Group management report

A) Key figures of the Asklepios Group

Group key figures

		2023	2022	Changes in %
Number of patients[2]		3,475,692	3,395,452	+ 2.4
Cost weight[2]		596,676	591,191	+ 0.9
Number of beds[2]		30,670	30,817	− 0.5
Employees (full-time equivalents)		49,425	49,103	+ 0.7
Net cash from operating activities[2]	EUR million	568.5	402.0	+ 41.4
Revenue	EUR million	5,452.3	5,290.0	+ 3.1
EBITDA	EUR million	540.3	532.6	+ 1.4
EBITDA margin in %		**9.9**	**10.1**	
EBIT	EUR million	215.4	197.5	+ 9.1
EBIT margin in %		**4.0**	**3.7**	
Consolidated net income (EAT)	EUR million	135.7	131.9	+ 2.9
EAT margin in %		**2.5**	**2.5**	
Investments in property, plant and equipment and intangible assets (own funds)[1]	EUR million	229.6	218.3	+ 5.2
Own funds ratio in %		**62.0**	**69.5**	
Total assets	EUR million	7,018.8	6,870.7	+ 2.2
Equity	EUR million	2,061.8	2,043.1	+ 0.9
Equity ratio in %		**29.4**	**29.7**	
Net debt ratio		3.3x	3.5x	
Interest coverage factor (EBITDA/net interest income)		9.0x	12.6x	

[1] In relation to investments at hospital locations

[2] The statistical key figures were revised after more specific definitions of the key figures were provided in 2023. This retrospective adjustment improves comparability with the reporting year.

B) 2023 financial year

The 2023 financial year was a demanding year for Asklepios Kliniken GmbH & Co. KGaA, being dominated, as it was, by political and economic world affairs. As well as the ongoing war in Ukraine, the financial year also saw the effects of stubborn inflation. The impact of the planned hospital reform has already affected the healthcare sector and hospital operators. Thanks to its size, the Asklepios Group was able to absorb changes to the hospital and care environment. This translated into a robust economic performance in the 2023 financial year.

For the University Hospital of Gießen and Marburg (UKGM), which is part of the Rhön-Klinikum AG subgroup, an agreement has been reached between the state of Hesse, Rhön-Klinikum AG, Asklepios Kliniken GmbH & Co. KGaA and Universitätsklinikum Gießen und Marburg (UKGM) GmbH, as well as the universities in Gießen and Marburg and their medical faculties, regarding the investment subsidy to which the hospital is entitled. Under the "Zukunftsvereinbarung Plus" agreement signed in February 2023, a sum of almost EUR 850 million will be available to UKGM over the next ten years for investments in medical care and for research and development. The state funding of around EUR 530 million, combined with UKGM's own funds of around EUR 320 million, will enable the university hospital to modernise its medical, technical and building infrastructure extensively.

Revenue was up 3.1% year-on-year. 3.5 million patients chose to be treated in 164 healthcare facilities in the 2023 financial year (previous year: 3.4 million). EBITDA increased by 1.4% to EUR 540.3 million (previous year: EUR 532.6 million). Consolidated net income (EAT) amounted to EUR 135.7 million (previous year: EUR 131.9 million). Equity was EUR 2,061.8 million as at 31 December 2023, higher than the figure as at 31 December 2022 (previous year: EUR 2,043.1 million). The equity ratio decreased to 29.4% (previous year: 29.7%). Asklepios employed 49,425 full-time equivalents on average in the 2023 financial year (previous year: 49,103).

