RHÖN-KLINIKUM AG

ANNUAL REPORT

2003

Contents

RHÖN-KLINIKUM GROUP AT A GLANCE

	1999 € thousand	2000 € thousand	2001 € thousand	2002 € thousand	2003 € thousand
Revenues	615,012	669,144	697,013	879,492	956,265
Cost of materials	152,040	161,577	172,487	211,691	230,423
Personnel costs	297,102	329,565	340,093	456,090	496,032
Depreciation on tangible assets	37,037	37,030	38,652	48,930	49,157
Net consolidated profit	44,616	61,899	66,080	67,428	73,132
EBT	78,930	90,441	93,647	99,076	111,239
EBIT	94,438	103,057	106,643	115,320	125,619
EBITDA	131,475	140,087	145,300	171,468	174,856
Operating cash flow	86,185	105,019	109,464	131,275	128,932
Number of employees (at 31 December)	9,145	9,357	9,432	12,852	13,408
Tangible assets	511,681	565,878	614,093	717,941	757,755
Financial assets	1,901	2,056	1,973	1,999	2,014
Equity	265,836	319,013	374,090	429,375	487,308
Return on equity, in %	18.5	21.2	19.1	16.8	16.0
Balance sheet total	734,532	771,735	836,628	1,003,381	1,108,972
Investments					
– in tangible assets	94,100	92,243	87,088	168,218	112,454
– in financial assets	79	84	19	0	15
Earnings per preference share (€)	1.74	2.40	2.56	2.62	2.84
Earnings per ordinary share (€)	1.72	2.38	2.54	2.60	2.82
Total dividend amount	8,726	10,541	12,614	15,206	17,798

The pictures of this annual report

There are many facets to a market undergoing change. Healthcare services and the way they are provided seemed to be unchanging for ages, because healthcare is seen as an essential part of what is called services of general interest.

But – the decline of old financing forms, combined with the fact that patients get older and older, and the enormous opportunities provided by modern medicine are now about to break up obsolete structures. While this is considered by some people as a loss of essential traditional values, others see it as the largest and most exciting growth market known today.

We have interviewed some of those who have contributed to the company's success in the past, or are expected to help open up new horizons in the future, i. e. our employees – older and younger ones; we wanted to find out more about their opinion on past developments and their expectations for the future:

- Do you have a life philosophy and, if yes, how does it read?
- What are your personal/professional goals?
- Why did you join RHÖN-KLINIKUM Group?
- Where do you see career opportunities for yourself?
- What do you think will your life look like in 30 years' time?
- Do you draw on the advice of older/younger colleagues, or are you in a position to do so?

Frankfurt-based photographer Martin Starl visited our staff "on site" at their work-places. His snapshots and our staff members' statements exemplify the broad spectrum of standpoints and opinions. Our thanks go to those who have participated in this project – and to all those who are not pictured in this annual report.

Report of the Supervisory Board for the year ended 31 December 2003 [pursuant to § 171 of the Companies Act (AktG)]

The activities of the Supervisory Board in financial year 2003 were driven by fundamental changes in the legal framework for the German healthcare sector, combined efforts of the Board of Management and the Supervisory Board to once more increase the efficiency of corporate management, and a substantial increase in administrative costs relating to the German Corporate Governance Code. This report informs about these developments and outlines the present composition and structure of the Supervisory Board.

Composition and structure of the Supervisory Board; personal data

In compliance with the provisions of the Co-determination Act (MitbestG), the Supervisory Board continues to be composed of 16 members. Of these, eight members were elected by the shareholders at the Annual General Meeting of RHÖN-KLINIKUM AG, and the remaining eight members were elected by the Group's employees. The personal data of the Supervisory Board members holding office are set out in the section "Corporate bodies of the Company" in this annual report; the section also provides information on the professional qualifications of the Supervisory Board members.

In financial year 2003, Dr. Richard Trautner and Bernd Kumpan resigned from the Supervisory Board on 16 July and 12 November, respectively; in their stead, we welcomed Michael Mendel, who was elected as shareholders' representative, and Werner Prange who joined the Supervisory Board as staff representative.

The Supervisory Board continues to be chaired by Dr. F.-W. Graf von Rittberg; the first deputy chairman is Bernd Häring, and the second deputy chairman is Michael Mendel (since 17 July 2003; previously: Dr. Richard Trautner).

Committees of the Supervisory Board

As in previous years, the Supervisory Board endeavoured again in 2003 to perform its task of advising and supervising the Board of Management primarily within the scope of all-day plenary meetings. In financial year 2003, the Supervisory Board therefore only established a Mediation Committee, a Personal Affairs Committee and an Ad-hoc Committee which was particularly concerned with urgent decisions on hospital takeover projects.

The Mediation Committee was formed in accordance with Section 27, § 3 of the Co-determination Act (MitBestG). The members of the Mediation Committee are Ursula Derwein, Bernd Häring, Detlef Klimpe, and Dr. F.-W. Graf von Rittberg (chairman). The authorities and tasks of the Mediation Committee are as set out in Section 31 of the Co-determination Act (MitbestG). The Mediation Committee did not have to be convened during financial year 2003.

The Personal Affairs Committee, established by the Supervisory Board in accordance with Section 107 of the Companies Act (AktG), first comprised Bernd Häring, Dr. F.-W. Graf von Rittberg (chairman), Dr. Richard Trautner, and Michael Wendl. Later in the year, when Dr. Richard Trautner resigned from the Supervisory Board, Dr. Brigitte Mohn was elected to the Personal Affairs Committee in his stead. The Personal Affairs Committee deals with matters concerning the Board of Management; this refers, in particular, to the conclusion, operation and/or dissolution of contracts for members of the Board of Management. In so far as permitted by law, the Personal Affairs Committee is competent to take decisions within its specific terms of reference in place of the Supervisory Board. The Personal Affairs Committee met twice during financial year 2003.

In order to ensure the Company's capacity to act in the context of new acquisitions, the Supervisory Board has formed in 2003 an Ad-hoc Committee to handle urgent decisions on hospital takeover projects. The members of this Committee are Bernd Häring, Dr. Richard Trautner, Dr. F.-W. Graf von Rittberg (chairman) and Michael Wendl. Following Dr. Richard Trautner's retirement from the Supervisory Board, Michael Mendel was appointed as a member of the Committee. Where takeover projects require immediate attention, the Ad-hoc Committee examines the acquisition of hospitals and approves these takeovers on behalf and in place of the Supervisory Board. The Ad-hoc Committee for hospital takeovers did not have to be convened during financial year 2003.

Composition of the Board of Management

The composition of the Board of Management of RHÖN-KLINIKUM AG remained unchanged in 2003. Its members are Andrea Aulkemeyer, Wolfgang Kunz, Joachim Manz, Gerald Meder, Eugen Münch and Manfred Wiehl. The chairman of the Board of Management is Eugen Münch, and the deputy chairman is Gerald Meder, who in 2003 was also appointed director of labour relations (Arbeitsdirektor) of RHÖN-KLINIKUM AG, pursuant to Section 33, § 1 of the Co-determination Act (MitbestG).

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

The work of the Supervisory Board in financial year 2003

The Supervisory Board held four meetings during financial year 2003. 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 well as all the important business 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. An essential part of the Board's work in 2003 revolved around the proposed fundamental changes in the legal framework for the activities and compensation of hospitals. These include the change of hospital compensation from the principle of cost coverage to service-linked compensation (based on DRGs – Diagnosis Related Groups), the introduction of cross-sectional forms of Integrated Care, which healthcare providers are now free to agree, and the provision of outpatient services in Medical Care Centres. In several meetings, the Board of Management and the Supervisory Board discussed and assessed the potential impact of these changes on the activities of the Group's hospitals as intensively as the potential resulting effects on the Company's revenue and cost structures. Of importance in this context were the discussions about the implementation of what we call Tele-Portal Clinics – a proprietary clinic concept developed by the Board of Management – which enable healthcare provision close to where people live while ensuring services at the quality level of major centres.

Further acquisitions of acute hospitals from public owners and the necessary assessments and decisions to be made in this context were subjects under debate in all of the Supervisory Board's meetings. In particular, the Supervisory Board dealt with the takeover bids concerning the Landesbetrieb der Krankenhäuser (LBK) in Hamburg, Waldklinikum Gera, Stadtkrankenhaus Cuxhaven, St. Elisabeth-Krankenhaus in Bad Kissingen, Carl von Heß-Krankenhaus in Hammelburg, and the Enzkreis district hospitals in the region of Pforzheim.

In each of its meetings, the Supervisory Board was given written and verbal account of the developments within the Company and each of its subsidiaries and, in particular, of the development of human resources. In its discussions on human resources development, the Supervisory Board gave priority attention to deal with plans designed to strengthen the second executive level, comprising regional directors and managing directors who report directly to the Board of Management, with an eye to this executive group's importance for the future development of the Group.

The Board of Management informed us fully, and in continuously updated reports, about 2003 capital expenditure, revenue, earnings and liquidity plans for the Company and the Group, as well as capital expenditure, revenue, earnings and liquidity planning for financial year 2004, the latter having been submitted to the Supervisory Board as early as on 12 November 2003. The Supervisory Board examined all of these reports and took the necessary decisions.

In several of its meetings, the Supervisory Board also dealt with further enhancements to the Company's internal monitoring systems, pursuant to Section 91 (2) of the Companies Act (AktG), and reviewed the progress report on early risk identification.

German Corporate Governance Code

The Supervisory Board has endeavoured to carefully supervise the compliance with the various recommendations contained in the German Corporate Governance Code ever since this code was introduced in financial year 2002, and to give detailed reports on this issue. In doing so, the Supervisory Board has avoided any statements that could be misunderstood or have effect beyond calculable time periods. This has led to an unjustified advice in the auditors' opinion on financial year 2002 and a subsequent lawsuit against the auditors in 2003, which the Supervisory Board and the Company won. The competent Chamber of Commerce of the District Court of Schweinfurt ruled on 1 December 2003 that the declarations of the Board of Management and the Supervisory Board regarding the compliance with the recommendations of the German Corporate Governance Code fulfil all legal requirements and are thus correct.

In addition, the Supervisory Board endeavoured to improve the time- and cost-intensive application of the provisions of the German Corporate Governance Code and to adapt procedures and business processes to the Code's conceptions. Among other things, the Supervisory Board has decided to have an external examination of efficiency conducted in financial year 2004, in accordance with Item 5.6 of the German Corporate Governance Code.

Examination and approval of the 2003 financial statements

The Board of Management has prepared the financial statements of the Company and Management's report for the year ended 31 December 2003 in accordance with the provisions of the German Commercial Code, while the consolidated financial statements and Management's consolidated report for the year ended 31 December 2003 have been prepared in accordance with the principles set out in the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). For RHÖN-KLINIKUM AG, these consolidated financial statements exempt it, as set out in Section 292 a of the German Commercial Code (HGB), from the requirement to prepare consolidated financial statements in accordance with German accounting standards.

The auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have examined the financial statements of the Company and Management's report as well as the consolidated financial statements and Management's consolidated report for the year ended 31 December 2003. Their audit offered no reason for objections; the auditors have given an unqualified opinion.

The financial statements of the Company and Management's report, the consolidated financial statements and Management's consolidated report as well as the reports of the auditors about the result of their audit were given to all members 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 the Audit Committee, which the Supervisory Board has formed in financial year 2004, and discussed with representatives of the auditors. Having concluded its own examination, the Supervisory Board concurs with the auditors and sees no grounds for objections on its part.

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

The Supervisory Board concurs with Management's proposal for the appropriation of the net distributable profit.

Bad Neustadt/Saale, 28 April 2004

The Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg
Chairman

Corporate bodies and Advisory Board of the Company

CORPORATE BODIES

Supervisory Board

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

Bernd Häring, Leipzig
Deputy Chairman, nurse

Dr. Richard Trautner, Munich
Deputy Chairman (until 16 July 2003)

Michael Mendel, Munich (since 17 July 2003)
Deputy Chairman, member of the Board of Directors of Bayerische Hypo-Vereinsbank AG

Helmut Bühner, Bad Bocklet
Nurse

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

Professor Dr. Gerhard Ehninger, Dresden
MD

Ursula Harres, Wiesbaden
Medical-technical assistant

Detlef Klimpe, Aachen
Director of administration

Bernd Kumpan, Bannewitz OT Possendorf
Technician (until 12 November 2003)

Professor Dr. Dr. sc. (Harvard) Karl W. Lauterbach, Cologne
University professor

Dr. Brigitte Mohn, Gütersloh
Member of the Board of Management of Bertelsmann Stiftung, responsible for healthcare issues

Wolfgang Mündel, Kehl
Auditor and tax consultant

Anneliese Noe, Blankenhain
Nurse

Timothy Plaut, London
Investment banker (retired)

Werner Prange, Osterode
Nurse (since 15 January 2004)

Joachim Schaar, Wasungen
Director Human Resources

Michael Wendl, Munich
Secretary of ver.di, regional directorate Bavaria

Board of Management

Eugen Münch, Bad Neustadt/Saale
Chairman

Gerald Meder, Hammelburg
Deputy Chairman, Synergy, Logistics, Quality and Development; Labour Relations (Company); Regional Divisions Baden-Wuerttemberg, Bavaria, Hesse, Lower Saxony, and North Rhine-Westphalia

Andrea Aulkemeyer, Leipzig
Regional Division Saxony

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

Joachim Manz, Weimar
Regional Divisions Thuringia, Brandenburg

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

ADVISORY BOARD OF RHÖN-KLINIKUM AG

Wolf-Peter Hentschel, Bayreuth *(Chairman)*

Prof. Dr. Robert Hacker, Bad Neustadt/Saale

Dr. Heinz Korte, Munich

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Sustainability of growth and value enhancement

Our leitmotif is, and will continue to be, sustainability. Once again, this principle guided us through financial year 2003: we have prudently made your company grow at a healthy pace, vigilantly built up its inner strength and far-sightedly strengthened its strategic positioning as a top player in a healthcare market that is undergoing radical change.

Dear shareholders,

In this Olympic Year, please allow me to draw a metaphorical comparison. Our financial year 2003 was like the crucial game after a break in a tennis match. If the player manages to confirm his or her break, he or she can look forward to win the set or maybe even the match. Not only did we succeed in confirming our break, we even scored additional valuable points. Following a short period “on equal points”, we were able to achieve the “break” in the Group – as explained in detail in our 2002 annual report – as early as in the second half of 2002 and brought the year to a remarkably successful close; we have definitely stabilised the trend reversal during the year under review and secured for ourselves “game, set and match”.

As folk wisdom will have it, success never comes easily, or – put differently – by working hard it is possible to create a basis that is even more certain to bring about success. We have reached the targets we set ourselves for 2003 – by taking a broad view, carefully analysing trends, strictly maintaining and actively controlling the performance improvement programmes implemented throughout the Group in 2002, as well as through even tighter cost control and intensified benchmarking in materials usage and staffing, combined with well-placed external growth. Excluding operating cash flow, we achieved encouraging growth in all key performance figures.

Revenues increased 8.7 per cent to € 956.3 million. Earnings before interest and taxes (EBIT) climbed to € 125.6 million, or 9.2 per cent, compared to the previous year. For the first time, consolidated profit exceeded the mark 70 million, to reach € 73.1 million. This corresponds to forecasts made by us as well as by (most) analysts who have been observing our company’s course for many years. Earnings per share increased 8.5 per cent, to € 2.82, a respectable figure, we believe, looking at the general market trends in the past year.

The number of patients treated at our hospitals exceeded half a million for the first time – for us a source of pride in an environment of wide-spread pessimism –, increasing by 11.9 per cent in the year under review to reach a combined total of 530.069 patients. Four-fifths of this increase is attributable to the hospitals in Pirna, Dohna-Heidenau and Cuxhaven, all of which were consolidated for the first time in 2003. The number of RHÖN-KLINIKUM sites throughout the country has grown to 23, as we added the hospital of the Carl von Heß’schen Stiftungen in Hammelburg in July and the St. Elisabeth-hospital in Bad Kissingen in September. So, at the start of the new financial year, our portfolio included hospitals with a total capacity of 8,701 beds, and the Group now employs around 13,400 persons. A low average sick rate and low staff turnover are indicative of modern working conditions and high employee satisfaction.

In keeping with our dividend policy, we want you, our shareholders, to have an adequate share in the solid growth evidenced by these figures. The Board of Management will therefore propose to the Supervisory Board a dividend of € 0.68 on ordinary shares and € 0.70 on preference shares for the year 2003.

Looking forward, we are confident that the stock exchanges will not permanently deny the positive development in your/our company but will honour our strategy of creating substantial and lasting value. We will continue to assert ourselves as trendsetters and movers in the changing hospital market. The healthcare sector is becoming more consumption-oriented as the state's share declines. However, because everyone in need of its services feels that his or her life is being greatly affected, it is still, and will continue to be, an area in which trust is of vital importance. Trust is a function of reliability, as people want to know what to expect ... For the same reason, the performance of your shares may well continue in the short and intermediate term to depend on the confidence generally felt in the political process and, thus, on overall equity market sentiment.

We strive to create a symbiosis of interests: of the interests of patients as users of our services, of employees as the providers of these services, and yours as our financiers who, if in need of care and in a position to make a choice, would most probably prefer to stay at RHÖN-KLINIKUM hospitals. Our information policy intends to communicate the type of sustainability we seek and is therefore designed to provide critical content in addition to facts and figures. On the following pages, you will find out how we evaluate this market and our prospects in it, following the latest legislative steps, what efforts we made in the year under review so that we can continue leading the market not only in terms of analysts' valuations, what internal and external strategies we are pursuing and why we believe that the future will not be shaped by so-called strategic pitches but by the achievements of thousands of highly motivated people who focus on sustainability and quality content.

At this point, we would like to express our thanks to all our employees for their outstanding contribution – each in his/her area of responsibility – to providing our national and international patients with competent care 365 days a year. Their dedication and hard work have made the achievements featured here actually happen. We also thank the Supervisory Board, the Advisory Board and, not least, the employee representatives for their constructive work.

Our thanks go to you, our shareholders, for your devotion to sustainability of growth and value enhancement – something we all share. We intend to fulfill your expectations to the best of our ability in the years to come.

Bad Neustadt/Saale, April 2004
Yours sincerely

Eugen Münch
Chairman of the Board of Management

A market undergoing radical change: reforms and their consequences

"Nothing is as exciting as health! There is unrest in the hospital market! Everywhere you look, you see far-reaching changes that are certain to re-shape today's hospital landscape. There are more reasons than just the mandatory introduction of the new DRG-based remuneration system – this is rather the catalyst that shows the need for change, in some cases dramatically." *

The best experience in my profession is that you can help save lives. My tasks are quite varied and I really enjoy the job. If there are any bad experiences, you forget them relatively quickly, thank God.

Udo Glotz, medical-technical radiology assistant, cardiac catheterisation laboratory, Bad Neustadt/Saale

Restoring health is a complex service. It ranges from such aspects as human warmth all the way through to cold facts such as optimising the cost-efficiency of lab analyses. Choosing the optimal solution among this multitude of options, putting things in order, developing a system for evaluating the challenges and coordinating the solutions is what hospitals do. Who else in the healthcare sector shares this panorama and competence? Where else, if not at the hospital, do so many medical services come together?

However, as savings programmes are pushed through in the German healthcare sector, due to lack of public financing strength, hospitals have come under increasing criticism. These broad-brush criticisms range from a lack of cost awareness to utter lack of viability. What has been ignored, is the fact that for many years, effective working models of private hospital service providers have existed, that economically and cost-effectively offer high-quality services to everyone at any time – and are financially successful, too. The secret to our past and future success is: motivated employees, patient-focused process optimisation and development of suitable clinical structures through high initial investments and ongoing renewal and replacement capital expenditure.

Privatisation as a tool of competition?

The fact that changes in our market were, and continue to be, absolutely necessary is underscored by a brief analysis of figures published by the German Hospital Association (Deutsche Krankenhausgesellschaft, DKG). The findings confirm that there is a lack of economies of scale as a result of inefficient service structures at German hospitals.

The figures are not precise and in some cases the time horizons do not even match. The changes are so striking, however, that even a 10 per cent margin of error over the monitored period has only a marginal effect on the assessment of findings and the conclusion.

Statistics for 1991 showed 13.9 million hospital admissions at an average case price of € 2,687. By 2001, inpatient numbers had grown some 19 per cent to 16.6 million cases per year, driven by changes in demographics and medical progress. And case prices had grown average with inflation, increasing by 19 per cent to € 3,192.

Between 1991 and 2001, the number of hospital beds declined by 112,885 beds and that of nursing days by 40.8 million days, or 20 per cent. Any observer would expect that increasing patient numbers (= production volumes, from the business management standpoint), combined with reduced durations of stays in hospital

* *Dr. Uwe K. Preusker, 17 November 2003, publisher of "Klinik Markt Inside". Quotation from the editorial, Volume 1, No. 1/2003.*

and lower bed capacity (avoiding idle capacity), lead to growing margins, since total costs at hospitals are largely made up of fixed costs. However, less successful hospitals or hospital groups than RHÖN-KLINIKUM AG have recorded heavy losses; insiders estimate these to range between 3 per cent and 5 per cent of total revenues. So, the question of what the causes are remains.

An analysis of available data shows that, while service delivery concentrated on less hospital beds and reduced durations of stays in hospital, the number of full-time employees assigned per 100 occupied beds rose from 111.5 in 1991 to 145.5 in 2001, increasing by 30.5 per cent. The cost per full-time employee in the areas of medical and nursing services rose from approx. € 33,500 to approx. € 45,500 annually, an increase of 35.8 per cent. Overall, per diem medical and nursing personnel expenses stood at € 102.79 in 1991; by 2001, these expenses had soared 76,4 per cent, reaching € 181.34. Material costs more or less followed the upward spike taken by personnel costs.

These developments exemplify the lack of rationalisation capabilities in large parts of the hospital systems. Public hospitals, in particular, have so far failed to adapt their personnel policies to what is really needed at the operative level, to profitably use resources and to respond to changes in market requirements and demand by way of prudent investing.

At the start of 2004, we have received renewed bid invitations from hospitals which we had seen with a 12 per cent loss (as a percentage of revenues) as early as in 2000 and which now, with losses around 18 per cent, are faced with increasing privatisation pressures. We are prepared – and in a position – to handle such difficult cases, but will do so only if we are granted unlimited room for investing, without being hampered by vested rights of the nature described above.

Continuance in existing structures, often required in takeover negotiations by employee representatives, labour unions and politicians, and the assumption of losses of many years, booked as loans and financed by banks known to be related parties of the sellers, will not be confirmed or accepted by us, since it is exactly here where we see the reason for existing sales pressures – and where we identify undue risks for the Company’s long-term success, not to speak of the risks for its patients.

The best experience in my working life was to change from a conventional work-place to RHÖN-KLINIKUM AG, where I had the chance of getting to know cross-section approaches to imaging diagnostics. The most interesting aspect is that no examination resembles the other. What I don’t like is that the professional spectrum of an MTA is extremely wide; I believe, specialisation in the direction of MRI or CT will become necessary in the future.

Birgit Pfaff, medical-technical assistant, Radiology, Bad Neustadt/Saale

We see our mission in designing the future rather than in prolonging the past.

We believe, our analysis of market opportunities perfectly reflects prevailing market trends, and is therefore a valuable basis for the Group's future orientation. Part of this analysis is that publicly owned and operated hospitals – due to the absence of structural changes, combined with budget ceilings and ever-increasing patient numbers – are faced with an urgent need for even more profound changes than had previously been apparent.

It is not unlikely that a huge loss-fed mountain of debt has grown outside official government budgets which, were it to be reduced through current fiscal planning, would have a profound impact on social benefits and public spending. In any event, however, we can expect a flood of privatisation requests, fuelled by the hope of debt assumption. Likewise, this kind of hopeless situation for many public players will increasingly trigger a flood of unqualified defence mechanisms, according to the maxim: "the system fights back."

There are certain tendencies to halt the introduction of the DRGs (hospital remuneration by flat rates per case based on Diagnosis-Related Groups) and to continue as before. Vigorous efforts are being made to conclude collective bargaining agreements with the public authorities in which salary cuts are traded for contractual obstacles to privatisation. We would call such a procedure a clear misuse of wage autonomy; nevertheless, such deals can no longer be ruled out. We would do our utmost to take steps against such developments. Because the greatest entrepreneurial asset securing our existence is our flexibility, and this we cannot allow to be contractually blocked during acquisitions.

The consequence for us as a financially strong, highly profitable hospital group is to follow a strictly selective approach to acquisitions and, in borderline cases, to let bolder competitors go first so as not to harm our future with high-priced assets that come with too many strings attached. Many of the current acquisition opportunities concerning large hospitals (not the medium-sized and small ones) are weighed down by sell-side expectations such as excessive debt assumption, overstated sales prices and acceptance of contractual safeguards against change for many years, all of which is suitable to jeopardize the future development of the business concerned.

Regardless of what our competitors do and what speculative stock markets envision, we will continue to grow sound and prudent, with an eye to both new market opportunities and sustainability. We welcome the expected increase in competition, which constantly energises and motivates us to develop and implement strategic concepts for the future.

Mandatory opening to competition

There is no doubt that the mandatory introduction of the DRGs currently has top priority among German hospital managers. The new remuneration system, and the resulting transparency of services rendered are expected to help open up the market to intensified competition and bring about improvements in quality and cost-effectiveness. There are many dimensions to the increase in competition for hospitals. The profound changes on the basis of the 2003/2004 health reform will also have a major effect on how competition will be shaping. To implement these changes, managers will have to demonstrate a high degree of expertise, strength, determination, imagination and creativity.

Reform factor: flat rates per case

As of 1 January 2004, hospital stays are not longer paid for in daily rates. These rates have been replaced by flat rates per case under the new DRG-based system, although without any budgetary effects or cuts for the time being.

DRG-based remuneration is expected to make hospitals more efficient and, by adding transparency, to simplify quality and efficiency comparisons within the hospital sector or, strictly speaking, to enable such comparisons for the first time. However, this requires considerable adjustments in work processes and structures at virtually all hospitals which, as a rule, require substantial investments.

We have been running project and work groups at our hospitals for nearly three years in order to prepare the responsible staff members for the new billing methods. We had a lot of experience to draw on, as several of our hospitals had been applying flat rates per case for years, though only in part. It still required quite a bit of persuasion – not only among the doctors – and major investments, particularly in hardware and software, to simplify case documentation technology and to improve the coding quality for billing the health insurance funds. Meanwhile we have spent over € 5 million on investments, development and training.

The new billing system facilitates useful comparisons (benchmarking) of key figures within each individual hospital, within the Group, and within the entire hospital sector – a fact that has helped doctors accept this system. Because of imbalances in the entire system and differences as to the basis of calculation for the DRGs, highly specialised and/or special services have not yet been catalogued in the coding system, and average per-case prices for all of Germany and/or the federal states have not yet been determined and established. As it turns out, high-

Debate between generations – both preceding and subsequent generations – has always been very important to me. When the Freital hospital was sold, I was excited about RHÖN-KLINIKUM AG becoming the new owner, because, in my opinion, they had presented the best concept of all. If I had to decide once more, I'd immediately opt for the same (profession) again – although it's hard work and not always satisfying (pay inappropriate, if considering a doctor's responsibility and workload, with above-average working times that weigh on family life and health).

Dr. Ingrid Straßberger, head physician, Freital

My maxim: be yourself, whatever others may say. I've been working in the anaesthetic department for two years, I'm now deputy head of the department, and I am currently completing my training as a specialist nurse. I endeavour to live up to my idea of modern, patient-oriented nursing care; taking advice from other team members is part of it.

Nick Mende, managing anaesthetic nurse, Pirna

value services are presently valued low while simple services are valued high.

It is expected that further reductions in the duration of stays in hospital, an increase in surgery provided on an outpatient basis and participation in disease-management programmes will change the processes and structures for assuring and enhancing quality and cost-effectiveness within hospitals. Furthermore, the GKV-Modernisierungsgesetz (Statutory Health Insurance Modernisation Act) not only provides hospitals with the opportunity to open up new service fields but will also lead to very close interlinking with other health service providers.

Analysis of the health reform

The 2003/2004 health reform is neither perfect nor a fully completed legislative act with a scope that would qualify it as a "reform of the century". However, we believe that it constitutes a unique opportunity to effect fundamental changes in how medical services are provided. This represents the most comprehensive attempt at reform since Bismarck's day.

For the first time ever – and that is a quantum leap in itself – openings are being created that offer more options to the movers than to the defenders of the status quo. While this does not mean that the fence between the sector systems has been eliminated as a source of protection and interference, there are now several holes, so to speak, in the fence.

Our focus has so far been on raising our hospitals' productivity and quality through process-oriented organisation in order to compensate for shrinking per-case income, to earn investments and to catch up to medical progress through rationalising inpatient care provision. In the future, we will be organising the production chain beyond the accustomed territory of our hospitals.

The system that has prevailed so far was poorly suited to fostering entrepreneurial and strategic qualities within our industry, which would be needed in order to break through the still existing barriers in the form of approval requirements and the many rights to veto that sector owners unfortunately continue to enjoy. In other words, change will take place much more slowly than we had hoped.

System leadership and Integrated Care

The automotive industry is a prime example of how to create system leadership. Cars consist of thousands of components that to the untrained eye appear to be fully interchangeable before they are put together to form a car. However, all these components are part of a larger system that ultimately manages to meet the highly individual needs of its users. Looking at our industry, we believe that hospitals rather than other participants in the healthcare system possess enough knowledge of interdisciplinary services to satisfy the varying complexity of patients' needs in both human and economic terms.

Integrated Care, which was introduced under the 2000 health reform, should now gain considerable momentum, thanks to a key aspect of the 2003/2004 reform to improve the collaboration between healthcare system sectors, Integrated Care projects will obtain support from a fixed budget between 2004 and 2006. The budget is made up of one per cent of total doctors' fees (€ 220 million) and one per cent of the hospitals' budgets (€ 460 million). That adds up to € 700 million per year for innovative contracts. Moreover, healthcare insurance funds and defined groups of medical professionals were given permission as of 2004 to sign Integrated Care contracts without first seeking the approval of the KV (Association of Panel Doctors). This represents a real prospect for development – assuming that the contracts are not signed solely for short-term motivations grounded on the one-per-cent funding.

Integrated Care means, in essence, to develop a service improvement that patients/members of health insurance schemes like so much that they would even be willing to pay for it. If the programme finds favour with the insurance providers and can possibly be offered nationwide, we will, for the first time in the history of Germany's healthcare system, have the opportunity to stage bottom-up reforms in everyone's best interest. It is not hard to understand that this is a source of worry for those who stick to thinking in sectors. However, this coin could have a less pleasant flipside in which financing targets and short-lived membership gains are pursued without direction, while offerings will become as confusing as telecommunication rates.

Key role of advising doctor and general practicioner

The new regulations on Integrated Care give hospitals the opportunity to develop systems like those described above in the automotive industry. Hospitals can negotiate models with various providers – other hospital operators, doctors, therapists, hotels and airlines – and various health insurance funds (cost-bearers). However, there should always be an advising doctor – much like an account manager in the manufacturing industry – who helps patients select individual diagnoses and therapeutic modules. At the same time, the general practicioner will, and should, continue to work independently and assume a key role within the system. The hospital gets general practicioner involved in the diagnosis and therapy by giving them access to patients' electronic files. As a result, general practicioner have access to all important data and can always act as an intermediary for patients and their families, providing competent advice during in-patient care.

After all, it is about time that the healthcare industry embraced a principle that is the root of success in any business: customers are the true employers. For whom else should we work if not for him?

My motive for working this long for RHÖN-KLINIKUM has been, and continues to be, the great variety of my responsibilities. I can look back on 26 years of service and I'm proud of being part of what this company is today.

Karl-Heinz Geis,
kinetotherapist,
Bad Neustadt/Saale

More than an idea: therapy leasing

Now that the legislator has opened up the system through Integrated Care, we have much more room for developing solutions – geared towards the needs of future patients – though countless obstacles and barriers remain to be overcome before they can be realised. We believe that public health with its contribution-linked financing system, which enables blanket-coverage care provision, will increasingly show systemic weaknesses when it comes to early applying medical progress, as the financial squeeze on public households is tightening. Our work on new approaches for making the proton-heavy ion therapy and the necessary therapy units available on a broad basis (leading to cost-effective use) unveils such systemic weakness: the insurance funds obviously take the view that it is always cheaper to block an innovation than to promote it. This is why we are working on a type of therapy leasing, designed to enable full therapeutic use and financing at the same time. The benefit derived from the use of such technologies would be twofold: firstly, patients, including panel patients, would have accesss to medical innovations that are not yet included in the general service catalogue of their insurers by paying a small extra amount, and secondly, the early demand thus created would be a strong incentive for the developers and manufacturers of such technologies.

Approaches such as the one decribed above will be the more effective the better the system interlinking on the health service providers' side. Medical Care Centres should provide a good basis for that.

The field of activities of an MTRA has changed significantly over the past 30 years. The recent years have seen enormous technological progress, so that a split-up of the present job analysis seems reasonable to me.

Ulrike Thielicke, medical-technical radiology assistant, Radiology, Bad Neustadt/Saale

My maxim: indifference towards others is the beginning of all evil. It's better to talk with each other than to talk about each other.

Lothar Kesselring, nurse, Intensive Therapy Unit, Bad Neustadt/Saale

Medical Care Centres

The GKV-Modernisierungsgesetz (Statutory Health Insurance Modernisation Act) introduced what is called Medical Care Centres, giving hospitals the opportunity to integrate the services of practicing specialists – i. e., the service stage preceding hospitalisation – into clinical structures and to leverage synergies out of what used to be redundant services.

The law (Section 95 SGB V et seq.) describes Medical Care Centres as follows:

"Medical Care Centres are interdisciplinary, doctor-managed institutions in which doctors listed in the Registry of Doctors, pursuant to Section 2 Subsection 3 Number 1, are employed as salaried or contract staff. Medical Care Centres may use any admissible form of organisation; they may be established by service providers involved in medical care provision to the insured by virtue of a licence, authorisation or contract. The licence will be issued for the place of establishment as a doctor or for the place of establishment as a Medical Care Centre (panel doctor's seat/Vertragsarztsitz)."

Medical Care Centres are issued licences by the Medical Practices Committee of the Association of Panel Doctors (KV) in so far as they provide medical services within the scope of statutory health insurance. They may absorb vacant KV seats (through purchases) in order to expand. Formerly independent panel doctors may choose to integrate their practices into the Medical Care Centre, where they can continue to work as part-time employees. There are a number of additional privileges and limitations with respect to the set-up and operation of Medical Care Centres by and at hospitals.

By integrating doctors' practices, or rather specialists' practices, hospitals will be able to make better use of their investments/resources and avoid offering redundant services. That means that synergies should be leveraged. However, since synergies also mean struggle, redistribution and effort, they will only come about if all parties involved can expect a benefit (win-win situation). There will only be willingness to change if everybody is clear about who will enjoy an advantage or for whose benefit it is if, for instance, redundant diagnoses are eliminated. The challenge of creating successful centres that maximize benefits and advantages thus consists mainly of motivating and involving doctors in such a manner that they readily throw their skills into the scales – in the interest of these shared goals.

The opportunity for hospitals to establish and operate Medical Care Centres constitutes an approach that represents one of the biggest attempts to reform the healthcare system has seen in Germany's recent history – however, it remains merely an approach. A closer look at what it takes to implement such centres reveals a jumble of KV-related protective regulations that suggest that Medical Care Centres will only appear in incomplete form, if at all – unless there is willingness, to the point of self-sacrifice. However, we remain convinced that, with a little courage and creativity, there will be some exemplary breakthroughs in some places.

I have been working for the company for less than a year, that's why I am grateful for any advice from older and also from younger colleagues. A super experience in my profession is to get positive feedback from patients after successful treatment.

**Heidi Kessel,
medical-technical
radiology assistant,
cardiac catherisation
laboratory,
Bad Neustadt/Saale**

I always wanted to work with, and for, people and take on responsibility. Add to this my interest in natural sciences. The medical profession embraces all of this. I love my profession, and I'm proud of it. Right now I'm preparing for my specialisation. After that, I may choose to continue to work in the hospital sector, or open an own practice.

Dr. Marcus Michna, first year resident, Bad Neustadt/Saale

Where such an exemplary breakthrough is achieved, the doctors and hospital involved in a Medical Care Centre will quickly realise how much of a "quantum leap" this means in reality. If, for example, qualified local specialists could close the professional gaps at a smaller hospital, this would lay the groundwork for a true competence centre. Local patients could then turn to the primary-care hospital as a qualitative gatekeeper and a service point after the general practicioner. For the hospital, this would represent a competitive advantage over "outsiders" (i. e., competing non-cooperating hospitals). We will set up and run such centres for the benefit of patients anywhere the opportunity presents itself.

We believe that a combination of Integrated Care and Medical Care Centre could constructively overcome the flaws inherent in both of these segments. For this to work, however, there would have to be enough statutory insurance funds and patients/subscribers who recognise and desire this improvement in care provision.

The effectiveness of our concepts has not been denied by most of the participants in the system; however, they are of the opinion that our ideas involve too many changes, which is why they defer putting them into practice in their own sphere of work to the far-away future.

Our strategic concept: the Tele-Portal Clinic

The Tele-Portal Clinic model was first brought into being as an "idea" during an event in June 2001 and has since evolved into a strategic concept. It is now in the process of implementation, and our first three Tele-Portal Clinics are being built in Dippoldiswalde, Hammelburg and Stolzenau. Some of our competitors are now coming forward with similar approaches.

The Tele-Portal Clinic is the most modern solution for a knowledge-driven process. It offers – in keeping with our corporate objectives – inexpensive, optimal care to everyone at any time and place, wherever primary-care hospitals are no longer in a position to do their jobs and large hospitals provide services in excess of what patients really need. The unique Tele-Portal Clinic features include semi- and fully-automated evaluation technology, on-site medical expertise (known to be expensive and rare) as part of a virtual pool that can draw on a wealth of external expertise, supported by state-of-the-art diagnostic and information technologies. This system will gain even more support from customised Intranet systems.

We want to use this concept to demonstrate to people that excellence of care is possible at "their" local hospital – beyond bureaucratic control or nannying.

Especially in these days it's hard to anticipate what my life will look like in 30 years' time, but I hope that things will not be worse than they are today.

Kathrin Weikert, Payroll Office, Bad Neustadt/Saale

The "old" hospital is struggling for survival. We will use our strategic concepts and the opportunities afforded by the 2003/2004 health reform to strengthen and expand our position in the market. We will – even though it is apparently "German nature" for everything to take longer than necessary – persist in our goal of steady quality growth. We feel that we are on the way to a promising future by remaining close to the patient, embracing technological progress and participating in the opening up of the market for competition and capital.

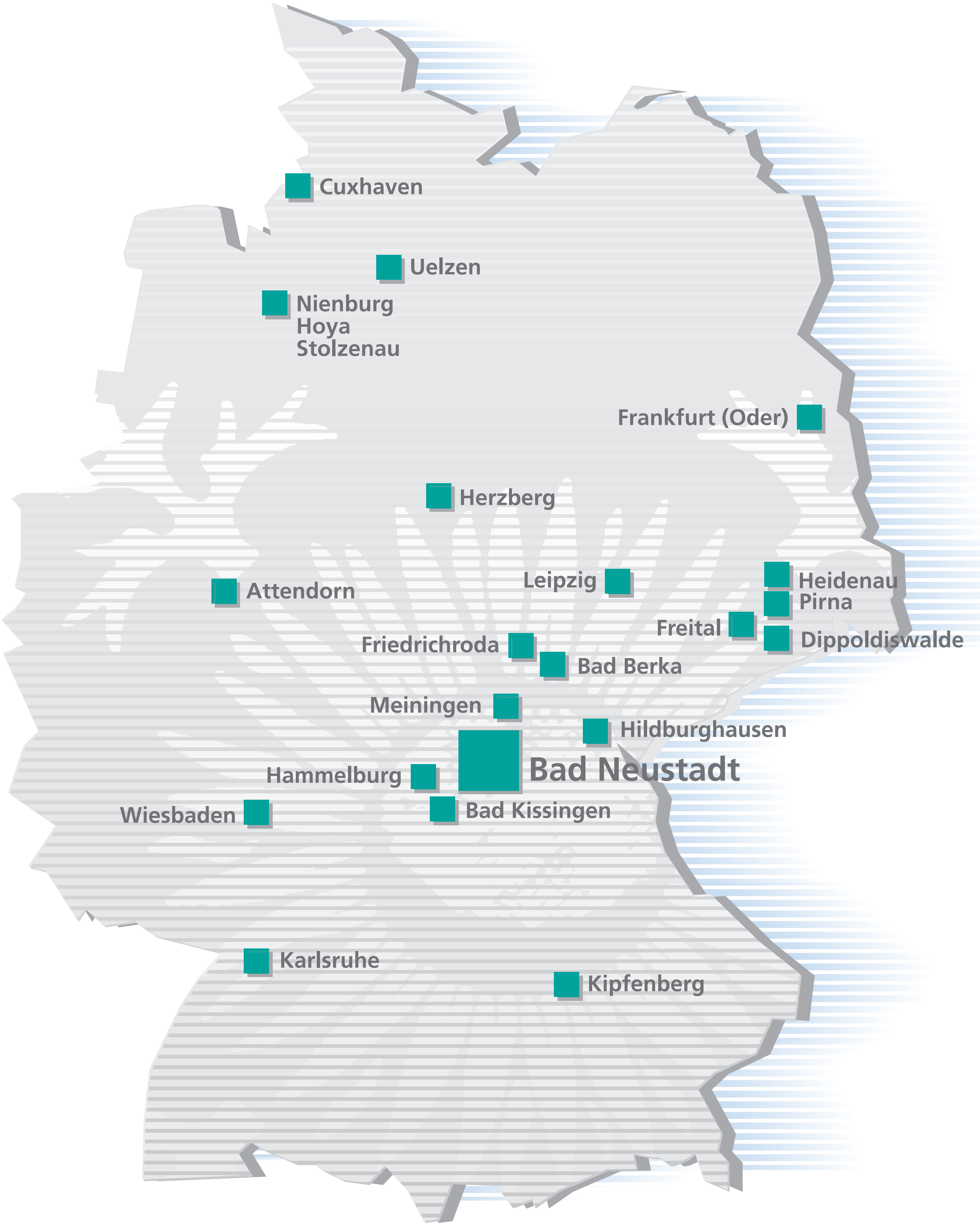
RHÖN-KLINIKUM AG provides me with an interesting work-place, with very good prospects and opportunities for me to develop my skills. There's much experience inside the company, and a consciousness of the importance of innovation; this is part of what I expect of an attractive employer.

Martin Bosch, Personnel and Cost Controlling, Leipzig

The past decade at Herzzentrum Leipzig has seen the creation of a highly qualified and motivated world-class team, forged under totally new basic conditions. This team stands any comparison with renowned European centres. The reason behind its success is a perfect mix of like-minded older and younger, experienced and learning people, seasoned professionals and young talent eager for knowledge, who complement and support each other and jointly stay young and active. I hope – and I am confident – that this team will continue to deploy, and grow, its unique potential over the next decade and beyond.

Professor Dr. Peter Schneider, head physician, Leipzig

The sites of RHÖN-KLINIKUM Group



RHÖN-KLINIKUM Group Management Report for the Year 2003

- **Continuing on a successful course, despite head wind**
- **Internal revenue and earnings targets met**
- **Consolidated profit up 8.5 per cent at € 73.1 million on a 8.7 per cent revenue increase to € 956.3 million**
- **Motivated and well positioned for the future**

My aim is to benefit from further training that brings me up to the latest technical and medical standards, so I can provide our patients with the best possible services.

Janina Erck, medical-technical radiology assistant, Radiology, Bad Neustadt, Saale

PRELIMINARY REMARKS

RHÖN-KLINIKUM AG's consolidated financial statements and Management's report for the year ended 31 December 2003 have been prepared in accordance with the principles of the International Accounting Standards/International Financial Reporting Standards. Insofar as there have been amendments, further improvements or revisions of existing standards during the year under review, these have been accounted for. We largely apply the recommendations and suggestions issued by the Government Commission of the German Corporate Governance Code. These financial statements thus provide our investors with nationally and internationally comparable corporate data for the assessment of the Group and its performance.

A. ECONOMIC AND FINANCIAL REPORT

1. Summary

In business year 2003, we focused on two primary objectives. These were, firstly, to improve the efficiency of the hospitals within our portfolio, and, secondly, to strengthen the Group's market position. To achieve these goals, we introduced a number of organisational measures and concluded several new acquisitions.

A combination of improved processes, enhanced information technologies, intensified project team work, and progress on the reporting and benchmarking front helped us to tap reorganisation potential and to create the platform for future quality growth.

Consolidated revenues increased by € 76.8 million, or 8.7 per cent, to € 956.3 million, enabling us to earn € 73.1 million, an 8.5 per cent increase over the previous year.

Acquisition activities during business year 2003 – we took over the hospitals in Dohna-Heidenau, Cuxhaven, Hammelburg and Bad Kissingen with a combined total of 766 beds – were ruled by considerations of local factors and long-term earnings prospects, exclusively. Priority will be given to devel and strengthen these locations through investing.

Factoring in the Bad Kissingen and Hammelburg facilities, which we acquired effective 1 January 2004, the Group operates 8,701 beds in 31 hospitals at 23 sites throughout Germany. December 2003 saw the commissioning of the new hospital building in Uelzen, which was financed in full from own means. In the planning stage are major building projects at another 11 sites, which together represent an investment volume of € 233.5 million. We were able to fully finance our 2003 investments in the amount of € 112.5 million from the cash flow of € 128.9 million. At balance sheet date, net debt was reduced by € 30.5 million to € 215.5 million. This corresponds to a factor of 1.2 times (previous year: 1.4 times) relative to earnings before interest, taxes and depreciation (EBITDA). The equity ratio increased from 42.8 per cent to 43.9 per cent. The prerequisites for continued growth are in place.

2. Macroeconomic environment

Although the war in Iraq ended only about one month after it broke out in the spring of 2003, this did not lead to any significant improvement in the overall economic picture of many countries. The world economy did not show any visible upward trend, and a number of leading economies – among them Germany – saw themselves forced to gradually reduce their growth forecasts.

Contrary to expectations, Germany's adjusted gross domestic product (GDP) for 2003 declined by 0.1 per cent (basis: 1995). The average unemployment rate rose by 0.7 percentage points to 10.5 per cent, and, for the first time, employment sank not only in the manufacturing and agricultural sectors but also in the services industry. If compared to the previous year, the number of gainfully employed persons declined by 0.4 million to 38.3 million. Apart from the fact that Germany once again failed to meet the Maastricht deficit limit of 3.0 per cent by 0.9 per cent, private consumption came to a standstill. Exports, so far an efficient driver of economic growth, slowed down towards year end, due to Euro strength against the U.S. Dollar.

The federal government's endeavour in 2003 was to address and overcome the reform bottleneck that has built up over many years. But – far-going reforms in Germany seem to be doomed to fail, either because of lacking determination to bring about true reform, or because of prevailing majority ratios in the Federal Council of Germany. However, partial success has come to be within reach, at last. Overall, we share the German business community's optimism, reflected in the upward trend on the 2003 Ifo business climate index, as we see first, though still subdued signs of recovery.

	2003	2002	Change	
	€ million	€ million	€ million	%
Revenues	956.3	879.5	76.8	8.7
EBITDA	174.8	171.4	3.4	2.0
Operating cash flow	128.9	131.3	– 2.4	– 1.8
Earnings from ordinary operations	111.2	101.2	10.0	9.9
Consolidated profit	73.1	67.4	5.7	8.5

3. Industry environment

Naturally, the overall economic situation in Germany had a negative impact on the highly regulated hospital sector as well. Whilst on the sell side the demand for healthcare services continued to grow across all sectors, driven by demographic developments and medical progress, surplus services to cover the demand had to be rendered again in 2003 – as was the case in previous years – in the face of less than proportional budget increases.

The year 2003 marked the beginning of the five-year transition phase for the new DRG-based flat rate remuneration system for hospital services; for the first time, this system will introduce elements of competition in the German healthcare system.

In accordance with the guiding principle of "money shall follow performance", the so far relatively unflexible hospital budgets which hardly knew such differentiating criteria as performance and quality will be gradually substituted by uniform prices that will be valid nation-wide.

The whole industry embarked on intensive preparation work in order to make hospitals fit for the new challenges in both administrative and medical/organisational terms.

Reductions in the duration of stays in hospital and an increasing volume of day-case and outpatient services are the first visible changes effected by this development which, at the same time, unveil existing excess inpatient bed capacities and a lack of day-clinic structures. This is why, on the income side, budgets could only be used up by way of rendering surplus services; otherwise, hospitals had to put up with revenue shortfalls which burdened results almost to their full extent, particularly at publicly owned and operated hospitals with their largely rigid cost structures. At the same time, municipal governments are increasingly unable to provide for timely fiscal deficit coverage, as social budgets continue to grow while government revenues are going down.

The situation of public hospital service providers is aggravated by the threat of potential excess expenditure as a result of expected changes in wage-hour law; this, and a growing understanding that, due to their lack of investing capabilities, they will hardly be in a position to embrace the opportunities that lie in the upcoming structural change, has led to many a public hospital owner changing his ("hands-off") attitude.

Willing sellers have substantially increased in numbers, but we have also observed that more and more hospitals up for sale turn out to be reorganisation cases that require certain contributions to reorganisation on the sell side. Competition among potential buyers has markedly eased and concentrates on a limited number of major projects.

We are sceptical about the chances of success of regional hospital groups under public ownership; because they are primarily oriented towards maintaining the status quo, we believe, such group structures are not in a position to develop the necessary investing power, nor will they deploy the necessary drive to effect true change.

As in previous periods, our guiding principle for acquisitions has been: "quality ranks before quantity". Potential takeover candidates must fit in with our own service spectrum and plans, and be able to contribute to optimising these. Provided that we estimate the potential for change to be sufficient, we offer public hospital owners (local authorities) who are willing to privatise optimal solutions for best possible patient care through our investment-driven concepts.

4. Corporate overview

CORPORATE GOVERNANCE AT RHÖN-KLINIKUM AG

RHÖN-KLINIKUM AG has since inception been committed to responsible corporate management and supervision, oriented towards long-term value increment. Efficient cooperation between the Board of Management and the Supervisory Board, combined with open and timely communication, has helped to actively promote investor, employee, patient and public confidence in the Company and its management. Our living up to these principles – even before the new legislation on corporate governance came into effect in 2002 – has been one of the pillars on which RHÖN-KLINIKUM AG's success in more than 25 years in a row is grounded.

For financial year 2003, the Company issued a Declaration of Compliance with the German Corporate Governance Code, pursuant to Section 161 of the Companies Act (AktG), which gives due consideration to the recommendations of the Government Commission of the German Corporate Governance Code as amended on 7 November 2002. This joint declaration issued by the Board of Management and the Supervisory Board was published on the Company's website (www.rhoen-klinikum-ag.com) in July 2003 and is also included in this Annual Report.

As in the previous year, our 2003 Declaration of Compliance is limited to that year – our stance on the terms of validity of such declarations has meanwhile been confirmed by court ruling. Management and the Supervisory Board will continue to closely monitor the progress made in developing the Code's recommendations, and will issue a Declaration of Compliance for financial year 2004 that will correspond to the latest developments.

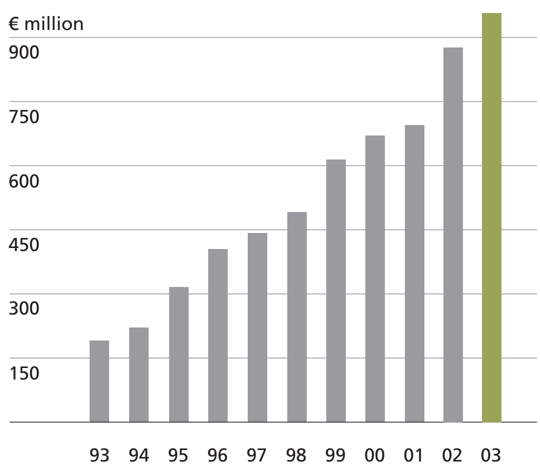
The Company's share capital is divided into non-voting preference shares and voting ordinary shares. Over the past years, we have consistently held our Annual General Meeting in the month of July. Considering that preliminary results are published as early as at the beginning of February and final results are presented at our annual press conference in April each year, we will hold on to this time schedule. The Company provides proxies for shareholders to exercise shareholders' rights at its annual general meetings.

In line with the principle of parity representation of shareholders and staff, the Supervisory Board of RHÖN-KLINIKUM AG comprises eight employees' representatives and eight shareholders' representatives. The Board normally holds four full-day meetings per financial year. Members are appointed for a period of five years. Age restrictions will become effective from 2004. The Supervisory Board regularly takes its decisions in plenary sessions; only in isolated cases will decisions be made by Committees set up by the Supervisory Board. A Personnel Committee that deals with personnel matters related to the Board of Management has been in existence for some years; an Audit Committee has been formed to take up its work in 2004. Also in 2004, the Supervisory Board, whose tasks and authorities are ruled by the Company's Articles of Association, will issue own Terms of Reference.

I have accompanied RHÖN-KLINIKUM's development from its inception some 30 years ago up to this day; I worked for the company in several areas of responsibility. What fascinates me is its development from what it was originally, a simple spa operation, to what it is now: a leading hospital service provider who delivers top medical quality, using business management approaches and industrial processes based on the flow principle for optimal treatment and care of the sick.

Jörg Rieger, managing director , Bad Neustadt/Saale

Development of revenues



The Board of Management presently comprises six members. In line with the Board's Terms of Reference, which regulate the allocation of areas of responsibility, there are centralised group-wide responsibilities for defined functions, on the one hand, and regional responsibilities, on the other hand. The Board of Management is headed by the chairman of the Board, or, in his absence, by the deputy chairman. The chairman determines the principles of corporate policies. The Board of Management as a whole is responsible for further developing, planning and controlling the operations of the entire Group. The compensation of the members of the Supervisory Board and the Board of Management is made up of fixed salary and variable components, with variable components predominating. The Group does not provide stock option programmes or similar forms of compensation. Details of the compensation of each member of the Supervisory Board and the Board of Management are given in the notes to the consolidated financial statements, broken down by fixed salary and variable components.

The consolidated annual financial statements are prepared in accordance with the provisions of the International Accounting Standards/Financial Reporting Standards and audited in accordance with both national and international auditing standards. The annual financial statements of our subsidiaries are based on the provisions of the German Commercial Code (HGB). When issuing audit mandates to auditors, attention is paid to ensuring the necessary independence of the auditors appointed. The audit mandate for the consolidated financial statements and the financial statements of the Company (parent company) is issued by the chairman of the Supervisory Board after due examination, in accordance with the resolutions of shareholders at the Annual General Meeting.

The chairman of the Board of Management and the board member responsible for financing, investing and controlling (CFO) share the responsibility for risk management and group-wide controlling systems and procedures. Our fine-tuned system of Terms of Reference at all levels – including the boardroom, regional directors, and managing directors at the subsidiary level – and that system's clearly defined reporting lines are designed to ensure responsible corporate governance and controlling by the Board of Management, alongside timely information transfer.

BUSINESS DEVELOPMENT

Overall, our hospitals have been able to come up to what we expected and to achieve positive results, with the exception of some of our real estate subsidiaries, and Mittelweser Kliniken GmbH which was handicapped by extraordinary expenses in the context of the projected close-down of its Hoya site. While some of our hospitals disappointed due to temporary losses in occupancy, other Group members exceeded internal expectations. The integration of hospitals acquired in the previous year was successful:

if compared to the previous year, first consolidated subsidiaries generated significantly higher contributions to overall results. Similarly, hospitals which have been members of the Group for some time were able to equal or top their previous-year operating results in the face of difficult market conditions.

Against this background, Group performance figures developed as shown below:

	2003	2002
	%	%
Return on equity (after taxes)	16.0	16.8
Return on sales	7.7	7.7
Cost of materials ratio	24.1	24.1
Personnel cost ratio	51.9	51.9
Depreciation ratio	5.1	5.6
Other cost ratio	8.6	9.4
Tax ratio	28.4	24.2

	2003	2002	Change	
	Patients	Patients	Absolute	%
Inpatients, acute	255,487	235,155	20,332	8.6
Inpatients, rehab	6,656	6,953	– 297	– 4.3
Outpatients, acute	267,926	231,667	36,259	15.7
Total	530,069	473,775	56,294	11.9

	2003	2002	Change	
	€ million	€ million	€ million	%
Cost of materials	230.4	211.7	18.7	8.8
Personnel costs	496.2	456.1	40.1	8.8
Depreciation	49.2	48.9	0.3	0.6
Other operating expenditure	82.1	82.6	– 0.5	– 0.6
Total	857.9	799.3	58.6	7.3

Development of revenues and earnings

In financial year 2003, revenues increased by 8.7 per cent to € 956.3 million, with external growth accounting for 58.0 per cent and internal growth for 42.0 per cent of that increase. If compared to previous-year revenues, internal growth stood at 3.7 per cent and was thus significantly higher than the statutory budget growth rates which were limited to 2.09 per cent in the new federal states and 0.81 per cent in the old federal states, and granted only to hospitals that had adopted DRG flat rates.

Both the assertion of budget-increasing facts on the income side and efficiency gains in almost all of our hospitals contributed to an above-proportion growth in earnings, enabling us to earn € 73.1 million, or 8.5 per cent more than in the previous year. Our success becomes even more visible on the level of earnings before taxes (EBT): here we achieved an improvement of € 12.2 million, or 12.3 per cent, to € 111.2 million, which is not fully reflected in net consolidated profits, due to tax rate increases.

The aggregate number of patients treated rose to 530,069 increasing by 11.9 per cent over the previous year. Around 41,000 patients were accounted for by newly acquired hospitals, and around 15,000 patients, or 2.8 per cent, were added by Group hospitals consolidated prior to 2003.

Due to new acquisitions, inpatient acute bed capacity showed an 7.6 per cent annual average increase. Taking as a calculation basis this capacity increase, the 8.3 per cent increase in inpatient numbers and the average duration of stays in hospital, which was reduced by 3.1 per cent, or 0.3 days, to 9.5 days, overall occupancy declined by 2.0 per cent to 83.1 per cent. Annual average occupancy in acute care was lower at 85.3 per cent (previous year: 87.3 per cent), while the average duration of stays was reduced to 8.8 days (previous year: 9.1 days). In

Previously unknown economic constraints – which must not disturb the doctor-patient relation, however – and the fact that patients today are much better informed through the media have added to the challenge of being a doctor. Some ten years ago, when I was a newcomer to the profession, an "old" colleague told me that "medicine is communication". Today, I can more and more see the truth in this statement.

Dr. Torsten Welrich, senior consultant, Pirna

rehabilitation, stays in hospital averaged 40.6 days (previous year: 42.1 days), and average occupancy stood at 79.9 per cent (previous year: 82.7 per cent). The reasons behind these developments are group-wide efforts to adapt to DRG-compatible lengths of stays, increasing volumes of day-clinical surgery, and the fact that newly acquired facilities awaiting the necessary restructuring usually show lower occupancy rates than our "older" hospitals.

Per-case revenues declined from € 1,856 to € 1,804, due to statutory budget limitations and a more than proportional increase in outpatient and day-case treatments.

Other operating income in the amount of € 27.1 million (previous year: € 37.2 million) essentially refers to income from ancillary and incidental activities, income from rental and lease agreements, as well as grants received for teaching and research. The previous-year figure was shown € 10.2 million higher, which is explained by non-recurring factors, including insurance payments for various damages, and income from the change-over of one subsidiary's pension scheme to a defined contribution plan.

Material costs developed in proportion to revenue growth. The cost of materials ratio remained stable, as higher ratios at acquired general hospitals offset the slight savings achieved at hospitals that have been members of the Group for some time. The trend towards increased use of higher-priced implants and pharmaceuticals continued in 2003, but was neutralised through purchase price reductions.

Similarly, personnel expenses increased in line with revenues. The personnel cost ratio remained unchanged at 51.9 per cent, reflecting further improvements in staffing and workflows in our established hospitals and disproportionately high personnel cost ratios at recently acquired hospitals, as well as higher non-recurring expenditure in connection with restructuring measures. We expect the latter to deploy positive effects on earnings in subsequent years.

Depreciation was almost unchanged, compared to the previous-year level, increasing by only 0.2 per cent to € 49.2 million, due to the fact that major 2003 investment projects were not commissioned before year end; this refers, in particular, to the new hospital building in Uelzen which is being funded in full from own means. Overall, around 76 per cent of total investments in financial year 2003 have been financed from own means, so that we can look forward to higher depreciation rates in future periods.

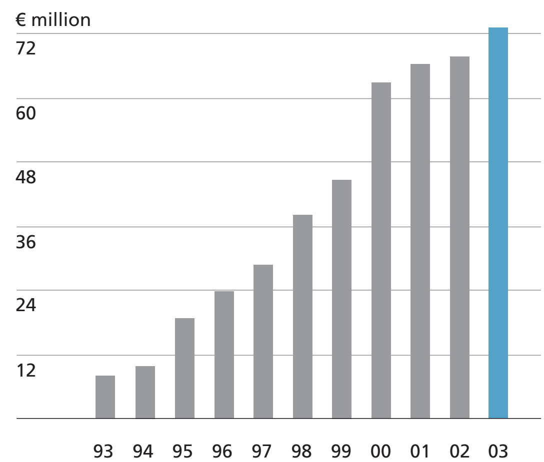
Other operating expenses declined by € 0.5 million to € 82.1 million on the absence of previous-year extraordinary charges of € 4.6 million, due mainly to flood damages in Freital. Adjusted for extraordinary charges, other operating expenses increased by 5.3 per cent, which is less than proportional to the increase in revenues.

Regular and prior debt redemption, combined with more favourable short-term interest rates, helped improve the 2003 financial result which is shown € 1.9 million higher at € 14.4 million.

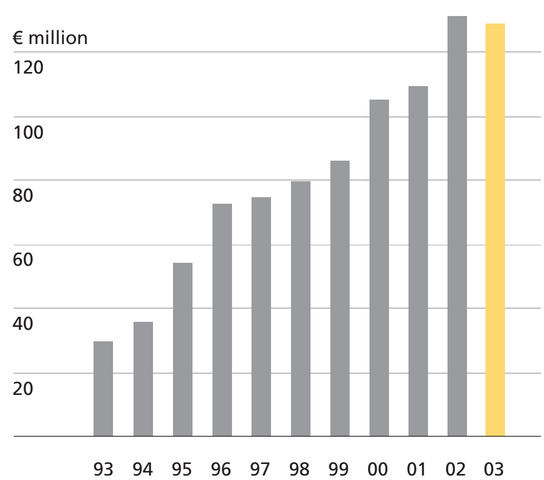
The earnings tax load increased by € 7.6 million to € 31.5 million. The tax ratio of 28.4 per cent comes very close to the corporation tax rate of 26,5 per cent plus solidarity surtax, applicable for financial year 2003 after a 1.5 per cent corporation tax rate increase. The previous-year tax ratio of 24.2 per cent was, for the last time, influenced by tax credits provided on profit distributions.

Minority shares in the profit for the year decreased to € 6.6 million (previous year: € 7.7 million). This decrease has resulted from the absence of non-recurring amounts paid by one subsidiary for financial year 2002, while minority quotas remained unchanged in the year under review. The addition of another 12.5 per cent to our participation in Zentralklinik Bad Berka GmbH, which took effect on 31 December 2003, bringing the Company's interest in that subsidiary to 87.5 per cent, had no effects on minority shares in financial year 2003.

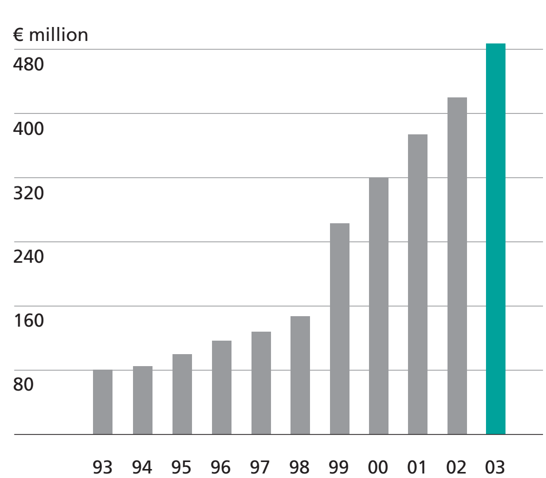
Net consolidated profit for the year rose by € 5.7 million, or 8.5 per cent, to € 73.1 million (previous year: € 67.4 million).



Development of net profit



Development of cash flow



Development of capital

Medical specialties represented by physicians within RHÖN-KLINIKUM Group (as at 31 December 2003)

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

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

Investing activities

During financial year 2003, we invested a total of € 147.4 million in fixed tangible and intangible assets. Of this total, € 34.9 million were funded from grants under the Hospital Financing Act (KHG) and deducted from total investments, pursuant to the relevant provisions of the IAS. Factoring out these grants, 2003 net investments amounted to € 112.5 million (previous year: € 168.3 million). Assets acquired on takeovers and an increase in interests held accounted for € 24.3 million, and current capital expenditure for € 88.2 million of total net investments during the year under review. An analysis of investments by regions is given below:

	€ million
Bavaria	12.5
Baden-Wuerttemberg	0.6
Brandenburg	10.4
Hesse	3.4
Lower Saxony	69.8
North Rhine-Westphalia	6.8
Saxony	17.2
Thuringia	26.7
Total investments	**147.4**
Deduct: Grants under KHG	34.9
Net investments	**112.5**

December 2003 saw the commissioning of the new acute hospital building in Uelzen, which we financed in full from own means. The building at St. Barbara Attendorn will be ready to move in by April 2004. The extension project at Fachkrankenhaus für Psychiatrie und Neurologie in Hildburghausen is scheduled to open its doors in early summer 2004.

Planned investments totalling € 233.5 million comprise new buildings for major centres (Schwerpunktkliniken) at our Nienburg, Pirna and Cuxhaven sites as well as a new forensic clinic in Hildburghausen. Tele-Portal Clinics will be built in Dippoldiswalde, Stolzenau and

Hammelburg. Structural improvements designed to optimise clinical processes are planned for our Frankfurt (Oder) and Bad Kissingen sites.

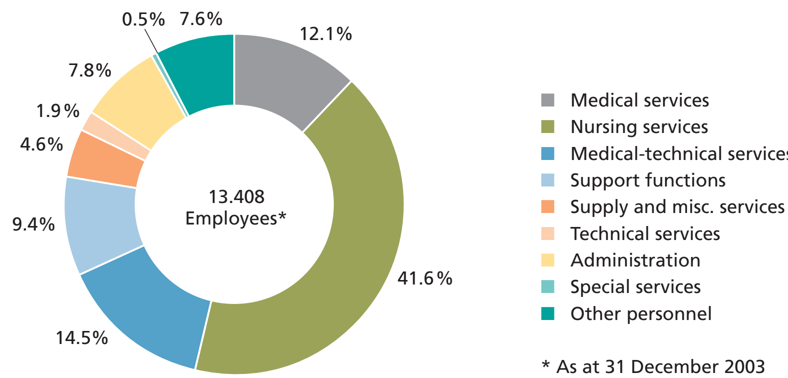
A total of € 41.4 million was invested in 2003 in hospital equipment, primarily advanced medical and information technologies. Of this, € 16.6 million were funded from investment allowances under the Hospital Financing Act (KHG). It is this additional capital expenditure on top of public grants that helps secure our technological leadership in the hospital market over the long term.

Financing

The equity ratio increased slightly from 42.8 per cent to 43.9 per cent. Equity is now shown at € 487.3 million (previous year: € 429.4 million). Overall, 88.4 per cent (previous year: 94.1 per cent) of long-term assets are covered by equity and long-term liabilities. In financial year 2003, we made temporary use of short-term debt at favourable interest rates for refinancing long-term positions. Net debts to banks were reduced by € 30.5 million to € 215.5 million at balance-sheet date. The Group continues to enjoy sound balance-sheet and financial structures.

The operating cash flow was slightly lower than in the previous year, declining by € 2.4 million to € 128.9 million. Besides dividend payments (€ 15.2 million), we financed the full amount of net investments (€ 112.5 million) from the cash flow. This level of cash flow generation enables us to reduce net indebtedness to banks to zero within a period of only 20 months (previous year: 22 months).

Group assets increased by 10.5 per cent, due to acquisition and investing activities. Equity rose 13.5 per cent, while loan capital increased by 8.3 per cent. Coverage of long-term assets by equity and long-term loan capital declined slightly, from 94.1 per cent to 88.4 per cent.



Analysis of personnel at RHÖN-KLINIKUM Group

Structure of assets and liabilities

Long-range comparisons since 1995 clearly show that business growth consistently outpaced indebtedness: While revenues tripled since 1995, interest-bearing liabilities increased by approx. 36 per cent only. The Group's financial status continues to be comfortable, as can be seen in the table below:

ASSETS	31 Dec. 2003		31 Dec. 2002	
	€ million	%	€ million	%
Long-term assets	811.9	73.2	752.0	74.9
Short-term assets	297.1	26.8	251.4	25.1
	1,109.0	100.0	1,003.4	100.0

LIABILITIES	31 Dec. 2003		31 Dec. 2002	
	€ million	%	€ million	%
Equity	487.3	43.9	429.4	42.8
Long-term loan capital	230.1	20.8	278.4	27.8
Short-term loan capital	391.6	35.2	295.6	29.4
	1,109.0	100.0	1,003.4	100.0

Environment

Environmental issues have always enjoyed careful attention throughout the Group, not only because we recognise that healthy people have a right to live in a healthy environment, but also because we have learned that there is a close connection between ecology and economy in hospitals. For us, sustainable ecological progress is a primary corporate goal.

If I could wish for something, this would be, firstly, that people start thinking about a more health-conscious lifestyle. Secondly, I'd want to see the idea of "fully comprehensive-insurance" coverage in healthcare disappear from people's minds: today's modern medicine just cannot be delivered at yesterday's prices. And lastly, I'd like to see a lot of dedicated young doctors who love to join hospital teams and work on, and for, the patient.

