RHÖN-KLINIKUM AG

INTERIM REPORT
FIRST QUARTER 2005

Interim report to our shareholders for the first quarter of 2005

General remarks

We are pleased to present this interim report which has been prepared in accordance with International Financial Reporting Standards (IFRS, formerly IAS). In financial year 2005 we apply the amended standards IAS 1 and IFRS 3. The changes essentially concern the consolidated balance sheet to be itemised by maturities, the statement of minority shareholdings in equity capital and the division in the reporting of the consolidated result into the part attributable to shareholders and the part attributable to minorities. Statements of the previous year were adjusted to allow for better comparison of the figures. From 2005 on we will no longer perform scheduled amortisation of goodwill.

Review and Outlook

During the first quarter of 2005, revenues rose by € 91.9 million to € 340.7 million (previous year: € 248.8 million). This translates into a 37.0 % improvement over the pre-year figure and is in line with our targets. Net consolidated profit rose by € 2.9 million to € 22.2 million (previous year: € 19.3 million). Though moderate compared with the increase in revenues, this still corresponds to an impressive 15.0 % gain. Earnings per share grew by € 0.10 to € 0.81.

1 January 2005 witnessed the first-time consolidation of nine hospitals counting a total of 2,625 beds. Since we mostly acquire hospitals with inefficient structures, turning these into profitable and viable facilities through investment and sound concepts applied over several years, earnings (EBITDA, EBT, net consolidated profit) in the first quarter of 2005 could be raised only moderately in absolute terms of between 14.0 % and 15.0 %. Margins without exception witnessed a declining trend and thus developed in line with expectations.

Excluding acquisitions, margins as well as the personnel- and material-cost ratio would have improved slightly.

Despite considerable, mainly acquisition-driven investments of € 177.0 million, we continue to enjoy sound financial structures. Of this investment volume, € 37.3 million was financed from the operating cash flow and € 80.2 million from loans as well as an increase in other interest-free short- and long-term loan capital. Net debt saw a sharp rise to € 303.8 million (previous year: € 223.6 million), which however was in line with our targets. With the marked rise in assets and loan capital, the equity ratio declined from 48.9 % to 41.8 %.

Following the budget-neutral introduction phase in the remuneration system based on case flat rates (DRGs), the remuneration-relevant phase commenced in 2005. The convergence of individual rates of hospital remuneration (base rates) to state base rates is set at 15.0 % in 2005. At the same time changes have been made to the hospitals' so-called revenue budgets: for hospitals whose revenue budgets are diminished by the introduction of DRGs, the convergence of the respective revenue budget has been capped to 1.0 % for the year 2005. For any foreseeable rise or decline in service volumes, a scope equal to 33.0 % of the state base rate is provided for in 2005 for negotiation of a budget increase or decrease.

The state base rates form the basis for the 2005 remuneration negotiations still to be conducted. With few exceptions, these state base rates have yet to be negotiated. As an alternative, we have applied the 2004 budget agreements based on the Second Case Flat Rate Amendment Act [2. FPÄndG 2005] and defined provisional state base rates in accordance with the existing ministerial draft bill of the Federal Ministry of Health and Social Security. Future corrections may lead to considerable fluctuations within the year. Amid this planning uncertainty, we maintain for the time being our forecast for revenues of € 1.4 billion and net consolidated profit of € 84.0 million (€ 80.0 million after minorities) for financial year 2005.

Acquisitions

Currently we own 39 consolidated hospitals with 11,811 beds at 31 sites. Not included are the hospitals in Eisenhüttenstadt, Bad Neustadt and Mellrichstadt whose takeover was prohibited by the German Cartel Office. We lodged an appeal against the Cartel Office decision in all cases. To avoid significant financial losses the city of Eisenhüttenstadt has rescinded the purchase agreement. The takeover of the hospitals in Bad Neustadt and Mellrichstadt hinges on the outcome of the appeal.

On 15 April 2005 we successfully concluded contract negotiations with the district of Miltenberg on the takeover of its hospitals in Erlenbach and Miltenberg. These hospitals have combined revenues of € 39.5 million with 392 beds and a staff of 790. These facilities are to be consolidated from 1 July 2005.

We will continue this growth course in financial year 2005. Acquisition offers lacking the potential to meet our requirements for qualified growth will be refused without exception.

In our assessment hospital closures leading to a market shake-out are in the offing.

Patients

January through March	2005	2004
Inpatient and day-case treatments, acute hospitals	100,560	69,482
Inpatients, rehabilitation clinics	1,919	1,729
Outpatient attendances	131,309	70,295
Total	**233,788**	**141,506**

During the first three months of this year our hospitals treated 233,788 patients. This represents a rise of 92,282 patients (+ 65.2 %) compared with the same period last year. Of these, 93,684 patients were contributed by our hospital facilities consolidated for the first time in 2005. At the hospitals already consolidated in the previous year, 1,402 less patients were treated, representing a slight decline compared with the previous year. Average per-case revenue declined from € 1,758 in the same quarter last year to € 1,457 (- 17.1 %), not least owing to the disproportionate rise in outpatient attendances. This continues the established trend.