C) Basis of the Group

1. Business model of the Group

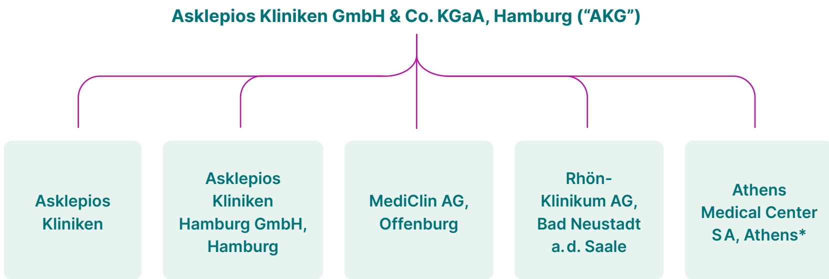
The healthcare group Asklepios was established in 1985 and since then has stood for quality, innovation and social responsibility. The acquisition of the hospitals owned by the City of Hamburg in 2004 and the majority acquisition of MediClin AG in September 2011 are key milestones in the company's development. 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 healthcare group and has embraced a holistic, integrated treatment approach. Asklepios is one of the leading private hospital operators in Germany with 164 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 86.8% of the business volume related to acute care hospitals and the remaining share of 13.2% to the rehabilitation sector and other medical facilities. However, the Asklepios value chain has been 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 2023:



* 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 in the areas of Accounting and Tax, Architecture and Construction, Auditing and Risk Management, Care, Controlling, Corporate Communications, Corporate Finance and Treasury, Corporate and ESG Reporting, E-Health and Corporate Health, ESG Management, Hospital Financing, Human Resources, Information Technology, Legal, Insurance and Compliance, M&A, Outpatient Medicine, Procurement and Supply, Quality Management, Revenue Management, Service Providers, and Service and Research.

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 and care. 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: Accounting and Tax, Architecture and Construction, Auditing and Risk Management, Care, Controlling, Corporate Communications, Corporate Finance and Treasury, Corporate and ESG Reporting, E-Health and Corporate Health, ESG Management, Hospital Financing, Human Resources, Information Technology, Legal, Insurance and Compliance, M&A, Outpatient Medicine, Procurement and Supply, Quality Management, Revenue Management, Service Providers, and Service and Research.

Key financial performance indicators

In the 2023 financial year, Asklepios' internal management at company level was based on earnings before interest, taxes, depreciation and amortisation (EBITDA). Group management is also dependent on earnings after taxes (EAT).

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

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.

Key non-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.

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

General economic and sector-specific conditions

General economic conditions

In its Annual Economic Report 2024, the German federal government anticipates growth in price-adjusted GDP of 0.2% in the current financial year[1]. In view of inflation, high energy prices and the shortage of qualified staff, Asklepios assumes that business development will be affected overall.

General sector conditions

After the end of the COVID-19 pandemic and the impact this had on inpatient healthcare service providers, service figures picked up again across Germany in the 2023 financial year, although service and case numbers were still short of 2019 levels. Pandemic assistance compensation payments in the form of flat-rate allowances for keeping capacity available and the care surcharge were discontinued in 2023. Invoice payment by health insurance funds within five days of invoices being issued was extended until the end of 2024.

The hospital assistance programme to cushion the cost increases resulting from the war in Ukraine and inflation comprised an initial sum of EUR 4.5 billion in the period from October 2022 to April 2024 for individual additional costs – for which evidence must be provided – for natural gas, district heat and electricity and EUR 1.5 billion for lump-sum assistance, based on the number of beds, for costs caused indirectly by the increase in energy costs. The costs for which evidence had to be provided on an individual basis resulted in only low take-up rates on account of the legal definition of the comparison periods and so another EUR 2.5 billion was distributed for the period from October 2022 to May 2024 in the form of lump-sum payments to hospitals, again based on the number of beds.

The evidence required for an individual breakdown of the additional costs in connection with energy price increases demonstrates a core problem of the German healthcare system. This process of providing evidence was set up in an extremely bureaucratic way, the requirements were interpreted differently in different states and in most states the health insurance funds were responsible for receiving, evaluating and handling hospital enquiries. Budget negotiators, who are not experts on energy issues, were usually put in charge of this.

A structural assessment is required for complex treatments, which cannot be billed without this assessment. The "Regular assessments for compliance with structural features of OPS codes" guidelines (StrOPS-RL) issued by the German Medical Service run to 486 pages. Hospitals have to prepare extensive documentation for each operational and procedure (OPS) code, which must then be examined.

