Business environment of hospitals today**

Ideas that move markets have been characteristic of the development of RHÖN-KLINIKUM since the nineteen eighties. Looking back, several phases of expansion crystallise. These phases overlap in time but differ quite clearly in their strategic objectives:

- It all began with the knowledge that acute care hospital services had good future prospects whereas rehabilitation as it was at that time was on the decline. Consequently, we focussed on speciality hospitals. We were able to effectively fill in the existing gaps in the acute care landscape and thus helped to break up the public-sector cartel in the end. Today, our speciality hospitals are known for their innovative therapeutic concepts, and thanks to ongoing capital spending in hardware and software, they are among the leaders of their respective market segments.
- It was a logical step to transfer the skills we had acquired to the general and standard care hospital market. We started taking over medium-sized as well as major general hospitals and developed a prototype “productive hospital”. Klinikum Meiningen became internationally known as a textbook example for our patient-oriented flow principle, i.e. working processes, architectural concepts and organisational structures unknown in hospitals until then.

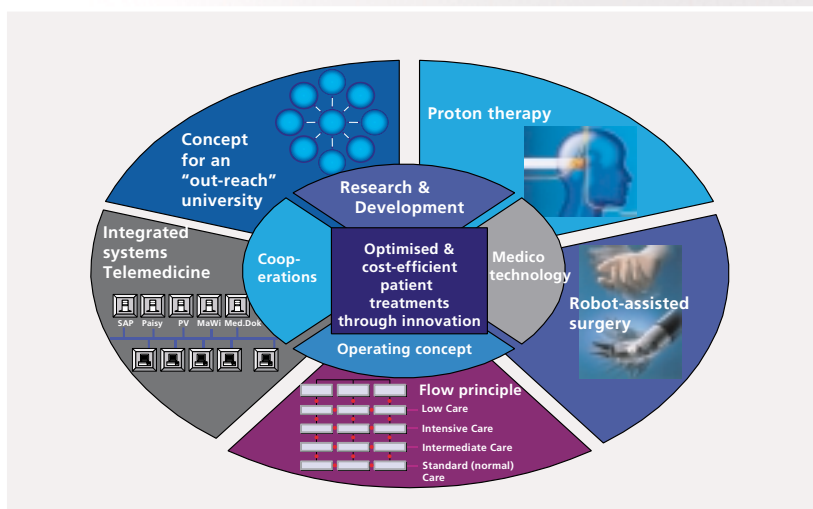
tional structures unknown in hospitals until then.

- In the third phase – which is still running – we take over selected general and standard care hospitals in the order of 200 beds or more. These are then reshaped into efficiency units with access to Group services networks enabling them to significantly improve the supply situation in thinly populated areas. Again, these hospitals effect important change in the hospital landscape, and those acquired first already contribute to the Group’s success.
- Running parallel to this, we have in a fourth phase for some years focussed on the most complex form of medical services supply, i.e. clinics covering maximum demand and university clinics. For the latter, we have developed a model based on thorough analyses and our experiences with Herzzentrum Leipzig – Universitätsklinik –, which we believe will put this market segment in motion.

Our motive is two-fold: Firstly, it is in the existing structures of university clinics and maximum supply clinics where we expect the highest rationalisation potentials although tied up with the biggest obstacles to change. Secondly, having access to research and development and overlooking the training of our future medical staff from very close should considerably enhance the Group’s innovative strength. However, the decisive synergetic effects will not in the first place result from taking over such clinics or the growth flowing from such takeovers but from the then following continuous challenge of permanent change, which is vital for success in this specific segment.

Our approach is to exploit rationalisation reserves via investing and optimising organisational structures. This will free research and development of the burden of deficit spending in support of the services level, which has so far been the norm. What we achieve will be the

**Fitted for the future:
A hospital Group driven
by innovation**



emancipation of research and development from state tutelage and bureaucracy. We have learned that the necessary partnership of R&D and high-efficiency services supply is very effective if both enjoy autonomy but act jointly without undue interlocking.

- Finally, in a fifth phase, we will realise our ideas for an integrated health care supply, i.e. the gradual linkage of supply levels (out-/in-patient). The trend towards integration will grow in line with technological progress and the ever-increasing possibilities of today's information society. We have the expertise to take the lead in this development.

The success of RHÖN-KLINIKUM AG in all of its phases of development realised to date shows: our system is efficient and extremely flexible. Here lies the reason for the company's high earnings power and its above-average future prospects in the changing health care market. We want the market trends to translate into dynamic growth of our business – and to do so even more than in the past. We aim at not only holding our position but carving out an even greater share of the market. We will keep moving.

Our goal remains unchanged: to continuously perfect the “productive hospital” in order to ensure high-quality and affordable hospital services for everybody and also for future generations. This is in the interest of all parties concerned: the patients, who have a right to quality all along the services chain; the national economy, which has to calculate closely; employees, who want safe jobs; and shareholders, who require safety and long-term performance of their investments.

This goal can only be reached by permanently optimising our performance in all fields of activity. Research and development therefore play an enormously important role in our hospitals. They serve to constantly test existing expertise for its future potential and to gain valuable new knowledge. The chapter beginning on page 8 of this report pictures only a small section of the broad spectrum of scientific work conducted within the Group and in cooperation with external partners in industry and sciences.

No End in itself but an Essential of Corporate Policy

Research and development at RHÖN-KLINIKUM hospitals

Leading-edge know-how, technology and expertise are the foundations on which RHÖN-KLINIKUM's success has been built in the past. If we are to preserve this standing in the future, we must create permanent internal dynamics through innovation and development. This is why scientific work, which we believe should never be an end in itself, has always been at the heart of our corporate policy. Our over-riding aim is to continuously and purposefully improve existing procedures and to perfect working mechanisms proven to be functional so that they will eventually serve the total-coverage supply of affordable quality services. Our efforts centre on questions like: Are there procedures that involve less physical trauma for the patients but are more effective at the same time, and can they be made affordable, i.e. available to everybody in the future? Where can we optimise organisational structures in the sense of the flow principle? Is it possible to activate synergies across medical disciplines for the benefit of both medicine and patients? In how far will cooperations within the Group or with external partners serve our purpose? And are there ways to improve efficiency, not least economic efficiency? The answers we find meet with interest – far beyond the boundaries of our regional markets and of Germany. The following examples show the importance of our scientific work – they are just a spotlight on the stream of our development.

Positron-emission tomography (PET): Computerized tomographic imaging technique using the photons produced by positron annihilation. Applied in investigating the blood circulation and the metabolism of certain tissues (f.e. brain, heart, tumours).

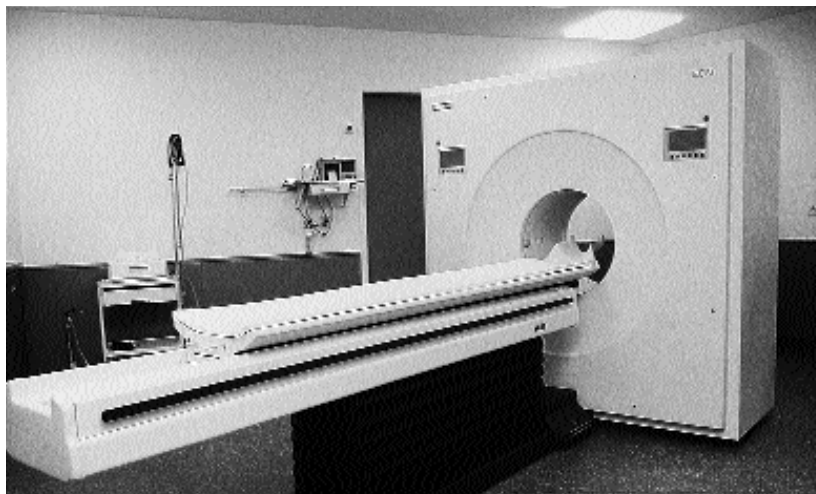
State-of-the-art technologies for diagnosis and therapy

The whole-body POSITRON-EMISSION TOMOGRAPH (PET) was a quantum leap in interdisciplinary nuclear medicine. At **Zentralklinik Bad Berka**, the PET has a centre of its own. It enables early diagnosis of tumours and cardiac, neurological or psychiatric disorders thus increasing the chances for timely and adequate therapeutic measures. Investigations using the PET involve far less stress for the patients and, in specific cases, the diagnostic findings are 30 % to 50 % more accurate

compared with conventional diagnostic techniques. This performance has a decisive influence on therapeutic procedures in up to 50 % of the cases. "It often helps to avoid unnecessary operations or chemotherapy. This spares the patient



the risks of an operation and considerable stress – and adds to the hospital's cost-efficiency", explains head physician **Professor Dr. Richard Baum**, responsible for



PET



Teamwork in electro-physiological diagnosing at Herzzentrum Leipzig – Universitätsklinik –, Leipzig

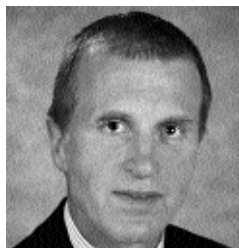
nuclear medicine in Bad Berka, and quotes a number of application examples such as investigating unclear pulmonary conditions (round shadows), diagnosing bronchial carcinoma or the therapeutic follow-up procedure in cases of cardiac muscle damage caused by myocardial infarct. In 1999, Zentralklinik Bad Berka also implemented an isotopic therapy unit and successfully started both treatment of thyroid disorders and pain therapy of bone metastasis. Valuable synergies flow from the unit's close cooperation with other clinical disciplines such as oncologic PNEUMOLOGY, THORACIC SURGERY and NEUROSURGERY.

Cardiovascular system:

An interdisciplinary approach with exciting future potential

The ELECTROPHYSIOLOGY unit of **Herzzentrum Leipzig – Universitätsklinik –** is conducting clinical studies to explore the potential of an innovative ELECTROMAGNETIC MAPPING SYSTEM, the so-called CARTO System, designed for invasive electrophysiologic diagnosis and CURATIVE short-wave CATHETER ABLATION. The system enables the exact localisation of structures responsible for arrhythmias thus allowing targeted treatment.

Meanwhile, it has been proven that the new system not only helps to dramatically reduce the exposure to X-rays but also considerably improves the long-term safety of invasive curative short-wave catheter ablation. The core element of another innovative mapping system, EnSite 3000, is a balloon which is inflatable inside the heart. Equipped with multiple electrodes, it maps out at one sweep the complete electrical activity of the ventricle to be examined on so-called isopotential maps. "This is a step forward which will benefit many patients", says **Professor Dr. Gerhard Schuler**, director of Internal Medicine/Cardiology.



"We are now able to analyse and effectively treat arrhythmias which, due to their nature (too quick rates, extremely instable or not tolerable because of blood pressure conditions), have in the past not allowed investigation using conventional techniques."

The OPAL (Online Pressure Area Loop) system, a novel monitoring system, is in the stage of clinical testing at Herzzentrum Leipzig. While involving minimum stress for the patient, this

The OPAL (Online Pressure Area Loop) system, a novel monitoring system, is in the stage of clinical testing at Herzzentrum Leipzig. While involving minimum stress for the patient, this

Pneumology:
The study of diseases of the bronchi and lungs.

Thoracic surgery:
Surgery relating to the chest.

Neurosurgery:
The surgical treatment of diseases of the brain and spinal cord.

Electrophysiology:
The study of the electrical impulses (excitation) generated by the natural pacemaker of the heart and their conduction within the heart as well as the investigation of arrhythmias. (Physiology = the science of the functioning of living organisms and of their component parts).

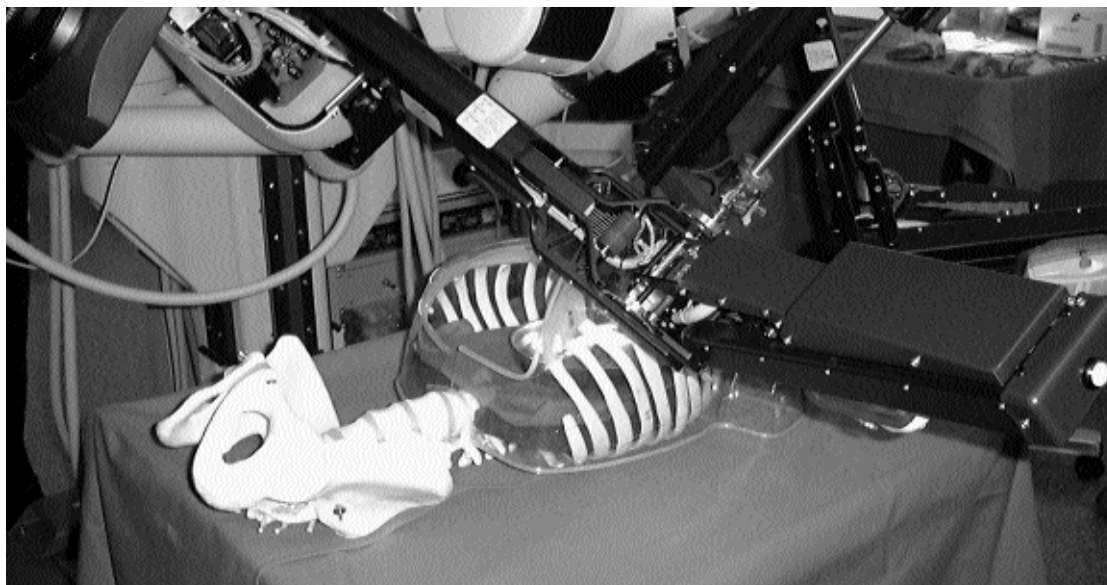
Electromagnetic mapping system:
Electromagnetic cardiography; a system for recording the activity of the heart by means of specialised ECG derivatives without using X-rays.

Curative:
Healing; any means for supporting the healing process.

Catheter:
Flexible rubber or plastic tube for insertion into hollow organs so that fluids may be introduced or removed (f.e. medicine, contrast media, nutrients). Instrument to secure or re-establish local passability of an organ (f.e. heart catheterisation, arterial catheterisation, urethral catheterisation).

Ablation:
Active therapeutic measure in the treatment of arrhythmias using high-frequency current.

**Demonstration of
robot-assisted surgery
at Herzzentrum
Leipzig – Universitäts-
klinik –**



Perioperative:

Relating to the period before, during and shortly after an operation.

Heart-lung-machine:

An apparatus for taking over temporarily the functions of both the heart and the lungs during heart surgery.

Bypass operation:

Surgical operation by which an artificial connection (bypass) between two tubular organs or parts is created.

Convalescence:

The period of recovery from a disease.

system produces a maximum of reliable information about the function of the cardiovascular system. This enables the physician to exactly analyse functional impairments, to choose from the wide range of supportive measures the one that is best for the individual patient and to verify the result of his treatment all at once. According to expert opinion, the OPAL system is suitable for future use not only in cardiac surgery but also in the PERIOPERATIVE area, for instance, for risk evaluating before surgical interventions, for improved monitoring during major operations and for postoperative monitoring of patients. Initial experiences gained with the gradual withdrawal from the HEART-LUNG-MACHINE during a coronary BYPASS OPERATION are most encouraging and have attracted great attention at the 1999 annual conference of American cardioanaesthetists in Chicago.

Since the end of January 1999, Herzzentrum Leipzig has been performing robot-assisted cardiac surgery in an especially designed unit consisting of two operation theatres. The focus is on coronary bypass operations (single/double shunts) and, to a lesser extent, on mitral valve

reconstruction. The telemanipulator transforms the surgeon's hand movements such as to enable certain surgical interventions on the heart without opening the chest cavity. For the patient, this means considerably reduced loss of blood and less pain, shorter stays in bed and quick CONVALESCENCE. "Today, robot-assisted operations can, of course, not yet be offered as routine interventions, but with more than 100 performed in Leipzig, of which 84 in 1999 alone, we have



increasingly gathered experience; both indications and our possibilities expand almost every day," explains **Professor Dr. Friedrich-Wilhelm Mohr**, head of cardiac

surgery at Herzzentrum Leipzig. He anticipates future developments: "Scientific thought goes far – including, for instance, operation planning which is perfectly tailored to the patient's individual anatomy and, ultimately, perhaps full automation of defined operating steps." A pioneer of robot-assisted cardiac surgery in Germany, Mohr imagines the development of smaller systems which, equipped with different instru-

ments, will enrich many other branches of surgery, above all neurosurgery and spinal surgery, but also surgery of the ear, nose and throat, tumours and the eyes. Provided that data transfer capacities are appropriate, the concept of the telemanipulator will also enable remote operating. Last but not least, the system offers enormous potentials for improvements in surgical training: With two consoles coupled, prospective surgeons will be able to train endoscopic operating techniques under optimal guidance of an experienced surgeon who can intervene at once, whenever necessary.

MAGNETIC RESONANCE TOMOGRAPHY (MRT) is a priority programme at the **Institute for Diagnostic and Interventional Radiology of Herz- und Gefäß-Klinik Bad Neustadt**. MRT aims at non-invasive diagnostics of disorders which are impossible or difficult to visualise using other imaging techniques or which can only be visualised using invasive techniques. Again, it is the interdisciplinary quality of MRT that fascinates most. In cooperation with **Klinik für Handchirurgie**, the Institute evaluates at present the assets of contrast media-supported MRT compared with **ARTHROSCOPY**, an invasive technique used, for instance, for visualising degeneration of

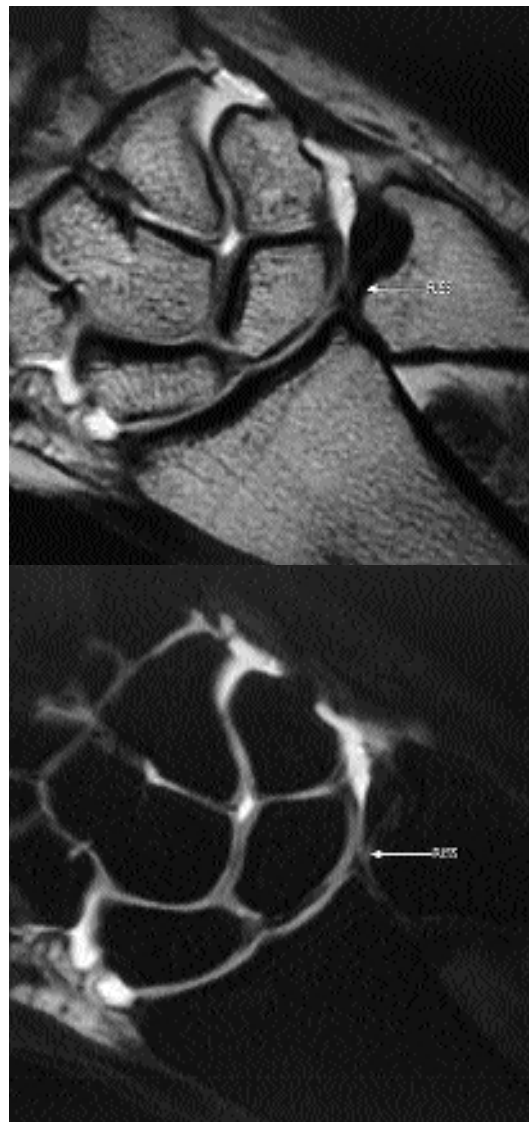


the **HYALINE** cartilage before arthrosis becomes manifest. “The results achieved so far are very promising”, confirms **Dr. Rainer Schmitt (P-D)**, head

physician of the Institute, and adds: “Interdisciplinary cooperation offers important advantages for patients. Therapeutic decision-making in cases of complex diseases of the wrist is often based on joint diagnostic efforts of hand surgeons and radiologists.” The theme of the Institute’s cooperation with **Klinik für Gefäßchirurgie** is the visualisation of the **PERIPHERAL ARTERIES** via contrast media-supported MRT. And its most recent research activities focus on the

viability of non-invasive MRT for diagnosing coronary diseases compared with conventional cardiac catheterisation. The “**CARDIOVASCULAR MRT**” research project is being realised by a team of radiologists and cardiologists. Here as in other projects, combining the know-how of specialists will benefit both diagnostic performance and patients.

A similar cooperation exists between the **Cardiological Clinic** and the **Institute for Imaging Diagnostics of Zentralklinik Bad Berka**. This partnership investigates a technique which may eventually enable non-invasive imaging of the



Magnetic resonance tomography (MRT): Also nuclear magnetic resonance (NMR) tomography. A modern diagnostic technique that utilises magnetic fields (no potentially harmful X-rays). MRT produced detailed and accurate images of human organs and maps out even the finest anatomic structures.

Arthroscopy: A technique (endoscopy) for examining a joint space (f.e., of the knee) using an arthroscope (special endoscope).

Hyalin: A clear glassy material produced as the result of degeneration in certain tissues, particularly connective tissue and epithelial cells.

Peripheral arteries: Blood vessels carrying the blood away from the heart to peripheral parts of the body (i.e., head, legs, arms).

Cardiovascular MRT: Magnetic resonance tomography used for examining the heart and the two networks of blood vessels.

Visualising the interior of a wrist. Optimised MRT technology maps out all facets of the joint cartilage and even the smallest ligaments. Klinik für Handchirurgie, Bad Neustadt/Saale

Electron beam tomograph (EBT) at Zentralklinik Bad Berka



Electron beam tomography (EBT):

An imaging technique that uses a beam of electrons as a radiation source. (Laminography; sectional tomography; planography).

Bypass:

Bridging of a faulty part of the body (f.e., a segment of a coronary artery) by implanting a graft (f.e., a coronary bypass graft).

Anastomosis:

Congenital communication or acquired (f.e. implanted) connection between two parts, f.e., blood vessels.

Prostatectomy:

Surgical removal (radical or partial) of the prostate gland.

Perineal prostatectomy:

Special surgical operation method relating to the prostate gland.

Infusion therapy:

Artificial feeding by means of slow injection of nutrients into a vein (intravenous feeding).

Magnetic resonance cholangiopancreatography (MRCP):

Imaging/examination of the bile ducts and the ducts of the pancreas by means of magnetic resonance tomography.

coronary arteries. The results to date are encouraging. “We work with an ELECTRON BEAM TOMOGRAPH (EBT) which produces cross-sectional images – the difference to conventional computerised tomography being that the images are produced in a totally different way and so quickly that the beating heart is visualised in full details. This in combination with contrast media will



enable us to visualise the coronary arteries”, explains **Professor Dr. Julius Michael Curtius**, head of the Cardiological Clinic. “This non-invasive

technique of imaging the coronary arteries not only helps to minimise patients’ risks but will also reduce the duration of examinations as well as personnel and material costs.” The development of EBT technology competes with that of MRT technology (Bad Neustadt), and RHÖN-KLINIKUM leads the application development of both – an excellent starting point for future routine application.

At **Klinik für Herzchirurgie Karlsruhe**, a new therapeutic procedure was introduced by



Dr. Herbert Posival, head physician for cardiac surgery and medical director: the coronary **BYPASS ANASTOMOSIS** under direct sight on the beating heart.

“The decisive advantage of this procedure is that inflammatory reactions and neurological signs, which may result from mechanical perfusion when applying the cardiopulmonary bypass method, are minimised. This means that we can reduce morbidity which is not insignificant where such reactions or signs occur”, explains Dr. Posival. Good news for patients suffering from coronary heart diseases.

Internal medicine:

Medical excellence at everybody’s reach

Klinikum Meiningen has recently introduced an array of patient-friendly therapeutic procedures which are perfectly fitted for broad-based population supply. Its Urological Clinic now offers **PERINEAL PROSTATECTOMY**, an advanced technique mainly applied in the treatment of prostate cancer. This method not only involves much less stress for the patient compared with retropubic prostatectomy but also reduces time requirements of operations by up to 50 %. Patients usually need no postoperative intensive care. Other advantages are: considerably reduced need for the usual post-operative **INFUSION THERAPY**, primary wound healing and improved urinary continence. Last year, the Klinikum’s Medical Clinic II introduced **MAGNETIC RESONANCE CHOLANGIOPANCREATOGRAPHY (MRCP)**, a diagnostic technique enabling excellent visualisation of the bile ducts including the gall bladder and the pancreatic duct. “MRCP spares patients the cumbersome exercise of swallowing the tube, but this is just one of the many advantages



of this gentle method compared with invasive techniques such as ERCP or ENDOSONOGRAPHY, for instance, in the diagnosis of the PANCREAS”, explains

Dr. Michael Keymling (P-D.), head physician of Medical Clinic II. Under his direction, quality assurance in the fields of training and documentation of clinical findings in GASTROENTEROLOGICAL ENDOSCOPY was given special attention in 1999. Dr. Keymling: “Our course for gastroenterological endoscopy opens new ways in the training of prospective gastroenterologists; it has been in great demand throughout Germany. And our new system for the documentation and discussion of findings, which is an enormous improvement to medical reporting at Klinikum Meiningen, has been very well received at the congress of gastroenterologists in Leipzig.”

Clinical scientific work at the Surgery/COLOPROCTOLOGY unit of **Deutsche Klinik für Diagnostik (DKD)** in Wiesbaden centres, inter alia, on COLONIC MOTILITY DISORDERS usually accompanied by multiple changes in the ENTERIC NERVOUS SYSTEM, which may either be congenital or acquired through repeated ABDOMINAL surgery, unsuccessful HERNIA operations or the formation

of adhesions, all of which can lead to severe impairments of patients’ quality of life. “This may cause RECTAL PROLAPSE involving disturbed emptying or faecal incontinence often combined with urinary incontinence, which we treat jointly with urologists and gynaecologists and – because



of the pains it often involves – also with anaesthetists and pain therapists,” explains **Dr. Heinrich Müller-Lobeck**, head physician of the unit. Here as

everywhere at DKD, great store is set on interdisciplinary teamwork. During the past 15 years, the unit performed more than 100 adrenal tumour operations in cooperation with the HYPERTENSIOLOGISTS of DKD. Teaming up with DKD’s gynaecologists, the unit treats an increasing number of female patients suffering from ENDOMETRIOSIS involving the bowels. And patients suffering from colorectal or anal carcinoma are treated in close cooperation with oncologists and radiotherapists.

DKD’s **diabetes day clinic** treats patients suffering from metabolic disorders. This enables tailor-made treatment under everyday conditions in line with patients’ individual needs. Moreover, the clinic’s day-case concept compares very

Endosonography:
Endoscopic ultrasound examination of the interior of the body.

Pancreas:
A compound gland that lies behind the stomach; secretes, among others, the hormone insulin.

Gastroenterology:
The study of gastrointestinal diseases, which includes diseases of any part of the digestive tract and also of the liver, biliary tract, and pancreas as well as metabolic disorders.

Proctology:
The study, diagnosis and therapy of disorders of the rectum and anus.

Colonic motility disorders:
Lacking motility of the large bowel.

Enteric nervous system:
Nervous system of the digestive tract.

Abdominal:
Belonging, or relating, to the abdomen, i.e. the part of the body cavity below the chest; (in surgery) via incision into the abdominal cavity (laparotomy).

Hernia:
The protrusion of an organ or tissue out of the body cavity in which it normally lies, f.e., inguinal hernia (or rupture) which occurs in the lower abdomen.

Prolapse of the rectum:
A condition in which the rectum descends to lie outside the anus and which may result in faecal incontinence.

Hypertensiology:
The study, diagnosis and therapy of high blood pressure (hypertension).

Endometriosis:
The presence of tissue similar to the lining of the uterus (endometrium) outside the uterus at other sites in the pelvis.



Intensive consulting plays an important role at the diabetes day clinic of DKD – Deutsche Klinik für Diagnostik, Wiesbaden

Day clinic:

A hospital in which patients receive medical treatment during the day but do not stay overnight.

favourably to in-patient treatment if measured by costs, quality and patient satisfaction. "Our yearly



follow-up examinations show very good long-term average results as far as metabolic quality is concerned," says

Dr. Cornelia Jaursch-Hancke, internist and

head of DKD's endocrinology/diabetology unit.

"One finding of our patient survey is that 86 % of the respondents prefer DAY CLINIC treatment as opposed to in-patient treatment." Here is the message for health insurers: Economic efficiency is possible without compromising quality.

"Diabetes Management 2000" is the title of an innovative and cost-efficient programme worked out by the **Diabetes Centre Bad Neustadt** for the long-term treatment and supervision of diabetics (Types I and II). The programme combines one week of intensive education at the Centre including cooking and shopping training, annual repeat trainings on weekends over a period of four years, monthly telephone contacts with patients, regular contacts with referrers/practitioners, and a hotline for both patients and referrers. Since February 1998, "Diabetes Management 2000" is offered to health insurers at a lump-sum price. "When we evaluated the



programme after one year, we were very pleased with the results," says **Professor Dr. Dietmar Sailer**, director of the Diabetes Centre. Meanwhile,

modern electronic media provide even more effective cooperative structures: In January 1999, the Centre started e-mailing doctors' medical

reports to referrers on a pilot scale, and since November 1999, each patient leaving the Centre receives a CD-ROM with the doctor's medical report and all diagnostic findings recorded. The CD-ROM can be used for further recording and will ultimately represent a complete electronic patient file.

Bones and skeletal system:

Ingenious solutions en détail – powerful effects on the whole

Combining patient benefits with cost-efficiency is one of the strengths of **Zentralklinik Bad Berka**. Here is an example: The hospital developed a minimally invasive operation technique for surgery of the thoracic and lumbar spine which enables all steps of the operation to be carried out without having to change the patient's position and the sterile drapes. "We have been the world's first in practising this modification, i.e. the "keyhole" surgical intervention with the



patient in prone position; we have been doing it since 1996 with continually improved results," says **Dr. Heinrich Böhm**, head of the clinic for



High-tech in minimally invasive spinal surgery: Computer-assisted navigation, Zentralklinik Bad Berka



Exercising again and again ...
Hand therapy at Klinik für Handchirurgie, Bad Neustadt/Saale

orthopaedics/spinal surgery and paraplegics, and he outlines the advantages of this method: operation times reduced by at least 30 minutes, material requirements for sterile drapes cut by half, reduced duration of anaesthesia and all benefits of keyhole surgery such as far less pains and absence of specific complications which may result from costotomy and THORACOTOMY when using conventional techniques. There are some more advantages to this new method: “We observe that, in most cases, costly intensive care is not needed and the duration of stays in hospital can be reduced. Notably, we have been able to cut back open thoracotomies and THORACOPHRENO-LUMBOTOMIES by more than 90 %. Another very interesting aspect is undoubtedly the synergistic effect on PERCUTANEOUS surgical treatments of disc prolapse”, says Dr. Böhm.

In its eight years of existence, **Klinik für Handchirurgie**, today one of the leading facilities of its kind in Germany, has earned a reputation for trail-blazing new diagnostic techniques and therapeutic procedures. One of its most important innovations is arthroscopy of the wrist. This technique leads to better diagnostic results than conventional methods, thus enabling minimally invasive therapeutic measures which often spare patients further surgical interventions. Traditional areas of indication such as tendon injuries have also undergone change during the

past years; this is demonstrated by the trend towards early and active mobilisation following tendon suturing. The hospital’s therapeutic unit combining the skills of especially trained physiotherapists and ERGOTHERAPISTS is an extremely effective link of the therapeutic chain. Klinik für Handchirurgie’s supra-regional importance as a centre for the treatment of congenital malformations of the upper limbs is shown by the great inflow of patients. “For us, high patient accep-



tance opens the opportunity of verifying and optimising treatments, wherever possible”, explains head physician **Professor Dr. Ulrich Lanz**. “This is why we

attach the utmost importance to long-term monitoring of former patients and scientific evaluation of treatment results. Evidence to the hospital’s comprehensive R&D are its doctors’ numerous contributions to scientific publications and lectures at scientific conferences along with several dissertations. Importantly, two of the hospital’s physicians have qualified as lecturers for hand surgery at the University of Würzburg.

Thoracotomy:
 Surgical opening of the chest cavity.

Thoraco-phreno-lumbotomy:
 Special surgical operation method used for the intersection of the phrenic nerve that supplies the muscles of the diaphragm.

Percutaneous:
 Through the skin (f.e., administration of drugs).

Ergotherapy:
 Occupational therapy applied in cases of motoric disorders/disabilities as a result of impairment of the body or mind; includes employment training and aids to daily living.



Highly efficient and individualised acute care stroke patient management at the Stroke Unit of Neurologische Klinik, Bad Neustadt/Saale

Stroke Unit:

Special unit concentrating on and covering all phases of the acute care treatment of stroke patients.

Rehabilitation:

Any means for restoring the normal function, working capacity and independence of a patient after diseases or injury, including employment retraining and aids to social reintegration.

Head and nerves: Optimised logistics – and ideas that effect positive change

Based on **Klinikum Meiningen's** experience with implementing a **STROKE UNIT, Neurologische Klinik Bad Neustadt** developed an own concept and successfully implemented an enhanced stroke unit, with **Zentralklinik Bad Berka** following suit. This concept enables patients living in thinly-populated regions to benefit from highly efficient logistics for acute care stroke management of a quality unseen before. Moreover, the Bad Neustadt concept sets standards for internal organisation: Within three days from diagnosis and acute care treatment at the in-house stroke unit, we make the road either for early or follow-up rehabilitation or for discharge or referral to peripheral hospitals, depending on patients' conditions. "The smooth transit from acute care



to REHABILITATION – organised under one roof – is beneficial to patients from a medical and psychological point of view, and it is cost-efficient", says

Dr. Bernd Griewing, (P.-D.), head of the acute care neurology unit.

Investing in one of the country's first open magnetic resonance tomographs (MRT) has prompted a very special development at **Zentralklinik Bad Berka**. The new equipment will mainly be used by Dr. Heinrich Böhm, head of the clinic for orthopaedics/spinal surgery and paraplegics, and by Bad Berka's **Clinic for Neurosurgery**. Its design ("open") enables the surgeon to move between the MRT's two magnetic rings next to the patient while the MRT is in operation. The position of the surgeon's instruments is shown almost real-time at 100 % accuracy on a high-resolution screen enabling live monitoring of the intervention. These features allow minimally invasive surgery with all its advantages for the patient (minimal operative risks, accelerated recovery, shorter stay in hospital). The open MRT will be used by senior surgeons of the clinic for orthopaedics/spinal surgery and paraplegics for extremely intricate operations of spinal tumours, in the first place. "This system offers exiting new prospects for microneurosurgery and MRT-assisted surgery of the brain, the cranial base and the spine, but also in the areas of ENT and the eyes as well as complex paediatric surgery and diagnostic and functional examinations, for instance, of intervertebral disc diseases. These will now be possible with the

patient sitting up enabling a far better diagnosis than with the patient in horizontal position. The new technique also facilitates MRT-controlled



diagnostic biopsy involving organs that are difficult to access, for instance, the brain”, explains **Dr. Julianne Behnke-Mursch (P.-D.)**, head of the Clinic for

Neurosurgery, not without stressing that working with the open MRT requires a maximum of interdisciplinary efforts. Much of the potential of the open MRT remains to be explored. Our experts in Bad Berka are about to break new ground: They found that extending the operator’s elbow room downwards would optimise the “angle of incidence”, i.e. the access to the operation site. Their idea: a cavity or “pit” beneath the patient enabling the operator to conduct the operation with the patient in half-sitting position. This will allow surgery, for instance, of cerebellar

or brainstem tumours which has so far not been possible using the open MRT. “We have developed the pit concept in cooperation with General Electric. This is a true innovation which will bring about medical progress”, says Dr. Behnke-Mursch. Preparatory work for putting into practice the pit concept is underway in Bad Berka.

The **Clinic for Neurosurgery in Meiningen** is about to introduce neuronavigation. This technique allows very gentle and precise removal of tumours with the risks for the patient reduced to a minimum. The decisive technological evolution: innovative image processing systems enabling 3-D reproduction of the results of imaging diagnostic analyses (COMPUTERIZED and NUCLEAR MAGNETIC RESONANCE TOMOGRAPHY, ANGIOGRAPHY and IMAGE CONVERTER) of the part of the body or organ to be operated. “This gives us the chance to go through all steps of an operation on the computer already the day before it takes place. We can define the best possible access to the site and simulate the complete

Computer(ized) tomography (CT):
A special form of X-ray examination producing cross-sectional images by computer; can be used for all parts of the body, but is particularly useful in the head, chest and abdomen.

Nuclear magnetic resonance (NMR) tomography:
(see Magnetic resonance tomography).

Angiography:
X-ray examination of blood vessels after injection of a contrast medium into the artery.

Image intensifier, image converter:
Cathode ray tube in which a real but invisible image (f.e. an infrared image) is converted optoelectronically into a visible image or in which the brightness of a visible image is multiplied (f.e., X-ray image amplifier).



March 2000:
A view of the open MRT in construction at Zentralklinik Bad Berka



April 2000:
The open MRT after completion



Quality gains through neuronavigation at Klinikum Meiningen

Photo: Szyszka

Angiology:

The branch of medicine concerned with the diagnosis and therapy of diseases of the blood vessels.

Diabetologist:

Specialist for diabetes/any disorder of metabolism.

Lipidologist:

Specialist for disorders of lipid metabolism.

Nephrologist:

Specialist for diseases of the kidney.



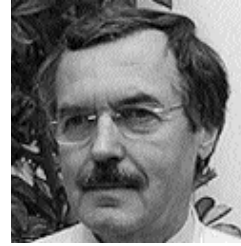
operation. This adds to the safety and precision of surgical interventions, it helps to reduce time requirements and, above all, the stress for patients. It's an

enormous improvement in quality”, says head physician **Dr. Bernhard Bruns**.

Organisation:

Structures and cooperations that benefit patients

Klinik Kipfenberg boosts the largest intensive care unit nation-wide for early and long-term rehabilitation of patients suffering from severe neurological diseases. The hospital developed, and successfully implemented, a new treatment and nursing concept based on the flow principle giving its therapeutic procedures totally new structures: “If you have effectiveness and quality for patients in mind, it is only reasonable to move away from centralised therapeutic planning at unit level towards decentralised interdisciplinary planning in line with the requirements of the



individual wards”, explains head physician **Dr. Rudolf Preger**.

“This is how we ensure an optimised assignment of all our therapists.” Klinik

Kipfenberg’s scientific research partner in this project is the chair of educational sociology at the Catholic University in Eichstätt.

Exceptionally efficient organisational structures for the treatment of patients suffering from vascular diseases are in place at the interdisciplinary Vascular Centre with integrated day clinic at **Herz- und Gefäß-Klinik in Bad Neustadt**. The Centre teams up highly qualified specialists covering ANGIOLOGY, DIABETOLOGY, vascular and cardiac surgery, internal medicine, cardiology, LIPIDOLOGY, NEPHROLOGY, radiology and, whenever required, neurology. They join forces in what is the underlying concept of the Centre: holistic and comprehensive patient treatment. “This interdisciplinary quality generates synergetic effects which benefit patients and health care

Early rehabilitation:

Attending an intensive care patient at Klinik Kipfenberg





**Synergies for the benefit of both patients and health insurers:
CT unit at Krankenhaus Waltershausen-Friedrichroda**

insurers alike”, says head physician Professor Dr. Dietmar Sailer.

Service quality plus economic efficiency is also a theme of **DKD's PAEDIATRISTS** in Wiesbaden. With special attention paid to safety and child patient/ parent acceptance, they have embarked on verifying the potentials of day clinic care as a viable alternative to hospitalisation where regulation in cases of primary manifestation of Type I diabetes mellitus is needed for infants and adolescents. In cooperation with the University of Ulm, they compared the results of 43 little patients of DKD's day clinic with those of



2,984 children who had been hospitalised for regulation. “Our findings are very encouraging”, resumes **Professor Dr. Dieter Weitzel**, head of DKD's diabetes day

clinic. “During the three-years period surveyed, we recorded nil complications during regulation at our day clinic and no significant differences in quality compared with in-patient regulation. Importantly, our day clinic gets definitely higher scores when it comes to parent acceptance and economy.”

Kliniken Herzberg und Osterode just completed their first full business year as members of **RHÖN-KLINIKUM** Group. Change is in the air: In cooperation with Zentralklinik Bad Berka's radiological unit, a concept for **TELERADIOLOGY** was developed and successfully implemented.

Krankenhaus Waltershausen-Friedrichroda, too, benefits from its teleradiological link with Zentralklinik Bad Berka, which has been in place since April 1999: Bad Berka delivers online CT analyses in support of the special disciplines of this regional hospital. “Since last year, we have also a direct line to Bad Berka's **PATHOLOGY**, and we have signed a cooperation contract with the Bad Berka Stroke Unit. Synergetic effects in diagnostics, case control and discussion based on



uniform methods of examination and access to the expertise of other Group hospitals – all this is an enormous step forward for us”, says

Dr. Eberhard Rußwurm, medical director of Krankenhaus Waltershausen-Friedrichroda.

Paediatrics:

The general medicine of childhood.

Teleradiology:

The process of transmitting and receiving medical images (f.e., X-ray or CT images), to and from distant sites, using modern telecommunication media (f.e., ISDN).

Pathology:

The study of disease processes and arrest of development with the aim of understanding their nature and causes.



**Paediatric day clinic of
DKD – Deutsche Stiftung für
Diagnostik, Wiesbaden**

Endocrinology:
The branch of medicine concerned with the endocrine glands (f.e., the thyroid gland) and the substances they secrete (hormones).

DKD in Wiesbaden is one of RHÖN-KLINIKUM Group's hot spots of medicoscientific work – and one with international reach. Its special unit for diabetology cooperates closely with the university clinics of Frankfurt, Gießen and Marburg as well as with public general and standard care hospitals, diabetological centres and interested general practitioners in the region. DKD's ENDOCRINOLOGISTS have long-standing working relations with the Institute for Psychology of the University of Frankfurt. And the successful establishment of DKD's diabetic day clinic (also see pages 13/14) has been facilitated by a research cooperation with leading industrial corporations.

DKD is committed to networking for progress in medicine and positive change in health care. One example is telemedicine: Following an initiative of the clinic for paediatric cardiology of the University of Gießen, DKD's specialists have meanwhile established telemedical links with several paediatric clinics in Hesse. Diagnostic findings are transmitted real-time by video via

ISDN to external paediatric cardiologists. "We can even consider special requests regarding the presentation of data. At the same video conference, we can have live discussions with parents



on follow-up procedures. The crucial point is that patients can be spared the stress of transports", says medical director **Professor Dr. Günter Sachse**. No matter how

long the distance, it can be bridged, and specialist knowledge can be brought in from the very start.

Besides the above projects and developments, RHÖN-KLINIKUM is a partner in a wide range of cooperations with mediatechnical and pharmaceutical manufacturers as well as renowned universities. The over-riding aim of these projects and partnerships is to continuously improve our services for patients – which, in turn, will ensure continued growth and success of our company.

The Hospitals of RHÖN-KLINIKUM Group



Kliniken Herzberg und Osterode GmbH



Zentralklinik Bad Berka GmbH



Soteria Klinik Leipzig GmbH



Park-Krankenhaus Leipzig-Südost GmbH



Klinikum Meiningen GmbH



Krankenhaus Waltershausen-Friedrichroda GmbH



Kliniken Uelzen und Bad Bevensen GmbH



Krankenhaus St. Barbara Attendorf GmbH



Herzzentrum Leipzig GmbH - Universitätsklinik -



Krankenhaus Freital GmbH



Stiftung Deutsche Klinik für Diagnostik GmbH in Wiesbaden



Neurologische Klinik in Bad Neustadt/Saale



Klinik „Haus Franken“ GmbH in Bad Neustadt/Saale



Klinik für Herzchirurgie GmbH in Karlsruhe



Haus Saaletal GmbH in Bad Neustadt/Saale



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



Klinik Kipfenberg GmbH



Psychosomatische Klinik in Bad Neustadt/Saale

RHÖN-KLINIKUM Group Management Report for the Business Year 1999

Accelerated growth

- Revenues up 25 % at € 615.8 million
- Consolidated net income up 23 % at € 46.9 million
- Number of treatments up 42 %

Despite stringent cost cutting within the national health care system, we were once more able to improve output, revenues, earnings and cash flow in the financial year 1999. Revenues surged to € 615.8 million (+25 %) and consolidated net income increased by 23 % to € 46.9 million. Adjusted for special factors, the operating result (according to DVFA/SG) rose by 10.1 % to € 45.8 million. These figures confirm the soundness of our double-digit growth ever since 1994.

Notwithstanding active capital spending (total capital expenditure € 139.7 million, of which € 51.2 million grants provided under the Hospital Financing Act (KHG) and therefore without impact on liquidity), our financial strength improved further during 1999. The equity ratio is 37.2 % (1998: 32.5 %). Long-term assets continue to be fully funded by equity and long-term liabilities. Liquidity remained almost unchanged compared to the previous year while the working capital increased. Our expansion strategy continues to rest on a sound financial basis.

The overall economic environment in 1999 was rather unfavourable for us as a hospital operator. Against the background of increasing global competition, the federal government remains under pressure to lower incidental wage costs.

The “Law for the Limitation of Revenues for In-patient Hospital Services in the Year 1999” confined 1999 revenues to previous year levels plus an increase of 1.66 % in the old federal states and 0.27 % in the new federal states. Exceptions thereto were almost exclusively limited to hospital planning measures (bed capacity increases/reductions). Regardless of these revenue limitations, we hold on to our policy of admitting and treating every patient in accordance with our statutory health care mission. We deliberately accept the risk of budget overruns. In 1999, repayable excess amounts totalled € 7.8 million.

This explains why there was only very little scope for internal growth in the year under review. Internal growth of 4 % was mainly generated by hospitals having an extended statutory mission. In spite of this, our hospitals consolidated prior to the current business year were able to strengthen their earnings power more than proportionately.

Obviously, with our hospitals working close to capacity limits and strict limitations on revenue increases, our 25 % growth in revenue was only possible via acquisitions. At the beginning of 1999, we took over Krankenhaus Freital and Park-Krankenhaus Leipzig-Südost. This was followed by the acquisition of Krankenhaus St. Barbara Attendorn on 1 May 1999. Krankenhaus Uelzen and Hamburgisches Krankenhaus Bevensen joined the Group in August 1999. External growth accounts for 85 % of the overall growth in revenue. Due to unfavourable cost structures, the hospitals acquired in 1999 have not (yet) contributed to earnings growth.

In 1999, the number of patients treated within the Group rose by 82,650 (42 %) to 277,550 with external growth accounting for 75,198 treatments (39%).

Revenues per case dropped from € 2,512 to € 2,219. The decline affects all business segments.

	1999	1998
In-patient and day clinic patient treatments at acute care hospitals (thereof hospitals acquired in 1998/1999)	143,770 (42,699)	102,173 (5,158)
In-patient treatments at rehabilitation clinics	5,697	5,269
Out-patient treatments (thereof hospitals acquired in 1998/1999)	128,083 (43,075)	87,458 (5,418)
Total	277,550	194,900

Regarding the acute care business, the causes are:

- the fact that the hospitals acquired in 1998/1999 – all of these being general and standard care facilities showing lower revenues per case – account for 90 % of the increase in patient treatments and for 85 % of the increase in revenues;
- shorter stays in hospital;
- budget overruns; and
- structural changes in services supplied.

Our rehabilitation clinics' contribution to total revenues decreased to 5 % and although the number of patients treated rose by 8 %, the capacity utilisation remained unchanged as the duration of stays in hospital was reduced. Rate increases were not feasible in the year under review. Revenues remained stable at € 29.8 million.

Out-patient treatments increased by 46 %; this gain was accounted for by takeovers of public hospitals exclusively. Out-patient treatments have little impact on revenues but are an indispensable element of hospital services to patients. Along full-cost lines, the rates per case do normally not cover costs, which is why revenues increased only by 16 % to € 16.0 million.

REVIEW OF OPERATIONS

Development of Revenues and Earnings

During the year under review, Group revenues increased by 25 % to € 615.8 million.

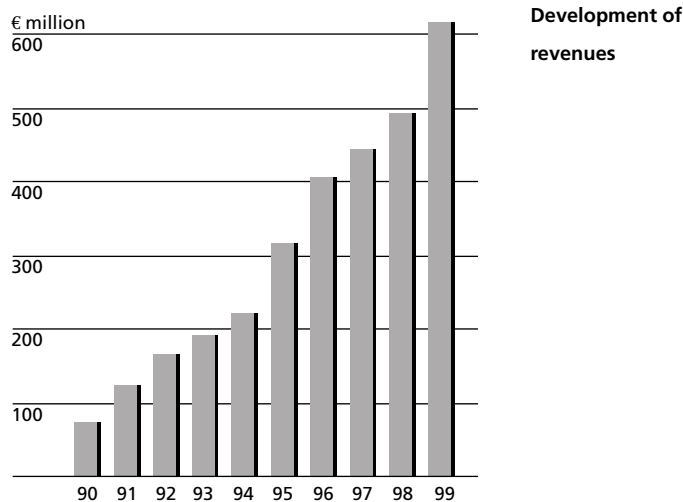
Other operating income, which in the previous year was influenced by the release of special reserves for reimbursement risks (€ 8.6 million), declined by 14 % to € 39.1 million. Besides subsidiary and incidental receipts, other operating income mainly includes (as an adjusting item for write-downs) income from the release of special reserves with equity portion (€ 3.8 million) and of special items from grants under the Hospital Financing Act (€ 12.1 million).

Operating expenses – excluding special influences – rose slightly more than proportionately to the increase in revenues.

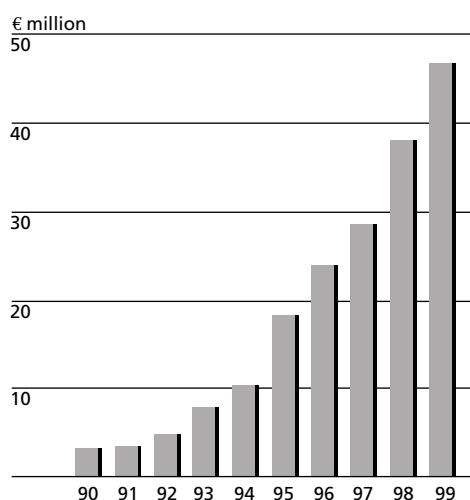
	1999	1998	Change	
	€million	€million	€million	%
Materials	152.0	126.7	25.3	20.0
Personnel	296.8	215.1	81.7	38.0
Depreciation	51.2	38.1	13.1	34.4
Other operating expenses	55.8	53.4	2.4	4.5

Material expenses grew less than proportionately. The cost of materials ratio was 24.7 % (1998: 25.7 %) as a proportion of revenues, the reasons for this decline being continued tight cost management and a tendency to lower material consumption in our general and standard care hospitals.

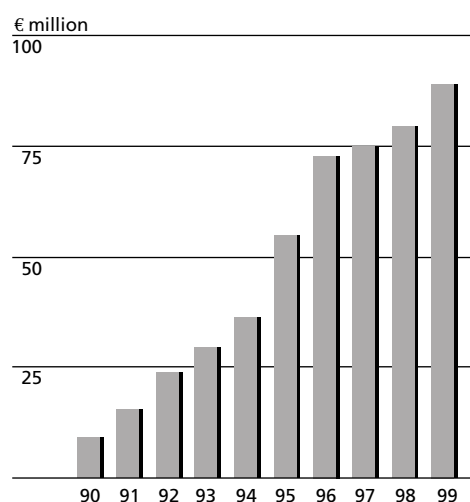
Personnel expenses rose more than proportionately. The personnel cost ratio as a proportion of total revenues increased from 43.7 % to 48.2 %. This increase reflects collective wage increases and higher profit-sharing as well as the still unfavourable ratios of newly acquired hospitals (personnel cost ratios between 65 % and 75 %). Nonrecurring effects of part-time schemes for elder employees also added to the increase.



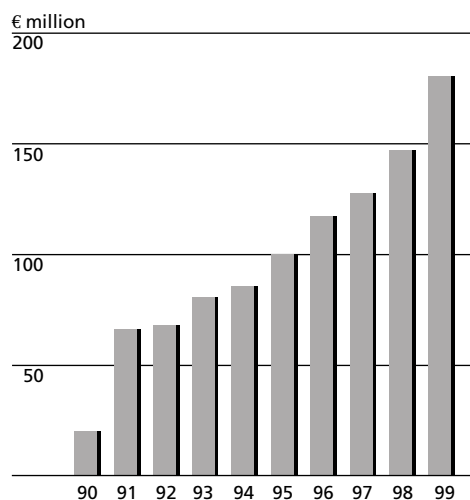
Development of net profit



Development of cash flow



Development of capital



Depreciation of fixed assets shows a strong increase by 34.4 % to € 51.2 million, which is largely offset by the release of special items from grants under the Hospital Financing Act (KHG) (€ 12.1 million). On balance, scheduled depreciation of fixed assets was in proportion to revenues.

Other operating expenses include transfers to special reserves with equity portion amounting to € 5.1 million (1998: € 19.6 million). Current expenditure increased by 5 % to € 55.8 million.

The negative financing and investing result was 16 % higher at € 15.5 million, reflecting the financing of acquisitions.

Tax expenses rose by 15 % to € 30.5 million, which is less than proportionate to earnings growth.

In 1999, the Group posted a net profit of € 46.9 million compared with € 38.0 million in 1998. Outside shareholders' interests amounted to € 5.1 million.

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

	1999	1998	1997
Return on equity*	18.1 %	18.7 %	16.9 %
Return on sales	7.6 %	7.7 %	6.5 %
Cost of materials ratio	24.7 %	25.7 %	25.7 %
Personnel cost ratio	48.2 %	43.7 %	41.9 %
Depreciation rate	6.3 %	6.4 %	6.4 %

* including equity portion of special reserves after deduction of deferred taxes

Capital spending

During 1999, we invested € 139.7 million in fixed tangible assets and financial assets. New acquisitions accounted for € 84.9 million of which € 51.2 million were grants under the Hospital Financing Act (KHG) without impact on liquidity.

Capital spending	Breakdown by regions	
	€ million	€ million*
Bavaria	14.1	–
Baden-Württemberg	0.7	–
Hesse	6.4	–
Lower Saxony	12.6	6.4
North Rhine-Westphalia	10.5	3.5
Saxony	75.5	41.3
Thuringia	19.9	–
Total	139.7	51.2

* Grants under the Hospital Financing Act (KHG)

Major building projects were the completion of the east wing at Zentralklinik Bad Berka, the extension to DKD Stiftung Deutsche Klinik für Diagnostik and the second phase of our expansion programme for Krankenhaus Waltershausen-Friedrichroda. A total of € 26.7 million went into new medicotechnical equipment as well as computer hardware and software. Since our financing activities do not depend on public subsidies, our hospitals are in keeping with the latest technological developments.

Internal financing power

In 1999, consolidated cash flow improved by € 9.7 million to € 89.3 million as a result of higher net earnings and increased depreciation. We were able to fund the total of capital expenditure as well as all acquisitions from the cash flow.

Improved asset-liability structure

The Group continues to show a sound structure of assets and liabilities. In line with expansion, fixed assets increased substantially to € 623.3 million (76 % of total assets). Current assets include cash items amounting to € 84.2 million. Cash items will in future increasingly be used for investing and the redemption of long-term liabilities.

On the financing side, both equity and special reserves have been strengthened considerably. Asset coverage was 101.7% (1998: 101.9%). Liabilities increased only slightly.

Structure of assets and liabilities

ASSETS	31.12.1999		31.12.1998	
	€ million	%	€ million	%
Long-term assets	626.1	76.5	540.2	75.4
Short-term assets	191.8	23.5	176.0	24.6
	817.9	100.0	716.2	100.0

LIABILITIES	31.12.1999		31.12.1998	
	€ million	%	€ million	%
Equity (including equity portion of special reserves)	304.5	37.2	232.8	32.5
Long-term liabilities (including tax portion of special reserves)	332.1	40.6	317.6	44.3
Short-term liabilities	181.3	22.2	165.8	23.2
	817.9	100.0	716.2	100.0

**Medical disciplines
within RHÖN-
KLINIKUM Group
(As at 31.12.99)**

I. Field or subject:	Number (Field)
Continued education emphasis, focal areas	
General medicine	15
Anaesthesiology →	124
of which: – Continued education: specifically anaesthetic intensive medicine	15
Ophthalmology	4
Surgery →	102
of which: – Continued education: specifically surgery intensive medicine	2
– Emphasis: thoracic surgery	6
– Emphasis: vascular surgery	12
– Emphasis: emergency (accident) surgery	20
– Emphasis: visceral surgery	8
Diagnostic radiology →	28
of which: – Emphasis: neuroradiology	2
Gynaecology and obstetrics	24
– Continued education: specifically operative gynaecology	2
Otorhinolaryngology	5
Skin diseases and venereal diseases	3
Cardiac, thoracic and cardiovascular surgery	24
– Continued education: specifically cardiosurgical intensive medicine	2
Hygiene and environmental medicine	1
Internal medicine →	154
of which: – Continued education: specifically internal intensive medicine	6
– Emphasis: angiology	9
– Emphasis: endocrinology	2
– Emphasis: gastroenterology	7
– Emphasis: haematology	6
– Emphasis: cardiology	31
– Emphasis: nephrology	2
– Emphasis: pneumology	10
– Emphasis: rheumatology	1
Paediatrics →	29
of which: – Continued education: specifically paediatric intensive medicine	1
– Emphasis: paediatric cardiology	3
– Emphasis: neonatology	2
Paediatric and preadolescent psychiatry	6
Microbiology	1
Neural medicine	12
Neurosurgery	10
Neurology	19
Nuclear medicine	2
Orthopaedics →	17
of which: – Emphasis: rheumatology	1
Pharmacology and toxicology	2
Physical and rehabilitation medicine	5
Plastic surgery	2
Psychiatry	13
Psychotherapeutic medicine	4
Transfusion medicine	1
Urology	5
Total	150 612
II. Other areas	
Allergology	4
Occupational medicine	1
Blood transfusions	5
Chirotherapy	8
Hand surgery	10
Phlebology	2
Physical therapy	6
Psychoanalysis	1
Psychotherapy	17
Rehabilitation	3
Rescue medicine	29
Social medicine	3
Sports medicine	7
Environmental medicine	2
Total	98
All other physicians in the RHÖN-KLINIKUM Group are either assistant physicians or interns	

Environment

In the year under review, our efforts to minimise the negative impact of our facilities on the natural environment continued. While optimisation potentials at hospitals which have been Group members for longer are nearly exhausted, we find considerable room for improvements at newly acquired facilities. We realise important savings, particularly in energy consumption, by mere know-how transfer, i.e. without additional capital expenditure.

Initial measures usually lead quickly to visible success and this, in turn, motivates employees to hand in suggestions for further improvements. Thus, for instance, Krankenhaus Freital was able to reduce its primary energy consumption by 20 % compared to the previous year without any capital spending. Notably, the hospital started its energy saving programme not before the second quarter of 1999. Similarly, Kliniken Herzberg und Osterode achieved double-digit savings.

Our fourth Environmental Report covering financial year 1999 will disclose the environmental statistics of our hospitals and outline their development over the past years.

Research and development

Following the world's first robot-assisted bypass operation in May 1998 at Herzzentrum Leipzig – Universitätsklinik -, a separate unit consisting of two operating theatres especially designed for robot-assisted heart surgery was commissioned at that centre in January 1999. This surgical technique is primarily used with cardiac bypass operations and mitral valve reconstructions. Robot-assisted surgery will be further enhanced and will eventually benefit other medical branches, for instance, neurosurgery and spinal surgery as well as surgery of the ear, nose, throat, the eyes or tumours. The telemanipulator enables surgical interventions with the operator distant from the site; this opens up great future

opportunities in the field of telemedicine, provided that data transfer technology progresses accordingly.

Another project of Herzzentrum Leipzig – Universitätsklinik – deals with a new monitoring system, called OPAL (Online Pressure Aera Loop) system, which produces extremely reliable data of the functions of the cardiovascular system. It is expected that future applications of the OPAL system will go far beyond cardiac surgery.

Currently we conduct clinical studies to explore the potentials of two electronic mapping systems in the field of cardiology: the CARTO system, which is used for invasive electrophysiological diagnosis and short-wave catheter ablation, and the EnSite 3000 system, which offers the advantage of recording the complete electrical activity of the ventricle to be examined in one single step.

“Cardiovascular magnetic resonance tomography” is the theme of a research project at Herz- und Gefäß-Klinik in Bad Neustadt which explores the possibilities of contrast media-assisted magnetic resonance tomography as an alternative to conventional (invasive) cardiac catheterisation. An effective competing system is the electron-beam tomograph at Zentralklinik Bad Berka. Here, too, we search for an alternative to conventional cardiac catheterisation.

Zentralklinik Bad Berka is an important contributor to the Group’s R & D activities. Its specialists recently developed a minimally invasive technique for surgery of the thoracic and the lumbar spine which enables the complete operation to be performed without changing the patient’s position. This technique not only reduces the duration of operations and thereby the stress for patients but also leads to higher economic efficiency as only one set of sterile drapes is needed. Moreover, this gentle minimally invasive technique involves much less physical trauma and usually less complications allowing the patient to resume normal activity much sooner.

The use of the open MRT (magnetic resonance tomograph) at Zentralklinik Bad Berka enables accurate and almost real-time images of the operation site during an intervention allowing the operator to monitor the site and the movement of his instruments without having to step back from the operation table. This technology will be developed further with a view to being applied in a wider range of surgical disciplines.

Besides being a research partner of Herz- und Gefäß-Klinik in the field of cardiology, the Institute for Diagnostic and Interventional Radiology in Bad Neustadt carries out research work to explore the potentials of magnetic resonance tomography for visceral and hand surgery. In cooperation with Klinik für Handchirurgie, the institute investigates in how far magnetic resonance tomography combined with contrast media could be an alternative to (invasive) arthroscopy which is current practice. With regard to visceral surgery, the research focus is on imaging the peripheral arteries via MRT combined with contrast media.

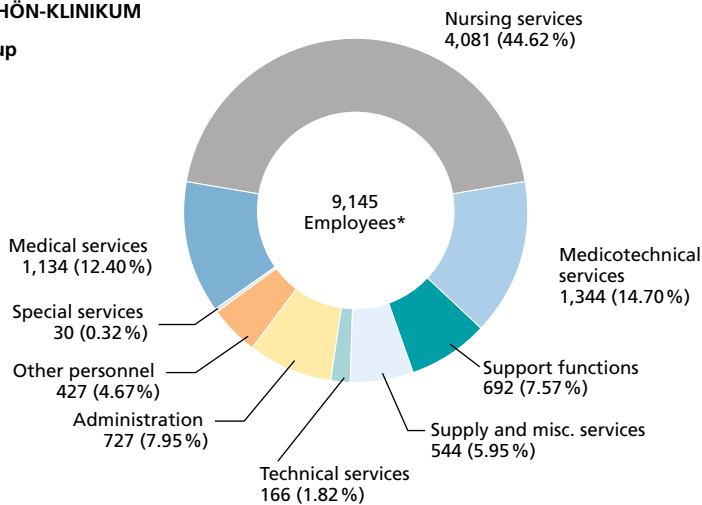
Further details of our hospitals’ research activities are given on pages 8 to 20 of this report.

Staff

As at the end of 1999, the number of employees of the Group increased by slightly more than 41 % to 9,145 (1998: 6,459). This rise was almost exclusively due to new acquisitions including Park-Krankenhaus Leipzig-Südost (759), Krankenhaus Freital (454), Krankenhaus St. Barbara Attendorn (456) as well as Kliniken Uelzen und Bad Bevensen (1,005).

At present, twelve participants in our special Junior Executive Development Programme are on a “training on the job” which, in the course of two years, will take them to all relevant hospital units or departments. Eight prospective junior executives have already finished this first phase of the programme and have taken on management functions within the Group.

**Analysis of Personnel
at RHÖN-KLINIKUM
Group**



* As at 31 December 1999

Very popular with students is the new diploma course “Health Economics” which we created in 1998 in cooperation with the University of Bayreuth and the health insurer Techniker Krankenkasse. Despite demanding selection criteria, the number of students applying for matriculation last November for the new academic year was again very high. Some of the students participate in an integrated mentoring programme which includes, inter alia, practical trainings at our hospitals.

Throughout the Group, we continue to give top priority to the training of qualified nursing staff at company-owned nursing schools. Complementing our nursing schools in Meiningen, Bad Berka, and Waltershausen-Friedrichroda, we have integrated the respective nursing schools and/or training capacities of the hospitals acquired in the year under review. In Bad Neustadt, we continue to cooperate very successfully with the medical training centres for physiotherapy, ergotherapy and logopaedics of ESB Bad Neustadt.

All our hospitals conclude individual inhouse wage agreements consistent with local labour market conditions and business structures. Profit-sharing is an integral part of wage agreements – and one of great importance. Our profit-sharing scheme encourages employees to be economical, and it rewards individual performance. In the year under review, we paid out € 26.8 million (1998: € 20.3 million) to employees.

As an important supplement to existing inhouse wage agreements, the Group offers its employees a collectively agreed company pension scheme which was introduced in 1999. It features direct insurance outside the scope of the national insurance scheme and lump-sum wage tax payments. All former property-creating allowances paid by us will now go to this insurance. In addition, we will absorb lump-sum wage tax expenses. Employees are free to pay in extra amounts such as, for instance, their shares in profit, in which case they will benefit from redemption of compulsory social insurance contributions and from lump-sum taxation. Also, nonrecurring special payments under this company pension scheme can be agreed in the framework of future collective bargaining.

This flexible and financially attractive pension scheme is a promising alternative to the existing system of supplementary pension insurances within the purview of BAT (Bundesangestellten-tarifvertrag). It is a valuable instrument, especially when taking over hospitals, enabling us to offer new employees post-retirement benefits, not to forget the advantage that medical examinations usually required when signing an insurance contract are not necessary.

To assist employees having child care responsibilities, some of our hospitals run own nurseries and kindergartens. Their opening hours meet the specific requirements of single mothers or fathers as well as of shift workers. Moreover, the Group provides 865 company flats for its staff members.

Optimising procurement

There is a growing tendency in the hospital sector to source out procurement by connecting with purchasing groups, logistic services suppliers or similar.

Although procurement processes are ultimately the Group's responsibility, decision-making on resource input must be decentralised, i.e. decisions can only be made together with the medical staff and the nursing staff responsible for patients at the individual hospitals. It is essential that administrative and medical staff take joint action while, at the same time, allowing discussion and dialogue in order to secure optimised procurement in line with the medical needs of each individual hospital.

In order to benefit from the Group's purchasing power despite decentralisation, uniform computer systems are used across the Group. Our hospitals join forces not only in price negotiations but also in joint projects committed to continuously optimising purchasing strategies. We are in the process of implementing a data warehouse for medical supplies and capital goods which will eventually be available to all our hospitals.

The fact that, in newly acquired hospitals, we achieve visible improvements in materials consumption very quickly and a Group cost of materials ratio of 24.7 % (1998: 25,7 %) clearly demonstrate that we are on the right course.

Risk management

RHÖN-KLINIKUM Group, being a rapidly expanding hospital operator, is exposed to a number of operational risks inherent in economic activity. Additional risks arise from the hospital market's dependence on political decisions and macro-economic developments. We believe that the Group's authority and its profound market know-how will enable us to cope with future developments.

In order to analyse and handle existing risks effectively, we have enhanced our group-wide internal controlling and reporting systems at all organisational levels and implemented a risk management system for all operative units. This system, which complies with legal requirements (KonTraG), will enable the Board to identify potential risks at an early stage and to initiate appropriate countermeasures.

In order to ensure continuous adaption during 2000, we plan to entrust independent auditors with the monitoring of our risk management system.

Outlook

The year 2000 has so far not seen any developments of particular importance that could affect our business. Capacity utilisation at our hospitals continues at previous year levels.

Following the vote of the Bundesrat, only parts of the Health Care Reform 2000 have become effective. Since this partial reform has little power to counter the growth tendencies of the health care market, we expect that budget limitations similar to those of previous years will remain in place. Since contracting with health insurers is compulsory, it will not be possible to enforce volume increases against the insurers' vote. 2000 revenue growth will therefore – with some minor exceptions – again be confined to the growth rate of the insurers' revenues from compulsory contributions, which has been announced as being 1.43 %.

Government plans are to decide on a consistent price system based on "diagnosis related groups" (DRG) in the course of 2000 and to introduce this price system in 2003, in a first phase without impact on revenue structures. With the exception of psychiatric treatments, all hospital services will then be paid on the basis of diagnosis-related rates per case. Later on, demand and supply mechanisms will gradually take effect.

Against this background, we believe that there will be only little room for price increases in the hospital market in the short and medium term.

Other short-term changes in the political environment are not expected.

Despite the shift to out-patient treatment, we expect the number of in-patients treated at our hospitals to increase by 1% to 2% p.a. in the short and medium term, driven by the requirements of an ageing society and rapid technological progress. All our hospitals will continue to admit every patient, in accordance with their respective statutory mission. As in previous years, we will closely monitor developments at our hospitals during 2000 and continue to use a flexible cost management approach to ensure that revenue restrictions, increasing numbers of patients, wage increases above revenue growth or inflation will not adversely affect overall results. Our highly effective, well-equipped, and well-managed hospitals combine all prerequisites necessary to exploit rationalisation reserves.

All our hospitals acquired in 1999 are expected to report positive results and our other hospitals are set to achieve operating results at the same level as in 1999. Potential further acquisitions not

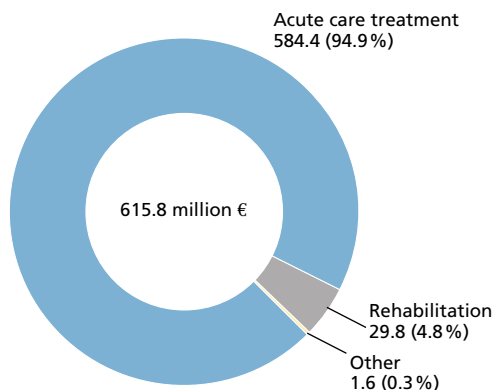
taken into account, we expect Group revenues to increase by 8% to € 660 million with earnings growing slightly more than proportionately.

Following the proposed 21% dividend increase for the financial year 1999, we believe that dividends for 2000 will again be satisfactory.

In addition to current capital spending estimated at approximately € 25 million, planned investments in 2000 include the completion of our building projects at Stiftung Deutsche Klinik für Diagnostik (DKD) and Krankenhaus Waltershausen-Friedrichroda. In Leipzig, new construction of a somatic clinic for Park-Krankenhaus Leipzig-Südost has entered its first phase; construction of a new psychiatric clinic will start mid-2000. Our extension projects in Herzberg and Freital are about to enter the phase of realisation, and the new building project of Krankenhaus Uelzen is in its planning phase. Excluding investment requirements due to potential acquisitions, we expect capital expenditure of € 60 million, which we will be able to fund without any increase in long-term debt.

Gradual introduction of monistic hospital financing as envisaged by the federal government did not pass the Bundesrat. However, with the introduction of a consistent price system, the question of financing will no longer prevail. Our future-oriented hospital concept and our ability to exploit rationalisation potentials through investing will boost our competitive strength. Some of the public hospitals will not be able to keep pace, and this is why we believe that the market share of private hospital operators will increase sharply in the medium term. Underlining this trend is a growing interest in our solutions.

**Group revenues breakdown
by business areas**



As in previous years, it is impossible at this point to make a safe forecast for external revenue growth in the near and medium term as there is a great variety of takeover projects in discussion. We are, however, convinced that we will continue to achieve double-digit growth in revenues and earnings in the foreseeable future.

Bad Neustadt a.d. Saale, 29 March 2000

Dr. Elmar Keller

Joachim Manz

Gerald Meder

Eugen Münch

Manfred Wiehl

The RHÖN-KLINIKUM Share

Contrary to last year, RHÖN-KLINIKUM AG's positive business development and its bright growth perspectives have been reflected moderately by the development of its shares.

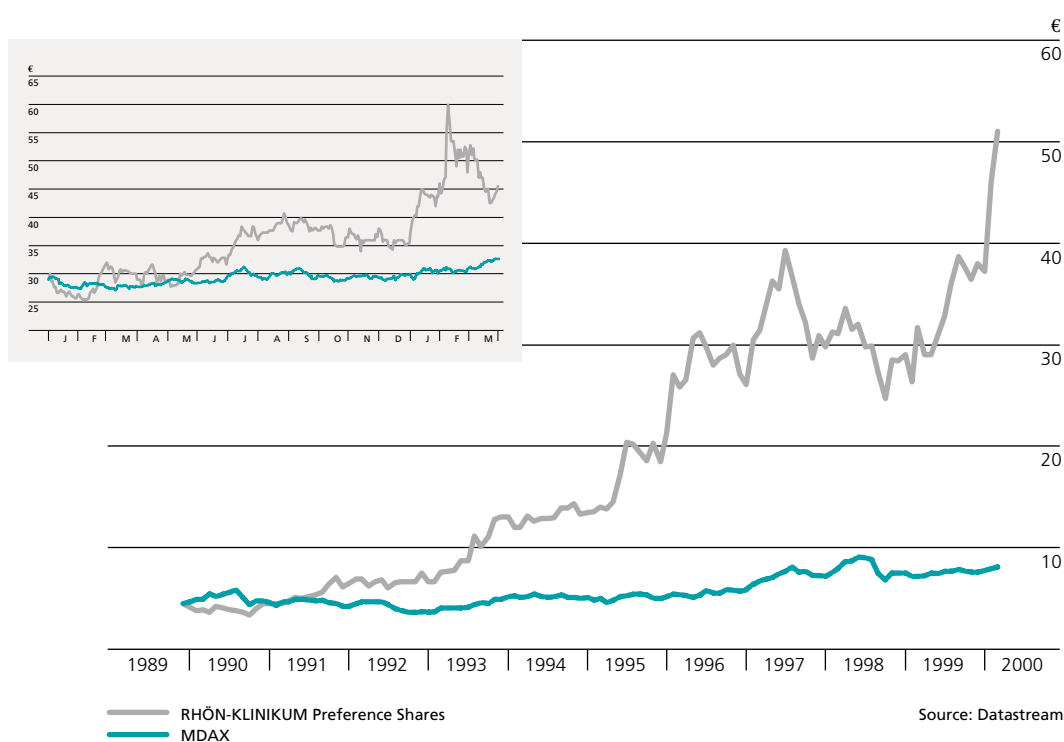
On 31 December 1999, the year-end price of the RHÖN-KLINIKUM ordinary share was € 36.50 (1998: € 28.21) on the Frankfurt stock exchange, and that of RHÖN-KLINIKUM preference share stood at € 35.40 (1998: € 28.97). This shows that RHÖN-KLINIKUM shares followed the general trend in the German stock markets. Their performance measures up favourably with both the MDAX, which on an annualised basis gained a moderate 4.58 %, and the CDAX Pharma & Health, which showed a small loss of 0.26 %. During the year, the ordinary share price ranged from € 41.80 to € 24.81, and preference shares traded at prices between € 40.67 and € 25.15.

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

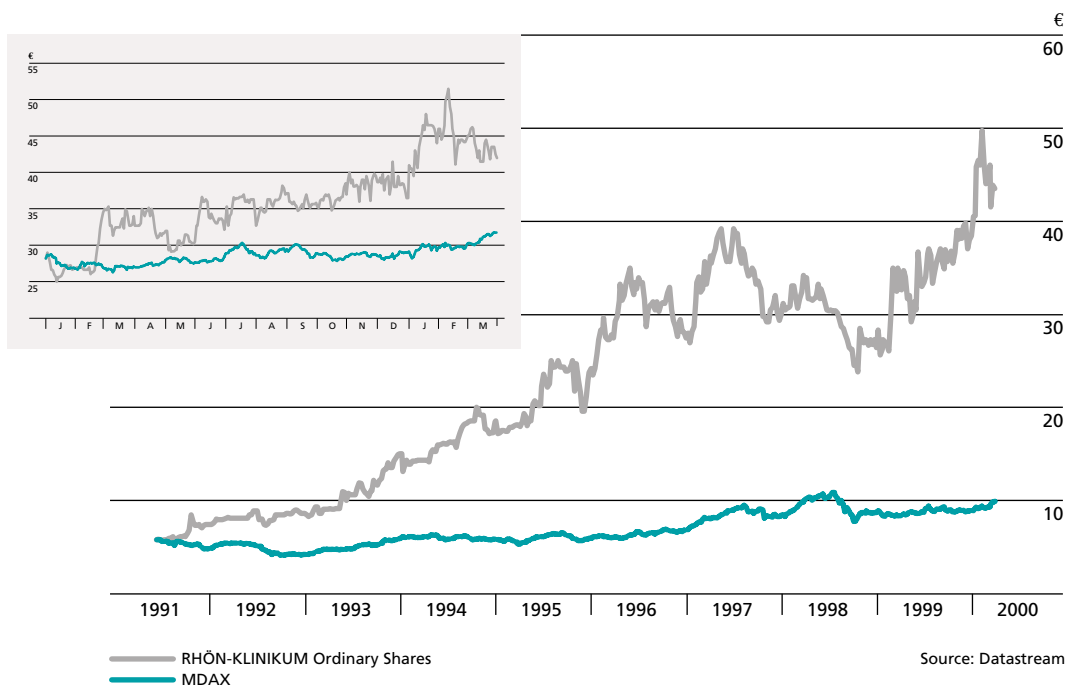
An investor who made a single investment of DM 50,000 (€ 25,564.60) in 100 preference shares on the date of the IPO in 1989 and reinvested the rights issue proceeds and the annual net dividends in RHÖN-KLINIKUM preference shares would have increased the value of his holding to € 249,145.20 representing 7,038 preference shares by the end of 1999. This translates into a total appreciation of 874.6 % (1998: 697 %) since the initial investment or an average annual yield of nearly 23 %.

Similarly, an investor who bought 100 ordinary shares at a total price of DM 67,500 (€ 34,512.20) on the date of the IPO in 1991 and reinvested the rights issue proceeds and the net dividends in

Above, left:
Performance comparison
RHÖN-KLINIKUM AG
(preference shares)
versus MDAX 1999/2000



Long-term
performance comparison
RHÖN-KLINIKUM AG
(preference shares)
versus MDAX



Above, left:
Performance comparison
RHÖN-KLINIKUM AG
(ordinary shares)
versus MDAX 1999/2000

Long-term
performance comparison
RHÖN-KLINIKUM AG
(ordinary shares)
versus MDAX

RHÖN-KLINIKUM ordinary shares would have owned 6,765 ordinary shares worth € 246,922.50 by the end of 1999. This represents a total appreciation of 615.5 % (1998: 435 %) or an average annual yield of 24.4 %.

Institutional investors' interests remained nearly unchanged in the year under review. The number of funds holding RHÖN-KLINIKUM shares decreased by 23 to 152, however, the number of shares held by funds was only slightly lower at 29 % (1998: 30 %) of the total number of shares. Major institutional investors continue to be German and U.S. funds. Close to 20 % of the total of the RHÖN-KLINIKUM shares are held by international funds, and free float accounts for slightly more than 35 %.

At the end of the year, market capitalisation was € 936.6 million, which is close to 27 % above the previous year level (€ 737.7 million). Conse-

quently, RHÖN KLINIKUM AG now ranks 37th (1998: 41st) among the 70 MDAX shares.

At the 1999 Annual General Meeting, shareholders approved the proposed increase in share capital to € 25.92 million from corporate funds as well as a share split in the proportion of 1:3. On 28 October 1999, the quotation on the stock exchanges was changed to the new € 1.00 no-par shares. In 1999, the average daily turnover volume increased to 9,866 ordinary shares and 9,946 preference shares (1998, adjusted: 7,752 and 9,567, respectively). The highest single-day turnover was 116,023 ordinary shares and 72,553 preference shares (1998, adjusted: 77,976 and 93,900, respectively). Notably, 1999 saw a remarkable hike in Xetra trading in RHÖN-KLINIKUM preference shares from 2.9 % (1998) to 16.3 %. Xetra trading in ordinary shares grew less and accounted for only 8.33 % (1998: 2.2 %) of total trading in ordinary shares.

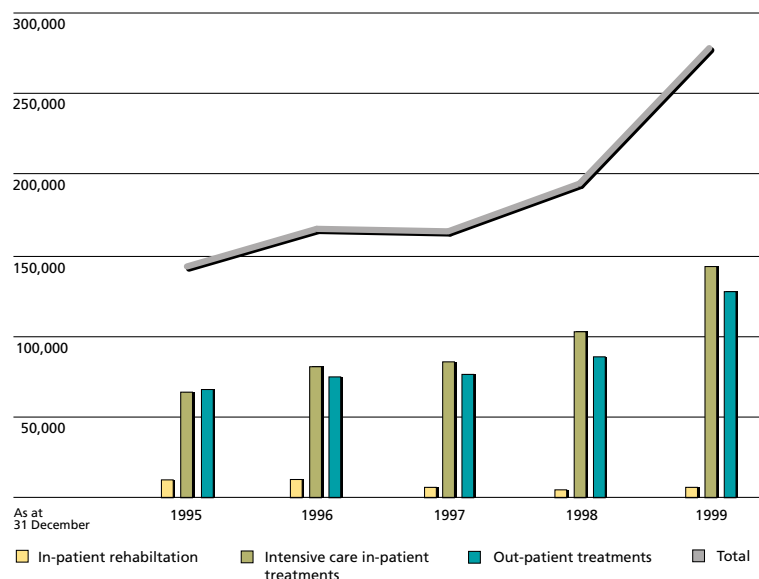
Proactive Development of our Hospitals

Market trends: Between 1993 and 1998 (more recent figures were not available at the date of this report), the process of consolidation in Germany's hospital sector continued: 100 clinics were closed down (-4.3 %) and 57,029 hospital beds were eliminated (-9 %). During the same period, the number of patients treated increased by just under 1.6 million (+11 %).

Private hospital sector development took the opposite direction: The number of hospitals rose by 71 (+20 %), 8,239 beds (+30 %) were added, and in-patient treatments increased by 356,420 (+53 %) at the expense of other hospital operators. From 1997 to 1998 alone, the private-sector bed capacity improved by 4,515 beds, and the number of treatments at privately operated hospitals increased by 154,127. Despite this expansion, the market share of private hospital operators is still only 6.3 % (measured by hospital beds).

During 1999, RHÖN-KLINIKUM Group successfully acquired five acute care hospitals with a total of 1,640 beds; the number of treatments jumped to 143,770. According to our estimates, the Group now operates one out of ten private-sector hospi-

Cases handled (patients or treatments) by RHÖN-KLINIKUM Group



tal beds and treats well over 12 % of all patients seeking treatment in a privately operated hospital.

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

Developments in Baden-Württemberg

In the year under review, **Klinik für Herzchirurgie in Karlsruhe** (65 beds) was able to hold its high level of capacity utilisation (above 104 %). While the average duration of stays in hospital was reduced, the number of patients treated (2,239) increased once more (1998: 2,062). The hospital performed a total of 1,885 heart operations as well as three heart transplantations. In view of the growing number of patients and the fact that the hospital has already worked close to capacity for some time, new construction of a separate Intermediate Care unit started in December 1999. This unit at a cost of € 2.2 million will provide 16 additional beds.

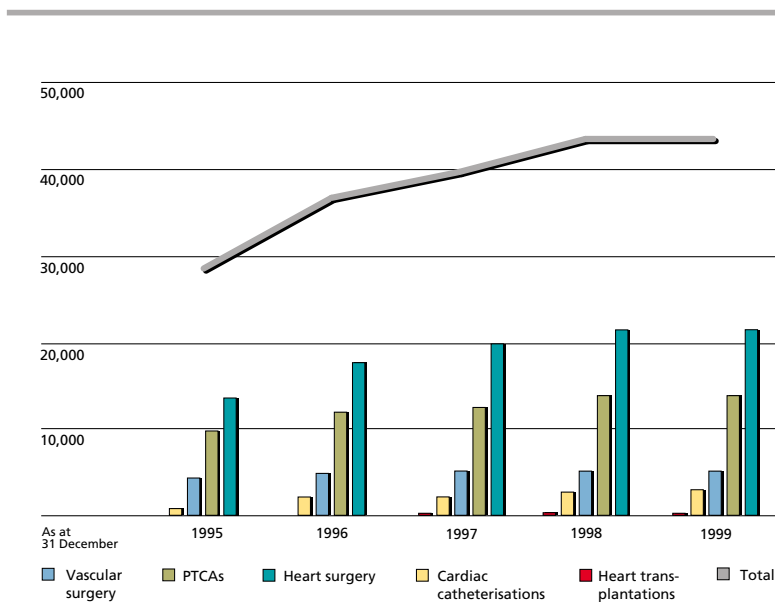
Developments in Bavaria

In Bavaria, we operate six hospitals of which five are located in Bad Neustadt and one in Kipfenberg. The combined number of in-patients treated in 1999 was 27,007 (1998: 25,036). In both rehabilitation (5,048) and acute care (21,959), treatments increased substantially compared to the previous year (4,695 and 20,342, respectively).

Herz- und Gefäß-Klinik continued to be the focus of our activities in Bavaria in 1999. One of Germany's leading hospitals for the treatment of cardiovascular disorders, its services spectrum includes intensive diagnosis as well as surgical and invasive treatments of the heart and the vessels.

In the year under review, the hospital performed 4,063 (1998: 4,123) heart operations of which 3,359 (1998: 3,483) with heart-lung-machine. In addition, its doctors conducted 5,922 (1998: 6,125) cardiac catheterisations as well as 1,685 (1998: 1,851) PTCA's (percutaneous transluminal coronary angioplasties). The number of vascular operations rose to 1,884 (1998: 1,746).

The number of surgical treatments of venous diseases remained stable at the previous year level with the hospital working to capacity. Notably, there is an increasing number of patients prepared to put up with long-distance drives in order to get in-depth diagnosis or expert advice at our Vascular Centre. In surgery of the arterial system, we have noticed a sharp rise in the number of patients who come with extremely severe arteriosclerosis including cases where the danger of an amputation of the leg is imminent or where there is already an indication for amputation. For many of these patients, our Vascular



Centre is the place of last resort which they hope will help avoid an amputation by means of appropriate vascular surgery.

The Centre's holistic approach to patient treatment (vascular surgery, diabetes centre, nephrology, angiology, and follow-up treatment) has been well received.

Our Diabetes Centre which offers a four-year patient management programme, "Diabetes Management 2000", in close cooperation with general practitioners is in the process of building up capacity.

At **Klinik für Handchirurgie** in Bad Neustadt, 16,492 (1998: 15,936) out-patients were treated in the year under review. The number of surgical interventions increased to 5,635 (1998: 5,477). Besides providing specialist services to its patients, the hospital plays an active role in R&D for hand surgery. Testimony to its authority and its reach far beyond Bad Neustadt are thirty six articles published in scientific magazines, six contributions to medical books and seventy scientific lectures – compiled in part in the

Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group



framework of international expert cooperations – as well as numerous guest physicians from all over Germany and from abroad. Importantly, yet another of the hospital’s physicians qualified himself for lecturing at the medical faculty of the Julius Maximilians University in Würzburg. These activities not only contribute to motivating

our medical staff but are also highly beneficial to our patients.

Psychosomatische Klinik in Bad Neustadt operates a special hospital with 180 beds and a rehabilitation clinic with 160 beds. The hospital continued to work to capacity in 1999. In the field of rehabilitation, the generally difficult situation prevails but has improved slightly for us in the year under review. The number of patients treated increased by well over 8 %.

Franken Klinik, now located on the premises of RHÖN-KLINIKUM AG in the immediate vicinity of Herz- und Gefäß-Klinik in Bad Neustadt, offers its patients cardiological rehabilitation including follow-up treatment. The number of patients treated in 1999 rose by more than 10 % to 1,857.

Saaletal Klinik in Bad Neustadt (166 beds) treats addictive diseases. Complementing this facility, we operate a separate drug therapy facility, Neumühle, and an adaption facility with a capacity for 48 and 18 patients, respectively. Capacity



utilisation at Saaletal Klinik improved marginally (80.9 %) while Neumühle worked close to capacity (99 %). The adaption facility, which was established during the fourth quarter of 1998, made good headway in 1999; capacity utilisation in its first full business year was as high as 77 %.

As in the previous year, our two neurological clinics in Bad Neustadt (250 beds) and in Kipfenberg (104 beds) were fully occupied. Both clinics specialise on patients with cranial and brain injuries as well as stroke patients.

Neurologische Klinik Bad Neustadt treated 1,764 patients, which is 63 % above last year's figure. This sharp rise resulted from the start-up of the clinic's Stroke Unit, which offers acute care treatment for stroke patients. The number of rehabilitation patients remained largely stable at 1,352 (1998: 1,332).

Neurologische Klinik Kipfenberg also showed an increase in the number of treatments. Its acute care unit recorded 602 (1998: 567) patients and its rehabilitation unit 222 (1998: 194) patients. We welcomed the approval by the Bavarian Ministry for Social Affairs of Klinik Kipfenberg's application for an increase in the number of intensive care beds from 16 to 20 effective 1 July 1999. This enabled us to significantly enhance the quality of our services. The average capacity utilisation was in excess of 93 %. Besides being committed to its comprehensive training programmes, which it offers to own employees as well as to external participants, Klinik Kipfenberg cooperates closely with the chair of educational sociology at the Catholic University in Eichstätt. This cooperation centres on genuine clinic-related research which will benefit rehabilitative therapy.

Developments in Hesse

In Hesse, the Group operates **Deutsche Klinik für Diagnostik (DKD)** in Wiesbaden, which presently counts 152 beds (including day care). With its more than 70 highly qualified physicians of

various medical disciplines, the clinic's main focus is on diagnosing problematic cases showing unclear symptoms. DKD integrates a day clinic and a centre for bone marrow transplantations (KMT). In the year under review, the number of in-patients and day clinic patients increased to



14,630 (1998: 13,404) while out-patient treatments were nearly unchanged at 20,191, maintaining the high previous year level (1998: 20,230). The centre for bone marrow transplantations operated at a higher rate of capacity (80.7 % versus 74.8 % in 1998).

DKD has, beyond its own operations, successfully extended cooperation with independent practitioners: By the end of 1999, five partners were won for cooperation in the fields of cardiology, gastroenterology and haematology/oncology.

The structural modifications started in April 1999 will enable significant improvements in DKD's services in the interest of its patients. Completion of the new five-storey extension at a cost of € 9.0 million is scheduled for November 2000. Following completion of this project, the existing DKD building will be renovated at an estimated cost of € 8.0 million.



Developments in Lower Saxony

In their first full business year as members of RHÖN-KLINIKUM Group, **Kliniken Herzberg und Osterode** were able to further enhance their attractiveness for patients. The number of in-patients treated increased slightly to 10,860 (1998: 10,316); out-patient treatments rose to 12,677 (1998: 10,835). Aiming at optimised patient care, the existing structures of both facilities with a combined capacity of 290 beds were thoroughly analysed and defined work processes were improved. In line with the flow principle applied by RHÖN-KLINIKUM AG, an interdisciplinary Intermediate Care unit was commissioned in January. Its expected positive effect soon became visible in the form of a more patient-oriented work flow. Thanks to the hospitals' close cooperation with Zentralklinik Bad Berka GmbH in the area of teleradiology enabling

the electronic exchange of CT scanings, patients in Herzberg have access to Zentralklinik Bad Berka's high-quality special diagnostics without having to be referred to Bad Berka.

With effect from 1 August 1999, we took over Kreiskrankenhaus Uelzen and Hamburgisches Krankenhaus Bevensen, two general and standard care hospitals with 296 beds and 193 beds, respectively. During the second half of 1999, both hospitals were very busy with planning and implementing an array of measures aimed at improvements in patient care and, at the same time, in profitability. It was thus possible to establish an interdisciplinary Intermediate Care unit in Uelzen even before the end of the year. Since the takeover, the two facilities operated by **Kliniken Uelzen und Bad Bevensen GmbH** treated a total of 5,621 in-patients and 6,297 out-patients.

Developments in North Rhine-Westphalia

Krankenhaus St. Barbara Attendorn was taken over with effect from 1 May. This general and standard care hospital is the Group's first investment in North Rhine-Westphalia. The 309-bed hospital covers six medical disciplines. Its geriatric day clinic with twelve beds, which is about to be established, has already been included in the Hospital Plan of North Rhine-Westphalia. Since its takeover, the hospital recorded 5,631 in-patients plus 4,907 out-patients; the number of operations performed was 2,534.

The hospital integrates a nursing school providing training capacities for 36 students. The training of qualified nursing staff remains a top priority within the Group. Nurses which were trained at company-owned nursing schools are already familiar with the concept and the structures of RHÖN-KLINIKUM AG when they take up service at one of our hospitals.

Developments in Saxony

Saxony is another focal area of the Group's activities. At present, we operate four hospitals in that federal state: Herzzentrum Leipzig – Universitätsklinik – (250 beds); Soteria Klinik, which treats addictive diseases (20 acute care beds plus 177 rehabilitation beds and an adaption facility having capacities for 20 patients); Park-Krankenhaus Leipzig-Südost; and Krankenhaus Freital.

In 1999, **Herzzentrum Leipzig** treated 15,034 (1998: 14,828) in-patients and 2,679 (1998: 2,434) out-patients. Its doctors performed 3,524 (1998: 3,715) heart operations and 9,176 (1998: 9,373) cardiac catheterisations as well as 2,169 (1998: 2,232) PTCA's (percutaneous transluminal coronary angioplasties) and 23 heart transplantations, meaning that the Centre continued to work close to capacity throughout the year.

Evidence of the Centre's great openness to innovation is its leading role in the development, and the application, of new operating techniques.

Thus, the number of minimally invasive operations increased substantially, notching up to 753 (1998: 390). Similarly, the frequency of operations on the beating heart was significantly higher (436 versus 287 in 1998).

Furthermore, we created additional room for robot-assisted surgery. In January 1999, the Centre inaugurated its new special unit comprising two operating theatres designed for robot-assisted operations, exclusively. In 1999, a total of 84 robot-assisted operations were performed.

With **Park-Krankenhaus Leipzig-Südost**, which was acquired effective 1 January 1999, the Group incorporates one more acute care facility. The hospital offers services in six medical disciplines and has a total of 541 beds. It also operates a 35-bed day clinic as well as a standard and special care somatic clinic and a special psychiatric clinic. When taking over the hospital from the City of Leipzig, we agreed to re-build its clinics on the premises of our Medical Scientific Centre in Leipzig. New construction of a somatic clinic has started in December 1999; the special psychiatric clinic project is scheduled to follow mid-2000. In the year under review, the hospital treated 10,838 in-patients and 12,452 out-patients.

Also effective 1 January 1999, we took over **Krankenhaus Freital** near Dresden, a 301-bed standard care hospital covering five medical disciplines. In 1999, the hospital recorded 9,749 in-patients and 6,742 out-patients. Without recourse to public funds, we plan to invest about € 12 million in the new construction of central servicing areas of the hospital within the next two years.

Soteria Klinik Leipzig offers treatment for adult alcohol and drug addicts as well as patients suffering from multiple addiction. The clinic provides 20 beds for internal medicine (detoxication) and 177 rehabilitation beds. It also runs a 20-bed adaption facility offering patients the opportunity of gaining outdoor working experience. In addition, there are ten apartments



available for post-therapy “managed living”. In 1999, we were able to improve the average occupancy rates across these four areas. While the acute care and “managed living” segments worked close to or to capacity (92.2 % and 100 %, respectively), occupancy rates of the rehabilitation and adaption facilities (77.9 % and 79.7 %, respectively) fluctuated considerably during the year.

Developments in Thuringia

In Thuringia, we run hospitals at three different locations with a combined capacity of 1,432 acute care beds.

The Group’s prime performer in Thuringia continues to be **Zentralklinik Bad Berka**, a special clinic with 657 beds. In 1999, the clinic treated 18,816 in-patients, i.e. slightly less than in the previous year (18,987), whereas the number of out-patient treatments increased marginally to 10,582 (1998: 10,369). Capacity utilisation was 96 %, which is again a substantial improvement compared to the previous year.

Just like the whole-body positron-emission tomograph (PET) implemented last year, the commissioning of an electron-beam tomograph (EBT) in the year under review was an important enhancement of the clinic’s services for patients. The EBT enables non-invasive imaging of the coronary arteries at a lower risk for patients compared with conventional cardiac catheterisation. Another advance in Bad Berka was the inauguration of the newly constructed east wing, which now houses the centre for sleep research as well as the Hyperbaric Oxygenation therapy unit and the nuclear medicine ward.

With an occupancy rate above 98 %, **Klinikum Meiningen**, an acute care hospital for standard and special treatment, was once more able to top its previous record (1998: just under 97 %). Utilisation of the hospital’s bed capacity, which had been increased to 545 beds under the Hospital Plan in 1998, was again far above average; at the same time, the average duration of stays in hospital was reduced to 9.4 days (1998: 9.7 days). The number of in-patients treated in

1999 rose to 20,565 (1998: 19,757) while the number of out-patient treatments decreased slightly to 20,665 (1998: 21,223). By building up its left-ventricle cardiac catheterisation capacities, Klinikum Meiningen helped to improve the regional supply situation. 1999 saw also another increase in the number of operations (10,325 versus 9,562 in 1998).

A highly focussed supplier of patient-oriented hospital services, Klinikum Meiningen is also a great contributor to scientific projects. In the field of gastroenterologic endoscopy, the hospital has set new nation-wide quality standards for training and medical documentation by implementing and advancing a sophisticated electronic data processing system. Following replacement of a magnetic resonance tomograph (MRT), the hospital is now able to perform magnetic resonance cholangiopancreatography (MRCP). This technique saves the patient the risks and the stress of an invasive intervention.

At Krankenhaus **Waltershausen-Friedrichroda**, a 230-bed standard care hospital, performance improved, inter alia, thanks to the commissioning of the hospital's new wing, which now houses wards for internal medicine. The number of both in-patient treatments (8,735 versus 8,170 in 1998) and out-patient treatments (6,110 versus



6,001 in 1998) increased, as did the number of operations performed (3,264 versus 3,201 in 1998). Important improvements in the quality of services for patients are the hospital's new Intensive Care unit, which has been assigned four beds under the Hospital Plan of Thuringia, and its teleradiological link with Zentralklinik Bad Berka's Institute for Imaging Diagnostics. The new building project, which entered its second phase in the first half of 1999, will further increase the attractiveness of Krankenhaus Waltershausen-Friedrichroda.

RHÖN-KLINIKUM Consolidated Balance Sheet as at 31 December 1999

ASSETS

	Notes	31 December 1999 €	31 December 1998 € thousand
Fixed assets			
Intangible assets	3.01		
Concessions, industrial and similar rights and assets as well as licences		5,584,860	1,870
Tangible assets	3.01		
Land, land rights and buildings, including buildings on third-party land		507,044,119	447,388
Technical plant and machinery		20,952,252	15,380
Other plant and equipment		75,088,788	59,751
Payments on account and construction in progress		12,666,987	11,175
		615,752,146	533,694
Financial assets	3.01		
Shares in affiliated companies		1,715,809	1,972
Other loans		210,397	182
		1,926,206	2,154
		623,263,212	537,718
Current assets			
Inventories			
Materials		11,081,953	7,755
Services in progress		2,985,298	3,394
Merchandise		26,834	22
Payments on account		11,862	0
		14,105,947	11,171
Accounts receivable and other assets	3.02	95,906,538	76,334
Securities			
Own shares		88,480	90
Cash and cash equivalents		84,213,749	90,720
		194,314,714	178,315
Prepayments		406,426	270
		817,984,352	716,303
Trust fund	3.10	772,304	727

EQUITY AND LIABILITIES

		31 December 1999	31 December 1998
	Notes	€	€ thousand
Equity			
Subscribed capital	3.03	25,920,000	22,088
Capital reserve	3.04	37,582,452	41,415
Retained earnings	3.05		
Legal reserve		130,962	131
Reserve for own shares		88,480	90
Other retained earnings		93,804,924	65,716
Net consolidated profit		12,454,271	10,797
Outside shareholders' interests	3.06	10,523,270	7,041
		180,504,359	147,278
Special reserves with equity portion	3.07	96,951,281	95,614
Special items from grants for the funding of fixed assets	3.07	124,440,033	73,137
Provisions			
	3.08		
Provisions for pensions		5,061,790	4,936
Tax provisions		12,767,378	17,419
Other provisions		68,591,245	60,760
		86,420,413	83,115
Liabilities	3.09	328,842,802	316,633
Deferred income		825,464	526
		817,984,352	716,303
Trust fund liabilities		772,304	727

RHÖN-KLINIKUM Consolidated Income Statement for the year ended 31 December 1999

		1999		1998	
	Notes	€	€	€ thousand	€ thousand
Revenues	4.01	615,835,577		492,334	
Decrease (1998: increase) in services in progress		-408,286	615,427,291	28	492,362
Other operating income	4.02		39,125,285		45,400
			654,552,576		537,762
Material costs					
a) materials and merchandise		110,450,638		96,763	
b) services		41,589,218	152,039,856	29,976	126,739
Personnel expenses					
a) wages and salaries		250,262,232		182,597	
b) social security contributions and pensions, of which pensions € 3,194,392.53 (1998: € 1,281 thousand)		46,532,607	296,794,839	32,496	215,093
Depreciation on intangible and tangible assets	4.03	51,873,359		44,988	
Other operating expenses	4.04	60,929,698	112,803,057	73,071	118,059
			92,914,824		77,871
Income from investments, of which from affiliated companies € 63,327 (1998: € 82 thousand)		63,327		82	
Interest income from loans		146		4	
Other interest and similar income		2,287,942		3,173	
Write-downs on investments		766,938		1,038	
Interest and similar expenses		17,092,319	- 15,507,842	15,562	- 13,341
Headline earnings			77,406,982		64,530
Taxes on income and earnings		30,002,860		25,837	
Other taxes		532,434	30,535,294	708	26,545
Net profit for the year			46,871,688		37,985
Profit attributable to outside shareholders			5,143,804		3,228
Profit brought forward			2,526		3
Withdrawals from the reserve for own shares			1,745		0
Allocation to retained earnings					
reserve for own shares		0		71	0
other retained earnings		29,277,884	29,277,884	23,892	23,963
Consolidated distributable profit			12,454,271		10,791

RHÖN-KLINIKUM Consolidated Cash Flow Statement for the year ended 31 December 1999

	1999		1998	Change
	€ million	€ million	€ million	€ million
Net profit		46.9	38.0	8.9
Depreciation on fixed assets		52.2	46.0	6.2
Increase in special reserves with equity portion		1.3	7.9	-6.6
Increase/decrease in long-term provisions		1.8	-6.5	8.3
Other non-cash income/expense		-12.9	-5.8	-7.1
Subtotal cash flow		89.3	79.6	9.7
Increase/decrease in short-term provisions (excluding changes in reserves for investing activities)	2.5			
of which due to changes to the scope of consolidation	-9.7	-7.2	0.1	-7.3
Profit/loss on disposal of fixed assets		0.7	-0.3	1.0
Increase/decrease in inventories, receivables and other assets	-22.6			
of which due to changes to the scope of consolidation	29.6	7.0	-1.2	8.2
Increase/decrease in current liabilities and other liabilities	12.5			
of which due to changes to the scope of consolidation	-17.8	-5.3	24.6	-29.9
Cash generated from operating activities		84.5	102.8	-18.3
Cash inflows on disposal of fixed assets		1.2	8.8	-7.6
Investments in fixed assets	-140.6			
of which due to changes to the scope of consolidation	84.0	-56.6	-113.9	57.3
Changes in the scope of consolidation (cost of shares less cash acquired)		-37.6	-16.4	-21.2
Cash utilised in investing activities		-93.0	-121.5	28.5
Payments to shareholders and other corporate members		-8.9	-9.7	0.8
Increase in KHG funds utilised in investing	64.2			
of which due to changes to the scope of consolidation	-51.9	12.3	43.6	-31.3
Balance of changes in medium and long-term liabilities (redemption)	0.0			
of which due to changes to the scope of consolidation	-1.4	-1.4	-16.0	14.6
Cash derived from financing activities		2.0	17.9	-15.9
Movement in cash		-6.5	-0.8	-5.7
Cash at the beginning of the year		90.7	91.5	-0.8
Cash at the end of the year		84.2	90.7	-6.5

The consolidated financial statements for the year ended 31 December 1999 have been prepared in accordance with the provisions of the German Commercial Code and the Companies Act. The classification and valuation rules laid down in Sections 252 seqq. and 308 seq. of the German Commercial Code have been observed. With effect from 1 January 1999, RHÖN-KLINIKUM AG and its consolidated subsidiaries, with the exception of two subsidiaries, have changed their accounts to euro.

1. SCOPE OF CONSOLIDATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of all principal subsidiaries. In addition to RHÖN-KLINIKUM AG, 29 companies (1998: 32) have been consolidated. These companies are under RHÖN-KLINIKUM AG's central management and are long-term investments in which RHÖN-KLINIKUM AG directly holds the majority of voting rights. Subsidiaries with minor business volumes, which are not likely to become key activities within the Group in the foreseeable future, are not consolidated due to their minor importance for the presentation of the Group's financial position; their revenues account for less than 1 % of consolidated revenues. One company with activities dissimilar from those of the Group was not consolidated in accordance with Section 295 (1) of the German Commercial Code. Another company was omitted from consolidation under Section 296 (1) of the German Commercial Code because of asset-related restrictions.

Affiliated companies are listed under item 7 stating their equity and net profits.

Capital consolidation is based on the book value method; the acquisition cost of participations is eliminated against the proportionate share of equity acquired at the time of acquisition or first consolidation. Any resulting goodwill is offset against retained earnings.

The following subsidiaries have been consolidated for the first time due to their new establishment or acquisition:

	Interest in %
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0
RK Klinik Besitz GmbH Nr. 5, Bad Neustadt/Saale	100.0
RK Klinik Betriebs GmbH Nr. 5, Bad Neustadt/Saale	100.0

In addition, Kreiskrankenhaus Freital, Park-Krankenhaus Leipzig-Südost and the district hospitals of Uelzen and Bad Bevensen were acquired through subsidiaries. The change to the scope of consolidation and the acquisition of further hospitals had a substantive effect on the following items of the consolidated balance sheet as at 31 December 1999:

	€ million
Fixed assets	84.0
Accounts receivable and other assets	26.5
Sundry assets	9.9
Special items from grants for the funding of tangible assets	51.9
Provisions	9.7
Liabilities under the hospital financing law	7.0
Other liabilities and deferred income	12.2

The effects on the earnings situation are as follows:

	€ million
Revenues and other operating income	94.8
Material costs	21.9
Personnel expenses	64.5
Scheduled depreciation under trade law	2.8
Other expenses	8.8
Financial result	-0.4
Result for the year	-3.6

Capital consolidation is effected as full consolidation, exclusively.

Minority interests in the equity of consolidated companies are accounted for under “Outside shareholders’ interests” included in the equity capital.

Intergroup turnover, expenditure and income as well as receivables and liabilities resulting from transactions between consolidated companies are eliminated in full. Interim results are eliminated in so far as intergroup deliveries or services are rendered on other than customary market conditions and determining the amounts does not involve a disproportionately high effort.

Deferred taxes are recorded for consolidation entries affecting results in so far as differences in tax expenditure will probably balance out in subsequent financial years.

The consolidated distributable profit is shown in accordance with the net distributable profit of RHÖN-KLINIKUM AG. This is due to the results of subsidiaries being included in retained earnings and all consolidation entries affecting the income statement being offset against retained earnings.

2. GENERAL INFORMATION ON ACCOUNTING AND VALUATION METHODS

Preliminary remarks

The financial statements of RHÖN-KLINIKUM AG and its subsidiaries have been prepared in accordance with uniform accounting and valuation methods which are consistent with those applied in previous years. Consequently, there was no need for adjustment of previous year amounts. The Group’s activities are exclusively domestic; no currency translation is therefore necessary.

Fixed assets

Intangible assets acquired for consideration are shown at cost and reduced by scheduled straight-line depreciation where there are impairments in value.

Tangible assets are valued at acquisition or production cost less scheduled straight-line depreciation over their customary useful lives. Where appropriate, special write-downs are made. Special depreciation made in earlier years under Section 7f of the Income Tax Act (EStG), Section 3 of the Zonal Area Development Act (ZonenRFG) and Section 4 of the Development Areas Act (FördergebietsG) is included in a special reserve with equity portion on the liabilities side.

All simplification procedures permitted under the tax law were applied with depreciation.

Buildings are depreciated over a useful life of 17 to 40 years. Movable tangible assets are depreciated over a maximum period of 10 years. Low-value assets are written off in full in the year of acquisition and are shown as disposals in that year.

Interests in non-consolidated affiliated companies are shown at acquisition cost or proportionate net assets using the book value method or the appropriate lower value. Other loans are stated at acquisition cost or the appropriate lower value.

Current assets

Inventories are valued at acquisition or production cost. Adequate provisions have been made for inventory risks.

Receivables and other assets are stated at nominal values. All identifiable individual risks are accounted for by value adjustments. The general credit risk is covered by an adequate flat-rate discount.

Securities are valued at acquisition cost or market value, whichever is lower. Cash and cash equivalents are shown at nominal value.

Special items

Special tax write-downs are reported as special reserves with equity portion. Grants under the Hospital Financing Act (KHG) and investment allowances are shown as special items from funding grants for tangible assets and are released in line with depreciation and disposals.

Provisions

Allocations to provisions make adequate allowance for all identifiable risks and contingent liabilities. Provisions for pensions and severance payments are shown at their actuarial value based on the 1998 reference tables (Dr. Heubeck) using an interest rate of 6 % p.a.

	Cost of acquisition or production					31 Dec. 1999
	1 Jan. 1999	Change to the scope of consolidation	Additions	Disposals	Transfers	
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
Concessions, industrial and similar rights and assets as well as licenses for such rights and assets	3,408	3,834	1,333	390	35	8,220
II. Tangible assets						
1. Land, land rights and buildings, including buildings on third-party land	529,521	58,153	17,564	1,048	5,657	609,847
2. Technical plant and machinery	24,310	7,140	1,131	67	1,709	34,223
3. Other plant and equipment	151,280	14,753	26,688	7,964	-298	184,459
4. Payments on account and construction in progress	14,604	24	8,953	3,143	-7,103	13,335
	719,715	80,070	54,336	12,222	-35	841,864
III. Financial assets						
1. Shares in affiliated companies	3,980	51	0	0	0	4,031
2. Other loans	328	26	2	0	0	356
	4,308	77	2	0	0	4,387
	727,431	83,981	55,671	12,612	0	854,471

Liabilities

Debts and other financial liabilities are shown at their repayment value. Pension commitments are stated at their cash value using an interest rate of 6% p.a.

3. NOTES TO THE CONSOLIDATED BALANCE SHEET

3.01 DEVELOPMENT OF FIXED ASSETS

1 Jan. 1999	Additions	Depreciation		Transfers	31 Dec. 1999	Residual book value	
		Write-ups	Disposals			31 Dec. 1999	31 Dec. 1998
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1,538	1,474	0	377	0	2,635	5,585	1,870
82,133	20,788	0	118	0	102,803	507,044	447,388
8,930	3,599	0	0	742	13,271	20,952	15,380
91,529	25,638	0	7,055	-742	109,370	75,089	59,751
3,429	374	0	3,135	0	668	12,667	11,175
186,021	50,399	0	10,308	0	226,112	615,752	533,694
2,008	767	460	0	0	2,315	1,716	1,972
146	0	0	0	0	146	210	182
2,154	767	460	0	0	2,461	1,926	2,154
189,713	52,640	460	10,685	0	231,208	623,263	537,718

3.02 RECEIVABLES AND OTHER ASSETS

These items include:

	Receivables having a residual term of		Total	Previous year
	up to 1 year	up to 1 year		
	€ thousand	€ thousand	€ thousand	€ thousand
Trade receivables	84,283	86	84,369	65,172
Receivables under the hospital funding legislation	1,701	0	1,701	327
Due from affiliated companies	588	0	588	627
Other assets	6,453	2,796	9,249	10,208
	93,025	2,882	95,907	76,334

Other assets include € 2.7 million (1998: € 2.7 million) which legally accrue after the balance sheet date.

3.03 SUBSCRIBED CAPITAL

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

31 December 1999	Number of shares	Share in nominal capital €
Ordinary shares	17,280,000	17,280,000.00
Non-voting preference shares	8,640,000	8,640,000.00
	25,920,000	25,920,000.00

At the Annual General Meeting of 15 July 1999, shareholders approved the proposed increase in nominal capital from corporate funds by € 3,832,190.73 to € 25,920,000.00. At the same time, the denomination of the company's shares was changed from € 3.00 to € 1.00 per share by means of a split in the proportion of 1:3.

3.04 CAPITAL RESERVE

Due to the above capital increase from corporate funds, the capital reserve decreased by € 3,832,190.73 to € 37,582,451.65.

3.05 RETAINED EARNINGS

The development of retained earnings was as follows:

	Legal reserve	Reserve for own shares	Other retained earnings
	€ thousand	€ thousand	€ thousand
1 January 1999	131	90	65,716
Transfers from net consolidated income for 1998	0	0	3,582
Transfer from net consolidated income for 1999	0	0	29,278
Withdrawals for 1999	0	2	0
Offset against goodwill	0	0	4,771
31 December 1999	131	88	93,805

Following a resolution adopted by shareholders at the General Meeting of RHÖN-KLINIKUM AG on 15 July 1999, € 3,582 thousand of the 1998 net distributable profit have been transferred to other retained earnings.

The 1999 net distributable profit includes profit brought forward from the previous year amounting to € 3 thousand.

3.06 OUTSIDE SHAREHOLDERS' INTERESTS

Outside shareholders' interests relate to participations in the equity capital of consolidated subsidiaries. Outside shareholders' interests in the Group's profit after tax amounted to € 5.1 million. Interests in profit relate unchanged to the following participations:

Outside shareholders' interests in subsidiaries	%
Altmühltalklinik-Leasing GmbH, Kipfenberg	49.0
Zentralklinik Bad Berka GmbH, Bad Berka	25.0

3.07 SPECIAL ITEMS

Group special reserves with equity portion relate to special depreciation amounting to € 97.0 million under Section 7f of the Income Tax Act (EStG), Section 3(2) of the Zonal Areas Development Act (ZonenRFG) and Section 4 of the Development Areas Act (FördergebietsG). These reserves will be released after expiry of the corresponding tax concession periods in line with the residual useful lives of the assets.

Group special items from grants for the financing of tangible assets include grants under the Hospital Financing Act (€ 121.9 million), investment allowances under the Investment Promotions Act (InvZulG), and other public grants (€ 2.5 million). These items will be released in line with the residual lives of the assets for which those funds were received.

3.08 PROVISIONS

Provisions for pensions fully cover the Group's pension commitments.

Tax provisions are adequate to meet the tax liabilities resulting from earlier financial years and the current year. They include deferred taxes of € 3.8 million (1998: € 2.8 million).

Other provisions relate to the following:

	31 Dec. 1999	31 Dec. 1998
	€ million	€ million
Personnel obligations	34.8	27.5
Reductions in proceeds	2.9	2.1
Restructuring expenditure	0.0	7.6
Maintenance	17.0	8.8
Outstanding invoices	6.8	9.0
Other	7.1	5.7
	68.6	60.7

Other provisions adequately cover all identifiable risks.

3.09 LIABILITIES AS AT 31 DECEMBER 1999

	Liabilities having a residual term of			31 Dec. 1999	Collateralised	Type of collateral	31 Dec. 1998
	less than 1 year	1 to 5 years	more than 5 years				
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand		€ thousand
Liabilities to banks	38,292	54,816	161,223	254,331	226,357	mortgages, assignments of receivables and of claims	267,096
Advance payments received on orders	2,382	0	0	2,382	0		340
Trade payables	17,406	353	0	17,759	0		17,374
Liabilities under the hospital financing law	15,953	0	0	15,953	0		13,930
Liabilities to affiliated companies	15	0	0	15	0		18
Other liabilities	38,229	31	143	38,403	1,276	mortgages	17,875
thereof relating to:							
taxes	(14,022)	(0)	(0)	(14,022)			(4,512)
social security commitments	(4,908)	(0)	(0)	(4,908)			(4,533)
	112,277	55,200	161,366	328,843	227,633		316,633

Other liabilities include deferred items related to special loan facilities under the Hospital Financing Act (KHG) in the amount of € 0.1 million (1998: € 0.0 million). Derivative financial instruments are not being used by the Group.

3.10 TRUST FUND

The trust fund assets consist of a securities portfolio under fiduciary management equivalent to trust fund liabilities.

4. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

4.01 BREAKDOWN OF REVENUES

	1999	1998
	€ million	€ million
By activities:		
Acute care	584.4	459.1
Rehabilitation	29.8	31.4
Other	1.6	1.8
	615.8	492.3
By federal states:		
Baden-Württemberg	29.3	27.8
Bavaria	158.7	159.2
Hesse	47.5	44.6
Lower Saxony	46.4	13.9
North Rhine-Westphalia	14.8	0.0
Saxony	149.0	91.2
Thuringia	170.1	155.6
	615.8	492.3

The cash flow broken down by federal states has developed as follows:

	1999	1998
	€ million	€ million
Baden-Württemberg	4.9	4.6
Bavaria	26.2	16.5
Hesse	6.8	6.4
Lower Saxony	2.2	0.8
North Rhine-Westphalia	-0.9	0.0
Saxony	15.4	16.1
Thuringia	34.7	35.2
	89.3	79.6

4.02 OTHER OPERATING INCOME

Other operating income includes income from the release of provisions in the amount of € 4.2 million (1998: € 13.6 million) and of special items from investment allowances in the amount of € 12.9 million (1998: € 5.8 million) as well as of special reserves with equity portion in the amount of € 3.8 million (1998: € 8.2 million). Also included are rental and lease income, incidental revenues and insurance refunds.

4.03 DEPRECIATION UNDER TAX REGULATIONS

Of the special reserves with equity portion built up in previous years under Section 7f of the Income Tax Act (EStG), Section 3 of the Zonal Area Development Act (Zonen RFG) and Section 4 of the Development Areas Act (FördergebietsG), an aggregate amount of € 3.8 million had to be released. € 5.1 million were allocated to special reserves with equity portion under Section 4 of the Development Areas Act. The effect of allocation to and maintaining of special reserves with equity portion is a decline in the overall tax expenditure as the law allows for special tax write-downs. Otherwise, the taxable net income for the year would have been approximately 1 % (1998: 14 %) higher. These special reserves are subject to scheduled release over the longer term, which will then lead to a higher net income and correspondingly higher income tax liability.

4.04 OTHER OPERATING EXPENSES

Other operating expenses include allocations of € 5.1 million (1998: € 10.0 million) to special reserves with equity portion under Section 4 of the Development Areas Act (FördergebietsG).

4.05 INCOME AND EXPENSES RELATING TO OTHER PERIODS

Income of € 6.5 million and expenses of € 1.9 million relate to another financial year. Income from other periods includes income from the release of provisions, write-ups, payments received on claims written off, book gains from disposals of fixed assets as well as tax repayments relating to previous years. Expenses relating to other accounting periods were losses from disposals of fixed assets as well as tax payments for previous years.

4.06 UNSCHEDULED DEPRECIATION

Unscheduled depreciation under Section 253 (2), sentence 3 of the German Commercial Code relates to depreciation of tangible assets in the amount of € 0.4 million and depreciation of financial assets in the amount of € 0.8 million. Due to revalorisation under section 280 (1) of the German Commercial Code, special write-downs made in previous years in the amount of € 0.5 million had to be refunded.

5. SEGMENTAL INFORMATION

Section 297 (1) of the German Commercial Code requires the legal representatives of a listed mother company to include segmental information in the notes to the consolidated financial results. In accordance with the German Accounting Standard No. 3 (DSR 3), which has not yet been released by the Federal Ministry of Justice, segmentation must be based on a company's operative divisions in so far as these show specific business opportunities and risks and a defined minimum size. RHÖN-KLINIKUM Group operates in the German market exclusively. Its business risks and opportunities in the various federal states are basically the same. With the rehabilitation business being of secondary importance, the Group has therefore besides its acute care business no other business divisions requiring segmental information as defined by the law.

6. CASH FLOW STATEMENT

The cash flow statement appears on page 45 of this report.

7. SHAREHOLDINGS

7.01 CONSOLIDATED AFFILIATED COMPANIES

	Share in capital	Equity	Net profit for the year
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing GmbH, Kipfenberg	51.0	1,808	170
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	15,007	-232
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	10,050	-174
GTB Grundstücksgesellschaft mbH, Bad Neustadt/Saale	100.0	25,359	-5,399
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	221	20
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,733	204
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	6,303	770*
Herzberger Klinik Leasing GmbH, Herzberg	100.0	7,828	155
Herzkllinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,860	-30
Herzzentrum Leipzig GmbH, Leipzig	100.0	16,720	10,422
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	5,809	-5,234
Klinik "Haus Franken" GmbH, Bad Neustadt/Saale	100.0	990	194
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	48	-3
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	6,265	3,657
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	4,871	1,651
Kliniken Herzberg und Osterode GmbH, Herzberg	100.0	7,080	1,349
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	1,584	0
Klinikum Meiningen GmbH, Meiningen	100.0	10,765	5,598
Krankenhaus Freital GmbH, Freital	100.0	14,600	-399
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	4,270	1,466
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,222	898
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	5,673	-1,999
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	9	7
RK Klinik Besitz GmbH Nr. 5, Bad Neustadt/Saale	100.0	48	-2
RK Klinik Betriebs GmbH Nr. 5, Bad Neustadt/Saale	100.0	48	-2
Soteria Klinik Leipzig GmbH, Leipzig	100.0	1,671	341
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	7,222	-1,066
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	8,670	3,325
Zentralklinik Bad Berka GmbH, Bad Berka	75.0	38,693	20,241

* after profit transfer

7.02 NON-CONSOLIDATED AFFILIATED COMPANIES

	Share in capital	Equity	Net profit for the year
	%	€ thousand	€ thousand
Alten- und Pflegeheim Bad Bevensen GmbH, Uelzen	100.0	54	4
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH, Leipzig	100.0	344	12
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt/Saale	100.0	222	41
Klinik für Wirbelsäulen- rehabilitation GmbH, Bad Berka	75.0	17	0
KS Krankenhaussysteme Gesellschaft für Unternehmensberatung mbH, Bad Neustadt/Saale	51.0	65	0
Kurverwaltung Bad Neustadt GmbH, Bad Neustadt/Saale	60.0	82	31
RK Bauträger GmbH, Bad Neustadt/Saale	100.0	1.031	-756*
Wolfgang Schaffer GmbH, Bad Neustadt/Saale	100.0	460	8

* Figures according to 1998 financial statements

8. OTHER INFORMATION

8.01 OTHER FINANCIAL COMMITMENTS

There are commitments to third parties under lease agreements which represent a cash value of € 0.1 million. The cash value of commitments from service agreements totals € 12.8 million.

Commitments under rental and lease agreements amount to € 2.1 million per year. The Group has to pay to third parties an annual ground rent in the amount of € 0.1 million.

Liabilities from tax adjustments under Section 15a of the Value-Added Tax Code totalling € 7.0 million are expected for the period up to 2005.

As at balance sheet date, financial liabilities from investment projects totalled € 5.8 million.

Capital spending commitments under acquisition agreements amount to € 138.5 million.

The Group has indirect pension liabilities under public social insurance schemes amounting to approximately € 7.0 million on an annualised basis.

8.02 AVERAGE ANNUAL NUMBER OF EMPLOYEES

(Averages based on end-of-quarter statistics)

	1999	1998	Change	
	Number	Number	Number	%
Medical services	1,082	795	287	36.1
Nursing services	3,709	2,570	1,139	44.3
Medicotechnical services	1,275	984	291	29.6
Support functions	650	407	243	59.7
Supply and misc. services	482	280	202	72.1
Technical services	156	96	60	62.5
Administration	666	509	157	30.8
Other personnel	38	14	24	171.4
	8,058	5,655	2,403	42.5

8.03 REMUNERATION OF SUPERVISORY BOARD, BOARD OF MANAGEMENT AND ADVISORY BOARD

In 1999, total remuneration of the members of the Supervisory Board amounted to € 0.4 million. Remuneration of the members of the Board of Management totalled € 4.0 million, and the Advisory Board received a total of € 0.02 million.

No loans were granted.

8.04 CORPORATE BODIES

Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg,
Munich,

Chairman, attorney at law

Also a member of the Supervisory Boards of Nordsaat Holding GmbH, Böhnshausen, and Nordsaat Saatzuchtgesellschaft, Böhnshausen

Ursula Pflieger, Bad Neustadt/Saale

Deputy Chairwoman, Managing Senior Nurse

Ursula Derwein, Stuttgart,

Member of the Chief Executive Board of the labour union "Public Services, Transport and Traffic"

Also a member of the Supervisory Board of Signal Iduna AG, Hamburg

Karl-Heinz Geis, Bad Neustadt/Saale

Sports therapist

Karl-Theodor Reichsfreiherr von
und zu Guttenberg, Munich,

Lawyer

Johannes Freiherr Heereman, Meerbusch,

Attorney at law (until 15 July 1999)

Kurt Katzenberger, Burglauer,

Technician

Detlef Klimpe, Aachen,

Director of Administration

Wolfgang Mündel, Kehl,

Auditor and tax consultant

Timothy C. Plaut, Frankfurt am Main,

Investment banker (since 16 July 1999)

Christine Reißner, Sülzfeld

Director of Administration

Claudia Rühlemann, Erfurt

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

Dr. Richard Trautner, Munich

Deputy Chairman of the Supervisory Board of Bayerische HypoVereinsbank AG

Also a member of the Supervisory Boards of Aktien Brauerei-Kaufbeuren AG, Kaufbeuren; Allgäuer Brauhaus AG, Kempten; Kunert AG, Immenstadt; AVECO Holding AG, Frankfurt am Main; MEA Meisinger AG, Aichach; Weltbild Verlag GmbH, Augsburg; and Kraft Verkehr Bayern GmbH, Munich.

Bad Neustadt/Saale, 29 March 2000

The Board of Management

Dr. Elmar Keller

Joachim Manz

Gerald Meder

Eugen Münch

Manfred Wiehl

Board of Management

Eugen Münch, Bad Neustadt/Saale,

Chairman, Regional Division Bavaria

Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Dr. Elmar Keller, Leipzig

Regional Division Saxony

Joachim Manz, Weimar

Regional Divisions Thuringia, Lower Saxony and Saxony-Anhalt

Gerald Meder, Hammelburg

Regional Divisions Hesse, Baden-Württemberg, North Rhine-Westphalia; Synergy, Logistics, Quality and Development; Labour Relations

Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Manfred Wiehl, Bad Neustadt/Saale

Financing, Investments, Controlling

Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

8.05 ADVISORY BOARD

Wolf-Peter Hentschel, Bayreuth, *Chairman*

Prof. Dr. Gerhard Ehninger, Dresden

(since 1 January 1999)

Dr. Heinz Korte, Munich

(since 1 October 1999)

Prof. Dr. Dr. Karl Lauterbach, Cologne

Dr. Günther Neis, Hildesheim

(until 1 January 2000)

Prof. Dr. Michael-J. Polonius, Dortmund

(since 1 January 1999)

Helmut Reubelt, Dortmund

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Auditors' Certificate

We have audited the Group annual financial statements for the year ended 31 December 1999 which have been prepared by RHÖN-KLINIKUM Aktiengesellschaft. The preparation of the Group annual financial statements in accordance with the German legal provisions and the relevant Articles of Association is the responsibility of the Board of Management of RHÖN-KLINIKUM Aktiengesellschaft. Our responsibility is to express an opinion on the Group financial statements based on our audit.

We have audited the Group financial statements in accordance with Section 317 of the German Commercial Code (HGB) and with generally accepted auditing standards issued by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and that they fairly present the Group's financial position and the results of its operations and cash flows for the year, in accordance with generally accepted accounting practice. We have planned the audit using our knowledge of the special features of the Group's operations and

its economic and legal environment and in consideration of possible misstatement. An audit includes examining the effectiveness of the internal control system and, mainly on a test basis, of evidence supporting the amounts and disclosures in the financial statements.

Furthermore it includes assessing the financial statements of consolidated companies, the determination of the scope of consolidation, the accounting policies and consolidation principles applied as well as significant estimates made by the management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

No defences have resulted from our audit.

In our opinion these Group financial statements fairly present, in all material respects, the financial position of the Group at 31 December 1999 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice. The Group Management Report presents a true and fair view of the Group's standing and of the potential risks related to future developments.

Frankfurt am Main, 14 April 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Lieberum)
Auditor

(Schmidt)
Auditor

RHÖN-KLINIKUM Aktiengesellschaft Annual Financial Statements for the year ended 31 December 1999

Balance Sheet

	31 Dec. 1999 €million	31 Dec. 1998 €million		31 Dec. 1999 €million	31 Dec. 1998 €million
ASSETS			EQUITY AND LIABILITIES		
Intangible assets	0.2	0.3	Subscribed capital	25.9	22.1
Tangible assets	31.1	31.0	Capital reserve	37.6	41.4
Financial assets	171.7	131.8	Retained earnings	72.0	56.0
Fixed assets	203.0	163.1	Net distributable profit	12.5	10.8
Inventories	2.0	1.9	Equity	148.0	130.3
Receivables and other assets	19.7	19.7	Tax provisions	0.8	0.8
Securities, cash and cash equivalents	0.3	0.1	Other provisions	18.5	19.0
Current assets	22.0	21.7	Provisions	19.3	19.8
			Liabilities	57.4	34.7
			Deferred income	0.3	0.0
	225.0	184.8		225.0	184.8

Income Statement

	31 Dec. 1999 €million	31 Dec. 1998 €million
Revenues	109.8	108.9
Changes in services in progress	-0.2	-0.1
Other operating income	5.9	7.1
Material costs	26.2	26.1
Personnel expenses	49.5	46.9
Depreciation	2.7	2.4
Other operating expenses	22.4	24.7
Income from operations	14.7	15.8
Income from investments	30.0	19.8
Financial result	-2.3	-0.3
Headline earnings	42.4	35.3
Taxes	17.5	13.0
Profit transferred	-	0.6
Net profit for the year	24.9	21.7
Allocation to retained earnings	12.4	10.9
Net distributable profit	12.5	10.8

The annual financial statements of RHÖN-KLINIKUM AG, which have been certified by PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, will be published in the Bundesanzeiger and will be 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 financial statements of RHÖN-KLINIKUM Aktiengesellschaft for the year ended 31 December 1999, which were prepared by the Board of Management and approved by the

Supervisory Board and are thus final, show a net distributable profit of € 12,454,270.77. The Board of Management proposes to the General Meeting that this profit be appropriated as follows:

	€
Distribution of a dividend of € 0.33 per ordinary share on a total number of 17,280,000 ordinary shares	5,702,400.00
Distribution of a dividend of € 0.35 per non-voting preference share on a total number of 8,640,000 preference shares	3,024,000.00
Allocation to other retained earnings	3,727,870.77
Net distributable profit	12,454,270.77

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

Bad Neustadt/Saale, 18 May 2000

RHÖN-KLINIKUM AKTIENGESELLSCHAFT

The Board of Management

Dr. Keller Manz Meder Münch Wiehl

Baden-Württemberg

Klinik für Herzchirurgie
Karlsruhe GmbH
Franz-Lust-Str. 30
D 76185 Karlsruhe
Phone: +49 (0)721-9738-0
Fax: +49 (0)721-9738-111

Bavaria

Klinik "Haus Franken" GmbH
Frankenlinik
Salzburger Leite 1
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-67-04
Fax: +49 (0)9771-67-3300

Herz- und Gefäß-Klinik GmbH
Salzburger Leite 1
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-66-0
Fax: +49 (0)9771-65-1221

Klinik für Handchirurgie der
Herz- und Gefäß-Klinik GmbH
Salzburger Leite 1
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-66-0
Fax: +49 (0)9771-65-1221

Neurologische Klinik GmbH
von-Guttenberg-Str. 10
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-908-0
Fax: +49 (0)9771-991464

Psychosomatische Klinik
Salzburger Leite 1
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-67-01
Fax: +49 (0)9771-65-9301

Haus Saaletal GmbH
Salzburgweg 7
D 97616 Bad Neustadt/Saale
Phone: +49 (0)9771-905-0
Fax: +49 (0)9771-905-4610

Klinik Kipfenberg GmbH
Neurochirurgische und
Neurologische Fachklinik
Kindinger Str. 13
D 85110 Kipfenberg
Phone: +49 (0)8465-175-0
Fax: +49 (0)8465-175-111

Hesse

Stiftung Deutsche Klinik für
Diagnostik GmbH
Aukammallee 33
D 65191 Wiesbaden
Phone: +49 (0)611-577-0
Fax: +49 (0)611-577-577

Lower Saxony

Kliniken Herzberg und
Osterode GmbH
Dr.-Frössel-Allee
D 37412 Herzberg am Harz
Phone: +49 (0)5521-866-0
Fax: +49 (0)5521-5500

Kliniken Uelzen und
Bad Bevensen GmbH
Waldstraße 2
D 29525 Uelzen
Phone: +49 (0)581-83-00
Fax: +49 (0)581-83-4567

North Rhine-Westphalia

Krankenhaus
St. Barbara Attendorn GmbH
Hohler Weg 9
D 57439 Attendorn
Phone: +49 (0)2722-60-0
Fax: +49 (0)2722-60430

Saxony

Krankenhaus Freital GmbH
Bürgerstr. 7
D 01705 Freital
Phone: +49 (0)351-646-60
Fax: +49 (0)351-646-7010

Herzzentrum Leipzig GmbH
– Universitätsklinik –
Russenstr. 19
D 04289 Leipzig
Phone: +49 (0)341-865-0
Fax: +49 (0)341-865-1405

Park-Krankenhaus Leipzig-
Südost GmbH
Chemnitzer Str. 50
D 04289 Leipzig
Phone: +49 (0)341-864-0
Fax: +49 (0)341-864-2666

Soteria Klinik Leipzig GmbH
Morawitzstr. 4
D 04289 Leipzig
Phone: +49 (0)341-870-0
Fax: +49 (0)341-870-3000

Thuringia

Zentralklinik Bad Berka GmbH
Robert-Koch-Allee 9
D 99437 Bad Berka
Phone: +49 (0)36458-50
Fax: +49 (0)36458-42180

Klinikum Meiningen GmbH
Bergstraße 3
D 98617 Meiningen
Phone: +49 (0)3693-90-0
Fax: +49 (0)3693-90-1234

Krankenhaus Waltershausen-
Friedrichroda GmbH
Tabarzer Str. 2
D 99894 Friedrichroda
Phone: +49 (0)3623-350-0
Fax: +49 (0)3623-350-179

RHÖN-KLINIKUM AG

Postal address:

D 97615 Bad Neustadt/Saale

Visitors' address:

Salzburger Leite 1

D 97616 Bad Neustadt/Saale

Phone: +49 (0)9771-65-0

Fax: +49 (0)9771-97467

Internet:

<http://www.rhoen-klinikum-ag.com>

e-mail:

rka@rhoen-klinikum-ag.com

This Annual Report is
available in German as well as in
both English and German
on CD-ROM
(financial years 1995 to 1999).

This Annual Report was printed on
paper bleached without chlorine.