Staff

At 31 March 2005, the Group employed 20,381 persons (at 31 December 2004: 14,977). This growth in staff numbers of 5,404 employees is attributable to staff of newly acquired hospitals and a near-constant staff turnover rate (- 99) with facilities already consolidated in 2004.

Business performance

Revenues and earnings

In the first three months of 2005 we generated revenues of € 340.7 million, which is in line with our expectations. The increase versus the previous year of € 91.9 million or 37.0 % was contributed by our newly consolidated hospitals (€ 88.4 million) and organic growth of € 3.5 million (+ 1.4 %).

The disproportionate rise in other operating income results from the combined effect of acquired pharmacy revenues and other ancillary and incidental activities on the one hand, with higher corresponding material costs and loss settlements agreed with hospital sellers in 2005.

The newly acquired hospitals with their largely inefficient structures did not make significant earnings contributions in the first quarter of 2005. For this reason all earnings figures (EBITDA, operating result, EBT and net consolidated profit) saw only moderate increases in absolute figures compared with the growth in revenues to the tune of 14.0 % to 15.0 %. The corresponding margins without exception witnessed a declining trend, in line with our expectations.

For the hospitals already consolidated in 2004, the pre-year EBITDA margin of 17.2 % rose to 17.9 %. The material cost ratio declined from 24.7 % to 24.5 % and the personnel cost ratio is 51.9 % (previous year: 52.6 %). The future offers ample scope for rationalisation.

The marginal rise in the cost of financing is accounted for by the marked rise in net debt to banks to benefit from favourable interest rates.

Tax expenditure grew in proportion to the trend in earnings.

Of the € 2.9 million increase in net consolidated profit to € 22.2 million, € 0.7 million was contributed by newly acquired hospitals, € 0.9 million by an improvement in the result from discontinued goodwill amortisation and € 1.3 million by improvements in earnings achieved by hospitals already consolidated in the previous year.

Regarding minority interests in profit, half is attributable to participations already existing in the previous year and half to participations in hospitals added in the current reporting year.

After deduction of minority interests in profit accounting for € 1.1 million of net consolidated profit, the shareholders RHÖN-KLINIKUM AG will receive a profit participation of € 21.1 million. This exceeds the pre-year value by € 2.7 million or 14.7 %, and corresponds to earnings per share of € 0.81 (previous year: € 0.71).

January through March	**2005**		**2004**	
	€ million	%	€ million	%
Revenues	340.7	100.0	248.8	100.0
Other operating income	13.8	4.1	6.0	2.4
	354.5	**104.1**	**254.8**	**102.4**
Cost of materials	85.1	25.0	61.5	24.7
Personnel expenses	192.6	56.5	130.8	52.6
Other operating expenses	27.9	8.2	19.6	7.9
	305.6	**89.7**	**211.9**	**85.2**
EBITDA	**48.9**	**14.4**	**42.9**	**17.2**
Depreciation	14.9	4.4	13.2	5.3
Operating result (EBIT)	**34.0**	**10.0**	**29.7**	**11.9**
Cost of financing	- 4.2	- 1.2	- 3.7	- 1.5
Financing incoming	0.6	0.2	0.4	0.2
Financial result	**- 3.6**	**- 1.1**	**- 3.3**	**- 1.3**
Earnings before tax (EBT)	**30.4**	**8.9**	**26.4**	**10.6**
Earnings taxes	- 8.2	- 2.4	- 7.1	- 2.9
Net consolidated profit	**22.2**	**6.5**	**19.3**	**7.7**
o.w. interests held by				
Minority owners	**1.1**	**0.3**	**0.9**	**0.4**
Shareholders of RHÖN-KLINIKUM AG	**21.1**	**6.2**	**18.4**	**7.3**

Investments

In the first quarter of 2005, the Group invested a total of € 179.2 million, € 2.2 million of this coming from public grants. Net investments thus totalled € 177.0 million, of which € 157.2 million is accounted for by fixed assets acquired on hospital takeovers and € 19.8 million by current investments. The latter concern the construction of new buildings and extensions as well as capital expenditure at the following locations:

	€ million
Hildburghausen	5.6
Mittelweser Kliniken	4.3
Wiesbaden	1.7
Bad Neustadt	1.5
Frankfurt (Oder)	1.0
Bad Berka	1.0
Pirna	1.0
Bad Kissingen	0.9
Übrige Standorte	2.8
Total	**19.8**

Asset and financial structure

Assets grew 21.9 % on the back of the first-time consolidation of the newly acquired hospitals. Whereas maturity patterns remained largely unchanged for assets, short-term debt items increased above all for liabilities. Coverage of long-term asset items by long-term financing declined from 99.6 % to 90.4 %. In the further course of the year financing with matching maturities will be provided.

Equity capital rose by € 23.6 million, with the quarterly result contributing € 22.2 million and the first-time consolidated minority interests in the hospitals in Salzgitter, Gifhorn and Wittingen € 1.4 million to this increase. The equity ratio declined from 48.9 % to 41.8 %.

At balance sheet date, net debt to banks stood at € 303.8 million (previous year: € 223.6 million), a rise of € 80.2 million or 35.8 %.

The Group continues to enjoy stable and sound financial structures.

	31 March 2005 € million	%	31 December 2004 € million	%
ASSETS				
Long-term assets				
Intangible assets	80.6	5.7	49.0	4.2
Tangible assets	924.2	65.2	794.8	68.4
Other loans and investments	2.9	0.2	2.6	0.2
	1,007.7	71.1	846.4	72.8
Deferred earnings tax receivables	14.6	1.0	6.8	0.6
	1,022.3	**72.1**	**853.2**	**73.4**
Short-term assets				
Inventories	26.0	1.8	19.7	1.7
Receivables from supplies and services	183.9	13.0	148.5	12.8
Current earnings tax receivables	9.4	0.7	11.2	1.0
Other assets	65.7	4.6	61.4	5.3
Liquid funds	110.1	7.8	68.5	5.8
	395.1	**27.9**	**309.3**	**26.6**
	1,417.4	**100.0**	**1,162.5**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity				
Subscribed capital	25.9	1.8	25.9	2.2
Reserves	541.1	38.2	520.0	44.7
Interests of minority owners	25.3	1.8	22.8	2.0
	592.3	**41.8**	**568.7**	**48.9**
Long-term debt				
Financial debt	286.3	20.2	238.7	20.5
Provisions for pensions	14.2	1.0	11.1	1.0
Deferred earnings tax liabilities	31.5	2.2	31.3	2.7
	332.0	**23.4**	**281.1**	**24.2**
Short-term debt				
Liabilities from supplies and services	75.6	5.3	48.7	4.2
Current earnings tax liabilities	9.4	0.7	10.2	0.9
Financial debt	127.6	9.0	53.4	4.6
Other provisions	9.6	0.7	8.2	0.7
Other liabilities	270.9	19.1	192.2	16.5
	493.1	**34.8**	**312.7**	**26.9**
	1,417.4	**100.0**	**1,162.5**	**100.0**

Shareholders' equity developed as shown below:

Statement of changes in shareholder's equity	Shareholder € million	Minorities € million	Total € million
As at 31 December 2004	**545.9**	**22.8**	**568.7**
Addition from first-time consolidation	0.0	1.4	1.4
Consolidated result for the first quarter of 2005	21.1	1.1	22.2
As at 31 March 2005	**567.0**	**25.3**	**592.3**
Dividend distribution	0.0	0.0	0.0
As at 31 March 2005	**567.0**	**25.3**	**592.3**

Ordinary share capital and capital reserves remained unchanged.

Cash flow statement

At balance sheet date, net cash resources showed an increase by € 41.6 million to € 110.1 million. Cash generated from operations of € 38.8 million and borrowings amounting to € 67.0 million as well as interest paid (€ 0.6 million) and income from the disposal of fixed assets (€ 0.6 million) compare with cash utilised for acquisitions of subsidiaries and in investments in tangible and intangible fixed assets totalling € 65.4 million.

In the first quarter of 2005 we generated an operating cash flow of € 37.3 million (previous year: € 32.5 million). Improved internal financing has given us greater manoeuvring room for investments and acquisitions.

January through March	**2005** € million	**2004** € million
Earnings before taxes	30.4	26.4
Elimination of financial result	3.7	3.3
Depreciation and book losses on fixed assets	15.1	13.2
EBITDA (plus book losses)	**49.2**	**42.9**
Change in inventories	2.7	- 0.2
Change in receivables from supplies and services	- 0.2	- 12.9
Change in other receivables	6.0	1.2
Change in liabilities	- 7.4	8.4
Change in provisions	- 0.5	0.3
Earnings taxes paid	- 6.7	- 7.5
Interest paid	- 4.3	- 3.7
Cash generated (+) / utilised (-) by operating activities	**38.8**	**28.5**
Investments in tangible and intangible fixed assets	- 16.3	- 18.5
Acquisition of subsidiaries less cash acquired	- 49.1	- 2.1
Surplus on realisation of fixed assets	0.6	0.1
Interest received	0.6	0.4
Cash generated (+) / utilised (-) in investing activities	**- 64.2**	**-20.1**
Change in short-term financial debts	70.9	- 58.5
Change in long-term financial debts	- 3.9	36.6
Dividends paid and dividend distributions to minority owners	0.0	0.0
Cash generated (+) / utilised (-) by financing activities	**67.0**	**-21.9**
Change in liquidity	41.6	- 13.5
Net cash resources at 1 January	68.5	101.8
Net cash resources at 31 March	**110.1**	**88.3**

Bad Neustadt/Saale, 28 April 2005

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT