RHÖN-KLINIKUM AG

INTERIM REPORT
FIRST QUARTER 2004

Interim report to our shareholders for the first quarter of 2004

Summary and Outlook

The interim report for the first quarter of 2004 has been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS; formerly IAS), using accounting and valuation methods consistent with those used in previous periods.

Group revenues for the first quarter of 2004 increased by 6.7 % to € 248.8 million, mainly due to acquisitions; revenue growth was still in line with our own expectations. A decline in occupancy rates during the months of January and February 2004 has had an impact on revenues. It is most probable that this decline has been prompted by a decrease in patient numbers at independent doctors' practices, following the introduction of what is called the "practice fee"; this has led to a downtrend in referrals. The trend has reversed during March 2004, however.

Consolidated profit at € 18.4 million remained at the previous-year level. Q1 operating results (EBIT) are shown lower at € 29.7 million, compared to € 31.9 million in the previous year. This decline was offset by an improvement in the interest result, a 1.5 % reduction in the corporation tax rate, and lower profit distribution to minorities, following the purchase of another 12.5 % share in Zentralklinik Bad Berka GmbH at the end of financial year 2003.

Whilst the 2004 decline in Q1 operating results must be seen against the background of non-recurring factors of the previous year (insurance benefits of €1.5 million for flood damages), it certainly reflects a disproportionate increase in costs. This is explained by the takeover of the hospitals in Hammelburg and Bad Kissingen, being two important sites that mark the beginning of our deliberate strategy of rounding off healthcare services regionally; we took over loss-making structures. This has resulted in charges being of a temporary nature only of € 0.7 million on 2004 Q1 results. We were not able to offset this loss in Q1 by way of economies across the Group.

We expect that stringent adherence to cost cutting programmes, which we have in place, and tapping existing rationalisation potential will support our revenue target of € 1.0 billion for financial year 2004 – exclusive of further potential takeovers – as well as targeted profits at € 76.0 million.

The Group continues to enjoy stable financial structures. We have been able to fully finance Q1 investments of € 24.1 million from a cash flow of € 32.5 million, shown € 0.5 million higher that in the same period of the previous year.

Effective 1 January 2004, the hospitals in Hammelburg and Bad Kissingen have been included in the scope of consolidation, enhancing the Group's business basis.

	No. of beds
At 1 January 2004	8,299
St. Elisabeth-Krankenhaus GmbH Bad Kissingen	196
Krankenhaus Hammelburg GmbH	140
	8,635

Privatisation bids by willing sellers from all over Germany have dramatically increased in numbers, due to skyrocketing losses in returns on sales.

This has led to the competitive situation among potential buyers easing markedly.

Since buyers are increasingly invited to take over whole regions, our modular blanket-coverage care provision systems – comprising major high-efficiency centres with a range of medical specialties and Tele-Portal Clinics, supplemented by so-called Medical Care Centres, which we will now be able to establish under recent healthcare legislation – have met with increasing acceptance as being a futureoriented enhancement to existing care provision structures.

This has significantly added to the Group's prospects of long-term and sustainable quality growth.

Patients

The combined number of patients treated during the first three months of 2004 increased by 13,195, a gain of 10.3 % over 2003. Of these, 12,085 patients are accounted for by the hospitals in Cuxhaven, Hammelburg and Bad Kissingen, which had not been consolidated yet in the same period of the past year. Adjusted for changes in the scope of consolidation, the number of patients increased by 1,110, reflecting a decrease of 1,292 admissions in inpatient services, and an increase of 2,402 attendances in outpatient services.

We recorded unexpected losses in occupancy during the first two months of the year, most probably due to patients refraining from consulting their GPs or specialists, following the introduction of the so-called „practice fee", which led to reduced referral numbers in the area of eligible hospital treatments. Since this trend reversed in March, and knowing that postponed eligible treatments were responsible for that decline, we expect to be able to make up for occupancy losses during the current year.

Another factor affecting patient numbers was the change in statistical counting of recurring patients (i.e., re-admission of patients with the same conditions within 30 days, now considered as one single case) from 2004. We estimate this effect to be 2.0 % of total patient numbers.

Average per-case revenues declined to 1,758 €, or 3.3 %, compared to last year's 1,817 €, underpinning the downward trend that has persisted for years.

January through March	2004	2003
Inpatient and day-case treatments, acute hospitals	69,482	65,677
Inpatients, rehabilitation clinics	1,729	1,657
Outpatient attendances	70,295	60,977
Total	**141,506**	**128,311**

Staff

At 31 March 2004, the Group employed 13,801 persons (31 December 2003: 13,408). The newly acquired hospitals in Hammelburg an Bad Kissingen, together with modest increases at Group headquarters, added 561 staff to our payroll.

Business development

Revenues and earnings

The Group posted revenues of € 248.8 million for the first three months of 2004, which is still in line with internal revenue targets. € 13.0 million of this increase were accounted for by our first consolidated hospitals in Cuxhaven, Hammelburg and Bad Kissingen, while € 2.6 million were attributable to internal growth.

The decline in 2004 Q1 operating results (€ 29.7 million, versus € 31.9 million in the same period of the previous year) was partially due to non-recurring income (insurance benefits of € 1.5 million) with influence on 2003 operating results, but must also be seen against the background of considerable cost cutting potential which we have not yet been able to use satisfactorily during the first quarter of 2004.

Cost of materials benefited from purchase price reductions negotiated group-wide; however, these were largely neutralised by increased consumption of medical supplies and costly implants. We are increasingly confronted with suppliers' strategies of supplementing low-margin products by high-priced true – or pretended – product innovations. The decision about using such products falls within the responsibility of our medical professionals, as they are totally free to determine which therapy to apply in each case. But – it is also true that the development of qualified and objective valuation methods for product innovations actually fails to keep pace with ever-shortening product cycles.

We recorded a disproportionately high increase in personnel costs, exclusively due to still unfavourable staffing/personnel cost structures at Group hospitals acquired effective from July 2003. It is here where we expect significant rationalisation gains in the course of the current year.

Depreciation increased, mainly due to the commissioning of our new hospital building in Uelzen, which we financed in full from own means.

We took benefit in interest rate developments, bringing the balance of interest to € 3.3 million, down € 0.5 million from last year's € 3.8 million.

The 1.5 % reduction in the corporation tax rate has contributed to alleviating the earnings tax load.

Minorities' share in profit has been influenced by the acquisition of another 12.5 % share in Zentralklinik Bad Berka GmbH at the end of financial year 2003.

January through March	2004		2003	
	€ million	%	€ million	%
Revenues	248.8	100.0	233.2	100.0
Other operating income	6.0	2.4	6.9	3.0
	254.8	**102.4**	**240.1**	**103.0**
Cost of materials	61.5	24.7	57.8	24.8
Personnel costs	130.8	52.6	120.7	51.8
Depreciation	13.2	5.3	12.0	5.1
Other operating expenses	19.6	7.9	17.7	7.6
	225.1	**90.5**	**208.2**	**89.3**
	29.7	**11.9**	**31.9**	**13.7**
Financial result	- 3.3	- 1.3	- 3.8	- 1.6
Earnings before taxes	**26.4**	**10.6**	**28.1**	**12.1**
Taxes on earnings	7.1	2.9	8.1	3.5
	19.3	**7.7**	**20.0**	**8.6**
Minority interests in profit	0.9	0.4	1.6	0.7
Net consolidated profit	**18.4**	**7.3**	**18.4**	**7.9**

This corresponds to earnings per share of € 0.71 (previous year: € 0.71).

Investing and financing activities

During the first three months of financial year 2004, the Group invested a total of € 24.1 million. Of this, an amount of € 12.2 million (after deduction of public grants under the Hospital Financing Act (KHG) went into new acquisitions, including the hospitals in Hammelburg and Bad Kissingen.
Current capital expenditure breaks down by locations as shown below:

	€ million
Attendorn	1.7
Herzzentrum Leipzig	1.5
Hildburghausen	1.4
Frankfurt (Oder)	1.4
Freital	1.1
Mittelweser Kliniken	0.9
Bad Berka	0.7
Uelzen	0.5
Other	2.7
Total	**11.9**

Financing was effected in full from the cash flow.

Structure of assets and liabilities

The first consolidation of newly acquired hospitals has had a minor effect (+2.0 %) on the balance sheet total. Balance sheet ratios largely remained unchanged. Switching into long-term maturities has helped increase asset coverage by long-term funds to 94.3 %. The Group's financial structures continue to be stable and sound. Receivables from services rendered increased by € 15.8 million, or 10.6 %, which is more than proportional to revenues and performance. The mandatory introduction of the new DRG-based compensation system at the beginning of financial year 2004 has led to increased controlling and tuning requirements – with corresponding retarding effects on billing – in hospitals that have not been able to make use of the opportunity of applying the new compensation system on a voluntary basis during the past year. We expect notable improvements during the current business year.

