Group management report

A) Key figures of the Asklepios Group

Group key figures

		2022	2021	Changes in %
Number of patients		3,570,976	3,542,346	+0.8
Cost weight		597,092	609,734	−2.1
Number of beds		30,749	31,197	−1.4
Employees (full-time equivalents)		49,103	49,967	−1.7
Net cash from operating activities	EUR million	323.3	449.6	−28.1
Revenue	EUR million	5,290.0	5,117.6	+3.4
EBITDA	EUR million	532.6	503.4	+5.8
Operating EBITDA margin in %		**10.1**	**9.8**	
EBIT	EUR million	197.5	184.8	+6.9
Operating EBIT margin in %		**3.7**	**3.6**	
Consolidated net income (EAT)	EUR million	131.9	106.3	+24.0
Operating EAT margin in %		**2.5**	**2.1**	
Investments in property, plant and equipment and intangible assets (own funds)[1]	EUR million	218.3	242.2	−9.9
Own funds ratio in %		**69.5**	**72.8**	
Total assets	EUR million	6,870.7	6,572.3	+4.5
Equity	EUR million	2,043.1	1,746.9	+17
Equity ratio in %		**29.7**	**26.6**	
Financial liabilities	EUR million	2,231.4	2,179.0	+2.4
Cash and cash equivalents	EUR million	634.6	647.2	−2.0
Short-term time deposits	EUR million	220.0	167.0	+31.7
Net financial debt[2]	EUR million	1,376.8	1,364.8	+0.9
Net debt ratio		3.5x	3.6x	
Interest coverage factor (EBITDA/net interest income)		12.6x	10.0x	

[1] In relation to investments at hospital locations

[2] Not including lease liabilities

B) A challenging 2022 financial year

The 2022 financial year was a challenging year for Asklepios Kliniken GmbH & Co. KGaA, being dominated, as it was, by political and economic world affairs. In addition to the aftermath of the coronavirus pandemic and the impact of the Ukraine war, inflation has significantly impacted the healthcare sector and hospital operators. As a large healthcare group, Asklepios was still able to absorb critical changes in the market to a manageable extent.

At 3.4% year-on-year, revenue growth was nonetheless gratifying. Around 3.6 million patients chose to be treated in the approximately 170 healthcare facilities in the 2022 financial year (previous year: 3.5 million). The continuous increase in the number of patients choosing to use our services shows that Asklepios has chosen the right path in terms of strategy. Consolidated net income (EAT) amounted to EUR 131.9 million (previous year: EUR 106.3 million). Equity was EUR 2,043.1 million as at 31 December 2022, higher than the figure as at 31 December 2021 (previous year: EUR 1,746.9 million). The equity ratio changed to 29.7% (previous year: 26.6%). Asklepios employed 49,103 full-time equivalents on average in the 2022 financial year (previous year: 49,967).

C) Basis of the Group

1. Business model of the Group

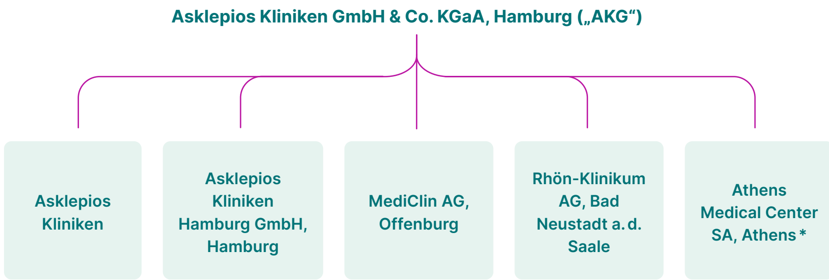
The healthcare group Asklepios was established in 1985 and since then has stood for quality, innovation and social responsibility. The acquisition of the hospitals owned by the City of Hamburg in 2004 and the majority acquisition of MediClin AG in September 2011 are key milestones in the company's development. The Asklepios Group has also been a majority shareholder of Rhön-Klinikum AG since 2020. Since its foundation, Asklepios has developed from a hospital operator to a future-oriented and digital company that has embraced a holistic, integrated treatment approach. Asklepios is one of the leading private hospital operators in Germany with approximately 170 healthcare facilities in total in 14 German states.

The close-knit network of hospitals and healthcare facilities allows for integrated treatment chains and the establishment of medical clusters. The Asklepios Group covers the entire range of medical care services, with specialist hospitals with specific specialities – the Centres of Excellence – operating far beyond their own regions in addition to university hospitals and maximum, basic, standard and priority care. As an operator of rehabilitation clinics, Asklepios is able to guarantee full inpatient care from a single source. Patients find outpatient treatment in the Group's medical centres.

In addition to the Pulso Group, the Asklepios e-health portfolio comprises Fürstenberg Institut GmbH, which focuses on mental & corporate health. The e-health platform Minddistrict focuses on prevention and rehabilitation for patients with mental illnesses. Insite-Intervention GmbH implements and operates Employee Assistance Programs (EAP).

The Asklepios Group's focus is on the non-cyclical acute market. Roughly 87.2% of the business volume related to acute care hospitals and the remaining share of 12.8% to the rehabilitation sector and other medical facilities. However, the Asklepios value chain has been significantly extended in recent years. Alongside prevention, outpatient and inpatient treatment and aftercare for our patients, Asklepios offers online-based therapy and treatment.

The structure of the Group as at 31 December 2022:



* Accounting using the equity method

Asklepios Kliniken GmbH & Co. KGaA acts as the management company of the Asklepios Group. The operating entities Asklepios Kliniken, Asklepios Kliniken Hamburg GmbH, MediClin AG and Rhön-Klinikum AG are fully consolidated subsidiaries in each case. Athens Medical Center SA is accounted for using the equity method. Asklepios Kliniken GmbH & Co. KGaA is responsible for the areas of Group development and strategy as well as for monitoring, management and controlling functions. In addition, Asklepios leverages functional synergies, for example in the areas of accounting, taxes and controlling, corporate finance & treasury, medical law, insurance & compliance, quality management, medicine and science, procurement, care and information technology. Standard intercompany agreements on the exchange of services and cooperation agreements have been entered into between the Group entities.

2. Objectives and strategies

Asklepios aims to integrate medical care more closely with digital services to achieve a sustained improvement in the quality of patients' medical treatment. Asklepios strategically focuses its services on future needs and concentrates on digitalisation and the shift towards outpatient care. This requires sound business development and stable internal financing to invest constantly in medical facilities from our own funds.

3. Management system

The Asklepios Group is managed and controlled by its Group management, which is the responsibility of Asklepios Kliniken Management GmbH as the general partner. The other executive bodies of the company are the Supervisory Board and the Annual General Meeting. The Supervisory Board monitors and consults the management work by the general partner. The Annual General Meeting adopts resolutions on the approval of the annual financial statements, official approval of the actions of the general partner and the Supervisory Board and the appropriation of profits.

Asklepios is centrally organised, while operational responsibility for achieving targets is transferred to the regional units, which also look after the patients in organisational terms. The organisational structure of Asklepios is based on the following centrally controlled Group departments: Outpatient Medicine, Purchasing & Supply, Hospital Financing & Revenue Management, ESG & Sustainability, Information Technology, Medicine & Science, Medical Law, Insurance & Compliance, Human Resources, Care, Quality, Risk Management & Audit, Legal, Accounting, Taxes & Controlling, Corporate Communications & Marketing.

Starting from the 2023 financial year, Asklepios' internal management at company level is no longer based on earnings before interest, taxes, depreciation and amortisation (EBITDA), but instead on earnings before interest and taxes (EBIT). Group management is dependent on earnings after taxes (EAT).

Asklepios uses the equity ratio, which expresses the ratio of equity to total assets as a percentage, as another significant, control-related financial performance indicator.

The number of cost weights is a significant, control-related, non-financial performance indicator for Asklepios. Cost weights are a key figure used to bill medical services in hospitals. Cost weights are given for each diagnosis-related group (DRG) in combination with the case mix index (index of the average severity of cases). Multiplying the cost weights by the base rate produces the amount that a health insurance fund has to pay to a hospital for a case such as this. This performance indicator provides Asklepios with important information on both case numbers and the assessment of quality.

Asklepios also uses year-on-year organic percentage growth to manage its own performance.

As part of the reporting system, these KPIs are aggregated at the level of the Group, prepared for individual facilities and monitored by management. Asklepios uses planning and control processes to calculate these KPIs.

The internal audit as a management tool supports management in its control function by providing targeted, independent reviews. It includes regular monitoring of the proper functioning of the internal control system and of risk management.

Group management bears overall responsibility for the internal control and risk management system with regard to the financial reporting processes of the companies included and for the Group financial reporting process. All consolidated entities are included using defined management and reporting structures.

4. Quality management

There are a number of legal requirements and guidelines on quality management and quality assurance that apply to hospitals. Quality is of paramount importance to Asklepios. There is a structured quality management system in place at all Asklepios hospitals, which is continuously developed and adapted to current legal requirements, independently of the targets of individual certification procedures.

The Asklepios QM system focuses on legally required QM tools in accordance with QM guidelines set out by the Federal Joint Committee and the standards the Group has outlined for improving patient safety. These requirements are the minimum standard for all hospitals.

In addition to quality management and quality assurance, there is also a clinical risk management system set up across Asklepios hospitals. Group standards for improving patient safety are implemented across all hospitals. These include the use of WHO operating safety checklists, patient armbands to prevent procedural mix-ups, secure patient identification and measures to enhance safety during medical treatment. In all of these areas, the Group takes into account the recommendations for action issued by the German Coalition for Patient Safety. An error reporting system (CIRS) is in place across all Asklepios hospitals and ensures that any lessons learned from errors are applied throughout the Group.

The internal Asklepios audit programme developed by the Quality department has replaced external certifications. The programme includes an annual audit of all hospitals conducted by the Quality department, in addition to individual hospital audits and risk audits on priority issues.

A standard patient survey is used across all Asklepios hospitals to determine customer requirements. The results are used to continuously improve the quality of hospital treatment. The introduction of "treatment indexes" made it much easier to set targeted priorities in the derivation of measures. All Asklepios rehabilitation clinics are certified in accordance with the IQMP-kompakt certification procedure recognised by the Federal Association for Rehabilitation.

D) Economic report

1. General economic and sector-specific conditions

General economic conditions

The German government expects economic growth of 1.4% in its autumn forecast for the current year. In 2023, the German government expects a fall of 0.4% that is the result, in particular, of the impact of the Russian war of aggression.[1] In view of inflation, the shortage of qualified staff, the uncertain energy supply and uncertainties in the supply chain, Asklepios also assumes that business development will be affected overall.

General sector conditions

The healthcare industry is one of the largest sectors in the German economy and is therefore of key economic importance for Germany. The healthcare industry is divided into three core segments. The largest comprises inpatient and non-inpatient facilities. The industrial healthcare industry comprises the production of pharmaceuticals, medical technology and medical products, as well as the trading and sale of these goods. The third sub-segment of the healthcare industry includes health insurance and public administration; independent healthcare; sport, wellness and tourism services and investments.

The healthcare market was also affected by the COVID-19 pandemic that has been ongoing since March 2020 and the access restrictions applicable to inpatient facilities, in particular, in the 2022 financial year. Following a pandemic wave at the beginning of 2022, coronavirus case numbers fell over the course of the financial year, while significant regional variations in incidence rates in the population as a whole had a delayed impact on hospital occupancy during the year. Performance figures have stabilised generally speaking and facilities are again reporting rising performance figures year-on-year. The compensation payments via flat-rate allowances for keeping capacity available from 2020 and 2021 were continued until 18 April 2022, while the group of entitled hospitals had already been significantly curtailed. Hospitals that did not receive flat-rate allowances and experienced a downturn in performance in the first quarter of 2022 compared with the first quarter of 2019 were able to bill flat-rate discounts from May 2022, as in the previous year.

Hospitals could charge a flat rate in the form of a care surcharge for each patient infected with SARS-COV2 admitted up to 30 June 2022 who stayed for at least 2 days, which was based on the amount of the previous flat-rate allowance multiplied by the average nationwide period spent in hospital of 13.9 days per COVID case. Revenue from the flat-rate allowances, discount payments that may have been billed for hospitals that did not receive flat-rate allowances and revenue from the care surcharge are subject to overruns or shortfalls in revenue being offset for psychiatric and somatic hospitals. In this offset, the actual revenue from 85% of the flat-rate allowances, 100% of the separate discount payments, 50% of the care surcharge in 2022, DRGs (excluding care) and additional fees is contrasted with the corresponding actual revenue in 2019.

As in 2021, revenue overruns must be repaid in full up to 85% of the revenue from the compensation payments in this offset for the year as a whole. A hospital may retain all the revenue resulting from this only if it exceeds the 2019 service volume, while the pro rata revenue from flat-rate allowances and the care surcharge would have to be repaid in full. To calculate the revenue shortfall, the actual revenue in 2022 is compared with the actual revenue in 2019 reduced to 98%. If this results in a revenue shortfall, only 85% is offset.

When calculating both revenue overruns and revenue shortfalls, variable material costs are left out of the calculation. The calculation system leads to hospitals with revenue shortfalls not having their fixed costs reimbursed in full but having to repay revenue overruns in full. In a small range, hospitals will neither have any shortfall in revenue offset nor have to repay any revenue overrun. The offsets will be negotiated with the health insurance funds in 2023, whereby the key criterion for receiving shortfalls in revenue from hospitals is to provide evidence that the drop in revenue was caused by COVID.

Further COVID aid was significantly reduced in 2022 compared with the first two years of the pandemic. Alongside the continuing remuneration of COVID tests depending on the type of tests, only invoice payment by health insurance funds within five days of invoices being issued remained.

[1] https://www.bundesregierung.de/breg-de

After various requirements and the implementation of additional structural requirements was deferred until 2022 in 2020, hospitals were considerably affected by the bureaucratic costs of the new regulations despite the ongoing pandemic situation, especially with regard to the structural assessments of complex treatments that can only be agreed and billed from 2022 if the assessments have received a positive response. There were also the budget negotiations from 2020 and 2021, which had practically ground to a halt in the dispute about the definition of excluding nursing costs despite a new federal agreement and changes to legal requirements in previous years. Furthermore, a maximum of 60% of German hospitals will have achieved a budget agreement for 2020 by the end of 2022.

The nursing staff thresholds were also extended to orthopaedics, gynaecology and obstetrics as well as neonatal paediatrics in 2022. Paediatrics was differentiated into general paediatrics and specialist paediatrics (neuro/social paediatrics, diabetology, rheumatology, dermatology). The nursing staff thresholds were not suspended at any time. Considerably more stringent requirements in intensive care, for example, in addition to the general lack of nurses led to wards being closed in many national hospitals.

Otorhinolaryngology, urology and rheumatology will be included as additional areas requiring higher levels of staffing from 2023. Given the simultaneous massive staff shortages in healthcare, the significant increases in personnel requirements associated with the nursing staff thresholds will lead to a further reduction in hospital locations and centralisation of services, as the legislators would like.

The costs of nursing staff that have to be excluded from hospital budgets and financed in separate care budgets from 2020 also had a considerable impact on negotiations in 2022. The allocations specified in the federal agreement, which the legislators retrospectively specified as mandatory for 2020 as well in 2021, could still not entirely resolve the basic conflict of how care activities are defined. The federal agreement stipulated that the personnel to be included in the German regulation for the threshold of nursing staff is recognised as unlimited in care on wards. In addition to nurses examined annually and triennially, this also includes medical assistants and emergency paramedics. Other personnel and personnel with no vocational qualifications – such as personnel providing care to help patients care for themselves, nursing assistants and ward assistants – should be recognised only to the extent of the level of employment determined for 2018.

