



RHÖN-KLINIKUM AG

INTERIM REPORT
FIRST HALF 2004

Interim report to our shareholders for the six months ended 30 June 2004

Review and Outlook

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

The results for the first six months of financial year 2004 were somewhat below our expectations: revenues rose by 7.1% to € 498.8 million and net consolidated profit improved by 1.6% to reach € 37.1 million (or € 1.43 per share). Operating earnings (EBIT) saw a decline to € 60.1 million from € 62.7 million last year, but this was offset by an improved interest result (€ 0.9 million), lower taxes on earnings (€ 1.0 million) and declining minority interests (€ 1.3 million). The decline in operating earnings was influenced by special factors from the previous year (indemnifications for flood damage totalling € 1.6 million), but was brought about – with the exception of the materials area – by disproportionate cost increases.

In the second quarter of 2004 we achieved revenues of € 250.0 million and a net consolidated profit of € 18.7 million (previous year: € 18.1 million), but in the area of operating earnings we still come short of the previous year's figure by € 0.3 million.

In the current financial year 2004 we expect our rationalisation measures and cost-cutting potential to bite and the successes already achieved to continue with a multiplier effect, thus enabling us to meet our profit forecast of € 76.0 million.

We continue to enjoy stable financial structures. We were able to fully finance our investments of € 38.8 million from an operating cash flow which had expanded by € 2.1 million to € 65.6 million. In addition, we reduced our short-term debt by 20.4% and stepped up our long-term financing.

By the beginning of July 2004 we successfully concluded the contractual negotiations on the acquisition of the municipal hospitals Städtisches Krankenhaus Eisenhüttenstadt, Städtisches Klinikum Pforzheim as well as Städtisches Krankenhaus Hildesheim. With effectiveness of the purchase agreements, the hospitals belonging to the Group will increase to 33 at a total of 25 locations. For 2003 the following structural data are available for these hospitals:

	Approved beds number	Revenues in € million	Number of employees
Städtisches Krankenhaus Eisenhüttenstadt gGmbH	284	25	497
Städtisches Klinikum Pforzheim	602	69	1,360
Städtisches Krankenhaus Hildesheim gGmbH	603	64	1,260
	1,489	158	3,117

Krankenhaus Eisenhüttenstadt ensures basic care for the city of Eisenhüttenstadt and for the catchment region of Oder-Spree. Together with our major centre in Frankfurt (Oder), this will enable us to establish structures for generalised healthcare delivery ensuring that high-quality hospital services are sustained in the long term.

Städtisches Klinikum Pforzheim is an academic training hospital of the University of Heidelberg and has over nine specialist fields and five medical institutes. For this centralised care facility we are planning extensive investments to optimise clinical structures, thus ensuring the further development of the services range.

With the takeover of Städtisches Krankenhaus Hildesheim, RHÖN-KLINIKUM AG expands its presence in Lower Saxony to six clinics. As a new Group subsidiary, this regional hospital will receive significant investment to turn it into a modern health care centre in the catchment area formed by the triangle of cities Hanover, Braunschweig and Göttingen.

For the second half of 2004 we expect further acquisitions since our approach of pro-active, investment-backed change is meeting with increasing acceptance. This means that short-lived solutions relating purely to changes in management are becoming more and more de-emphasised as our prospects for qualified growth sustained over the long term rise.

Patients

During the first six months of this year our hospitals treated 280,727 patients. This represents a rise of 27,129 patients (+10.7%) compared with the same period last year. Of these, 24,983 were accounted for by the clinics in Cuxhaven, Hammelburg and Bad Kissingen which had not yet been consolidated during the same period of the previous financial year. On an adjusted basis, then, patient numbers increased by 2,146. This figure results from a decline in the inpatient area of 2,002 patients and a growth in the outpatient area of 4,148 patients.

The numbers were also impacted by the change in the statistical reporting of recurring patients (i.e. re-admission of patients with the same conditions within 30 days, now considered as a single case) from 2004. We put this statistical discount at almost 2.0%.

Average revenue per case went from € 1,837 to € 1,777, corresponding to a decline of 3.3%.

January through June	2004	2003
Inpatient and day-case treatments in acute hospitals	136,697	128,496
Inpatient treatments in rehabilitation clinics	3,482	3,344
Outpatient attendances	140,548	121,758
TOTAL	280,727	253,598

Staff

At 30 June 2004, the Group employed 13,767 persons (at 31 March 2004: 13,801).

Business performance

Revenues and earnings

Revenues in the second quarter of 2004 stood at € 250.0 million, slightly exceeding the level of the first quarter. This brings revenues to € 498.8 million for the first six months, which is very close to our expectations. The first-time consolidated clinics of Cuxhaven, Hammelburg and Bad Kissingen contributed € 26.7 million to growth in revenues. Internal growth was € 6.3 million (1.4%).

The underproportionate trend in material expenditure over the quarter and the first half accompanied at the same time by an increase in consumption and the greater use of higher-priced implants reflects the success of increased cost cutting measures.

The rise in personnel expenses in the second quarter of 2004 was disproportionate to both the previous year and the previous quarter owing to a broadening of the Group's top level of management and centralised divisions as well as wage increases at some of our hospitals.

The rise in depreciation versus the second quarter of 2003 and the first half of 2003 above all relates to our self financed (= without public subsidies and thus with less state influence) capital expenditure for the new facility in Uelzen (€ 1.5 million) and scheduled goodwill amortisation in connection with the increased participation in Zentralklinik Bad Berka (€ 0.5 million).

Other operating expenditure saw disproportionate growth due above all to increased repair and maintenance measures and higher value adjustments on receivables.

The improved interest result was achieved on the back of favourable interest rates.

Changes in taxation brought an improvement in earnings overall. The reduction in the corporate tax rate by 1.5% to 25.0% was set against tax increases in connection with the standard 5.0% non-deductibility of pay-outs by subsidiaries.

The acquisition of the share (12.5%) in Zentralklinik Bad Berka at the end of financial year 2003 brought about a decline in earnings to other shareholders.

January through June	2004		2003	
	€ million	%	€ million	%
Revenues	498.8	100.0	465.8	100.0
Other operating income	14.0	2.8	13.0	2.8
	512.8	102.8	478.8	102.8
Cost of materials	120.9	24.2	114.6	24.6
Personnel costs	263.4	52.8	241.7	51.9
Depreciation	26.7	5.4	23.9	5.1
Other operating expenses	41.7	8.4	35.9	7.7
	452.7	90.8	416.1	89.3
	60.1	12.0	62.7	13.5
Financial result	- 6.3	- 1.2	- 7.2	- 1.5
Earnings before tax	53.8	10.8	55.5	12.0
Earnings taxes	14.9	3.0	15.9	3.4
	38.9	7.8	39.6	8.6
Minority interests in profit	1.8	0.4	3.1	0.7
Net consolidated profit	37.1	7.4	36.5	7.9

This corresponds to earnings per share of € 1.43 (previous year: € 1.41).

April through June	2004		2003	
	€ million	%	€ million	%
Revenues	250.0	100.0	232.6	100.0
Other operating income	8.0	3.2	6.2	2.7
	258.0	103.2	238.8	102.7
Cost of materials	59.4	23.8	56.7	24.4
Personnel costs	132.6	53.0	121.0	52.0
Depreciation	13.5	5.4	11.9	5.1
Other operating expenses	22.0	8.8	18.4	7.9
	227.5	91.0	208.0	89.4
	30.5	12.2	30.8	13.3
Financial result	- 3.1	- 1.2	- 3.4	- 1.5
Earnings before tax	27.4	11.0	27.4	11.8
Earnings taxes	- 7.8	- 3.1	- 7.8	- 3.4
	19.6	7.9	19.6	8.4
Minority interests in profit	0.9	0.4	1.5	0.6
Net consolidated profit	18.7	7.5	18.1	7.8

This corresponds to earnings per share of € 0.72 (previous year: € 0.70).

Investing and financing activities

During the first six months of financial year 2004, the Group invested a total of € 38.8 million (after deduction of public grants under the Hospital Financing Act). Of this, the newly acquired facilities in Hammelburg and Bad Kissingen accounted for € 12.2 million. The total volume including public grants was € 69.2 million. Current investments concern the construction of new buildings and extensions as well as capital expenditure at the following locations:

	€ million
Hildburghausen	6.2
Frankfurt (Oder)	4.0
Herzzentrum Leipzig	3.0
Bad Berka	2.9
Freital	2.4
Attendorn	1.5
Mittelweser Kliniken	1.2
Park-Krankenhaus Leipzig	0.5
DKD Wiesbaden	0.5
Other	4.4
TOTAL	26.6

Structure of assets and liabilities

Our assets are virtually unchanged in terms of maturity and amount.

We reduced our short-term debt by € 81.3 million (20.4%) and stepped up our long-term financing. Long-term financing has improved asset coverage from 88.4% to 96.3%. The equity ratio rose from 42.3% to 46.0%.

Financing for the acquisition of further shares (12.5%) in Zentralklinik Bad Berka at the beginning of financial year 2004 led to a rise in net debt to banks by € 21.6 million to € 237.6 million.

	30 June 2004		31 December 2003	
	€ million	%	€ million	%
ASSETS				
Long-term assets				
Fixed assets				
- Intangible assets	45.3	4.1	44.8	4.0
- Tangible assets	767.4	69.7	757.8	68.3
- Financial assets	2.3	0.2	2.0	0.2
	815.0	74.0	804.6	72.5
Deferred tax credits	6.9	0.6	7.2	0.6
	821.9	74.6	811.8	73.1
Short-term assets				
Current assets				
- Inventories	16.7	1.5	15.5	1.4
- Receivables from supplies and services	158.3	14.4	149.7	13.5
- Liquid funds	66.1	6.0	101.8	9.2
- Other items	33.6	3.1	29.5	2.7
Deferred income	4.7	0.4	0.7	0.1
	279.4	25.4	297.2	26.9
	1,101.3	100.0	1,109.0	100.0
SHAREHOLDERS' EQUITY AND LIABILITIES				
Long-term capital				
Equity	506.6	46.0	469.5	42.3
Minority interests	20.8	1.9	20.9	1.9
Long-term financial debts	215.6	19.6	179.8	16.2
Provisions for pensions	10.3	0.9	9.2	0.8
Deferred tax liabilities	31.4	2.9	31.7	2.9
	784.7	71.3	711.1	64.1
Short-term capital				
Proposed profit distribution	17.8	1.6	17.8	1.6
Other provisions	6.8	0.6	5.1	0.5
Short-term liabilities to banks	88.1	8.0	138.0	12.4
Liabilities from supplies and services	43.3	3.9	60.1	5.4
Tax liabilities	10.8	1.0	10.1	1.0
Other items	149.3	13.6	166.3	15.0
Deferred income	0.5	0.0	0.5	0.0
	316.6	28.7	397.9	35.9
	1,101.3	100.0	1,109.0	100.0

Shareholders' equity developed as shown below:

	€ million
Balance at 31 December 2003	487.3
Consolidated result for the first half of 2004	37.1
Balance at 30 June 2004	524.4
Less proposed distribution amounts	17.8
Net long-term equity at 30 June 2004	506.6

Ordinary share capital and capital reserves remained unchanged.

Cash flow statement

Cash resources have decreased by € 35.7 million since the beginning of financial year 2004. The cash generated from operations of € 46.5 million, which includes interest received and surplus on the realisation of fixed assets, is set against payments for investments in tangible assets and intangible assets (€ 31.0 million), for the acquisition of subsidiaries (€ 2.1 million), pay-outs to minority shareholders (€ 2.0 million) and a reduction in financial debt (€ 47.1 million).

In the first half of 2004 we generated an operating cash flow of € 65.6 million (previous year: € 63.5 million). This gives us the wherewithal to retain our competitive position when it comes to taking decisions relating to investment and acquisitions.

January through June	2004	2003
	€ million	€ million
Earnings before taxes	53.8	55.5
Elimination of financial result	6.3	7.2
Depreciation and book losses on fixed assets	26.7	23.9
EBITDA	86.8	86.6
Change in inventories	- 0.4	- 0.2
Change in receivables from supplies and services	- 5.7	- 28.6
Change in other receivables	- 5.5	- 0.9
Change in liabilities	- 15.0	- 7.0
Change in provisions	0.3	0.3
Earnings taxes paid	- 9.3	- 10.5
Interest paid	- 7.1	- 8.7
Cash generated (+) / utilised (-) by operating activities	44.1	31.0
Investments in tangible and intangible fixed assets	- 31.0	- 28.8
Acquisition of subsidiaries less cash acquired	- 2.1	0.0
Surplus on realisation of fixed assets	1.6	0.4
Interest received	0.8	1.5
Cash generated (+) / utilised (-) in investing activities	- 30.7	- 26.9
Change in short-term financial debts	- 80.3	- 11.9
Change in long-term financial debts	33.2	- 3.1
Dividends paid and dividend distributions to minority owners	- 2.0	- 3.5
Cash generated (+) / utilised (-) by financing activities	- 49.1	- 18.5
Change in liquidity	- 35.7	- 14.4
Net cash resources at 1 January	101.8	89.1
Net cash resources at 30 June	66.1	74.7

Bad Neustadt/Saale, 22 July 2004

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT