



RHÖN-KLINIKUM AG

---

INTERIM REPORT  
FOR THE PERIOD FROM  
1 JANUARY TO 30 JUNE 2003

# INTERIM REPORT TO OUR SHAREHOLDERS FOR THE SIX MONTHS ENDED 30 JUNE 2003

## Summary and Outlook

This interim report for the first half of 2003 has been prepared in accordance with the provisions of the International Accounting Standards (IAS), using accounting and valuation methods consistent with those used in previous periods.

We are pleased with the results of the first six months of 2003: revenues at € 465.8 million and earnings at € 36.5 million or € 1.41 per share are in line with our own expectations. Net consolidated profit rose by € 7.8 million or 27 %. If adjusted for extraordinary items reflected in the same period of the previous year, this translates into an improvement of € 4.1 million (14 %).

The second quarter closed with a net consolidated profit of € 18.1 million (or per-share earnings of € 0.70), representing a decrease by € 0.3 million compared to the first quarter of 2003. However, adjusted for extraordinary items (insurance benefits for flood damages in Freital), 2003 Q2 results improved by € 0.5 million.

Seven of our hospitals had announced to adopt the new remuneration system (based on DRGs = Diagnosis Related Groups) within the set period ended 1 October 2002. Another 11 of our hospitals opted for adopting that system when the health authorities granted a period of grace until 31 December 2002, with a view to better information on the new system and its effects by end of the year. This means that 18 of 29 RHÖN-KLINIKUM Group hospitals are now preparing for full adoption of the DRG-based remuneration system, which guarantees settlement of accounts while still neutralising the new system's effects.

End of June 2003, we took over Stadt Krankenhaus Cuxhaven with 286 beds and 613 employees. It will be consolidated from the third quarter of 2003. This municipal hospital is the leading centre for standard acute care in the city of Cuxhaven and acts as an academic teaching hospital for the Medical College of Hanover. To ensure the future of that hospital and continued high-quality service provision to the population, we have agreed to realise a new centre, structured on the pattern of our "Tele-Portal Clinic" conception.

At present, we are involved in numerous privatisation negotiations in progress, with two projects – a smaller and a middle-sized hospital – having reached the final stage. While there is a growing number of public hospital owners looking for interested buyers, negotiations are often overshadowed by excessive requirements in an endeavour to preserve vested rights, and future-oriented pragmatic solutions continue to meet with scepticism. We have observed that – in particular, in cases where larger acute hospitals are at stake – smaller competitors are prepared to compromise on pocket agreements that we would not accept because they are incompatible

with what we understand by sound rationalisation and change management. This is why we will not insist in privatisation projects where we have little or no chance of implementing our hospital concepts, or where we are confronted with hardly calculable factors (architectural conservation instead of good pricing).

We have reason to believe that the results achieved and the tendencies recorded in the first two quarters of 2003 strongly support our forecasts for the whole of financial year 2003.

Our financial structures continue to be sound. Current capital expenditure as well as investments in hospital takeovers, including projected new construction and extension projects in 2003 totalling € 31.9 million has been financed in full from our cash flow of € 63.5 million.

We have been able to successfully counter the downward tendency of revenues per treatment with stringent cost cutting programmes which we are sure will add to improving results in the periods ahead.

## Patients

During the first six months of financial year 2003, we treated 24,256 (10.6 %) patients more than in the same period of the previous year.

	January – June	2003	2002
Inpatient and day-case treatments at acute hospitals		128,496	113,386
Inpatient treatments at rehabilitation clinics		3,344	3,416
Outpatient attendances		121,758	112,540
<b>Total</b>		<b>253,598</b>	<b>229,342</b>

Our hospitals in Pirna and Dohna-Heidenau, which had not yet been Group members in the same period of the previous year, account for 12,777 patients, while our other hospitals treated 11,479 patients or 5.0 % more than in the first half of 2002; this was achieved on the back of further reductions in the average duration of stays in hospital. Average revenue per case declined from € 1,883 to € 1,837 (or 2.5 %).

The forthcoming introduction of the DRG-based remuneration system has provoked increasing pressures on hospitals regarding inpatient volumes and the duration of stays in hospital.

## Staff

At 30 June 2003, the Group employed 12,904 persons (at 31 March 2003: 13,005).

## Business Performance

### Revenues and earnings

Second-quarter revenues totalled € 232.6 million, maintaining the level of the previous quarter, despite fewer working days. Revenues for the first six months are reflected at € 465.8 million (previous year: € 431.9 million), which is in line with our expectations. The recently consolidated hospitals in Dohna-Heidenau and Pirna were able to contribute a combined € 17.4 million to revenue growth, while internal growth during the first half of 2003 accounted for € 16.5 million or 4 % of total revenues.

The slightly more than proportional increases in material costs in both quarters under review relate to medical supplies, exclusively. We continue to closely monitor and discuss the noticeable trend toward higher consumption and increased use of high-priced quality implants.

The increase in personnel expenses in the second quarter of 2003 was slightly more than proportional, if compared to the previous year. This is exclusively due to unfavourable cost structures at the hospitals acquired since October 2002; here we expect rationalisation gains to materialise in the second half of 2003.

Depreciations are shown lower, reflecting reduced acquisition and investing activities.

Other operating expenses and other operating income decreased, essentially due to lower insurance benefits and corresponding expenses.

The improved financial result reflects lower interest rate levels and the use of our (free) cash flow.

Negative effects on results came from higher earnings tax expenditure due to the corporate tax rate increasing to 26.5 %.

January – June	2003		2002	
	€ million	%	€ million	%
Revenues	465.8	100.0	431.9	100.0
Other operating income	13.0	2.8	16.8	3.9
	<b>478.8</b>	<b>102.8</b>	<b>448.7</b>	<b>103.9</b>
Cost of materials	114.6	24.6	105.0	24.3
Personnel costs	241.7	51.9	224.0	51.9
Depreciation	23.9	5.1	25.1	5.8
Other operating expenses	35.9	7.7	37.9	8.8
	<b>416.1</b>	<b>89.3</b>	<b>392.0</b>	<b>90.8</b>
	<b>62.7</b>	<b>13.5</b>	<b>56.7</b>	<b>13.1</b>
Financial result	- 7.2	- 1.5	- 8.3	- 1.9
	<b>55.5</b>	<b>12.0</b>	<b>48.4</b>	<b>11.2</b>
Discontinued business activities	0.0	0.0	- 3.2	- 0.7
	<b>55.5</b>	<b>12.0</b>	<b>45.2</b>	<b>10.5</b>
Earnings taxes	15.9	3.4	12.8	3.0
	<b>39.6</b>	<b>8.6</b>	<b>32.4</b>	<b>7.5</b>
Minority interests	3.1	0.7	3.7	0.9
<b>Net consolidated profit</b>	<b>36.5</b>	<b>7.9</b>	<b>28.7</b>	<b>6.6</b>

This corresponds to earnings per share of € 1.41 (previous year: € 1.10).

April – June	2003		2002	
	€ million	%	€ million	%
Revenues	232.6	100.0	219.1	100.0
Other operating income	6.2	2.7	10.2	4.7
	<b>238.8</b>	<b>102.7</b>	<b>229.3</b>	<b>104.7</b>
Cost of materials	56.7	24.4	52.7	24.1
Personnel costs	121.0	52.0	113.3	51.7
Depreciation	11.9	5.1	13.4	6.1
Other operating expenses	18.4	7.9	19.7	9.0
	<b>208.0</b>	<b>89.4</b>	<b>199.1</b>	<b>90.9</b>
	<b>30.8</b>	<b>13.3</b>	<b>30.2</b>	<b>13.8</b>
Financial result	- 3.4	- 1.5	- 4.2	- 1.9
	<b>27.4</b>	<b>11.8</b>	<b>26.0</b>	<b>11.9</b>
Discontinued business activities	0.0	0.0	- 3.2	- 1.5
	<b>27.4</b>	<b>11.8</b>	<b>22.8</b>	<b>10.4</b>
Earnings taxes	7.8	3.4	6.8	3.1
	<b>19.6</b>	<b>8.4</b>	<b>16.0</b>	<b>7.3</b>
Minority interests	1.5	0.6	2.2	1.0
<b>Net consolidated profit</b>	<b>18.1</b>	<b>7.8</b>	<b>13.8</b>	<b>6.3</b>

This corresponds to earnings per share of € 0.70 (previous year: € 0.53).

### Investing and financing activities

During the first six months of financial year 2003, the Group invested a total of € 31.9 million [after deduction of public grants under the Hospital Financing Act (KHG)].

Investments break down by locations as follows:

	€ million
Uelzen	11.6
Pirna / Dohna-Heidenau	5.9
Bad Neustadt	5.0
Freital	1.8
Hildburghausen	1.3
Bad Berka	1.2
Attendorn	1.1
Leipzig	1.0
Wiesbaden	0.9
Meiningen	0.8
Other locations	1.3
<b>Total</b>	<b>31.9</b>

Financing was effected in full from the cash flow.

### Structure of assets and liabilities

The first consolidation of the hospital in Dohna-Heidenau which we acquired at the beginning of the year has had only minor effects on balance sheet ratios. Having generated a (free) cash flow from operations in excess of capital expenditures and scheduled redemption of loans has improved both the maturity pattern and asset coverage by long-term funds. The Group's financial structures continue to be stable and sound.

Debtor accounts increased by € 30.1 million or 23.5 %, which is above proportion if compared to the development of revenues and service volumes. The reasons for

this are to be found in growing controlling and coordination requirements in connexion with the introduction of a new remuneration system and the continuously deteriorating paying morals of the health insurance funds. We continue to make every effort to achieve improvements in this respect and monitor the development very closely.

	30 June 2003		31 December 2002	
	€ million	%	€ million	%
<b>ASSETS</b>				
<b>Long-term assets</b>				
Fixed assets				
- Intangible assets	25.4	2.5	23.4	2.3
- Tangible assets	723.5	70.5	717.9	71.5
- Financial assets	2.0	0.2	2.0	0.2
	<u>750.9</u>	<u>73.2</u>	<u>743.3</u>	<u>74.0</u>
Deferred tax credits	7.3	0.7	8.0	0.8
	<b>758.2</b>	<b>73.9</b>	<b>751.3</b>	<b>74.8</b>
<b>Short-term assets</b>				
Current assets				
- Inventories	14.1	1.4	13.9	1.4
- Receivables from supplies and services	158.2	15.4	128.1	12.8
- Liquid funds	74.7	7.3	89.1	8.9
- Other items	17.8	1.7	20.4	2.0
Prepaid expenses	3.5	0.3	0.6	0.1
	<u>268.3</u>	<u>26.1</u>	<u>252.1</u>	<u>25.2</u>
	<b>1,026.5</b>	<b>100.0</b>	<b>1,003.4</b>	<b>100.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Long-term capital</b>				
- Equity	450.7	43.9	414.2	41.3
- Minority interests	30.2	2.9	30.6	3.0
- Long-term financial debts	215.8	21.0	219.0	21.8
- Provisions for pensions	9.1	0.9	8.8	0.9
- Deferred tax liabilities	31.7	3.1	32.1	3.2
	<u>737.5</u>	<u>71.8</u>	<u>704.7</u>	<u>70.2</u>
<b>Short-term capital</b>				
- Proposed profit distribution	15.2	1.5	15.2	1.5
- Other provisions	4.6	0.5	4.6	0.5
- Short-term liabilities to banks	104.1	10.1	116.1	11.6
- Liabilities from supplies and services	31.9	3.1	35.1	3.5
- Tax liabilities	10.8	1.1	6.4	0.7
- Other items	121.9	11.9	120.8	12.0
- Deferred income	0.5	0.0	0.5	0.0
	<u>289.0</u>	<u>28.2</u>	<u>298.7</u>	<u>29.8</u>
	<b>1,026.5</b>	<b>100.0</b>	<b>1,003.4</b>	<b>100.0</b>

The table below shows the composition of, and changes in, shareholders' equity:

	€ million
<b>Balance at 1 January 2003</b>	<b>429.4</b>
Consolidated result for the first six months of 2003	36.5
<b>Balance at 30 June 2003</b>	<b>465.9</b>
Proposed dividend distribution	15.2
<b>Long-term equity</b>	<b>450.7</b>

Ordinary share capital and capital reserves remained unchanged.

#### *Cash flow statement*

While earnings before interests, taxes, depreciation and amortisation (EBITDA) rose by € 8.0 million to € 86.6 million, financing of increased debtor accounts and redemption of short-term liabilities led to the cash generated by operating activities decreasing by € 30.0 million to € 31.0 million, compared to the previous year. Furthermore, capital expenditures totalling € 28.8 million, repayment of liabilities to banks in the amount of € 15.0 million and dividend distribution to minority shareholders of € 3.5 million resulted in a decrease in net cash resources by € 14.4 million to € 74.7 million.

	January – June	2003	2002
		€ million	€ million
Earnings before taxes		55.5	45.2
Elimination of financial result		7.2	8.3
Depreciation and book losses on fixed assets		23.9	25.1
<b>EBITDA</b>		<b>86.6</b>	<b>78.6</b>
Change in inventories	- 0.2	- 0.2	
Change in receivables from supplies and services	- 28.6	- 7.0	
Change in other receivables	- 0.9	- 15.1	
Change in liabilities	- 7.0	25.2	
Change in provisions	0.3	- 0.3	
Other changes	0.0	0.2	
Earnings taxes paid	- 10.5	- 10.4	
Interests paid	- 8.7	- 10.0	
<b>Cash generated by operating activities</b>		<b>31.0</b>	<b>61.0</b>
Investments in tangible and intangible fixed assets	- 28.8	- 119.2	
Disposal proceeds	0.4	0.5	
Interests received	1.5	1.6	
<b>Cash utilised in investing activities</b>		<b>-26.9</b>	<b>-117.1</b>
Change in short-term financial debts	- 11.9	57.4	
Change in long-term financial debts	- 3.1	7.5	
Deposits from outside shareholders	0.0	3.6	
Dividends paid to minority shareholders	- 3.5	- 3.1	
<b>Cash generated by financing activities</b>		<b>-18.5</b>	<b>65.4</b>
Change in liquidity	- 14.4	9.3	
Net cash resources at 1 January		89.1	71.5
<b>Net cash resources at 30 June</b>		<b>74.7</b>	<b>80.8</b>

Bad Neustadt/Saale, 16 July 2003

RHÖN-KLINIKUM AG  
The Board of Management