Meanwhile, over 80% of the hospitals in the Asklepios Group have concluded an agreement for 2020; as far as those hospitals that have not yet reached agreement are concerned, it is only a matter of individual points in the area of the care budget, albeit of fundamental significance and clarification in arbitration boards may be required. It is apparent that once agreement is reached for 2020, subsequent years can be agreed very quickly. Following an amendment to the GKV-Finanzstabilisierungsgesetz (German law to stabilise the financial situation of the statutory health insurances), employees in other professions, such as midwives, therapists and personnel with no vocational qualifications are no longer to be financed via the care budgets but via DRGs once more from 2025. Following a national petition, it was agreed in the Krankenhauspflegeentlastungsgesetz (German law to reduce the pressures on nursing staff in hospitals) that midwives and male midwives will be taken fully into account in the care budget regardless of their work on wards or in delivery rooms from 2025.

This is a key step to securing the nursing care and quality that absolutely must be extended to other professional groups providing therapeutic and nursing care in hospitals. Therapeutic specialists have been making a crucial contribution to nursing care and easing the pressure on examined care staff for years.

For the cost increases triggered as consequence of the Ukraine war and inflation, hospitals will receive separate financing of the additional costs incurred of EUR 6 billion in total for the period from October 2022 to April 2024; inpatient facilities will receive EUR 2 billion. Hospitals are expected to receive EUR 4.5 billion for individual additional costs, for which evidence must be provided, for natural gas, district heat and electricity and an additional EUR 1.5 billion for costs caused indirectly by the increase in energy costs (laundry, kitchen etc.), which will be paid as a lump sum for which evidence is not required.

Psychiatry and rehabilitation

The psychiatric and rehabilitation situation was equally impacted by the coronavirus pandemic, which meant that occupancy in rehabilitation and in psychiatry decreased compared with 2019 in 2022. While the psychiatric hospitals at least received discount payments in the same way as somatic facilities, rehabilitation centres received only minimal support and had to accept statutory short-time work, etc.

Since 2020, psychiatric hospitals have no longer had to comply with the German Personnel Regulations for Psychiatric Hospitals (Psychiatrie-Personalverordnung) but with the German Guideline for Personnel Assessment in Psychiatric Hospitals and Psychosomatic Medicine (Richtlinie für die Personalbemessung in der Psychiatrie und Psychosomatik – PPP-RL) with quarterly verification of personnel and minimum personnel requirements for the therapeutic staff to be employed in psychiatric wards – similarly to the nursing staff thresholds in somatic hospitals. However, compared with the Psychiatrie-Personalverordnung, the PPP-RL also now contains requirements for therapeutic staff in psychosomatic specialist departments and more stringent personnel requirements especially for children's and adolescent psychiatric units, partly for the nursing service and partly for psychologists as a professional group.

The lack of sanctions for staff shortfalls was extended until the end of 2023; service provision is permissible even if the minimum requirements are not met. The reports required by the quarterly obligation to provide verification, which had been suspended by the Federal Joint Committee because of the coronavirus pandemic in 2020, had to be submitted in full for 2022. Against the backdrop of the particular situation in which psychiatric hospitals have found themselves because of the coronavirus pandemic, most hospitals were able to agree with the health insurance funds on a blanket continuation of the 2019 budget for 2020 and on a partial adjustment to actual services at least for 2021 and 2022.

E) Net assets, financial position and results of operations

1. Business performance and results of operations

	2022		2021	
	EUR million	%	EUR million	%
Revenue	5,290.0	100.0	5,117.6	100
Other operating income	474.3	9.0	421.0	8.2
Cost of materials	−1,284.2	−24.3	−1,235.5	−24.1
Staff costs	−3,459.2	−65.4	−3,314.5	−64.8
Other operating expenses	−488.3	−9.2	−485.1	−9.5
EBITDA	**532.6**	**10.1**	**503.4**	**9.8**
Depreciation, amortisation and impairment	−335.1	−6.3	−318.6	−6.2
EBIT	**197.5**	**3.7**	**184.8**	**3.6**
Income from equity investments	11.6	0.2	6.6	0.1
Net interest expenses	−42.4	−0.8	−50.2	−1
Income taxes	−34.8	−0.7	−34.9	−0.7
Consolidated net income (EAT)	**131.9**	**2.5**	**106.3**	**2.1**

The Asklepios Group's consolidated revenue amounted to EUR 5,290.0 million in the 2022 financial year (previous year: EUR 5,117.6 million) and was therefore 3.4% up on the previous year. 87.2% (previous year: 87.5%) of revenue was generated in acute care hospitals, 11.4% (previous year: 11.3%) in rehabilitation clinics and 1.4% (previous year: 1.2%) in social welfare facilities and other facilities.

Other operating income of EUR 474.3 million (previous year: EUR 421.0 million) includes income from services and from ancillary, additional and other operations.

Development of case numbers	2022	2021	Absolute Change	Relative Change
No. of inpatient cases	751,033	744,616	+6,417	+0.9%
No. of outpatient cases	2,819,943	2,797,730	+22,213	+0.8%
Number of patients	3,570,976	3,542,346	+28,630	+0.8%
Number of cost weights	597,092	609,734	−12,642	−2.1%
Number of beds*	**30,749**	**31,197**	**−448**	**−1.4%**

* Beds in place

A total of 3,570,976 patients visited the Asklepios Group's facilities in the 2022 financial year. The trend compared with the previous year (3,542,346 patients) was positive. The number of inpatient cases totalled 751,033 (previous year: 744,616). The number of outpatient cases amounted to 2,819,943 (previous year: 2,797,730) and was higher than in the previous year. The number of cost weights amounted to 597,092 (previous year: 609,734). As a non-financial performance indicator, cost weights were therefore below our forecast as at 31 December 2021. This was the result of staff absences due to coronavirus and an increased sick rate in the second half of the year, leading to limited bed and surgical capacity. The development of cost weights was also influenced by catalogue effects and the trend towards outpatient care. Average inpatient care case income rose from EUR 5,999.16 to EUR 6,151.40. Corrected for the share of flat-rate allowances for keeping capacity available and the care surcharge, average case income comes to EUR 5,874.40 (previous year: EUR 5,612.20).

The individual ratios of cost and earnings to revenue developed as follows:

	2022	2021
	%	%
Cost of materials ratio	24.3	24.1
Staff costs ratio	65.4	64.8
Other expenses ratio	9.2	9.5
EBITDA	**10.1**	**9.8**
Depreciation and amortisation expense ratio	6.3	6.2
EBIT	**3.7**	**3.6**
Consolidated net income (EAT)	**2.5**	**2.1**

Absolute cost of materials rose by EUR 48.7 million to EUR 1,284.2 million (previous year: EUR 1,235.5 million), representing an increase of 3.9% year-on-year. In addition to inflation-driven price increases, the cost of materials was influenced by the rise in the medical requirement for hygiene and protective clothing for employees and patients. There were also increased expenses for pharmaceuticals as well as for anaesthetics and other surgical supplies. Overall, the cost of materials ratio worsened by 0.2 percentage points year-on-year to 24.3% (previous year: 24.1%).

Absolute staff costs climbed by EUR 144.7 million to EUR 3,459.2 million, mainly on the basis of collective agreements, while the staff costs ratio rose to 65.4% (previous year: 64.8%). The number of full-time equivalents changed from 49,967 in the previous year to 49,103 on average in 2022.

Other operating expenses rose by only EUR 3.2 million or 0.7% in absolute terms to EUR 488.3 million (previous year EUR 485.1 million). The ratio was 9.2% (previous year: 9.5%).

Operating EBITDA amounted to EUR 532.6 million in the financial year and was higher than in the previous year (EUR 503.4 million). The EBITDA margin came to 10.1% (previous year: 9.8%). As a key financial performance indicator, EBITDA is within the forecast set out in the consolidated financial statements as at 31 December 2021.

The depreciation and amortisation expense ratio was 6.3% in the past financial year and thus higher than the previous year's level (6.2%).

The EBIT of EUR 197.5 million generated in 2022 meant a margin of 3.7% (previous year: EUR 184.8 million and 3.6%).

Income from equity investments was up year-on-year at EUR 11.6 million (previous year: EUR 6.6 million). Income from equity investments includes shares of investments accounted for using the equity method.

Negative net interest income amounted to EUR 42.4 million (previous year: EUR 50.2 million). Interest income increased to EUR 21.2 million (previous year: EUR 8.0 million) as a result of changes in interest rates on non-current provisions. Interest expenses rose by EUR 5.4 million to EUR 63.6 million in the financial year (previous year: EUR 58.2 million). The change in interest expenses was attributable to movements in the general level of interest rates and the adjustment to key interest rates by the ECB, as well as to the associated effects on floating-rate schuldschein loan agreements.

At EUR 34.8 million, income tax expenses were down on the previous year's figure of EUR 34.9 million.

Consolidated net operating income (EAT) amounted to EUR 131.9 million and was thus above the comparable figure for the previous year of EUR 106.3 million and our forecast as at 31 December 2021. This increase was due to the comparatively lower income tax expenses in relation to the higher EBITDA, as well as higher interest income due to changes in interest rates. The operating EAT margin was 2.5% in the financial year (previous year: 2.1%).

2. Overall management statement

Overall, the financial year has been challenging for Asklepios but its business remains sound. In addition to the aftermath of the coronavirus pandemic, 2022 was also affected by the Ukraine war and the price increases that it triggered. As a large hospital group, Asklepios was able to react comparatively flexibly to changes in the market and to absorb negative influences to a manageable extent.

Revenue rose by 3.4% from EUR 5,117.6 million to EUR 5,290.0 million, with the increase being almost entirely organic in nature. Growth was thus within our forecast for the financial year, which specified revenue growth of between 2.5% and 4.5%. At EUR 532.6 million, EBITDA was up on the previous year's figure of EUR 503.4 million. EBIT amounted to EUR 197.5 million (previous year: EUR 184.8 million). EAT amounted to EUR 131.9 million and was higher than the comparable figure for the previous year of EUR 106.3 million.

The equity ratio was 29.7% (31 December 2021: 26.6%). The number of cost weights amounted to 597,092 (previous year: 609,734).

3. Financial position and net assets

The financing structure is essentially medium-to long-term in nature and guarantees solvency and sufficient liquidity reserves at all times. To achieve this, we ensure broad diversification of our financing instruments and a balanced maturity profile.

In addition to cash and cash equivalents of EUR 634.6 million, the Group has unutilised credit facilities of around EUR 695.1 million at its disposal (previous year: EUR 788.9 million). There are also short-term time deposits of EUR 220.0 million (previous year: EUR 167.0 million), which with maturities of up to 12 months are invested at various banks with an investment grade rating from a recognised rating agency or comparable credit rating and are recognised in current other financial assets. The high internal financing power and the targeted moderate level of net debt protect the Group from further financial market risks.

Pure financial liabilities not including IFRS 16 amounted to EUR 2,231.4 million (previous year: EUR 2,179.0 million). Financial liabilities mainly comprise the schuldschein loan agreements.

The Group uses the net debt ratio (net financial liabilities/EBITDA) as a means of assessing credit rating, and this figure – adjusted for possible non-recurring effects – should not exceed 3.5x.

The interest coverage factor (EBITDA/net interest income) is used to assess the Group's capacity to service its debts, and this figure – likewise adjusted for possible non-recurring effects – should be at least 4.5x. The interest coverage factor (EBITDA/net interest income) is 12.6x (previous year: 10.0x).

The following table illustrates how the net debt ratio was calculated in the financial year:

EUR million	2022	2021
Financial liabilities (including lease liabilities)	2,726.4	2,609.1
Cash and cash equivalents	634.6	647.2
Short-term time deposits	220.0	167.0
Net financial debt	1,871.8	1,794.9
EBITDA	532.6	503.4
Net debt ratio	**3.5x**	**3.6x**

The net debt ratio amounts to 3.5x (previous year: 3.6x). The improvement in the net debt ratio compared with the previous year is attributable, in particular, to the year-on-year increase in EBITDA. The increase in net debt in recent years largely resulted from the financing associated with the acquisition of Rhön-Klinikum AG. The increase in lease liabilities in the 2022 financial year is mainly attributable to the conclusion of new lease agreements for MediClin AG. Adjusted for the accounting effects of the new lease agreements, the net debt ratio is 3.3x.

	2022		2021	
Summarised statement of financial position	**EUR million**	**%**	**EUR million**	**%**
Non-current assets	4,157.6	60.5	4,216.6	64.2
Current liabilities	2,698.5	39.3	2,340.6	35.6
Assets held for sale	14.5	0.2	15.0	0.2
ASSETS	**6,870.7**	**100.0**	**6,572.3**	**100.0**
Equity	2,043.1	29.7	1,746.9	26.6
Non-current liabilities and provisions	3,065.8	44.6	3,179.0	48.4
Current liabilities and provisions	1,758.7	25.6	1,636.8	24.9
Debts associated with assets held for sale	3.0	0.0	9.5	0.1
EQUITY AND LIABILITIES	**6,870.7**	**100.0**	**6,572.3**	**100.0**

The Group's accounting and financing structures are sound. Asklepios has a long-term and balanced maturity profile, particularly due to the repeated issuance of schuldschein loan agreements. As in the previous year, non-current assets are financed at a rate of over 100% with matching maturities by equity or long-term borrowings. Total assets increased from EUR 6,572.3 million in the previous year to EUR 6,870.7 million.

Non-current assets fell by EUR 59.0 million year-on-year to EUR 4,157.6 million. Equity amounted to EUR 2,043.1 million and was higher than the previous year's figure (31 December 2021: EUR 1,746.9 million). The equity ratio as at 31 December 2022 was above the previous year's figure at 29.7% (31 December 2021: 26.6%) and also exceeded our forecast as at 31 December 2021. The year-on-year increase chiefly results from interest rate effects in pension provisions. Asklepios has permanent interest-free and redemption-free access to subsidies of around EUR 1,174.8 million (31 December 2021: EUR 1,221.4 million). As these subsidies will fall due for repayment only in the hypothetical event of no longer being included in the hospital plan, these funds are in effect similar to equity.

Days sales outstanding (trade receivables turnover rate x 365 days/total revenue) are at 53.9 days (previous year: 52.7 days). Adjusted for MDK provisions, DSO were 49.8 days (previous year: 47.8 days).

Non-current liabilities amounted to EUR 3,065.8 million (31 December 2021: EUR 3,179.0 million). These comprise pension provisions, other non-current provisions, financial liabilities and other liabilities due in more than one year, and deferred taxes. As part of the company's active maturity management, selected notes maturing in 2022 and 2024 to 2027 amounting to EUR 477.0 million were refinanced prematurely in the context of an exchange and increase offer in July 2022.

In addition to cash and cash equivalents of EUR 634.6 million, the Group has unutilised credit facilities of around EUR 695.1 million at its disposal. The Group therefore has financial reserves available at short notice of EUR 1,330.1 million.

As part of its active liquidity management, the Group set up a commercial paper programme worth EUR 500.0 million for the first time in December 2022. Bearer bonds with terms of up to 364 days can be issued under the commercial paper programme in future.

Internal financing capability is still at a good level. Cash flow from operating activities was influenced by the EBITDA figure of EUR 532.6 million (previous year: EUR 503.4 million) and the health insurance funds' payment performance. Capital expenditure on equipment and new buildings for our hospitals was financed by cash flow from operating activities.

The following table shows the change in cash and cash equivalents over the course of the year:

EUR million	2022	2021
EBITDA	532.6	503.4
Cash flow from operating activities	323.3	449.6
Cash flow from investing activities	−267.8	−237.3
Cash flow from financing activities	−68.1	−113.6
Change in cash and cash equivalents	**−12.6**	**98.7**
Cash and cash equivalents on 1 January	647.2	548.5
Cash and cash equivalents on 31 December	**634.4**	**647.2**

Cash and cash equivalents decreased by EUR 12.6 million to EUR 634.4 million in 2022. Operating cash flow amounted to EUR 323.3 million (previous year: EUR 449.6 million) and was negatively impacted by an increase in working capital.

The operating cash flow is offset by a cash outflow from investing activities of EUR 267.8 million (previous year: EUR 237.3 million). Payments for investing activities essentially comprise investments in fixed assets.

Financing activities resulted in a cash outflow of EUR 68.1 million (previous year: EUR 113.6 million).

4. Capital expenditure

Investments in our healthcare facilities on a regular basis are the foundation for long-term healthy growth. Since the state investment subsidy does not cover the entire investment requirements of modern hospitals, the difference is financed from the Group's own funds. Asklepios is able, thanks to its internal financing power, to compensate for the loss of subsidies. Forward-looking business transactions and a stable cash flow again enabled the Asklepios Group to use its own funds averaging 7% to 9% of revenue for maintenance and capital expenditure in the 2022 financial year. As anticipated, the internal financing ratio is at the level of the previous year at 69.5% (previous year: 72.8%).

Capital expenditure was as follows in the 2022 financial year:

	Capital expenditure in 2022		
	Total in EUR million	Of which subsidised	Internal financing ratio
Intangible assets	49.1	3.5	92.9%
Land and buildings	40.5	4.3	89.4%
Technical equipment	7.8	2.2	71.8%
Operating and office equipment	113.3	53.8	52.5%
Assets under construction	103.4	32.1	69.0%
Total	**314.0**	**95.8**	**69.5%**

The majority of capital expenditure in the financial year related to the following locations:

Location	Capital expenditure in EUR million
Universitätsklinikum Marburg	14.1
Central IT investments	11.9
Klinik Harburg (Hamburg)	10.1
Rhön-Klinikum AG Bad Neustadt	7.4
Klinik Nord (Hamburg)	5.6
Zentralklinik Bad Berka	5.3
Klinik Langen	4.8
Klinikum Frankfurt (Oder)	4.2
Universitätsklinikum Gießen	4.1
Klinikum Müritz	4.0

After deducting subsidised capital expenditure, net capital expenditure amounted to EUR 218.3 million (previous year: EUR 242.2 million) or 4.1% of revenue (previous year: 4.7%). Capital expenditure is fully financed by cash flow from operating activities. Without deducting subsidies, capital expenditure amounted to EUR 314.0 million (previous year: EUR 332.5 million). At EUR 181.3 million in total, expenditure for maintenance and servicing was up on the previous year (EUR 172.9 million). Expressed as a percentage of revenue, 3.4% was invested in ongoing maintenance (previous year: 3.4%). Asklepios used 7.6% of revenue for internally financed capital expenditure and maintenance work (previous year: 8.1%).

F) Forecast and report on risks and opportunities

1. Forecast

The Ukraine war and the associated price increases, the aftermath of the COVID-19 pandemic and inflation will still have an impact on the business development and performance of our healthcare facilities in 2023 at least.

Our hospitals are also affected by a demanding regulatory environment. In December 2022, the government commission looking at hospital services presented proposals for a reform of hospital remuneration aimed at gradually transforming the existing system of flat-rate payments per case in a transition period of five years. According to the commission's proposals, hospitals are to be rewarded in future according to the criteria reserve services, levels of care and service groups. The commission's proposed reforms relate to the following changes to the remuneration system:

- **Remuneration of reserve services:** The commission recommends that a fixed amount is defined in future, which hospitals will receive outside the flat-rate payments per case to ease the economic pressure on hospitals. The amounts will be based on the respective hospital's assignment to certain levels of care (2) or service groups (3).

- **Definition of hospital levels of care:** There are to be three levels of care in future, according to which hospitals will be classified:
  - Basic care – basic medical and nursing care
  - Standard and priority care – hospitals that offer more services in comparison with basic care
  - Maximum care – such as university hospitals

  Uniform minimum requirements will apply to each care level, the aim being to improve the quality of patients' treatment. Hospitals assigned to care level I have to guarantee nationwide care close to patients' homes. They will be divided into hospitals that provide emergency care and those that provide integrated outpatient/inpatient care.

- **Introduction of defined service groups:** Hospitals are to be assigned to more precisely defined service groups in future (for example, "cardiology" instead of "internal medicine"). In future, treatment can be billed only if the hospital has been assigned to the service group. The hospital must meet precisely defined requirements for this purpose, such as having the appropriate staff and equipment. This will also improve the quality of patients' treatment.

Asklepios will react flexibly to the above challenges and effectively handle changes in medical or regulatory requirements to mitigate potential effects. Thanks to strategic investments in digitalisation and the shift towards outpatient care, as well as internally financed capital expenditure on its healthcare facilities, Asklepios has created a sound basis for weathering the challenges well in economic terms. Overall, Asklepios therefore expects stable revenue performance in 2023 and largely positive economic development.

Source: Hospital Reforms: Less economy, more medicine | German government

Overall management statement

Against the backdrop of challenging political and economic world affairs, Asklepios expects that its earnings margins will continue to be impacted. For the 2023 financial year, our economic goals nonetheless focus on organic revenue growth in a range of around 3.5% to 4.4% and a slight but sustained increase in EBIT and EAT year-on-year. The equity ratio will remain stable year-on-year in the 2023 financial year. In addition to financial figures, Asklepios also takes account of the number of cost weights as a non-financial performance indicator when managing the company and expects a constant development compared with the previous year.

2. Risks and opportunities

a) Risk and opportunity management report

Asklepios is exposed to a range of challenges and risks, especially locally, due to dynamic growth, the complexity of business interrelations, high regulatory requirements, constant scientific, medical and technological progress, the de facto legal demand for greater efficiency and effectiveness, and the increasing demands of our patients. Systematic recognition of risks and opportunities in equal measure enables Asklepios to ensure long-term economic success, satisfy our patients' requirements and secure our employees' jobs. The rapidly changing health policy, structural, social and economic conditions must be identified and managed.

Managing the associated risks and opportunities is an ongoing challenge and an important element of managing the hospitals and the Group. Risk management is firmly established at Asklepios and both satisfies and exceeds legal requirements.

Risk and opportunity management system process

- The risk management system (system, responsibilities, structure, formal processes, integration and automation) is characterised by a strong degree of professionalism and institutionalisation. The homogeneous risk assessment structures are uniformly supported by standardised, automated procedures throughout the Group. Risk management is therefore not just practised operationally, but also used as an instrument for strategic management. The structures established in this way allow for a comprehensive risk management approach as a result of the combined risk assessment comprising both bottom-up and top-down approaches. This facilitates not only early detection of risks but also early identification of opportunities. The risk and opportunity management system is rounded off by systematic measures management, which forms the basis for the effective and efficient management of risks and opportunities. These processes receive technical support from appropriate risk management software to which all affected reporting units are connected. The effectiveness and efficiency of risk management is strengthened by the institution of the Risk Management Committee. The Strategic Risk Management Committee forms an essential pillar of the risk and opportunity management system.
- The aim of the risk and opportunity management process is to enable the early identification, assessment and management of risks and opportunities that have a significant influence on the achievement of targets at hospital and Group level. To this end, a standardised process was established that allows close integration of elements of the bottom-up and top-down approach. In addition to regular reporting (e.g. financial reporting, reports on the quality of medical care), risks and opportunities are usually reported on a quarterly basis at the level of the hospitals (and Group departments), the sub-groups and the Group as a whole. An ad hoc reporting process has been established in order to escalate very critical issues. Risks and opportunities are always viewed in terms of the current financial year. This view constitutes a combination and aggregation of quantitative factors (probability of occurrence, effect on the achievement of planned EBITDA or on liquidity) and qualitative factors (e.g. information from supplementary reporting). In cooperation with the local risk managers and possibly also technical experts (known as risk sponsors) the risk officers – usually the managers in the hospitals and the heads of the Group departments – carry out the bottom-up elements for identifying and evaluating risks and opportunities. Based on the information gathered, corresponding risk management strategies and opportunity-taking strategies are developed and backed up with specific measures. Risks are categorised according to their potential adverse effects as "acceptable", "requiring monitoring", "requiring action" or "very critical". Opportunities are allocated to one of four opportunity categories from "low expectations" to "very high expectations".
- Risks that are categorised as at least "requiring action" in the bottom-up process are examined again by Group management as part of the top-down approach. This procedure enables early support for reporting units by means of central measures. This allows for systematic management of risks and opportunities. Identified and documented risks and opportunities are monitored continuously with regard to their development. This monitoring includes tracking the risk and opportunity measures resolved in terms of their risk mitigation effect (effectiveness) and their cost and implementation status (efficiency). In addition, the Strategic Risk Management Committee analyses long-term developments early on to identify and assess their risk and opportunity potential for the company and to resolve appropriate action options.
- Ecological and social issues relating to the external impact of Asklepios' business activities are becoming increasingly important. In this context, the Asklepios Group sees corporate social responsibility (CSR) as an integral component of its corporate philosophy. Asklepios summarises the non-financial risks according to section 289 (3) of the German Commercial Code (HGB) and additional possible CSR risks that may affect third parties under the heading of ESG or sustainability risks and allocates them in line with the five aspects (environmental matters, employee matters, social matters, respect for human rights, as well as combating corruption and bribery) stipulated in the CSR RUG. The software-based assessment of non-financial risks based on their probability and their possible effects was implemented in the 2022 financial year ("ESG risk reporting"). Established, active management measures are taken into account when assessing these risks and the assessment is carried out on the basis of the key CR topics by the Group departments mentioned on 30 September each year and the assessment is then updated on 1 January of the following year. The period under review includes both the current financial year and a five-year outlook. Specific reporting takes place in the Corporate Responsibility Report.

Internal control system with regard to the Group financial reporting process

With regard to the financial reporting processes of the companies included and the Group financial reporting process, we consider those aspects of the internal control and risk management system that have a material influence on Group accounting and the overall view conveyed by the consolidated financial statements and Group management report to be significant. These include the following aspects in particular:

- Identification of major areas of risk and aspects to be monitored that are relevant to the Group-wide financial reporting process
- Monitoring of the Group-wide financial reporting process and examination of the results at the level of management and at the level of the entities included in the consolidated financial statements
- Controls in the finance and accounting of the Group and the individual consolidated companies, and in operating business processes that generate the key figures for the preparation of the consolidated financial statements and Group management report, including the separation of functions for predefined approval processes in the relevant areas
- Measures to ensure the proper computerised processing of content and data relating to Group financial reporting

b) Risks

Risks are categorised in line with the assessment at the level of the reporting units according to their potential adverse effects as "acceptable", "requiring monitoring", "requiring action" or "very critical". Major areas of risk are outlined below; the order in which they are presented reflects the current estimate of the relative degree of risk for Asklepios.

Ukraine conflict and coronavirus pandemic

The ongoing Ukraine conflict and the associated effects on the global economy, particularly with regard to supply chains and the price increases triggered as a result, including in the energy sector, may lead to a deterioration of the results of operations, financial position and net assets. In addition, access to qualified medical staff is limited by the aftermath of the coronavirus pandemic. The EU sanctions resolved in February 2022 in the areas of energy, finance and transport, export controls and visa restrictions remain in place and are continuing to have a negative impact on the domestic economy in Germany.

IT risks and cyber risks

Asklepios is dependent on a functional IT infrastructure. The successful course of treatment of a patient (from admission through diagnosis and treatment to documentation) also depends on an integrated IT system. Basic IT procedures, system stability and the security of the IT infrastructure are significant in this regard. The focus is on patient safety and the effectiveness of treatment as the protection objectives of information security. Disruptions in IT integration and infrastructure or in related processes can have a corresponding impact on the net assets, financial position and results of operations. In this context, risk management in the IT department is being continuously developed.

The general IT risk situation was heightened on account of a global increase in cyber attacks in the past few years. At the same time, the IT infrastructure is increasingly complex and there is more networking with networks outside Asklepios, which increases the possible scope for cyber attacks. In order to appropriately counter this trend, Asklepios continues taking measures to further improve IT security and to continue recognising and defending against possible cyber attacks moving ahead. The data centre is certified according to a functioning information security management system, and also performs independent internal and external audits and tests that review the effectiveness of our security measures.

Personnel risks

On the healthcare market, there are always HR risks that can lead to a deterioration of the results of operations, financial position and net assets. The introduction of the German regulation for the threshold for nursing staff is a key challenge for the entire healthcare market. The individual risks include the shortage of qualified staff, the migration of key personnel and the development of staff costs.

Asklepios uses extensive centralised and decentralised recruitment measures (including in foreign countries) and personnel development programmes to meet the requirements of the regulation for the threshold for nursing staff and to prevent the risk of a shortage of staff. The Group provides Asklepios employees with the kind of opportunities that would not be possible in smaller structures. In addition, training and education of specialist staff and managers are a high priority for us. By ensuring optimal training of our employees, we guarantee high innovation potential and forward-looking processes, not just in the field of first-class medicine, but also in relation to our business activities. In addition, we implement targeted staff retention measures in order to get qualified and motivated employees enthusiastic about Asklepios in the long term. We can thus systematically prevent a shortage of qualified staff. Using this approach, we fulfil both our economic and our social responsibility and strengthen our brand.

The trend in staff costs is heavily dependent on changes to the collective agreements governing staff wages. In particular, the remuneration of examined nursing specialists, who account for a large part of our employees, has increased sharply in recent years because of the nationwide shortage of qualified staff in this area. To reduce external dependency and to allow for the option of actively shaping future developments, Asklepios has significantly reduced the risks by using more flexible company agreements adopted to fit local circumstances, work and welfare regulations and other alternative remuneration models. These models are reviewed by the relevant Group departments before the agreements are entered into, in principle all collective agreements are negotiated by the Human Resources department. Asklepios' goal is to agree the longest possible terms in collective bargaining in order to achieve sufficient planning certainty. In view of the negotiated staff cost increases that are still to be expected Asklepios is paying particular attention to the required staffing levels.

Income, documentation and budget risks

The high level of state regulation means that Asklepios is exposed to risks in the day-to-day documentation and billing of cases and in the medium-term development of revenue budgets. This currently applies not only to the fact that the health insurance funds are slower to pay, the lack of staff due to their having contracted coronavirus but also to new legal requirements, such as for the introduction of structural assessments, the increase in minimum quantities as well as from 2023 the shift from inpatient to outpatient care and details of budgetary law, such as differing opinions on case specifications and remuneration; the assessment of structural requirements; the size of the care budget; pending arbitration proceedings, where in some cases the outcome is impossible to predict; delayed budget negotiations; and potential changes to budgetary law and the supplementary billing regulations. The risks named could cause the results of operations, financial position and net assets to deteriorate.

The size of the Group, its available knowledge and its available data sets mean that it has the opportunity to define standards and to provide effective support to the hospitals locally in the implementation of the above issues. In the area of handling sensitive services, which also generally represent public authority tasks, there is generally an inherent risk that the private sector may be pushed back. A decline in processed contracts would entail a loss of revenue, whereas the effect depends on the product area concerned. With all other things remaining the same, the demographic development forecast in some areas can lead to decreasing case numbers and revenue.

Counterparty risks

This risk arises if a customer or another contracting party fails to meet all or some of its contractual obligations or fails to meet them on time. Asklepios is exposed to only a low level of risk from an unexpected loss of cash or income based on counterparty risks. There is a low level of risk of default due to a large portion of debtors consisting of German statutory health insurance funds, complemented by a smaller portion of public social security authorities and private patients. By contrast, the risk of late payment on trade receivables, and thus the risk of an increase in capital being tied up in current assets, can be considered medium. The investment policy on the assets side is conservative and involves broad diversification. The investment counterparties are banks belonging to deposit protection systems. Investments are also monitored continuously and the company reacts with measures to correct any differences compared with its expected targets.

Liquidity and financing risks

Asklepios is subject to capital market risks. The management of short-term liquidity risks and longer-term financing risks is the central responsibility of the Corporate Finance & Treasury department, which uses a treasury system for this purpose with a focus on efficient management of current cash and cash equivalents. As a financially conservative company, and on the basis of the investment terms of the assets, Asklepios' financing strategy is long-term in nature and contains manageable short-term refinancing risks. The high levels of cash and cash equivalents, steady cash flow, comparatively low level of debt, broad diversification of financing partners, access to the capital market and extensive unutilised lines of credit show that we are largely independent of general developments on the capital markets and ensure that we have full financial capacity for action, including for growth through acquisitions.

Planning and construction risks

On account of the extensive construction work, Asklepios is exposed to risks from changes of use, deviations from standards in the execution and management of construction, business interruptions and delays in construction work with revenue losses and cost overruns in the budgeted construction work as well as deadlines or planning errors. The measures to reduce these risks include the provision of a high level of expertise within the Group with regard to construction planning and implementation. The implementation of standardised instructions and equipment and ongoing quality assurance of projects in conjunction with the identification and analysis of project specific risks as well as continuous close coordination with all those involved in projects in all phases of the projects by the by the Group department responsible is essential to ensure an immediate response to any problems that may arise.

For the construction and extension of our hospitals, Asklepios utilises services from external service providers alongside internal ones. Among other things, these services can cause quality deficits in the planning and execution of our projects but also delivery problems in the supply chains. We therefore base purchasing decisions and procurement on careful and continuous monitoring of all our service providers, construction companies, suppliers and the entire market in order to limit these risks efficiently.

The Construction department will implement an internal project specific risk management system for the 2023 financial year in which the conditions for dealing with project risks deliberately, proactively and sustainably will be comprehensibly defined. By this means, the department will ensure that all possible project risks are recorded systematically at the beginning of the project, assessed and management measures are put in place to prevent risks materialising and any possible losses. The Construction department will also guarantee that all project related processes are standardised and responsibilities are defined clearly and comprehensibly by introducing a Group-wide project management manual. Process related risks inherent in the execution and management of construction are consequently effectively minimised.

Investment risks

Asklepios understands investment risks as the risk that unimplemented or unprofitable investments result in an ageing infrastructure or one that is not fit for purpose and prevent the utilisation of new market potential. As a result, income targets could be missed (because, for example, use permits expire), market share could be lost to competitors and there is the risk of penalties if purchase contract obligations are not fulfilled. We are presently also observing that the effects of climate change – particularly for hospitals and facilities in exposed geographic locations – can lead to greater investment requirements for compensatory measures in the long term. Management is seeing steadily decreasing subsidy ratios, with corresponding consequences for investing activities. Asklepios is not dependent on the development of subsidies to the same extent as the majority of the competition thanks to its relatively high internal financing power.

We purposefully use our financial strength for a high proportion of proprietary investments. This increases the attractiveness of our facilities and in large measure supports sustainable organic growth. At the same time, investments improve efficiency and result in lower consequential costs. In order to meet its own standard of first-class medicine, Asklepios makes substantial investments in the hospitals at the individual locations. However, investments in our hospitals are being financed with an ever smaller proportion of subsidies, meaning that the subsidy ratio of the federal states is declining. This results in a risk of decreasing cash flow that has to be compensated by efficiency measures in operating business.

Performance risks

With regard to performance, the statutory regulation of the remuneration system is proving challenging. Performance increases can be remunerated with price deductions; budget shortfalls can also entail deduction risks. In terms of cost development, we face steadily rising costs, especially staff costs and material expenses, which can be higher than growth due to performance increases. This hinders the release of tied-up capital and thus the increase of financing flexibility. There are also process risks in new business models like the billing of medical service centres.

Adequately accounting for resulting income and cost risks is therefore one of the primary tasks of management in order to deal with the gap between income and cost increases that has been widening for years.

Reputation risks

As one of the largest healthcare providers in Germany, we are subject to a great deal of public scrutiny with our medical offerings. A central task of the Corporate Communication & Marketing department is to maintain and reinforce trust in Asklepios and the reputation of its medical facilities. Nevertheless, the fact that negative reports in print, electronic or digital media, which show a one-sided or inaccurate picture of actual conditions in our facilities or are directed against the privatisation of healthcare for ideological reasons, have an adverse impact on the reputation of our company cannot be ruled out. We counter these risks through effective, transparent and active communication.

To this end, the Corporate Communication & Marketing department coordinates a number of different measures in the areas of press and public relations, marketing, social media, corporate publishing, public affairs as well as internal and online communication. The aim is to achieve a high recognition value for Asklepios through active, strategic, consistent and transparent communication, to distinguish the Group from its competitors and to counter any public criticism of the company and individual facilities in advance.

Liability and legal risks

Relevant risks that emerge in connection with legal disputes outside medical treatments are continually identified by the relevant Asklepios Group company, evaluated and, if necessary or appropriate, communicated to the Group holding company to the extent permitted by law. In addition, Asklepios is involved in various legal disputes resulting from its core business (medical treatments). It is not always possible to predict the outcome of these disputes; nevertheless, Asklepios expects no material impact on the net assets, financial position and results of operations from the proceedings currently pending. In liability cases, impairment of results of operations, financial position and net assets cannot be ruled out despite all existing precautions. In addition, there is a potential liability risk if subsidies are used in breach of the laws governing subsidies.

It therefore cannot be ruled out that certain practices could require adjustment in future despite having been reviewed by the relevant Group departments.

We are insured against claims from our patients, which are not completely avoidable, using our own model with an appropriate externally arranged deductible. This allows us to partially respond to the steadily rising insurance premiums of external insurers throughout the market, to increase the Group's liquidity and process claim notifications in the interests of patients and the Group itself while also taking account of the increasing claims from largely isolated cases. In addition to patients' willingness to take legal action, there is a risk of frequent recourse claims by payers. Steadily rising premiums are being observed throughout the market for property insurance, particularly due to unfavourable loss ratios in the construction sector. This correlates with the significant rise in our property insurance expenses. Our internal insurance unit actively observes the markets, develops measures aimed at minimising the number and amount of claims where possible, and uses targeted insurance management to control insurability by way of deductibles and premiums.

Our goal is to offer cutting-edge medical services that are geared towards proximity to the patient. This is supported by internal cooperation and targeted network building, with a focus on establishing care structures that are as comprehensive as possible. The Asklepios strategy, which includes targeted offerings in high-demand medical fields, will also contribute to generating above-average growth in future. Sales risks in the healthcare market can nevertheless arise in the areas where location changes have to be made or the quality assessment by patients and referring doctors is lower than for other hospitals in the market. At the same time, we are aware that risks can arise from our patients' treatment processes due to unexpected disruptions. We have taken account of liability and legal risks requiring recognition that we are aware of by setting aside provisions. To cover the potential risk, Asklepios uses liability insurance policies, mostly with deductibles. Appropriate provisions are recognised or adjusted for the deductibles. We are not currently involved in any litigation or defending any claims that could result in major changes to the results of operations.

Risks from supply chains

Like other industries, the healthcare sector depends on globally interconnected production and supply chains. This applies not only to pharmaceuticals, but also to medical devices, medical consumables and structural measures. There is a fundamental risk that circumstances will arise in which global supply chains are disrupted or obstructed.

Through forward-looking warehousing and a Germany-wide distribution system Asklepios aims to ensure that all locations can be supplied with sufficient pharmaceuticals and medical consumables. In the event of long-term disruptions to production and supply chains or long-term underproduction, however, there is a risk that certain products will become scarce. It is pharmaceutical businesses' responsibility to inform hospitals if they become aware of shortages in the supply of prescription drugs for inpatient care. Asklepios can thus initiate further countermeasures as appropriate or necessary. To ensure the supply of medical consumables and disposals from the operating and administrative requirements areas, Asklepios is in regular contact with its principal suppliers with regard to their ability to supply and agreement on potential alternatives.

As far as the execution of construction is concerned, Asklepios tries to minimise possible risks from supply bottlenecks or disruptions to production supply chains and by ordering materials in advance immediately companies are commissioned. This ensures that resources will be available when needed.

Market price risk / price increases

As is the case for many economic sectors, the Asklepios Group is also exposed to the risk that cost fluctuations or cost increases in procurement due to the dynamic economic environment may have a negative impact on earnings performance. The trend in prices is driven by rapidly rising energy prices and supply bottlenecks among other factors. The Group is exposed to a market price risk due to an increasing scarcity of resources and a volatile market for certain raw materials needed for medical consumables and pharmaceuticals. This affects medical appliances and corresponding spare parts to an equal extent. Risk buffers are already taken into consideration at an early stage of Asklepios' construction projects when determining costs and possible alternative and cost-saving measures are identified. Not least a compact, simple, cost-effective but sustainable design offers the greatest possible security when hedging against rising costs. A general shortage of qualified staff is also apparent, which affects personnel-intensive services, in particular, and will also affect the trend in prices.

Asklepios counters this risk by concluding long-term delivery and supply agreements and reduces the effects of price increases on earnings performance by rapidly agreeing fixed price contracts for as long as possible with the supply companies it uses.

Risks from acquisition and integration

Risks can arise from the integration of acquired hospitals and facilities. Our task is to integrate the processes and the infrastructure of the acquired company as rapidly as possible. To do so, we harmonise processes and logistical procedures. The loss of important managers as part of the integration and careless and inadequate due diligence processes could be critical. We try to minimise risks of acquisition by using the transaction expertise that has built up in the Group over the years and the associated people and methods.

Hygiene and infection risks

Potential hygiene and infection risks are countered by way of appropriate hygiene management concepts, structured workflows and processes, and continuous employee training. Our methods take adequate account of hygiene needs and requirements, while the process evaluations and improvements forming part of the quality management processes contribute to the further improvement of our workflow quality and efficiency.

Quality risks

The quality of treatment is an important factor for our operating activities. We minimise operating risks firstly by maximising the quality of treatment, which we ensure with our well educated and continually trained staff as part of our predefined courses of treatment. Secondly, our modern hospitals guarantee high-level care in terms of quality and technology. Furthermore, our clinical risk management (e.g. CIRS) and structured quality management ensure that we possess adequate preventive systems that we can use to identify potential sources of errors and to increase quality standards and the safety and efficiency of our processes. This ultimately allows us to achieve a permanent improvement in patient safety in addition to treatment and process quality.

Risks from climate change

Risks due to climate change are increasing all over the world and across industries. With regard to Asklepios, we see potential direct negative effects, particularly for hospitals and facilities in exposed geographic locations. In addition to more frequent storm damage to buildings and reduced accessibility (e.g. due to damaged access roads), specific indications also include additional investments needed in order to ensure patients' safety and comfort even in the event of long-term negative developments (e.g. increased air-conditioning costs).

There is also a danger that climate change will result in indirect cost risks, potentially including an increase in energy prices (e.g. due to CO_2 pricing) as well as additional regulations for the construction and renovation of buildings. There is also a risk that locations without good public transport links become less attractive to employees, as these workplaces become less economically viable as a result of higher fuel prices.

Asklepios is monitoring climatic and political developments in order to take appropriate measures if necessary.

Risks from competition

There are numerous competitors operating in the healthcare sector at local and regional level. There is a risk that the activities of existing competitors or the entrance of new competitors will have a negative impact on our market share. The potential misjudgement of important trends at all market levels can also lead to negative revenue performance. We counter these risks with comprehensive analyses of the competitive situation, the technological and regulatory trends and the general market environment. The continuous improvement of our internal processes enables us to consistently keep the quality of our service provision at the highest level and to continuously optimise it by exploiting new developments.

Compliance risks

Compliance risk refers to the lack of legal and organisational compliance with the laws and standards applicable to Asklepios. This is associated with legal and economic risks for Asklepios. This can result in penalties, compensation claims, occupational bans for medical personnel or damage to the Group's reputation and a loss of confidence, which will be associated with financial losses. Existing measures to minimise any compliance risks that have been established are reviewed continuously and refined. A formal compliance management system is in place.

Governance risks

In rapidly growing groups of Asklepios' size, there is the risk that structures for Group management and the establishment of control systems (e.g. dual control) are not appropriately effective or first need to be established.

c) Opportunities

Opportunities are allocated in line with the assessment at the level of the reporting units according to their potential positive effects to one of four opportunity categories from "low expectations" to "very high expectations". Opportunity areas are outlined below; the order in which they are presented reflects the current estimate of the relative expectation for Asklepios.

Infrastructural opportunities

Infrastructural opportunities are all the issues that have a positive effect on our service provision, but are not located directly in operating activities. In particular, these include the qualification and motivation of our employees, the intelligent use of modern information technology and the technical equipment of our hospitals. By ensuring optimum training of our employees, we guarantee high innovation potential and forward-looking processes – not just in the field of advanced medicine. At the same time, we can acquire highly motivated personnel thanks to our strong brand as an employer. The homogenisation of our IT landscape reduces costs and increases the effectiveness and efficiency of the systems used. With targeted investments, we can respond flexibly to changes in patient demands and thus distinguish ourselves from the competition. Our modern hospitals guarantee high-level care in terms of quality and technology, which also offers opportunities for future performance growth.

Opportunities from operating activities

Opportunities from operating activities include, in particular, opportunities to enhance the billing process and increase income. They also include opportunities to further improve medical quality by using new processes and technologies and educating our staff. The ongoing development and implementation of cost reduction activities in the context of generated Group-wide synergies enables us to continuously improve our cost situation compared with the competition and to keep medical performance at a constantly high level. Thanks to our favourable cost structures and above-average competence in the area of DRG revenue management, we are well-positioned to transform the change process into an additional competitive edge. Membership in the hospital network "Wir für Gesundheit" gives Asklepios the chance to continue establishing itself in an environment of highly qualified service providers. The hospital network's offer includes a multi-operator, nationwide and quality-oriented supply network with the target of promoting members' growth and increasing case numbers.

Opportunities from the market and environment

This category of opportunities includes positive developments arising from political or economic trends. The medical sector's strength is its relative independence from economic developments, so we see an opportunity here to maintain our growth even though the economic situation is changing. Opportunities arising from competition are also assigned to this category. Here, we see potential in the establishment and expansion of medical services. In addition to aspects of medical care, opportunities to continue distinguishing ourselves positively from the competition with modern offerings and services also arise throughout our patients' entire hospital stays. We draw on the wealth of experience of our nationwide hospital network and are guided by the needs and the welfare of our patients.

Opportunities from financial activities

Our broad financing mix and high equity ratio enable us to achieve long-term financing security while responding flexibly to beneficial financing opportunities. In addition, our capital resources make us a popular partner on the capital market, so we are able to benefit from favourable refinancing terms. In addition to general corporate and growth financing, this allows us to reach the capital strength required to take opportunities quickly.

Strategic opportunities

These comprise all opportunities arising in the long term from global trends and developments. Investment projects, acquisitions, strengthening the brand and entering new business areas count towards this category. We are continuously monitoring the hospital market in Germany and abroad. Our many years of experience in the acquisition and integration of hospitals enable us to identify and make use of investment opportunities and potential for strategic acquisitions at an early stage. By expanding existing hospitals and enhancing the available service range, we are selectively strengthening the Asklepios brand among patients and employees.

Overall management statement: summary and outlook

With regard to the risks described in this report – taking account of their probability, potential financial impact and present business prospects – the management does not anticipate any individual or aggregate risks that could materially endanger the Group’s ability to continue as a going concern. The management assumes that the company’s earnings power is a solid foundation for future business development and provides the necessary resources.

Hamburg, 24 March 2023

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