RHÖN-KLINIKUM AG

INTERIM REPORT
FOR THE PERIOD FROM
1 JANUARY TO 30 SEPTEMBER 2004

Interim report to our shareholders for the nine months ended 30 September 2004

Review and Outlook

We are pleased to present this interim report which 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. Under IFRS 3, goodwill acquired on or after 31 March 2004 will no longer be amortised. We have continued amortisation of goodwill acquired before that time.

In the first nine months of financial year 2004, revenues rose by 9.04% to € 774.2 million (previous year: € 710.0 million) and net consolidated profit was up 2.54% at € 56.5 million (previous year: € 55.1 million) (translating into € 2.18 per share). This is still below our expectations. Operating earnings (EBIT) declined to € 91.6 million (previous year: € 94.2 million), but this was offset by an improved interest result (€ 1.2 million), lower taxes on earnings (€ 0.9 million) and declining minority interests (€ 1.9 million). The reason for the decline in operating earnings was the disproportionate rise in costs (to some extent acquisition-induced) coupled with price pressures from budget ceilings.

In the third quarter of 2004 we achieved revenues of € 275.4 million (previous year: € 244.2 million) and a net consolidated profit of € 19.4 million (previous year: € 18.6 million), translating into a marginal improvement for operating earnings over the same period last year.

We continue to enjoy sound financial structures. We have been able to finance the rising acquisition-induced investments of € 112.9 million largely from our operating cash flow of € 99.3 million. The maturity patterns for assets and capital are virtually unchanged.

We continue to regard our forecast for a profit of € 76.0 million in financial year 2004 as achievable given the trend of rising operating earnings and have redoubled our efforts to this end.

Acquisitions

The third quarter of 2004 saw the first-time consolidation of the following hospitals:

	Date consolidated	No. of clinics	Approved beds
At 30 June 2004 (updated)		**30**	**8,609**
Städtisches Krankenhaus Eisenhüttenstadt	1 July 2004	1	326
Städtisches Krankenhaus Pforzheim	1 July 2004	1	602
Krankenhäuser des Landkreises Rhön-Grabfeld	1 September 2004	2	278
At 30 September 2004		**34**	**9,815**

Growth is continuing, and by the middle of October we completed negotiations on the acquisition of three further hospitals. These will be consolidated from the beginning of financial year 2005. The structural data of the hospitals are as follows:

	Approved beds	Revenues 2003 € million	Number of employees 2003
Städtisches Krankenhaus Hildesheim	570	64.0	1,260
Kreiskrankenhaus Gifhorn	360	40.9	561
Städtisches Krankenhaus Wittingen	71	5.0	77
	1,001	**109.9**	**1,898**

The takeover of the hospitals in Gifhorn and in Wittingen enhances our presence in Lower Saxony already established by Städtisches Krankenhaus in Hildesheim. We expect restructuring accompanied by ample investments to be rewarded by substantial synergies.

Currently we are favourably positioned for further acquisition projects. We are meeting with increasing acceptance by sellers that proven expertise combined with a pro-active and investment-backed transformation process is what preserves a facility in the long term and is the real guarantor of job security. We can now look ahead to greater opportunities for qualified and buoyant long-term growth.

Patients

In the first nine months of financial year 2004, our hospitals treated 57,739 (14.8%) more patients than in the same period of the previous year. Of these, 56,641 patients were contributed by our hospital facilities consolidated for the first time from the third quarter of 2003. An increase of 1,098 patients or 0.3% is fully accounted for by the outpatient area and our rehabilitation clinics.

Case numbers in our acute hospitals were virtually flat versus 2003 owing to the impact of the new statistical reporting method applying from 2004 under which patients re-admitted within 30 days are now considered as a single case. The old reporting method would have yielded roughly 2% higher case numbers.

Average per-case revenue declined from € 1,816 to € 1,726.

January through September	**2004**	**2003**
Inpatient and day-case treatments, acute hospitals	214,484	192,942
Inpatients, rehabilitation clinics	5,338	4,917
Outpatient attendances	228,778	193,002
TOTAL	**448,600**	**390,861**

Staff

At 30 September 2004, the Group employed 16,057 persons (at 30 June 2004: 13,767), with 2,337 employees added from the first-time consolidation of the newly acquired hospitals.

Business performance

Revenues and earnings

Revenues in the third quarter of 2004 stood at € 275.4 million, exceeding the second quarter of 2004 by € 25.4 million. This brings revenues to € 774.2 million for the first nine months, which still does not quite meet our expectations. In financial year 2004 the first-time consolidated hospitals contributed revenues of € 58.9 million. Organic growth of our other hospitals declined from 1.4% to 0.7% versus the first half of 2004.

Material expenditure witnessed a slightly disproportionate rise in the third quarter of 2004 with the ratio of long-standing facilities in decline and that of new facilities initially being high. Lowering cost-of-materials ratios is a task of primary importance in the takeover of hospitals, offering considerable potential.

The trend in personnel expenses was also disproportionately high in the first nine months of 2004 as a result of the hospital takeovers; without these effects the personnel cost ratio in the first nine months of 2004 would have declined by 0.3% to 51.7% compared with the same period last year. This is also one of the areas we see as having rationalisation potential, albeit medium-term given the social responsibility attending the measures.

Depreciations developed as planned. Increases versus the previous year primarily relate to our new hospital in Uelzen commissioned at the beginning of the year and financed in full from our own means as well as to higher goodwill amortisation.

The slightly disproportionately trend in other operating expenditure is attributable to repair and maintenance measures and value adjustments on receivables.

Operating earnings in the third quarter of 2004 reached € 31.6 million, slightly exceeding the year-earlier figure. This brings operating earnings for the first nine months of 2004 to € 91.6 million, which is still € 2.6 million lower than in the previous year (€ 94.2 million).

Our financial result was helped by favourable interest rate levels.

Earnings were helped by amendments in tax legislation with a 1.5% cut in the corporate tax rate to 25.0%, but at the same time were burdened in connection with the standard 5.0% non-deductibility applied to pay-outs by subsidiaries.

The take of minority interests in profit declined as our interest in Zentralklinik Bad Berka GmbH was raised at the end of 2003 (by 12.5% to 87.5%).

January through September	**2004**		**2003**	
	€ million	%	€ million	%
Revenues	774.2	100.0	710.0	100.0
Other operating income	20.8	2.7	18.6	2.6
	795.0	**102.7**	**728.6**	**102.6**
Cost of materials	188.8	24.4	173.0	24.4
Personnel costs	409.6	52.9	369.3	52.0
Depreciation	40.2	5.2	35.8	5.0
Other operating expenses	64.8	8.4	56.3	7.9
	703.4	**90.9**	**634.4**	**89.3**
Operating earnings	**91.6**	**11.8**	**94.2**	**13.3**
Financial result	- 9.5	- 1.2	- 10.7	- 1.5
Earnings before tax	**82.1**	**10.6**	**83.5**	**11.8**
Earnings taxes	- 23.0	- 3.0	- 23.9	- 3.4
	59.1	**7.6**	**59.6**	**8.4**
Minority interests in profit	2.6	0.3	4.5	0.6
Net consolidated profit	**56.5**	**7.3**	**55.1**	**7.8**

The earnings-per-share figure is € 2.18 (previous year: € 2.13).

July through September	**2004**		**2003**	
	€ million	%	€ million	%
Revenues	275.4	100.0	244.2	100.0
Other operating income	6.8	2.5	5.6	2.3
	282.2	**102.5**	**249.8**	**102.3**
Cost of materials	67.9	24.7	58.5	24.0
Personnel costs	146.1	53.1	127.6	52.2
Depreciation	13.5	4.9	11.9	4.9
Other operating expenses	23.1	8.4	20.3	8.3
	250.6	**91.1**	**218.3**	**89.4**
Operating earnings	**31.6**	**11.4**	**31.5**	**12.9**
Financial result	- 3.2	- 1.2	- 3.5	- 1.4
Earnings before tax	**28.4**	**10.2**	**28.0**	**11.5**
Earnings taxes	- 8.2	- 3.0	- 8.0	- 3.3
	20.2	**7.2**	**20.0**	**8.2**
Minority interests in profit	0.8	0.3	1.4	0.6
Net consolidated profit	**19.4**	**6.9**	**18.6**	**7.6**

The earnings-per-share figure is € 0.75 (previous year: € 0.72).

Investing activities

During the first nine months of financial year 2004, the Group invested a total of € 126.6 million, of which € 13.7 million came from public grants. Investments are split as follows:

	€ million
Total investment	**126.6**
o.w. financed from public grants	13.7
Net investment	**112.9**
fixed assets acquired in hospital takeovers	72.2
Other investment	**40.7**

Other investments concern the construction of new buildings and extensions as well as capital expenditure at the following locations:

	€ million
Hildburghausen	7.6
Frankfurt (Oder)	6.6
Bad Neustadt	5.2
Herzzentrum Leipzig	4.1
Bad Berka	3.8
Bad Kissingen	3.1
Freital	2.9
Attendorn	2.3
Mittelweser Kliniken	1.9
Park-Krankenhaus Leipzig	0.7
DKD Wiesbaden	0.8
Other locations	1.7
TOTAL	**40.7**

Structure of assets and liabilities

The first-time consolidation of the newly acquired hospitals changed the balance sheet total only marginally by 8.0%, with maturity patterns for assets and capital left virtually unchanged.

We have stepped up our long-term financing and reduced our short-term borrowings. Long-term financing has improved asset coverage from 88.4% to 91.2%. With a view to financing future growth, we will once again strengthen our long-term capital structures in the foreseeable future by taking out further long-term loans.

The equity ratio rose from 42.3% to 43.9%.

	30 September 2004 € million	%	31 December 2003 € million	%
ASSETS				
Long-term assets				
Fixed assets				
- Intangible assets	56.1	4.7	44.8	4.0
- Tangible assets	817.0	68.2	757.8	68.3
- Financial assets	2.3	0.2	2.0	0.2
	875.4	73.1	804.6	72.5
Deferred tax credits	6.8	0.6	7.2	0.6
	882.2	**73.7**	**811.8**	**73.1**
Short-term assets				
Current assets				
- Inventories	19.7	1.6	15.5	1.4
- Receivables from supplies and services	173.3	14.5	149.7	13.5
- Liquid funds	59.9	5.0	101.8	9.2
- Other items	57.9	4.8	29.5	2.7
Prepaid expenses	4.2	0.4	0.7	0.1
	315.0	**26.3**	**297.2**	**26.9**
	1,197.2	**100.0**	**1,109.0**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Long-term capital				
Equity	526.0	43.9	469.5	42.3
Minority interests	21.6	1.8	20.9	1.9
Long-term financial debts	208.7	17.4	179.8	16.2
Provisions for pensions	10.6	0.9	9.2	0.8
Deferred tax liabilities	31.4	2.6	31.7	2.9
	798.3	**66.6**	**711.1**	**64.1**
Short-term capital				
Proposed profit distribution	0.0	0.0	17.8	1.6
Other provisions	8.9	0.7	5.1	0.5
Short-term liabilities to banks	82.2	6.9	138.0	12.4
Liabilities from supplies and services	48.6	4.1	60.1	5.4
Tax liabilities	12.8	1.1	10.1	1.0
Other items	245.8	20.5	166.3	15.0
Deferred income	0.6	0.1	0.5	0.0
	398.9	**33.4**	**397.9**	**35.9**
	1,197.2	**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 nine months of 2004	56.5
At 30 September 2004	**543.8**
Dividend distribution	17.8
Long-term equity at 30 September 2004	**526.0**

Ordinary share capital and capital reserves remained unchanged.

Cash flow statement

Cash resources have decreased by € 41.9 million since the beginning of financial year 2004. Cash generated from operations (€ 94.5 million), which includes interest received, surplus on the realisation of fixed assets and cash from the acquisition of subsidiaries, is set against payments for investments in tangible assets and intangible assets (€ 52.9 million), pay-outs to shareholders and minority owners (€ 19.8 million) and a reduction in financial debts (€ 63.7 million).

In the first nine months of financial year 2004 we generated an operating cash flow of € 99.3 million (previous year: € 95.4 million). Thanks to our internal financing strength, we continue to enjoy the manoeuvring room needed for investments and takeovers.

January through September	**2004** € million	**2003** € million
Earnings before taxes	82.1	83.6
Elimination of financial result	9.5	10.7
Depreciation and book losses on fixed assets	41.7	35.7
EBITDA	**133.3**	**130.0**
Change in inventories	0.2	- 0.7
Change in receivables from supplies and services	- 4.0	- 13.3
Change in other receivables	12.0	- 1.1
Change in liabilities	- 13.6	1.5
Change in provisions	0.4	1.3
Earnings taxes paid	- 25.8	- 19.7
Interest paid	- 10.8	- 12.7
Cash generated (+) / utilised (-) by operating activities	**91.7**	**85.3**
Investments in tangible and intangible fixed assets	- 52.9	- 42.9
Acquisition of subsidiaries less cash acquired	1.3	- 1.6
Surplus on realisation of fixed assets	0.2	1.4
Interest received	1.3	1.9
Cash generated (+) / utilised (-) in investing activities	**- 50.1**	**- 41.2**
Change in short-term financial debts	- 90.1	- 24.0
Change in long-term financial debts	26.4	4.0
Dividends paid and dividend distributions to minority owners	- 19.8	- 18.7
Cash generated (+) / utilised (-) by financing activities	**- 83.5**	**- 38.7**
Change in liquidity	- 41.9	5.4
Net cash resources at 1 January	101.8	89.1
Net cash resources at 30 September	**59.9**	**94.5**

Bad Neustadt/Saale, 9 November 2004

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT