



RHÖN-KLINIKUM AG

Interim Report

1 January – 30 September 2006

Interim report to our shareholders for the nine months ended 30 September 2006

General remarks

We are pleased to present this interim report which has been prepared in accordance with International Financial Reporting Standards (IFRS) in their version applicable from 2005. The accounting and valuation methods consistent with those used in the previous year were applied.

Review and outlook

In the first nine months of financial year 2006 revenues rose as expected from € 1,044.7 million to € 1,427.9 million compared with the same period last year. This translates into an increase of 36.7%. This growth was also reflected in our key ratios: EBITDA rose by 8.8% to € 162.2 million, EBIT by 5.7% to € 110.4 million, and net consolidated profit of € 70.1 million translates into a 4.5% rise compared with last year's level.

In the third quarter of 2006 we generated revenues of € 489.8 million (previous year: € 356.4 million) and net consolidated profit of € 24.5 million (previous year: € 22.7 million). Over this period EBITDA grew to € 58.6 million (previous year: € 50.4 million), and EBIT reached € 39.3 million (previous year: € 35.7 million).

Group revenues and net consolidated profit were in line with our expectations. For financial year 2006 we continue to expect revenues of € 1.9 billion.

The burden on earnings from the expected loss at Universitätsklinikum Gießen und Marburg of roughly € 7.0 million for the period 1 February 2006 to 31 December 2006 can be completely offset by our other facilities thanks to their improved results. Our current projections for financial year 2006 underpin our targeted net consolidated profit of € 93.0 million and earnings per share of € 1.72.

The rise in revenues in the first nine months of 2006 mainly stems from the first-time consolidation of Universitätsklinikum Gießen und Marburg GmbH from February 2006 adding revenues of € 280.9 million and 2,262 beds and places, and of two further hospitals from January 2006 which contributed revenues of € 30.0 million with 398 beds and places. Adjusted for accounting changes in connection with the promotion of training and education, organic growth versus the same period last year was € 39.6 million or 3.6%.

In the third quarter of 2006 we raised net consolidated profit from € 22.7 million last year to € 24.5 million (+ 7.9%). Earnings per share in the third quarter was € 0.45 (previous year: € 0.42), thus lifting net consolidated profit in the first nine months of the financial year compared with the same period last

year by 4.5% to € 70.1 million (previous year: € 67.1 million). At the end of the first nine months, earnings per share stood at € 1.29 (previous year: € 1.23).

Given the still inefficient structures at the newly acquired facilities, margins witnessed a decline in the first nine months versus the same period last year. This was in line with our expectations.

By contrast, the first nine months saw an improvement in margins at our long-standing group facilities: there the personnel cost ratio declined from 56.4% to 54.1%, EBITDA rose from 14.3% to 15.1%, EBIT went from 10.0% to 10.7% and EBT improved from 8.9% to 9.2%.

In the third quarter EBITDA (€ 58.6 million) improved by € 8.2 million or 16.3% to € 58.6 million (previous year: € 50.4 million), EBIT rose by 10.1% or € 3.6 million to reach € 39.3 million (previous year: € 35.7 million). Earnings before tax also saw an improvement versus the previous year, from € 31.7 million to € 33.8 million (+ 6.6%).

In the first nine months of financial year 2006 the Group invested a total of € 321.3 million (previous year: € 234.2 million), of which € 210.5 million for hospital takeovers (previous year: € 172.9 million). In new hospital buildings and equipment we invested € 110.8 million (previous year: € 61.3 million). Third quarter investment totalled € 45.0 million (previous year: € 35.1 million) and related to new hospital buildings and equipment.

This investment volume was financed out of our operating cash flow of € 122.0 million as well as a higher net debt to banks of € 91.4 million in conjunction with interest-free short- and long-term loan capital.

In the third quarter of 2006, operating cash flow was € 43.8 million (previous year: € 37.4 million).

Net debt to banks by the end of the third quarter of 2006 rose sharply from € 301.0 million at the end of 2005 to € 392.4 million (+ € 91.4 million) and by € 6.5 million from € 385.9 million at the end of the first half. Non-current assets are covered by equity capital and non-current liabilities.

The equity ratio declined from 39.6% at the end of financial year 2005 to 34.7% as at 30 September 2006, attributable to the increase in assets and loan capital as a result of the Group's buoyant growth. Compared with 30 June 2006, the equity ratio edged from 34.6% to 34.7%.

The collective bargaining negotiations between the doctors' association Marburger Bund and the Federal State of Hesse have now been concluded. For 2006 a one-off payment was agreed which has been taken account of in the results of Universitätsklinikum Gießen und Marburg.

Scope of consolidation and acquisitions

As at 30 September 2006 we have 45 consolidated hospitals with 14,690 beds/places (31 December 2005: 12,217) at a total of 34 sites.

In the first nine months four facilities with 2,660 beds/places were newly consolidated. Heinz Kalk-Krankenhaus in Bad Kissingen, Frankenwaldklinik in Kronach (both consolidated from 1 January 2006) and Universitätsklinikum Gießen und Marburg (from 1 February 2006) together contribute an annual revenue volume of € 450 million. As a result of revisions in state hospital planning within the year under way, capacities were reduced by 187 beds in total.

We are currently bidding on facilities for acquisition on 1 January 2007. Other prospective acquisitions failed to meet our requirements in terms of qualified growth potential. As in the past, we consistently refrained from further negotiations in such cases.

Business performance

Patients and per-case revenue

January through September	2006	2005
Inpatient and day-case treatments		
acute hospitals	392,114	315,252
Rehabilitation hospitals and other facilities	6,901	6,193
	399,015	321,445
Outpatient treatments		
acute hospitals	638,749	408,077
Total	1,037,764	729,522

During the first nine months of financial year 2006, a total of 1,037,764 million patients were treated in our hospitals (up 308,242 from 729,522 in the previous year), of which 360,149 patients in the third quarter (up 118,462 from 241,687 in the previous year). Of this increase, 298,053 patients were added by our hospital facilities consolidated in the year under way. Adjusted by the consolidation effects and the impact from the outsourcing of outpatient services (- 23,964 cases), we recorded growth of 34,153 patients or 4.7%, of which 7,396 patients (2.5%) in the acute inpatient area.

Average per-case revenue in the inpatient and day-case areas rose in the first nine months of 2006 versus the same period of 2005 from € 3,151 to € 3,435 and in the outpatient area from € 78 in 2005 to € 91 in the current financial year. Universitätsklinikum Gießen und Marburg has much higher per-case revenues (€ 4,355 for inpatient cases and € 110 for outpatient cases) than the average within the Group.

At our long-standing facilities, inpatient per-case revenue posted an increase of 4.6%. The growth comes as a result of higher remuneration for implants and a change in accounting of the tax levied for training and education at the middle of 2005, which however are also offset by similarly higher material expenditures and other operating expenses.

Staff

At the reporting date 30 September 2006, the Group employed 30,611 persons, of which 9,677 with the facilities newly consolidated in financial year 2006 (at 31 December 2005: 21,226). Staff numbers declined by 1.4% (- 292) at the facilities consolidated at the end of 2005 and by 3.4% (- 340) at the new facilities. At 30 September 2006 this translates into a decline at the Group of 174 versus 30 June 2006.

Revenues and earnings

During the first nine months of the financial year, revenues rose by € 383.2 million to reach € 1,427.9 million (previous year: € 1,044.7 million). The hospitals newly consolidated in 2006 contributed € 309.9 million to this revenue growth, with Universitätsklinikum Gießen und Marburg accounting for € 280.9 million. Organic growth, i.e. growth adjusted for acquisitions in 2005 and accounting effects, stood at € 39.6 million or 3.6%. The accounting effects concern accounting changes for training and education of € 14.1 million that are not reflected in profit or loss. Looking at the third quarter of 2006, revenues rose from € 356.4 million to € 489.8 million or 37.4% (+ € 133.4 million) compared with the same period in 2005.

Other operating income of € 80.0 million for the first nine months (previous year: € 37.2 million) reflects the net effect of income from ancillary and incidental activities and corresponding expenditures. Of this, Universitätsklinikum Gießen und Marburg accounted for € 38.6 million. In the third quarter other operating income totalled € 26.5 million (previous year: € 12.0 million).

The disproportionate rise in materials and consumables used recorded in the first nine months by € 105.3 million to € 364.9 million (previous year: € 259.6 million) as well as the rise in the cost-of-materials ratio from 24.8% to 25.6% stems from the less favourable structures at the hospitals consolidated for the first time in 2006. The cost-of-materials ratio at the Group's long-standing facilities was kept unchanged at the previous year's level of 24.8% with expenditure increases for medical supplies for material-cost-intensive treatments. In the third quarter materials and consumables used accounted for € 123.8 million (previous year: € 87.2 million) or 25.3% of revenues.