Nursing staff thresholds were expanded in 2023 to include otorhinolaryngology, urology and rheumatology, all of which require higher levels of staffing. Neurosurgery will be added in 2024, meaning that 93.5% of all nursing days will be covered by nursing staff thresholds. A tool for determining nursing care requirements is also to be introduced (PPR 2.0), entailing additional documentation work without increasing the requirements for compliance with nursing staff thresholds.

New deadlines were set for budget negotiations, and hospitals could face penalties of 1% of charges billed if these are not met. All documents for budget years up to and including 2021 were to be submitted by 31 October 2023, with penalties for failure to agree the corresponding years applicable from 1 May 2024. Documents for 2022 are to be submitted by 31 March 2024, with penalties from 1 October 2024. These deadlines have been repeatedly reduced, and documents for the 2026 budget year must be submitted by 31 December 2025 and an agreement reached by 1 August 2026 in order to avoid penalties. This massively reduces the amount of time for preparation and negotiations, and the unilateral penalties mean that the primary impact is felt only by hospitals.

From 2025 onwards, other personnel and personnel with no vocational qualifications – such as personnel providing care to help patients care for themselves, nursing assistants and ward assistants – will no longer be taken into account when agreeing care budgets. Instead, they will again be paid through the separate German diagnosis related-groups (aG-DRGs). Midwives and male midwives will also be taken fully into account in the care budget regardless of their work on wards or in delivery rooms from 2025.

Federal Health Minister Karl Lauterbach's planned hospital reform intends to divide hospital services into service groups with standardised structural requirements, for example for equipment, staffing, treatment programmes and other mandatory service groups. These services can no longer be provided if these requirements are not met.

[1] Annual Economic Report 2024 | German federal government

Remuneration is to be divided into budgets for the provision of services (Vorhaltebudgets) and care budgets, accounting for 60% of current financing, and DRGs as in the past, although these now comprise only 40% of remuneration.

There will be a budget-neutral phase in 2025 and 2026, with the budget for the provision of services then being based on the service groups allocated to hospitals by the states from 2027 onwards.

Starting in 2024, the Transparency Act aims to publish information on the quality of treatment at all hospitals, which patients can use as a guide. In this context, the hospitals are allocated to the relevant service groups and, in turn, to individual levels of care.

Hybrid DRGs will be introduced in 2024 to increase the share of outpatient care. These will apply both to hospitals and to doctors in private practice and will cover the costs of all healthcare provision with a maximum of one overnight stay. In the first stage, this standardised remuneration is to be available for 12 different procedures, which in some cases is far lower than the previous DRG income. In a second stage, likely from 2025, a total of 55 DRGs have been selected and are also to be converted into hybrid DRGs. Patients who spend more than one night in hospital or meet certain exclusion criteria will still be billed by way of the regular DRGs.

Psychiatry and rehabilitation

Psychiatric/psychosomatic hospitals and rehabilitation clinics also reported higher occupancy rates in 2023 following the end of the COVID-19 pandemic.

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 is steadily increasing the level of bureaucracy. Compared to the previous Psychiatrie-Personalverordnung, the PPP-RL also now includes psychosomatic specialist departments. It also contains 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 2025; service provision is permissible even if the minimum requirements are not met. Accordingly, it will not be absolutely necessary to restrict services as a result of personnel shortages. The reports required by the quarterly obligation to provide verification had to be submitted in full for 2023.

E) Net assets, financial position and results of operations

1. Business performance and results of operations

	2023		2022	
	EUR million	%	EUR million	%
Revenue	5,452.3	100.0	5,290.0	100.0
Other operating income	645.4	11.8	474.3	9.0
Cost of materials	−1,339.0	−24.6	−1,284.2	−24.3
Staff costs	−3,660.3	−67.1	−3,459.2	−65.4
Other operating expenses	−558.1	−10.2	−488.3	−9.2
EBITDA	**540.3**	**9.9**	**532.6**	**10.1**
Depreciation, amortisation and impairment	−324.8	−6.0	−335.1	−6.3
EBIT	**215.4**	**4.0**	**197.5**	**3.7**
Income from equity investments	3.5	0.1	11.6	0.2
Net interest expenses	−59.8	−1.1	−42.4	−0.8
Income taxes	−23.5	−0.4	−34.8	−0.7
Consolidated net income (EAT)	**135.7**	**2.5**	**131.9**	**2.5**

Asklepios' consolidated revenue amounted to EUR 5,452.3 million in the 2023 financial year (previous year: EUR 5,290.0 million) and was therefore 3.1% up on the previous year. 86.8% (previous year: 87.2%) of revenue was generated in acute care hospitals, 12.0% (previous year: 11.4%) in rehabilitation clinics and 1.2% (previous year: 1.4%) in social welfare facilities and other facilities.

Other operating income of EUR 645.4 million (previous year: EUR 474.3 million) includes income from services and from ancillary, additional and other operations. Other operating income includes subsidies of EUR 124.2 million (previous year: EUR 12.7 million) granted under section 26f KHG to mitigate the higher costs due to energy price increases.

Development of case numbers	2023	2022*	Absolute Change	Relative Change
Number of inpatient cases	759,567	753,900	+5,667	+0.8%
Number of outpatient cases	2,716,125	2,641,552	+74,573	+2.8%
Number of patients	**3,475,692**	**3,395,452**	**+80,240**	**+2.4%**
Number of cost weights	596,676	591,191	+5,485	+0.9%
Number of beds	30,670	30,817	−147	−0.5%

* The statistical key figures were revised after more specific definitions of the key figures were provided in 2023. This retrospective adjustment improves comparability with the reporting year.

A total of 3,475,692 patients visited the Asklepios Group's facilities in the 2023 financial year (previous year: 3,395,452). The number of inpatient cases totalled 759,567 (previous year: 753,900). The number of outpatient cases amounted to 2,716,125 (previous year: 2,641,552) and was higher than in the previous year. The number of cost weights amounted to 596,676 (previous year: 591,191). As a non-financial performance indicator, cost weights were therefore in line with our forecast as at 31 December 2022. The development of cost weights was influenced by catalogue effects and the trend towards outpatient care. Average inpatient care case income rose from EUR 6,137.97 to EUR 6,282.54.

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

	2023	2022
	%	%
Cost of materials ratio	24.6	24.3
Staff costs ratio	67.1	65.4
Other expenses ratio	10.2	9.2
EBITDA	**9.9**	**10.1**
Depreciation and amortisation expense ratio	6.0	6.3
EBIT	**4.0**	**3.7**
Consolidated net income (EAT)	**2.5**	**2.5**

Absolute cost of materials rose by EUR 54.8 million to EUR 1,339.0 million (previous year: EUR 1,284.2 million), representing an increase of 4.3% year-on-year. The cost of materials was affected by inflation-related price increases, especially for energy and food. There were also increased expenses for pharmaceuticals as well as for anaesthetics and other surgical supplies. Overall, the cost of materials ratio worsened year-on-year to 24.6% (previous year: 24.3%).

Absolute staff costs climbed by EUR 201.1 million or 5.8% to EUR 3,660.3 million, mainly on the basis of collective agreements, while the staff costs ratio rose to 67.1% (previous year: 65.4%). The number of full-time equivalents changed from 49,103 in the previous year to 49,425 on average in 2023.

Other operating expenses rose by EUR 69.8 million (14.3%) to EUR 558.1 million (previous year: EUR 488.3 million). The ratio was 10.2% (previous year: 9.2%).

EBITDA amounted to EUR 540.3 million in the financial year and was higher than in the previous year (EUR 532.6 million). The EBITDA margin came to 9.9% (previous year: 10.1%). As a key financial performance indicator, EBITDA is within the forecast set out in the consolidated financial statements as at 31 December 2022.

The depreciation and amortisation expense ratio was 6.0% in the past financial year and thus lower than the previous year's level (6.3%).

The EBIT of EUR 215.4 million generated in 2023 meant a margin of 4.0% (previous year: EUR 197.5 million and 3.7%).

Income from equity investments was down year-on-year at EUR 3.5 million (previous year: EUR 11.6 million). Income from equity investments includes shares of investments accounted for using the equity method.

Negative net interest income amounted to EUR 59.8 million (previous year: EUR 42.4 million). Interest income increased to EUR 41.7 million (previous year: EUR 21.2 million) as a result of changes in interest rates. Interest expenses rose by EUR 37.9 million to EUR 101.5 million in the financial year (previous year: EUR 63.6 million). The change in interest expenses was attributable to movements in the general level of interest rates and the adjustment of key interest rates by the ECB, as well as to the associated effects on current financial liabilities and floating-rate schuldschein loan agreements.

At EUR 23.5 million, income tax expenses were down on the previous year's figure of EUR 34.8 million.

Consolidated net income (EAT) amounted to EUR 135.7 million and was thus above the comparable figure for the previous year of EUR 131.9 million and our forecast as at 31 December 2022. This increase was due to comparatively lower impairment in relation to the higher EBITDA and to the lower tax burden. The EAT margin was 2.5% in the financial year (previous year: 2.5%).

2. Overall management statement

The financial year has been demanding for Asklepios but its business remains stable. As well as the ongoing war in Ukraine and the resulting price hikes, 2023 was also dominated by general cost inflation. 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. However, the Management Board is critical of the planned hospital reform and expects this to place considerable strain on healthcare facilities in the medium term. In the view of the Management Board, 2023 was a challenging financial year for the Asklepios Group overall.

3. Financial position and net assets

Financial position

Financial management objectives

The main objectives of the Asklepios Group's financing strategy are:

- to ensure solvency at all times
- to guarantee financial flexibility and independence
- to limit refinancing risks
- to optimise the weighted average cost of capital

It achieves these objectives by way of a balanced maturity profile with a high share of medium- to long-term financing, diversification of financing instruments and sufficient free credit lines and liquidity reserves.

Financing

Schuldschein loan agreements with terms of up to 10 years placed with various investors on the banking and capital markets are material medium- to long-term financing instruments. Long-term registered bonds with terms of up to 20 years are also issued.

Short-term financing requirements are covered by issues under the new commercial paper programme launched in December 2022. Bearer bonds of EUR 500.0 million with terms of up to 364 days can be issued under the commercial paper programme. The EUR 550.0 million syndicated line of credit signed in August 2021 was increased by EUR 200.0 million in November 2023 and essentially serves to further secure liquidity (back-up line).

Financial liabilities amounted to EUR 2,264.9 million as at 31 December 2023 (31 December 2022: EUR 2,231.4 million) and essentially comprise the schuldschein loan agreements issued.

The Group has total unutilised credit facilities of around EUR 878.8 million at its disposal (31 December 2022: EUR 695.1 million). It also has cash and cash equivalents of EUR 840.1 million (31 December 2022: EUR 634.6 million) and short-term time deposits of EUR 137.3 million (31 December 2022: EUR 220.0 million), which with maturities of 3 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.

For detailed information on the financing of the Asklepios Group, see section VIII. 15) Financial liabilities in the notes to the consolidated financial statements.

Credit rating

The Asklepios Group's good credit rating helps us achieve the main objectives of the financing strategy, which we monitor and manage using the key figures of net debt ratio (net financial liabilities/EBITDA) and the interest coverage factor (EBITDA/net interest income).

The target range for the net debt ratio (net financial liabilities/EBITDA) is 3.0x to 3.5x. The interest coverage factor (EBITDA/net interest income) should be at least 4.5x to 6.0x.

The following table illustrates how the net debt ratio and interest coverage factor were calculated in the financial year:

EUR million	2023	2022
Financial liabilities	2,264.8	2,231.4
Lease liabilities	479.9	495.0
Cash and cash equivalents	840.1	634.6
Short-term time deposits	137.3	220.0
Net financial debt	1,767.3	1,871.8
EBITDA	540.3	532.6
Net debt ratio	**3.3x**	**3.5x**
Net interest expenses	−59.8	−42.4
EBITDA	540.3	532.6
Interest coverage factor	**9.0x**	**12.6x**

The net debt ratio is 3.3x (31 December 2022: 3.5x). The improvement 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 level of lease liabilities is mainly attributable to the conclusion of new lease agreements for MediClin AG in the 2022 financial year.

Cash flow analysis

Cash flow from operating activities was influenced by the EBITDA figure of EUR 540.3 million (previous year: EUR 532.6 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	2023	2022
EBITDA	540.3	532.6
Cash flow from operating activities	568.5	402.0
Cash flow from investing activities	−238.7	−336.7
Cash flow from financing activities	−124.3	−78.0
Change in cash and cash equivalents	**205.5**	**−12.6**
Cash and cash equivalents on 1 January	634.6	647.2
Cash and cash equivalents on 31 December	**840.1**	**634.6**

Cash and cash equivalents rose by EUR 205.5 million to EUR 840.1 million in 2023. Operating cash flow increased year-on-year to EUR 568.5 million (previous year: EUR 402.0 million) due to the change in working capital and an improvement in EBITDA.

The operating cash flow is offset by a cash outflow from investing activities of EUR 238.7 million (previous year: EUR 336.7 million). Payments for investing activities essentially comprise investments in fixed assets. Financing activities resulted in a cash outflow of EUR 124.3 million (previous year: EUR 78.0 million).

Net assets

Asset and capital structure

Summarised statement of financial position	2023		2022	
ASSETS	**EUR million**	**%**	**EUR million**	**%**
Non-current assets	4,061.1	57.9	4,157.6	60.5
Current assets	2,935.6	41.8	2,698.5	39.3
Assets held for sale	22.1	0.3	14.5	0.2
Total assets	**7,018.8**	**100.0**	**6,870.7**	**100.0**
EQUITY AND LIABILITIES				
Equity	2,061.8	29.4	2,043.1	29.7
Non-current liabilities and provisions	2,700.2	38.5	3,065.8	44.6
Current liabilities and provisions	2,250.5	32.1	1,758.7	25.6
Debts associated with assets held for sale	6.2	0.1	3.0	0.0
Total assets	**7,018.8**	**100.0**	**6,870.7**	**100.0**

Total assets increased by 2.2% from EUR 6,870.7 million to EUR 7,018.8 million. As in the previous year, non-current assets are financed at a rate of 100% with matching maturities by equity or long-term borrowings. Non-current assets fell by EUR 96.5 million year-on-year to EUR 4,061.1 million.

As well as cash and cash equivalents of EUR 840.1 million, current assets also include short-term time deposits of EUR 137.3 million (31 December 2022: EUR 220.0 million), which with maturities of 3 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. In addition to cash and cash equivalents of EUR 840.1 million, the Group has unutilised credit facilities of EUR 878.8 million at its disposal. The Group therefore has financial reserves available at short notice of EUR 1,718.7 million.

Equity amounted to EUR 2,061.8 million and was higher than the previous year's figure (31 December 2022: EUR 2,043.1 million). The equity ratio as at 31 December 2023 was above the previous year's figure at 29.4% (31 December 2022: 29.7%) and also exceeded our forecast as at 31 December 2022, which included a stable development of the equity ratio. In addition to total comprehensive income, this change is also attributable to the recognition of an option to purchase shares in affiliates. Asklepios has permanent interest-free and redemption-free access to subsidies of around

EUR 1,179.6 million (31 December 2022: EUR 1,174.8 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.

Non-current liabilities amounted to EUR 2,700.2 million (31 December 2022: EUR 3,065.8 million). These comprise pension provisions, other non-current provisions, financial liabilities and other liabilities due in more than one year, and deferred taxes. The decrease as compared to the previous year is attributable to the schuldschein loans scheduled for repayment in 2024 (EUR 390.0 million), which are now reported under current liabilities. Current liabilities include the utilisation of syndicated and bilateral lines of credit as well as placements under the commercial paper programme.

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 2023 financial year. The internal financing ratio is 62.0% (previous year: 69.5%).

Capital expenditure was as follows in the 2023 financial year:

	Capital expenditure in 2023		
	Total in EUR million	Of which subsidised	Internal financing ratio
Intangible assets	58.0	13.5	76.7%
Land and buildings	29.0	3.3	88.6%
Technical equipment	11.3	5.4	52.2%
Operating and office equipment	156.9	76.2	51.4%
Assets under construction	115.3	42.5	63.1%
Total	**370.6**	**141.0**	**62.0%**

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

Location	Capital expenditure in EUR million
Central IT investments	24.4
Zentralklinik Bad Berka	9.9
Klinikum Frankfurt (Oder)	8.7
Universitätsklinikum Marburg	6.8
Klinikum Müritz	6.7
Südpfalz Kliniken	5.8
Klinik Harburg (Hamburg)	4.5
Klinik Altona (Hamburg)	4.0
Universitätsklinikum Gießen	3.7
Klinikum Langen	3.7

After deducting subsidised capital expenditure, net capital expenditure amounted to EUR 229.6 million (previous year: EUR 218.3 million) or 4.2% of revenue (previous year: 4.1%). Capital expenditure is fully financed by cash flow from operating activities. Without deducting subsidies, capital expenditure amounted to EUR 370.6 million (previous year: EUR 314.0 million). At EUR 201.9 million in total, expenditure for maintenance and servicing was up on the previous year (EUR 181.3 million). Expressed as a percentage of revenue, 3.7% was invested in ongoing maintenance (previous year: 3.4%). Asklepios used 7.9% of revenue for internally financed capital expenditure and maintenance work (previous year: 7.6%).

F) Forecast and report on risks and opportunities

1. Forecast

The Ukraine war and the associated price increases, alongside general inflation, will still have an impact on the business development and performance of our healthcare facilities in 2024. Our hospitals are also affected by a demanding regulatory environment.

Asklepios will react flexibly to these 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 2024 and largely positive economic development.

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 2024 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 EBITDA and EAT year-on-year. The equity ratio will remain stable year-on-year in the 2024 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' demands 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" (up to 1% of EBITDA), "requiring monitoring" (up to 5% of EBITDA), "requiring action" (up to 10% of EBITDA) or "very critical" (upwards of 10% of EBITDA). The categories represent the expected loss value, a combination of the likely probability of occurrence and the likely level of loss. 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. While risks in conjunction with the COVID-19 pandemic were far lower than in the previous year, the overall risk situation increased slightly as a result of higher billing, income and financial risks.

Income, documentation and budget risks (requiring monitoring)

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 illness (e.g. 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. The planned hospital reform could affect the risk situation in the medium to long term, although the ongoing political process means that specific statements on the potential impact on Asklepios cannot yet be conclusively made.

Personnel risks (requiring monitoring)

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 PpUGV (German regulation for the threshold for nursing staff), the PPR 2.0 (German nursing staff regulation) and the PPP-RL (German Guideline for Personnel Assessment in Psychiatric Hospitals and Psychosomatic Medicine) 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 legislative requirements of the regulations and guidelines outlined above 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. However, it is important to note here that direct personnel costs for the nursing service are funded by payers through the hospitals' care budgets. Staff cost increases are particularly noticeable in view of the public-sector collective bargaining agreements in 2023/2024, which were extremely high due to inflation. 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/work and welfare regulations 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.

IT risks and cyber risks (acceptable)

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.

Credit and counterparty risks (requiring monitoring)

This risk arises if a contracting party fails to meet all or some of its obligations or fails to meet them on time. Asklepios is exposed to risk from an unexpected loss of cash or income based on counterparty risks. However, we believe the probability of occurrence here is low. 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.

We take a conservative and diversified approach to our investment and risk policy. Our counterparties are banks with investment grade ratings from a recognised rating agency that are additionally part of deposit protection systems. Investments are also monitored continuously and the company reacts with measures to correct any differences compared with its expected targets.

Interest rate risks (acceptable)

Interest rate risks may result from investing and financing activities. These risks are systematically quantified, assessed on an ongoing basis, managed and monitored as part of risk management. In certain circumstances, interest rate hedges (e.g. interest rate swaps, interest rate forwards and forward interest rate swaps) may also be used to mitigate interest rate risks.

Liquidity and financing risks (requiring monitoring)

This refers to the risk of no longer being able to meet future payment obligations in full or on time.

The management of liquidity and refinancing risks is the central responsibility of the Corporate Finance & Treasury department, which uses a treasury management system for this purpose with a focus on efficient management of cash and cash equivalents. As a financially conservative company, and in line with the investment terms of the assets, Asklepios' financing is long-term in nature and contains manageable short-term refinancing risks. The high levels of cash and cash equivalents and free credit lines, steady cash flow, good credit rating, broad diversification of financing partners and access to the capital market show that the Asklepios Group is largely independent of general developments on the capital market and ensure that it has full financial capacity for action.

Planning and construction risks (acceptable)

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 in the form of a separate Architecture and Construction department. The Architecture and Construction department supports Asklepios hospitals with project management and planning. 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 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, procurement and planning services on careful and continuous quality control and monitoring of all our service providers, construction companies, suppliers and the entire market in order to limit these risks efficiently.

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 Architecture and Construction department also guaranteed that all project-related processes are standardised and responsibilities are defined clearly and comprehensibly by introducing a Group-wide project management manual for construction projects. Process-related risks and inefficiencies inherent in the execution and management of construction are consequently effectively minimised.

International conflicts and other crisis situations (acceptable)

The ongoing conflict in Ukraine, the evolving situation in the Middle East, other potential conflicts in Asia and an increase in other crisis situations could develop into a multi-crisis scenario. This could strain the global economy and, in particular, international supply chains, in turn pushing up prices, reducing supply reliability and worsening the overall risk situation.

Performance risks (acceptable)

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 (acceptable)

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.

Investment risks (acceptable)

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.

Liability and legal risks (acceptable)

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 (acceptable)

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 or that cause significant supply delays ("port congestion"). Climate change (severe weather events, natural disasters and drought) and armed conflicts are also increasingly relevant factors here.

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.

Supply reliability and contingency planning will be increasingly important factors in evaluating and choosing strategic framework contracts in the future. There is also increased focus on international procurement to establish or examine direct access to foreign markets (for selected products) as a way of securing supply.

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

Market price risk/price increases (acceptable)

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. Factors driving up prices include the shortage of raw materials, higher personnel costs and declining product availability on the German market. 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. The industry and service providers are affected by a shortage of qualified staff and wage increases, especially for labour-intensive services such as operations, service work and staff secondment, which then translate indirectly into higher product costs or new service charge agreements. The market situation in Germany (low pricing policy, increasing regulation, e.g. MDR) is causing the industry to redirect its focus to other markets (e.g. other European countries), hurting product availability in Germany.

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 adopting multiple supplier strategies. It also reduces the effects of price increases on earnings performance and makes supply more reliable by rapidly agreeing fixed price contracts for as long as possible with the supply companies it uses.

Hygiene and infection risks (acceptable)

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 (acceptable)

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 competition (acceptable)

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.

Risks from climate change (acceptable)

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. The supply situation is expected to deteriorate further as a result of climate change. Increasing shortages of food and plant materials for medications create a financial risk as a result of higher production and supply costs.

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

Risks from acquisition and integration (acceptable)

Risks can arise from acquiring hospitals, medical facilities and other companies. Accordingly, one of our main tasks is to integrate the processes and the infrastructure of the acquired company into the Group 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.

Compliance risks (acceptable)

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 (acceptable)

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.

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 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 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.

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.

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, 28 March 2024

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