Professor Dr. Karl-Friedrich Lindenau, cardiosurgeon, Bad Neustadt/Saale

Our environmental programmes are not limited to reduce primary energy consumption but extend to all resources used in hospital. Just like in other business areas, we favour intelligent investing and an efficient environmental management as the best instruments to actively promote environmental protection and economical use of resources.

As regards primary energy: in 2003, we have commissioned the second high-temperature fuel cell within the Group. This trail-blazing technology for power and heat generation from natural gas enables the highest efficiency grades known so far, with corresponding low environmental impact.

Special attention was given in 2003 to develop and implement digital findings processing, documentation and filing systems which guarantee high availability across the Group. This has enabled us to decouple diagnostics from assessment and the use of findings in terms of place and time. This way, ecologically undesirable transports of documents or even patients can be avoided. In addition, we save filing capacity, and we profit from improved decentralised information flows throughout the Group. Our Tele-Portal Clinic concept takes up these improvements, as does our approach to telemedical diagnostics within the Group and beyond. We are presently involved in developing organisational structures for EDP/IT-supported patient files designed to help eliminate paper-based information transports along the entire patient service chain.

Our building projects consider the best possible solutions with regard to technologies that will help us to save energy and avoid ecological hazards. An essential of our procurement policy is to strictly observe environmental safety requirements; for instance, we only purchase disposables that meet pollution standards. Careful waste management and disposal by authorised firms is standard at all our hospitals.

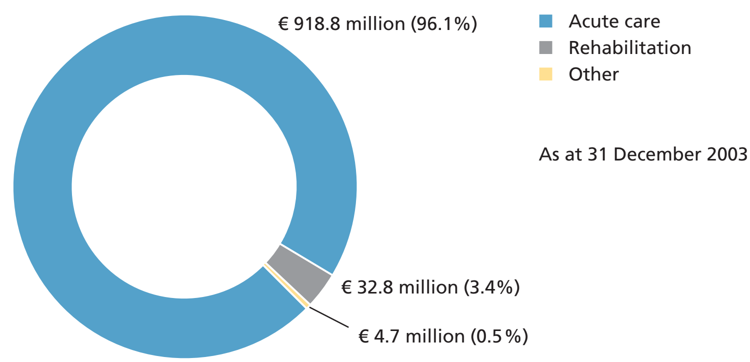
Human resources and social issues

At 31 December 2003 the Group employed 13,408 persons (previous year: 12,852), that is 4.3 per cent more than in the previous year. Medical doctors accounted for 12.1 per cent (previous year: 11.8 per cent), and nursing and other medical/medical-technical staff for 65.5 per cent (previous year: 66.0 per cent). This disproportionately small increase relative to the increase in revenues, which has been possible despite the fact that we had to take over inefficient staff structures at recently acquired hospitals, can be put down to a combination of continuous improvement of our benchmark systems and optimisation of organisational and workflow structures.

Statutory social security contributions and pension costs as a percentage of the wages bill amounted to € 20.5 per cent (previous year: 18.8 per cent). Expenses for incidental wages costs increased, mainly due to higher contributions to additional insurances and pension schemes.

We expect of our staff that they orient their way of working towards the needs and wishes of our patients. We set great store on all our employees' total commitment to our corporate code of ethics with its guiding principle: "Do nothing that you would not want to be done to yourself, and leave nothing undone that you would want to be done to yourself."

We reward our employees for their dedication with modern and attractive work-places, motivating profit-sharing and bonus schemes, and flexible working-time arrangements.



Breakdown of revenues by business areas at RHÖN-KLINIKUM Group

We promote, and control, our employees' professionalism through systematic training and higher-qualification programmes across all hierarchical levels. Special attention is given to training qualified nursing staff at our own nursing schools. This is how we make sure that RHÖN-KLINIKUM AG's demanding nursing and treatment concepts are understood from the beginning.

In order to be able to quickly assign well-trained executive staff to management posts at newly acquired hospitals, we have designed own junior executive development programmes that offer access to attractive career opportunities within the Group.

Procurement

In line with the principle of decentralised profit and loss responsibilities, the Group runs no central purchasing department with group-wide competence. Instead, we use our Intranet to provide purchasing managers at the subsidiary level with procurement data from across the Group. Enhancements to this Intranet-based system are planned for financial year 2004. Price comparisons with newly acquired hospitals and comparisons of our materials cost structures with industry statistics show that the Group enjoys very favourable purchasing price levels. Moreover, all our staff are motivated to control and optimise material consumption, not least through our profit-sharing schemes which reward responsible use of materials .

B. RISK REPORT

As a market-driven organisation, RHÖN-KLINIKUM AG is exposed to a variety of risks that are intrinsic in entrepreneurial activity. Any attempt to use market opportunities involves risk. Responsible risk management, as practised by us, means careful assessment and weighing of opportunities and risks for business decisions.

Want to know the reason why I've been working for the company for so many years? Personally, I appreciate the company's flexibility. I was given the opportunity of changing my contractual working hours six times during the past (almost) 13 years. This has made it easier for me to reconcile my family life with my job. Within the company, I have had many chances of developing my skills through further training. Apart from the fact that the company is very innovative, I like the working conditions, the atmosphere and the team spirit here.

Andrea Ungerecht, ward nurse, Intensive Therapy Unit, Bad Neustadt/Saale

Risk management at RHÖN-KLINIKUM AG is integrated into organisational structures and procedures. It is through group-wide uniform standards for

- planning and monitoring systems
- guiding rules and reporting systems
- risk reporting

in combination with risk controlling at both Group and subsidiary level that we are able to early identify potential risks and take appropriate action.

Where, despite the above, unexpected risks occur (e. g. Legionella infection in our hospital in Franfurt (Oder)), this will prompt increased surveillance and controls throughout the Group and lead to conceptual changes, if and when required.

The efficiency of our risk management system is supervised by the Board of Management and examined by independent auditors, as prescribed by law. Risk reporting covers around 150 single risks, as well as countermeasures implemented in each case. Risks are assessed taking as a measure the potential extent and likelihood of damage. The results of risk assessment and information on the adequacy of countermeasures implemented are collected group-wide and aggregated in a structured risk report.

The following are the main risks facing the Group:

- **Macroeconomic and legal risks.** Macroeconomic influences as well as interest rate developments are of secondary importance, since our activities are centred on the German healthcare market, exclusively, and the Group's financial position continues to be sound.

Germany's heavily regulated healthcare market involves by its nature certain risks related to legislative initiatives. In particular, such risks may result from a variety of unclear legal provisions as well as from the fact that amendments to existing law come into effect within ever shorter time intervals, thus giving room to uncertainty in planning. On the income side, legislative measures may affect hospital remuneration as well as the way of providing treatment and care for patients, and on the spending side, the use of resources. Only by consistently re-organising/optimising clinical structures, procedures and workflows and by remaining totally committed to quality will we be able to maintain our competitive edge and generate additional profit contributions, even if per-case revenues should continue to decline. Since we offer working-time and wage arrangements that are both attractive and flexible, we are largely independent of civil service wage policies and regulations.

- **Market or sales risks.** All our hospitals factually enjoy a monopoly-type status in their respective catchment areas, due to their being included in state hospital planning or having signed corresponding service contracts with health insurance funds, so that typical market and sales risks exist to a very limited extent only, if at all, provided that they deliver acceptable medical service quality. Where we acquire a hospital, we endeavour to provide for an equally safe business basis. We are conscious of the fact that the healthcare market is undergoing far-reaching change, as the strict separation between system sectors, particularly between outpatient and inpatient care provision, will increasingly give way to closer sector interlinking and cross-sector patient treatment. While we expect inpatient numbers to decline in the short term, we identify new fields of activity for our hospitals – including, in particular, intensified use of day-clinical structures, offerings within the scope of Integrated Care, and ownership of what is called Medical Care Centres – all of which will contribute to ensuring sustained viability/profitability of our hospital operations.

- **Operating and product risks.** Hygiene and sterility in hospital are essential prerequisites for patient treatment in flawless quality. New hospital buildings designed and realised by us meet the highest hygiene and sterility

I am heading a department that practises perfect interdisciplinary collaboration: every team member contributes to effective realising our therapeutic concepts by bringing in his/her special skills and qualifications. I have learned to be happy with small achievements, and to see set-backs as part of the treatment process in the therapy of addictive diseases. If I could wish for something, this would be that sensible medical treatment approaches will not be jeopardized by an increasing red tapism in everyday hospital life.

Dr. Heiko Teller, managing senior consultant, Leipzig

I agree with the company's approach, because it is innovative. It offers me the opportunity of living up to my professional ideals and bringing in own ideas. We have a very good nursing care environment here.

Sylvia Buhle, nurse, Leipzig

standards. Where we take over hospital buildings as a part of new acquisitions, these will be upgraded and adapted to Group standards. Permanent controlling and checks carried out by internal and external experts, combined with continuous education and further training of our staff, ensure maximum efficiency in terms of hygiene and sterility in our hospitals.

Patients who seek cure or relief in our hospitals put their lives into our doctors' hands – sometimes up to death's door. It is therefore our duty to eliminate, or minimise, any and all potential risks that may arise in connection with patient treatment. However great our efforts, a certain risk potential will remain. This we fight with an integrated treatment approach: starting with the patient's admission and diagnosis, and ending with his/her discharge and subsequent communication with the doctor in charge of his/her aftercare, every and all treatment steps along the hospital service chain will be the responsibility of those staff members with the highest professional qualification and expertise – patient care in the design of a flow organisation which not only supports top professional performance at each individual work-place but also creates a type of self-controlling system through division of labour. This, in combination with regular, systematic employee trainings, strict surveillance of procedures and processes, and just as strict orientation towards patients' needs, helps reduce operating and product risks to a minimum.

Uninterruptible power supply is secured by providing for access to several independent sources. Supply levels are graduated without interruption, tuned to the likelihood of risk for patients. Supplementary (standby) energy sources undergo regular service trials at short time intervals, in order to ensure reliable availability in case of damage or failure (of the main network).

The chairman of the Board of Management has taken on direct and group-wide responsibility for monitoring and analysing patient complaints, and for initiating service improvements, where necessary.

For risks that cannot be fully eliminated, the Group provides for adequate insurance coverage which is regularly reviewed and updated.

- **Procurement risks.** RHÖN-KLINIKUM Group strives to avoid dependence on sole suppliers, single products and service providers. Potential risk arising from temporary dependence on innovative products such as implants, in particular, is judged to be negligible across the Group. Strict organisational separation of procurement and use – which we require of all our hospitals – is seen as an indispensable means to counter corruption.

- **Performance and liquidity risks.** The monthly, quarterly and annual reports by our subsidiaries are prepared using uniform standards and analysed at Group level. Regular time series and inter-operation comparisons of expenses, earnings, performance figures and other indicators enable us to early identify negative developments and take action, where appropriate. Monthly performance and liquidity analyses back up our published forecasts as well as our liquidity status.

What I wish is to retain my job, to learn always something new and develop my skills.

Franziska Hahn, medical-technical radiology assistant, Radiology, Bad Neustadt/Saale

Overall risk assessment

Based on our analysis of the overal risk position of RHÖN-KLINIKUM Group for financial year 2003, we have come to the conclusion that there are no risks that could endanger the existence of RHÖN-KLINIKUM AG or any of its subsidiaries. Compared with the previous year, there have been no material changes in the overall risk position as defined by the various single risks.

C. SEGMENT INFORMATION

Geographically, our business activities are centred on the Federal Republic of Germany and, in terms of content, almost exclusively on the provision of acute hospital services, whereas our activities in the area of rehabilitation are of secondary importance. Based on this, we see no differences in risk positions within the Federal Republic of Germany; as in previous years, there are no segments that would require segment information.

Our hospital operations are legally and economically independent enterprises which enjoy autonomy in carrying on their business activities in their respective regional markets. There are no dependent operations or branches within RHÖN-KLINIKUM Group.

D. EVENTS OCCURED AFTER THE END OF THE YEAR

RHÖN-KLINIKUM AG and its subsidiaries have had a good start into financial year 2004. Patient numbers continue to be on the rise, and performance figures develop as planned. No other events of significance for assessing the asset, financial and earnings situation have occurred after the close of the year.

I want to be open for new things and wish for a good future, continuous further training opportunities, a secure living, and joy and pleasure in my profession.

Stefanie Benkert, nurse, Bad Neustadt/Saale

In connection with enquiries carried out into a senior ministerial officer of the federal state of Lower Saxony, investigations were also conducted at our headquarters in Bad Neustadt/ Saale. Comprehensive and timely information to the public has helped to avoid non-material damage.

E. PROGNOSIS

1. Strategic objectives

Our primary goal is to achieve sustained growth in revenues and earnings throughout the Group. In our core business – the operation of hospitals – our growth target is 10 per cent – 20 per cent annually. Since this goal cannot be achieved by way of internal growth alone, due to statutory budget limitations, we aim to use external growth opportunities through new acquisitions on a regular basis. Given that the conclusion of acquisitions largely depends on how the sell-side situation develops, we may miss, or top, our above growth targets in any single year.

To ensure stability/stable growth of our operating margins, we continuously optimise processes and drive profitable rationalisation through investing.

The GMG (Gesetz zur Modernisierung der Gesetzlichen Krankenkassen = Social Security Modernisation Act) opens up new opportunities for us to extend our services to outpatient care, and we are determined to use this chance of tapping an additional market segment that will add value in the years to come. As early as in 2004 we will establish so-called Medical Care Centres at some of our sites which will provide out-patient services via cooperating specialist practices.

2. Economic and legal environment

For 2004, we expect the moderate recovery in Germany to continue, but concerns remain that this trend will not be strong enough to significantly ease social budgets. Against this background, health insurers will continue on their course of cost containment. Thus, the challenge for us in 2004 will once again be to reconciliate revenue growth below price inflation rates with the requirement of rendering surplus services.

As laid down in the GMG, health service providers, including our hospitals, are faced with a 1 per cent budget cut in favour of Integrated Care financing from 2004. Since, in our opinion, quite a number of legal questions regarding that budget cut remain to be clarified, and forecasts as to whether or how many insurance funds will

When I joined Herz- und Gefäß-Klinik, this was, at first sight, a fantastic opportunity for me to recommence working in the profession I had learned, but then it became a kind of exciting adventure, as I was confronted with the challenge of helping to re-shape things. This year I'll be completing my 20th year of service at RHÖN-KLINIKUM; I am now preparing for my retirement.

Ursula Pflieger, head of Nursing Care, Bad Neustadt/ Saale

Working with, and handling, young people plays an important role for me, it's my elixir of life! They are fresh and relaxed, they have drive and are excitingly active. As for myself, I have retained my curiosity; my private plans are to learn languages and travel countries, together with my husband.

Edith Bühner, Administration, Bad Neustadt/Saale

contract our hospitals' services are not possible for the time being, we see ourselves not in a position to reliably assess the economic effects of that part of the new law.

Under the given circumstances, macroeconomic fundamentals can hardly be expected to develop in favour of public budgets, while at the same time an increasing number of publicly owned and operated hospitals run into the red – a trend that, we believe, will continue. This is why privatisation pressures will go up, and the number of willing sellers will increase. In parallel, purchase prices will decline as it becomes clear that many of the facilities on offer require high investments if they are to be viable in the future.

3. Expectations for business year 2004

For financial year 2004, we expect the positive trend in overall performance to continue. In particular, we expect above-proportion profit contributions from recently consolidated hospitals, while our "older" Group members will continue to make every effort to stabilise earnings at their high levels.

Not taking into account potential new acquisitions, we expect 2004 revenues to increase to around € 1,000 million, and net consolidated profit to € 76 million. Planned 2004 investments – excluding new acquisitions – are in the order of € 90.0 million.

The exchange of experience between generations is very important. The older generations should contribute their experience, while the younger ones bring in new ideas. In caring for our patients, my motivation has always been to help people return to a life that is worth living, never to do harm to patients, but also to consider very carefully whether everything that modern medicine has made possible should be offered at all costs.

Professor Dr. Lothar Heidrich, senior consultant, Leipzig

F. TEACHING, RESEARCH & DEVELOPMENT

As a leading private hospital service provider in the Federal Republic of Germany, RHÖN-KLINIKUM AG is committed to research and development in its hospitals, its focus being primarily on what is called medical applied research and the development of advanced diagnostic and therapeutic concepts that provide solutions for the benefit of patients, as well as adding to our competitive strength. We define our teaching activities not only as an "academic task" in the strict sense of theoretical and practical training of prospective medical professionals, but we also feel obliged to extend medical basics – with an eye to what people need or want to know – to the broader public within the reach of our hospitals.

If you experience your profession as a true vocation or mission, you'll find the highest fulfilment in it. During my 29 years of service as a head physician I have trained numerous young doctors, including many second-generation students; I have always attached great value to a fruitful exchange of experiences between generations, and observing the achievements of young colleagues has been pleasure to me. But – I can let go: I'll continue my work as an author from 1 April. Four books have already been published. Naturally, medicine will continue to by my favourite theme.

Dr. habil. Christian Schmidt, private lecturer, Medical Director, Pirna

An academic teaching hospital since inception, Herzzentrum Leipzig GmbH is an integral part of the University of Leipzig, responsible for both theoretical education and practical training of that university's medical students. Overall, seven of our hospitals enjoy the status of an academic teaching hospital; as such, they are responsible for training prospective medical professionals in their respective specialities.

Here are some examples of our R&D and teaching activities in financial year 2003:

- In the year under review, Park-Krankenhaus Leipzig-Südost has started its „Sunday Lectures" – a series of lectures that caters for patients, visitors, referring doctors, and the interested broader public. These lectures deal with medical topics and inform about the latest developments in medicine in a vivid, easily understandable way. Special attention is paid by the lecturers to responding to questions or concerns about medical problems that may affect practically everybody's life. The range of lectures spans sport injuries, abnormal liver values, heartburn, the possibilities of vascular therapy and pain therapy, and education on anaesthetic procedures.
- Scientific activities at Stiftung Deutsche Klinik für Diagnostik GmbH (DKD) include clinical research within the scope of several prospective multicenter studies (cardiovascular system, neurology, bone marrow transplantation, gastroenterology), and the build-up of a paneuropean network for researching into the infectious disease "Morbus Whipple", a major EU project that has been initiated by the clinic. Basic research has been conducted in the fields of thrombocytopathy and chronic inflammatory intestinal disease. Numerous articles by DKD's specialists have appeared in renowned international scientific and medical publications.

- Zentralklinik Bad Berka provides remote follow-up examinations of complex cardiac pacemakers over long distances. This is made possible by a Remote View System, which collects data “on site” and then deliver these online to our specialists at Zentralklinik Bad Berka. Five hospitals located in Thuringia participated in the first trial of remote diagnostics. Following online delivery, the findings can immediately be analysed and discussed at Zentralklinik Bad Berka. This technology saves patients the trouble of travelling often long distances for follow-up checks in specialist clinics.
- At our Bad Neustadt site, an interdisciplinary team of medical professionals headed by our radiologists conducted a study on diseases of the lunate bone. This innovative study used magnetic resonance tomography for the diagnosis of the painful lunate bone to then compare the findings with the symptoms. The most important result: the fatal diagnosis of lunate bone death affected only 30 patients. This will not only have a distinct influence on hand therapy but will also determine the further prognosis and therapy of patients with such conditions.
- As a first in the year under review, our cardiosurgeons in Bad Neustadt implanted an innovative implantable cardioverter/defibrillator. The patient benefited from a simplified implantation procedure, a better cosmetic outcome, and the convenience of Home Monitoring incorporated in these defibrillators, enabling the doctor in charge to collect all the relevant patient and progress data via automatic data transfer over the Internet. The findings were presented to interested medical professionals at a seminar. Other events hosted by Herz- und Gefäß-Klinik included a symposion on reconstructive mitral valve surgery with an outstanding international audience: more than 100 experienced cardiosurgeons from all over the world attended this event with its live presentations, inviting them to share, and deepen their knowledge of this special field of cardiac surgery.

Bad Neustadt/Saale, 26 February 2004

The Board of Management

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

The RHÖN-KLINIKUM Shares

The RHÖN-KLINIKUM shares held up well in financial year 2003, despite the change in the underlying conditions in the German healthcare system and the turbulent environment in equity markets.

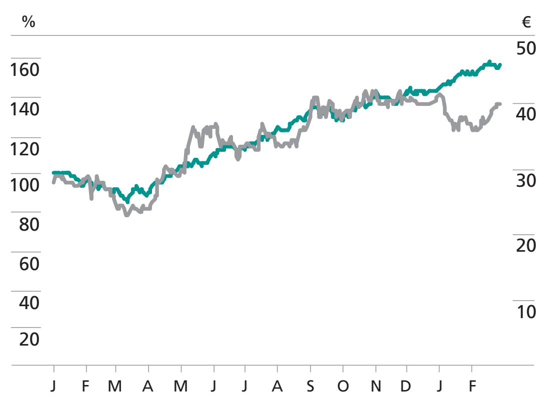
2003 saw a comeback of Germany's equity market. A very weak start into the year, driven by concerns about economic growth and the war in Iraq, led to European and German equity losing disproportionately in that phase. In March, the Dax hit a new several-year low at 2,203 index points, as did the M-Dax at 2,647 points. In April the equity market climate began to warm up, and a trend reversal set in. Both the Dax and the M-Dax showed impressive gains in performance by year end. The Dax rose 37.1 per cent to 3,965 points; this was topped by a 47.8 per cent gain on the M-Dax which closed the year at 4.469 points.

The shares of RHÖN-KLINIKUM AG, too, were able to strike a positive balance at the close of the year. During the twelve months under review, preference shares gained 45.4 per cent in value and traded at € 41.00 at year end, while ordinary shares were up 38.0 per cent at € 44.50. The Company's market capitalisation at 31 December 2003 was € 1.123 billion (previous year: € 801 million). Measured by market capitalisation, we now rank 37th (previous year: 36th) on the M-Dax. The number of institutional investors holding RHÖN-KLINIKUM shares presently stands at 117 (previous year: 108).

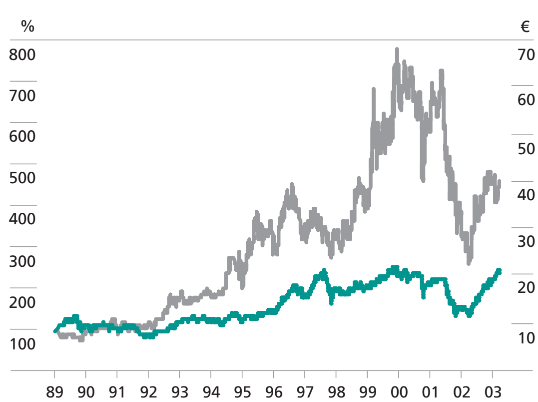
The general trend towards Xetra trading has continued in 2003 and also in 2004. The intraday trading volume in RHÖN-KLINIKUM preference shares averaged 14,244 units in 2003 (previous year: 12,157), of which 90.7 per cent were accounted for by Xetra trading. The turnover volume ranged between 568 and 255,394 shares per trading session. The average intraday trading volume in RHÖN-KLINIKUM ordinary shares was lower at 10,857 units (previous year: 14,115), with 97.3 per cent of the transactions being effected via Xetra. The lowest single-day turnover in ordinary shares was 90 and the highest 71,479 units.

RHÖN-KLINIKUM AG preference shares

Short-term performance comparison versus M-DAX 2003/2004



Long-term performance comparison versus M-DAX



RHÖN-KLINIKUM preference shares

M-DAX

RHÖN-KLINIKUM share data

	Ordinary shares	Preference shares
ISIN	DE0007042301	DE0007042335
Ticker symbol	RHK	RHK3
Number of shares	17,280,000	8,640,000

in € million	2003	2002
Share capital	25.92	25.92
Market capitalisation	1,123.20	800.93

Share prices, in €	2003	2002
Ordinary shares		
Year-end	44.50	32.25
High	46.05	69.90
Low	25.90	30.80
Preference shares		
Year-end	41.00	28.20
High	42.00	63.75
Low	23.00	27.10

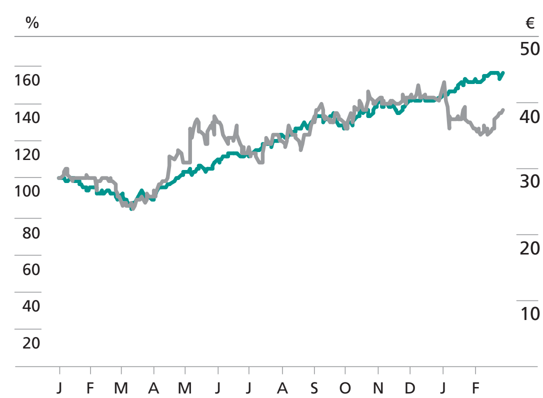
Per-share key figures, in €		
Dividends*		
Ordinary shares	0.68	0.58
Preference shares	0.70	0.60
Earnings		
Ordinary shares	2.82	2.60
Preference shares	2.84	2.62
Cash flow	4.97	5.06
Shareholders' equity	18.80	16.57

** 2003 dividends will be proposed to shareholders at the AGM on 22 July 2004.*

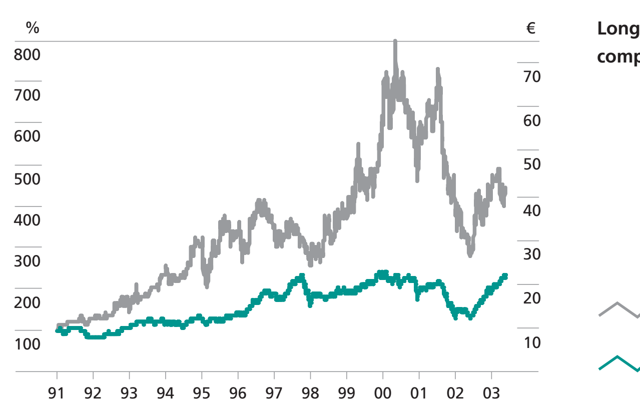
A primary goal of our corporate policy is to further strengthen our investors' confidence in RHÖN-KLINIKUM shares as a good long-term investment. We focus on steady and sustainable quality growth in revenue and earnings rather than on short-term profit maximisation. Looking forward, we are well aware of the risks that future healthcare reform steps may hold, we do, however, rate the opportunities for us much higher than any potential risks.

Alongside qualitative growth in value, we would like to see our shareholders benefit from attractive dividends, in line with our dividend policy which we are developing further as an expression of our confidence in the Group's future earnings power. For financial year 2003, we therefore propose a dividend of € 0.68 (previous year: € 0.58) on ordinary shares, and € 0.70 (previous year: € 0.60) on preference shares.

RHÖN-KLINIKUM AG ordinary shares

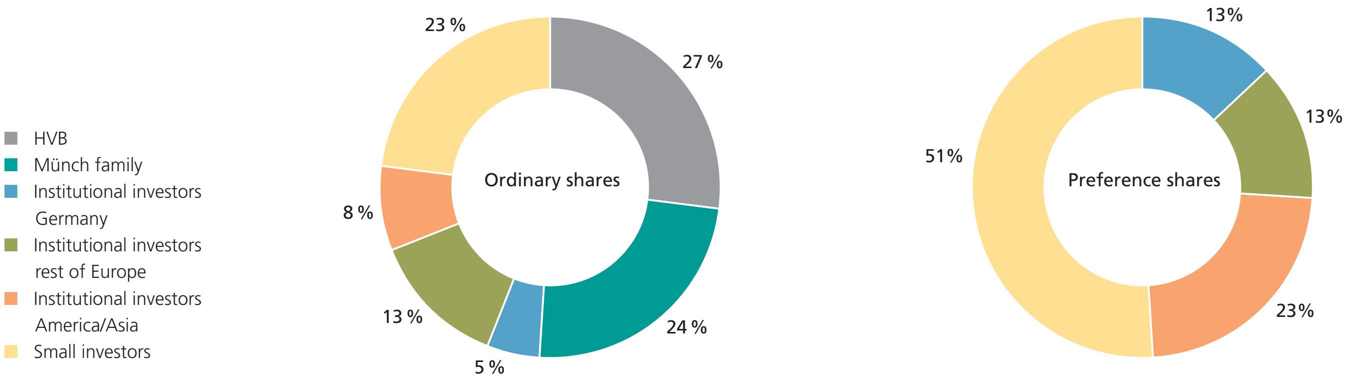


Short-term performance comparison versus M-DAX 2003/2004



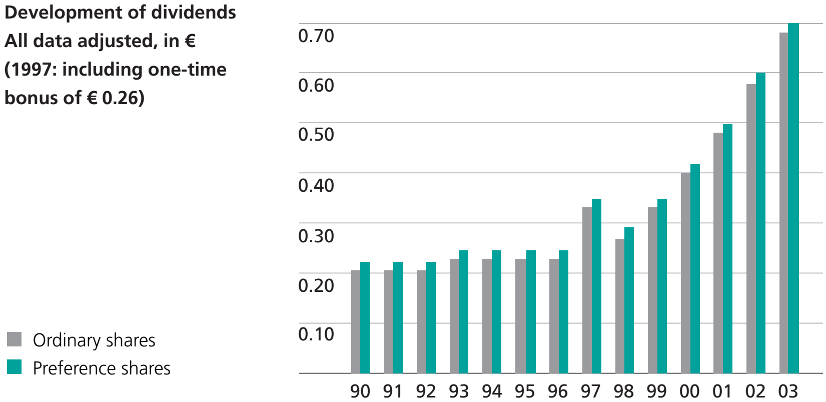
Long-term performance comparison versus M-DAX

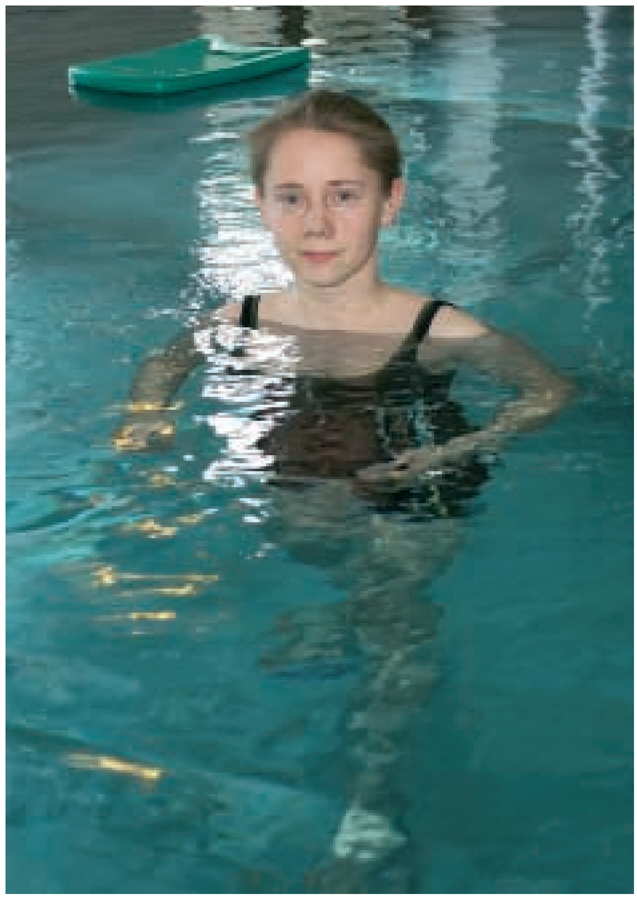
Shareholder structure of RHÖN-KLINIKUM AG



It's by tradition that we set great store by an open dialogue with our shareholders. Our goal is to promote corporate transparency to the highest possible extent – for the benefit of all our investors. Corporate communication with private capital givers, institutional investors, analysts and news agencies was intensified again in 2003. We inform our audiences by way of financial reports and real-time statements on the latest developments within the Group. Activities such as road shows, or events such as investor conferences for institutional investors and analysts form an integral part of our Investor Relations. In addition, we conduct many one-to-one discussions and presentations to provide investors and analysts with timely information about current business developments and corporate strategies, which we do quite openly while strictly observing insider rules.

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





My experience during my first year with the company has been that "you learn something new every day". I believe, this is a very fitting motto for my work in the department of Early Rehabilitation at Neurologische Klinik. Alongside the company's good further training programmes, it's the everyday work with my colleagues and my dealing with both younger and older patients that makes me learn something for my own future – every day.

Tatjana Brendel, physiotherapist, Bad Neustadt/Saale

Proactive development of our hospitals

In financial year 2003, we were able to successfully conclude negotiations about four hospital takeovers, including those hospitals acquired effective 1 January 2004. This brought the number of beds operated across the Group to a total of 8,701. In view of the abundance of takeover projects being negotiated, we have made it our strategy to exclusively concentrate on qualitative growth.

The trend of previous years towards more than proportionate increases in patient numbers relative to increases in revenues continued in 2003. The number of patients treated rose to 530,069, an 11.9 per cent increase over the previous year.

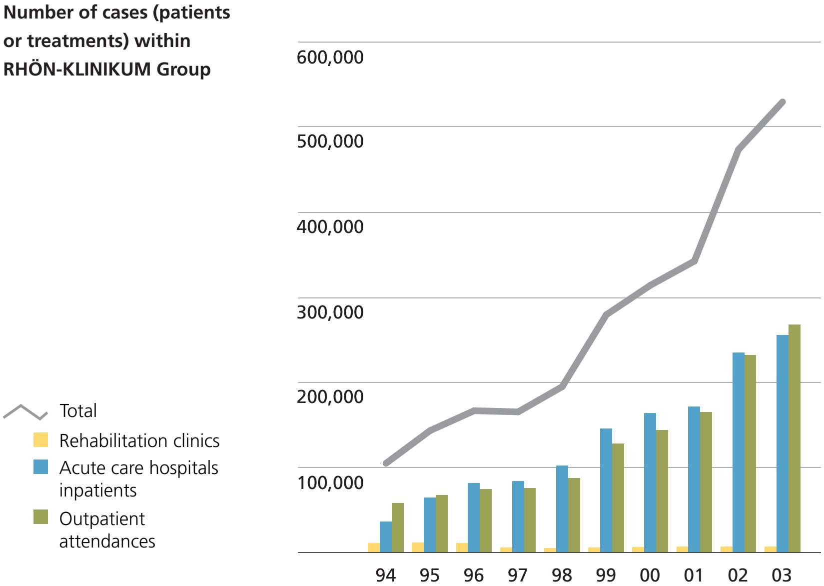
In 2003, only 16 of our hospitals decided to adopt the new flat rate remuneration system (DRG) on a voluntary basis, due to the fact that not all services rendered in 2003 could be computed adequately, as the quality of coding still needed to be optimised in a number of our establishments.

Developments in Baden-Wuerttemberg

One of Europe's most modern centres for cardiac surgery, **Klinik für Herzchirurgie** in **Karlsruhe** offers the entire range of surgical treatments for cardiac diseases in adults. Its surgeons specialise in patient-friendly (minimal invasive) cardiosurgical techniques. The number of patients treated increased to 2,378, up 4.0 per cent from last year's 2,286. This increase was achieved despite the fact that the centre has recorded consistently high occupancy rates for many years. The average duration of stays in hospital decreased by 0.8 days to 11.2 days.

In view of the high demand for its services, the clinic has been awarded another 10 beds under the state hospital plan effective 1 January 2003, and now operates a total of 75 beds.

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



Developments in Bavaria

Herz- und Gefäss-Klinik in **Bad Neustadt** is one of the largest centres for cardiovascular diseases. A dedicated team of specialists and state-of-the-art technology for the diagnosis and therapy of diseases of the heart and the vessels ensure top-quality medical care for patients. Despite high-level occupancy rates for many years in a row, the number of inpatients treated in 2003 rose by 5.2 per cent to 13,858 (previous year: 13,178).

The hospital's cardiological and radiological departments work closely together, particularly in the field of imaging diagnostics. A combination of expertise at the managerial level and the company's innovative strength in terms of ground-breaking technology has enabled to enormously build up capabilities in "non-invasive imaging" and "interventional electrophysiology" – the focal areas of Herz- und Gefäss-Klinik's cardiological department. This translated into significant increases in services rendered in

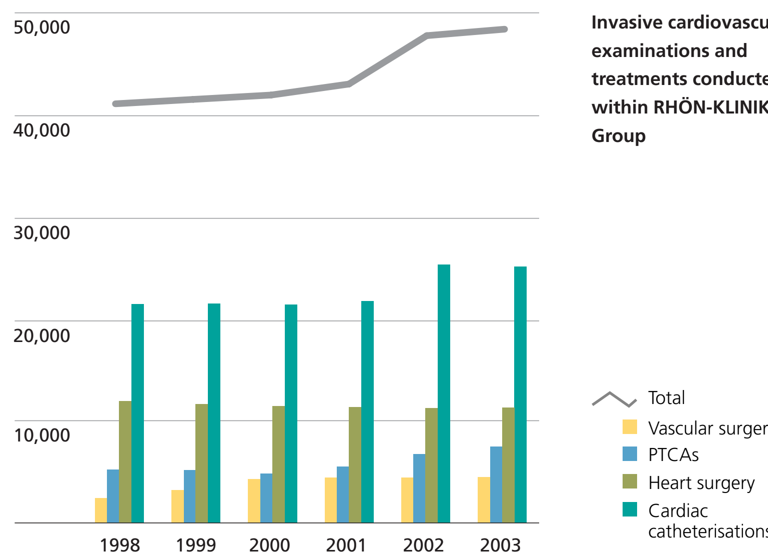
2003, confirming the trend towards higher cardiological service volumes.

2003 saw the commissioning of a new high-efficiency magnetic resonance tomograph, used primarily for the diagnosis of cardiac diseases. This, together with the 16-line Cardio CT (commissioned last year), underscores the clinic's capabilities within its core discipline and its standing in advanced non-invasive cardiac diagnostics.

The departments of heart surgery and vascular surgery were once again able to add to the number of inpatients treated. In heart surgery, we noted a positive trend in minimally invasive surgery and operations without using the heart-lung machine; the same applies to implantations of cardiac pacemakers and defibrillators. In the area of vascular surgery, there has been an increasing demand for bypass operations from patients suffering from "diabetic foot".

Klinik für Handchirurgie in **Bad Neustadt**, Germany's leading centre for hand surgery, was again in 2003 able to meet all requirements in terms of both inpatient and outpatient services. Its executives and staff made solid progress in further adapting the clinic organisation to changing framework conditions. The steady growth of demand from patients reflects the success of these efforts and underscores the top position of the clinic.

Thus, the number of inpatients treated rose once again in 2003; we recorded an increase by 2.5 per cent to 5,615 (previous year: 5,479). As in the previous year, the trend towards outpatient surgery continued. Outpatient attendances increased by 4.5 per cent to 20,714 (previous year: 19,822), and the number of outpatient operations was 33 higher at 1,142 (previous year: 1,109).



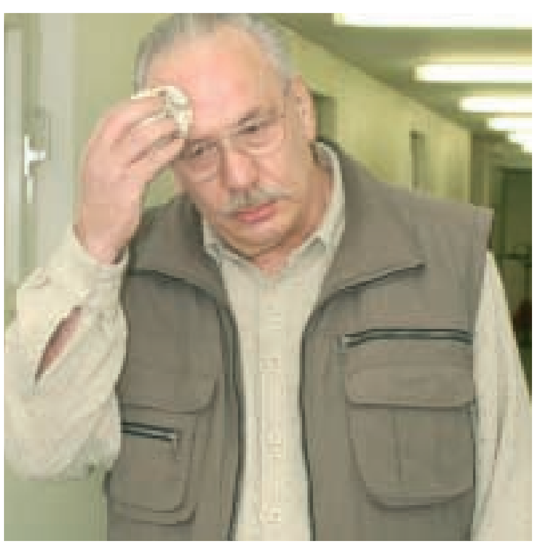
Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group

Psychosomatische Klinik in **Bad Neustadt** operates 180 beds in its acute care section and 160 beds for medical rehabilitation. As in previous years, the acute care section worked to capacity, while rehab capacity utilisation declined to 74.2 per cent. The hospital treated a total of 3,005 patients (previous year: 3,269). Intensive acquisition measures, new conceptual offerings and specialist events serve to secure, and improve, the centre's occupancy rate. Both departments continue to be actively involved in a variety of scientific research programmes.

With **Klinik "Haus Franken"** we operate in **Bad Neustadt** a specialist clinic for prevention and rehabilitation of cardiac and vascular disorders, which also integrates a Diabetes Centre. The 122-bed facility treated 2,022 patients in the year under review (previous year: 2,033). Thanks to intensified marketing efforts as well as changed compensation forms agreed with referring institutions, the clinic was able to hold its ground against the general trend.

Haus Saaletal in **Bad Neustadt** is a rehabilitation clinic for alcohol and medicine dependence, with 166 beds. It is complemented by Klinik Neumühle, a 48-bed rehabilitation clinic for drug therapy, and a centre for adaptation, Maria Stern, with a capacity for 18 patients. As in previous years, all of these facilities were fully booked in 2003. A major focus of Haus Saaletal's treatment approach is on patients' reintegration into working life and society.

In financial year 2003, **Neurologische Klinik** in **Bad Neustadt** was able to increase its acute care capacity by 15 beds to 139 beds under the state hospital plan; the number of rehab beds stands at 121. This addition to capacity helps address the increasing demand for specialist treatment and care of patients with extremely severe craniocerebral conditions. Neurologische Klinik is one of only a few centres that provide ventilation beds in an intensive therapy unit, which are especially reserved for the care of such patients.



It was only after the German reunification that I was granted good experiences, especially at RHÖN-KLINIKUM, because, as a former political prisoner, I had been an outsider in what was the German Democratic Republic. My job is full of variety, that's why I would always choose the same profession again. With the training opportunities of today, I would have been able to extend my personal qualification.

Bernd Kumpan, house technician, Freital

The total of inpatients treated in the year under review increased by 251 to 3,949 (previous year: 3,698). The slight decline in the rehab area, where admissions decreased by 4.9 per cent to 1,376 (previous year: 1,446), was more than offset by a strong increase in the acute care section.

Effective 1 January 2004, we acquired **St. Elisabeth-Krankenhaus Bad Kissingen** with 196 beds. By way of additional investments in enhancements of medical services and technology, and by co-operating closely with regional practitioners, this hospital will ensure its patients receive professional care at a high quality level in the future.

Also on 1 January 2004, we welcomed **Krankenhaus Hammelburg**, a 140-bed basic and standard care hospital serving the district of Bad Kissingen, to RHÖN-KLINIKUM Group. It is intended to re-design this facility into a Tele-Portal-Clinic by mid-2005, thus creating a centre which in terms of service structures, orientation and medical-technical layout will be trend-setting for the future of hospitals in primary care provision.

Limited to the first half of 2004, we have taken on management responsibility for the **district hospitals** in **Bad Neustadt** and **Mellrichstadt**. The Bad Neustadt facility, a basic and standard care hospital, operates 200 beds, while the Mellrichstadt centre, classified as basic care hospital, provides 70 beds.

Ongoing and consistent process optimisation enabled **Neurologische Klinik** in **Kipfenberg** in 2003 to reduce the average duration of stays in hospital and to further strengthen its position in care provision for patients with extremely severe craniocerebral conditions. The overall occupancy rate improved by 1.5 per cent to

97.5 per cent, and the number of patients treated rose to 2,856, an increase of 11.5 per cent over the previous year. The hospital's outpatient rehabilitation centre achieved a 0.9 per cent gain in performance.

The number of participants in courses offered by the hospital's training centre rose by 262 to 1,010, including 593 external participants. These figures reflect a growing interest in that centre's training programmes which in 2003 comprised 48 courses covering therapeutic, nursing, and interdisciplinary topics, given by internationally recognised experts.

Developments in Brandenburg

Klinikum Frankfurt (Oder), a leading regional centre in the federal state of Brandenburg, operates 908 beds under the state hospital plan and houses a wide variety of specialist clinics. Klinikum Frankfurt (Oder) continues to develope into a modern medical care provider for patients referred from across the state. In 2003, the hospital recorded 27,400 inpatients, compared to 27,340 in the previous year. Besides inpatient care, its 22 specialist clinics also provide a wide range of outpatient and day-case services. Outpatient attendances during 2003 increased to 38,043 (previous year: 30,512). Both inpatient and outpatient services were continuously enhanced, compared to the previous years.

Site amalgamation at the hospital's main location, Markendorf, was largely finalized with the commissioning of the second multi-storey ward building. We were able to cope rapid and effective with the Legionella problem that occurred during commissioning in the building's hot-water system. Later in the year, the same problem affected the cold-water system, which came as a surprise as it is untypical of Legionella to flourish in cold-water systems. It was this problem that was headlined in the media. Stringent protective measures and important changes to the pipework were necessary to eliminate future Legionella risk to patients.

Site amalgamation has enabled fundamental improvements to medical care processes and logistics, besides creating the structural conditions for a paediatric centre which the hospital plans to establish. Following completion of extensive construction work, Klinikum Frankfurt (Oder) was able to also commission its conservative Intermediate Care Unit with 52 beds. Centralising services has had positive effects on the quality of medical care provision and economical use of resources.

Developments in Hesse

Aukammklinik in **Wiesbaden** is a 63-bed acute care practitioners hospital for interventional rheumatology and orthopaedics. The centre links closely with the rheumatological departments of other Wiesbaden-based hospitals and rehabilitation clinics, as well as with Deutsche Klinik für Diagnostik, and is a member of the regional Rheumazentrum Rhein-Main e. V.. Furthermore, the practitioners working at Aukammklinik are members of the Assoziation für Orthopädische Rheumatologie e.V. (Association of Orthopaedic Rheumatology) with headquarters in Wiesbaden.

In the year under review, 1,525 inpatients were treated at Aukammklinik, compared to 1,518 in the previous year. The average duration of stays in hospital declined by 0.9 days to 11.4 days.

At **Stiftung Deutsche Klinik für Diagnostik (DKD)** in **Wiesbaden**, 23 specialist departments plus seven specialist consultancies registered with DKD work under one roof on an interdisciplinary basis, providing diagnosis of unclear clinical pictures and therapy of complex chronic diseases (e.g. diabetes, pain, oncological conditions, chronic inflammatory diseases of the gastrointestinal tract, neurological disorders, etc.). This clinic already complies with what healthcare politics require in terms of structural interlacing of inpatient, day-case and outpatient care provision.

The healthcare sector revolves around something that all of us want to retain as long as possible: health. The patient is at the centre of what we do. It's a good feeling to be able to actively contribute to the safety and the well-being of our patients.

Jens Keuser,
Technical Service, Leipzig

I have been working for RHÖN-KLINIKUM Group for eight years, and it makes me very proud to see all the achievements that have come true under the new owner here in Leipzig. It's a wonderful feeling to work in such a fine and modern clinic, where both employees and patients can feel at ease.

Christina Engelmann, nurse, Leipzig

DKD (categorised as Krankenhaus der Zentralversorgung) operates a total of 74 interdisciplinary inpatient beds, 60 day-clinic places for adults and children, and 18 beds for bone marrow transplantations. Its centre for blood stem cell and bone marrow transplantation ranks among the leading centres of its kind in Germany.

DKD's focus in outpatient services is on preventive medicine, with treatment approaches based on individual risk profiles (so-called Medical Check-up's), alongside special outpatient examinations.

Not taking into account dialysis patients, the clinic treated a total of 35,402 patients in 2003, versus 35,865 in the previous year. Due to structural reasons, the clinic recorded a slight decline in patient numbers of overall 1.3 per cent, particularly in the day clinic for adults and children, and in outpatient preventive examinations. The number of bone marrow transplantations performed rose to 76, reflecting a significant increase over last year's 67.

DKD's several years' structural optimisation measures were completed in October 2003. Total capital expenditure for the new building and restructuring of the existing building aimed at improved clinical processes amounted to € 16.9 million.

Developments in Lower Saxony

Krankenhaus Herzberg, which serves as a teaching hospital for the University of Göttingen, looks back on its first full year after the amalgamation of its previous sites, Herzberg and Osterode. The positive previous-year trend did not hold up in the year under review, however. The number of inpatients treated declined by 6.0 per cent to 10,510 (previous year: 11,180). It is with a view to its newly established focal area, casualty surgery, that the hospital should be able to cater for new patient groups. In addition, the hospital is in the process of intensifying its collaboration with local practitioners.

Mittelweser Kliniken, with its three sites in **Nienburg**, **Hoya** and **Stolzenau**, is a provider of basic and standard care with a combined total of 388 beds under the state hospital plan. The building permit for a new hospital in Nienburg, laid out for 245 beds, including day-case places, was applied for in November 2003, and construction work is expected to commence in April 2004. Good progress was made in the planning and development of a 70-bed Tele-Portal Clinic in Stolzenau, where construction work is scheduled to commence in the autumn of 2004. The Hoya facility will be closed, with partial close-down to take place effective 30 June 2004. The major centre in Nienburg will ensure continued high quality hospital care close to where people live.

The aggregate number of inpatients and outpatients treated in 2003 was 45,160 (Nienburg 23,561; Hoya 9,889; Stolzenau 11,710), down 4.1 per cent from last year's 47,076 (Nienburg 23,369, Hoya 11,317, Stolzenau 12,391). This decline was mainly due to reduced service volumes recorded at the Hoya site.

Developments at **Kliniken Uelzen und Bad Bevensen** were primarily characterised by the commissioning of the new hospital building worth € 65 million, which took place in December 2003, as scheduled. Due to a change in Lower Saxony's hospital planning, which excludes Hamburgisches Krankenhaus Bevensen with effect from 31 December 2003, we had to integrate this hospital's operations into the new building. The new building features the most modern technologies, first of all in the radiology department with its 16-line spiral computer tomograph with cardio function, a 1.5 Tesla magnetic resonance tomograph, and an integrated X-ray information and patient communication system. The aggregate number of inpatients and outpatients treated in 2003 rose to 32,076, up from 29,462 in the previous year.

Krankenhaus Cuxhaven, a teaching hospital serving the Medical College of Hanover, was taken over effective 1 July 2003; a basic and standard care hospital, this facility operates 286 beds under the state hospital plan. It recorded 9,970 inpatients and 20,519 outpatient attendances for the whole of 2003.

Stadtkrankenhaus Cuxhaven has worldwide responsibility as the central institution for telemedical counselling of German ships. As part of its medical service development programme, the hospital commissioned a left-heart catheterisation laboratory in August 2003, which will enhance its cardiological services. It is intended to significantly expand the medical service spectrum through establishing additional specialties. In the medium term, we expect the planned new building of the hospital to benefit this site in terms of both service volumes and quality of services.

Developments in North Rhine-Westphalia

Krankenhaus **St. Barbara** in **Attendorn** is a basic and standard care facility with 309 beds under the state hospital plan. Financial year 2003 saw a strong hike in inpatient numbers, particularly in the fields of knee and hip endoprosthetics. The aggregate number of patients treated increased by 2,257 to 19,258 (previous year: 17,001).

The redevelopment and extension measures initiated in 2002 progressed at a good speed.

The hospital was able to commission its new family-orientated obstetric and maternity ward in November. Completion of the building project at a total cost of € 15.4 million is scheduled for end of March 2004.

I took the right decision 24 years ago, when I started working for a company that has succeeded in securing its employees' jobs, thanks to permanent corporate growth. Performance-mindedness and dedicated work are the two steps to personal success.

Ilka Koehn, Administration, Bad Neustadt/Saale

Developments in Saxony

Herzzentrum Leipzig – Universitätsklinik – fulfils its academic mandate in medical research and teaching and, as a maximum-care provider, in hospital care. The centre, with a total of 316 beds under the state hospital plan in its three clinics, provides comprehensive diagnostics and conservative, minimally invasive and surgical therapy of all diseases of the cardiovascular system. In the year under review, the centre recorded a total of 16,692 inpatient treatments (previous year: 17,401). This includes 634 day-case treatments, which increased by 44.75 per cent, compared to the previous-year figure. Also, outpatient treatments rose to 5,184, up 22.1 per cent, or 938 treatments, from last year's 4,246. The average duration of stays in hospital was reduced by 0.1 days to 6.0 days. There was only a marginal change in the occupancy rate which stood at 87.3 per cent.

With this pilot project of a privately funded and operated university hospital, we have been able to prove beyond doubt that economic efficiency, world-class medical services and top-tier medical research and teaching do not contradict each other. During the year, Herzzentrum Leipzig was again host to a number of important congresses, including an international symposion on paediatric heart surgery, with live transmission from the operating theatre during some of the major events.

The status of **Park-Krankenhaus Leipzig-Südost** as an academic teaching hospital for the University of Leipzig was renewed in June 2003. Following the commissioning of its two new buildings, now housing the Somatic Clinic (255 beds) and the Psychiatric Clinics (245 beds, 40 day-clinic places) in the previous year, the hospital achieved significant qualitative and quantitative improvements in patient care. The spectrum of services underwent important modifications in favour of complex and extremely demanding treatments. The amalgamation of somatic services resulted in a much better interdisciplinary collaboration for the benefit of our patients. Similarly, the hospital's physical closeness to Herzzentrum Leipzig brought about quality improvements for the patients of both centres, besides promoting an optimised use of resources.

The number of inpatients treated in 2003 rose to 10,502, which is 473, or 7.4 per cent, more than in the previous year. This growth in inpatient numbers is evidence of the high acceptance the hospital enjoys among the population. An occupancy rate of 96.7 per cent shows that the hospital has been working to capacity.

Soteria Klinik in **Leipzig**, a specialist centre for alcohol and/or medicine dependence with 56 acute beds and 174 beds for rehabilitation/adaptation, admits adult patients suffering from alcohol, medicine or multiple dependence. The clinic's holistic treatment approach meets with patients' acceptance. In 2003, the centre recorded 2,666 inpatients (previous year: 2,410).

At **Krankenhaus Freital**, full operation was possible throughout the year, despite still necessary renovation work following the flood disaster of August 2002. Overall, the hospital treated 22,969 inpatients and outpatients (previous year: 19,123). Commissioning of a modern angiographic unit in 2002 has enabled the centre to expand its treatment spectre. Important steps were made in 2003 to intensify the collaboration with Krankenhaus Dippoldiswalde, aimed at creating the conditions for the realisation of a Tele-Portal Clinic at the Dippoldiswalde site.

In the year under review, **Krankenhaus Dippoldiswalde** recorded 4,847 inpatients (previous year: 5,414) and 18,249 outpatient attendances (previous year: 16,907). A scheduled demand review has led to the number of beds under the state hospital plan being fixed at 142 beds from 1 July 2003.

To get a chance as a lateral hire, and to be entrusted with the training of technical junior executives a few years later, has been a most satisfying development for me personally.
If you've experienced extraordinary advance confidence placed in yourself, knowledge transfer becomes a matter of course. The outcome are such achievements as successful fire-fighting in an operating theatre – evidence of the efficiency of our team.

Jens Kühne, head of Technical Services, Leipzig

Effective 1 January 2004, the Freital and Dippoldiswalde facilities, both of which are standard care hospitals serving the district of Weisseritz, will be accounted for as one service provider under the state hospital plan of Saxony. This will enable further steps towards improvements in quality and economic efficiency in 2004 and beyond.

Following the allocation of the 142 beds of the **Dohna-Heidenau** facility (6 km away from Pirna), **Klinikum Pirna**, a standard care hospital, now operates 512 beds under the state hospital plan, including 16 day-clinic places.

With the construction of a new centre by 2006, we will make an important contribution to improving medical care provision in the area left of the river Elbe in the district of Sächsische Schweiz. In order to optimise patient care by way of interdisciplinary treatment processes at one single site, initial relocation measures were taken already in 2003: we established a surgical competence centre at the Pirna site, to be followed by the amalgamation of the specialist departments of Internal Medicine and the move of the urological unit to Pirna in the spring of 2004. A magnetic resonance tomograph was commissioned in Pirna as early as in November 2003.

Despite restructuring and relocation measures, the overall inpatient volume was stable at the previous-year level; we recorded 14,618 admissions, only 121 less than last year's 14,739.

Developments in Thuringia

Klinikum Meiningen, a standard and specialist care provider (categorised as Krankenhaus der Regel- und Schwerpunktversorgung), continued in 2003 to ensure care provision at a consistently high level through resolutely enforcing interdisciplinary collaboration across all professional groups.

I always wanted to do something useful for people, that's why I decided to work in the healthcare industry. Particularly the hospital sector is set to change, offering many opportunities in the coming years. I agree with the company's guiding principle: "Do nothing that you would not want to be done to yourself, and leave nothing undone that you would want to be done to yourself", and I try to live up to this principle in my daily work as head of Patient Administration."

Marcel Listner, head of Patient Administration, Leipzig

Occupancy at this 568-bed facility reached an annual average of 90.3 per cent. With the average duration of stays reduced to 7.4 days (previous year: 8.1 days), the hospital treated 25,332 inpatients (previous year: 24,268). In addition outpatient attendances increased once again by 16.4 per cent to 20,891 (previous year: 18,271).

Zentralklinik Bad Berka treated 32,072 inpatients (previous year: 29,545) and 7,909 outpatients (previous year: 7,620) during 2003. This is inclusive of day-case treatments which increased to 2,819 (previous year: 2,451). The centre's occupancy rate averaged 90.7 per cent.

It's, above all, against the background of my experiences with the material/technological deficit situation in the health care system of the former German Democratic Republic that I have been, and continue to be, excited about my being involved in the creation of care provision structures that combine all the technologically feasible features for the purpose of optimal patient care.

Robert Janke, head of EDP, Leipzig

Zentralklinik, a major centre with a wide range of specialties (categorised as Krankenhaus der Schwerpunktversorgung), invested again in 2003 in ultramodern diagnostic technology in order to continue to be able to provide patient care at the highest quality level. A 16-line computer tomograph and a 10-line computer tomograph were commissioned during the year, and a third cardiac catheterisation laboratory was installed at the end of the year.

The hospital's service spectrum was further enhanced with the establishment of a separate department of rhythmology and invasive electrophysiology in the clinic for cardiology. This new cardiological special department is Zentralklinik's response to the growing importance of diagnosis and therapy of cardiac arrhythmias.

Another highlight was the installation and commissioning of an integrated energy centre with a high-temperature fuel cell. This greatly contributes to an environment-friendly generation of electricity and heat as well as refrigeration and uninterruptible power supply (UPS) at Zentralklinik. It is the first commercially used high-temperature fuel cell plant of this order of magnitude in Thuringia, with the world's first multi-effect absorption refrigerating systems coupled directly to the outgoing air.

A standard care provider (categorised as Krankenhaus der Regelversorgung), **Krankenhaus Waltershausen-Friedrichroda** presently operates 234 beds. The number of inpatients increased by 4.71 per cent to 10,318 (previous year: 10,312). Occupancy was nearly unchanged at 80.7 per cent versus 80.8 per cent in the previous year, despite the fact that the hospital added bed capacity under the state hospital plan.

Further efficiency gains in the areas of laboratory medicine and material supplies were achieved through close collaboration with Zentralklinik Bad Berka, and we expect to see additional improvements in cost-efficiency in 2004 when the hospital will link with Klinikum Meiningen's central dispensary.

Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen, a specialist centre for psychiatry and neurology, presently operates a total of 282 beds under state hospital planning. Add to this the hospital's nursing home with 68 beds, and its forensic unit with 65 places. The number of inpatients treated in the hospital section showed a slight improvement over the previous year; we recorded 3,581 admissions, compared to 3,503 in 2002.

Financial year 2003 was primarily characterised by building activities in preparation of the move of the departments of neurology and paediatric and juvenile psychiatry to their new building, which is scheduled for mid-2004. The building permit for a new 128-bed forensic clinic has been applied for in the current year, and construction work is expected to commence in the second half of 2004.

RHÖN-KLINIKUM Consolidated Income Statement for the year ended 31 December 2003

			2003	2002
	Notes	€ thousand	€ thousand	€ thousand
Revenues	VI. 1.	956,265		879,492
Other operating income	VI. 2.	27,060		37,214
			983,325	916,706
Cost of materials	VI. 3.			
Materials, supplies and merchandise		172,017		157,380
Services		58,406		54,311
			230,423	211,691
Personnel costs	VI. 4.			
Wages and salaries		411,629		383,913
Social security contributions and pension costs		84,403		72,177
			496,032	456,090
Depreciation on tangible and intangible assets	VI. 5.	49,157		48,930
Other operating expenses	VI. 6.	82,094		82,546
			131,251	131,476
Income from operations			125,619	117,449
Income from investments		174		0
Other interest and similar income		2,381		3,045
Interest and similar expenses		16,935		19,289
Financial result			– 14,380	– 16,244
Income from ordinary activities			111,239	101,205
Discontinued activities	VI. 8.		0	– 2,129
Earnings before taxes			111,239	99,076
Taxes on income and earnings	VI. 9.		31,544	23,948
Net profit for the year			79,695	75,128
Minority interest in profit			6,563	7,700
Net consolidated profit			73,132	67,428
Earnings per preference share, in €	VI. 10.		2.84	2.62
Earnings per ordinary share, in €			2.82	2.60

RHÖN-KLINIKUM Consolidated Balance Sheet 31 December 2003

ASSETS

	Notes	€ thousand	31 December 2003 € thousand	31 December 2002 € thousand
Fixed assets				
Intangible assets	VII.1.			
Industrial and similar rights and assets		3,229		2,413
Goodwill		41,583		20,985
Negative goodwill		– 18		– 20
			44,794	23,378
Tangible assets	VII. 2.			
Land, land rights and buildings, including buildings on third-party land		658,087		609,077
Technical plant and machinery		13,998		12,516
Other plant and equipment		65,599		60,199
Payments on account and construction in progress		20,071		36,149
			757,755	717,941
Financial assets	VII. 3.			
Interests in associated companies		1,779		1,773
Other loans		235		226
			2,014	1,999
			804,563	743,318
Deferred taxes	VII. 4.		7,226	8,013
Current assets				
Inventories	VII. 5.			
Materials and supplies		13,726		12,885
Merchandise		23		26
Payments on account		1,796		979
			15,545	13,890
Receivables and other assets				
Receivables from supplies and services	VII. 6.	149,730		128,077
Tax claims	VII. 7.	9,943		9,820
Other receivables and other assets	VII. 8.	19,479		10,612
			179,152	148,509
Liquid funds	VII. 9.		101,817	89,098
			296,514	251,497
Prepaid expenses			669	553
			1,108,972	1,003,381

EQUITY AND LIABILITIES

	Notes	€ thousand	31 December 2003 € thousand	31 December 2002 € thousand
Equity	VII. 10.			
Subscribed capital		25,920		25,920
Capital reserve		37,582		37,582
Consolidated retained earnings		350,757		298,530
Consolidated profit		73,132		67,428
Own shares		– 83		– 85
			487,308	429,375
Minority interests	VII. 11.		20,886	30,568
Provisions				
Provisions for pensions and similar obligations	VII. 12.	9,236		8,795
Other provisions	VII. 13.	5,124		4,625
			14,360	13,420
Deferred taxes	VII. 4.		31,726	32,127
Liabilities				
Long-term financial debts	VII. 14.	179,763		218,986
Tax liabilities	VII. 15.	10,052		6,384
Other liabilities	VII. 16.	364,390		272,006
			554,205	497,376
Deferred income			487	515
			1,108,972	1,003,381

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 adjustments	Share-holders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at 1 Jan. 2002	**17,280**	**8,640**	**37,582**	**245,061**	**66,080**	**– 86**	**– 467**	**374,090**
Consolidated profit					67,428			67,428
Dividends paid					– 12,611			– 12,611
Allocation to reserves				53,469	– 53,469			0
Own shares						1		1
Currency translation adjustments							467	467
Balance at 31 Dec. 2002/ 1 Jan. 2003	**17,280**	**8,640**	**37,582**	**298,530**	**67,428**	**– 85**	**0**	**429,375**
Consolidated profit					73,132			73,132
Dividends paid					– 15,201			– 15,201
Allocation to reserves				52,227	– 52,227			0
Own shares						2		2
Balance at 31 Dec. 2003	**17,280**	**8,640**	**37,582**	**350,757**	**73,132**	**– 83**	**0**	**487,308**

RHÖN-KLINIKUM Consolidated Cash Flow Statement

	2003	2002
	€ million	€ million
Earnings before taxes	111.2	99.1
Elimination of financial result	14.4	16.2
Depreciation and book losses on fixed assets	49.2	56.1
EBITDA	**174.8**	171.4
Change in inventories	– 1.2	– 1.1
Change in receivables from supplies and services	– 13.8	1.7
Change in other receivables	– 8.0	35.8
Change in liabilities	6.4	– 38.4
Change in provisions	1.0	– 4.6
Other changes	0.0	– 0.7
Earnings taxes paid	– 27.6	– 34.8
Interest paid	– 16.9	– 19.3
Cash generated by operating activities	**114.7**	110.0
Investments in tangible and intangible fixed assets	– 70.6	– 82.7
Acquisitions of subsidiaries less cash acquired	– 27.5	– 66.1
Surplus on realisation of fixed assets	2.0	2.1
Interest received	2.6	3.0
Cash utilised in investing activities	**– 93.5**	– 143.7
Change in short-term financial debts	49.5	83.6
Change in long-term financial debts	– 39.2	– 20.5
Payments by outside shareholders	0.0	3.9
Dividends paid and dividend distributions to minority shareholders	– 18.7	– 15.7
Cash generated by financing activities	**– 8.4**	51.3
Change in liquidity	12.8	17.6
Net cash resources at 1 January	89.1	71.5
Net cash resources at 31 December	**101.9**	89.1

RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt/Saale
Notes to the consolidated financial statements for the year 2003

I. ACCOUNTING POLICIES

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2003 have been prepared in accordance with the International Financial Reporting Standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB), London, UK, in so far as these standards were applicable for the year 2003. These financial statements are in conformity with the requirements set out in the European Union's directives on consolidated financial statements (Directive 83/349/EEC).

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

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

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

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

II. PRINCIPLES OF CONSOLIDATION

1. Scope of consolidation

The Group parent company is RHÖN-KLINIKUM Aktiengesellschaft, headquartered in Bad Neustadt/Saale and registered with the district court of Schweinfurt (company registration number 1670). In addition to the parent company, RHÖN-KLINIKUM AG, the scope of consolidation comprises 40 domestic subsidiaries in which RHÖN-KLINIKUM AG directly or indirectly holds a majority of the voting rights. The number of companies included in the consolidated financial statements has changed versus the previous year, as detailed below. Seven subsidiaries of minor importance for the Group's asset, financial and earnings situation have not been included in the consolidated financial statements; their combined revenues account for less than one per cent of consolidated revenues.

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

The following changes to the scope of consolidation have occurred in financial year 2003:

Companies consolidated	Number
At 31 December 2002	37
Merger/integration of Klinikum Dohna-Heidenau GmbH, Heidenau (formerly: RK Klinik Betriebs GmbH Nr. 2, Bad Neustadt/Saale) into Klinikum Pirna GmbH, Pirna (formerly: RK Klinik Besitz GmbH Nr. 1, Bad Neustadt/Saale)	– 1
Foundation of RK Klinik Betriebs GmbH Nr. 3, Bad Neustadt/Saale, renamed Krankenhaus Cuxhaven GmbH, Cuxhaven	1
Foundation of RK Klinik Besitz GmbH Nr. 3, Bad Neustadt/Saale	1
Foundation of RK Klinik Besitz GmbH Nr. 4, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 4, Bad Neustadt/Saale	1
At 31 December 2003	**40**

In addition, the four hospitals listed below were acquired during 2003 by way of asset deals:

Hospitals	Number of beds	Date of acquisition	Interest held
			%
Stadtkrankenhaus (municipal hospital) Cuxhaven	286	1 July 2003	100.0
Johanniter-Krankenhaus Dohna-Heidenau	142	1 January 2003	100.0
Carl von Heß-Krankenhaus Hammelburg	140	1 January 2004	100.0
St. Elisabeth-Krankenhaus Bad Kissingen	196	1 January 2004	100.0

For acquisitions concluded in 2003, we invested a total of € 28.0 million. Almost the full amount, or € 27.5 million, went into the purchase of an additional 12.5 per cent share in Zentralklinik Bad Berka, with the remainder being used in the acquisition of Johanniter-Krankenhaus Dohna-Heidenau and Stadtkrankenhaus Cuxhaven. Funding was effected in full from liquid funds.

Johanniter-Krankenhaus Dohna-Heidenau, which was acquired by the former RK Betriebs GmbH Nr. 2, was merged/integrated into Klinikum Pirna GmbH with retroactive effect from 1 January 2003.

These acquisitions generated a combined goodwill of € 21.1 million, of which € 3.6 million are accounted for by Krankenhaus Cuxhaven GmbH, and € 2.7 million by Johanniter-Krankenhaus Dohna-Heidenau, now merged into Klinikum Pirna GmbH, while goodwill of € 14.8 million resulted from the purchase of an additional share in Zentralklinik Bad Berka.

The acquisitions had the following effects on Group assets and liabilities at the respective dates of acquisition or disposal:

	€ million
Fixed assets	24.4
Deferred taxes	0.0
Liquid funds	0.6
Other current assets	9.3
Outside shareholders’ interests	– 12.7
Provisions	0.0
Liabilities	19.0

The newly acquired hospitals contributed 2 per cent to 2003 revenues. Overall, the effects on the Group’s earnings position are of secondary importance.

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

2. Methods of consolidation

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

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

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

III. ACCOUNTING AND VALUATION METHODS

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

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

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

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

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

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

Where there are subsequent adjustments to originally established fair values and/or goodwill arising on mergers of subsidiaries, these are made with effect on earnings, in accordance with the provisions of SIC 22.

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

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

	Years
Buildings	33 ⅓
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 an **unscheduled depreciation** in the value of fixed assets, including intangible assets, the Board of Management will decide, based on expected future cash flows, whether the respective assets are to be written off, using as a measure the higher of the net realisable sales price or the use value. Impairment write-downs are reversed if and when the reason for the impairment in value ceases to exist.

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

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

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

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

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

Provisions for pensions and compensatory obligations are determined in accordance with IAS 19 (revised 2000), using the projected unit credit method. Further details are given in the notes to the consolidated balance sheet.

Deferred taxation is provided on taxable time differences arising from variances in the balancing of accounts and valuations in the tax balance sheets and commercial balance sheets of subsidiaries, on adjustments made at the consolidation level as well as on consolidation measures, in accordance with IAS 12 (revised 2000). Where expected to be reversible, tax-loss carry forwards are provided in the amount of deferred tax assets. Deferred taxes have been calculated using a corporation tax rate of 25.0 per cent (plus the 5.5 per cent solidarity surtax on corporation tax) in so far as underlying accountable events are expected to reverse in future periods.

The temporary rise in the corporation tax rate had only a marginal effect on the deferred tax position.

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

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

Short-term items include items with a residual term of up to one year; **long-term** items are items with a residual term of more than one year.

IV. CASH FLOW STATEMENT

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

V. SEGMENT INFORMATION

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

Since RHÖN-KLINIKUM Group operates in the German market, exclusively, which is a highly homogenised market due to uniform regulations under federal law, our acute hospitals' business risks and opportunities are the same in the various federal states. Measured by inpatient numbers and revenues, the Group's rehabilitation business as well as other operations do not show the minimum size as defined by IAS 14 (revised 1997), so that there are no business segments that would require segment information.

VI. CONSOLIDATED INCOME STATEMENT

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

1. Revenues

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

	2003	2002
	€ million	€ million
Business areas		
Acute care	918.8	841.6
Rehabilitation	32.8	33.8
Other	4.7	4.1
	956.3	879.5

	2003	2002
	€ million	€ million
Regions		
Saxony	229.6	188.1
Thuringia	219.6	213.3
Bavaria	182.1	177.8
Lower Saxony	126.4	108.5
Brandenburg	89.2	83.6
Hesse	51.3	51.2
Baden-Württemberg	32.1	31.5
North Rhine-Westphalia	26.0	25.1
Other	0.0	0.4
	956.3	879.5

Of the increase in revenues, approx. € 23.3 million are accounted for by acquisitions concluded in financial year 2003.

2. Other operating income

Other operating income comprises:

	2003	2002
	€ million	€ million
Income from services rendered	12.9	13.2
Indemnifications received	3.2	8.4
Income from grants and other allowances	3.6	3.4
Income from the release of provisions	0.9	5.2
Other income	6.5	7.0
	27.1	37.2

Income from services rendered includes income from ancillary and incidental activities as well as income from rental and lease agreements. Indemnifications received in the previous year reflect insurance payments for fire and flood damages.

The 2002 income from the release of provisions was influenced by the change-over of one subsidiary's pension scheme to a defined contribution scheme, which had the effect of increasing income by € 4.5 million. Other income comprises income from the adaptation of value adjustments on receivables in the amount of € 1.8 million.

3. Cost of materials

Compared to the previous year, cost of materials increasing by € 18.7 million to € 230.4 million.

The material cost ratio remained unchanged at 24.1 per cent.

4. Personnel expenses

Personnel expenses rose to € 496.0 million, up € 39.9 million from the previous-year level. This increase was due to the extended scope of consolidation, leading to an increase in staff numbers, and an average wage increase of around 1.0 per cent. The personnel cost ratio remained unchanged at 51.9 per cent

Retirement benefit costs, including contributions to external insurance funds, amounted to € 9.0 million (previous year: € 7.4 million).

5. Depreciation

Depreciation on tangible and intangible assets increased to € 49.2 million (previous year: € 48.9 million), due to acquisition and investing activities during the year. There was no unscheduled depreciation in the year under review (previous year: € 0.9 million).

6. Other operating expenses

Other operating expenses break down as shown in the following table:

	2003	2002
	€ million	€ million
Maintenance	26.1	25.9
Charges, subscriptions and consulting fees	11.0	9.0
Administrative and EDP costs	8.7	8.6
Depreciation on receivables	5.6	5.3
Insurances	4.1	3.3
Rents and leaseholds	3.4	3.2
Travelling, entertaining and representation expenses	2.6	2.7
Other personnel and further training costs	2.6	3.1
Secondary taxes	0.8	0.7
Losses from the deletion of fixed assets	0.7	5.3
Other	16.5	15.4
	82.1	82.5

In the previous year, € 4.5 million of the relatively high losses from the deletion of fixed assets were accounted for by fire and flood damages.

7. Research costs

The Group’s annual research costs amount to about 2 per cent to 3 per cent of revenues. They are primarily made up of personnel costs and other operating expenses.

8. Discontinued business activities

This previous-year item reflects the loss from the discontinuance of our clinic project in Cape Town, South Africa.

9. Earnings taxes

Earnings tax expenditure increased by € 7.5 million to € 31.5 million, compared to the previous year. Earnings taxes shown comprise the corporation tax and the solidarity surtax. Tax expenditure was influenced by the temporary increase in the corporation tax rate, which was raised from 25.0 per cent to 26.5 per cent for the year 2003, as well as by the absence of corporation tax credits in the context of dividend distributions. In line with IAS 12 (revised 2000), this item also reflects deferred taxation provided on differences in valuations in the tax balance sheets and commercial balance sheets of subsidiaries as well as on consolidation measures and reversible tax- loss carry forwards which, as a rule, can be brought forward without timing limits. By utilising tax-loss carry forwards, the tax load was reduced by approximately € 1.1 million.

Earnings taxes are composed as follows:

	2003	2002
	€ million	€ million
Current taxes	31.3	25.1
Deferred taxes	0.2	– 1.1
	31.5	24.0

Deferred tax liabilities (€ 0.2 million) resulted from tax losses carried forward (€ 1.1 million) less benefits from the reversal of tax-loss carry forwards (€ 0.4 million) and deductible time differences (€ 0.5 million).

The table below sets out details of taxes on earnings:

	2003		2002	
	€ million	%	€ million	%
Earnings before taxes	**111.2**	**100.0**	99.1	100.0
Arithmetical tax load[1]	27.8	25.0	24.8	25.0
Effect of temporary 1.5 % corporation tax rate increase	1.7	1.5	0.0	0.0
Solidarity surtax	1.6	1.4	1.4	1.4
Tax credit on dividend distribution[2]	0.0	0.0	– 2.2	– 2.2
Increase in tax load due to non-deductible charges	0.6	0.5	0.8	0.8
Tax liabilities for previous periods	0.5	0.4	0.0	0.0
Tax-exempt earnings	– 0.2	– 0.2	0.0	0.0
Other items	– 0.5	– 0.3	– 0.8	– 0.8
Effective tax load	**31.5**	**28.3**	24.0	24.2

[1] Tax rate 25.0 % *[2] Suspended for dividend distributions from 11 April 2003*

The 4,1 per cent increase in the tax ratio is almost exclusively due to changes in corporation tax law as amended by the Steuervergünstigungsabbaugesetz.

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

Secondary taxes are reflected in the operating result.

10. Earnings per share

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

	Ordinary shares	Preference shares
Share in net consolidated profit, in € '000	48,646	24,485
(previous year)	(44,843)	(22,585)
Weighted average number of shares in issue, in units '000	17,277	8,635
(previous year)	(17,277)	(8,635)
Earnings per share, in €	2.82	2.84
(previous year)	(2.60)	(2.62)
Dividend per share, in €	0.68	0.70
(previous year)	(0.58)	(0.60)

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

VII. CONSOLIDATED BALANCE SHEET

1. Intangible assets

	Industrial and similar rights and assets	Goodwill	Total
	€ million	€ million	€ million
Acquisition costs			
1 January 2003	7.7	26.9	34.6
Additions due to changes in the scope of consolidation*	0.2	21.1	21.3
Additions	2.1	0.0	2.1
Losses	2.4	0.0	2.4
Rebookings	0.1	2.0	2.1
31 December 2003	7.7	50.0	57.7
Cumulative depreciation			
1 January 2003	5.2	6.0	11.2
Write-downs	1.0	2.3	3.3
Losses	1.7	0.0	1.7
Rebookings	0.0	0.1	0.1
31 December 2003	4.5	8.4	12.9
Balance sheet value at 31 December 2003	**3.2**	**41.6**	**44.8**
Balance sheet value at 31 December 2002	2.5	20.9	23.4

** Including acquisitions*

“Industrial and similar rights and assets” mainly refer to software.

Additions due to acquisitions resulted from the takeover of Stadtkrankenhaus Cuxhaven (€ 3.6 million) and Johanniter-Krankenhaus Dohna-Heidenau (€ 2.7 million) by our respective subsidiaries, and the purchase of an additional share in Zentralklinik Bad Berka GmbH (€ 14.8 million).

Rebookings resulted from adjustments of book values with respect to Mittelweser Klinik (acquired in the previous year), which required re-valuation due to changes in the clinic’s building plans. These book value adjustments in the amount of € 35.0 thousand were charged against results for the current period.

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

2. Tangible assets

	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other plant and equip-ment	Payments on account and construction in progress	Total
	€ million	€ million	€ million	€ million	€ million
Acquisition costs					
1 January 2003	745.7	32.8	168.5	36.1	983.1
Additions due to changes in the scope of consolidation*	2.3	0.0	0.9	0.0	3.2
Additions	37.3	3.9	23.9	20.8	85.9
Losses	0.3	1.9	10.8	0.0	13.0
Rebookings	31.8	0.5	2.4	– 36.8	– 2.1
31 December 2003	816.8	35.3	184.9	20.1	1,057.1
Cumulative depreciation					
1 January 2003	136.6	20.3	108.3	0.0	265.2
Write-downs	22.3	2.9	20.6	0.0	45.8
Losses	0.1	1.9	9.6	0.0	11.6
Rebookings	– 0.1	0.0	0.0	0.0	– 0.1
31 December 2003	158.7	21.3	119.3	0.0	299.3
Balance sheet value at 31 December 2003	**658.1**	**14.0**	**65.6**	**20.1**	**757.8**
Balance sheet value at 31 December 2002	609.1	12.5	60.2	36.1	717.9

* *Including acquisitions*

The Group has registered mortgages on real estate property as a collateral for bank loans and other liabilities with a total residual carrying value of € 172.0 million.

Public grants and allowances for investment financing are offset against acquisition or production costs of the assets for which they have been granted and thus reduce current depreciation. These are, in substance, appropriated grants under the Hospital Financing Act (KHG) with a residual carrying value of € 236.1 million (previous year: € 229.6 million). To provide for conditional repayment of single grants under the Hospital Financing Act, totalling € 106.1 million, the Group has registered mortgages on real estate in the amount of € 148.9 million. Nothing has come to the attention of the Board to indicate that repayment of these grants is required in the foreseeable future.

3. Financial assets

	Interests in associated companies	Other loans	Total
	€ million	€ million	€ million
Acquisition costs			
1 January/31 December 2003	4.1	0.3	4.4
Cumulative depreciation			
1 January/31 December 2003	2.3	0.1	2.4
Balance sheet value at 31 December 2003	**1.8**	**0.2**	**2.0**
Balance sheet value at 31 December 2002	1.8	0.2	2.0

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

Interest-bearing loans are recognised at nominal value.

4. Tax deferrals

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

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

	31 December 2003		31 December 2002	
	Assets	Liabilities	Assets	Liabilities
	€ million	€ million	€ million	€ million
Tax-loss carry forwards	6.0	0.0	6.7	0.0
Tax-exempt reserves	0.0	18.5	0.0	20.1
Tangible assets	0.0	11.8	0.0	10.5
Provisions	0.0	0.6	0.0	1.1
Other items	1.2	0.8	1.3	0.4
Total	**7.2**	**31.7**	8.0	32.1

As at balance sheet date, deferred tax assets of € 23.6 million (previous year: € 26.3 million) were not yet utilised; there are no time limits with regard to carrying forward such assets. The tax base used for tax deferrals was € 22.6 million (previous year: € 25.3 million).

5. Inventories

Stores and materials valued at € 13.7 million (previous year: € 12.9 million) are primarily accounted for by medical supplies. Write-downs have been taken on acquisition costs; as at balance sheet date, these value adjustments amounted to € 1.6 million (previous year: € 0.9 million). The carrying value of depreciated inventories amounts to € 13.7 million. Inventories are fully owned by RHÖN-KLINIKUM Group; there are no assignments or pledges of inventories.

6. Receivables from supplies and services

	31 December 2003	of which long-term	31 December 2002	of which long-term
	€ million	€ million	€ million	€ million
Receivables from clients	163.2	0.0	138.8	0.0
Value adjustments	13.5		10.7	
	149.7	0.0	128.1	0.0

The time value of receivables from supplies and services corresponds to their book value. Discernible single risks are accounted for by value adjustments, measured by the likely risk of default. Increases and decreases in receivables during 2003 are included in other operating expenditure and other operating income, respectively, in the consolidated income statement.

7. Tax claims

Tax claims in the amount of € 9.9 million (previous year: € 9.8 million) comprise corporation tax reimbursement claims of consolidated subsidiaries.

8. Other receivables and other assets

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

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

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

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

	31 December 2003	of which long-term	31 December 2002	of which long-term
	€ million	€ million	€ million	€ million
Receivables under hospital financing law	14.2	0.0	5.1	0.0
Receivables from associated companies	0.1	0.0	0.1	0.0
Other assets	5.2	0.1	5.4	0.7
	19.5	0.1	10.6	0.7

9. Liquid funds

Liquid funds comprise cash on hand and cash in banks, exclusively. The Group shows a credit balance of € 40.7 million with Bayerische Hypo- und Vereinsbank AG.

10. Equity

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

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

	Number of shares outstanding	Arithmetical interest in the share capital
		€
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.

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

Own share holdings are valued at € 0.1 million and deducted from equity. At balance sheet date, the portfolio of own shares consisted of 3,054 ordinary shares (previous year: 3,054) and 5,031 preference shares (previous year: 5,394).

In accordance with the provisions of the Companies Act (AktG), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of the parent company, RHÖN-KLINIKUM AG, which is prepared in accordance with the German Commercial Code (HGB). The Board of Management and the Supervisory Board will propose to shareholders at the forthcoming annual general meeting to appropriate the Company's net distributable profit of € 25.7 million as shown below and to carry forward the dividend on own share holdings.

	Dividend	Total
	€ per share	€
Ordinary shares	0.68	11,750,400.00
Preference shares	0.70	6,048,000.00
Transfer to other retained earnings		7,859,371.02
		25,657,771.02

11. Minority interests

Minority interests in the amount of € 20.9 million (previous year: € 30.6 million) include outside shareholders' interests in the capital of consolidated subsidiaries:

	Outside shareholders' interests
	%
Altmühltalklinik-Leasing-GmbH. Kipfenberg	49.00
Klinik für Wirbelsäulenrehabilitation GmbH. Bad Berka	12.50
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH	25.27
Zentralklinik Bad Berka GmbH. Bad Berka	12.50

Profit attributable to minorities as a share of net consolidated profit for the year amounted to € 6.6 million (previous year: € 7.7 million). Effective 30 December 2003, RHÖN-KLINIKUM AG acquired an additional share (12.5 per cent) in Zentralklinik Bad Berka GmbH. As a result of this transaction, outside shareholders' interest in Zentralklinik Bad Berka declined by € 12.7 million, that is from 25.0 per cent to 12,5 per cent of that clinic's capital.

12. Provisions for pensions and similar obligations

The Group provides post-retirement benefits for eligible employees under its company pension scheme which comprises both defined benefit and defined contribution pension plans. Obligations under this scheme comprise current pension payments and future entitlements.

Defined benefit pension obligations are funded in full from provisions, meaning that these obligations are not covered by outsourced assets in the form of external insurance funds. No provisions are made for defined contribution pension plans.

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

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

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

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

	2003	2002
	€ million	€ million
Current service costs (accrued entitlements)	0.3	0.4
Interests (projected entitlements)	0.6	0.6
Amortisation	0.1	0.1
	1.0	1.1

In financial year 2003, pension payments amounted to € 0.5 million (previous year: € 1.2 million). The total cost of € 1.0 million (previous year: € 1.1 million) is included in personnel expenses.

Defined benefit obligation and funding status of pensions and compensations:

	31 Dec. 2003	31 Dec. 2002
	€ million	€ million
Defined benefit obligation	10.2	10.0
Obligation in excess of plan assets	10.2	10.0
Actuarial gains or losses not yet recognised	– 1.0	– 1.2
Provision for pensions (Defined Benefit Liability)	**9.2**	8.8

Provisions for pensions developed as follows:

	2003	2002
	€ million	€ million
Balance at 1 January	8.8	9.0
Additions due to extended scope of consolidation	0.0	4.5
Pensions paid	0.5	1.2
Releases	0.0	4.5
Allocations	0.9	1.0
Balance at 31 December	9.2	8.8

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

	31 Dec. 2003	31 Dec. 2002
	%	%
Rate of interest	5.75	5.75
Projected increase in wages and salaries	2.50	2.50
Projected increase in pensions	1.50	1.50
Average fluctuation	0.00	0.00

We continue to use Prof. Dr. Klaus Heubeck's 1998 Tables as **biometrical bases of calculation**.

Within the framework of collective bargaining agreements, the Group pays contributions to the Versorgungswerk des Bundes und der Länder (VBL) and to supplementary insurance schemes under public law (Zusatzversorgungskassen/ZVK) for the benefit of a defined group of employees. Such independent pension schemes under public law are to be categorised as defined benefit pension plans as described by IAS 19, since post-retirement benefits for pensioners of VBL and ZVK member companies are not determined by contributions. However, in light of the great variety of VBL and ZVK member companies, these pension schemes must be regarded as multi-employer pension plans, subject to special rules according to IAS 19. In particular, IAS 19 does not allow the creation of provisions, in consideration of the fact that the Group lacks sufficient information for a detailed assessment of the share of RHÖN-KLINIKUM companies in future pension obligations under those schemes. Obligations under the VBL/ZVK pension schemes 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 for the respective financial years. In 2003, contributions to VBL and ZVk totalled approximately €6.1 million (previous year: €5.8 million). Provided continued VBL and ZKV membership, there are no other obligations for RHÖN-KLINIKUM companies besides paying in contributions.

13. Other provisions

Other provisions developed in financial year 2003 as shown below:

	1 Jan. 2003	Changes in the scope of consolidation	Consumed	Released	Allocated	31 Dec. 2003	Of which short-term
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for risks of default	1.4	0.0	0.3	0.5	0.0	0.6	0.6
Provisions for third-party risks	0.8	0.0	0.1	0.3	0.9	1.3	1.3
Other provisions	2.4	0.9	0.0	0.1	0.0	3.2	3.2
	4.6	0.9	0.4	0.9	0.9	5.1	5.1

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 potential negative effects of net retention, taking as a measure the likely utilisation of deductible amounts.

Other provisions primarily comprise provisions for obligations incurred in the context of acquisitions concluded in 2003 and in previous periods.

14. Long-term financial debts

	31 December 2003 Long-term	31 December 2003 Short-term	31 December 2002 Long-term	31 December 2002 Short-term
	€ million	€ million	€ million	€ million
Liabilities to banks	166.9	12.4	205.2	13.3
Other liabilities	0.0	0.5	0.0	0.5
	166.9	**12.9**	205.2	13.8

€ 139.1 million of long-term financial debts are accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG.

Other liabilities refer to an annually redeemable revolving loan.

The table below specifies durations, terms and conditions (weighted rate of interest) as well as nominal values and book values of financial debts.

Duration of fixed interest agreements	Interest rate*	31 December 2003 Nominal value	31 December 2003 Book value	31 December 2002 Nominal value	31 December 2002 Book value
	%	€ million	€ million	€ million	€ million
Liabilities to banks					
2003				58.8	47.5
2004	5.45	34.8	24.9	34.8	26.2
2005	5.95	72.6	46.1	72.6	49.3
2006	5.34	60.6	48.9	60.6	51.8
2007	5.18	36.8	34.8	39.4	36.8
2008	4.20	22.7	18.5	0.0	0.0
2011	5.70	7.7	6.1	7.7	6.9
		235.2	**179.3**	273.9	218.5
Other liabilities					
2003	7.50	0.5	0.5	0.5	0.5
		235.7	**179.8**	274.4	219.0

** weighted 2003 rate of interest*

Book values shown correspond to market values of financial debts.

Of the amounts stated, € 171.4 million are primarily secured by mortgage on real estate.

Long-term financial debts with a residual term of more than five years total € 115.6 million.

15. Tax liabilities

Tax liabilities in the amount of € 10.1million (previous year: € 6.4 million) comprise corporation tax payable plus the solidarity surtax; reflected in this item are tax liabilities incurred in the current year and in previous periods.

16. Other liabilities

	31 December 2003	Of which long-term	31 December 2002	Of which long-term
	€ million	€ million	€ million	€ million
Liabilities from supplies and services	60.1	0.0	35.1	0.2
Personnel liabilities	59.2	0.0	51.9	0.0
Financial debts	138.0	0.0	116.1	0.0
Liabilities under hospital financing law	32.1	0.0	27.6	0.0
Operating taxes and social security	17.6	0.0	16.9	0.0
Prepayments received	1.4	0.0	1.9	0.0
Other	56.0	1.5	22.5	1.6
	364.4	1.5	272.0	1.8

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

Short-term financial debts relate to debts incurred in the ordinary course of business and short-term refinancing of acquisitions, of which € 71.9 million are accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG,

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

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

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

VIII. INTERESTS IN MAJOR SUBSIDIARY COMPANIES

1. Consolidated subsidiaries

	Percentage held	Equity[1] 31 Dec. 2003	Result for the year[1] 31 Dec. 2003
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing-GmbH, Kipfenberg	51.0	3,008	367
Aukammklinik für operative Rheumatologie und Orthopädie GmbH, Wiesbaden	100.0	1,081	181
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	22,010	– 341
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH, Hildburghausen	74.7	21,305	3,260
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	9,400	– 139
GTB Grundstücksgesellschaft mbH, Leipzig	100.0	33,727	430
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	152	41
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,569	56
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	7,928	0[2]
Herzberger Klinik Leasing GmbH, Herzberg am Harz	100.0	9,723	192
Herzklinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,572	191
Herzzentrum Leipzig GmbH, Leipzig	100.0	20,944	13,977
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	– 2,552	919
Klinik "Haus Franken" GmbH, Bad Neustadt/Saale	100.0	447	– 3
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	42	– 1
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	8,596	5,589
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	87.5	17	0
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	5,270	2,189
Kliniken Herzberg und Osterode GmbH, Herzberg am Harz	100.0	6,768	847
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	25,546	2,433
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	72,958	5,130
Klinikum Meiningen GmbH, Meiningen	100.0	13,411	8,210
Klinikum Pirna GmbH, Pirna	100.0	13,667	416
Krankenhaus Cuxhaven GmbH, Cuxhaven	100.0	5,222	222
Krankenhaus Freital GmbH, Freital	100.0	20,084	3,522
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	8,613	120
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	13,417	868
Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde	100.0	8,918	565
Mittelweser Kliniken GmbH Nienburg Hoya Stolzenau, Nienburg	100.0	11,751	– 1,041
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,152	938
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	5,943	284
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	4	– 2
RK Klinik Besitz GmbH Nr. 2, Bad Neustadt/Saale	100.0	34	– 11
RK Klinik Besitz GmbH Nr. 3, Bad Neustadt/Saale	100.0	48	– 2
RK Klinik Besitz GmbH Nr. 4, Bad Neustadt/Saale	100.0	48	– 2
RK Klinik Betriebs GmbH Nr. 4, Bad Neustadt/Saale	100.0	29	– 21
Soteria Klinik Leipzig GmbH, Leipzig	100.0	3,262	1,176
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	19,662	1,869
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	78,140	22,603

[1] *Accounting in acc. with HGB* [2] *after profit transfer*

2. Associated companies not included in the scope of consolidation

	Percentage held	Equity[1] 31 Dec. 2003	Result for the year[1] 31 Dec. 2003
	%	€ thousand	€ thousand
ESB-Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt/Saale	100.0	1,762	156
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH, Leipzig	100.0	329	68
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt/Saale	100.0	332	1
Kurverwaltung Bad Neustadt GmbH, Bad Neustadt/Saale	60.0	85	0[2]
RK Bauträger GmbH, Bad Neustadt/Saale	100.0	203	– 23
Seniorenpflegeheim GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	25.0	99	– 1[2]
Wolfgang Schaffer GmbH, Bad Neustadt/Saale	100.0	504	7

[1] *Accounting in acc. with HGB.*
[2] *Acc. to 2002 financial statements.*

IX. ADDITIONAL INFORMATION

1. Annual average number of staff[1]

	2003	2002	Change	
	Number	Number	Absolute	%
Medical	1,586	1,453	133	9.2
Nursing	5,555	5,316	239	4.5
Medical-technical	1,922	1,831	91	5.0
Functional	1,202	1,070	132	12.3
Support functions	611	617	– 6	– 1.0
Technical	247	234	13	5.6
Administrative	1,001	940	61	6.5
Other	160	84	76	90.5
	12,284	11,545	739	6.4

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

2. Contingent liabilities

As in the previous year, warranties and guarantees furnished in 2003 totalled € 0.4 million.

3. Other financial obligations

	31 Dec. 2003	31 Dec. 2002
	€ million	€ million
Capital expenditure contracted for	18.1	8.3
Rental and lease agreements		
Maturity subsequent year	1.5	1.4
Maturity 2 – 5 years	1.2	1.8
Maturity 5 years	0.2	0.1
Pre-tax adjustments		
Maturity subsequent year	1.2	1.3
Maturity 2 – 5 years	0.2	1.4
Maturity 5 years	0.0	0.0
Other		
Maturity subsequent year	35.5	22.5
Maturity 2 – 5 years	17.5	16.1
Maturity 5 years	8.9	4.3

Financial obligations in the form of purchase prices and capital expenditure arising from acquisition agreements total € 225.6 million (previous year: € 220.6 million); the greater part of these obligations has to be met within a period of up to 84 months.

4. Related parties and persons

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

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

Related persons	Related companies (as defined by IAS, 24.3e)	Nature of services	€ thousand
Dr. Friedrich-Wilhelm Graf von Rittberg	Seufert Rechtsanwälte	Consulting	1,752
Prof. Dr. Gerhard Ehninger	AgenDix-Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	107

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

In 2003, staff members of RHÖN-KLINIKUM AG or its subsidiaries, who act as labour representatives in the Supervisory Board, received the following compensation within the scope of their employment contracts:

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Bernd Häring	27	4	31
Helmut Bühner	42	5	47
Ursula Harres	38	2	40
Bernd Kumpan (until 12 Nov. 2003)	17	0	17
Anneliese Noe	32	4	36
Werner Prange (since 15 Jan. 2004)	45	1	46
Joachim Schaar	43	33	76
	244	49	293

In addition, the Group paid employer's national insurance contributions totalling € 52 thousand. The above costs are shown under personnel expenses in the consolidated income statement.

Bayerische Hypo- und Vereinsbank AG, Munich, has held 26.52 per cent of the voting capital of RHÖN-KLINIKUM AG since 2 May 2002. The Group maintains relations with that bank as a provider of credit lines and other financial services at prevailing market conditions.
In addition, the bank provides defined services under a Designated Sponsor Agreement. Interests received as reflected in the consolidated income statements amounted to € 1.0 million; interests paid, including other expenses, totalled € 10.7 million. The corresponding asset and liability items are shown in the consolidated balance sheet under liquid funds, long-term financial debts, and other liabilities, respectively.

Mr. Eugen Münch, Bad Neustadt/Saale, is the chairman of the Board of Management of RHÖN-KLINIKUM AG and, together with his wife, continues to own more than 20 per cent of the voting capital of the Company.

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

	2003	2002
	€ thousand	€ thousand
Supervisory Board	940	880
Board of Management	5,763	5,683
Advisory Board	15	17

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

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

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Dr. Friedrich-Wilhelm Graf von Rittberg	32	114	146
Bernd Häring	21	83	104
Dr. Richard Trautner (until 16 July 2003)	15	57	72
Michael Mendel (since 17 July 2003)	7	26	33
Helmut Bühner	10	35	45
Ursula Derwein	10	35	45
Prof. Dr. Gerhard Ehninger	10	35	45
Ursula Harres	10	35	45
Detlef Klimpe	10	35	45
Bernd Kumpan (until 12 November 2003)	10	35	45
Prof. Dr. Dr. sc. Karl W. Lauterbach	10	35	45
Dr. Brigitte Mohn	10	35	45
Wolfgang Mündel	10	35	45
Anneliese Noe	10	35	45
Timothy Plaut	8	30	38
Joachim Schaar	10	35	45
Michael Wendl	11	41	52
	204	736	940

The compensation of Board of Management members breaks down by fixed and variable components as shown in the table below:

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Eugen Münch	249	1,812	2,061
Andrea Aulkemeyer	149	260	409
Wolfgang Kunz	177	260	437
Joachim Manz	201	433	634
Gerald Meder	202	908	1,110
Manfred Wiehl	204	908	1,112
	1,182	4,581	5,763

The Group does not provide any long-term incentive plans for executives.

6. Statement of Compliance with the German Corporate Governance Code

As per joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG, the Company issued a Statement of Corporate Governance, pursuant to Section 161 of the German Companies Act (AktG), regarding the application of the German Corporate Governance Code in financial year 2003. This statement was published on the web site of RHÖN-KLINIKUM AG.

7. Corporate bodies of RHÖN-KLINIKUM AG

Supervisory Board

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

Bernd Häring, Leipzig
Deputy Chairman, nurse

Dr. Richard Trautner, Munich
Deputy Chairman (until 16 July 2003)
Also a member of the Supervisory Boards of: Aktien-Brauerei-Kaufbeuren AG, Kaufbeuren (until 14 May 2003); Allgäuer Brauhaus AG, Kempten (until 1 July 2003); AVECO HOLDING AG, Frankfurt am Main; Weltbild Verlag GmbH, Augsburg, chairman; Kraftverkehr Bayern GmbH, Munich; ERGO Versicherungsgruppe AG, Dusseldorf (until 5 June 2003).

Michael Mendel, München
Deputy Chairman (since 17 July 2003)
Member of the Board of Directors of Bayerische Hypo-Vereinsbank AG;
Also a member of the Supervisory Boards of: Bank Austria Creditanstalt AG, Vienna; ERWO Holding AG, Nuremberg (deputy chairman), until 31 December 2003; German Incubator GI Ventures AG, Munich; Kennametall Hertel AG, Nuremberg; MAHAG Münchner Automobil-Handel Haberl GmbH & Co. KG, Munich; Vereinsbank Victoria Bauspar AG, Munich (chairman). Other mandates: HVB Banque Luxembourg .S.A., Luxembourg (vice president of the Board of Directors); HVB Beteiligungs-GmbH & Co. Verwaltungs AG (vice president of the Board of Directors); HVB Wealth Management Holding GmbH, Munich (chairman of the Board of Directors)

Helmut Bühner, Bad Bockle
Nurse

Ursula Derwein, Berlin
Secretary of ver.di, Federal Administration;

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

Ursula Harres, Wiesbaden
Medical-technical assistant

Detlef Klimpe, Aachen
Director of administration

Bernd Kumpan, Bannewitz OT Possendorf
Technician (until 12 November 2003)

Professor Dr. Dr. sc. (Harvard) Karl W. Lauterbach, Cologne
University professor

Dr. Brigitte Mohn, Gütersloh
Member of the Board of Management of Bertelsmann Stiftung, responsible for healthcare issues.
Other mandates: member of the Advisory Board of startsocial; member of the Board of Trustees of Urania Berlin e.V.; member of the Advisory Board of OWL-Marketing GmbH – Initiative Gesundheitswirtschaft und Gesundheit

Wolfgang Mündel, Kehl
Auditor and tax consultant

Anneliese Noe, Blankenhain
Nurse

Timothy Plaut, London
Investment banker (retired)

Werner Prange, Osterode
Nurse (since 15 January 2004)

Joachim Schaar, Wasungen
Director Human Resources

Michael Wendl, Munich
Secretary of ver.di, regional directorate Bavaria

Board of Management

Eugen Münch, Bad Neustadt/Saale
Chairman
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Andrea Aulkemeyer, Leipzig
Regional Division Saxony

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

Joachim Manz, Weimar
Regional Divisions Thuringia, Brandenburg

Gerald Meder, Hammelburg
Deputy Chairman, Synergy, Logistics, Quality and Development; Labour Relations (Company); Regional Divisions Baden-Württemberg, Bavaria, Hesse, Lower Saxony, and North Rhine-Westphalia;
Member of the Supervisory Board of Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

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

Advisory Board of RHÖN-KLINIKUM AG

Wolf-Peter Hentschel, Bayreuth (Chairman)

Prof. Dr. Robert Hacker, Bad Neustadt/Saale

Dr. Heinz Korte, Munich

Prof. Dr. Michael-J. Polonius, Dortmund

Helmut Reubelt, Dortmund

Liane Seidel, Bad Neustadt/Saale

Franz Widera, Duisburg

Dr. Dr. Klaus D. Wolff, Bayreuth

Bad Neustadt/Saale, 26 February 2004

The Board of Management

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

Auditors' Opinion

Based on the result of our audit, we have issued the following unqualified certificate with date of 27 February 2004:

"Audit Certificate

We have audited the consolidated financial statements (comprising the consolidated balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement, and the notes to the consolidated financial statements) prepared by RHÖN-KLINIKUM AG, Bad Neustadt/Saale, for the year ended 31 December 2003. The preparation of and the disclosures made in these consolidated financial statements, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the IASB, are the responsibility of the Company's Board of Management. Our responsibility is to verify, based on our audit, whether these consolidated financial statements comply with the provisions of the IFRS.

We conducted our audit in accordance with generally accepted German auditing principles, taking account of the standards for professional auditing issued by the Institut der Wirtschaftsprüfer (IDW) and, in addition, of the International Standards on Auditing (ISA). These standards require that an audit be planned and performed such as to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. When determining the features of audit, regard is paid to knowledge of the Group's business activities and its economic and legal environments, as well as to expectations of potential errors. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our audit also included an assessment of the accounting principles applied and significant estimates made by Management, as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements are in accordance with the IFRS and give a true and fair view of the Group's asset, financial and earnings position as well as the cash flows for the year.

No defences have resulted from our audit which, in accordance with German auditing standards, also included Management's consolidated report for the year ended 31 December 2003. In our opinion, this report, combined with all other disclosures made in the consolidated financial statements, fairly presents the Group's overall position and the potential risks for its future development. Furthermore, we confirm that these consolidated financial statements and Management's consolidated report for the year ended 31 December 2003 comply with the conditions for the Company's exemption from the obligation of preparing consolidated financial statements and a consolidated management report in accordance with German law."

Frankfurt am Main, 27 February 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dreissig)	*(ppa. Burkhart)*
Auditor	Auditor

RHÖN-KLINIKUM AG annual financial statements for the year ended 31 December 2003

Balance sheet

	31 Dec. 2003 € million	31 Dec. 2002 € million
ASSETS		
Intangible assets	0.8	0.8
Tangible assets	31.0	31.3
Financial assets	370.3	322.2
Fixed assets	**402.1**	354.3
Inventories	2.3	2.2
Receivables and other assets	53.1	45.5
Securities, cash and cash equivalents	0.3	0.1
Current assets	55.7	47.8
Prepaid expenses	0.1	–
	457.9	402.1

	31 Dec. 2003 € million	31 Dec. 2002 € million
EQUITY AND LIABILITIES		
Subscribed capital	25.9	25.9
Capital reserve	37.6	37.6
Retained earnings	193.9	159.8
Net distributable profit	25.7	23.7
Equity	**283.1**	247.0
Tax provisions	0.2	0.0
Other provisions	24.9	23.3
Provisions	**25.1**	23.3
Liabilities	**149.7**	131.8
	457.9	402.1

Income statement

	2003 € million	2002 € million
Revenues	125.2	123.3
Changes in services in progress	– 0.1	0.2
Other operating income	6.4	5.3
Cost of materials	29.8	29.0
Personnel expenses	61.1	59.0
Depreciation	3.5	3.1
Other operating expenses	29.6	26.9
Operating result	**7.5**	10.8
Income from investments	52.9	48.5
Financial result	– 3.1	– 4.1
Headline earnings	57.3	55.2
Extraordinary charges	–	3.8
Taxes	6.0	4.0
Net profit for the year	**51.3**	47.4
Allocation to retained earnings	25.6	23.7
Net distributable profit	**25.7**	23.7

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 District Court 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 2003, 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 € 25,657,771.02 . The Board of Management will propose to shareholders at the forthcoming annual general meeting that this profit be appropriated as follows:

	€
Distribution of a dividend of € 0.68 per ordinary share on 17,280,000 ordinary shares	11,750,400.00
Distribution of a dividend of € 0.70 per non-voting preference share on 8,640,000 preference shares	6,048,000.00
Allocation to other retained earnings	7,859,371.02
Net distributable profit	25,657,771.02

Bad Neustadt/Saale, 26 February 2004

RHÖN-KLINIKUM AKTIENGESELLSCHAFT
The Board of Management

Andrea Aulkemeyer   Wolfgang Kunz   Joachim Manz

Gerald Meder   Eugen Münch   Manfred Wiehl

Declaration of Compliance with the German Corporate Governance Code for 2003

"The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG declare that the recommendations issued by the Government Commission of the German Corporate Governance Code as amended on 7 November 2002 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) have been complied with in financial year 2003, an exception being the following recommendations which have not been applied:

Code Item 2.1
RHÖN-KLINIKUM AG's share capital is divided into 17,280,000 ordinary shares and 8,640,000 non-voting preference shares.

Code Item 3.10
Pursuant to Section 161 AktG, the Board of Management and the Supervisory Board have expressed their opinion on the application of the German Corporate Governance Code as amended on 7 November 2002 and published a corresponding declaration on the Company's web site. No further information nor explanation of potential deviations from the Code's recommendations is given in this annual report.

Code Item 4.2.3
In respect to the compensation of Board of Management members, no stock options or similar remuneration components have been agreed.

Code Item 5.1.3
The activity of the Supervisory Board is set forth in Sections 10 to 14 of the Company's articles of association; the Supervisory Board therefore resolved to abstain from issuing specific Terms of Reference.

Code Item 5.3.1
Information on the committees set up by the Supervisory Board is contained in the Supervisory Board's report on RHÖN-KLINIKUM AG's business year from 1 January 2002 to 31 December 2002 (pursuant to Section 171 AktG).

Code Item 5.3.2
The Supervisory Board handles issues of accounting, risk management, the necessary independence required of the auditors, the issuing of the audit mandate to the auditors, and the determination of auditing focal points in plenary meetings as being a direct responsibility of the whole Board. Therefore, the Board has abstained from setting up an Audit Committee.

Code Item 5.4.1
No age limit has been specified for the members of the Supervisory Board.

Code Item 5.4.5
The compensation of Supervisory Board members is definitely ruled by the provisions of Section 14 of the Company's articles of association. Compensation of the chair and membership in Supervisory Board committees is covered by the general remuneration provisions set out in Section 14, Item 2, of the Company's articles of association. No special consideration has been provided for.

The compensation of Supervisory Board members is shown in the notes to the consolidated financial statements, broken down by individual board members and remuneration components. Where the Company compensates Supervisory Board members for services rendered personally, particularly consulting and mediation services, or grants advantages for such services, this will be reported separately on an individualised basis in the notes to the consolidated financial statements, except for benefits, particularly individual wages and salaries, of Supervisory Board members elected to the Supervisory Board as labour representatives, in accordance with the Co-determination Act (Mitbestimmungsgesetz).

Code Item 5.5.3
In accordance with the provisions of the Co-determination Act as amended on 4 May 1976, the Supervisory Board of RHÖN-KLINIKUM AG comprises two members representing the trade union ver.di and a total of six members representing the Company's staff. This legally prescribed constellation inevitably leads to conflicts of interest. This is why the Supervisory Board abstains from applying Item 5.5.3 universally.

Code Item 5.6
The Supervisory Board examines the compliance with its resolutions and recommendations on the part of the Board of Management. For the rest, the Board does not apply Item 5.6.

Code Item 6.5
Generally, the Company does not disclose any information abroad, in line with foreign capital market law provisions, which would require immediate disclosure domestically.

Code Item 6.6
The Board of Management and the Supervisory Board inform the Company about any purchase or sale of shares in the Company or its subsidiaries as well as of options and other derivatives, in accordance with the provisions of the Securities Trading Act (WpHG). Item 6.6 of the Code is not applied.

Code Item 6.7
A "financial calendar" is published on the Company's web site, exclusively.

Code Item 7.1.2
The Company's and the Group's financial year corresponds to the calendar year. The annual financial statements of the Company and the Group are published in the month of April following the end of the financial year.

The Board of Management and the Supervisory Board jointly decide on the application of the suggestions contained in the Code, as the case may be selective; such suggestions may be deviated from without disclosure, as set forth in both the Code and Section 161 AktG."

Bad Neustadt/Saale, July 2003

RHÖN-KLINIKUM AG

The Board of Management

The hospitals of RHÖN-KLINIKUM AG

Baden-Wuerttemberg
Klinik für Herzchirurgie
Karlsruhe GmbH
Franz-Lust-Straße 30
76185 Karlsruhe
Phone: (+49) (0) 721-9738-0
Fax: (+49) (0) 721-9738-111
gf@herzchirurgie-karlsruhe.de

Bavaria
St. Elisabeth-Krankenhaus
GmbH Bad Kissigen
Kissinger Straße 150
97688 Bad Kissingen
Phone: (+49) (0) 971-805-0
Fax: (+49) (0) 971-805-281
info@elisabeth-online.de

Klinik „Haus Franken“ GmbH
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (+49) (0) 9771-67-04
Fax: (+49) (0) 9771-67-3300
fk@frankenklinik-bad-neustadt.de

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

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

Neurologische Klinik GmbH
von-Guttenberg-Straße 10
97616 Bad Neustadt/Saale
Phone: (+49) (0) 97 71-908-0
Fax: (+49) (0) 97 71-991464
gf@neurologie-bad-neustadt.de

Psychosomatische Klinik
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (+49) (0) 9771-67-01
Fax: (+49) (0) 9771-67-3110
psk@psychosomatische-klinik-bad-neustadt.de

Haus Saaletal GmbH
Salzburgweg 7
97616 Bad Neustadt/Saale
Phone: (+49) (0) 9771-905-0
Fax: (+49) (0) 9771-905-4610
stk@saaletalklinik-bad-neustadt.de

Krankenhaus Hammelburg
GmbH
Ofenthaler Weg 20
97762 Hammelburg
Phone: (+49) (0) 9732-9000
Fax: (+49) (0) 9732-900113
gf@klinik-hammelburg.de

Klinik Kipfenberg GmbH
Neurochirurgische und
Neurologische Fachklinik
Kindinger Straße 13
85110 Kipfenberg
Phone: (+49) (0) 8465-175-0
Fax: (+49) (0) 8465-175-111
gf@neurologie-kipfenberg.de

Brandenburg
Klinikum Frankfurt (Oder)
GmbH
Müllroser Chaussee 7
15236 Frankfurt (Oder).
Markendorf
Phone: (+49) (0) 335-548-0
Fax: (+49) (0) 335-548-2003
gf@klinikumffo.de

Hesse
Aukammklinik GmbH
Leibnizstraße 21
65191 Wiesbaden
Phone: (+49) (0) 611-572-0
Fax: (+49) (0) 611-565681
info@aukammklinik.de

Stiftung Deutsche Klinik für
Diagnostik GmbH
Aukammallee 33
65191 Wiesbaden
Phone: (+49) (0) 611-577-0
Fax: (+49) (0) 611-577-577
gf@dkd-wiesbaden.de

Lower Saxony
Kliniken Herzberg und Osterode
GmbH
Dr.-Frössel-Allee
37412 Herzberg am Harz
Phone: (+49) (0) 5521-866-0
Fax: (+49) (0) 5521-5500
gf@klinik-herzberg.de

Mittelweser Kliniken GmbH
Nienburg Hoya Stolzenau
Marienstraße 2
31582 Nienburg a. d. Weser
Phone: (+49) (0) 5021-809-0
Fax: (+49) (0) 5021-809-119
verwaltung@krankenhaus-nienburg.de

Kliniken Uelzen und
Bad Bevensen GmbH
Waldstraße 2
29525 Uelzen
Phone: (+49) (0) 581-83-00
Fax: (+49) (0) 581-83-4567
gf@kliniken-uelzen-und-bad-bevensen.de

Krankenhaus Cuxhaven GmbH
Altenwalder Chaussee 10 – 12
27474 Cuxhaven
Phone: (+49) (0) 4721-78-0
Fax: (+49) (0) 4721-78-1200
info@skh-cux.de

North Rhine-Westphalia
Krankenhaus
St. Barbara Attendorn GmbH
Hohler Weg 9
57439 Attendorn
Phone: (+49) (0) 2722-60-0
Fax: (+49) (0) 2722-60430
gf@krankenhaus-attendorn.de

Saxony
Krankenhausgesellschaft
Dippoldiswalde mbH
Rabenauerstraße 9
01744 Dippoldiswalde
Phone: (+49) (0) 3504-632-0
Fax: (+49) (0) 3504-632-241
gf@krankenhaus-dippoldiswalde.de

Krankenhaus Freital GmbH
Bürgerstraße 7
01705 Freital
Phone: (+49) (0) 351-646-60
Fax: (+49) (0) 351-646-7010
gf@krankenhaus-freital.de

Herzzentrum Leipzig GmbH
– Universitätsklinik –
Strümpellstraße 39
04289 Leipzig
Phone: (+49) (0) 341-865-0
Fax: (+49) (0) 341-865-1405
gf@herzzentrum-leipzig.de

Park-Krankenhaus Leipzig-Südost GmbH
Strümpellstraße 41
04289 Leipzig
Phone: (+49) (0) 341-864-0
Fax: (+49) (0) 341-864-2666
gf@parkkrankenhaus-leipzig.de

Soteria Klinik Leipzig GmbH
Morawitzstraße 4
04289 Leipzig
Phone: (+49) (0) 341-870-0
Fax: (+49) (0) 341-870-3000
gf@soteria-klinik-leipzig.de

Klinikum Pirna GmbH
Schandauer Straße 12
01796 Pirna
Phone: (+49) (0) 3501-766-0
Fax: (+49) (0) 3501-766-1422
direktion@kkh-pirna.de

Thuringia

Zentralklinik Bad Berka GmbH
Robert-Koch-Allee 9
99437 Bad Berka
Phone: (+49) (0) 36458-50
Fax: (+49) (0) 36458-42180
gf@zentralklinik-bad-berka.de

Klinikum Meiningen GmbH
Bergstraße 3
98617 Meiningen
Phone: (+49) (0) 3693-90-0
Fax: (+49) (0) 3693-90-1234
gl@klinikum-meiningen.de

Krankenhaus Waltershausen-Friedrichroda GmbH
Reinhardsbrunner Straße 14 – 17
99894 Friedrichroda
Phone: (+49) (0) 3623-350-0
Fax: (+49) (0) 3623-350-630
gf@krankenhaus-waltershausen-friedrichroda.de

Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH
Eisfelder Straße 41
98646 Hildburghausen
Phone: (+49) (0) 3685-776-0
Fax: (+49) (0) 3685-776-940
vl@fachkrankenhaus-hildburghausen.de

RHÖN-KLINIKUM AG

Postal address:
D-97615 Bad Neustadt/Saale

Visitors' address:
Salzburger Leite 1
D-97616 Bad Neustadt/Saale

Phone: (+49) (0) 9771-65-0
Fax: (+49) (0) 9771-97467

Internet:
http://www.rhoen-klinikum-ag.com

E-Mail:
rka@rhoen-klinikum-ag.com

This Annual Report is also available in German and Spanish.

This Annual Report was printed on paper bleached without chlorine.