RHÖN-KLINIKUM AG

INTERIM REPORT
FIRST HALF 2005

Interim report to our shareholders for the six months ended 30 June 2005

General remarks

We are pleased to present this interim report which has been prepared in accordance with International Financial Reporting Standards (IFRS) applied in their version as binding from 2005. Amendments to the Standards and clarifications regarding IAS 1 (consolidated balance sheet itemised by maturities, share of minorities in earnings and capital included in consolidated profit and equity) and IFRS 3 (goodwill subject to annual impairment test rather than scheduled amortisation). In all other aspects, accounting and valuation methods consistent with those used in the previous year were applied. In the interests of better comparability, the previous year's statements have been adapted to the amended structure of the balance sheet and profit & loss statement.

Review and outlook

In the first half of 2005 revenues climbed 38.0% to € 688.3 million, driven above all by the takeover of nine new hospitals adding a total of 2,625 beds and places as per 1 January 2005. This in turn lifted net consolidated profit by 14.1% to € 44.4 million. Earnings per share went from € 1.43 in the pre-year period to € 1.63 in the first half of 2005.

Revenues and net consolidated profit are in line with our expectations.

In the first half of 2005 we raised our result for EBITDA, EBT, and net consolidated profit in each case by roughly 14% in absolute numbers. The still unfavourable economic structures of the newly acquired hospitals squeezed margins as expected, but represent further potential for rationalisation.

The Group's long-standing facilities recorded a slight improvement in margins and the personnel cost ratio.

In the first half of 2005 we invested € 199.1 million, of which € 157.8 million for hospital takeovers. € 74.5 million of this investment volume was financed from the operating cash flow, € 112.1 million from an increase in net debt to banks, and the remainder from interest-free short- and long-term loan capital. Net debt to banks rose sharply from € 223.6 million to € 335.7 million. The increase in net debt was reflected at short-dated maturities, followed by a conversion to long-term maturities at the beginning of July 2005.

With the marked rise in assets and loan capital, the equity ratio declined from 48.9% to 41.5% at balance sheet date.

We leave our revenue forecast for financial year 2005 unchanged – without regard to possible further acquisitions – at € 1.4 billion. At the same time the development of the past months, giving due regard to the absence of planning certainty in the remuneration-relevant introductory phase of DRGs (case flat-rate remuneration), has prompted us to raise our forecast for net consolidated profit by € 2.0 million to € 86.0 million, in which shareholders participate at € 82.0 million.

Scope of consolidation and acquisitions

As at 30 June 2005 we have 39 consolidated hospitals with 11,806 beds/places at a total of 31 sites. Due to the disputed prohibition by the German Cartel Office, the scope consolidation does not include the hospitals in Eisenhüttenstadt, Bad Neustadt and Mellrichstadt.

With effect from 1 July 2005 we will consolidate the hospitals from the district of Miltenberg in Erlenbach and Miltenberg, for which Cartel Office approval has been given. These hospitals have combined revenues of € 39.5 million with 392 approved beds.

The privatisation wave in publicly owned facilities appears to be continuing, although increasingly there are inquiries we refrain from bidding on as they do not satisfy our requirements for qualified growth. Currently bidding procedures for some facilities are getting under way which could lead to acquisitions in H2 2005.

Business performance

Patients

January through June	2005	2004
Inpatient and day-case treatments, acute hospitals	209,304	136,697
Inpatients, rehabilitation clinics	3,933	3,482
	213,237	140,179
Outpatient attendances, acute hospitals	274,598	140,548
Total	**487,835**	**280,727**

During the first six months of this year our hospitals treated a total of 487,835 patients. This represents a rise of 207,108 patients compared with the same period last year. Of this increase, 196,972 patients were contributed by our hospital facilities consolidated in the year under way. In our other hospitals we recorded growth of 10,136 patients or 3.6%.

Average per-case revenue in the inpatient and day-case areas declined from € 3,458.00 in the first half of 2004 to € 3,122.00 in the first half of 2005. In addition to declining per-case revenue that has been observed for years, this trend was also driven to a considerable extent by the acquisition of general care hospitals.

Staff

At 30 June 2005, the Group employed 20,361 persons (at 31 December 2004: 14,977). This growth by 5,384 employees is the result of staff added by the newly acquired hospitals and a slight decline in staff numbers (-245 employees) with facilities already consolidated in 2004. As the statutory outcome of this development the Supervisory Board will be expanded and re-elected at the Annual General Meeting on 20 July 2005 in accordance with German co-determination regulations.

Revenues and earnings

Compared with the first quarter of 2005, revenues in the second quarter of 2005 grew by € 6.9 million (+ 0.2%), reaching € 347.6 million. Looking at the first six months of 2005 revenue stood at € 688.3 million, translating into a rise of 38.0% (+ € 189.5 million) compared with the same period in 2004. The first-time consolidated hospitals contributed € 180.4 million to this growth in revenues. Internal growth was € 9.0 million (1.8%).

The disproportionate rise in other operating income stems among other things from the net effect of revenues from ancillary and incidental activities on the one hand, and corresponding expenditures and loss settlements agreed with hospital sellers in 2005 on the other.

In the area of material costs the disproportionate rise in both the second quarter of 2005 and the first half of 2005 largely results from unfavourable cost structures at acquired hospitals, which thus hold potential for rationalisation. With the hospitals already acquired in the first half of last year, the trend towards the use of cost-intensive and higher-quality materials increased, with the cost of materials ratio in these hospitals rising from 24.2% to 25.0%.

At 56.4% the personnel cost ratio in the first half of 2005 well exceeds the previous year's level of 52.8%. The personnel cost ratio of the hospitals already consolidated in the previous year decline by 1.0% to 51.8%.

Relative to revenues, other operating expenses declined from 8.4% in the previous year to 7.9% (8.4% with the newly consolidated hospitals and 7.7% with the other hospitals) during the period under review.

EBITDA (earnings before depreciation, interest and tax) rose by € 11.9 million (+ 13.7%) to reach € 98.7 million.

The rise in depreciation was underproportionate to revenues, with the depreciation ratio reaching 4.3%.
The financing of acquisitions and investment increased financial expenditures by € 1.6 million to € 7.9 million.

Tax expenditure increased in line with the trend in earnings.

Of the € 5.5 million increase in net consolidated profit to € 44.4 million, € 2.0 million was contributed by newly acquired hospitals, € 1.7 million by improvements in the earnings results of hospitals already consolidated over the same period last year and € 1.8 million by the absence of goodwill amortisation from 2005.

The rise in minority interests in profit is attributable above all to interests held by sellers in the hospitals acquired in 2005.

The interest of RHÖN-KLINIKUM AG shareholders in profit for the first six months of 2005 rose by € 5.1 million or 13.7% to € 42.2 million compared with the previous year. This translates into earnings per share of € 1.63 (previous year: € 1.43).

January through June	**2005**		**2004**	
	€ million	%	€ million	%
Revenues	688.3	100.0	498.8	100.0
Other operating income	25.2	3.7	14.0	2.8
	713.5	**103.7**	**512.8**	**102.8**
Cost of materials	172.4	25.0	120.9	24.2
Personnel expenses	388.2	56.4	263.4	52.8
Other operating expenses	54.2	7.9	41.7	8.4
	614.8	**89.3**	**426.0**	**85.4**
Interim result (EBITDA)	**98.7**	**14.4**	**86.8**	**17.4**
Depreciation	29.9	4.3	26.7	5.4
Operating result (EBIT)	**68.8**	**10.1**	**60.1**	**12.0**
Cost of financing	9.3	1.4	7.1	1.4
Financial income	1.4	0.2	0.8	0.2
Financial result	**7.9**	**1.1**	**6.3**	**1.3**
Earnings before tax (EBT)	**60.9**	**9.0**	**53.8**	**10.7**
Earnings taxes	16.5	2.4	14.9	3.0
Net consolidated profit	**44.4**	**6.6**	**38.9**	**7.7**
o.w. interests held by				
Minority owners	**2.2**	**0.3**	**1.8**	**0.4**
Shareholders of RHÖN-KLINIKUM AG	**42.2**	**6.3**	**37.1**	**7.3**
Earnings per share in €	**1.63**		**1.43**	

April through June	**2005**		**2004**	
	€ million	%	€ million	%
Revenues	347.6	100.0	250.0	100.0
Other operating income	11.4	3.3	8.0	3.2
	359.0	**103.3**	**258.0**	**103.2**
Cost of materials	87.3	25.1	59.4	23.8
Personnel expenses	195.6	56.3	132.6	53.0
Other operating expenses	26.3	7.6	22.0	8.8
	309.2	**89.0**	**214.0**	**85.6**
Interim result (EBITDA)	**49.8**	**14.3**	**44.0**	**17.6**
Depreciation	15.1	4.3	13.5	5.4
Operating result (EBIT)	**34.7**	**10.0**	**30.5**	**12.2**
Cost of financing	5.0	1.4	3.5	1.4
Financial income	0.8	0.2	0.4	0.2
Financial result	**4.2**	**1.2**	**3.1**	**1.2**
Earnings before tax (EBT)	**30.5**	**8.8**	**27.4**	**11.0**
Earnings taxes	8.3	2.4	7.8	3.1
Net consolidated profit	**22.2**	**6.4**	**19.6**	**7.9**
o.w. interests held by				
Minority owners	**1.1**	**0.3**	**0.9**	**0.4**
Shareholders of RHÖN-KLINIKUM AG	**21.1**	**6.1**	**18.7**	**7.5**
Earnings per share in €	**0.81**		**0.72**	

Investing activities

During the first six months of financial year 2005, the Group invested a total of € 199.1 million, of which € 157.8 million is accounted for by fixed assets acquired on hospital takeovers and € 41.3 million by current investments. The latter relate to the construction of new buildings and extensions as well as capital expenditure at the following locations:

	€ million
Mittelweser Kliniken	6.3
Bad Neustadt	5.0
Dachau	4.2
Wiesbaden	3.6
Bad Berka	3.1
Hildburghausen	3.0
Carry-forward	**25.2**

	€ million
Carry-forward	**25.2**
Pirna	3.0
Frankfurt (Oder)	2.8
Kipfenberg	2.2
Remaining sites	8.1
Total	**41.3**

Asset and financial structure

Compared with the last balance sheet date, assets rose by € 340.8 million or 29.3% to € 1,503.3 million, above all on the back of the first-time consolidation of newly acquired hospitals.

As at the balance sheet date, liquidity witnessed a sharp rise.

Coverage of long-term assets by long-term financing declined from 99.6% to 94.5%. At the beginning of July 2005 financing with matching maturities was once again achieved, with short-term loan capital being converted into long-term loan capital.

Compared with the last balance sheet date our net debt to banks rose by € 112.1 million to € 335.7 million on the back of investment and acquisitions.

In capital expenditure contracted for, liabilities under lease agreements as well as other current financial liabilities, there have been no significant changes since the last balance sheet date. Financial liabilities under purchase agreements concluded (whether currently in force or not) currently amount to € 352.6 million (31 December 2004: € 332.7 million).

The Group continues to enjoy stable and sound financial structures.

	30 June 2005 € million	%	31 December 2004 € million	%
ASSETS				
Long-term assets				
Intangible assets	78.9	5.2	49.0	4.2
Tangible assets	933.7	62.1	794.8	68.4
Other loans and investments	2.9	0.2	2.6	0.2
	1,015.5	67.5	846.4	72.8
Deferred earnings tax receivables	14.3	1.0	6.8	0.6
	1,029.8	**68.5**	**853.2**	**73.4**
Short-term assets				
Inventories	25.7	1.7	19.7	1.7
Receivables from supplies and services	181.4	12.2	148.5	12.8
Current earnings tax receivables	11.2	0.7	11.2	1.0
Other assets	75.9	5.0	61.4	5.3
Liquid funds	179.3	11.9	68.5	5.8
	473.5	**31.5**	**309.3**	**26.6**
	1,503.3	**100.0**	**1,162.5**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity				
Equity imputable to shareholders				
Subscribed capital	25.9	1.7	25.9	2.2
Reserves	562.2	37.4	520.0	44.7
	588.1	39.1	545.9	46.9
Interests of minority owners	35.8	2.4	22.8	2.0
	623.9	**41.5**	**568.7**	**48.9**
Long-term debt				
Financial debt	303.9	20.2	238.7	20.5
Provisions for pensions	14.5	1.0	11.1	1.0
Deferred earnings tax liabilities	31.2	2.1	31.3	2.7
	349.6	**23.3**	**281.1**	**24.2**
Short-term debt				
Liabilities from supplies and services	67.4	4.5	48.7	4.2
Current earnings tax liabilities	5.7	0.4	10.2	0.9
Financial debt	211.1	14.0	53.4	4.6
Other provisions	11.1	0.7	8.2	0.7
Other liabilities	234.5	15.6	192.2	16.5
	529.8	**35.2**	**312.7**	**26.9**
	1,503.3	**100.0**	**1,162.5**	**100.0**

Shareholders' equity developed as shown below:

Statement of changes in shareholders' equity	**Shareholders** € million	**Minorities** € million	**Total** € million
As at 31 December 2003	**487.3**	**20.9**	**508.2**
Addition from first-time consolidation	0.0	0.1	0.1
Consolidated result for the first half of 2004	37.1	1.8	38.9
Capital increase	0.0	0.0	0.0
Dividend distribution	0.0	- 2.0	- 2.0
As at 30 June 2004	**524.4**	**20.8**	**545.2**

Statement of changes in shareholders' equity	**Shareholders** € million	**Minorities** € million	**Total** € million
As at 31 December 2004	**545.9**	**22.8**	**568.7**
Addition from first-time consolidation	0.0	6.8	6.8
Consolidated result for the first half of 2005	42.2	2.2	44.4
Capital increase	0.0	6.7	6.7
Dividend distribution	0.0	- 2.7	- 2.7
As at 30 June 2005	**588.1**	**35.8**	**623.9**

Ordinary share capital and capital reserves remained unchanged.

Cash flow statement

At balance sheet date, net cash resources showed an increase by € 110.8 million to € 179.3 million. Short-term debt increased in line with this, followed by a rescheduling at long-term maturities early in July 2005.

In the first half of 2005 we generated an operating cash flow of € 74.5 million (previous year: € 65.6 million), thus improving our internal financing strength.

January through June	**2005** Mio €	**2004** Mio €
Earnings before taxes	60.9	53.8
Elimination of financial result	7.8	6.3
Depreciation and book losses on fixed assets	30.1	26.7
EBITDA (plus book losses)	**98.8**	**86.8**
Change in inventories	1.3	- 0.4
Change in receivables from supplies and services	4.0	- 5.7
Change in other receivables	- 13.0	- 5.5
Change in liabilities	- 7.2	- 15.0
Change in provisions	- 0.1	0.3
Earnings taxes paid	- 20.6	- 9.3
Interest paid	- 9.3	- 7.1
Cash generated (+) / utilised (-) by operating activities	**53.9**	**44.1**
Investments in tangible and intangible fixed assets	- 40.7	- 31.0
Acquisition of subsidiaries less cash acquired	- 75.8	- 2.1
Surplus on realisation of fixed assets	0.1	1.6
Interest received	1.4	0.8
Cash generated (+) / utilised (-) in investing activities	**-115.0**	**-30.7**
Change in short-term financial debts	146.5	- 80.3
Change in long-term financial debts	21.4	33.2
Equities of other owners	6.7	0.0
Dividends paid and dividend distributions to minority owners	- 2.7	- 2.0
Cash generated (+) / utilised (-) by financing activities	**171.9**	**-49.1**
Change in liquidity	110.8	- 35.7
Net cash resources at 1 January	68.5	101.8
Net cash resources at 30 June	**179.3**	**66.1**

Bad Neustadt/Saale, 20 July 2005

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT