RHÖN-KLINIKUM AG

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

INTERIM REPORT TO OUR SHAREHOLDERS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003

Summary

We are pleased to present this interim report for the third quarter of 2003, which has been prepared in accordance with the provisions of the International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), using accounting and valuation methods consistent with those used in previous periods.

Taking into account Stadtkrankenhaus Cuxhaven which was acquired earlier this year, we closed the first nine months of 2003 with revenues of € 710.0 million and earnings of € 55.1 million, or € 2.13 per share, which is in line with our expectations. Compared to the same period of the previous year, this translates into an improvement of € 5.8 million, or 11.8 %.

Earnings for the third quarter of 2003 stood at € 18.6 million, a € 0.5 million increase over the second quarter of 2003. If compared to the third quarter of the previous year, Q3 earnings declined by € 2.1 million; this decrease – which we expected – is explained as follows:

		€ million
Improvement in operating result		**+ 1.3**
Extraordinary charges incurred to protect patients from legionella infection in Frankfurt (Oder)	- 0.6	
Redundancy payments to employees	- 0.4	
Increase in tax load, due to absence of dividend-related tax credits, following changes in dividend taxation („Halbeinkünfteverfahren"), and tax rate increases	- 3.1	
Absence of favourable previous-year special influences	- 0.3	- 4.4
Decrease of minority interests in profit	+ 0.7	
Decrease of interests paid and depreciation	+ 0.3	+ 1.0
		- 3.4
Difference in result, compared with previous-year quarter		**- 2.1**

We have been able to expand our operative business basis through acquiring the following hospitals during the first nine months of 2003:

	No. of beds
Stadtkrankenhaus Cuxhaven	286
Kreiskrankenhaus Hammelburg	140
St. Elisabeth-Krankenhaus, Bad Kissingen	196
TOTAL	**622**

The Group now operates a total of 8,719 beds under state hospital planning. The recently acquired hospitals in Hammelburg and Bad Kissingen will be consolidated from 1 January 2004.

We continue to enjoy stable financial structures. We were able to finance all of our year-to-date investments, plus dividend distributions, from the cash flow, besides reducing liabilities to banks by € 20.0 million.

Market developments as a driver of external growth

What we see is a changing privatisation market, driven by the ever more visible effects of the transition to hospital financing based on the DRG system (Diagnosis Related Groups). While this system will entail only minor cuts in the overall volume of hospital financing, it will certainly contribute to increasingly realistic price-value ratios. And as the principle of "money follows performance" tends to take hold of the hospital sector, too, many public hospital owners find themselves faced with a competition that they can hardly win by their own means. For us, the much discussed European Court decision on stand-by duty hours in hospital has meant no more than answering with qualified reactions – this we've already done. For our public competitors, who are locked up in the public wage tariff system, this problem seems to be immensurable, however. The consequences of this, and other challenges that may result from increasing competition, are prompting public hospital owners in increasing numbers to look for alternatives, i.e., to consider privatisation. It is here where we identify considerable growth opportunities for us – although combined with increasing expenses for surveying and selecting those candidates that we believe can be developed.

The stable development of our existing operations during the first three quarters provides a strong platform for what we endeavour: continued qualitative growth. It also confirms our forecast for the whole of financial year 2003 which is expected to close with net consolidated profits clearly in excess of € 70 million.

Patients

During the first nine months of 2003, our hospitals treated 37,001 (10.5 %) more patients than in the same period of the previous year. This increase has resulted from the first consolidation of the hospitals in Pirna, Dohna-Heidenau und Cuxhaven, which contributed a combined total of 27,524 patients, and an increase in patient numbers by 9,477, or 2.7 %, in our other hospitals. Average revenues per case declined to € 1,816, from € 1,856.

January through September	2003	2002
Inpatient and day-case treatments in acute hospitals	192,942	177,219
Inpatient treatments in rehabilitation clinics	4,917	5,096
Outpatient attendances	193,002	171,545
TOTAL	**390,861**	**353,860**

Staff

At 30 September 2003, the Group employed 13,436 persons (at 30 June 2003: 12,904). The first consolidated Cuxhaven hospital added 608 staff to our payroll (at 30 September).

Business performance

Revenues and earnings

2003 third-quarter revenues totalled € 244.2 million, reflecting an increase of € 11.6 Mio (5.0 %) over the previous quarter. Of this, € 7.5 million are accounted for by the first consolidated Cuxhaven hospital, and € 4.1 million by internal growth. Compared to the third quarter of the previous year, revenues rose € 24.2 million, or 11.0 %.

According to expectations, revenues for the first nine months are reflected at € 710.0 million, topping the corresponding previous-year figure by € 58.1 million, or 8.9 %. The first consolidated hospitals (Pirna, Dohna-Heidenau, and Cuxhaven) contributed a combined € 34.8 million to revenue growth during the first three quarters of 2003, while internal growth accounted for € 23.3 million, or approx. 3.6 %.

We recorded a slightly less than proportional increase in material costs in the third quarter of 2003, compared to previous-quarter levels, despite extraordinary expenses of € 0.6 million for technical upgradings, analyses and expert surveys initiated in Frankfurt (Oder) to protect patients against legionella infection. Looking at the past nine months, growth in material costs has continued to slightly exceed revenue growth, which is explained by higher consumption of medical supplies, and increased use of high-priced quality implants. We have initiated appropriate cost containment measures and expect sizeable outcomes before year end.

Q3 personnel expenses increased slightly more than proportionally, compared to both the previous quarter and the previous year. The reasons lie in the cost structures of the hospitals acquired since October 2002. An additional weight on the third quarter of 2003 were redundancy payments of € 0.4 million.

The decrease in depreciations reflects the lower level of acquisition and investing activities.

Other operating expenses and other operating income declined, primarily due to lower insurance benefits and corresponding expenses.

The improved financial result was produced by a combination of lower interest rate levels and use of (free) cash flow for bank debt redemption.

The absence of dividend-related tax credits and the corprate tax rate increase to 26.5 % meant a charge on Q3 results of € 2.6 million and 0.5 million, respectively.

January through September	**2003** € million	%	**2002** € million	%
Revenues	710.0	100.0	651.9	100.0
Other operating income	18.6	2.6	29.6	4.5
	728.6	**102.6**	**681.5**	**104.5**
Cost of materials	173.0	24.4	157.9	24.2
Personnel costs	369.3	52.0	338.3	51.9
Depreciation	35.8	5.0	36.5	5.5
Other operating expenses	56.3	7.9	61.0	9.4
	634.4	**89.3**	**593.7**	**91.0**
	94.2	**13.3**	**87.8**	**13.5**
Financial result	- 10.7	- 1.5	- 12.5	- 1.9
	83.5	**11.8**	**75.3**	**11.6**
Discontinued business activities	0.0	0.0	- 2.3	- 0.4
	83.5	**11.8**	**73.0**	**11.2**
Earnings taxes	- 23.9	- 3.4	- 17.8	- 2.7
	59.6	**8.4**	**55.2**	**8.5**
Minority interests in profit	4.5	0.6	5.9	0.9
Net consolidated profit	**55.1**	**7.8**	**49.3**	**7.6**

This corresponds to earnings per share of € 2.13 (previous year: € 1.89).

July through September	**2003** € million	%	**2002** € million	%
Revenues	244.2	100.0	220.0	100.0
Other operating income	5.6	2.3	12.8	5.8
	249.8	**102.3**	**232.8**	**105.8**
Cost of materials	58.5	24.0	52.9	24.0
Personnel costs	127.6	52.2	114.4	52.0
Depreciation	11.9	4.9	11.4	5.2
Other operating expenses	20.3	8.3	23.1	10.5
	218.3	**89.4**	**201.8**	**91.7**
	31.5	**12.9**	**31.0**	**14.1**
Financial result	- 3.5	- 1.4	- 4.3	- 2.0
	28.0	**11.5**	**26.7**	**12.1**
Discontinued business activities	0.0	0.0	1.0	0.5
	28.0	**11.5**	**27.7**	**12.6**
Earnings taxes	- 8.0	- 3.3	- 4.9	- 2.2
	20.0	**8.2**	**22.8**	**10.4**
Minority interests in profit	1.4	0.6	2.1	1.0
Net consolidated profit	**18.6**	**7.6**	**20.7**	**9.4**

This corresponds to earnings per share of € 0.72 (previous year: € 0.79).

Investing and financing activities

During the first nine months of financial year 2003, the Group invested a total of € 52.0 million [after deduction of public grants under the Hospital Financing Act (KHG)].

	€ million
Uelzen	18.2
Bad Neustadt	7.4
Pirna/Dohna Heidenau	6.1
Cuxhaven	5.6
Attendorn	3.0
Hildburghausen	2.2
Freital	2.1
Bad Berka	1.9
Leipzig	1.8
Wiesbaden	1.1
Other sites	2.6
Total	**52.0**

Financing was effected in full from the cash flow. Commissioning of the new buildings and extensions at our Uelzen and Attendorn sites will take place at the turn of the year, as scheduled.

Structure of assets and liabilities

The first consolidation of the hospitals in Dohna-Heidenau (1 January 2003) and Cuxhaven (1 July 2003) has had the effect of slightly increasing the balance sheet total. The (free) cash flow from operations was fully used for investment financing and scheduled redemption of long-term and short term liabilities to banks. Maturity patterns have improved. Asset coverage by long-term funds increased to 99.9 %, from 93.8 % at the last balance sheet date. Group financial structures continue to be stable and sound.

While efficiency gains in billing procedures have enabled us to reduce debtor accounts to € 148.2 million at 30 September 2003, which is € 10.0 million less than at the close of the previous quarter, year-to-date growth in receivables has continued to outpace revenue growth, the reason being the continuously deteriorating paying morale of the health insurance funds.

	30 September 2003 € million	%	31 December 2002 € million	%
ASSETS				
Long-term assets				
Fixed assets				
- Intangible assets	27.0	2.6	23.4	2.3
- Tangible assets	729.1	69.4	717.9	71.5
- Financial assets	2.0	0.2	2.0	0.2
	758.1	72.2	743.3	74.0
Deferred tax credits	7.3	0.7	8.0	0.8
	765.4	**72.9**	**751.3**	**74.8**
Short-term assets				
Current assets				
- Inventories	15.0	1.4	13.9	1.4
- Receivables from supplies and services	148.2	14.1	128.1	12.8
- Liquid funds	94.5	9.0	89.1	8.9
- Other items	25.0	2.4	20.4	2.0
Prepaid expenses	2.3	0.2	0.6	0.1
	285.0	**27.1**	**252.1**	**25.2**
	1,050.4	**100.0**	**1,003.4**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Long-term capital				
- Equity	469.3	44.7	414.2	41.3
- Minority interests	31.6	3.0	30.6	3.0
- Long-term financial debts	222.9	21.2	219.0	21.8
- Provisions for pensions	9.3	0.9	8.8	0.9
- Deferred tax liabilities	31.6	3.0	32.1	3.2
	764.7	**72.8**	**704.7**	**70.2**
Short-term capital				
- Proposed profit distribution	0.0	0.0	15.2	1.5
- Other provisions	5.5	0.5	4.6	0.5
- Short-term liabilities to banks	92.0	8.8	116.1	11.6
- Liabilities from supplies and services	33.6	3.2	35.1	3.5
- Tax liabilities	13.6	1.3	6.4	0.7
- Other items	140.5	13.4	120.8	12.0
- Deferred income	0.5	0.0	0.5	0.0
	285.7	**27.2**	**298.7**	**29.8**
	1,050.4	**100.0**	**1,003.4**	**100.0**

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

	€ million
Balance at 1 January 2003	**429.4**
Consolidated result for the first nine months of 2003	55.1
	484.5
Dividend distribution	15.2
Balance at 30 September 2003	**469.3**

Ordinary share capital and capital reserves remained unchanged.

Cash flow statement

Cash resources increased by € 5.4 million since the beginning of financial year 2003. While earnings before interests, taxes, depreciation and amortisation (EBITDA) improved by € 0.9 million to € 130.0 million, financing of increased debtor accounts, in particular, led to the cash generated from operations decreasing by € 12.3 million to € 85.3 million. This cash flow was used to fully finance all of our year-to-date investments, totalling € 44.5 million, repayments of liabilities to banks in the amount of € 20.0 million, and dividend distributions to shareholders and minority owners, totalling € 18.7 million.

January – September	**2003** € million	**2002** € million
Earnings before taxes	83.6	72.9
Elimination of financial result	10.7	12.6
Depreciation and book losses on fixed assets	35.7	43.6
EBITDA	**130.0**	**129.1**
Change in inventories	- 0.7	- 0.5
Change in receivables from supplies and services	- 13.3	- 2.6
Change in other receivables	- 1.1	- 5.0
Change in liabilities	1.5	19.1
Change in provisions	1.3	3.3
Other changes	0.0	0.0
Earnings taxes paid	- 19.7	- 30.9
Interests paid	- 12.7	- 14.7
Cash generated by operating activities	**85.3**	**97.8**
Investments in tangible and intangible fixed assets	- 42.9	-144.9
Acquisition of subsidiaries less cash acquired	- 1.6	0.0
Surplus on realisation of fixed assets	1.4	0.0
Interests received	1.9	2.1
Cash utilised in investing activities	**-41.2**	**-142.8**
Change in short-term financial debts	- 24.0	69.4
Change in long-term financial debts	4.0	3.2
Deposits from outside shareholders	0.0	3.8
Dividends paid and dividend distributions to minority owners	- 18.7	- 15.7
Cash generated by financing activities	**-38.7**	**60.7**
Change in liquidity	5.4	15.7
Net cash resources at 1 January	89.1	71.4
Net cash resources at 30 September	**94.5**	**87.1**

Bad Neustadt/Saale, 31 October 2003

RHÖN-KLINIKUM AG

THE BOARD OF MANAGEMENT