	31 March 2004		31 December 2003	
	€ million	%	€ million	%
ASSETS				
Long-term assets				
Fixed assets				
- Intangible assets	46.3	4.1	44.8	4.0
- Tangible assets	766.8	67.9	757.8	68.3
- Financial assets	2.3	0.2	2.0	0.2
	815.4	72.2	804.6	72.5
Deferred tax credits	7.4	0.7	7.2	0.6
	822.8	**72.9**	**811.8**	**73.1**
Short-term assets				
Current assets				
- Inventories	16.4	1.5	15.5	1.4
- Receivables from supplies and services rendered	165.5	14.6	149.7	13.5
- Liquid funds	88.3	7.8	101.8	9.2
- Other items	33.3	2.9	29.5	2.7
Prepaid expenses	3.7	0.3	0.7	0.1
	307.2	**27.1**	**297.2**	**26.9**
	1,130.0	**100.0**	**1,109.0**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Long-term capital				
Equity	487.9	43.2	469.5	42.3
Minority interests	21.7	1.9	20.9	1.9
Long-term financial debts	217.9	19.3	179.8	16.2
Provisions for pensions	10.0	0.9	9.2	0.8
Deferred tax liabilities	31.6	2.8	31.7	2.9
	769.1	**68.1**	**711.1**	**64.1**
Short-term capital				
Proposed profit distribution	17.8	1.6	17.8	1.6
Other provisions	7.1	0.6	5.1	0.5
Short-term liabilities to banks	109.9	9.7	138.0	12.4
Liabilities from supplies and services	54.7	4.8	60.1	5.4
Tax liabilities	10.5	0.9	10.1	1.0
Other items	160.4	14.3	166.3	15.0
Deferred income	0.5	0.0	0.5	0.0
	360.9	**31.9**	**397.9**	**35.9**
	1,130.0	**100.0**	**1,109.0**	**100.0**

Shareholders' equity developed as shown below:

	€ million
At 31 December 2003	**487.3**
Consolidated result for the first three months of 2004	18.4
At 31 March 2004	**505.7**
Deduct: proposed dividend distribution	17.8
Long-term equity at 31 March 2004	**487.9**

Ordinary share and capital reserves remained unchanged.

Cash flow statement

Cash resources have decreased by € 13.5 million since the beginning of the current year. Cash generated from operations plus interests received and income from the disposal of fixed assets, amounting to € 29.0 million, compares with cash utilised in investments in tangible and intangible fixed assets as well as acquisitions of subsidiaries, totalling € 20.6 million, and loan redemption of € 21.9 million.

Operating cash flow generated during the first quarter of 2004 is shown slightly higher at € 32.5 million, compared to € 32.0 million for the same period of the previous year.

January through March	**2004**	**2003**
	€ million	€ million
Earnings before taxes	26.4	28.1
Elimination of financial result	3.3	3.8
Depreciation and book losses on fixed assets	13.2	12.0
EBITDA	**42.9**	**43.9**
Change in inventories	- 0.2	0.3
Change in receivables from supplies and services	- 12.9	- 25.9
Change in other receivables	1.2	- 1.7
Change in liabilities	8.4	13.3
Change in provisions	0.3	0.1
Other changes	0.0	0.0
Earnings taxes paid	- 7.5	- 5.7
Interests paid	- 3.7	- 4.4
Cash generated by operating activities	**28.5**	**19.9**
Investments in tangible and intangible fixed assets	- 18.5	- 16.8
Acquisition of subsidiaries less cash acquired	- 2.1	0.0
Disposal proceeds	0.1	0.4
Disposal proceeds	0.4	0.6
Cash utilised in investing activities	**-20.1**	**- 15.8**
Change in short-term financial debts	- 58.5	6.7
Change in long-term financial debts	36.6	- 2.2
Deposits from outside shareholders	0.0	0.0
Dividends paid and dividend distributions to minority shareholders	0.0	0.0
Cash generated by financing activities	**-21.9**	**4.5**
Change in liquidity	- 13.5	8.6
Net cash resources at 1 January	101.8	89.1
Net cash resources at 31 March	**88.3**	**97.7**

Bad Neustadt/Saale, 29 April 2004

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT