RHÖN-KLINIKUM AG

ANNUAL REPORT

2001

Contents

The photographs of this Annual Report

“The moving of a hospital” is the theme of our photographic concept of this Annual Report. Martin Starl, a Frankfurt-based photographer, and his camera were ten days out and about to watch the relocation activities of our a hundred years old Park-Krankenhaus in Leipzig. The pictures on the following pages are a selection of his unique photo documentation.

In February 2002, Park-Krankenhaus commissioned its two new buildings: the Somatic Clinic moved from its old locations at Leipzig-Dösen, Chemnitzer Strasse 50, and the Dr. Georg Sacke Clinic, to its new location at Strümpellstrasse 41, next to Herzzentrum Leipzig –Universitätsklinik–. And the Psychiatric Clinics were relocated at Morawitzer Strasse 2, opposite to Soteria Clinic.

With the hospital in full operation, the first step was to move the various service areas, such as technical services, materials and supplies, administration, archives and the library; this was accomplished within one week. The removal goods comprised, among others, more than 6,000 cases. This figure alone explains the complex logistic problem that the relocation firms and their workforce had to solve via detailed planning and absolutely perfect organisation. The challenge was greatest on 23 February when the hospital’s 327 patients were taken to the new buildings.

The patients of all departments of the Somatic Clinic (Inner Medicine, Surgery, Orthopaedics) and of the Psychiatric Clinics (Adult Psychiatry, Child and Juvenile Psychiatry) were relocated with the help of numerous welfare organisations and the local disaster relief department. The hospital was greatly supported by the City of Leipzig who used the relocation to simulate an emergency alert, including an evacuation test. This required careful planning to the minute: along with three busses (two army busses and one municipal bus), there were 40 ambulances and 80 other vehicles at the disposal of the hospital. In total, 360 helpers (excluding the hospital’s own staff) were ready for service on this special mission (fire department, police, army, German Red Cross, Johanniter emergency relief, DLRG, THW).

On 23 February, the task force met at 7.15 a.m.; the evacuation started at 8.00 a.m. and went off smoothly through to its end towards 15.00 p.m.

There were three forms of patient transports: busses were used for most of the patients of the Psychiatric Clinic; individual transports, accompanied by medical or ambulance staff, were organised for the patients of the Somatic Clinic; finally, intensive-care patients and patients with infectious diseases were taken one by one, and lying, to their new domicile.

“We thank all those who have helped in this exceptional undertaking for their professionalism and drive and for their discretion and care for our patients”, said Andrea Aulkemeyer, who is a member of the Board of Management of RHÖN-KLINIKUM AG and responsible for the Group’s business in the Free State of Saxony, in a press release. “We could not have wished for a better organisation.”

RHÖN-KLINIKUM GROUP AT A GLANCE

	1997	1998	1999*	2000*	2001*
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Revenues	442,764	492,334	615,012	669,144	697,013
Cost of materials	113,713	126,740	152,040	161,577	172,487
Personnel costs	185,597	215,093	297,102	329,565	340,093
Depreciation on tangible assets	33,094	44,397	37,037	37,030	38,652
Net consolidated profit *	28,675	37,985	44,616	61,899	66,080
Operating cash flow	74,949	79,605	86,185	105,019	109,464
Number of employees (at 31 December)	5,242	6,459	9,145	9,357	9,432
Tangible assets	440,805	533,694	511,681	565,878	614,093
Financial assets	3,685	2,154	1,901	2,056	1,973
Equity	127,949	147,278	265,836	319,013	374,090
Return on equity, in %	16.9	18.7	18.5	21.2	19.1
Balance sheet total	624,146	716,815	734,532	771,735	836,628
Investments					
– in tangible assets	39,661	145,305	94,100	92,243	87,088
– in financial assets	2,148	0	79	84	19
Earnings per preference share (€) **	1.12	1.35	1.74	2.40	2.56
Earnings per ordinary share (€) ***	1.10	1.33	1.72	2.38	2.54
Total dividend amount	8,761	7,215	8,726	10,541	12,614

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

Report of the Supervisory Board for the year ended 31 December 2001
(Section 171 of the German Companies Act)

With this report, the Supervisory Board would like to inform shareholders about the composition and structure as well as all relevant activities of the Supervisory Board during business year 2001. It also intends to document the spirit of co-operation between the Board of Management and the Supervisory Board in the sense of modern and efficient corporate governance; RHÖN-KLINIKUM Group's business development shows that the Board of Management and the Supervisory Board are on the right way.

Composition and structure of the Supervisory Board, and changes thereto

Since it was newly elected on 18 July 2001, the Supervisory Board consist of 16 members (previously: 12). Of these, eight were elected by the Group's employees in compliance with the provisions of the Co-determination Act (MitbestG), and the remaining eight were elected by shareholders at the 2001 annual general meeting of RHÖN-KLINIKUM AG. The names of the newly elected and retired members of the Supervisory Board as at 18 July 2001 are set out on pages 4 and 5 ("Organs of the Company") of this Annual Report.

At its constituent meeting on 18 July 2001, the Supervisory Board appointed Dr. F.-W. Graf von Rittberg as chairman, Bernd Häring as first deputy chairman, and Dr. Richard Trautner as second deputy chairman (until 18 July 2001, chairman: Dr. F.-W. Graf von Rittberg; deputy chairwoman: Ursula Pflieger).

Committees of the Supervisory Board

The Supervisory Board, before and after its new election on 18 July 2001, is of the opinion that advising and monitoring company management should be conducted in well-prepared, all-day plenary meetings and not in separate committees. Therefore, the Supervisory Board has established only two committees: a Mediation Committee and a Personal Affairs Committee. No other committees have been created.

The Mediation Committee was established in accordance with Sections 27 and 31 of the Co-determination Act. Until 18 July 2001, it consisted of three members (Ursula Pfleger, Dr. F.-W. Graf von Rittberg, Dr. Richard Trautner) and has now four members (Ursula Derwein, Bernd Häring, Detlef Klimpe, Dr. F.-W. Graf von Rittberg). The Mediation Committee did not have to be convened during business year 2001.

The Personal Affairs Committee established by the Supervisory Board now also comprises four members (until 18 July 2001: three member). These are Bernd Häring, Dr. F.-W. Graf von Rittberg, Dr. Richard Trautner, and Michael Wendl (until 18 July 2001: Ursula Pflieger, Dr. F.-W. Graf von Rittberg, Dr. Richard Trautner). The Personal Affairs Committee deals with matters concerning the Board of Management, in particular, the conclusion, fulfilment and dissolution of management service contracts. In so far as permitted by law, the Personal Affairs Committee is competent to make decisions instead of the Supervisory Board within its specific terms of reference. The Personal Affairs Committee met once in 2001.

Activities of the Supervisory Board in 2001

The Supervisory Board held five meetings during financial year 2001. At these meetings, in individual discussions and through reports from the Board of Management, the Supervisory Board was continuously informed about the company's situation as a whole as well as all important projects and developments. Where specific transactions or measures required decisions by the Supervisory Board as prescribed by law or the Articles of Association, votes were taken at the Supervisory Board meetings.

At each of its meetings, the Supervisory Board was given detailed account both in writing and verbally on business developments within the company and the individual Group companies, with particular emphasis placed on the development of human resources. This topic also included Management's reports on executive staff with functions immediately below the Board of Management level. Furthermore, the Supervisory Board paid particular attention to regularly discussing the group-wide Junior Executive Development Programme and the results of that programme.

The Supervisory Board examined at all its meetings the regularly updated analyses presented by the Board of Management, including the planning of the company's and the Group's finances, capital expenditures, earnings and cash flows for the year 2001 as well as Management's projections of revenues, earnings and cash flows for the year 2002, which were presented on 9 November 2001, and passed all necessary resolutions. Another major topic at each of the Advisory Board meetings was the further development of the monitoring system as required by Section 91 (2) of the Companies Act, and the resulting reports on early risk identification.

One focal issue discussed by the Supervisory Board and the Board of Management were the ongoing hospital revenue ceilings combined with continually increasing treatment costs as well as the potential effects of the introduction of a service-related global payment system (based on Diagnosis Related Groups – DRG).

In light of the company's continued growth, considerations and decision-making on new acquisitions of publicly run acute hospitals was a key area of the Supervisory Board's activities during 2001, the main issues being the negotiations led by the Board of Management about the take-over of Klinikum Berlin-Buch from the federal state of Berlin as well as of the Robert-Rössle and the Franz-Volhard clinics from the Humboldt University in the first half of 2001, and the assessment of and decision on taking over the hospitals of Nienburg, Hoya and Stolzenau, the Hildburghausen psychiatric hospital, and Klinikum Frankfurt (Oder) in the second half of 2001.

Management's concepts for establishing a dental clinic and the implementation of the proton/heavy-ion therapy were repeatedly a topic at the Supervisory Board meetings.

Composition of the Board of Management

Until 30 September 2001, the Board of Management of RHÖN-KLINIKUM AG was composed of five members. Additionally, Wolfgang Kunz, BEng, was appointed as a member of the Board of Management with effect from 1 October 2001. Mr. Kunz has taken on responsibility for Accounting and Controlling, until then part of Mr. Wiehl's responsibilities. This extension to the Board of Management will not only strengthen our risk management structures and early warning systems but also allow Mr. Wiehl to even more concentrate on financial planning and Investor Relations in line with the company's growth strategy.

In its meeting on 18 July 2001, the Supervisory Board appointed Gerald Meder, who is a member of the Board of Management, again as Labour Relations Director, in accordance with Section 33 (1) of the Co-determination Act.

The German Code of Corporate Governance

After the close of the year under review, the government committee appointed by the Federal Minister of Justice presented a German Code of Corporate Governance on 26 February 2002. The Supervisory Board dealt with that Code at its meeting of 21 March 2002 and 15 May 2002 and came to the conclusion that a great majority of its recommendations and suggestions have since long been practice of RHÖN-KLINIKUM AG and its corporate bodies. The Supervisory Board therefore welcomes the intent of codifying the fundamentals of corporate culture. However, after having carefully considered the Code, the Supervisory Board is of the opinion that some of its provisions require clarification and, in part, modifications or amendments, meaning that the Code in its present form is not suitable for adoption be the company. The Supervisory Board expects that the government committee will present a revised version of the Code by September 2002, which will then be reviewed to verify its practicability for Rhön-Klinikum AG.

Examination and approval of the 2001 financial statements

The Board of Management has prepared the 2001 financial statements of Rhön-Klinikum AG in accordance with the German Companies Act and the German Commercial Code, and the Group consolidated financial statements for the year ended 31 December 2001 in accordance with the principles of the International Accounting Standards (IAS).

The company's and the Group's consolidated financial statements for the year ended 31 December 2001, including the bookkeeping, have been audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, who are the auditors elected by the Annual General Meeting, and found to be in compliance with the books as well as with legal and statutory provisions.

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

The Supervisory Board has approved the company's financial statements and the Group consolidated financial statements prepared by the Board of Management, making these final.

The Supervisory Board concurs with the proposal of the Board of Management regarding the appropriation of profit.

Bad Neustadt, 15 May 2002

The Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg
Chairman

Corporate Bodies and Advisory Board

CORPORATE BODIES

Supervisory Board

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

Bernd Häring, Leipzig,
deputy chairman, member of the nursing staff
(since 18 July 2001)

Dr. Richard Trautner, Munich,
deputy chairman, Munich

Ursula Pflieger, Bad Neustadt/Saale,
deputy chairwoman, Managing Senior Nurse
(until 18 July 2001)

Helmut Bühner, Bad Bocklet,
member of the nursing staff (since 18 July 2001)

Ursula Derwein, Stuttgart,
Secretary of ver.di, ÖTV (Public Services, Transport and Traffic) head office, Stuttgart

Professor Dr. Gerhard Ehninger, Dresden,
physician (since 18 July 2001)

Karl-Heinz Geis, Bad Neustadt/Saale,
sports therapist (until 18 July 2001)

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Guttenberg,
lawyer

Ursula Harres, Wiesbaden,
Medical-technical assistant (since 18 July 2001)

Kurt Katzenberg, Burglauer,
technician (until 18 July 2001)

Detlef Klimpe, Aachen,
Director of Administration

Bernd Kumpan, Bannewitz-Possendorf,
technician (since 18 July 2001)

Professor Dr. Dr. sc. Karl W. Lauterbach, Cologne,
university professor (since 18 July 2001)

Wolfgang Mündel, Kehl,
auditor and tax consultant

Anneliese Noe, Blankenheim,
nurse (since 18 July 2001)

Timothy C. Plaut, Frankfurt am Main,
investment banker

Christine Reißner, Sülzfeld,
Director of Administration (until 18 July 2001)

Claudia Rühlemann, Erfurt,
chairwoman of the Thuringia section of the labour union "Public Services, Transport and Traffic"
(until 18 July 2001)

Joachim Schaar, Wasungen,
personnel director (since 18 July 2001)

Michael Wendl, Munich,
Secretary of ver.di, ÖTV (Public Services, Transports and Traffic) regional section Bavaria
(since 18 July 2001)

Board of Management

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

Andrea Aulkemeyer, Leipzig,
deputy member, Regional Division Saxony

Wolfgang Kunz, Würzburg,
Deputy member, Company and Group Accounting
(since 1 October 2001)

Joachim Manz, Weimar,
Regional Division Thuringia, East Germany

Gerald Meder, Hammelburg,
deputy chairman, Synergy, Logistics, Quality and Development, "Personal AG" (Labour Relations), Regional Division Bavaria, North and West Germany

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

ADVISORY BOARD

Wolf-Peter Hentschel, Bayreuth,
chairman

Prof. Dr. Gerhard Ehninger, Dresden,
(until 18 July 2001)

Dr. Heinz Korte, Munich

Prof. Dr. Dr. sc. Karl Lauterbach, Cologne,
(until 18 July 2001)

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Continuity in qualified growth

Business year 2001 developed satisfactory on the solid foundation we have laid in previous years with our market know-how, capital spending strength and innovative power.

In the year under review, RHÖN-KLINIKUM hospitals treated a total of 342,582 patients; this figure does not include patient numbers at hospitals acquired in 2001. As in previous years, most of our established hospitals worked close to or at capacity. Beyond the human dimension, our philosophy not to turn away any patient who comes to us seeking medical treatment was in 2001 also relevant for our Group in terms of marketing strategy, as under current legislation case numbers for 2001 will be used as a basic measure in the introduction of the new patient classification system based on Diagnosis Related Groups (DRG).

The key figures in our balance sheet indicate that we were (almost) “spot-on” regarding our forecasts, something that not all listed companies could claim in the economic turbulence of the year under review. Consolidated revenues increased to € 697.0 million. Earnings and cash flow showed more-than-proportional gains, as had been anticipated for 2001 which, with net investments of € 87.1 million, was a year of under-investment by RHÖN-KLINIKUM standards. Consolidated profit improved to € 66.1 million, and although this lies somewhat below our own claim to profitability, it can be explained by service volumes once again exceeding budgets and an increase in depreciation requirements on receivables from health insurers as well as higher acquisition costs in the fourth quarter of 2001. Cash flow rose to € 109.5 million and earnings per share improved to € 2.55.

We appreciate the contribution of all our employees towards our results and would like to thank everyone for his or her personal performance which is the basis of our continued success. Our thanks also go to the Supervisory Board and Advisory Board for their fair treatment of the often complex nature of our business. We extend our thanks to the employees’ councils for their constructive co-operating for the good of our company while protecting the interests of their clientele.

We promised our shareholders at the 2001 annual general meeting that we would review our dividend policy. We have kept this pledge. Considering the ever growing capital requirements to fund future growth and the importance of shareholder satisfaction in a time in which dividends are a decisive factor, we will propose to shareholders at the forthcoming annual general meeting that a dividend of € 0.48 be paid on ordinary shares and € 0.50 on preference shares.

The Company’s share price has held up well in the extremely difficult capital market environment of the year under review. That said, even unspeculative securities such as RHÖN-KLINIKUM shares were not able to entirely escape the flight from equity in the wake of the terrorist attacks of 11 September. Many investors, however, followed analyst recommendations and benefited from our shares’ September low by adding to their holdings. At no point of the price curve did our investors question the quality of our shares as a long-term investment, on the contrary, because they know that, in fact, 2001 was for us a year of preparing for further significant growth:

The keen expectations that the market built up during the year as regards new acquisitions by RHÖN-KLINIKUM were not disappointed in the fourth quarter of 2001: The take-over of three hospitals of the District of Nienburg in early November was followed a month later by the acquisition of a 75-per-cent stake in the Hildburghausen special hospital for psychiatry and neurology, our second public-private partnership with the Free State of Thuringia after Zentralklinik Bad Berka. At practically the same time, we concluded the take-over of Klinikum Frankfurt (Oder), our largest acquisition of the year and the very first in the federal state of Brandenburg. The half dozen new German hospitals in our portfolio was rounded off towards the end of the year with the take-over of Wiesbaden-based Aukammklinik for interventional rheumatology and orthopaedics.

The year under review also saw the realisation of our first international project, which we hope will equip us with a wealth of experience: The University of Cape Town Medical Centre (UCTMC) at the world-renowned Groote Schuur Hospital is a joint venture with the University of Cape Town, a pilot project of limited risk to ourselves, which we are using to ascertain whether our patient-oriented and process-controlled hospital concept is an exportable product and whether our approach is suitable, in particular under difficult political and economic conditions such as in Southern Africa.

The year under review also saw us continue and complete a number of major capital spending projects, including new construction, extension, restructuring and rationalisation measures at some of the Group's established hospitals, which will lend an extra boost to the performance of both the respective facilities and the Group as a whole. One example of many are the new buildings for Park-Krankenhaus Leipzig-Südost on the premises of the Medical-Scientific Centre (MWZ) in Leipzig-Probstheida near Herzzentrum Leipzig -Universitätsklinik- and Soteria Klinik. The photographs of this Annual Report document the smooth relocation of all the hospital's

Park-Krankenhaus, Psychiatric Clinics, new buildings.

The extension of Herzzentrum/ Park-Krankenhaus, Somatic Clinic, new building; live transmission from the operating theatre.

departments and patients in late February 2002 that had been meticulously planned into the last detail.

Most important, with our Teleportal Clinic concept taking shape in the year under review we have embarked on an initiative which will substantially and sustainably strengthen our already robust competitive edge. Pages 14 to 16 of this Annual Report set out the reasons why we believe this concept not only represents the right solution for our Company's future qualified growth but also assures cost-effective blanket-coverage delivery of hospital services that offer both good quality and affordable prices.

At every stage of planning for business success, investments in the human potential in our strongly growing Group remains a central strategic task. We promote professional training and reward personal achievement. Our exemplary profit-sharing scheme for all employees provides an incentive to constantly improve efficiency and encourages a cost-conscious attitude to work.

An interesting though difficult task is recruiting executive talent from both our own junior executive development programmes and the free labour market. It is all the more exciting as we are exposed to strong enticement pressure due to our special position in the market, hence we feel it is our duty to present career opportunities within RHÖN-KLINIKUM Group more flexible. To this end and with a view to further improving the Group's managerial capabilities at the operative level, we have created a new management level below the Board of Management. Over time, it will be filled by competent area directors, each responsible either for a group-wide special field of activity or a specific geographic region.

In addition to Andrea Aulkemeyer, who has been a deputy member of the Board of Management since 1 January and is responsible for the Group's business in Saxony, we also welcomed, from 1 October 2001, Wolfgang Kunz as a deputy member. In his new function, he is responsible for the accounting of both RHÖN-KLINIKUM AG and the Group. The Board of Management now comprises six members.

In anticipation of the growing workforce in parallel to our takeover activities – the six 2001 acquisitions have actually taken the number of employees past the 10,000 mark for the first time in the Company's history –, the Supervisory Board was extended to 16 members in 2001, in accordance with the provisions of the German Co-determination Act.

Business prospects for the current year are good. Due to the first consolidation of our six newly acquired hospitals from 1 January 2002, and our South African joint venture, we expect a more-than-proportional rise in patient numbers and revenue growth to match. Regarding the Group's recent acquisitions, our proven cost and rationalisation management will achieve a relatively swift turnaround in the usually unfavourable cost structures of acquired hospitals, bringing them progressively into line with profitability levels at our older-established facilities. And these – in fine fettle thanks to ongoing reinvestment – will again and again seek out new ways to improve overall performance, despite legal restrictions to volume and revenue growth.

As in the year under review, we are currently involved in numerous takeover negotiations which amply demonstrate that the pressure to privatise, particularly in the public hospital sector, is growing rapidly. However, our tenders face competition from a growing field of competitors and – as a rule – "softer" solutions which we consider impracticable in terms of quality and long-term profitability. Yet with the growing pressure for higher performance – the upcoming introduction of DRGs is already exerting a measurable effect here – there is also appreciation of the necessity for "harder" cuts in old, non-performing structures, such as our stringent, patent-oriented hospital concept demands. This is why we are confident that we will successfully conclude several of the current takeover negotiations in the months ahead, especially as we now can bring to bear our groundbreaking Teleportal Clinic concept, besides the advantages of our proven corporate structuring and investment expertise.

Park-Krankenhaus, Leipzig-Dösen, old location, clinic pavilion.

In future, private capital will be more than ever in demand in the changing hospital market with its ever higher requirements for long-term growth financing potential. In light of this, the Board of Management considers the change in share ownership announced on 13 March 2002, following the von und zu Guttenberg family's decision to sell their holdings in the Company, as a significant road mark on the Group's journey of expansion.

We regard the prospects for our Company's sustained, qualified growth in the growth market of health care as better now than ever before.

A market undergoing radical change

While politics has for decades taken the position of protecting vested rights and tended to inertia, the powerful facts of market developments and, not least, our example of successful clinic structures have brought movement to the hospital market in Germany. Market economy and competitiveness, demand, profit and customer orientation – these are all terms that were alien to this market. Today, though, they are firmly rooted in the vocabulary of its players' future planning. What are the trends that drive our market? Why will some participants turn out to be losers and others winners and thus shapers of the change in our market? And which concepts are best suited to solve the existing and foreseeable problems in ensuring broad coverage of hospital service delivery?

Health care is indisputably one of the most dynamic growth markets world-wide. In Germany, health services currently contribute around 11 per cent to GDP and provide employment for some 3.3 million people. With a total volume of € 55 billion and around 1.1 million employees, hospitals account for the largest and, at the same time, most cost-intensive sector of health care.

Trend 1: Growth in demand

Our market enjoys a naturally growing customer base, with demand for hospital services constantly increasing. Today, the average German citizen will visit hospital once every five years. A strong driver of demand is the demographic structure of the German population. With gathering pace, it is being transformed into an ageing society with an ever bigger share of older people. This, in turn, has led to a disproportionate rise in the numbers of older patients in hospitals.

Park-Krankenhaus, Leipzig-Dösen, old location: An era has ended.

A second effect pushing up demand is progress in medicine, which provides perpetual improvements in diagnostic and therapeutic procedures which, in turn, increase life expectancy. Prevention, as is widely promoted these days, is scarcely likely to reduce demand in future. Finally, our society's increasing prosperity creates a growing demand for medical services which, although not compellingly necessary from a medical point of view, do enhance the quality of life. Our health care system stimulates consumption of the services on offer – all the more because financing occurs through solidarity, which is why cost-awareness is not formed in the consumer's mind, and financial resources in the past were in almost limitless supply.

The consequence of these developments is mass consumption of hospital services on the "buy side", whilst the "sell side" – with the introduction of flow principles and process orientation in hospitals – is only just beginning to align itself structurally to a consumption-driven market.

Trend 2: Increasing existential financial straits and investment bottlenecks in the public hospital sector

At the same time, hospital financing terms in the existing funding system coupled to employee income are rapidly worsening. In the German hospital market, still largely dominated by the public sector, it is particularly public owned and operated hospitals that find themselves time and again unable to surmount the growth in demand through rational processes. This explains why the pressure on these hospitals to sell has increased markedly in recent years and their market share is declining.

Of course, the experience needed to realise investments in rationalisation and to turn around hospitals cannot be acquired over night. Patient-oriented processes and efficient information channels cannot be implemented superficially and working practices cannot be changed by decree. Hence, in many hospitals, there still exists the “clinic within the clinic” focused on medical personnel and the departments, which hinders structured clinical processes oriented towards patients’ needs. In addition, the dogged belief in the future prospects of surgeon-oriented organisational structures still persists in many branches of medicine.

Set ways of thinking and a backlog of capital spending, which now threatens existences, have left the public hospital sector lamed in a market that is becoming faster and tougher. In contrast to the past, when capital sourcing via the dual financing system was sufficient, those hospitals still dependant on depleted state coffers have little chance of keeping up even remotely with the necessary pace in the process of change within a market driven by competition. Their increased capital requirements are not being met. On the contrary: current economic developments in Germany, characterised by less investment activity, high unemployment and thus fewer social-security contributions and falling tax income, are only adding to the shortfalls in public budgets. The hardened financial situation and other social priorities, such as unemployment, are forcing the states to make cuts in health care financing. The consequence is disinvestment which, besides eroding public hospitals’

Park-Krankenhaus, Dr. Georg Sacke Clinic, old location: Packing in the operation theatre.

competitive edge, also undermines the attractiveness of public ownership. The supposed security in the public domain is giving way to immobility, and the public sector will be the loser in the climate of predatory competition now emerging.

The best starting position in this contest is enjoyed by market players who are in a position to raise capital to improve performance. Only hospital operators with sufficient capital backing can undertake the necessary rationalisation investments, quickly realise innovations in medicine and, based on that investment, achieve profitability and thus capability for financing new growth. These are primarily private hospital operators. With around eight per cent of the market today, their share is still microscopic, but their capital strengths will mold the future of hospitals.

Park-Krankenhaus, packing at the Dr. Georg Sacke Clinic, old location.

Trend 3: Holistic medicine, defined by technology and the division of labour

Medicine's orientation towards increasing reliance on technology can be discerned as a general trend. Indeed, hospitals are now in a process of industrialisation with the distinguishing feature that modern information technology today not only permits the division of labour in the physical but also in the intellectual dimension.
Work processes can now be controlled remotely, online and in real time, and labour available almost anywhere can now be linked to compressible knowledge based in a limited number of locations, meaning that there is no longer a need to keep specialists in all medical fields on site as they can now be consulted online whenever required. The opportunities opened up by data transfer will revolutionise diagnosis and therapy. The development of imaging techniques will permit new forms of interdisciplinary examination of patients and an integrated medicine, still based on the division of labour, will emerge.
It appears to us that the ideal of making thinly-spread medical expertise regionally available has moved closer.

The decisive momentum and basis for a process-oriented delivery of all services in hospital will arrive with the electronic patient record, which will constantly accompany patients and provide patient information at all stages of the service chain. This will open entirely new prospects for consistent quality, offering services tailored to the needs and the rational deployment of resources.

Constant rationalisation will bring down the costs per case in hospital, just like the unit costs in the manufacturing industries. Looking ahead, it will be the enormous potential of modern information technologies that will make hospital services available economically and priced to keep them affordable for all. The interaction of high economy and broad availability will lead to further growth in demand which, for its part, will ensure the ongoing process of performance-boosting rationalisation.

Park-Krankenhaus, Dr. Georg Sacke Clinic, old location: packing – sterilisation.

Beyond the confines of the hospital, in the broader, segmentally divided health care system, radical change will take hold. For instance, patient-oriented processes and flow solutions to back up what is known as Integrated Care could create completely new structures in the sense of systematic synergetic networking amongst the various service providers – but only provided the willingness to accept change wins over preservation of the status quo.

Trend 4: The informed patient

The new patient generations – children of the Internet age – are far better informed and not infrequently more familiar with the very latest in medical procedures than the attending doctor. Hence, they are more critical and demanding. The general trend in favour of health and wellness adds to their willingness to spend more on their own health. And the foreseeable rise in personal contributions will increasingly pose the question of what is being offered for good money.

The informed and mobile patient will compare value for money, and, through his decision, strengthen the service contents and structures that suit his needs. This means, he or she will go whereever a maximum of service quality – and convenience – is to be found, and with DRGs, the money will follow suit.

Trend 5: The flight from basic care

The extent of knowledge and personal mobility enjoyed by the “new” patient – in unfortunate combination with the ever more noticeable consequences of disinvestment in in-patient care in part of the public hospital sector – is leading to a burgeoning movement to flee general and basic health care. Because even as a “normal” case, the mobile patient would prefer to be taken to the remote, more expensive specialty or maximum-care centre, and what was originally the primary responsibility of local general hospitals will

Above:
Park-Krankenhaus, Leipzig-Dösen, old loction: removal of the operation theatre.

Left:
Somatic Clinic, new building: moving in the archives.

increasingly be undermined in favour of specialist or maximum care, as will their feasibility. The much-cited demise of smaller general hospitals is preprogrammed and already widely discernible.

Approach to problem-solving:
The Teleportal Clinic – venturing into a new quality dimension in blanket-coverage health care

As a hospital Group, whose philosophy is to retain the broadest coverage of social, quality and affordable health care, we have asked ourselves how best to counter this trend in general and which solutions would best achieve our goals, in particular, in terms of strengthening our competitive position. Our answer is the Teleportal Clinic, a future-oriented model for integrated health service delivery that uses the possibilities of telematics to make medical expertise from the

Park-Krankenhaus,
Leipzig-Dösen,
old location:
moving men at work.

cutting edge of medicine available at the level of basic health care. Here are its principal characteristics:

The central element of the Teleportal Clinic is technological diagnostics equipment on a par with that installed in well-managed specialty hospitals. Direct access to appropriate specialist medical expertise is enjoyed by the Teleportal Clinic around the clock and very cost-efficiently via telematic online connections to suitable specialty and maximum-care hospitals. For cases directed to these, the Teleportal Clinic will act as the basic or admission unit and the control instance to ensure that diagnoses already performed locally are not repeated at the higher level. Personal attention to patients who come to the Teleportal Clinic either as emergencies or electively, will be provided by specially instructed and widely trained medical staff who, at the same time, will function as the link to the practitioners in the clinic's catchment area.

The Teleportal Clinic is consistently designed and organised towards rational, patient-oriented processes. It will be furnished with a day clinic and an out-patients' unit. The day clinic will be managed by qualified specialist practitioners registered at the clinic. They too have access to the clinic's technology, thus enabling them to treat 20 to 30 per cent of patients at very reasonable cost in a qualified day-clinic environment as opposed to expensive in-patient treatments. The Teleportal Clinic will dispense with in-patient general surgery, as is still common today in basic care facilities, concentrating instead on day-case and out-patient surgery. We consider it makes sense both medically and economically to refer surgical in-patients to centralised care, and our research shows that this leads to a reduction in the number of patient transports compared to today's figures. The diagnostic expertise via the online connection permits the division of duties between the patient-related diagnosis and the specialist, who – according to the medical needs – will either perform the treatment at the higher-level specialty hospital or in a consulting capacity at the Teleportal Clinic. In this way, a practical hierarchy of treatment on the basis of specialist recommendations is established at the same time, which in the current system of access has been largely lost.

Park-Krankenhaus,
Leipzig-Dösen,
old location:
moving out
EDP-Administration

The patients of the Teleportal Clinic will receive the same quality care as they would at a specialty hospital. Thus the clinic will build up a good reputation and establish itself in its region. In the medium term, this will give rise to a brand of clinic that regional patients accept and hold as a local centre of competence.

Within RHÖN-KLINIKUM Group, we envisage the first full realisation of our Teleportal Clinic concept when undertaking the reorientation of the three hospitals of the District of Nienburg which we took over in the year under review. These standard care facilities, which, like many others of their kind, failed latterly to return a profit and yet cannot be closed due to the large deficit in care they would leave in their region, will be developed as the continuation of what we have already started in Friedrichroda and transformed into competent telemedical facilities, making accessible a wide range of high-level services in local patients' direct vicinity as is presently only possible in larger centres.

The Teleportal Clinic will have a strong, system-changing effect

In the long term, the Teleportal Clinic and the allied structures stemming from it will lead to a change in today's concept of services being allocated on the basis of hospital planning, meaning that this concept will ultimately follow patients' process streams.

Increasingly, hospital service providers will only be successful if they are integrated into chain organisations – be they cooperative or group-related – and meet the 'front-line' suppliers' requirements as regards quality and price. And competitiveness will be demanded not only of a hospital as a whole but of each of its medical departments – because the allied structures of telemedicine are selective. Larger centres or specialty hospitals oriented to co-operate with the teleportal clinics in the front line will thus have to adapt their own structures to this system.

Park-Krankenhaus, Dr. Georg Sacke Clinic, old location: packing up operating sieves.

Such alignment or even active structural redesign requires mobility in the sense of strategic development, willingness to change and finally capital for rationalisation and innovation.

University hospitals

This applies in the same degree to university hospitals whose still largely unchanged cost structures will collapse once the DRG system comes into effect, because this system no longer sets prices in relation to available resources. Functional solutions already exist. Herzzentrum Leipzig – Universitätsklinik –, for example, has added chapter after chapter to its success story over the years, and this has been thanks to its efficient legal and structural framework that answers the requirements of the hospital market while ensuring freedom to scientific research and reading at the same time. Based on our experience here, we have developed this concept further and offer it as a model for discussion. It could well turn out to be the ideal solution for those who realise that there can only be an entrepreneurial answer to DRGs and the existing system's deteriorating stability as a consequence of strained public budgets. We believe that this realisation will win through – a manifest, new open-mindedness regarding the possibilities of capital markets bears witness to this.

Those who venture to move into capital-backed structures on time may not see all their expectations fulfilled – private capital is, on principle, only available on the market's terms. But they have the better opportunity to win in future competition. Supposed conflicts of interest can, provided there is willingness to co-operate constructively, produce the ability to create structures that are decisive for the future. Perhaps the aggregate of cuts would not be any less, but it would be made voluntarily and not through amputation. One would be the perpetrator and not the victim.

Added value for all hospital stakeholders

Our Teleportal Clinic concept will generate clear added value for all involved: It will offer smaller hospitals and their workforces a way out of the dead-end of uncompetitiveness towards a new investment-driven efficiency – it would lead to nothing less than a renaissance of small local hospitals. This is precisely the point where added value arises for patients in the form of vicinity to good local facilities with direct access to the maximum in services within the structures of telemedical alliance. For the associated higher-level centres, added value will result from the labour-sharing process chain, leading to an entirely new flow quality and hence to more efficient cost structures. Last but not least, we intend to and will create added value for the shareholders RHÖN-KLINIKUM AG in the sense of rising shareholder value by endeavouring to convince politicians and the public of the rationality of our concept and its practicality for the future. We see ourselves on the road to success because nothing is stronger than an idea whose time has come.

The hospitals of RHÖN-KLINIKUM Group

RHÖN-KLINIKUM Consolidated Management Report for the Year 2001

- **Another year of revenue and earnings growth despite sluggish macroeconomic conditions**
- **Number of patients treated up 9 %**
- **Net consolidated earnings rise to € 66.1 million**

PRELIMINARY REMARKS

Our Group consolidated financial statements and Management's report for the year ended 31 December 2001 have been prepared in accordance with the principles of the International Accounting Standards (IAS). Amendments, further improvements or revisions of existing IASs during the year under review have been accounted for. By using these standards as the basis of our financial reporting we aim to provide investors with internationally comparable corporate data for a better assessment of the Group and its performance.

ECONOMIC AND FINANCIAL REPORT

1. Summary

In 2001, we continued to build on our growth-oriented business model, the focus being on new construction, extension and restructuring projects at existing Group hospitals, while the aggregate number of beds remained unchanged.

Somatic Clinic, new building: making up the medical-technical inventory.

	2001	2000
	€ thousand	€ thousand
Total output	718,390	691,682
Income from ordinary operations	93,647	90,441
Net consolidated profit	66,080	61,899
Operating cash flow	109,464	105,019

Driven mainly by internal growth, total output improved by 3.9 %. Almost matching this improvement was the 3.5 % increase in the income from ordinary operations. Due, in particular, to smaller shares in profit attributable to outside shareholders, net consolidated profit rose by 6.8 %.

Although legal restrictions confined hospital budget increases nation-wide to 1.63 %, which was less than the uptrend in costs, we were able to benefit from rationalisation gains, which contributed to maintaining last year's level of the Group's income from ordinary operations at 13 %.

Following on previous years' performance, the number of patients seeking treatment at our hospitals in 2001 rose by 9 %.

Treatments	2001	2000
In-patients acute care	171,145	163,830
In-patients rehabilitation	6,798	6,372
Out-patients acute care	164,639	143,938
Total	342,582	314,140

Our acquisition efforts during the year were successfully concluded by year-end, and the following seven hospitals with a combined total of 1,750 beds have been included in the scope of consolidation effective 1 January 2002. These additions to our portfolio represent an increase in the Groups' bed capacity from 5,867 to 7,587 beds at 28 hospitals at 17 locations in eight federal states.

	Beds
Klinikum Frankfurt (Oder)	910
Aukammklinik Wiesbaden	63
Hospitals of the District of Nienburg	405
Hildburghausen special hospital for psychiatry and neurology	372
Total	1,750

Our first foreign subsidiary, UCT Medical Centre, in which the University of Cape Town holds a share, is intended to prove the functionality of our system under less favourable socio-politic conditions and to gain corresponding experience. We see this venture as a long-term development model that involves considerable risk, though to a limited extent. The project progressed as planned during the year under review. Following completion of the construction work undertaken, the 124-bed facility was successfully commissioned on 15 February 2002.

2. Macroeconomic and industry environment

The terrorist attacks of 11 September on economic and political symbols of the Western hemisphere have had a markedly negative impact on the economy, nationally and internationally. In the wake of these events, economists worldwide and the federal government obviously found it easier to publicly acknowledge the downturn of both the global and the national economy.

In Germany, economic growth slumped to a mere 0.6 %, compared with the previous year, the modest growth being mainly supported by robust consumer spending, whilst exports and capital spending decreased. At short date, RHÖN-KLINIKUM share prices, too, followed the downward trend in the national and international equity markets but returned very soon to a level that we consider to be satisfactory.

In Germany's heavily regulated hospital market, legal restrictions and public budget restraints continued to confine hospitals' revenues and public subsidies to levels far from matching the upward push on costs and capital spending needs. At the same time, patient treatments continued to increase across Germany, with the result that revenues per case decreased as the strict limits to hospital budgets remained in place.

In the frame of our take-over activities, we regularly come across the consequences of such regulation in the form of economic and financial weakness, lacking earnings power and disinvestment. These broadly visible developments in the public hospital sector, which can no longer be concealed, have meanwhile led to public hospital owners intensifying their privatisation efforts, whilst on the buy side there is a growing tendency towards building hospital chains or groups, the outcome being an increasingly competitive environment for acquisitions.

Thanks to our patient-oriented and process-optimised hospital concept, coupled with independence from public investment promotion, we have in 2001 again been able to exploit existing rationalisation reserves in the face of unfavourable industry trends and worsening overall business conditions. Even with revenue growth largely prescribed by law, the notable increase in patient treatments did not impair our positive earnings situation at both subsidiary and Group levels.

Somatic Clinic, new building

Above: functional test in the operating theatre

Right: Cleaning of operating equipment

In the market segment of rehabilitation, the slight upward trend continued during 2001, with rehabilitation clinics across Germany showing improved occupancy rates. Our rehabilitation clinics contributed 4.7 % to consolidated revenues. The number of patients treated rose by 7 %, and capacity utilisation increased by 1.3 % despite further reductions of the duration of stays in hospital. Revenues from rehabilitation activities improved by 3.2 % to € 32.7 million.

The adverse overall business climate and, in particular, the labour market situation continued to influence negatively on the health insurers' financial status. This is why the year 2001 saw the insurers intensify their efforts to dispute payment claims by reason of the kind or the volume of services rendered. At RHÖN-KLINIKUM Group, this entailed a worsening of the age structure of receivables and, as a result, once more higher-than-expected value adjustment needs.

3. Corporate Overview

Legal and economic structures of RHÖN-KLINIKUM Group

Being the Group parent company, RHÖN-KLINIKUM AG has the direct control over all subsidiary companies of the Group, as laid down by company law. There are no branch establishments. With this organisational form, it is essential that the individual subsidiaries be given legal and economic structures such as to enable them to act responsibly and independently in their respective regions. We believe that this concept of decentralised responsibilities is a decisive factor for business success and dynamic progress of each individual subsidiary and the Group as a whole.

We have established a group-wide system of project groups to ensure continuous information flows and know-how transfer from the parent company to its subsidiaries and between the individual subsidiaries. In a further step, we have embarked on the implementation of an additional executive level: area directors, who will normally be responsible for one or several federal states and regularly participate in meetings of the Board. This move is aimed at intensifying communications between the Board and the management teams at the subsidiary level.

The parent company has gradually developed a number of centralised services (nursing care legislation, collective bargaining law, hospital technology, EDP, accounting, and others) which it makes available to its subsidiaries in order to extend expert knowledge across the Group and provide effective guidance despite decentralised organisational structures.

In 2001, the parent company's shareholder structure continued to be characterised by the majority of voting shares being held by two shareholder groups, among these the family of the chairman of the Board. Other voting as well as preference shares of RHÖN-KLINIKUM AG are held by a great number of German and international investment funds.

Somatic Clinic, new building, patient bedroom and living room.

BUSINESS DEVELOPMENT

Our domestic hospital companies progressed as expected, and all reported positive results for the year. Only certain real estate subsidiaries showed scheduled losses, the reason being that current construction measures were not completed so that rental income did not yet accrue in 2001. Notably, the hospitals that have recently joined the Group also contributed positively to our good overall results; this they achieved even before incurring planned and necessary rationalisation expenses. The start-up costs of our first venture abroad were according to expectations.

Somatic Clinic, new building: fresh plants for the day clinic's winter garden.

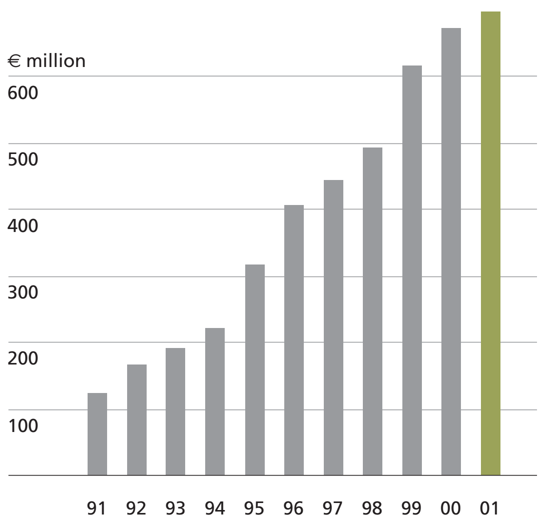
The following table sets forth the Group's key profitability figures:

	2001	2000
	%	%
Return on equity	19.1	21.2
Return on sales	9.5	9.3
Cost of materials ratio	24.7	24.2
Personnel cost ratio	48.8	49.3
Depreciation rate	5.5	5.5

Development of revenues and earnings

In business year 2001, revenues increased by 4.2 % to € 697.0 million. Growth effects of about 1.3 % came from the Dippoldiswalde clinic taken over during 2000, while internal growth of our other hospitals accounted for 2.9 %. The increase in in-patient treatments, combined with a further reduction of the duration of stays in hospital by 0.2 days to 10.7 days, led to the acute bed capacity

Development of revenues



utilisation remaining stable at around 94 %, which was again significantly above the industry average. Due to statutory revenue ceilings, revenues per case dropped from € 2,130.00 to € 2,035.00.

Other operating income amounting to € 21.4 million (previous year: € 22.6 million) mainly reflects income from ancillary and incidental activities, income from rental and lease agreements, and allowances for science and research.

Overall, operating expenses rose slightly less than proportionally to revenue growth. The year-to-year changes in operating expenses are as follows:

	2001	2000	Change	
	€ million	€ million	€ million	%
Cost of materials	172.5	161.6	10.9	6.7
Personnel costs	340.1	329.6	10.5	3.2
Depreciation	38.7	37.0	1.7	4.6
Other operating expenditure	60.5	60.5	–	–

With the cost of materials growing slightly more than proportional, the cost of materials ratio stood at 24.7 % (previous year: 24.2 %), mainly as a result of increased consumption of high-quality implants. We were able to maintain purchasing price levels far below industry averages.

By contrast, personnel costs rose less than proportional; the personnel cost ratio decreased to 48.8 % as a share of total revenues, from 49.3 % in the previous year. This decrease reflects, inter alia, first positive effects flowing from adjustments of personnel structures at newly acquired hospitals.

Depreciation of fixed assets was higher in 2001, due to a number of major construction projects having been completed during the year.

Overall, operating expenditure increased less than proportional to revenue growth; this was despite an above-proportion increase in acquisition costs and value adjustments due to a worsening age structure of debtor accounts.

Reflecting the increase in long-term debts, the financial result is shown slightly lower at € –13 million, a decrease of € 0.4 million.

The income tax load of € 22.8 million translates into a 2001 tax rate of 24.4 %, which comes close to the previous-year level of 24.8 %.

After deduction of minority interests in profit in the amount of € 4.7 million (previous year: € 6.1 million), net consolidated profit for the year rose by € 4.2 million or 6.8 % to € 66.1 million (previous year: € 61.9 million).

Capital expenditure

During 2001, we invested € 120.8 million in fixed tangible and intangible assets. Of this total, € 33.7 million were funded from grants under the hospital financing act (KHG). The latter amount was deducted from capital expenditure, in compliance with the relevant IAS, so that net capital expenditure is shown at € 87.1 million. The 2001 capital expenditure as reflected in the consolidated financial statements breaks down by regions as follows:

	€ million
Bavaria	8.8
Baden-Württemberg	0.6
Hesse	4.7
Lower Saxony	17.1
North Rhine-Westphalia	3.5
Saxony	70.8
Thuringia	12.6
South Africa	2.7
Total	**120.8**
Grants under KHG	33.7
Net capital expenditure	**87.1**

The extension of DKD Stiftung Deutsche Klinik für Diagnostik was completed during the year under review. Commissioning of the newly built Somatic and Psychiatric Clinics of Park-Krankenhaus Leipzig-Südost, the extension of Herzzentrum Leipzig – Universitätsklinik –, the extension of Krankenhaus Freital as well as of UCT Medical Centre in Cape Town, South Africa, is scheduled for the first quarter of 2002. The extension project in Herzberg is expected to be completed by the summer of 2002. Other projects in progress include the first expansion phase at Krankenhaus St. Barbara, Attendorn, and the new construction of a hospital building in Uelzen. All of these projects will be completed towards the end of 2003.

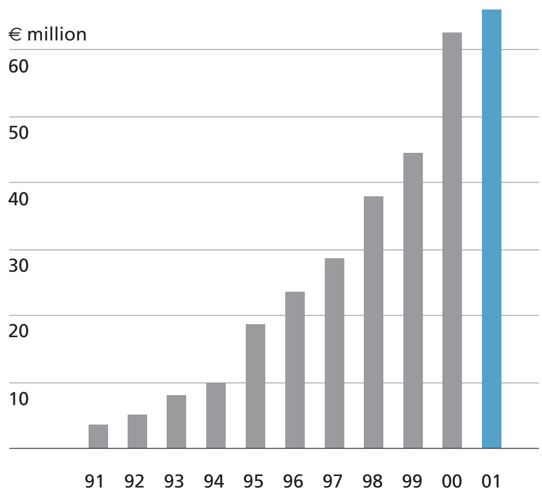
Somatic Clinic, new building: moving in the operating theatre.

A total of € 35.5 million was invested in medical-technical equipment and advanced information technology for our hospitals; of this, € 11.4 million were funded from lump-sum investment allowances under KHG. These figures show that we actually invested more than twice the amount granted under KHG using own means, on top of the allowances utilised. It is this investment strength that plays a decisive role in securing our technological leadership in the hospital market in the long term.

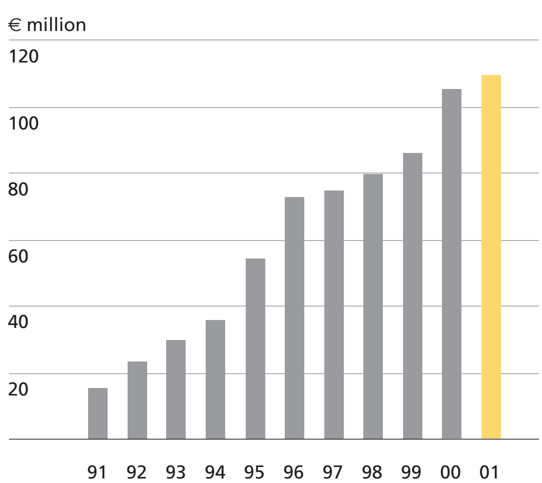
Financing

Reflecting the Group's earnings situation and our dividend policy, the equity ratio rose to 44.7 % (previous year: 41.3 %). Equity is now shown at € 374.1 million (previous year: € 319.0 million). Long-term assets are covered in full by equity and long-term liabilities. In line with investment activities, net bank debts rose by only € 11.4 million to € 195.5 million. Our balance sheet and financial structures continue to be sound, and they are set for further growth.

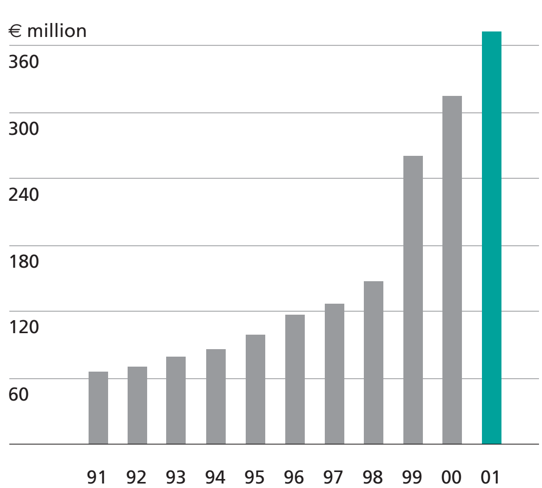
Development of net consolidated profit



Development of cash flow



Development of capital



In financial year 2001, the operating cash flow improved by € 4.3 million to € 109.5 million. Besides dividend payments, we were able to fully fund our investments from the cash flow.

Structure of assets and liabilities

Since most of our expansion over time has been financed from own means, interest-bearing debts are shown only slightly above their 1995 level, whilst revenues doubled compared with that year. The Group's financial status continues to be comfortable.

ASSETS	31 Dec. 2001		31 Dec. 2000	
	€ million	%	€ million	%
Long-term assets	640.5	76.6	591.4	76.6
Current assets	196.1	23.4	180.3	23.4
	836.6	**100.0**	771.7	100.0

LIABILITIES	31 Dec. 2001		31 Dec. 2000	
	€ million	%	€ million	%
Equity	374.1	44.7	319.0	41.3
Long-term loan capital	272.2	32.6	261.5	33.9
Short-term loan capital	190.3	22.7	191.2	24.8
	836.6	**100.0**	771.7	100.0

Due to scheduled amortisation of long-term interest-bearing debts, coverage of long-term assets by equity and long-term loan capital improved to 101 % (previous year: 99 %). At the short end, existing assets more than cover short-term liabilities.

Environment

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

2001 saw the realisation of a vast number of projects aimed at optimising the environmental performance of individual Group hospitals, the highlight of the year being the commissioning of the high-temperature fuel cell at RHÖN-KLINIKUM's homebase, Bad Neustadt. This trail-blazing technology for electricity and heat generation from natural gas distinguishes itself by the lowest environmental impact and the highest efficiency grades known so far. In our case, the electricity will feed our internal power network, and the heat will be used to produce process vapour for sterilisation. Being involved in this project that spearheads technological progress will enable us to take the lead in gearing the serviceability of this technology to the very special conditions of hospitals.

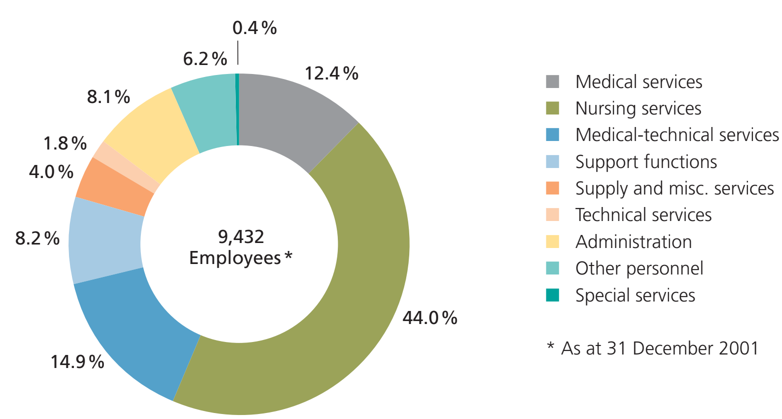
The official commissioning of this "eco power station" on 7 May 2001 can be seen as a milestone on the way to ecologically and economically superior energy supply to hospitals and other major high-duty facilities. This project – the world's first of its kind at a hospital – was sponsored by the Free State of Bavaria and Ferngas Nordbayern, a regional natural gas supplier.

Field experiences with the pilot plant from the manufacturer, MTU Friedrichshafen, confirm that we are on the right way. The utilisation factor of the natural gas employed surpasses by far all levels reached so far. We have been able to prove that the high-temperature fuel cell has the potential to substitute traditional energy supply concepts. Meanwhile, we count many interested visitors from Germany and abroad who are convinced of the advantages of the Bad Neustadt plant. First field test results have been published nationally and internationally.

Human resources

At the end of 2001, the number of employees within the Group increased by 0.8 % to 9,432, of which 12.4 % (previous year: 12.4 %) were physicians and 67.1 % (previous year: 66.4 %) nursing and other medical staff. Legal social security contributions and pension costs as a share of the wages bill amounted to 18.1 % (previous year: 18.4 %).

Analysis of personnel at RHÖN-KLINIKUM Group



Medical specialties represented by physicians within RHÖN-KLINIKUM Group (as at 31 December 2001)

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

II. Other additions
Allergology
Occupational medicine
Blood transfusion
Chirotherapy
Hand surgery
Phlebology
Physical therapy
Psychoanalysis
Psychotherapy
Rehabilitation
Rescue (ambulatory) medicine
Social medicine
Sports medicine
Diving and excess pressure medicine
Environmental medicine

As a labour-intensive health care service provider, the Group depends on its employees' professionalism and high personal commitment to their work. At the same time, our employees are required to ensure that working processes are strictly oriented towards patients' needs and wishes. To provide assurance that absolute patient orientation – an integral part of our corporate philosophy since inception – prevail throughout the organisation, it has been agreed in 2001 in close cooperation with the Group employee council that our Corporate Code of Conduct be extended to provide a clear guide to all our employees. This code has already been binding for our executive staff, and we are proud that now all our employees have committed themselves to our guiding principle: "Never do anything that you would not want to be done to you, and leave nothing undone that you would want to be done to you".

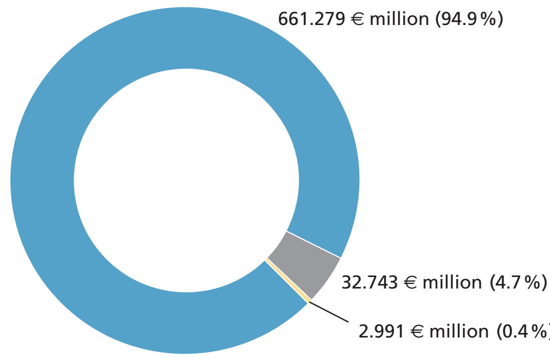
A major focus for the Group continues to be comprehensive professional training of qualified nursing staff at our own nursing schools. As part of this training, a great deal of emphasis is placed on acquainting students from the beginning with RHÖN-KLINIKUM's patient care concepts in order to actively provide support for their entering upon a professional career within the Group.

To cater for the specific requirements to be met when the DRG system will become effective, we have launched special in-house training programmes for employees. In seminars, in-depth information is provided about the DRG system and its effects on the coding responsibilities of medical staff members. Thus, we develop the necessary practical know-how to assure the high codesheet quality required under the DRG system.

2001 also saw an extension to our Junior Executive Development Programme; this initiative continues to play a strategic role in contributing to the development of a broader managerial framework which we believe is indispensable for future hospital take-overs.

Procurement

In line with our principle of decentralised profit and loss responsibilities, the Group has no central purchasing department. Instead, we provide purchasing managers at the operative subsidiary level with ample and transparent procurement data from across the Group, using our inter-company Intranet that has continually been optimised over the past years. Price comparisons with newly acquired hospitals as well as comparisons of our material cost structures with industry statistics show that the Group enjoys very favourable purchasing prices. In addition, all our employees are motivated to effectively control and optimise material consumption, not least through our efficient profit sharing systems which reward responsible use of materials.



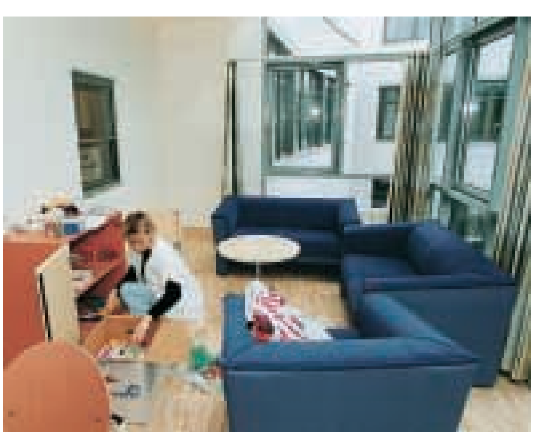
Group revenues breakdown by business areas at RHÖN-KLINIKUM Group

RISK REPORT

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

The structures of this warning system have been prescribed by the mother company and adapted by the individual subsidiaries to their specific needs. All our subsidiaries are bound to regularly review, assess and report defined and identified risks in the administrative and medical areas. We have evaluated their 2001 risk reports, taking as a measure the degree of probability and the extent of possible damages, and have come to the following results:

- Our hospitals' exposure to macroeconomic and cyclical risks is extremely limited. Since our activities are almost exclusively centred on the domestic health care market, with all our subsidiaries enjoying sound financial conditions, external economic factors and interest rate developments are of minor importance.



Psychiatric Clinics, new building: setting up the new lounge.

Psychiatric Clinics, new building: cleaning the gym.

- In Germany's heavily regulated hospital market, industry-specific risks are closely related to governmental health care policies and the unions' wage policies for the public services sector. Within the industry itself, there is a notable difference in opinion as regards opportunities and risks from health reform legislation and collective bargaining agreements. For instance, while many public hospitals fear the effects of the new DRG-based remuneration system, our hospitals are well prepared to meet this system's requirements. Thanks to their healthy cost structures, they should be able to seize the opportunities that a then more competitive market will offer them. Moreover, our hospitals are less exposed to pressures from labour unions as they have already introduced flexible in-house wage agreements that take account of local environments. With regard to recent legislative initiatives and court judgements on working times and stand-by duties at hospitals, we expect significant advantages when adopting the new provisions at our facilities as we can profit from flexible working time models and our proven reorganisation skills. We therefore expect to be able to positively manage any resulting additional charges and to strengthen our competitive position.

- Since all our acute hospitals are either included in state hospital planning or have signed corresponding service contracts with health insurance funds, they actually enjoy a monopoly-type status in their specific regions. This is why traditional market or sales risks affect them to a very limited extent, if at all, provided that they deliver acceptable medical service quality. However, the health sector as a whole is undergoing far-reaching change. Cost cutting needs and/or medical progress will lead to the duration of stays in hospital being further reduced while the range of ambulatory and day-clinic services on offer will widen. This will significantly intensify a trend that has set in years ago towards reducing the number of hospital beds. RHÖN-KLINIKUM has accompanied these market developments constructively and with great far-sight: Our flexible hospital architectural and personnel management concepts designed to meet future demand patterns play an active part in ensuring continued business success through excellence of service at all our locations, thus mitigating market and sales risks. Of great importance for smaller hospital locations, in particular, will be RHÖN-KLINIKUM's proprietary Teleportal Clinic concept.

- Operating risks at hospitals may result from the fact that hospital services are rendered in an environment that requires especially high standards of sterility and hygiene. Specific production risks may be derived from diagnostic and therapeutic procedures, which are principally hazardous due to their being highly complex and involving direct interventions on patients. However, this risk potential is monitored very efficiently by RHÖN-KLINIKUM's proprietary flow organisation which not only promotes highest professionalism at each individual working place but also creates a type of self-controlling system through patient-oriented task differentiation.

- We strive to minimise production risks by conducting regular and systematic employee trainings, by close monitoring of clinical structures and processes and strict orientation towards patient needs. In this context, it is worth noting that the chairman of the Board of Management has taken on direct responsibility for monitoring patient complaints from across the Group. Since production risks cannot be fully eliminated even with the most efficient control mechanisms in place, the Group provides for adequate insurance coverage. Insurance policies are regularly reviewed and updated.
- Typical procurement risks such as, for instance, single sourcing risks are less frequent in the health care sector if compared with other industries. At RHÖN-KLINIKUM Group, attention is paid to avoiding dependence on single suppliers of products and services as far as possible. However, we do not overlook that medical progress can lead to temporary dependence from certain suppliers of, for instance, implants or special medical-technical equipment or therapies. Such obviously temporary dependence is judged to be of no importance within the Group. We see strict administrative separation between procurers and users as an indispensable means to counter corruption.
- Hospitals are part of the service sector despite their high investment ratio per working place and employee. Their business success is highly dependent on individual and collective employee performance. Therefore, employees lacking skills and motivation represent a significant risk potential. To attract and retain the best talent available, the Group offers effective profit-sharing schemes along with ongoing employee training and development programmes. In cooperation with professional organisations, technical colleges and universities, we engage in developing business competencies for all management levels and aim to train and recruit talented junior executives for our company.
- The labour shortage coming into focus in the area of medical and nursing professions is being addressed at RHÖN-KLINIKUM Group through offering flexible performance-based compensation, continuously optimising work processes and providing working places that are both demanding and attractive. Rationalisation gains that we achieve will normally also reduce the workload on our staff.
- Our group-wide strategy of decentralising profit and loss responsibilities combines with sophisticated know-how communication. We believe that comprehensive entrepreneurial responsibility at the subsidiary level will strengthen our subsidiaries' competitiveness and contribute indirectly to minimising charges in the form of economic and organisational risks at Group level. Expert knowledge and synergies are extended from the centre to the subsidiaries by means of focused project group work organised by the mother company.

Somatic Clinic, new building: arranging drugs in their new place.

Somatic Clinic, new building: the lobby.

- All subsidiaries are required to provide monthly, quarterly and annual accounts, using uniform reporting methods to enable inter-company comparisons. These reports are evaluated and analysed at Group level. Regular comparisons of previous-year and target figures enable us to early identify variances and take action, where appropriate.

  The assessment of financial risks also includes regular analyses of debtor accounts. In this context, we have observed an increasingly unfavourable age structure of accounts receivable as health insurance funds show a growing tendency towards delaying payments and disputing payment claims even by reason of volume. Any risks resulting from this have but conditional effects on liquidity, since the Group recognises current repayment obligations to health insurers due to services rendered in excess of budgets, and these obligations are offset in full against receivables from health insurers. Through regular contacts with banks we make sure that possible short-term capital needs for acquisition projects will be provided for, if and when required. To this end, we co-operate with several well-established bank addresses.

- Legal risks may arise in so far as there are diverging judicial conceptions of health insurers on the one hand and hospital operators on the other hand, in particular, with regard to payment-specific facts. Given the ever shorter time intervals between health reform/legislative moves, concerns among the parties to contract in the health sector are growing. Where payers' diverging judicial conceptions affect us prejudicially, payers are often primarily motivated by own cost cutting wants. To clarify diverging judicial conceptions, we take expert legal advice on a regular basis; also, we do not hesitate to take legal action, where appropriate. However, this situation may in some cases give room to uncertainty in planning, since agreements of vital importance for hospitals, especially budget agreements, can no longer be concluded prospectively, as prescribed by law, but are delayed or signed under reserve. Such legal risks may have in part considerable effects at the level of individual subsidiaries, but in light of RHÖN-KLINIKUM's continued success, aggregate legal risks are judged to be of marginal importance at Group level.

- In our opinion, based on the results of our group-wide risk analyses and evaluations, there are no risks that could endanger the existence of any of our operative subsidiaries or the Group in the foreseeable future. Compared with the previous year, there have been no material changes in the overall risk situation,

Somatic Clinic, new, building: the kitchen.

comprising all known risks (macroeconomic, industry, sales, production, procurement, operating, financial and legal risks).

- In consultation with the independent Group auditors, we aim to continually improve our internal risk monitoring system in order to enhance its effectiveness in terms of information content, timeliness and quality of information.

EVENTS OCCURED AFTER THE END OF THE YEAR

With date of 13 March 2002, RHÖN-KLINIKUM AG was informed that the von und zu Guttenberg family has sold its share of approximately 26 % in the voting capital of the Company. We are of the opinion that this incisive change in ownership will support RHÖN-KLINIKUM AG's strong expansionary course and believe that RHÖN-KLINIKUM AG's opportunities for sustained quantitative and qualitative growth in a growing health care market are more exciting today than ever before.

Psychiatric Clinics, new building: the lobby.

FORECAST

In light of the foreseeable demographic developments, the consensus is that the demand for hospital services will continue to grow. We expect but a modest economic recovery in Germany during 2002, with the result that the already high unemployment rate will probably remain unchanged. This will not only charge social budgets but also curb health insurers' income from compulsory contributions. Against this background, payers will most probably hold on to their cost cutting policies, which will continue to put limits on hospitals' income. It is anticipated that revenue growth will not match price inflation, while the demand for services in excess of budgets will increase.

The outcome of the 2002 wage negotiation rounds will be of major importance for the national health industry and also for RHÖN-KLINIKUM Group. We will make every effort to compensate wage rate increases and expected additional costs in connexion with court decisions on working times in hospitals through unrelenting rationalisation across the Group.

Somatic Clinic, new building: consecration by Father Bernhard Trilling.

Somatic Clinic, new location: ambulances on duty.

The economic status of public corporations will continue to worsen as the overall economic environment remains difficult. Therefore, we expect privatisation pressures on public hospitals to increase, which should lead to further hospital take-overs in 2002.

As to our operating subsidiaries first consolidated in 2002, we expect solid positive contributions to Group results already for the current year. The older hospitals in RHÖN-KLINIKUM's portfolio should largely be able to stabilise income and earnings at their current high levels.

For financial year 2002, overall prospects for continued positive earnings growth within the Group are good. Based on the scope of consolidation at the date of this report, the Board of Management expects consolidated revenues to increase to around € 860 million, with consolidated profits exceeding € 70 million. During 2002, the Group plans investments at an estimated total of € 150 million.

RESEARCH AND DEVELOPMENT

One of Germany's leading private hospital groups, RHÖN-KLINIKUM sees its commitment to dedicated research and development at its hospitals as a decisive strength in the competition for patients and top talent. However, our focus is not primarily on applied medical research but on the development of innovative diagnostic and therapeutic concepts that provide solutions for the well-being of patients, thus adding to our competitive edge.

For instance, our efforts in the area of cardiac surgery are centred on developing patient-friendly methods for heart operations. In so doing we aim, firstly, to partially avoid the use of the heart-lung machine and, secondly, to reduce patients' physical trauma as far as possible by applying minimally invasive techniques.

The traditional radiation therapies applied to patients suffering from cancer diseases are by their nature limited in their efficiency. They entail unwanted side effects which cannot be eliminated even with the most modern radiation technologies available today.

It has been known for many years that radiation using protons and heavy ions can substantially improve cancer therapies. However, the introduction of this technique for broad application at hospitals has so far failed on cost grounds: investment requirements are estimated at € 80 million to € 100 million. This produces treatment costs far beyond the actual financing possibilities within the existing system.

We aim to reduce treatment costs per case by about 50 % through improving all parameters – inter alia, through reducing plant and equipment costs dramatically, through qualifying and optimising processes, and through efficient use of personnel. We strongly believe that our concept could help to establish the proton-heavy ion therapy as a technique at the reach of everybody, since it allows for higher-quality therapeutic outcomes without causing major cost advances for health insurers.

The cost cutting measures of public authorities are already beginning to disintegrate blanket-coverage hospital service delivery, as is evidenced by a growing number of smaller local hospitals being closed down. Our answer to this is what we call ‘Teleportal Clinic’, a highly efficient local clinic combining high-tech-based diagnostic capabilities “on site” with direct access to and telemedical support from bigger regional centres, able to bring superior diagnostic and therapeutic quality to the local level in a very cost-efficient way. We believe that this forward-looking concept will add to our competitive strength not only with a view to future acquisition projects but also in our accustomed markets where we shall build on this concept to assure our hospitals’ market position and reach in the long term.

Bad Neustadt a.d. Saale, 18 March 2002

The Board of Management

Andrea Aulkemeyer	Wolfgang Kunz	Joachim Manz
Gerald Meder	Eugen Münch	Manfred Wiehl

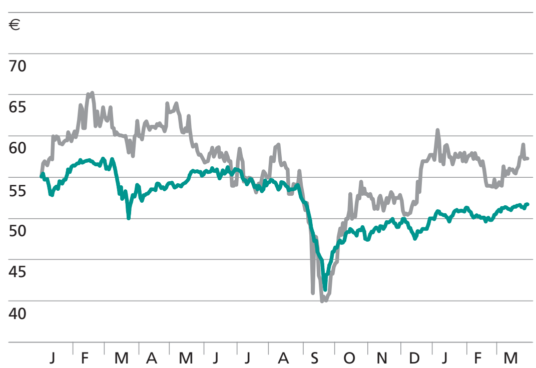
The RHÖN-KLINIKUM Shares
Performing well in the face of declining equity markets

Financial year 2001 was characterised by downtrends in national and international equity markets. The attractiveness of equity investing faded as macroeconomic conditions weakened and growing recession concerns overshadowed the year.

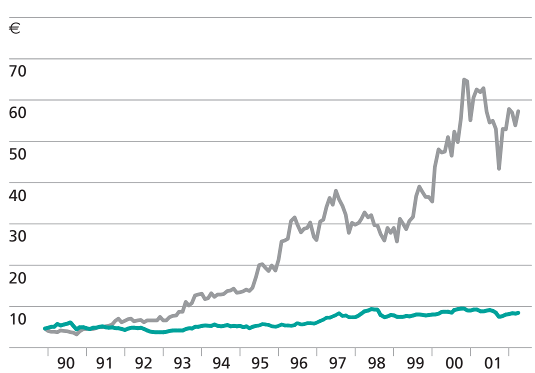
The terrorist attacks of 11 September on the World Trade Center in New York prompted severe losses on equity markets worldwide. In the wake of these events, Germany's DAX 30 index slumped from 6,289.82 index points at the beginning of 2001 to its low for the year at 3,539.18 but was then able to make good part of its losses, reaching 5,160.10 points by year end.

RHÖN-KLINIKUM AG preference shares

Short-term performance comparison versus MDAX 2001/2002



Long-term performance comparison versus MDAX



RHÖN-KLINIKUM preference shares
MDAX

The shares of RHÖN-KLINIKUM AG have not quite held out against these negative market trends, however, they compare very favourably to the DAX 30 index (–17.9 %), closing the year at more or less the same price levels as at the start of 2001.

At year-end, our ordinary shares traded at € 58.80, a minor loss compared with the previous year (€ 59.80), while preference shares improved slightly to € 57.75, up from € 55.10 at the end of 2000.

Also, compared with the MDAX (–8.13 %) and the CDAX Pharma & Health (–6.73 %), our shares held up well, with ordinary shares showing a relatively small loss of 2.17 % and preference shares a slight gain of 4.81 %.

It is precisely in times of difficult equity markets as experienced last year that investor confidence in RHÖN-KLINIKUM shares becomes evident: investors see our shares as a long-term investment that gains its strengths from our corporate policies.

At the core of our business model are high initial investments and several years of restructuring and upgrading newly acquired hospitals. This is why the focus of our business policy is rather on steady, sustainable quality growth and less on maximising profit in the short term. We prefer continuity - also in terms of value appreciation, which is what distinguishes RHÖN-KLINIKUM shares as an attractive long-term investment.

RHÖN-KLINIKUM share data

	2001	2000	1999
Ordinary shares			
Share prices, in €			
Year-end	58.50	59.80	36.50
High	74.45	69.90	41.80
Low	42.50	38.22	24.81
Preference shares			
Share prices, in €			
Year-end	57.75	55.10	35.40
High	65.49	68.00	40.67
Low	39.60	34.77	25.15
Per share key figures, in €			
Dividends			
Ordinary shares	0.48	0.40	0.33
Preference shares	0.50	0.42	0.35
Earnings			
Ordinary shares	2.54	2.40	1.74
Preference shares	2.56	2.38	1.72
Cash flow	4.22	4.05	3.33
Shareholders' equity	14.43	12.30	10.25

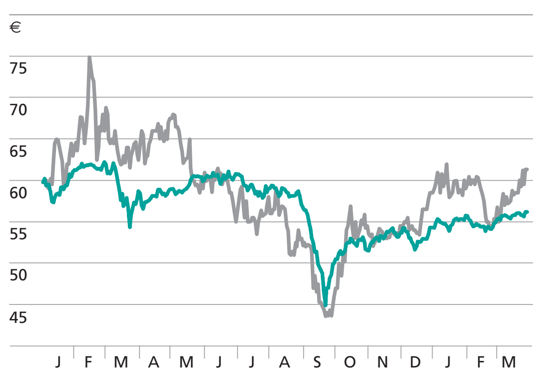
The charts on this page reflect the positive long-term development of RHÖN-KLINIKUM shares compared with the MDAX.

Institutional investors' interest in our shares increased again in 2001. At year end, 100 investment funds were invested in RHÖN-KLINIKUM shares.

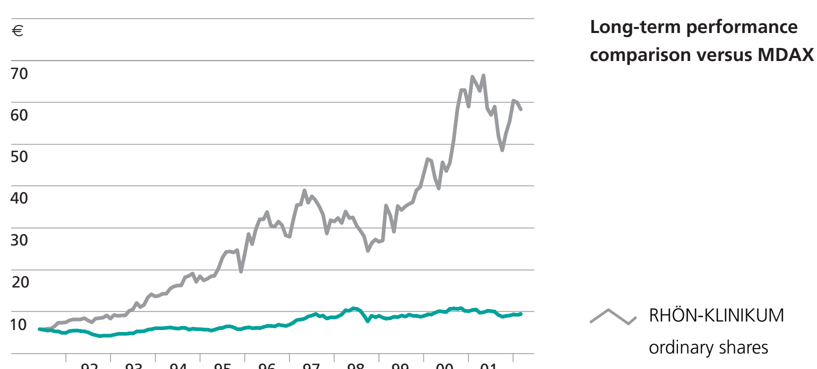
In line with the general trend towards electronic trading, floor trading in RHÖN-KLINIKUM shares decreased in favour of Xetra trading, with the daily turnover slightly below previous-year levels. On average, the daily trading volume was 17,327 RHÖN-KLINIKUM shares (previous year: 18,299), the highest single-day turnover being 225,287 shares (previous year: 170,823). Xetra trading accounted for approximately 67 % of total trading, up from around 34 % in the previous year.

At 31 December 2001, market capitalisation was slightly higher at € 1,515,024,000, compared with € 1,509,408,000 at the end of the previous year. Consequently, RHÖN KLINIKUM AG now

RHÖN-KLINIKUM AG ordinary shares

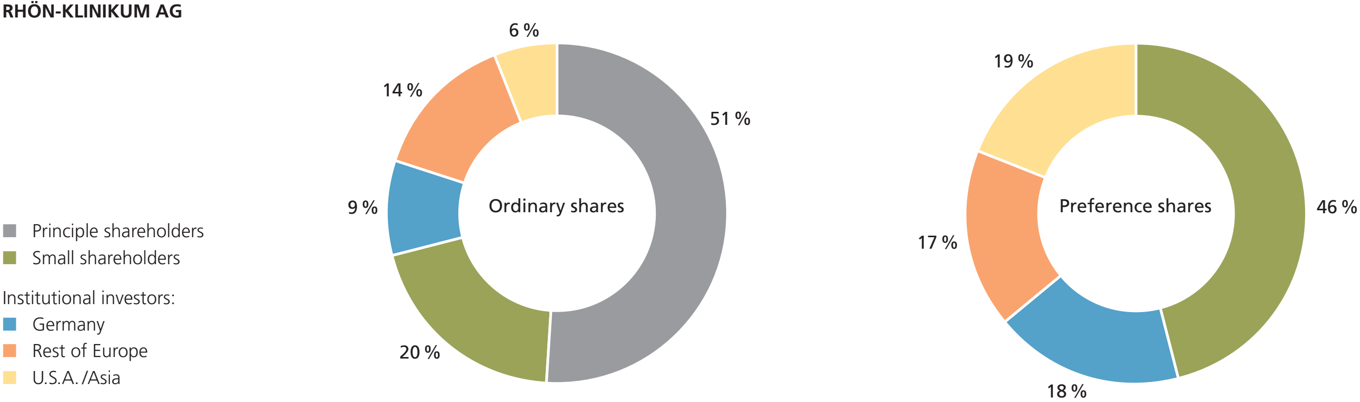


Short-term performance comparison versus MDAX 2001/2002



Long-term performance comparison versus MDAX

Shareholder structure of RHÖN-KLINIKUM AG



ranks 23rd (previous year: 26th) among the 70 MDAX companies.

During the year, we have further intensified the dialogue with RHÖN-KLINIKUM shareholders and capital markets in general. Besides regular quarterly reports, numerous briefings on corporate developments were mailed to investors, analysts and the media. This has strengthened investor interest and confidence in RHÖN-KLINIKUM shares, as is evidenced by the increasing numbers of participants at our investor conferences and roadshows in Germany and abroad.

Our website provides interested investors with comprehensive basic information about the company and its shares. An integrated order service enables easy online ordering of information materials.

Park-Krankenhaus, Somatic Clinic, new building.

Proactive development of our hospitals

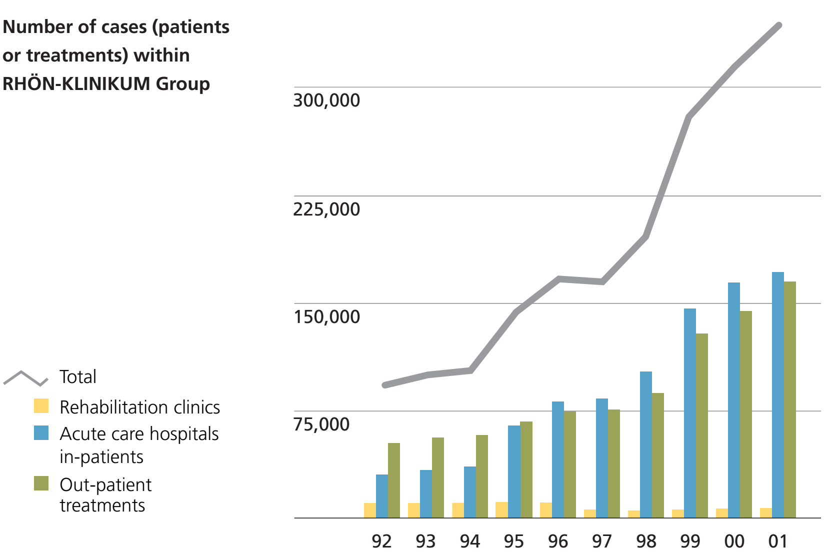
In Germany's hospital market, the trend towards reducing excess acute bed capacities – triggered by ever shorter stays in hospital, a greater emphasis on ambulatory operations, and growing cost cutting needs – continued in business year 2001. Between 1993 and 2000 (more recent figures were not available at the date of this report), 128 hospitals were closed down. During the same period, the number of hospital beds under state hospital plans was reduced by 69,007 (–10.9 %) to 559,651, whilst the number of in-patients treated increased by 14.6 % to just under 16.5 million.

By contrast, the number of privately owned hospitals rose by 98 (+28.1 %) between 1993 and 2000. The number of beds run by private hospital operators increased by 39.8 %, and in-patient treatments at private hospitals rose by 72.1 %, an above-proportion improvement.

Developments at RHÖN-KLINIKUM Group

Since 1993, the combined bed capacity within RHÖN KLINIKUM Group rose by 223 % to 7,711 beds under regional hospital plans. This was topped by a more-than-proportional rise in patient treatments: since that year, the annual number of patients treated at our hospitals increased by 242 % to 342,582.

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



Moreover, the Group's growth rates are significantly higher than those of its private competitors – evidence to the high acceptance of RHÖN-KLINIK hospitals in their regions and the success of RHÖN-KLINIKUM AG's proprietary business models.

Developments in Baden-Württemberg

As in the previous year, **Klinik für Herzchirurgie in Karlsruhe** was fully booked; with 2,490 patients treated, the clinic was able to maintain its high performance level.

Substantial investments (an IC unit and a fourth operating theatre) allowed further optimisations of clinical processes. In the year under review, the clinic's main focus was on applying and further improving patient-friendly surgical techniques.

Developments in Bavaria

Herz- und Gefäss-Klinik in Bad Neustadt is one of the world's leading centres for the treatment of cardiovascular diseases. A team of specialists and the clinic's advanced equipment for diagnosing and treating diseases of the heart and the vessels assure that patients receive the best possible medical care. Although the hospital has already worked close to or at capacity for a number of years, in-patient treatments once more increased by nearly 3 % to 12,551.

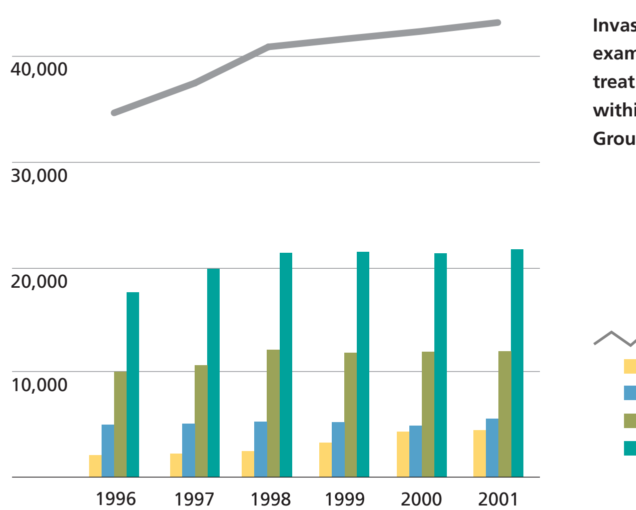
January 2002 saw the retirement of Professor Dr. Robert Hacker who has headed the department for cardiac surgery for many years and, almost concurrent in time, the 50,000th heart operation using the heart-lung machine. Professor Hacker's successor will focus on developing and enhancing the clinic's medical/surgical capabilities.

Klinik für Handchirurgie in Bad Neustadt celebrated its tenth anniversary in 2001. The hospital can look back on ten years of eminent success, both economically and professionally. Since it was established, Klinik für Handchirurgie has also played a leading role in the medical and scientific development of its specialty, hand surgery.

In the year under review, the number of patients treated at the centre increased by 148 to 22,277 (+0.7 %). We observed a growing trend towards ambulatory hand surgery, driven by modern surgical techniques that allow shifting to day-case treatment. This is why the number of in-patients declined from 5,652 to 5,409, whilst out-patients increased by 391 to 16,868.

Correspondingly, the number of in-patient surgical interventions performed in 2001 decreased to 5,095, down from 5,351 in 2000, while the number of ambulatory surgical interventions rose to 572, up from 94 in the previous year.

Psychosomatische Klinik in Bad Neustadt, a special clinic with 180 acute beds and rehab 160 beds, reported good results not only from its acute unit which has been working to capacity for many years but also from its rehabilitation unit. Occupancy in the rehabilitation area increased by 37.50 % to 88.60 % in 2001. Current research programmes – including, for instance, innovative therapies aimed at employment reintegration and retraining – serve to continuously review and improve the hospitals therapeutic concept.



Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group

Klinik "Haus Franken" GmbH in Bad Neustadt operates a rehabilitation centre for patients suffering from cardiac, circulatory and vascular diseases as well as the Diabetes Centre Bad Neustadt. In 2001, this 122-bed clinic treated 2,029 patients. The clinic has conducted comprehensive scientific studies that prove the effectiveness of its "Diabetes Management 2000" concept, a four-year therapy offering patients regular seminars in co-operation with practitioners.

Somatic Clinic, new building, chapel: address by hospital priest Andreas Czerny.

Park-Krankenhaus, Leipzig-Dösen, old location: moving out.
Above left: the task force.
Above right: Many helping hands.

Below left: Relocation of patients.

Below right: Park-Krankenhaus, Dr. Georg Sacke Clinic, old location: ambulances.

Also located in Bad Neustadt, **Haus Saaletal GmbH** is a 166-bed clinic for addictive diseases. Complementing this facility, we operate Klinik Neumühle, a separate centre for drug therapy, and an adaption facility, Maria Stern, offering capacity for 18 patients. Overall occupancy at these clinics has once more improved, reaching 99.1 % in 2001. To assure continued referrer acceptance, Haus Saaletal's existing therapeutic concept is being enhanced to include most recent scientific findings; this programme is conducted in co-operation with the Bundesversicherungs-anstalt für Angestellte.

In March 2001, **Neurologische Klinik Bad Neustadt** celebrated its tenth anniversary. The two-day festivities highlighted an open-door invitation to the public and a professional symposium focusing neurological and neurosurgical topics.

The clinic operates a total of 250 acute and rehabilitation beds. The occupancy rate improved again in 2001, so that the clinic worked close to capacity. The number of patients treated during the year rose by 242 to 4,116.

With the commissioning of its new wing – now housing the clinics's Intensive Care and Intermediate Care units as well as a stroke unit – in January 2001, Neurologische Klinik has laid the foundation for further growth.

Neurologische Klinik Kipfenberg has significantly enhanced its spectre of neurological therapy in 2001. The clinic's new neurological ambulatory service has met with broad patient acceptance, and the number of out-patients increased to 15,978, up from 6,482 in the previous year. With the commissioning of its neurological day clinic, Neurologische Klinik

Kipfenberg has become Germany' first to implement day-case services for patients with extremely complex injuries of the crane and the brain. As a side-effect of this development, the number of in-patients increased by 7.45 %.

All in all, this lead to costs per case declining substantially, a clear advantage, particularly in view of the introduction of the new DRG-based renumeration scheme.

Finally, Neurologische Klinik Kipfenberg's standing in its market is also reflected by the growing importance if its integrated training centre: in the year under review, student numbers nearly doubled, reaching a record 1,036 participants in the centre's training programmes.

Developments in Hesse

In Hesse, RHÖN-KLINIKUM Group operates **Stiftung Deutsche Klinik für Diagnostik (DKD)**. Following the example of the Mayo Clinic in Rochester, USA, this medical centre combines a wide range of medical specialties with interdisciplinary working methods and smooth interlacing of ambulatory, day-case and in-patient services. A recognised general acute hospital, DKD runs 92 beds under Hesse's state hospital plan, of which 16 are dedicated to bone marrow transplantations, plus 60 day-clinic beds.

DKD's medical track record is that of a health centre with highly qualified medical staff, state-of-the-art medical technology and advanced interdisciplinary diagnostic and therapeutic capabilities.

In the year under review, the number of in-patients treated rose by 5.5 % to 5,004, and DKD's day clinic recorded 10,209 day-case treatments (previous year: 10,513). The number of out-patients remained nearly unchanged at 19,513. The centre for bone marrow transplantations recorded a slight increase to 79 (previous year: 75) transplantations.

The ongoing modernisation of DKD's old building will continue through 2002; completion is scheduled for the beginning of 2003.

Developments in Lower Saxony

Kliniken Herzberg und Osterode, in combination an academic training hospital serving the University of Göttingen, were able to keep occupancy rates stable despite current construction work. In-patient treatments recorded stood at 11,110. The average duration of stays in hospital was reduced to 7.5 days (previous year: 7.7 days).

The hospitals' major extension project was completed on schedule in summer 2001. The first of two extensions (new storeys) to the existing buildings in Herzberg was finalised in early September. At present, other reconstruction work

Left:
Park-Krankenhaus, Leipzig-Dösen, old location: patient room.

Below:
Park-Krankenhaus, Dr. Georg Sacke Clinic, old location: patient room.

Somatic Clinic,
new building:
moving in patients

and related measures necessary before closing and integrating the Osterode facility into Herzberg's new structures continue as planned, so that the first can be closed down by mid-2002.

Kliniken Uelzen und Bad Bevensen, in combination an academic training hospital serving the Medical College of Hanover, recorded an increase of more than 7 % in the aggregate number of patients: 15,159 (previous year: 14,100) in-patients were treated at the hospitals' two locations.

When taking over these hospitals in 1999, we agreed to undertake the new construction of a hospital building in Uelzen. This project at a cost of approximately € 72.5 million has started mid-August 2001; completion is scheduled by the end of 2003/beginning of 2004.

Developments in North Rhine-Westphalia

Krankenhaus St. Barbara Attendorn GmbH, a general and standard care hospital with 309 beds, has been a Group member since 1999. The hospital was able to once more improve its performance: the number of in-patients treated rose to 9,013 (previous year: 8,836), and out-patient treatments increased to 8,202 (previous year: 7,765).

In 2001, € 3.4 million were invested in extension and restructuring measures aimed at optimising clinical processes in line with our strictly patient-oriented hospital concept.

Developments in Saxony

Herzzentrum Leipzig – Universitätsklinik – is a heart centre offering 316 beds under Saxony's hospital plan. In the year under review, the centre recorded a total of 16,197 in-patients (previous year: 15,256). Likewise, the numbers of heart operations as well as diagnoses and therapies conducted in the area of rhythmology were on the uptrend. The centre's 2001 occupancy rate stood at 93.64 %.

Krankenhaus Freital GmbH recorded a total of 9,891 in-patients in business year 2001.

Following its application for the status as an academic training hospital for Technische Universität Dresden, Krankenhaus Freital was selected from a great number of competitors and awarded that status; the corresponding contracts were signed at the beginning of 2002. From April 2002, the first students will start their practical training at Krankenhaus Freital.

Park-Krankenhaus,
Leipzig-Dösen,
old location:
moving out patients.

Major construction measures completed in the year under review include the hospital's new operating theatres, emergency admission, ambulatory operating theatre and day clinic, all of which were commissioned in July 2001.

2001 was the last business year of **Park-Krankenhaus Leipzig-Südost** in its old buildings. The year was characterised by comprehensive preparations for the hospital's relocation, in particular, trainings programmes to familiarise employees with working conditions and opportunities for an even better service delivery in the new environment.

At the beginning of 2002, the hospital commissioned its new € 82 million buildings in the neighbourhood of other Group hospitals in Leipzig. The new Somatic Clinic operates 255 beds, and the Psychiatric Clinic offers 245 plus 40 day clinic beds.

The number of in-patients treated in 2001 increased slightly to a total of 10,550. In addition, the hospital conducted 13,420 out-patient treatments.

Soteria Klinik in Leipzig offers 217 beds and therapy for alcohol, drug and multiple addicts.

Effective 1 January 2002, the clinic's bed capacity under the hospital plan of the Free State of Saxony has been increased by 36 beds. To accommodate these, the clinic has in 2001 embarked on extensive restructuring measures which will be completed in the course of 2002.

Krankenhaus Dippoldiswalde, which we took over in September 2000, developed positively in its first full year as a member of RHÖN-KLINIKUM Group. The hospital recorded 4,929 in-patients.

Planning is underway to provide for the necessary architectural structures which will then enable the implementation of our proven patent-oriented flow principles.

Somatic Clinic, new building: arrival of an individual patient transport.

Developments in Thuringia

As in previous years, **Klinikum Meiningen** was able to assure a consistently high service level in its catchment area. The hospital showed an annualised average occupancy rate of 97.3 %. The number of in-patients treated rose to 22,595.

In consideration of the evidently high demand for hospital services in the region, the hospital was awarded 23 additional beds under the hospital plan of Thuringia with effect from 1 January 2002. This represents an increase of Klinikum Meiningen's planned bed capacity from 545 to 568 beds.

Klinikum Meiningen continues to focus on state-of-the-art medical technology. In 2001, Meiningen became Germany's first hospital to introduce capsule endoscopy as a standard service for patients suffering from diseases of the small intestine. The main characteristics of this method in short: the patient swallows a capsule somewhat bigger than a drug capsule; during the subsequent eight hours, this capsule will send detailed colour images in high digital quality to an external receiver.

Krankenhaus Waltershausen-Friedrichroda closed its business year 2001 with a substantial increase in the number of patients treated. Following the commissioning of its new building at the end of 2000, the hospital profited from the consolidation of its Waltershausen and Friedrichroda facilities. By pooling service capacities and optimising clinical processes, the hospital has prepared the ground for significant improvements in profitability and medical efficiency.

This was already reflected in the hospital's 2001 performance figures: The number of in-patients treated rose to 9,919 (previous year: 9,211), and out-patient treatments increased to 7,921 (previous year: 6,858).

Zentralklinik Bad Berka continues to be a major asset in the Group's portfolio. In the year under review, this specialty hospital with 657 beds boosted 20,555 in-patient and 8,471 out-patient treatments. The clinic's occupancy rate held up its high level at 93.97 %.

In May 2001, Zentralklinik Bad Berka celebrated its tenth anniversary as a RHÖN-KLINIKUM Group member. During that decade, we invested about € 200 million to create one of the most modern and efficient hospitals of international standing. In business year 2001, Zentralklinik Bad Berka attracted a growing number of foreign patients who sought treatment at this high-performing medical centre.

Developments in South Africa

Together with the University of Cape Town, we have established a 124-bed medical centre at the **Groote Schuur Hospital** in Cape Town. The necessary construction work and reorganisation measures were largely completed by the end of 2001. The official opening of the centre took place on 15 February 2002.

RHÖN-KLINIKUM Consolidated Income Statement for the year ended 31 December 2001

	Notes	2001 € thousand	2001 € thousand	2000 € thousand
Revenues	VII. 1.	697,013		669,114
Other operating income	VII. 2.	21,377		22,568
			718,390	691,682
Cost of materials	VII. 3.			
Materials and merchandise		127,260		119,816
Services		45,227		41,761
			172,487	161,577
Personnel costs	VII. 4.			
Wages and salaries		288,019		278,366
Social security contributions and pensions		52,074		51,199
			340,093	329,565
Depreciation on tangible and intangible assets		38,652		37,030
Other operating expenses	VII. 6.	60,515		60,453
			99,167	97,483
Income from operations			106,643	103,057
Income from investments		28		42
Other interest and similar income		3,049		2,816
Interest and similar expenses		16,073		15,474
Financial result			– 12,996	– 12,616
Earnings before taxes*			93,647	90,441
Taxes on income and earnings	VII. 8.		22,835	22,452
Net profit for the year			70,812	67,989
Profit attributable to outside shareholders			4,732	6,090
Net consolidated profit			66,080	61,899
Earnings per preference share, in €	VII. 9.		2.56	2.40
Earnings per ordinary share, in €			2.54	2.38

** corresponds to income from ordinary activities*

RHÖN-KLINIKUM Consolidated Balance Sheet at 31 December 2001

ASSETS

	Notes	31 December 2001 € thousand	31 December 2001 € thousand	31 December 2000 € thousand
Fixed assets				
Intangible assets	VIII.1.			
Industrial and similar rights and assets		2,355		2,744
Goodwill		14,315		15,101
Negative goodwill		0		– 1,979
			16,670	15,866
Tangible assets	VIII. 2.			
Land, land rights and buildings, including buildings on third-party land		469,816		447,286
Technical plant and machinery		11,537		11,719
Other plant and equipment		57,947		50,450
Payments on account and construction in progress		74,793		56,423
			614,093	565,878
Financial assets	VIII. 3.			
Shares in associated companies		1,748		1,762
Investments		0		25
Other loans		225		269
			1,973	2,056
			632,736	583,800
Deferred taxes	VIII. 4.		7,665	7,285
Current assets				
Inventories	VIII. 5.			
Materials		10,018		9,752
Merchandise		24		21
Payments on account		320		170
			10,362	9,943
Receivables and other assets				
Receivables from supplies and services	VIII. 6.	107,463		99,907
Tax claims	VIII. 7.	2,975		1,881
Other	VIII. 8.	3,571		5,019
			114,009	106,807
Liquid funds	VIII. 9.		71,455	63,581
			195,826	180,331
Prepaid expenses			401	319
			836,628	771,735

EQUITY AND LIABILITIES

		31 December 2001		31 December 2000
	Notes	€ thousand	€ thousand	€ thousand
Equity	VIII. 10.			
Subscribed capital		25,920		25,920
Capital reserve		37,582		37,582
Consolidated retained earnings		245,061		193,699
Consolidated profit		66,080		61,899
Own shares		– 86		– 87
Currency translation differential		– 467		0
			374,090	319,013
Outside shareholders' interests	VIII. 11.		22,402	19,809
Provisions				
Provisions for pensions and similar obligations	VIII. 12.	8,966		8,487
Other provisions	VIII. 13.	2,936		4,004
			11,902	12,491
Deferred taxes	VIII. 4.		33,232	32,586
Liabilities				
Long-term financial debts	VIII. 14.	238,412		209,956
Tax liabilities	VIII. 15.	9,197		16,143
Other liabilities	VIII. 16.	146,893		161,200
			394,502	387,299
Deferred income			500	537
			836,628	771,735

RHÖN-KLINIKUM Consolidated Statement of Changes in Shareholders' Equity

	Subscribed capital							
	Ordinary shares	Preference shares	Capital reserve	Consolidated retained earnings	Consoli-dated profit	Own shares	Currency translation differential	Share-holders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at 1 Jan. 2000	**17,280**	**8,640**	**37,582**	**157,806**	**44,616**	**– 88**	**0**	**265,836**
Consolidated profit					61,899			61,899
Dividends paid					– 8,723			– 8,723
Allocation to reserves				35,893	– 35,893			0
Own shares						1		1
Balance at 31 Dec. 2000/ 1 Jan. 2001	**17,280**	**8,640**	**37,582**	**193,699**	**61,899**	**– 87**	**0**	**319,013**
Consolidated profit					66,080			66,080
Dividends paid					– 10,537			– 10,537
Allocation to reserves				51,362	– 51,362			0
Own shares						1		1
Exchange rate adjustments							– 467	– 467
Balance at 31 Dec. 2001	**17,280**	**8,640**	**37,582**	**245,061**	**66,080**	**– 86**	**– 467**	**374,090**

RHÖN-KLINIKUM Consolidated Cash Flow Statement for the year ended 31 December 2001

	2001	2000
	€ million	€ million
Earnings before taxes	93.6	90.4
Elimination of financial result	13.0	12.6
Depreciation of fixed assets	38.7	37.0
EBITDA	145.3	140.0
Changes in inventories	– 0.4	1.2
Changes in receivables from supplies and services	– 7.6	– 11.7
Changes in other receivables	+ 1.4	– 4.1
Changes in liabilities	– 5.2	4.0
Changes in provisions	– 0.6	2.2
Other changes	– 0.6	– 0.2
Earnings taxes paid	– 30.6	– 29.9
Interest paid	– 16.1	– 15.5
Cash generated from operating activities	**85.6**	**86.0**
Tangible and intangible fixed assets acquired	– 90.1	– 86.3
Financial assets acquired	0.0	– 0.9
Acquisitions of subsidiaries less cash acquired	0.0	– 5.0
Proceeds on disposal of investments	3.5	0.0
Interest received	3.1	2.9
Cash utilised in investing activities	**– 83.5**	**– 89.3**
Additions to short-term financial debts	0.0	9.2
Redemption of short-term financial debts	– 12.3	0.0
Additions to long-term financial debts	35.7	4.6
Redemption of long-term financial debts	– 4.1	– 19.8
Dividends paid	– 13.1	– 11.3
Cash generated from (+) / utilised in (–) financing activities	**6.2**	**– 17.3**
Change in liquidity	8.3	– 20.6
Effects from foreign exchange rates	– 0.4	0.0
Net cash resources at 1 January	63.6	84.2
Net cash resources at 31 December	**71.5**	**63.6**

I. ACCOUNTING PRINCIPLES

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2001 have been prepared in accordance with the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) to the extent applicable for the year 2001.

RHÖN-KLINIKUM AG fulfils the requirements, as set out in Section 292 (a) of the German Commercial Code (HGB), for the exemption from preparing consolidated financial statements in accordance with German accounting standards. To achieve equivalence with consolidated financial statements prepared in accordance with HGB, all disclosures and explanatory statements required by HGB but going beyond IASB standards have been included.

There are no material deviations from nationally applied accounting and valuation methods.

II. PRINCIPLES OF CONSOLIDATION

1. Scope of consolidation

The Group parent company is RHÖN-KLINIKUM Aktiengesellschaft, headquartered in Bad Neustadt/Saale and registered at the district court of Schweinfurt (company registration number 1670). The scope of consolidation comprises RHÖN-KLINIKUM AG, the parent company, and 36 subsidiaries in which RHÖN-KLINIKUM AG directly or indirectly exercises a majority of the voting rights.

Where an investment in a subsidiary is acquired, its results are included from the date control of RHÖN-KLINIKUM Group became effective.

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

Consolidated companies	Number
As of 31 December 2000	32
Acquisition of UCT Medial Centre (Proprietary) Ltd., Cape Town, South Africa	1
Establishment of four companies in reserve	4
As of 31 December 2001	37

Effective 1 March 2001, RHÖN-KLINIKUM AG acquired an 81 % share in UCT Medical Centre (Proprietary) Ltd., Cape Town (South Africa) at a cost of € 2.8 million. The resulting goodwill of € 0.5 million will be amortised over a period of 15 years, using the straight-line method.

The changes in the scope of consolidation had the following effects on the consolidated balance sheet:

	€ million
Fixed assets	2.6
Liquid funds	1.1
Other current assets	0.2
Liabilities	2.8

The effects on the earnings situation are as follows:

	€ million
Personnel expenses	0.2
Depreciation	0.2
Other expenses	0.7

In 2001, RHÖN-KLINIKUM AG or its subsidiaries acquired the following hospitals which, subject to the corresponding approvals, shall pass into the ownership of RHÖN-KLINIKUM AG or its subsidiaries with effect from 1 January 2002:

	Share	Purchase price
	%	€ million
Klinikum Frankfurt (Oder)	100	63.9
Landesfachkrankenhaus für Psychiatrie und Neurologie, Hildburghausen/Thuringia	74.7	10.7
Hospitals of Nienburg, Hoya and Stolzenau	100	9.2
Aukammklinik für Operative Rheumatologie und Orthopädie GmbH	100	4.6

Six subsidiaries whose combined results are of minor importance to the Group's financial position and earnings situation are not included in the consolidated financial statements.

Details of the interests held in subsidiaries are shown in section IX.

2. Methods of consolidation

The consolidated financial statements incorporate the most recent audited annual financial statements of RHÖN-KLINIKUM AG and all subsidiaries included in the scope of consolidation. These financial statements are prepared in accordance with the German Commercial Code (HGB), using consistent accounting and valuation methods, and adapted to IAS principles at Group level.

Capital consolidation is effected using the benchmark method. Since 1 January 1995, any excess of the purchase price over the fair value of the attributable assets of a subsidiary at date of acquisition is recognised as goodwill and amortised over the expected useful life of the assets to which it relates. Where there is an excess of the attributable assets acquired over the purchase price, these differences are recognised as negative goodwill and amortised over the weighted residual life of the non-monetary wearable assets acquired, with effect on earnings.

All inter-company transactions and balances have been eliminated. Elimination is not provided for interim results due to the amounts involved being negligible.

III. FOREIGN CURRENCY TRANSLATION

The financial statements of the South African subsidiary are translated to euros applying the functional currency concept in accordance with IAS 21. The functional currency is the national (South African) currency, since the foreign entity acts independently in terms of its financial and operating policies.

Equity accounts are converted at historical rates; assets and liabilities are translated at the average rate ruling at the balance sheet date; expenses and earnings are translated at the weighted annual average rate.

Differences arising on the consolidation of the South African subsidiary are shown as "currency translation adjustment" and reported as a separate component of equity.

IV. ACCOUNTING AND VALUATION METHODS

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

Revenues are recognised upon performance of services or, in case of sales, upon transfer of the risks to buyer. Revenues from lump-sum payments per case are recorded in proportion to the progress in the services to which the payments relate. **Operating expenditure** is charged against income at utilising the services received or as incurred. Interest income and interest paid is recognised in the applicable period; profit distributions are recognised at the date of distribution.

Research costs are charged to the income statement as incurred, in accordance with IAS 38. There are no **development costs** requiring capitalisation.

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

Goodwill resulting from consolidation entries is capitalised since 1 January 1995 and amortised over the expected useful life, principally within a period of 15 years, using the straight-line method. The value of goodwill is reviewed regularly; value adjustments are made, where appropriate, in accordance with IAS 36.

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

Write-downs on goodwill and write-backs of negative goodwill are reflected as depreciation in the income statement.

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

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

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

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

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

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

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

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

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

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

Deferred taxes are reported for taxable temporary differences arising from variances in the accounting and valuation policies applied in the tax balance sheets and commercial balance sheets of subsidiaries as well as adjustments at the consolidation level and consolidation measures, in accordance with IAS 12 (revised 2000). Where expected to be realisable, tax loss carryforwards are capitalised in the amounts of the deferred tax assets. Deferred taxes have been calculated using a corporate tax rate of 25 % (plus the 5.5 % solidarity surtax on corporate tax). Tax effects resulting from profit distribution are now included in current taxation. The corresponding previous-year figures have been restated.

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

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

In preparing these consolidated financial statements, some items have been valued taking into account **assumptions** and **estimates** that affect the reported amounts in the balance sheet or the income statement. The effective figures may vary from these assumptions or estimates. Estimates refer, inter alia, to the extent of value adjustments related to receivables from supplies and services, amounts allocated to provisions for legal risks, and impairments in revenues.

V. CASH FLOW STATEMENT

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

VI. SEGMENT INFORMATION

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

With the exception of one foreign entity of minor importance, RHÖN-KLINIKUM Group operates in the German market, exclusively. Since its business risks and opportunities are basically the same in the various federal states and the Group's rehabilitation business does not show the minimum size as defined by IAS 14 (revised 1997), there are no other business segments requiring segmental information besides the Group's acute care business.

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

VII. CONSOLIDATED INCOME STATEMENT

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

1. Revenues

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

	2001	2000
	€ million	€ million
Business areas		
Acute care	661.3	635.1
Rehabilitation	32.7	31.7
Other	3.0	2.3
	697.0	669.1
Regions		
Thuringia	176.8	169.3
Bavaria	170.7	164.5
Saxony	179.2	164.1
Hesse	45.4	47.7
Baden-Württemberg	30.8	29.5
Lower Saxony	69.8	70.4
North Rhine-Westphalia	24.3	23.6
	697.0	669.1

2. Other operating income

Other operating income comprises:

	2001	2000
	€ million	€ million
Income from services rendered	11.4	11.0
Income from grants and other allowances	4.5	4.2
Income from the release of provisions	1.2	0.4
Other	4.3	7.0
	21.4	22.6

Income from services rendered includes income from ancillary and incidental activities as well as income from rental and lease agreements.

3. Cost of materials

Compared to the previous year, the cost of materials increasing by € 10.9 million to € 172.5 million. This increase has to be seen in connexion with services rendered in excess of budgets.

4. Personnel expenses

Personnel expenses rose by € 10.5 million to € 340.1 million, compared with the previous year, the main reasons being an average increase of 2.0 % in wages and higher performance-based pays to employees.

Retirement benefit costs including contributions to external insurance funds amounted to € 3.8 million (previous year: € 4.6 million).

5. Depreciation

Depreciation on tangible and intangible assets increased to € 38.7 million (previous year: € 37.0 million), due to investment activities during the year.

6. Other operating expenditure

Other operating expenditure breaks down as follows:

	2001	2000
	€ million	€ million
Maintenance	18.9	19.6
Charges, subscriptions and consulting fees	8.3	8.3
Administrative overheads	4.6	4.2
Depreciation of receivables	4.0	3.9
Rents and leaseholds	3.1	2.3
Secondary taxes	0.7	0.8
Other	20.9	21.4
	60.5	60.5

7. Research costs

The Group's annual research costs are recognised as current expenditure and account for about 2 % to 3 % of revenues.

8. Earnings taxes

Taxes on earning increased by € 0.4 million to € 22.8 million, compared with the previous year. Earnings taxes comprise the corporate tax and the solidarity surtax. In accordance with IAS 12 (revised 2000), this item also reflects deferred taxation arising from timing differences in the accounting and valuation policies applied to tax balance and commercial balance sheets as well as consolidation measures and reversible tax loss carryforwards which, as a rule, can be brought forward without timing limits. The utilisation of tax loss carryforwards reduced taxation by approximately € 0.4 million.

Earnings taxes are composed as follows:

	2001	2000
	€ million	€ million
Current taxation	22.5	36.7
Deferred taxation	0.3	– 14.3
	22.8	22.4

Deferred taxation of € 0.3 million resulted from tax liabilities of € 0.6 million due to timing differences less capitalised tax loss carryforwards of € 0.3 million.

The following table sets out details of taxes on earnings:

	2001		2000	
	€ million	%	€ million	%
Earnings before income tax	**93.6**	**100.0**	90.4	100.0
Arithmetical taxation*	23.4	25.0	36.2	40.0
Solidarity surtax	1.3	1.4	2.0	2.2
Additional taxation due to non-deductible charges	0.5	0.5	1.1	– 1.2
Effects of tax reform law**	0.0	0.0	– 14.5	– 16.0
Other	– 2.4	– 2.6	– 2.4	– 2.7
Effective taxation	**22.8**	**24.4**	22.4	24.8

* *Based on a tax rate of 40 % (previous year: 40 %)*

** *Reduction of corporate tax rate for deferred taxes to 25 %*

Further details of deferred taxes and how they break down by assets and liabilities are given in the notes to the consolidated balance sheet.

Secondary taxes are shown in the operating result.

9. Earnings per share

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

	Ordinary shares	Preference shares
Share in consolidated profit, in € '000 (previous year)	43,945 (41,157)	22,135 (20,741)
Weighted average number of shares in issue, in units '000 (previous year)	17,277 (17,277)	8,634 (8,634)
Earnings per share, in € (previous year)	2.54 (2.38)	2.56 (2.40)
Dividend per share, in € (previous year)	0.48 (0.40)	0.50 (0.42)

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

VIII. CONSOLIDATED BALANCE SHEET

1. Intangible assets

	Industrial and similar rights and assets	Goodwill	Negative goodwill	Total
	€ million	€ million	€ million	€ million
Acquisition costs				
1 January 2001	5.8	19.2	–2.5	22.5
Additions	0.8	0.5	0.0	1.3
Transfers	0.0	0.0	0.0	0.0
Disposals	0.1	0.0	–2.5	–2.4
31 December 2001	6.5	19.7	0.0	26.2
Cumulative depreciation				
1 January 2001	3.0	4.1	–0.5	6.6
Depreciation	1.2	1.3	0.0	2.5
Disposals	0.1	0.0	–0.5	–0.4
31 December 2001	4.1	5.4	0.0	9.5
Balance at 31 December 2001	**2.4**	**14.3**	**0.0**	**16.7**
Balance at 31 December 2000	2.8	15.1	–2.0	15.9

Industrial and similar rights and assets relate primarily to software.

Disposals of negative goodwill result from supplementary acquisition costs of consolidated subsidiaries.

There are no restrictions on titles and disposing rights.

2. Tangible assets

	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other plant and equip-ment	Payments on account and construction in progress	Total
	€ million	€ million	€ million	€ million	€ million
Acquisition costs					
1 January 2001	546.2	26.9	136.2	56.4	765.7
Changes in currency rates	– 0.2	– 0.1	– 0.7	0.0	– 1.0
Additions	14.1	1.3	24.8	46.6	86.8
Disposals	0.2	0.4	5.8	0.2	6.6
Transfers	24.8	1.7	1.5	– 28.0	0.0
31 December 2001	584.7	29.4	156.0	74.8	844.9
Cumulative depreciation					
1 January 2001	98.9	15.2	85.7	0.0	199.8
Changes in currency rates	0.0	0.0	0.0	0.0	0.0
Depreciation	16.0	2.8	17.4	0.0	36.2
(of which unscheduled)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Disposals	0.0	0.1	5.1	0.0	5.2
Transfers	0.0	0.0	0.0	0.0	0.0
31 December 2001	114.9	17.9	98.0	0.0	230.8
Balance at 31 December 2001	**469.8**	**11.5**	**58.0**	**74.8**	**614.1**
Balance at 31 December 2000	447.3	11.7	50.5	56.4	565.9

The Group has registered mortgages on real estate property as a collateral for bank loans and other liabilities with a total residual carrying value of € 231.4 million.

Public grants and allowances for investment financing are offset against the acquisition or production costs of the assets for which they have been granted and thus reduce current deprecia-tion. This item includes appropriated grants under the Hospital Financing Act (KHG) with a residual carrying value of € 89.7 million (previous year: € 81.6 million) as well as investment allowances under the Investment Promotions Act (InvZulG) and other public subsidies with a residual carrying value of € 63.7 million (previous year: € 54.6 million). Nothing has come to the attention of the Board to indicate that the repay-ment of these grants and allowances is necessary.

3. Financial assets

	Interests in associated companies	Other loans	Total
	€ million	€ million	€ million
Acquisition costs			
1 January 2001	4.1	0.4	4.5
Additions	0.0	0.0	0.0
Disposals	0.0	0.1	0.1
31 December 2001	4.1	0.3	4.4
Cumulative depreciation			
1 January 2001 /31 December 2001	2.3	0.1	2.4
Balance at 31 December 2001	**1.8**	**0.2**	**2.0**
Balance at 31 December 2000	1.8	0.3	2.1

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

Interest-bearing loans are recognised at nominal value.

4. Tax deferrals

Tax deferrals result from variances in the valuation policies applied in preparing tax balance and commercial balance sheets at the level of consolidated subsidiaries, from consolidation adjustments and from tax loss carryforwards expected to be reversible, in accordance with IAS 12 (revised 2000).

Deferred tax assets and liabilities break down by loss carryforwards and balance-sheet items as follows:

	31 December 2001		31 December 2000	
	Assets	Liabilities	Assets	Liabilities
	€ million	€ million	€ million	€ million
Loss carryforwards	6.6	0.0	6.4	0.0
Tax-exempt reserves	0.0	22.4	0.0	25.0
Tangible assets	0.0	8.9	0.0	6.2
Provisions	0.0	1.4	0.0	0.9
Other items	1.0	0.5	0.9	0.5
Total	**7.6**	**33.2**	7.3	32.6

At the balance sheet date, deferred tax assets of € 25.5 million (previous year: € 24.6 million) were not yet utilised; there are no time limits with regard to carrying forward such assets. The tax base used for tax deferrals is € 25.0 million (previous year: € 24.1 million). At the balance-sheet date, deferred tax assets resulting form tax loss carryforwards stood at € 6.6 million.

Deferred tax liabilities include deferred taxes of € 0.8 million arising from consolidation measures.

5. Inventories

Stores and materials in the amount of € 10.0 million (previous year: € 9.8 million) are primarily accounted for by medical supplies. Write-downs have been taken on acquisition costs; at the balance sheet date, these value adjustments amounted to € 1.1 million (previous year: € 0.9 million). The carrying value of depreciated inventories is of secondary importance. Inventories are fully owned by RHÖN-KLINIKUM Group; there are no assignments or pledges of inventories.

6. Receivables from supplies and services

	31 December 2001	of which long-term	31 December 2000	of which long-term
	€ million	€ million	€ million	€ million
Receivables from clients	117.0	0.0	107.3	0.0
Value adjustments	9.5		7.4	
	107.5	**0.0**	99.9	0.0

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

7. Tax claims

Tax claims in the amount of € 3.0 million (previous year: € 1.9 million) comprise corporate tax reimbursement claims of consolidated subsidiaries.

8. Other receivables and other assets

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

	31 December 2001	of which long-term	31 December 2000	of which long-term
	€ million	€ million	€ million	€ million
Receivables under the hospital financing law	0.8	0.0	2.2	0.0
Receivables from associated companies	0.1	0.0	0.1	0.0
Other assets	2.7	0.1	2.7	0.3
	3.6	**0.1**	5.0	0.3

Receivables under the hospital financing law mainly relate to payment claims under the federal compensatory scheme (Bundespflegesatzverordnung).

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

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

9. Liquid funds

Liquid funds comprise balances of cash on hand and cash in banks, exclusively.

10. Equity

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

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

	Number of shares	Arithmetical interest in the share capital as at 31 Dec. 2001 €
Ordinary shares to bearer	17,280,000	17,280,000
Non-voting preference shares	8,640,000	8,640,000
	25,920,000	**25,920,000**

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

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

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

Own shares are valued at € 0.1 million and netted against equity. At the balance sheet date, the portfolio of own shares included 3,054 ordinary shares (previous year: 3,054) and 5,394 preference shares (previous year: 5,589).

In accordance with the provisions of the Companies Act (Aktiengesetz), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of the parent company, RHÖN-KLINIKUM AG, which is prepared in accordance with the German Commercial Code (HGB). The Board of Management and the Supervisory Board will propose to shareholders at the forthcoming general meeting to appropriate the Company's net distributable profit of € 20.5 million as shown below and to carry forward the dividend amount attributable to own shares:

	Dividend € per share	Total €
Ordinary shares	0.48	8,294,400.00
Preference shares	0.50	4,320,000.00
Transfer to other retained earnings		7,890,913.75
		20,505,313.75

11. Minority interests

Minority interests include outside shareholders' interests in the capital of consolidated subsidiaries.

	Outside shareholders' interests
	%
Altmühltalklinik-Leasing GmbH, Kipfenberg	49.0
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	25.0
UCT Medical Centre (Proprietary) Ltd., Cape Town (South Africa)	19.0
Zentralklinik Bad Berka GmbH, Bad Berka	25.0

Outside shareholders' interests in the consolidated net profit for the year amount to € 4.7 million (previous year: € 6.1 million).

12. Provisions for pensions and similar obligations

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

Pension obligations are funded in full from provisions, meaning that these obligations are not covered by outsourced assets.

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

Obligations include pension liabilities to executive staff members of one Group company in the form of defined benefit post-retirement, disablement and survivor's pensions. Provisions for pensions under the company pension scheme cover commitments to existing employees, former employees holding non-forfeitable titles, and pensioners. Benefits are determined on the basis of employees' service lives and pensionable salaries.

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

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

	2001	2000
	€ million	€ million
Current service costs (accrued entitlements)	0.3	0.4
Interest (projected entitlements)	0.6	0.5
	0.9	0.9

In the year under review, pension payments amounted to € 0.4 million (previous year: € 0.4 million). The total costs of € 0.9 million (previous year: € 0.9 million) are included in personnel expenses.

Defined benefit obligation and funding status of pensions and compensations:

	31 Dec. 2001	31 Dec. 2000
	€ million	€ million
Defined benefit obligation	10.5	9.2
Obligation in excess of plan assets	10.5	9.2
Not yet recognised actuarial gains or losses	– 1.6	– 0.8
Defined benefit liability	8.9	8.4

Provisions for pensions have developed as follows:

	2001	2000
	€ million	€ million
Balance at 1 January	8.4	7.9
Pensions paid	0.4	0.4
Allocations	0.9	0.9
Balance at 31 December	8.9	8.4

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

	31 Dec. 2001	31 Dec. 2000
	%	%
Rate of interest	6.0	6.5
Projected increase in wages and salaries	2.5	2.5
Projected increase in pensions	1.5	1.5
Average fluctuation	0.0	0.0

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

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

Current contributions are reflected as pension costs in the operating result. In 2001, total contributions to VBL were about € 2.9 million (previous year: € 3.5 million). Provided continued VBL membership, there are no other obligations for RHÖN-KLINIKUM companies besides paying in contributions.

13. Other provisions

Other provisions developed in 2001 as shown below:

	1 Jan. 2000	Consumed	Released	Allocated	31 Dec. 2001	of which short-term
	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for risks of default	2.2	0.3	0.1	0.1	1.9	1.9
Provisions for third-party risks	1.0	0.0	0.7	0.1	0.4	0.4
Other provisions	0.8	0.0	0.4	0.2	0.6	0.6
	4.0	0.3	1.2	0.4	2.9	2.9

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

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

14. Long-term financial debts

	31 December 2001 Long-term	Short-term	31 December 2000 Long-term	Short-term
	€ million	€ million	€ million	€ million
Liabilities to banks	207.1	30.8	200.1	9.3
Other liabilities	0.0	0.5	0.0	0.5
	207.1	**31.3**	200.1	9.8

Other liabilities refer to an annually redeemable revolving loan.

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

End of fixed interest agreements	Interest rate*	31 December 2001 Nominal value	Book value	31 December 2000 Nominal value	Book value
	%	€ million	€ million	€ million	€ million
Liabilities to banks					
2001		–	–	16.6	14.4
2002	5.98	58.5	51.4	55.3	49.5
2003	6.46	58.8	48.5	58.8	50.3
2004	5.43	34.8	27.6	34.8	29.1
2005	5.96	55.0	52.3	62.6	44.9
2006	5.34	60.6	54.6	13.8	12.0
2007	4.75	5.1	3.5	5.1	4.2
2011		–	–	5.0	5.0
Other liabilities					
2002	7.50	0.5	0.5	0.5	0.5
		273.3	**238.4**	252.5	209.9

* *weighted rate of interest*

Book values shown correspond to market values of financial debts.

Of the amounts stated, € 228.6 million are primarily secured by mortgages.

Long-term liabilities with a residual term of more than five years total € 156,2 million.

15. Tax liabilities

Tax liabilities in the amount of € 9.2 million (previous year: € 16.1 million) comprise corporate taxes payable plus the solidarity surtax. They cover tax liabilities incurred in the current year and in previous periods.

16. Other liabilities

	31 December 2001	of which long-term	31 December 2000	of which long-term
	€ million	€ million	€ million	€ million
Liabilities from supplies and services	33.7	0.3	42.6	0.2
Personnel liabilities	41.8	0.0	38.8	0.0
Financial debts	29.0	0.0	38.2	0.0
Liabilities under the Hospital Financing Act (KHG)	19.9	0.0	19.6	0.0
Operating taxes and social security	9.9	0.0	10.8	0.0
Prepayments received	0.5	0.0	0.3	0.0
Other	12.1	0.2	10.9	0.3
	146.9	**0.5**	161.2	0.5

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

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

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

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

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

IX. INTERESTS IN MAJOR SUBSIDIARY COMPANIES

1. Consolidated subsidiaries

	Percentage held	Equity ** 31 Dec. 2001	Result ** 31 Dec. 2001
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing GmbH, Kipfenberg	51.0	2,309	297
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	18,910	48
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	9,928	– 63
GTB Grundstücksgesellschaft mbH, Bad Neustadt/Saale	100.0	23,668	– 1,130
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	182	72
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,875	369
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	7,928	0 *
Herzberger Klinik Leasing GmbH, Herzberg	100.0	7,851	– 123
Herzklinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,684	200
Herzzentrum Leipzig GmbH, Leipzig	100.0	20,688	14,449
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	– 4,416	845
Klinik „Haus Franken" GmbH, Bad Neustadt/Saale	100.0	425	– 75
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	45	– 1
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	7,193	4,498
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	75.0	17	0
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	4,914	1,836
Kliniken Herzberg und Osterode GmbH, Herzberg	100.0	7,257	1,537
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	13,530	2,332
Klinikum Meiningen GmbH, Meiningen	100.0	12,832	7,634
Krankenhaus Freital GmbH, Freital	100.0	16,049	700
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	8,445	549
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	11,764	687
Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde	100.0	7,748	548
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,110	910
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	7,484	865
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	3	– 3
RK Klinik Besitz GmbH Nr. 1, Bad Neustadt/Saale	100.0	48	– 2
RK Klinik Besitz GmbH Nr. 2, Bad Neustadt/Saale	100.0	48	– 2
RK Klinik Besitz GmbH Nr. 5, Bad Neustadt/Saale	100.0	37	– 10
RK Klinik Betriebs GmbH Nr. 1, Bad Neustadt/Saale	100.0	39	– 11
RK Klinik Betriebs GmbH Nr. 2, Bad Neustadt/Saale	100.0	48	– 2
RK Klinik Betriebs GmbH Nr. 5, Bad Neustadt/Saale	100.0	31	– 16
Soteria Klinik Leipzig GmbH, Leipzig	100.0	2,882	560
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	12,913	1,985
UTC Medical Centre (Proprietary) Limited, Kapstadt (Südafrika)	81.0	1,130	– 735
Zentralklinik Bad Berka GmbH, Bad Berka	75.0	57,471	22,865

* *after profit distribution*
** *accounting to HGB*

2. Associated companies not included in the scope of consolidation

	Percentage held	Equity ** 31 Dec. 2001	Result ** 31 Dec. 2001
	%	€ thousand	€ thousand
ESB-Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt/Saale	100.0	1,916	99
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH, Leipzig	100.0	379	16
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt/Saale	100.0	315	51
Kurverwaltung Bad Neustadt GmbH, Bad Neustadt/Saale	60.0	84	2*
RK Bauträger GmbH, Bad Neustadt/Saale	100.0	206	– 48
Wolfgang Schaffer GmbH, Bad Neustadt/Saale	100.0	487	15

* *According to 2000 financial statements*
** *According to HGB*

X. ADDITIONAL INFORMATION

1. Annual average number of employees*

	2001	2000	Change	
	Number	Number	Number	%
Medical service	1,146	1,139	7	0.6
Nursing service	4,105	4,007	98	2.4
Medico-technical service	1,373	1,346	27	2.0
Support functions	767	719	48	6.7
Supply and misc. services	406	471	– 65	– 13.8
Technical service	166	172	– 6	– 3.5
Administrative service	731	723	8	1.1
Other personnel	46	45	1	2.2
	8,740	8,622	**118**	**1.4**

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

2. Contingent liabilities

	31 Dec. 2001	31 Dec. 2000
	€ million	€ million
Warranties and guarantees	0.8	0.8
Collateral for liabilities of third parties	26.0	26.0
(of which associated companies)	(26.0)	(26.0)

3. Other financial obligations

	31 Dec. 2001	31 Dec. 2000
	€ million	€ million
Capital expenditure contracted for	9.9	15.0
Rental and lease agreements		
Maturity subsequent year	0.4	0.7
Maturity 2–5 years	3.2	4.4
Maturity more than 5 years	0.1	0.0
Pre-tax adjustments		
Maturity subsequent year	1.4	0.1
Maturity 2–5 years	2.7	5.6
Maturity more than 5 years	0.0	0.0
Other		
Maturity subsequent year	14.3	13.7
Maturity 2–5 years	8.2	6.3
Maturity more than 5 years	4.4	5.2

Financial obligations arising from hospital acquisitions total € 88.4 million, which will become due in business year 2002.

In addition, the Group recognises capital expenditure obligations under acquisition agreements in the amount of € 191.9 million (previous year: € 138.0 million) and has agreed to incur this expenditure within a period of up to 84 months.

4. Related parties and persons

RHÖN-KLINIKUM Group companies, in given instances, enter into transactions with related companies/parties. These service and leasehold transactions are arranged under normal market terms. Expenses and income as well as open accounts resulting from such transactions are of secondary importance at Group level.

In the year under review, a law firm which is related with the chairman of the Supervisory Board rendered consulting services at market prices. Total fees amounted to € 1.5 million, of which € 0.7 million for consulting on acquisitions. These expenses are reflected in other operating expenditure in the consolidated income statement, and the resulting open accounts are included in liabilities from supplies and services.

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

Employee representatives on the Supervisory Board received a total remuneration of € 0.3 million under individual contracts or collective wage agreements. Of this, € 0.2 million were in the form of (current) salaries, and € 0.1 million were performance-linked payments. No loans were granted.

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

	2001	2000
	€ million	€ million
Supervisory Board	0.71	0.70
Board of Management	5.50	5.40
Advisory Board	0.02	0.01

Of the total remuneration for the Board of Management, € 1.2 million account for salaries and € 4.3 million for performance-linked payments. Taking into account a retroactive permanent reduction by € 0.6 million in the performance-linked payment elements, the total remuneration for the chairman of the Board of Management was composed of (current) salaries of unchanged € 0.3 million and performance linked payments of € 1.7 million (previous year: € 1.8 million). No loans were granted to Board members.

6. Corporate bodies of RHÖN-KLINIKUM AG

Supervisory Board

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

Bernd Häring, Leipzig,
Deputy Chairman, male nurse
(since 18 July 2001)

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

Ursula Pflieger, Bad Neustadt/Saale,
Deputy Chairwoman, Managing Senior Nurse
(until 18 July 2001)

Helmut Bühner, Bad Bocklet,
male nurse
(since 18 July 2001)

Ursula Derwein, Stuttgart,
Secretary of ver.di and a member of the Chief Executive Board of the labour union Public services, Transport and Traffic (ÖTV)
Also a member of the Supervisory Board of Signal Iduna AG, Hamburg

Professor Dr. Gerhard Ehninger, Dresden,
physician
(since 18 July 2001)
Also a member of the Supervisory Boards of Deutsche eccplus AG, Frankfurt/Main; Universitätsklinikum Carl Gustav Carus Dresden AöR; Other mandates: DKMS Deutsche Knochenmarkspenderdatei gemeinnützige Gesellschaft mbH, Tübingen (chairman of the Board of Directors); Deutsche Klinik für Diagnostik GmbH, Wiesbaden (Advisor KMT = bone marrow transplantations)

Karl-Heinz Geis, Bad Neustadt/Saale,
Sports therapist
(until 18 July 2001)

Karl-Theodor Reichsfreiherr von und zu Guttenberg, Guttenberg,
lawyer

Ursula Harres, Wiesbaden,
medical-technical assistant
(since 18 July 2001)

Kurt Katzenberger, Burglauer,
technician
(until 18 July 2001)

Detlef Klimpe, Aachen,
director of administration

Bernd Kumpan, Bannewitz OT Possendorf,
technician
(since 18 July 2001)

Professor Dr. Dr. sc. Karl W. Lauterbach, Cologne,
university professor
(since 18 July 2001)

Wolfgang Mündel, Kehl,
auditor and tax consultant

Anneliese Noe, Blankenheim,
nurse
(since 18 July 2001)

Timothy Plaut, Frankfurt am Main,
Investment banker

Christine Reißner, Sülzfeld,
director of administration
(until 18 July 2001)

Claudia Rühlemann, Erfurt,
Chairwoman in Thuringia of the labour union Public Services, Transport and Traffic (ÖTV)
(until 18 July 2001)

Joachim Schaar, Wasungen,
personnel director
(since 18 July 2001)

Michael Wendl, Munich,
Secretary of ver.di, regional directorate of the labour union Public Services, Transport and Traffic (ÖTV)
(since 18 July 2001)

Board of Management

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

Andrea Aulkemeyer, Leipzig,
Deputy board member, Regional Division Saxony

Wolfgang Kunz, Würzburg,
Deputy board member, Company and Group accounting
(since 1 October 2001)

Joachim Manz, Weimar,
Regional Divisions Thuringia and East Germany

Gerald Meder, Hammelburg,
Deputy chairman, Synergy, Logistics, Quality and Development; Labour Relations (Company), Regional Division Bavaria, North and West Germany
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

7. Advisory Board

Wolf-Peter Hentschel, Bayreuth *(Chairman)*

Prof. Dr. Gerhard Ehninger, Dresden
(until 18 July 2001)

Dr. Heinz Korte, Munich

Prof. Dr. Dr. Karl Lauterbach, Cologne
(until 18 July 2001)

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Bad Neustadt/Saale, 18 March 2002

The Board of Management

Andrea Aulkemeyer | Wolfgang Kunz | Joachim Manz

Gerald Meder | Eugen Münch | Manfred Wiehl

Auditors' Certificate

Based on the result of our audit, we have issued, with date of 22 March 2002, the following unqualified certificate:

"Auditors' Certificate

We have audited the consolidated financial statements of RHÖN-KLINIKUM Aktiengesellschaft, comprising the balance sheet, the income statement, the statement of changes in shareholders' interests, the cash flow statement and the notes to the consolidated financial statements for the year ended 31 December 2001. The preparation of and the disclosures made in these consolidated financial statements, prepared in accordance with the International Accounting Standards (IAS) issued by the IASC, are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion, based on our audit, on these consolidated financial statements and to verify their compliance with the IAS.

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

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

No defences have resulted from our audit which, in accordance with German auditing standards, also included Management's report for the year ended 31 December 2001. In our opinion, this management report fairly presents the Group's overall position and the potential risks of its future development. Furthermore, we confirm that these consolidated financial statements and Management's report for the year ended 31 December 2001 comply with the conditions for the Company's exemption from the obligation of preparing financial statements and a management report in accordance with German law."

Frankfurt am Main, 22 March 2002

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dreissig)	*(Schmidt)*
Auditor	Auditor

Park-Krankenhaus, Psychiatric Clinics, new building.

RHÖN-KLINIKUM Aktiengesellschaft annual financial statements for the year ended 31 December 2001

Balance Sheet

	31 Dec. 2001 € million	31 Dec. 2000 € million
ASSETS		
Intangible assets	0.2	0.2
Tangible assets	29.0	31.3
Financial assets	212.2	202.6
Fixed assets	**241.4**	234.1
Inventories	1.9	2.0
Receivables and other assets	44.4	25.3
Securities, cash and cash equivalents	0.2	0.2
Current assets	**46.5**	27.5
	287.9	261.6

	31 Dec. 2001 € million	31 Dec. 2000 € million
EQUITY AND LIABILITIES		
Subscribed capital	25.9	25.9
Capital reserve	37.6	37.6
Retained earnings	128.2	97.0
Net distributable profit	20.5	21.3
Equity	**212.2**	181.8
Tax provisions	0.1	1.4
Other provisions	24.0	22.7
Provisions	**24.1**	24.1
Liabilities	**51.6**	55.7
	287.9	261.6

Income statement

	2001 € million	2000 € million
Revenues	118.7	113.0
Changes in services in progress	–0.2	0.2
Other operating income	5.4	7.5
Cost of materials	28.4	26.0
Personnel expenses	56.6	53.1
Depreciation	3.0	3.0
Other operating expenses	26.6	25.5
Operating result	**9.3**	13.1
Income from investments	55.1	60.5
Financial result	–2.0	–2.5
Headline earnings	**62.4**	71.1
Taxes	21.4	28.6
Net income for the year	**41.0**	42.5
Allocation to retained earnings	20.5	21.2
Net distributable profit	**20.5**	21.3

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

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

Proposed appropriation of net distributable profit

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2001, which have been prepared by the Board of Management and approved by the Supervisory Board and are thus final, show a net distributable profit of € 20,505,313.75. The Board of Management will propose to shareholders at the forthcoming general meeting that this profit be appropriated as follows:

	€
Distribution of a dividend of € 0.48 per ordinary share on 17,280,000 ordinary shares	8,294,400.00
Distribution of a dividend of € 0.50 per non-voting preference share on 8,640,000 preference shares	4,320,000.00
Allocation to other retained earnings	7,890,913.75
Net distributable profit	20,505,313.75

Bad Neustadt/Saale, 16 May 2002

RHÖN-KLINIKUM AKTIENGESELLSCHAFT

The Board of Management

Andrea Aulkemeyer	Wolfgang Kunz	Joachim Manz
Gerald Meder	Eugen Münch	Manfred Wiehl

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