The employee benefits item rose by € 253.6 million to € 842.7 million (previous year: € 589.1 million) or 43.0% and the personnel cost ratio went from 56.4% to 59.0% (+ 4.6%) during the first nine months. Personnel costs at the facilities already consolidated in 2005 totalled € 604.2 million in the first nine months. This corresponds to a personnel cost ratio of 54.0%. By contrast the personnel cost ratio of the first-time consolidated facilities is 77.0%, thus revealing the rationalisation potential. Third-quarter personnel expenditure of € 288.2 million (previous year: € 200.9 million) translates into a personnel cost ratio of 58.8% (previous year: 56.4%).

Other operating expenses of € 138.1 million (previous year: € 84.1 million) recorded a rise in the first nine months to 9.7% of revenues (previous year: 8.1%), with the figure at the newly consolidated hospitals rising to 10.1%. The accounting-related expenditure for training and education of € 14.1 million matched by corresponding revenues is affecting the expenditure ratio of the facilities already consolidated in 2005. The third quarter of the current financial year accounted for € 45.7 million (previous year: € 29.9 million).

In the first nine months we raised EBITDA (earnings before depreciation/amortisation, interest and tax) by € 13.1 million (+ 8.8%) to € 162.2 million (previous year: € 149.1 million). The EBITDA rise at the long-standing hospitals of € 19.8 million in the first nine months was impacted by the negative earnings contribution of € 6.7 million from the newly consolidated hospitals. In the third quarter of 2006, EBITDA stood at € 58.6 million. This corresponds to an increase of € 8.2 million or 16.3% versus the third quarter of 2005.

The depreciation and amortisation expense rose in the first nine months by € 7.1 million to € 51.8 million (previous year: € 44.7 million), thus showing a moderate trend relative to revenues. The depreciation and amortisation ratio is 3.6% (previous year: 4.3%). By contrast, the depreciation and amortisation expense rose in the third quarter of 2006 by € 4.6 million compared with the third quarter of 2005 to € 19.3 million following the completion of new hospital buildings and the commissioning of new large equipment units.

The financial result for the first nine months declined by € 2.3 million to € -14.1 million (previous year: € -11.8 million) as a result of acquisitions and investments. The ratio declined by 0.1% to 1.0% (previous year: 1.1%). Of this, the third quarter of 2005 accounted for € 5.5 million (previous year: € 4.0 million), corresponding to a constant cost-of-financing ratio.

Relative to earnings, income tax rose moderately to by € 0.7 million to € 26.2 million (previous year: € 25.5 million). The tax expenditure of the third quarter stood at € 9.3 million. This is a slight rise of € 0.3 million versus the figure of € 9.0 million for the same quarter of the previous year.

In the first nine months of 2006 we raised net consolidated profit by € 3.0 million or 4.5% to € 70.1 million (previous year: € 67.1 million). In the third quarter of 2006 we raised net consolidated profit to € 24.5 million or + 7.9% compared with the previous year (€ 22.7 million). The result for the first nine months includes the loss at Universitätsklinikum Gießen und Marburg of € 6.5 million posted since transfer of ownership on 1 February 2006. The loss declined from € 3.0 million in the second quarter of 2006 to € 0.9 million in the third quarter. The burdens on earnings were offset by the improvements at our other facilities.

	January through September 2006		2005	
	€ million	%	€ million	%
Revenues	1,427.9	100.0	1,044.7	100.0
Other operating income	80.0	5.6	37.2	3.6
	1,507.9	105.6	1,081.9	103.6
Material and consumables used	364.9	25.6	259.6	24.8
Employee benefits expense	842.7	59.0	589.1	56.4
Other operating expenses	138.1	9.7	84.1	8.1
	1,345.7	94.3	932.8	89.3
Interim result (EBITDA)	162.2	11.3	149.1	14.3
Depreciation/amortisation	51.8	3.6	44.7	4.3
Operating result (EBIT)	110.4	7.7	104.4	10.0
Cost of financing	19.7	1.4	14.1	1.3
Financial income	5.6	0.4	2.3	0.2
Financial result	14.1	1.0	11.8	1.1
Earnings before tax (EBT)	96.3	6.7	92.6	8.9
Income taxes	26.2	1.8	25.5	2.4
Net consolidated profit	70.1	4.9	67.1	6.5
of which				
Minority owners	3.1	0.2	3.2	0.3
Shareholders of RHÖN-KLINIKUM AG	67.0	4.7	63.9	6.2
Earnings per share in €	1.29		1.23	

	July through September 2006		2005	
	€ million	%	€ million	%
Revenues	489.8	100.0	356.4	100.0
Other operating income	26.5	5.4	12.0	3.4
	516.3	105.4	368.4	103.4
Material and consumables used	123.8	25.3	87.2	24.5
Employee benefits expense	288.2	58.8	200.9	56.4
Other operating expenses	45.7	9.3	29.9	8.4
	457.7	93.4	318.0	89.3
Interim result (EBITDA)	58.6	12.0	50.4	14.1
Depreciation/amortisation	19.3	3.9	14.7	4.1
Operating result (EBIT)	39.3	8.1	35.7	10.0
Cost of financing	6.9	1.4	4.9	1.4
Financial income	1.4	0.3	0.9	0.3
Financial result	5.5	1.1	4.0	1.1
Earnings before tax (EBT)	33.8	7.0	31.7	8.9
Income taxes	9.3	1.9	9.0	2.5
Net consolidated profit	24.5	5.1	22.7	6.4
of which				
Minority owners	1.0	0.2	0.9	0.3
Shareholders of RHÖN-KLINIKUM AG	23.5	4.9	21.8	6.1
Earnings per share in €	0.45		0.42	

Investing activities

Investment in the third quarter of 2006 totalled € 45.0 million (previous year: € 35.1 million) and related to new hospital buildings and technical equipment. The rise versus the third quarter of 2005 was € 9.9 million or 28.2%.

	€ million		€ million
Gießen/Marburg	28.4	brought forward	88.1
Bad Neustadt	9.2	Meiningen	4.4
Frankfurt (Oder)	16.2	Leipzig	4.1
Mittelweser Kliniken	12.9	Pforzheim	2.0
Pirna	8.5	Herzberg	1.6
Hildburghausen	7.7	Weißeritztal-Kliniken	1.6
Bad Berka	5.2	Other Sites	9.0
brought forward	88.1	Total	110.8

In the first nine months of financial year 2006 we made total investments of € 321.3 million (previous year: € 234.2 million), of which € 210.5 million for tangible fixed assets acquired on hospital takeovers. Current investments in buildings and technical equipment at our hospitals account for € 110.8 million.

Investment at Universitätsklinikum Gießen und Marburg, in addition to the modernisation of these facilities' medical equipment, also included the takeover and completion of the paediatric heart transplant centre in Gießen (€ 12.3 million) and payments rendered for a particle therapy facility (€ 8.8 million).

Asset and financial structure

As at 30 September 2006 assets recorded a rise of € 366.4 million, from € 1,622.2 million at 31 December 2005 to € 1,988.6 million. Mainly driven by acquisitions, goodwill increased by € 195.3 million and other non-current assets by € 72.1 million. The rise in current assets by € 99.0 million, especially for accounts receivable, was also acquisition-driven.

Following a conversion of debt by a syndicated loan taken out in the first half of the year, non-current assets are now financed by long-term funds at matching maturities. Short-term loan capital of € 246.7 million exceeds short-term financial debts of € 80.9 million.

Versus 31 December 2005 we recorded an investment- and acquisition-induced rise in net debt to banks from € 301.0 million by € 91.4 million to € 392.4 million at 30 September 2006.

Investment obligations under purchase agreements currently total € 619.1 million as at 30 September 2006 (31 December 2005: € 675.2 million). Of this, Universitätsklinikum Gießen und Marburg currently accounts for € 358.2 million. Investment obligations existing as at the last reporting date arising from hospitals acquired in the past have been reduced by investments of € 56.1 million to € 252.1 million as planned.

The Group continues to enjoy stable and sound financial structures.

	30 September 2006		31 December 2005	
	€ million	%	€ million	%
ASSETS				
Non-current assets				
Goodwill and other intangible assets	284.3	14.3	89.0	5.5
Property, plant and equipment	1,044.1	52.5	973.5	60.0
Investment property	5.9	0.3	4.5	0.3
Other financial assets	2.8	0.1	2.7	0.2
	1,337.1	67.2	1,069.7	66.0
Current assets				
Inventories	36.2	1.8	27.8	1.7
Accounts receivable, other receivables and other financial asset	351.2	17.7	257.7	15.8
Current income tax claims	17.4	0.9	12.7	0.8
Cash and cash equivalents	246.7	12.4	254.3	15.7
	651.5	32.8	552.5	34.0
	1,988.6	100.0	1,622.2	100.0
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity				
Subscribed capital	51.8	2.6	51.8	3.2
Capital reserve	37.6	1.9	37.6	2.3
Other reserves	496.6	25.0	436.2	26.9
Net consolidated profit attributable to shareholders of RHÖN-KLINIKUM AG	67.0	3.4	83.7	5.2
Treasury shares	-0.1	0.0	-0.1	0.0
Equity attributable to shareholders of RHÖN-KLINIKUM AG	652.9	32.9	609.2	37.6
Outside owners minority interests in Group equity	36.3	1.8	32.3	2.0
	689.2	34.7	641.5	39.6
Long-term debt				
Financial debt	558.2	28.1	372.0	22.9
Deferred tax liabilities	17.1	0.8	18.2	1.1
Provisions for post-employment benefits	7.5	0.4	12.9	0.8
Other provisions	4.6	0.2	6.1	0.4
Other liabilities	61.0	3.0	6.3	0.4
	648.4	32.5	415.5	25.6
Short-term debt				
Accounts payable	129.1	6.5	79.3	4.9
Current income tax liabilities	16.8	0.8	10.2	0.6
Financial debt	80.9	4.1	184.5	11.4
Other provisions	7.4	0.4	6.3	0.4
Other liabilities	416.8	21.0	284.9	17.5
	651.0	32.8	565.2	34.8
	1,988.6	100.0	1,622.2	100.0

Shareholders' equity developed as shown below:

Statement of changes- in shareholder's equity	Shareholders € million	Minorities € million	Total € million
As at 31 December 2004	545.9	22.8	568.7
Consolidated result for the first nine months of 2005	63.9	3.2	67.1
Dividends paid	- 20.3	- 2.7	- 23.0
Allocation to reserves	0.0	0.0	0.0
Capital contributions	0.0	6.8	6.8
Change in scope of consolidation	0.0	8.8	8.8
As at 30 September 2005	589.5	38.9	628.4
As at 31 December 2005	609.2	32.3	641.5
Consolidated result for the first nine months of 2006	67.0	3.1	70.1
Dividends paid	- 23.3	- 3.2	- 26.5
Allocation to reserves	0.0	0.0	0.0
Capital contributions	0.0	0.0	0.0
Change in scope of consolidation	0.0	4.1	4.1
As at 30 September 2006	652.9	36.3	689.2

Cash flow statement

At 30 September 2006, cash and cash equivalents showed an increase from €137.7 million on 30 September 2005 by € 86.9 million to € 224.6 million. Cash generated from operations totalling € 131.4 million in financial year 2006 compares with net cash used in investing activities of € 194.5 million. Cash generated from financing activities of € 194.9 million largely reflects the conclusion of the syndicated loan and thus the conversion from short-term to long-term financing.

We have further improved our internal financing strength. In the first nine months of financial year 2006, our operating cash flow rose 8.9% to € 122.0 million (previous year: € 112.0 million). In the third quarter of 2006 our operating cash flow rose by € 6.4 million to € 43.8 million or 17.1% compared with the same period in 2005.

January through September	2006 € million	2005* € million
Earnings before taxes	96.3	92.6
Financial result (net)	14.1	11.8
Impairment and losses on disposal of assets	51.9	44.9
	162.3	149.3
Change in net current assets		
Change in inventories	- 1.0	0.4
Change in accounts receivable	- 5.0	8.8
Change in other receivables	44.6	- 3.1
Change in liabilities (excluding financial debts)	- 18.7	4.5
Change in provisions	- 6.0	1.3
Income taxes paid	- 25.1	- 27.3
Interest paid	- 19.7	- 14.1
Cash generated (+) / utilised (-) by operating activities	131.4	119.8
Investments in property, plant and equipment and in intangible assets	- 108.2	- 61.4
Acquisition of subsidiaries, net of cash acquired	- 93.7	- 75.6
Sale of interests in subsidiaries	0.0	0.0
Sale proceeds from disposal of assets	1.9	0.0
Interest received	5.5	2.3
Cash generated (+) / utilised (-) in investing activities	- 194.5	- 134.7
Payments on issuance of a bond		
Payments on contracting of long-term financial debts	236.3	0.0
Repayment of financial debts	- 14.9	100.3
Deposits from minorities	0.0	6.8
Dividend payments to shareholders of RHÖN-KLINIKUM AG	- 23.3	- 20.3
Dividends paid to minority owners	- 3.2	- 2.7
Cash generated (+) / utilised (-) by financing activities	194.9	84.1
Change in cash and cash equivalents	131.8	69.2
Cash and cash equivalents after deduction of short-term financial debts as at 1 January	92.8	68.5
Cash and cash equivalents after deduction of short-term financial debts as at 30 September	224.6	137.7

* Pre-year values adjusted

Bad Neustadt a.d.Saale, 26 October 2006

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT