RHÖN-KLINIKUM AG

ANNUAL REPORT

2004

Contents

The pictures of this Annual Report

The special theme featured in our 2003 Annual Report (submitted in the spring of 2004) was entitled “A market undergoing radical change: reforms and their consequences”. In the theme pictured at that time, our employees, both young and old, were asked to give their opinion on “their” company in terms of past developments and their expectations for the future.

This year we have turned to the general public for its opinion on healthcare services delivered by privately owned hospitals. We also wanted to find out what expectations people have for the provision of hospital services in future.

At the middle of March 2005 the young Frankfurt market researcher Nils Boeckel approached passers-by in the city centre of Frankfurt am Main and asked them to give their opinion. He handed each volunteer a written explanation (including the two questions), answering their questions and providing additional explanations as required. The text of the written statement is given below:

Questionnare

Lead-in

We are conducting a small survey for RHÖN-KLINIKUM AG.

RHÖN-KLINIKUM AG is a large company with 40 hospitals throughout Germany which last year treated over 600,000 patients. Over 90 per cent of these were statutorily insured (i.e. non-private) patients.

We would like to publish your opinion along with your photo in the annual report. Please sign the Declaration of Consent for the publication.

Introduction:

Due to rigid rules and the shortage of public funding, state hospital operators are increasingly struggling to uphold modern standards in their facilities.

Private hospital operators solve this problem with their own capital and by being more flexible. This is because they can only exist if patients decide in favour of their hospitals.

Question:

If the private operators can ensure healthcare provision without IFs and BUTs, would you have any reservations about using these services? What would be important for you in these services?

Nils Boeckel interviewed 32 people and in our view reached a good cross-section of passers-by. We were astonished at some of the reservations expressed with regard to the costs arising for patients in hospitals under private ownership – despite the explanation given in the introduction that 90 per cent of the hospital patients treated last year were statutorily insured (i.e. non-private) patients. This is an incentive for us to step up our public relations activities on an ongoing basis.

Photo page 10:
Hubert Herbert (Main-Post),
taken at the Annual General Meeting of the Company in Frankfurt/Main

RHÖN-KLINIKUM Group summary information

	2000	2001	2002	2003	2004
	thousand €	thousand €	thousand €	thousand €	thousand €
Revenues	669,144	697,013	879,492	956,265	1,044,753
Cost of materials	161,577	172,487	211,691	230,423	252,418
Personnel costs	329,565	340,093	456,090	496,032	546,560
Depreciation on tangible assets	37,030	38,652	48,930	49,157	57,052
Net consolidated profit	61,899	66,080	67,428	73,132	76,404
EBT	90,441	93,647	99,076	111,239	111,922
EBIT	103,057	106,643	115,320	125,619	123,780
EBITDA	140,087	145,300	171,468	174,856	180,832
Operating cash flow	105,019	109,464	131,275	128,932	137,792
Number of employees (at 31 December)	9,357	9,432	12,852	13,408	14,977
Tangible assets	565,878	614,093	717,941	757,755	794,774
Financial assets	2,056	1,973	1,999	2,014	2,647
Equity	319,013	374,090	429,375	487,308	545,924
Return on equity, in %	21.2	19.1	16.8	16.0	14.8
Balance Sheet total	771,735	836,628	1,003,381	1,108,972	1,162,464
Investments					
– in tangible assets	92,243	87,088	168,218	112,454	100,638
– in financial assets	84	19	0	15	634
Earnings per preference share (€)	2.40	2.56	2.62	2.84	2.96
Earnings per ordinary share (€)	2.38	2.54	2.60	2.82	2.94
Total dividend amount	10,541	12,614	15,206	17,798	20,390

For arithmetic reasons, rounding differences of ± one unit (€, %, etc.) may occur in the tables.

Report of the Supervisory Board

of RHÖN-KLINIKUM AG for the year ended 31 December 2004
[pursuant to Section 171 of the Stock Corporation Act (AktG)]

During financial year 2004 the Supervisory Board performed the duties incumbent on it by law and the Articles of Association. The activities of the Supervisory Board were marked among other things by the measures taken by the Management as part of the implementation of the Act on the Modernisation of Statutory Health Insurance (GKV) as well as in connection with the acquisition of facilities for realising the Group's continuous growth. With a view to guaranteeing continuity in the successful corporate policy, future-oriented decisions in the area of personnel policy were taken at the end of the financial year under review.

In the following report the Supervisory Board informs about its work, composition and structure.

Composition and structure of the Supervisory Board; personal data

In compliance with the provisions of the Co-determination Act (MitbestG), the Supervisory Board continues to be composed of 16 members. Of these, eight members were elected by the shareholders at the Annual General Meeting of RHÖN-KLINIKUM AG and the other eight members by the Group's employees. The personal details of the Supervisory Board members holding office are set out in the section "Corporate bodies of the Company" in this Annual Report; the section also provides information on the professional qualifications of the Supervisory Board members.

During the year under review, the Supervisory Board was chaired by Dr. Friedrich-Wilhelm Graf von Rittberg. The first deputy chairman is Mr. Bernd Häring and the second deputy chairman is Mr. Michael Mendel. Dr. F.-W. Graf von Rittberg stepped down as chairman of the Supervisory Board for health reasons with effect from 31 December 2004. At the same time he resigned membership in the committees of the Supervisory Board. At its meeting on 10 November 2004, the Supervisory Board appointed Mr. Wolfgang Mündel as chairman of the Supervisory Board and as successor to membership in the committees.

Committees of the Supervisory Board

With a view to raising its effectiveness, the Supervisory Board has set up a total of four standing committees with power to pass resolutions in lieu of the Supervisory Board within the scope of their respective mandates.

The Personnel Affairs Committee (pursuant to Section 107 AktG) met four times during financial year 2004. It essentially dealt with the following matters: new structures concerning the organisation of areas of responsibility of Board members, remuneration structure and guidelines on the remuneration of Board members, as well as measures for the conclusion, performance and

termination Board members' service contracts. The purpose of the meetings is also to assess progress made by the individual Board members in terms of achievement of the targets as envisaged at the time they were hired and the interpersonal skills demonstrated in seeing these through. The members of the Personnel Affairs Committee in financial year 2004 were Mr. Bernd Häring, Dr. Friedrich-Wilhelm Graf von Rittberg (chairman), Dr. Brigitte Mohn and Mr. Michael Wendl.

Whenever takeover projects require immediate attention, the Ad Hoc Committee for Investments examines the acquisition of hospitals and approves these takeovers on behalf and in lieu of the Supervisory Board. The Ad Hoc Committee has the following members: Mr. Bernd Häring, Mr. Michael Mendel, Dr. Friedrich - Wilhelm Graf von Rittberg (chairman) and Mr. Michael Wendl. During the year under review this committee met four times during which intended hospital takeovers were discussed and approved with the Board of Management based on written resolution proposals. Given the rising number of potential takeovers and the fact that decisions frequently have to be made immediately, this body has proven itself to be a good controlling and consulting tool.

The new Audit Committee established during the financial year under review held three meetings. In its constituent meeting on 24 March 2004 its three members elected Mr. Wolfgang Mündel, auditor, as chairman. The other members are Mr. Detlef Klimpe and Mr. Michael Wendl. This committee notably was responsible for reviewing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2003. The committee examined the independence of the auditor designated for the auditing of the annual financial statements for financial year 2004, recommended to the Supervisory Board a proposal for the election of auditor to be submitted to the Annual General Meeting, and after the election issued the corresponding mandate to the auditor and defined the areas of focus of the audit as well as the amount of remuneration for the same. A further important advisory task was the discussion of the Group's controlling and risk management system. The auditor attended two meetings of the Audit Committee. With the Audit Committee it was possible to enter into a competent and critical dialogue with the Board of Management and the auditor.

During the past financial year also, the Mediation Committee (pursuant to Section 27 (3) of the Co-determination Act (MitBestG)) did not have to be convened.

The plenary meeting of the Supervisory Board was kept informed of the meetings and work of the committees.

Composition of the Board of Management

In financial year 2004 the members of the Board of Management of RHÖN-KLINKUM AG were Ms. Andrea Aulkemeyer, Mr. Heinz Falszewski (since 1 March 2004), Mr. Hartmut Hain (from 1 March 2004 until 31 December 2004), Mr. Wolfgang Kunz, Mr. Joachim Manz, Mr. Gerald Meder, Mr. Eugen Münch and Mr. Manfred Wiehl.

The personal data of the members of the Board of Management are provided elsewhere in this Annual Report.

The chairman of the Board of Management is Mr. Eugen Münch, and the deputy chairman is Mr. Gerald Meder who until 29 February 2004 also served as director of labour relations (Arbeitsdirektor) pursuant to Section 33, (1) MitbestG. For the period 1 March 2004 to 31 December 2004, Mr. Hartmut Hain was appointed director of labour relations.

In financial year 2004 the Supervisory Board appointed Mr. Gerald Meder for a further term of five years as member of the Board of Directors and as deputy chairman of the Board of Directors pursuant to Section 84 AktG. As a qualified solution for passing the baton to the next generation in the areas of Finance, Investor Relations and Controlling, Mr. Manfred Wiehl was reappointed for the term of up to three years (up to the age limit) as member of the Board of Management on the proviso that parallel to this Mr. Dietmar Pawlik (Controlling), after successful completion of a preparation period, would assume this office within the Board of Management on the recommendation of the Personnel Affairs Committee. At the same time the service contract of Mr. Wiehl for his position of member of the Board of Management will be changed so as to enable him to serve the Company in a consulting capacity. In this way his experience and knowledge will continue to be available also after the change. The newly admitted members of the Board of Management, Mr. Heinz Falszewski and Mr. Hartmut Hain, were appointed for the term of five years. At his own request, Mr. Hain resigned as member of the Board of Management effective 31 December 2004.

In its meeting of 20 December 2004, the Supervisory Board in a special way laid the foundation for the future management structure of RHÖN-KLINIKUM AG. With effect from 1 May 2005, Mr. Wolfgang Pföhler was appointed as ordinary member of the Board of Management and with effect from conclusion of the Annual General Meeting on 20 July 2005 will be appointed chairman of the Board of Management. Mr. Gerald Meder was confirmed as deputy chairman of the Board of Management. The existing chairman of the Board of Management, Mr. Eugen Münch, declared his resignation as member of the Board of Management with effect from conclusion of the Annual General Meeting on 20 July 2005 and will run as a Supervisory Board candidate to succeed the retiring Dr. Friedrich - Wilhelm Graf von Rittberg at the next Annual General Meeting.

Work of the Supervisory Board in financial year 2004

The Supervisory Board held six meetings during financial year 2004, five of which were attended by the entire Board of Management.

The Supervisory Board regularly advised and supervised the Board of Management in directing the Company. As part of its ordinary meetings, it kept itself informed comprehensively on the position of the Company and its subsidiaries as well as on all important projects and developments. The Board of Management informed the Supervisory Board through written and oral reports in a regular, timely and comprehensive manner on all relevant issues of corporate planning and the Group's strategic orientation as well as on events or transactions of major significance.

Thanks to the comprehensive yet concentrated and systematic written reporting at every meeting, the members of the Supervisory Board are able to gain an in-depth insight into all areas of the Company. In addition to items to be resolved on, items of major importance defined at the preceding meeting were also examined, with due regard also being given to other topics of interest including broad forecasts and general trends.

Moreover, the chairman of the Supervisory Board held regular individual meetings with the chairman of the Board of Management regarding the strategy, business performance and risk management of the Company. The Supervisory Board decided on all transactions which by law and the Articles of Association were submitted to it for approval.

Subjects of special importance discussed in the plenary meeting during financial year 2004 included the impact of the Act on the Modernisation of Statutory Health Insurance (GKV) on the Group's business and economic development; the realisation, establishment and organisation of medical care centres (MVZs); discussions on the further development of the concept of teleportal clinics as well as new acquisitions of public hospitals. The fundamental changes triggered by these corporate-policy measures and their impact on the Company and its subsidiaries were discussed thoroughly and at length.

Particular attention was devoted in the discussions to the structural changes involved in the development of medical care centres at the Group's hospitals and their impact on human resources development within the hospitals.

Also of significance were consultations on the development of management capacities at the Group and subsidiary level necessary to secure the continuous growth of the Company. Moreover, financing principles within the Group and the expansion of medical quality management were discussed.

As part of the Supervisory Board's internal organisation, the Terms of Reference of the Supervisory Board were amended and preparations were made for updating the Special Terms of Reference for co-operation between the Board of Management and the Supervisory Board.

The Board of Management informed us fully, and in continuously updated reports, about 2004 capital expenditure, revenue, earnings and liquidity planning for the Company and the Group, as well as revenue, earnings and liquidity planning for financial year 2005, the latter having been submitted to the Supervisory Board on 10 November 2004. The Supervisory Board examined all these reports, deliberated on deviations stating the grounds for this, and adopted the requisite resolutions.

Corporate governance and Declaration of Compliance

The Supervisory Board took great care in thoroughly examining all corporate governance issues, thereby keeping derogations from the recommendations of the German Corporate Governance Code to a minimum. On 24 March 2004 the Board of Management and the Supervisory Board submitted a Declaration of Compliance pursuant to Section 161 AktG and published the same on the website and in the Annual Report of the Company.

During financial year 2004, the Supervisory Board had its work reviewed in an external efficiency audit. The findings of this audit were already reported to the Annual General Meeting on 22 July 2004.

Examination and approval of the 2004 financial statements

The Board of Management has prepared the financial statements of the Company and the Management's report for the year ended 31 December 2004 in accordance with the provisions of the German Commercial Code (HGB), while the consolidated financial statements and Management's consolidated report for the year ended 31 December 2004 have been prepared in accordance with the principles set out in the International Financial Reporting Standards (IFRS). For RHÖN-KLINIKUM AG, these consolidated financial statements exempt it, pursuant to Section 292a HGB, from the requirement to prepare consolidated financial statements and a consolidated management's report in accordance with German accounting standards.

The auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have examined the financial statements of the Company and Management's report as well as the consolidated financial statements and Management's consolidated report for the year ended 31 December 2004. Their audit gave no cause for objections; the auditors have given an unqualified opinion.

The financial statements of the Company and Management's report, the consolidated financial statements and Management's consolidated report as well as the reports of the auditors on the result of their audit were provided to all members of the Supervisory Board, together with Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and discussed with the Audit Committee and representatives of the auditors. Having concluded its own examination, the Supervisory Board concurs with the auditors and sees no grounds for objections on its part.

The Supervisory Board approved the financial statements of the Company and the consolidated financial statements prepared by the Board of Management; the financial statements of the Company are thus final.

The Supervisory Board concurs with Management's proposal for the appropriation of the net distributable profit.

Bad Neustadt/Saale, 27 April 2005

The Supervisory Board

Wolfgang Mündel
Chairman

Corporate bodies and Advisory Board

CORPORATE BODIES OF RHÖN-KLINIKUM AG

Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg
Munich
Chairman
lawyer

Bernd Häring
Leipzig
Deputy Chairman
nurse

Michael Mendel
Munich
Deputy Chairman
member of the Board of Directors of
Bayerische Hypo-Vereinsbank AG

Helmut Bühner
Bad Bocklet
nurse

Ursula Derwein
Berlin
Secretary of ver.di
Federal Administration

Professor Dr. Gerhard Ehninger
Dresden
MD

Ursula Harres
Wiesbaden
medical-technical assistant

Detlef Klimpe
Aachen
director of administration

Professor Dr. Dr. sc. (Harvard)
Karl W. Lauterbach
Cologne
university professor

Dr. Brigitte Mohn
Gütersloh
Member of the Board of Management
of Bertelsmann Stiftung,
responsible for healthcare issues

Wolfgang Mündel
Kehl
auditor and tax consultant

Anneliese Noe
Blankenhain
nurse

Timothy Plaut
London
investment banker

Werner Prange
Osterode
nurse
(since 15 January 2004)

Joachim Schaar
Wasungen
Director Human Resources

Michael Wendl
Munich
Secretary of ver.di
regional directorate Bavaria

Board of Management

Eugen Münch
Bad Neustadt/Saale
Chairman

Gerald Meder
Hammelburg
Deptuty Chairman
Quality and Development, Acquisitions,
Major Investment, Procurement,
Regional Divisions south-western and
north-western Germany

Andrea Aulkemeyer
Leipzig
Regional Division Saxony

Heinz Falszewski
Bad Neustadt/Saale
Deputy Board Member
Central Services

Hartmut Hain
Bad Neustadt/Saale
Deputy Board Member (until 31 December 2004)
Regional Divisions Bavaria and Thuringia,
Labour Relations

Wolfgang Kunz
Würzburg
Company and Group Accounting

Joachim Manz
Berlin
Associations
Regional Division northern Germany

Manfred Wiehl
Bad Neustadt/Saale
Finance, Controlling, Investor Relations

Advisory Board of RHÖN-KLINIKUM AG

Wolf-Peter Hentschel
Bayreuth
(Chairman)

Professor Dr. Robert Hacker
Bad Neustadt/Saale

Dr. Heinz Korte
Munich

Professor Dr. Michael-J. Polonius
Dortmund

Helmut Reubelt
Dortmund

Liane Seidel
Bad Neustadt/Saale

Franz Widera
Duisburg

Dr. Dr. Klaus D. Wolff
Bayreuth

Success is founded on trust, and trust is the result of predictability

Financial year 2004 again created the basis for further buoyant growth. In taking on the challenges ahead, we count on your trust.

Eugen Münch
Chairman of the Board of Management

Dear shareholders,

We have now seen off what in many respects was a turbulent year, and one in which our staff and management were tested to their limits. Looking back, though, we have every reason to be pleased: in the 15th anniversary year since the Company went public (in October 1989), our joint efforts have once again paid off.

Almost all key performance figures exceed their pre-year level. They also meet our own forecasts based on moderate growth rates. Helped by the first-time consolidation of the hospitals in Pforzheim, Bad Kissingen and Hammelburg, revenues reached 1.045 billion euros, clearing the € 1 billion hurdle for the first time. Earnings before interest and taxes (EBITDA) were up 3.4 per cent to reach € 180.8 million. We succeeded in expanding our operating cash flow by 6.3 per cent to € 137.8 million. With the commissioning of the new facilities in Uelzen, Attendorn and Hildburghausen and the accompanying higher depreciation, earnings before interest and earnings tax (EBIT) declined by 1.5 per cent to € 123.8 million. We raised net consolidated profit to € 76.4 million. This is a 4.5 per cent increase over the previous year and a near-perfect touchdown with respect to our own targets – we were shooting for € 76 million.

Earnings per share grew by 4.6 per cent to 2.94 euros. In 2004 a total of 598,485 patients were treated in the Group's hospitals. At year-end we counted 30 hospitals within the Group with a total of 9,211 beds. At 31 December 2004, we employed a staff of 14,977.

Take a moment, if you will, to look back with us to 1989, the year the Company went public, and the two most important performance figures to get an idea of the enormous growth achieved: then revenues stood at € 51.5 million (= DM 100.7 million), with net profit at € 2.8 million (= DM 5.5 million). We employed a staff of 671.

The stated objective of our Company has always been to steadfastly pursue our quality-oriented growth strategy with an eye to constantly improving our inner strength, and this rang true more than ever in 2004.

We acquired and concluded purchase agreements for nine hospitals with 2,625 beds, thus taking a major and important step. These facilities will be integrated into the Group in 2005.

We will also continue to pursue our acquisition efforts with a view to qualitative growth. This is the only way to ensure windows are kept open in the future for the Company to continue providing trend-setting, high-quality and still affordable healthcare to patients. We develop solutions as well as investment and organisation models such as the first teleportal clinics now under construction, or electronic patient files in conjunction with clinical processes; these are about to be put to practical testing. In co-operation with Siemens, a highly innovative operation and investment concept for so-called proton/heavy ion therapy has been created; already in the pre-realisation stage it has met with acceptance by specialists worldwide.

In the discussion with the German Cartel Office begun in the latter part of 2004, we will have to take an offensive stance. Its definition of a hospital and its function absolutely contradicts the legal framework (e.g. integrated healthcare) and hence a modern healthcare system. The future healthcare system will be underpinned by the integrative organisation of hospitals, and it is precisely this development that the Cartel Office wants to nip in the bud – by using merger control and guided by the misconception that

hospitals are autonomous working units. In March 2005 the Cartel Office prohibited the takeover of the hospitals in Bad Neustadt/Saale, Mellrichstadt and Eisenhüttenstadt*, we have lodged an appeal. In our view this decision definitively brings to the fore the contradiction between the Cartel Office and the statutorily enshrined healthcare system regulated under public law whose legal framework is incomprehensibly disregarded by the Cartel Office, and it will be expedient to seek a landmark decision on this issue. We are adjusting our takeover strategy temporarily.

Ever since we went public we have applied a proactive information policy, and this also applies when it comes to any difficulties that may arise. Up-to-date reporting to the media as well as numerous one-on-one and group discussions with analysts in Germany and abroad are key to our investor relations. We also consider it just as important to exchange experiences and communicate openly with insurance companies, funds, associations and (last but not least) our patients and staff. The transparency this creates forms the basis of "calculability", and that in turn builds trust.

The number of patients visiting our facilities has been in steady and continuous rise. This, too, we take as proof of the trust our clientele places in us. From analyses of the structure of our investors we know that many of our shareholders have remained "faithful" to the RHÖN-KLINIKUM share for many years, another sign of the trust they have in our Company, the Management and our work. The stock market has also come to recognise and honour this, as is borne out in the share price trend. A low average sick rate and low turnover among our staff not only are indicative of modern working conditions and good income, but also show that job security and the future prospects of our hospital services are seen to be equally important. Negotiations with payers and the mostly fair results achieved also reflect a relationship built on mutual trust.

We shall spare no efforts in ensuring that the trust all of you have placed in us is not disappointed in future either.

At this point we would like to express our sincere thanks to all our employees for their outstanding contribution – each in their own area of responsibility – to providing our national and international patients with competent care all year round. By dint of their

* The city of Eisenhüttenstadt announced at the beginning of April 2005 – to avoid significant financial losses – its rescission of the purchase agreement.

dedication and hard work, they make an invaluable contribution to the overall performance and success of the Company while helping to secure their own jobs. However, there are a few who, imagining themselves at the zenith of success, would lean back and rest. These we entreat to return to the Company's time-honoured guiding principles and to make their contribution for the future. We also thank the Supervisory Board, the Advisory Board and, not least, the employee representatives for their constructive work.

Our thanks go to you, our shareholders, for your trust in the future prospects of our company and the value of our share. We shall continue our path unrelenting and with the same resolve and diligence as in the past.

Bad Neustadt/Saale, April 2005

Yours sincerely,

Eugen Münch
Chairman of the Board of Management

The RHÖN-KLINIKUM shares

- **Equity markets on the rise**
- **RHÖN-KLINIKUM AG shares put in good performance**
- **Proposed dividend of 0.78 euros per ordinary share and 0.80 euros per preference share**

After posting strong gains in 2003, the equity market continued on an unbroken upward trend in 2004. Many investors did see the share price level as their cue to exit the equity market amid the persisting weakness of the German economy. However, particularly the M-Dax – by some accounts a second-tier index – staged an impressive performance, rising 20.3 per cent to 5,376 points by year's end. By contrast the Dax, after hitting a low for the year in August of 3,647 points, was up only 7.3 per cent at year-end, closing at 4,256 points – much of this being owed to the end in rising oil prices. The M-Dax thus outperformed the Dax for the fourth year in a row.

The shares of RHÖN-KLINIKUM AG fared well by year-end 2004, confirming the price trend of the previous year-end. The RHÖN-KLINIKUM preference shares rose by 10.0 per cent to 45.1 euros, the RHÖN-KLINIKUM ordinary shares by 1.8 per cent to 45.3 euros. The convergence in prices of the preference and ordinary shares in our view stems from the plans already announced last year to merge the two stock classes. At 31 December 2004 the Company's market capitalisation was 1.172 billion euros (previous year: 1.123 billion euros). The preference shares ranked 41st by market capitalisation (previous year: 37th). The trend towards Xetra trading continued. Intraday trading volume in RHÖN-KLINIKUM preference shares averaged 16,458 (previous year: 14,244), with Xetra trading accounting for 91.9 per cent. Average intraday trading in RHÖN-KLINIKUM ordinary shares was 9,405 units (previous year: 10,857), with 97.3 per cent of this being transacted via Xetra trading.

RHÖN-KLINIKUM AG preference shares

Short-term performance comparison versus M-Dax 2004

Long-term performance comparison versus M-Dax

RHÖN-KLINIKUM preference shares
M-Dax

	Ordinary shares	Preference shares
ISIN	DE0007042301	DE0007042335
Ticker symbol	RHK	RHK3
Number of shares	17,280,000	8,640,000

(in € million)	2004	2003
Share capital	25.92	25.92
Market capitalisation	1,172.28	1,123.20
Share prices, in €		
Ordinary shares		
Year-end closing price	45.30	44.50
High	46.23	46.05
Low	36.11	25.90
Preference shares		
Year-end closing price	45.08	41.00
High	46.20	42.00
Low	33.51	23.00
Key figures per share in €		
Dividends[1]		
Ordinary shares	0.78	0.68
Preference shares	0.80	0.70
Profit		
Ordinary shares	2.94	2.82
Preference shares	2.96	2.84
Cash-Flow	5.32	4.97
Equity capital	21.06	18.80

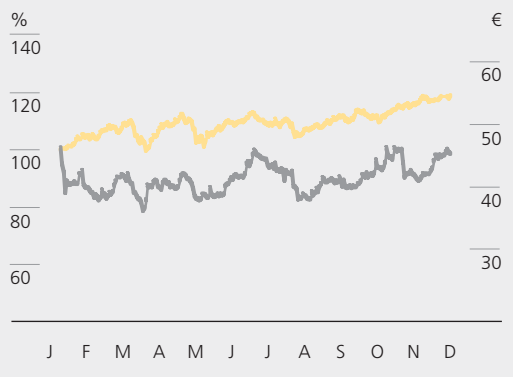
[1] 2004 dividends will be proposed to shareholders at the AGM on 20 July 2005.

Our redoubled acquisition pace is in line with our corporate strategy of putting sustained value enhancement first, not short-term profit maximisation. In future also we will continue to avail ourselves of the opportunities created by mounting pressures of the healthcare reform and the introduction of case flat rates (G-DRGs). The dividend policy we have proposed is geared both towards long-term value enhancement and sustained earnings strength. For financial year 2004 we recommend distributing to shareholders a dividend of 0.78 euros (previous year: 0.68 euros) for the ordinary shares and 0.80 euros (previous year: 0.70 euros) for the preference shares.

At the next Annual General Meeting the Board of Management and the Supervisory Board will propose that the preference shares and ordinary

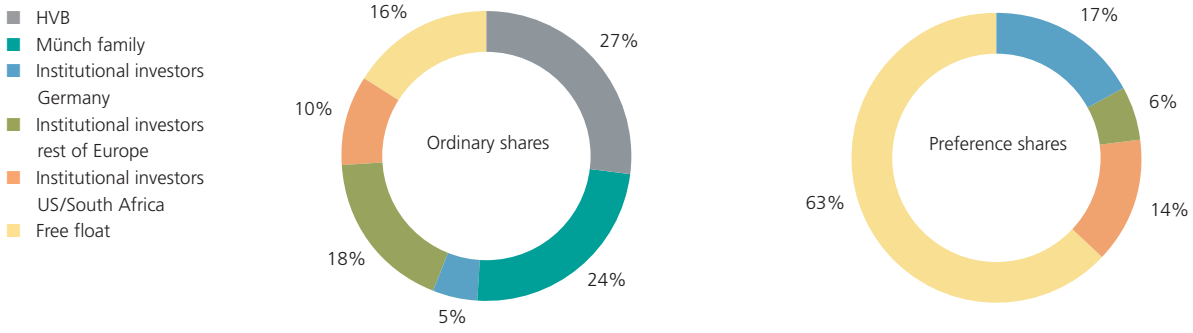
RHÖN-KLINIKUM AG ordinary shares

Short-term performance comparison versus M-Dax 2004



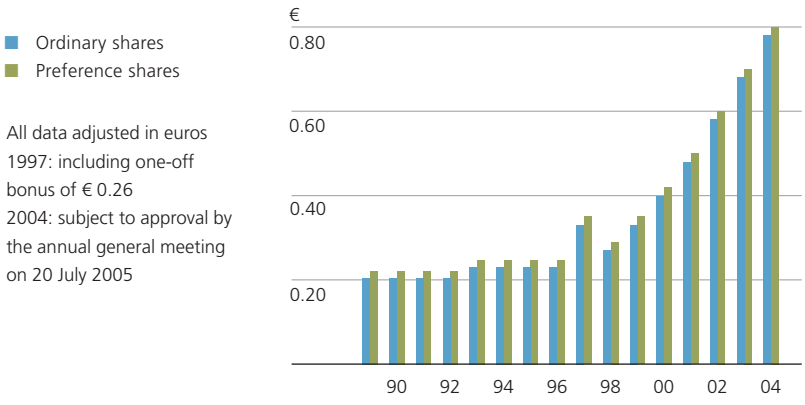
Long-term performance comparison versus M-Dax

Shareholder structure of RHÖN-KLINIKUM AG



shares be merged, as already announced. For the RHÖN-KLINIKUM share the conversion will enable a higher liquidity in stock market trading and make the stock more attractive for investors, some of whom do not invest in preference shares. For further information please refer to the agenda items in the invitation to the Annual General Meeting to be published on 11 May 2005 on our website under the section "Investors/Annual General Meeting".

Development of dividends



All data adjusted in euros
1997: including one-off bonus of € 0.26
2004: subject to approval by the annual general meeting on 20 July 2005

A primary goal of our sound corporate governance is to strengthen our investors' confidence in the RHÖN-KLINIKUM shares as a good long-term investment. At RHÖN-KLINIKUM AG we have a long and valued tradition of dialoguing openly with our shareholders, as it is only by communicating with all market participants on an ongoing basis that the highest standards in corporate transparency can be ensured. We promptly publish current information about the company as corporate news, and our financial reports show the Company's performance over the relevant reporting period. We have further strengthened communication with our investors and analysts, making it an integral part of our investor relations. In addition to roadshows and investor conferences, we also conduct one-on-one discussions and presentations to provide timely information on current business developments and corporate strategies.

A financial calendar containing all important financial dates in 2005 is provided on page 111 as well as on our website under the section Investors.

Declaration of Compliance with the German Corporate Governance Code for 2004

"The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG declare that the recommendations issued by the "Government Commission of the German Corporate Governance Code" as amended on 21 May 2003 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (eBundesanzeiger) have been implemented in financial year 2004, with the exception of the following recommendations that have not been applied:

Code Item 2.1 RHÖN-KLINIKUM AG's share capital is divided into 17,280,000 ordinary shares and 8,640,000 non-voting preference shares.

Code Item 3.10 Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Board of Management and the Supervisory Board have stated their observations regarding the application of the German Corporate Governance Code as amended on 21 May 2003 and published a corresponding declaration on the Company's web site. No further statements nor explanation of potential deviations from the Code's recommendations are given in this Annual Report.

Code Item 5.4.1 The Supervisory Board and the Board of Management will propose to the Annual General Meeting in 2004 that an age limit for the members of the Supervisory Board and the Board of Management be provided for in the Articles of Association.

Code Item 5.4.5 The compensation of Supervisory Board members is exhaustively governed by the provisions of Section 14 of the Company's Articles of Association. Compensation of the chair and membership in Supervisory Board committees is covered by the general remuneration provisions set out in Section 14 (2), of the Company's Articles of Association and are not subject to any separate provisions.

Code Item 5.3.3 In accordance with the provisions of the German Codetermination Act (MitbestG) as amended on 4 May 1976, the Supervisory Board of RHÖN-KLINIKUM AG comprises two members representing the trade union ver.di and a total of six members representing the Company's employees. This structure as laid down by law may lead to conflicts of interest in individual cases. For this reason the Supervisory Board refrains from a general application of Code Item 5.5.3.

Code Item 7.1.2 The Company's and the Group's financial year corresponds to the calendar year. The annual financial statements of the Company and the Group are published in the month of April following the end of the financial year.

The Board of Management and the Supervisory Board jointly decide on application of the suggestions contained in the Code on a case-by-case basis; such suggestions may be deviated from without disclosure, as set forth in both the Code and Section 161 AktG."

Bad Neustadt/Saale, 24 March 2004

RHÖN-KLINIKUM AG

The Board of Management

The groundwork is laid …

Success is the surest foundation for the future

By Ute B. Fröhlich*

In a key address Eugen Münch asked the rhetorical question of whether the rationalisation principle in business management also applied to hospitals. If so, large hospital service volumes would be made available in industrialised form to everyone and at any time, paving the way for price and cost advantages. In the real world of competition these rationalisation advantages would then be shared between patients (i.e. customers) on the one hand, and payers and hospital service providers on the other. This in turn would promote economic growth while achieving the social goal of making healthcare services available and affordable for everyone. The healthcare system must face this issue. And that can also present an opportunity, as seen from the example of RHÖN-KLINIKUM AG.

Its story is a textbook example of early diagnosis and consistent therapy which are perfectly in tune with the needs of patients and thus of society as a whole – and which has also sent a healthy jolt through the torpid hospital landscape. It all began with an idea. An idea which nobody at the time imagined would produce the first and, to date, biggest publicly listed acute hospital business in Germany.

In 1974, Eugen Münch takes on the task of putting six nearly empty concrete block structures of spa businesses in Bad Neustadt an der Saale to good use. He becomes managing director and stakeholder of Kurbetriebs- und Verwaltungsgesellschaft m.b.H., the predecessor company of RHÖN-KLINIKUM GmbH. As early as 1975, this site saw the establishment of a psychosomatic hospital and in 1977 of a training centre for ethnic German immigrants. The remaining buildings at first continued to be comprised of the original 1,500 spa resort apartments that had been financed by investors for spa resort patients. Back then, the makeover of these apartments into patient-friendly units already signalled the company's departure from the existing hospital standard – a departure which it has practised and refined, and made a name from, to this day. A patient unit comprises two rooms with two beds each. These two rooms are separated by a common living room space with a television and one bathroom unit per two-bed room. This arrangement allows for early mobilisation, taking account of the patient's condition in his or her stage of convalescence.

But back to the roots. In 1979 Saaletalklinik is established, a hospital treating addictive diseases in adults. It is followed in 1984 by the cardiovascular hospital Herz- und Gefäß-Klinik in Bad Neustadt.

In 1988 a neurological hospital for stroke patients and patients with craniocerebral conditions is set up which facilitates early patient mobilisation.

* freelance journalist in Frankfurt

Himmelreich, Sophie (28) – ballet teacher (statutory health insurance)

» I would not at all mind using the services, especially after my very disappointing experience with state hospitals of late. For me it would be important for the doctors to take enough time for discussion. «

Herzklinik's secret of success

What was the inspiration behind this concept? It was with foresight that Münch the young restructuring talent rejected the idea of a spa resort business: that industry was in the doldrums and the prospects of a recovery were not looking good. "What we decided was this: We're looking for an area of activity that people need, and that people need so badly that they can only do without it at life's peril." Heart surgery aptly answered this description.

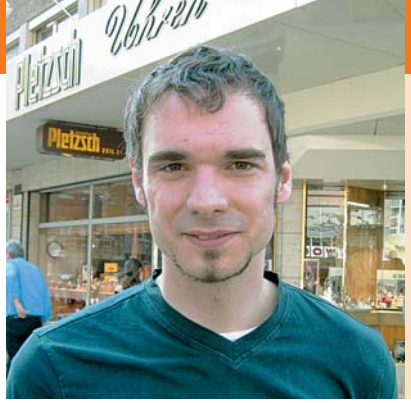
At that time headlines like "No room for heart operations – death on the waiting list" drew attention to the scandalous state of affairs that heart patients had to fly to the UK or the US to be operated. It is this report that inspired Münch to establish his cardiovascular hospital Herz- und Gefäß-Klinik Bad Neustadt/Saale in 1984, and that against all resistance. This resistance stemmed not least from the political establishment – apparently the Group's unassailable concept of generalised healthcare delivery has never sat well with politicians, who to this day is perceive the Company as a force that could potentially encroach on the political agenda.

For the new cardiovascular hospital the tactician Münch succeeds in enticing away a coryphaeus from the University of Erlangen, the cardiosurgeon Professor Dr. med. Robert W. Hacker. What's more, he also manages to get the Professor "to catch the fever, and along with him a whole bunch of dye-in-the-wool university doctors, nurses and cardio-specialists." A community sworn to one and the same cause: 20 years on, 20 or so of these colleagues are still around, who in Hacker's words succeeded in pulling off "that outlandish idea". On a greenfield site. Today he can speak of a "success story", of stability at a high level. The hospital today is one of the four largest cardiosurgery centres in Germany with seven operating theatres and up to 17 operations a day – not counting transplantation surgery.

The hospital has proven expertise with a success rate of at least 80 per cent for reconstructive mitral valve operations, meeting the highest European standards thanks to the support of an internationally recognised French expert in this area.

Since 1995 the department for vascular surgery of Herz- und Gefäß-Klinik also uses the entire array of diagnostic and therapeutic methods for diseases of the arteries and the venous system. This is particularly important given the growing number of diabetics.

Criticism was then voiced by outsiders that with its specialist hospitals like the cardiovascular centre without any affiliation with a university, RHÖN-KLINIKUM was "cherry picking" because easier cases made economic success easy. This criticism is met by the company in 1994: Herzzentrum Leipzig opens its doors with the status of university hospital. Like Bad Neustadt, it has since long enjoyed an international standing. The forms of therapy have changed; with spectacular new procedures, cardiology and cardiosurgery have been grabbing headlines of late. And the Company is always investing. In 1999 Leipzig became home to the world's first operating theatre for computer-assisted heart operations, made



Sauda, Stefano (26) – small businessman (statutory + private health insurance)

» I would have no objections as long as it's not expensive and the medical care not worse. Having a TV set in my room would be important for me. «

available for experimental operations. Münch: "We are again very close to another quantum leap in diagnosis and treatment." The new diagnosis procedure will allow heart diagnosis – and thus early detection – to become widespread, brought within everyone's reach.

Last financial year the Company had two reasons to celebrate, with the 20th anniversary of Herz- und Gefäß-Klinik coinciding with the 25th anniversary of Saaletalklinik in Bad Neustadt. At this specialist centre for addictive diseases, which more properly belongs to the rehabilitation area, addictive diseases are treated on premises separate from a facility for drug therapy and another for adaptation. This also shows the multifaceted services offered by the Company.

First publicly listed hospital group in Germany

But the story of the Company's whirlwind development doesn't stop there: as early as 1988 the Company is converted into RHÖN-KLINIKUM AG and Eugen Münch takes the helm as its sole board member. In 1989, the eve of German reunification, the first German hospital group – following the takeover of the majority of the condominium rights in the properties – goes public, its executive board is expanded, and Münch takes on the position of chairman of the Board of Management, a position he will continue to hold until the annual general meeting in July 2005.

In the same year (1989) lively contacts with DKD (Stiftung Deutsche Klinik für Diagnostik GmbH) in Wiesbaden, founded on the model of the US Mayo hospital, lead to the acquisition of a five per cent stake with the option (exercised in 1996) to purchase the remaining shares. Today a total of 23 specialist medical departments work together with several specialist doctor practices on an interdisciplinary basis to provide diagnosis of unclear clinical pictures and therapy of chronic diseases. DKD thus already meets the goals of official German healthcare policy for an integration of inpatient, day-case and out-patient care.

In 1995 it opened the first centre for blood stem cell and bone marrow transplantation, which is not directly affiliated to a university. It ranks among the leading specialist centres of its kind in Germany. In the outpatient area one of DKD's focuses is the creation of in individual risk profile as part of a medical check-up.

Trends that reverberate throughout the entire hospital environment

The whole hospital sector in Germany in flux. Münch describes the sweeping changes: "When we started out, the words profit and loss were taboo in a hospital. Today we talk about market, meeting demand and rationalisation before rationing – and about competition. Before, we would have been ostracised for that. Stagnating growth, stability in contributions and the feebleness of state investment are accelerating the trend towards privatisation or at least a tendency to embrace such models."

RHÖN-KLINIKUM AG has long been a trendsetter. With resolve unwavering, it has steadily been adding to its portfolio (see "milestones"). And in so doing shows how a completely new way of thinking, constantly turning out new

Kleinhaus, Sigrid (49) – childminder (statutory health insurance)

» What would be important for me is for the soaring costs of healthcare insurance to be brought back under control and for people on low incomes to receive the same health insurance benefits as those better off financially, and without having to make co-payments all the time. «

ideas, can turn a tradition-steeped sector like the German hospital system on its head.

A key role here is played by the project groups: Münch: "First comes the idea, then the project groups are formed. The "development factory" is the standing working group we call Hospital Development. That is where we put our most able thinkers. They meet two to three times a year, and talk about God and the world. That's how such ideas get going." And in a certain sense take on a life of their own, because "nothing is stronger than an idea whose time has come." But the interdisciplinary project groups led by the Management also get the Company's employees involved in the joint development of a concept, since it cannot succeed without support from within.

In 1991 RHÖN-KLINIKUM buys into Zentralklinik in Bad Berka, acquiring 75 per cent of the shares; the City and the Free State of Thuringia each retain 12.5 per cent. Three years later the operation and intensive-care centre with 14 operating theatres and 88 intensive-care beds, including the new discipline of spinal surgery, opens its doors; with occupancy running at a high level, the hospital then takes the next logical step by adopting high-tech medicine. In 2003 the Free State of Thuringia sells its shares in Zentralklinik to RHÖN-KLINIKUM AG with a handsome profit. The government is rumoured to have said that Zentralklinik Bad Berka – besides the lottery business – is at times the only sound holding of the Free State of Thuringia that pays back a return in profit and taxes.

As the result of an interdisciplinary working group, the Company in 1995 opens its newly built hospital in Meiningen as its first "major centre", i.e. a hospital serving the healthcare needs of an entire regional district. The opportunity for this came when the state stopped investment financing at the same time as the standard of healthcare in the completely moribund old facility no longer met the requirements. And so it came to pass in Germany for the first time that a private operator invested in the acute hospital area after mixed financing forms were allowed by the amended Hospital Financing Act. On a comparably small input of 50 million deutschmarks, the state got the same political bang for its buck as with the 350 to 400 million deutschmarks that would otherwise have been required – and this without any burdensome conditions attached.

Here, RHÖN-KLINIKUM follows a strict approach of financing from own funds. Acquired facilities are usually completely overhauled or rebuilt; to ensure their competitive position, the hospitals undergo a "thoroughgoing renewal" every 12.5 years. When purchasing a hospital, the Company does not allow vested interests of staff to become sacrosanct. When a hospital is not viable in terms of its personnel and organisation, the agreement of such contractually imposed restriction clauses can prove fatal. So where the possibility of agreeing mutual special provisions on a voluntary basis with individual employees or groups is not accepted, the acquisition can fail. Here the "doer" Münch says: "We have a concept, and it involves certain consequences."

In the case of Meiningen the concept has proven itself. The facility is regarded as a model hospital – not only on account of its financing – and is frequently cited in expert opinions with reference to the German healthcare system. From its inception it has attracted visitors from all over the world who come to look at this model of a successful investment, even though construction has started up again: the site will be provided with a modern day clinic and a medical care centre (MVZ).

Affiliation to universities

Herzzentrum Leipzig can also boast similar revolutionary beginnings. In 1994 it was opened as the first privately financed university hospital in which training and research was performed by employed professors. The contract for this deal was concluded between the university, the Free State of Saxony and RHÖN-KLINIKUM on the opening date. This model proves that economic efficiency, world-class medical services and top-tier medical research and training are not inherently contradictory. The hospital has hosted important conferences, and live broadcasts of operations have been watched by medical professionals throughout the world.

The Group now counts of total of eight academic training hospitals. Park-Krankenhaus Leipzig-Südost für Somatik und Psychiatrie, in close proximity to Herzzentrum Leipzig, enjoys the further distinction as "Academic Training Hospital of the University of Leipzig".

And yet another milestone: economic thinking, something that is self-evident for a privately run hospital group, was the driving force behind the first public-private partnership (PPP), in Karlsruhe, signed in October 1995. The municipal hospital has put the private operator RHÖN-KLINIKUM AG in charge of building and operating a cardiosurgery facility that will admirably complement its own cardiology facility.

Rationalisation instead of rationing

The prominence that RHÖN-KLINIKUM AG gained within the German healthcare system and in particular within the decisive hospital sector (in the 25 years or so since its inception) was confirmed in 1998 by the symposium in Leipzig featuring the theme "The Hospital of the Future – Rationalisation instead of Rationing", attended by over 600 high-ranking and reputed professionals from the sector.

The inexorable rise in demand for healthcare services will be driven not only by a greying population but also by advances in medicine. Take the example of the hospital in Meiningen – in which cost savings of over 30 per cent (compared with most standard facilities) have been realised while noticeably raising the quality of care for patients – and the case for autonomy as an essential element in investment and in the organisation of clinical processes is brought home forcefully. That is because according to Münch the same truism applies as in industry: "The more flexibly and directly investments are applied to a business, the more efficiently the processes of that business can be made to work." That means, for example,

Christinelli, Iris (28) – employee in retail sector (statutory health insurance)

» Yes, I would have reservations. One thing I would be sceptical about is the cost. I don't know whether I would have the financial means to pay for a private hospital. What I would find important is the possibility, now and then, of consulting the head physician, in addition to qualified staff. «

doing away with bottlenecks, establishing shorter lines of communication, creating central workplaces, and organising work units into a network. It might also mean using external cleaning, meal providing, pharmacy and laboratory services. Or, to put it simply, letting change happen.

The teleportal clinic

And now for another trendsetting idea. It goes back to 2001, after Eugen Münch heard a presentation about the future of radiology. At first he saw it as a kind of "lifesaver" for smaller hospitals within a region, allowing them to assert themselves against larger hospitals preferred by patients on account of the supposed better diagnosis and therapy. But then – again in project group work – something fundamentally new for hospitals of all sizes results: the teleportal clinic.

The philosophy of the hospital Group is to preserve social, good-quality and affordable healthcare delivery for everyone. The model of the future is integrated care: exploiting the possibilities of telematics to incorporate knowledge in the area of cutting-edge medicine into basic care. This allows hospitals to continue pursuing the goal of generalised healthcare delivery while strengthening their competitive position.

A central element of the teleportal clinic is that it is equipped with diagnostic-technical capacities matching the standard of a well-run major centre. Thanks to online links to the appropriate major centres, maximum-care hospitals and specialist facilities, it has direct access to expertise around the clock. At the same time it serves as the base or receiving ward for incoming cases, but above all as a point of control ensuring that diagnoses already performed are not duplicated at a higher level. Specially trained physicians familiar with a broad range of fields assume responsibility for personal care of patients who are admitted to the teleportal clinic in emergency cases or for elective treatment. At the same time they serve as a contact, linking the clinic to the referring physicians within the catchment area.

The structure and organisation of the teleportal clinic is consistently geared to rational, patient-oriented processes. In addition to a day clinic and outpatient unit, the facility has a limited number of inpatient beds. The day clinic is run by qualified specialists employed at the clinic who can avail themselves of the technical equipment, thus enabling them to treat 20 to 30 per cent of patients cost-efficiently in qualified day-clinical structures instead of in expensive inpatient facilities.

Ideally, the teleportal clinic dispenses with the usual inpatient general surgical unit, focusing instead on day-care and outpatient surgery. Inpatient surgery cases are to be treated centrally. By basing diagnosis expertise at the teleportal clinic, division of labour is possible between the point of diagnosis and the specialist. The latter then performs the treatment as required either at the major centre or on a consulting basis in the teleportal hospital itself. That results in a hierarchy in treatment tuned to the different medical fields, something that is rarely achieved in today's admission system.

Kander, Natascha (31) – job placement counsellor (statutory health insurance)

» I would have misgivings if it were too affordable, since then the quality or personnel cover would have to be doubted. But it couldn't be too expensive either. I am not unbiased in this regard since I have no intention of joining a private health insurance fund and am no longer planning to do so soon and because I believe that for most people it is not affordable on top of standard coverage. «

In the teleportal clinic patients benefit from the high level of care found in a major centre. This earns the facility the reputation of expertise within its region.

RHÖN-KLINIKUM is realising this concept at three Group sites: in Stolzenau, Dippoldiswalde and Hammelburg. What already began in Friedrichroda is further developing into competent telemedical portals, offering the local patient many benefits that otherwise would only be conceivable in major centres.

It is important to allow hospitals to preserve their outward identity while at the same time providing them with the techniques and principles that are needed internally. According to the Group's philosophy, facilities are to give preference to the local clientele of the respective site: "What that means, for example, is that private patients from outside are only admitted if there is enough room."

The teleportal clinic will act as a regional health centre. The standard – with the medical care centre (MVZ) at its heart – will comprise inpatient and outpatient treatment possibilities, emergency physician centres, rounded off by inpatient senior citizen care, outpatient rehabilitation, outpatient nursing, dialysis, obstetrics, dental clinic, palliative medicine, pharmacy and other offerings of remedies and medical aids. The teleportal clinic is a basic care hospital whose affiliated MVZ, "round-the-clock service" at all levels, high-performance diagnosis technology including online diagnosis resources, expertise of the affiliated major centre or university hospital, allows it to achieve a level of performance ensuring access at all times to healthcare provision matching that of a maximum-care facility. The comfort and quality of access to the portal for major-centre or maximum care and the reliable division of labour without a separation along sectoral lines, but with clear lines of responsibility, will be convincing and will lead to a safe, objectively justified and cost-efficient selection of patients who then either remain in the teleportal clinic for treatment or are transferred for treatment at a major centre.

Changes in system of healthcare delivery

The teleportal clinic not only lends itself as a new type of hospital, but will change the hospital system as a whole.

That means that major centres that wanting to team up with upstream teleportal clinics will also have to adjust their own structures. In future, competition will not only be required from one facility as a whole, but from each specialist department individually. That is because the integrative structures of telemedicine are selective. This requisite willingness to accept change also applies to university hospitals.

To take one example: as a university hospital, Herzzentrum Leipzig has already succeeded in coping with the conditions of the hospital market while at the same ensuring the freedom of research and academic training enshrined in the German constitution. This discussion model makes clear that there can only be an entrepreneurial answer to the problems of the moment.

Reichert, Susanne (27) – working student (statutory health insurance)

» I wouldn't have any problem with using the services. For me it would be important for the hospital to equipped with the latest technology. «

The general practitioner (GP) – not least owing to the new GP model – is being given an increasingly important role. He is a medical confident, someone who is known and always there to advise and help. He will also be a person who is completely integrated into the information organisation of the teleportal clinic and thus in its higher-qualification programmes. The GP thus acts as gatekeeper, guiding the patient into the "portal" which in turn ensures comprehensive diagnosis and integrated treatment.

The GP should be someone who stays well informed. Together with the teleportal clinic, he offers expertise with both a human and a medical dimension. It could be considered a success if 90 to 95 per cent of patients in a catchment area voluntarily visited the portal on recommendation by their GP and 25 per cent were sent on for high-performance diagnosis in a supraregionally graduated process. For that it is first necessary for patients "to be reorganised into data packets" (Münch). Everything that can be measured mathematically leaves more room for mental work. "Human faculties are needed so that at the end of the day the morass of part-definitions and data are pieced together and connected back up to the patient, who after all is the real focus of interest. It's all about employing the possibilities of technology in the service of mankind."

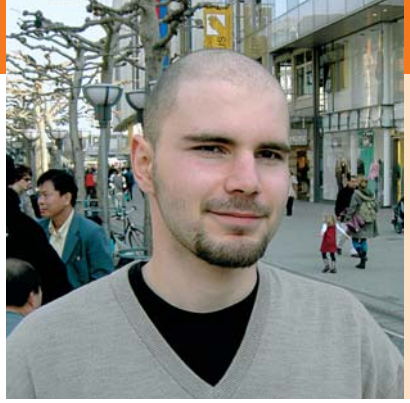
The medical care centre (MVZ)

On the site of RHÖN-KLINIKUM in Bad Neustadt a medical care centre is being built. This comes after community-based specialist practitioners have already maintained practices at the Group's hospitals for many years before. Now, the German Act on the Modernisation of Statutory Health Insurance (Gesundheitsmodernisierungsgesetz, GMG) has cleared the way for a closer meshing between the inpatient and outpatient sectors with a view to avoiding duplication in services.

Medical care centres (MVZs) are issued licences by the Medical Practices Committee of the Association of Panel Doctors (KV) for provision of medical services within the scope of statutory health insurance. They may buy up vacant KV seats in order to expand. Likewise, independent panel doctors may choose to integrate their practices into an MVZ where they can continue to work as part-time employees.

This integration will not go down easily, because it means confrontation and redistribution if, for instance, redundant examinations are eliminated. These centres can only succeed if they fully exploit the advantages offered. And that means motivating and integrating doctors in such a way that they put to work their knowledge and commitment for the common good.

Right now, though, this development is still hampered by a panoply of KV rules protecting the status quo, so courage and creativity will be needed. Looking on the positive side, a genuine competence centre is in the making,



Erman, Atilla (29) – office management assistant (private health insurance)

» I would have reservations against private providers since I am not that familiar with them, which makes me wary. For me it would be important for the range of services to be specially adapted to the patient and the individual condition. «

even if a smaller hospital can still call in qualified experts from the region to close its gaps. For this reason RHÖN-KLINIKUM intends to take every opportunity to establish and operate such centres as the standard in its hospitals.

Ideally, the MVZ based at the teleportal clinic will cover outpatient treatments spanning the whole range of specialist fields, taking advantage of interdisciplinary integration. It will take over the specialist work of the teleportal clinic and give the latter its expertise. The MVZ will take responsibility for outpatient operations and deliver specialist services for the day clinic. The doctors at the MVZ have a dual status as part-time salaried employees and independent contractors, with their working time being divided about 50:50 between these two activities. As a result, they are integrated into the further training organisation of the output chain and benefit from the technical resources of the centre.

At first glance, these concepts are completely conclusive and logical. Nevertheless, a great many details are new territory and will have to be worked out within the sclerotic structures of the German healthcare system and labour law.

In the beginning was the chaos theory

What makes RHÖN-KLINIKUM different from other hospitals? It started out in the realisation that it could only make a successful market entry if the state had something to gain as well. That meant waiving state grants for capital investment, but without passing on the costs in the form of higher nursing rates. Under section 17 (5) of the Hospital Financing Act (KHG), only nursing rates up to the level charged by comparable facilities were permitted. From the outset, then, this meant that operative costs had to be 20 to 30 per cent lower in order to recover depreciation and interest on the capital employed – which in the case of comparable hospitals corresponded to their subsidy advantage. Moreover, quality had to be excellent because a hospital in the form of a German limited liability company (GmbH), unlike its public (subsidised) counterpart, can go bust. If quality is bad, patients simply pick another hospital.

At the beginning, then, everything that goes on in a hospital was questioned – this is where the so-called chaos theory comes in. After that everything was restructured and reorganised by interdisciplinary project groups under the oversight of the Company's top-level management.

From this it emerged that for cost reasons (high investment costs and shortage of well-paid specialists) intensive-care wards as a rule were too small and/or intensive-care beds were grouped into smaller units scattered throughout the hospital. The result was that patients still requiring intensive care were, and still are,

Senghaas, Anke (31) – social worker (statutory health insurance)

» I wouldn't have any problem. I think it would be important for staff to meet qualification standards recognised by the state. It would also be important for the state to always maintain a system of checks and controls in terms of quality, etc. «

moved prematurely into standard-care wards. There, medical-technical equipment had to be upgraded and the staffing ratio raised – not to mention the lower quality of treatment resulting from the lack of routine.

Patient orientation played a role already in the equipping stage of the cardiovascular hospital. This led to the question of how things had to be organised in order to optimise patient care processes. For this logical ordering and linking of processes, the flow principle known from industry was revisited in healthcare: all work was divided up into its constituent working stages and knit back together to form an optimum and coherent whole. The task at hand was to find the right employee close to and for the patient at the right time. It was no longer simply a matter of providing so and so many employees per shift or per bed. The variable is flexible provision of work capacity, not the patient.

Raising quality with the flow principle

The example of Meiningen clearly shows the desired progression based on the stage of convalescence instead of the two-stage system of the past. In addition to a recovery ward for patients moved to the standard ward following an operation, there is an intensive-care unit with a total of some 80 beds monitored on an interdisciplinary basis and divided up into intensive and intermediate care. For intensive-care patients requiring respiration support, a critical intensive care unit is provided (staffing ratio: 3:1). Two intermediate care wards focusing on nursing and monitoring also have the same technical equipment, save that here there is no respiration support. Consequently, on the standard-care ward there are no medical gases and monitoring equipment. Patients on the standard ward who again require monitoring are automatically, and immediately, moved back into intensive care.

The standard-care ward is geared towards monitoring/nursing to the point where the patient's condition allows for a degree of assistance approaching the hotel service. For this phase Zentralklinik Bad Berka has now added a fourth "low-care" ward for those 60 per cent of patients able to walk about on their own when they arrive at the hospital and are again able to do so just before being released, or for patients called in for diagnosis.

Forming an integral part of this four-stage treatment concept are quality controls provided at the respective patient transfer points.

Investment as the door to innovation

The prerequisite for implementing the flow principle with an eye to quality of service for patients is investment. Without it, services can not be sufficiently rationalised, with the result that productivity falls and costs rise – for everyone. Investment in rationalisation in line with the flow principle leads to lower costs with rising case numbers. Rationalisation under this scheme means reducing unproductive cost drivers and transforming human resources into added value for patients and the hospital.

Klause, Bianka (28) – banking professional (statutory + private health insurance)

» I would have no reservations about using a private hospital since I think the staff there would have more time for patients and their individual needs. With market competition, these private operators basically are forced to do a "good" job. I'd even feel better about having my baby in a private hospital. «

At RHÖN-KLINIKUM, developing solutions as well as investment and organisation models has become standard. One example of this is electronic patient files in conjunction with clinical processes, which are about to undergo practical testing early this year in Leipzig.

Sometimes, it takes somewhat longer than usual or desirable for an idea to make it from the drawing board to a practical investment. In the autumn of 1999 a working group set up by the Management of RHÖN-KLINIKUM began looking at the possibility of using proton therapy for the treatment of cancer patients. The physicists and medical professionals invited from Germany and abroad reported on initial research and treatment results. The second symposium of this kind early in 2002 was held for a more focused and detailed look at the subject.

The Management of RHÖN-KLINIKUM Group has now decided in favour of a heavy ion treatment concept because heavy ions are better suited for deep-tissue treatment than protons. Internally the concept goes by the working name "non-invasive surgery".

In co-operation with Siemens, a highly innovative operation and investment concept for so-called proton/heavy ion therapy has been created; already in the pre-realisation stage it has met with acceptance by specialists worldwide. Currently negotiations are under way on a framework agreement for the sale of several units of the jointly developed model.

Looking to the future

The period up to 2020 will see a large number of hospitals die off, a development that will be driven by advances in medicine and mounting economic pressures. Of the some 2000 existing hospitals, only about 1500 will survive. This is the conclusion arrived at by the accountancy firm Ernst & Young in its study "Gesundheitsversorgung 2020" looking at the future of the German healthcare system. The rest will either throw in the towel or join together in competitive networks. Private health centres will emerge offering enticing returns for investors on the future healthcare growth market.

The three authors of the study criticise that all reforms undertaken to date in the healthcare system do not even deserve the name, having failed to bring any restructuring or reshaping of the system, nor any improvement in current conditions. And policymakers continue to deny the existence of a de facto rationing of benefits established at the latest with the introduction of the budget for medicines. "We speak of a society built on the principle of solidarity, but in reality such society no longer exists."

RHÖN-KLINIKUM has already warned of the unsustainability of the system due to the demands being placed on it, and of lost intergenerational justice. The solidarity society that used to act as a guarantor for emergency care today acts as the guarantor for everything.

Lamb, Corinna (34) – lawyer (private health insurance)

» *Generally I don't have anything against them, except that technical health issues have to be put first – before market economy considerations. Cost cuts shouldn't come at the expense of the length and quality of treatment, but by purchasing medicines from providers offering more favourable prices. Private providers should be open-minded and prepared to refer patients to specialists not belonging to their hospital should the medical need arise.* «

Today everyone actually tries to get back out of an insurance policy what they put into it.

At this point the study describes solutions of basic healthcare provision that could end up leaving many people behind. Not so at RHÖN-KLINIKUM Group: here efforts are instead focused on coming up with integrated solutions which even include the creation of socially acceptable premium-based models, but which require people to assume a greater degree of self-responsibility.

With a generalised healthcare delivery network created alone or together with partners, offerings will be developed which – as at the beginning of the story – people will find so advantageous that they simply can't refuse.

In its theses the study observes that increasing privatisation not only means debureaucratisation as a result of less government and more market, but also – despite rising own contributions – growth in what has long become a European market. For patients it means greater customer orientation: a healthcare facility becomes a brand name, a medical professional becomes a service provider.

RHÖN-KLINIKUM Group has long succeeded in making this move from a bureaucratically organised hospital to a modern service providing enterprise.

Generalised healthcare delivery as guarantor for the future

Eugen Münch looks to the future with confidence, but addressing the staff of the cardiovascular hospital on its 20th anniversary, wrote in the guest book: "It has a bright future if all know that "existing" means constant change, and that security depends on commitment to performance and on precision".

The inventor of the "hospital process" regrets that his product of affordable generalised healthcare is not yet regarded as competitive internationally. Investors and hospital entrepreneurs, he stated, regarded the American solution "you only get what you pay for" without the social mixed cost-calculation approach as more successful. Münch's philosophy is that a culture should develop in Germany in which hospital companies are able to push through precisely this mixed cost-calculation approach, with the state assisting as referee and guide. German hospitals would then reach a size allowing them to hold their own internationally.

It is necessary, continued Münch, to counteract the risk of a situation arising in which only lucrative segments of the healthcare system are served at high prices. If the large full-service hospitals, geared to serve the masses, in future treat only half as many patients at double the price, that would not work.

"Higher prices alone do not create quality." Already at the symposium in 1998 in Leipzig, RHÖN-KLINIKUM Group issued an emphatic rejection of rationing that was then already beginning to emerge in the healthcare system,

Schneider, Doerte (26) – hotel professional (statutory health insurance)

» I would have no objections, but there is also the cost issue of how expensive a treatment is. I expect highly qualified staff and state-of-the art technology, and perhaps a broad offering as well – with homoeopathists, for example. «

on the ground that it leads to two- and multi-tier healthcare. This is because for every person excluded from the system there is one customer less, impairing the rationalisation principle according to which more patients mean more affordable services, and more affordable services in turn make the social goal of generalised healthcare delivery possible.

From the outset, the goal of RHÖN-KLINIKUM AG was to provide generalised healthcare for everyone, at all times, and at a price that everyone can afford.

The Management of RHÖN-KLINIKUM Group take the view that autonomy in investment and business enables the preservation of our globally recognised, socially oriented system that provides equal hospital benefits to all, and makes it possible to offset for several years the demographically induced rising demand for healthcare by way of rationalisation.

This development calls for trust. That in turn calls for reliability, a certain continuity and predictability of behaviour. This applies just as much to persons as it does to companies. One man's idea has long come to be the knowledge and expertise of a group company today employing a staff of some 15,000, a figure that will likely exceed 20,000 by year's end.

The sites of RHÖN-KLINIKUM Group

[1] Prohibition of takeover in March 2005 by German Cartel Office (Krankenhaus Eisenhüttenstadt and hospitals Bad Neustadt/Mellrichstadt); appeal has been lodged.

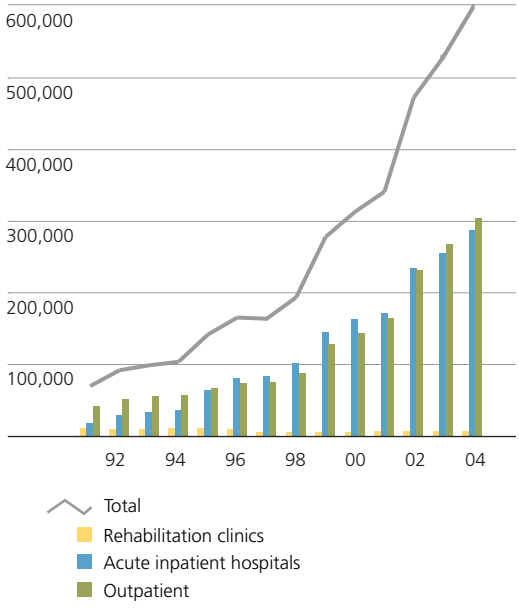
[2] The city of Eisenhüttenstadt announced at the beginning of April 2005 – to avoid significant financial losses – its rescission of the purchase agreement.

Proactive developments of our hospitals

RHÖN-KLINIKUM Group is present with 30 hospitals at 23 sites in eight federal states with a total of 9,211 beds as at year-end 2004. In the second half of 2004 we were able to conclude company purchase agreements for a further nine hospitals (2,625 beds). These will help raise revenues significantly in financial year 2005 to some € 1.4 billion.

In 2004 the number of patients treated at RHÖN-KLINIKUM Group's hospitals grew by 12.9 per cent to 598,485. Once again, the trend towards a shift from inpatient stays to outpatient attendances was confirmed: the number of cases in the inpatient acute area was 287,204 (previous year: 255,487), in the outpatient area 304,214 (previous year: 267,926) and in the rehab area 7,067 (previous year: 6,656).

Case numbers (patients treated) of RHÖN-KLINIKUM Group



Developments in Baden-Wuerttemberg

Klinik für Herzchirurgie Karlsruhe is one of the most modern centres for cardiac surgery. It offers the entire range of surgical treatments for heart diseases in adults. Its surgeons specialise in patient-friendly (minimal invasive) cardiosurgical techniques.

Also in the year ended 31 December 2004, the hospital succeeded in continuing its overall positive performance: patient numbers were raised by 3.5 per cent to 2,461 (previous year: 2,378) cases. The duration of stay rose slightly by 0.2 days to 11.4 days.

On 1 July 2004 **Klinikum Pforzheim**, an academic training hospital serving the University of Heidelberg, was taken over with 602 beds approved under the state's hospital plan. Classed as a "Krankenhaus der Zentralversorgung" (centralised care facility), it is equipped with state-of-the-art technology such as multisliced computed tomography, nuclear magnetic resonance, nuclear medicine and cardiac catheterisation laboratories. The year 2004 was marked above all by the hospital's privatisation, consolidation and restructuring measures (creation of outpatient operating theatre capacities). In the year under review from the time of the takeover, 11,197 patients were treated on an inpatient basis. The average duration of stay was 6.2 days.

Developments in Bavaria

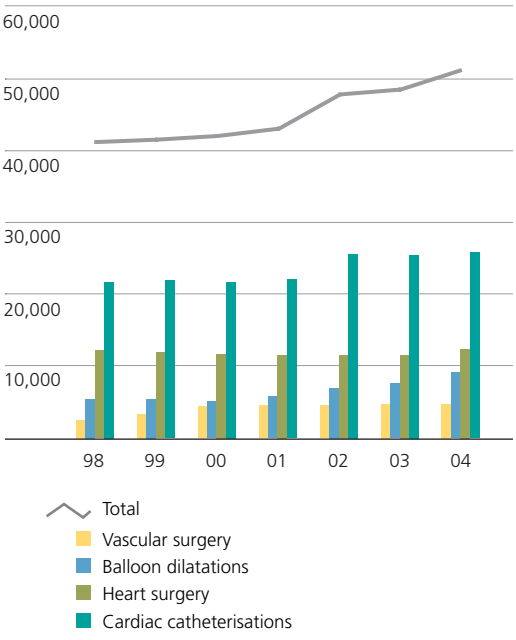
St. Elisabeth-Krankenhaus in **Bad Kissingen** was taken over with effect from 1 January 2004. As a demonstration of its efficiency, the facility maintained its short duration of stay while raising its occupancy rate. The number of inpatient treatments stood at 7,484 (of which 450 births), up 146 versus the previous year.

Patients now enjoy comfortable rooms on all wards following the complete renovation of the bed facility. The change in ownership was also followed by a modernisation of operating theatre and delivery room capacities as well as the construction and commissioning of an intermediate care ward with 19 beds. Patients at St. Elisabeth-Krankenhaus are thus offered a high standard of safety in the intensive-care area.

With Klinik **'Haus Franken'** in **Bad Neustadt**, we operate a renowned specialist clinic for the prevention and rehabilitation of cardiac and vascular disorders which also integrates a 122-bed diabetes centre. In financial year 2004 the centre treated a total of 2,357 patients (previous year: 2,022). By stepping up promotional activities and forging closer co-operation ties with Herz- und Gefäß-Klinik Bad Neustadt, we succeeded in improving occupancy and bucking the general trend.

Herz- und Gefäß-Klinik in **Bad Neustadt** is one of the largest centres for cardiovascular diseases. A team of specialists and state-of-the-art equipment for diagnostics and therapy ensure the best-possible medical care. The facility has long enjoyed a high occupancy rate, and this continued unabated in 2004. The number of inpatient treatments saw a 3.6 per cent rise to 14,353 (previous year: 13,858).

Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group



In the year under review a new high-capacity angiography unit was commissioned. It enables the examination and therapy of vessels outside the heart. In addition, the hospital now also enjoys a top-ranking position in the therapeutic widening of vessels (PTA) with its new unit. Increasingly, non-invasive magnetic resonance angiography (MRA) is being used to diagnose vessels, especially in the pelvis/leg area.

All of the hospital's medical fields (heart surgery, cardiology, vascular surgery) once again succeeded in raising their case numbers in the year under review. In the area of cardiac "non-invasive imaging" over 1,000 examinations using cardio CT and cardio MRT were

Buesch, Elfie (72) – independent contractor (statutory health insurance)

» I would have no problem staying in a private hospital, but would like to have a choice of several methods. Being treated humanely would be something very important for me. «

performed. These examination methods have come to be established as part of routine treatment procedures. In heart surgery, we noted a positive trend in bypass operations without the use of heart-lung machines; the same applies to heart valve operations as well as cardiac pacemaker and defibrillator implantations. Disproportionate growth in the cardiology area was driven above all by rising case numbers in therapeutic interventions (PTCA, catheter ablation). The area of vascular surgery recorded a rise notably in leg artery bypass operations and interventions relating to aortic aneurysms.

Klinik für Handchirurgie in **Bad Neustadt** also raised the number of patients treated in 2004, thus underscoring its top-ranking position. A total of 6,762 (previous year: 6,724) patients were treated or operated on an outpatient basis. The number of inpatient cases was 5,037 (previous year: 5,582), with 1,725 (previous year: 1,142) outpatient operations being performed. The shift in operations from the inpatient to outpatient area has continued. The facility has responded by adapting its organisation and clinical processes accordingly.

Psychosomatische Klinik in **Bad Neustadt** operates 180 beds in acute care and 160 beds in its medical rehabilitation department. Occupancy in the acute area was 96.3 per cent, and the total number of patients treated was 2,905 (previous year: 3,005). We have developed new concepts for our patients, including specialist events such as return-to-work and music medicine seminars. The hospital continues to actively promote research, as demonstrated by its participation in various projects in co-operation with the Johannes Gutenberg University of Mainz.

'Haus Saaletal' clinic in **Bad Neustadt**, together with its dependencies **Klinik Neumühle** and the **adaptation facility 'Maria Stern'**, treats patients addicted to alcohol and medicines and – in the Neumühle clinic – drug addiction patients. As in previous years the facility was booked out solid in 2004. On 11 November 2004 Saaletalklinik celebrated its 25th anniversary with festivities followed by a specialist event.

Neurologische Klinik in **Bad Neustadt**, one of the few integrated neurological centres in Germany (specialist hospital with rehabilitation clinic), witnessed further growth of inpatient treatments by 174 to 4,123 (previous year: 3,949), with the acute area recording a rise of 3.9 per cent and the rehab area 5.4 per cent.

The hospital participated in the benchmark study "care for stroke patients" as part of the innovation prize QuIK (quality and innovation in the hospital) awarded by Stiftung Deutsche Schlaganfallhilfe (German Stroke Foundation), and came in first place.

Krankenhaus Hammelburg was taken over effective 1 January 2004. Already in the first year it responded to the future requirements to be met by modern hospital and operating structures. Besides the reduction in approved beds from 140 to 130, the co-ordinated offering in the oncosurgical area has now been extended to include notably peritoneal carcinosis and peritonectomy. In financial year 2004, a container with a total capacity of 48 beds including five intensive-care beds was commissioned in connection with the planned conversion to a teleportal clinic. The hospital treated a total of 7,743 patients.

Weigelt, Anais (27) – teacher (statutory + private health insurance)

» I would certainly have some reservations, because if only private hospitals existed, financial interests would be put first. I would attach importance to optimum care for my particular condition. I would also like to see a broader offering in the area of alternative medicine. «

Klinik Kipfenberg, Neurochirurgische und Neurologische Fachklinik, in 2004 provided care to patients with extremely severe craniocerebral conditions to high standards. Occupancy at the entire facility was stable at 96.0 per cent, and the number of patients treated rose to 3,075, an increase of 7.7 per cent over the previous year. The hospital's outpatient rehabilitation centre recorded a 13.2 per cent improvement in performance.

As of 1 November 2004 Klinik Kipfenberg saw its range of services broadened considerably to cover the treatment of all forms of accident-related paraplegic injuries, including combined craniocerebral and spinal cord injuries and severe paraplegia requiring assistance in maintaining respiration. In addition it is now able to perform all non-accident-related treatments of paraplegia such as follow-up treatments after spinal cord operations as well as the treatment of spinal tumours and other spinal disorders. This is made possible by the intensive care unit as well as a paraplegic unit set up specially for this purpose.

The number of participants in courses offered by the Klinik Kipfenberg's interdisciplinary training centre rose by 190 to 1,200, including 651 external participants. Sixty-five courses were offered for therapists, nursing professionals and doctors, and these were held by internationally recognised experts.

Developments in Brandenburg

Klinikum Frankfurt (Oder), academic training hospital serving Humboldt University (Charité) in Berlin, is a leading regional centre with 908 beds approved under the state hospital plan. Its development into a modern medical care provider across the state goes back many years.

The amalgamation completed at the beginning of 2004 was followed mid-year by the construction of a functional building replacing the existing complex. Looking to the future, the hospital with its new functional building meets all requirements for an optimum meshing of the outpatient sector with the inpatient hospital sector.

The amalgamation has brought benefits through centralised structures, and the positive effects of this are already visible in medical care: the range of medical services has been expanded by the introduction of "autologous stem cell transplantation", inpatient one-day care of oncology patients as well as a more comprehensive range of outpatient operations and the commissioning of an outpatient OP centre.

Over the past years the hospital has developed into an oncology centre seeing its medical focus notably in the diagnosis and therapy of oncological diseases and comprehensive care for the patients affected. The range of diagnostic services has been further expanded by the purchase of state-of-the-art equipment. With its Mammotom® vacuum biopsy system, Klinikum Frankfurt (Oder) now has one of the most modern diagnosis units for histological clarification of diseased alterations in breast tissue. Similarly, the positron emission tomograph (PET) – the first and, to date, only nuclear-medical device of its kind in the State of Brandenburg – has established an innovative functional method for modern cancer diagnosis. The commissioning of one of the world's

Urban, André (28) – project management (private health insurance)

» In principle I have no objections, but private hospitals might become more elitist if there are fewer state hospitals. I think a private hospital has more quality and service because it must operate more efficiently than a state hospital. «

most advanced magnetic resonance tomographs (MRT) also marked a new era in functional nuclear magnetic resonance diagnostics.

During the period under review, Klinikum Frankfurt (Oder) treated 27,833 (previous year: 27,400) on an inpatient basis. Outpatient attendances increased to 38,836 (previous year: 38,043). Occupancy decreased to 72.8 per cent (previous year: 80.4%).

Developments in Hesse

Aukammklinik in **Wiesbaden** is an acute-care specialist hospital for interventional rheumatology and orthopaedics operated as an affiliated-practitioner facility with 63 beds.

The hospital works together closely with Deutsche Klinik für Diagnostik (DKD) at which regular consultations take place, as well as with the rheumatology departments of hospitals and rehab clinics in Wiesbaden.

In the period under review, the number of patients treated fell by 6.2 per cent to 1,432 patients. This was mainly attributable to the significant shift of cases to the outpatient area. In 2004, the number of operations performed on an outpatient basis rose by 190 to 322 (+ 144.0%). The average duration of stay declined by 0.8 days to 10.6 days; treatment days fell by 12.5 per cent to 15,176 days. Occupancy diminished to 65.8 per cent with the shorter duration of stay.

At **Stiftung Deutsche Klinik für Diagnostik (DKD)** in **Wiesbaden**, 23 specialist departments plus seven specialist consultancies registered with DKD work under one roof on an interdisciplinary basis, providing diagnosis of unclear clinical pictures and therapy of complex chronic diseases (e. g. diabetes, pain, oncological conditions, chronic inflammatory diseases of the gastrointestinal tract, neurological disorders, etc.). This clinic already complies with the requirements of healthcare policy for the integration of inpatient, day-case and out-patient care provision.

DKD, classed as a "Krankenhaus der Zentralversorgung" (centralised care facility), operates a total of 74 interdisciplinary inpatient beds, 60 day-clinic places for adults and children, and 18 beds for bone marrow transplants. Its centre for blood stem cell and bone marrow transplantation ranks among the leading centres of its kind in Germany.

In outpatient services DKD's focus is on preventive medicine, with treatment approaches being based on individual risk profiles (so-called "medical check-ups") as well as special outpatient examinations.

Not taking into account dialysis patients, the clinic treated a total of 35,780 patients in 2004 (compared with 35,569 in 2003) on an inpatient and outpatient basis. For structural reasons the clinic recorded only a small increase in patients of 0.6 per cent in total. There was a further rise in the number of bone marrow transplants, from 76 last year to 79.

Developments in Lower Saxony

Krankenhaus Cuxhaven, an academic training hospital serving the Medical College of Hanover, is a basic and standard care hospital operating 270 beds under the state hospital plan. In full-year 2004, 10,364 patients (previous year:

Braun, Thomas (24) – biologist (statutory health insurance)

» I wouldn't have any problem. As long as the treatment is good, I wouldn't mind going to a private hospital. I would look to receive optimum care adapted to my particular needs. «

10,570) were treated on an inpatient basis and 19,104 patients (previous year: 20,519) on an outpatient basis. The hospital's occupancy rate averaged 85.0 per cent.

Krankenhaus Cuxhaven assumes worldwide responsibility as the central institution for telemedical counselling of German ships. The division of the surgical clinic into emergency (accident) and visceral surgical units allowed for the range of medical services to be expanded. Going hand in hand with the reorientation of the medical offering were extensive investments in the technical equipment of the specialist departments. The hospital is also stepping up its collaboration with community-based practitioners.

Klinik Herzberg, an academic training hospital serving the University of Göttingen, is a basic and standard care hospital operating 270 beds under the state hospital plan. During the period under review, the number of inpatients treated rose by 2.3 per cent to 10,753 (previous year: 10,509). This was the result of further intensified co-operation with community-based doctors and the newly established emergency surgery unit. The hospital treated 14,500 patients on an outpatient basis (previous year: 15,465). A total of 349 patients were treated as part of outpatient operations begun in the second half of 2004.

The amalgamation of the Herzberg and Osterode sites together with the construction measures and improvements in medical equipment of the previous years have now paid off. Krankenhaus Herzberg's acceptance among the population as well as with practitioners based in the community has increased significantly since the hospital became part of the RHÖN-KLINIKUM Group more than six years ago.

Mittelweser Kliniken with its sites in **Nienburg** and **Stolzenau** saw a 9.5 per cent decline in the number of patients it treated on an inpatient and outpatient basis 40,873 (previous year: 45,160) in the period under review. The negative trend in case numbers for the most part stemmed from the lower service volumes persisting for some time at the Hoya site. As a result, the specialist departments of surgery as well as gynaecology and obstetrics at the Hoya hospital were closed on 30 June 2004, and the entire site on 31 December 2004.

For the Nienburg site, construction work began on a new hospital for 245 approved beds including day-case places in the summer of 2004. This was followed by the construction start for the teleportal clinic in Stolzenau for 70 approved beds. Its completion is slated for the end of 2005.

Already at the end of the year, the newly established surgery centre at the hospital in Nienburg saw a smart rise in inpatient numbers, particularly in the fields of knee and hip endoprosthetics. Moreover, the offering of the Nienburg hospital will be broadened significantly with the establishment of a specialist neurology department in 2005.

Klinikum Uelzen, an academic training hospital serving the Medizinische Hochschule Hannover, has been operating at the new site since December 2003 with 400 beds under the state hospital plan and 10 day-case places. The integration of the two previously existing hospital sites in Uelzen and Bad Bevensen has

Flohr, Brigitte (59) – businesswoman (private health insurance)

» I would use the (privately owned) hospitals. In the range of services offered it would be important for technical, lab and equipment capacities to be state-of-the-art. The hospital should have a good reputation, and its doctors and staff must have outstanding qualifications. «

gone smoothly. Seen against the background of the closure of the Bad Bevensen site, the two now amalgamated sites achieved acceptable patient numbers, treating a total of 28,526 inpatients and outpatients.

For Klinikum Uelzen, which is financed exclusively from our own funds, the financial year was marked by its organisational and economic consolidation. The offering was broadened in the area of cardiological and neurosurgical clinical areas, co-operation with community-based doctors was intensified at all levels, and the acceptance among the population strengthened by extensive information about the new hospital, setting the stage for higher case numbers in 2005.

Developments in North Rhine-Westphalia

Krankenhaus St. Barbara in **Attendorn** is a basic and standard care facility with 309 beds under the state hospital plan. The year 2004 was dominated by the switch to invoicing on a DRG basis and the accompanying introduction of outpatient operations. In 2004, 9,425 patients (previous year: 9,567) were treated on an inpatient and day-case basis and 9,412 patients (previous year: 7,840) on an outpatient basis (including 732 (previous year: 48) outpatient operations).

The refurbishing and extension measures initiated in 2002 were completed in the summer of 2004. The revamping of OP area with four operation theatres and a new family-oriented obstetric and maternity ward completed in previous years was followed in 2004 by the completion of a refurbished entrance and reception area, an intermediate care ward and a separate area for outpatient operations as well as a thorough renewal of the outside grounds. Moreover, a redesign and a new layout of examination and treatment rooms as well as the kitchen area were carried out to improve clinical processes.

Developments in Saxony

Krankenhausgesellschaft Dippoldiswalde was merged as planned into **Krankenhaus Freital** effective 1 January 2004 and renamed **Weißeritztal-Kliniken GmbH**. Clinic operations are being continued at both hospital sites counting a total of 443 beds. The common medical and administrative management of the two hospitals brought improvements in the quality of medical care (thanks to an interdisciplinary approach) as well as in efficiency. In reporting year 2004, 13,552 patients (previous year: 14,899) were treated on an inpatient basis and 24,912 patients (previous year: 31,166) on an outpatient basis.

Weißeritztal-Kliniken (Freital site), an academic training hospital serving the Technical University of Dresden, was one of the eight hospitals from the Free State of Saxony approved in 2004 to treat diabetics as part of the Diabetes Mellitus Disease Management Programme. This in turn broadened the contractual basis for continuing and building on the five years of successful work done under the model project on integrated care of patients with diabetic foot syndrome. Freital is also the site of a major centre established for the interdisciplinary treatment of stomach diseases.

At the Dippoldiswalde site, 2004 witnessed the start of demolition and construction work for the new partial replacement building for

Zduneil, Daniela (23) – student (statutory health insurance)

I wouldn't have any problem. Private hospitals have certain advantages, like probably being able to get a single room, as well as competent treatment and a doctor always being there for you.

the planned teleportal clinic. The partial replacement building to be commissioned in November 2005 will then be complemented by the construction of a new medical care centre (MVZ), turning the Dippoldiswalde hospital site into an attractive and modern healthcare centre.

The concept of research and training under the aegis of a private hospital operator has been realised for over ten years at **Herzzentrum Leipzig – Universitätsklinik**. During this period it has proved itself to be a successful model for all – for the professor chairs represented at the hospital, for the medical faculty of the University of Leipzig, for Herzzentrum Leipzig GmbH, as well as for the patients. It aptly demonstrates that medicine meeting the highest international standards, first-class achievements in research and training, high-quality patient care as well as work procedures making efficient use of resources are not self-contradictory but can exist in symbiosis.

In its three clinics with a total of 316 beds under the state hospital plan, the centre provides comprehensive diagnostics and conservative, minimally invasive and surgical therapy of all diseases of the cardiovascular system in the area of adult and paediatric cardiosurgery, cardiology as well as paediatric cardiology.

In the year under review, the centre recorded a total of 17,895 inpatient and day-case treatments (previous year: 16,692). Occupancy was 89.8 per cent.

Park-Krankenhaus Leipzig-Südost, an academic training hospital serving the University of Leipzig, with its 255 somatic beds, 245 psychiatric beds and 40 day-clinic places, in 2004 treated a total of 10,321 inpatients (previous year: 10,502). Occupancy of the approved beds averaged 93.4 per cent over the year.

In 2004 patient care was maintained at a consistently high level. The close structural proximity to Herzzentrum Leipzig brought quality improvements for the patients of both centres, besides promoting an optimised use of resources.

The series of "Sunday lectures" in Park-Krankenhaus, in which medical subjects are presented and explained in a down-to-earth way that everyone can understand, was very well received by the general public in 2004.

Soteria Klinik in **Leipzig** is a specialist centre for alcohol and medicine dependence with 56 acute beds, 154 therapy places for rehabilitation, 20 therapy places for adaptation, and ten apartments for assisted living, treating patients suffering from alcohol, medicine or multiple dependence as part of a intersectoral holistic approach. In the rehabilitation area a motivation group for unemployed patients was additionally established in the fourth quarter of 2004. In the financial year under review, the centre treated a total of 2,676 inpatients (previous year: 2,666).

Klinikum Pirna and the Dohna-Heidenau site were amalgamated in March 2004 at the Pirna site. The amalgamation of the 512 beds (including 16 day-care places) approved under state hospital planning resulted in specialist medical competence being concentrated at Klinikum Pirna. It also brought considerable improvements in patient care thanks to the new possibilities opened up for interdisciplinary

Mertznich, Josefine (25) – secretary (statutory health insurance)

» *I would have not objections because I think you get better treatment in a private hospital than in a state hospital. My experience has been that state hospitals are understaffed, underequipped and overstretched.* «

treatments, the common use of expanded diagnostic and therapy facilities as well as a significant optimisation of resources.

Up to commissioning of the new total replacement buildings housing the Somatic Clinic in December 2006 (start of construction: September 2004), the urology department will continue to be accommodated in Pirna in a modern, newly erected temporary 32-bed ward in modular container design with an additional operating theatre and a new-generation lithotripter. 1 September 2004 saw the commissioning of a cardiac catheterisation laboratory equipped with an ultra-modern a left-heart catherisation unit for examining and treating coronary arteries and other blood vessels. The left-heart catheterisation unit represents a substantial improvement in the delivery of emergency treatment to people in this region, allowing for quick and efficient care to be provided for heart-attack patients on site and around the clock. In the department of emergency (accident) surgery, the range of treatments was broadened in traumatology endoprosthetics as well as disk and spinal surgery. Moreover, an intermediate care ward was created for internal-medicine patients as well as patients requiring post-operative monitoring.

Despite restructuring and relocation measures, the total number of inpatients of 14,434 was only slightly below the pre-year level (– 1.3%).

Developments in Thuringia

Zentralklinik Bad Berka treated 23,240 inpatients (previous year: 23,033) and 9,140 outpatients (previous year: 7,909) during 2004.

The number of day-case treatments was 2,823 (previous year: 2,819). For the centre's 669 beds under the state hospital plan, the occupancy rate averaged 91.3 per cent (previous year: 90.7%).

In 2004 further investments were made in cutting-edge medicine. These included a PET-CT (direction combination of positron emission tomograph with a computer tomography system, which among other things enables excellent cancer diagnoses), as well as a beta laboratory. The latter makes this centre the only hospital in Germany to offer the new radiopeptide therapy (peptides, which carry beta emitters and destroy tumorous cells).

Since July 2004 Zentralklinik Bad Berka runs an additional clinic for palliative medicine (14 beds). This clinic provides qualified treatment for patients with incurable progressive and far-advanced diseases with limited life expectancy.

Krankenhaus Waltershausen-Friedrichroda is standard-care hospital with 234 beds. In the financial year under review, the centre treated a total of 10,079 inpatients (previous year: 10,316).

Given the shift in treatments from the inpatient to the outpatient area, the number of outpatient operations rose to 572, representing a marked increase over the previous year (131).

Fachkrankenhaus für Psychiatrie und Neurologie in **Hildburghausen** recorded a total of 3,835 inpatient treatments, 200 more than the previous year.

Lang, Britta (37) – businesswoman (statutory health insurance)

» I would have no reservations about staying in a private hospital provided that the service range is also adequate. For me it would be important for the hospital to ensure good follow-up treatment. «

By opening a day-clinic facility in the city of Suhl on 6 December 2004 and increasing the number of inpatient beds in the adult psychiatry clinic by 20, the total number of beds under the state hospital plan was increased by 40 versus the previous year. As a result, 50 beds are available for the neurology department, 208 for adult psychiatry and 28 for paediatric and juvenile psychiatry. The specialist hospital also has three day clinics with 32 beds for adult psychiatry and four beds for paediatric and juvenile psychiatry. All beds are approved under the state hospital plan.

In May 2004 the extensive renewal of the forensic unit could begin after the building permit for the new forensic unit was granted. We expect completion already in April 2006.

As in the previous years **Klinikum Meiningen**, a standard and specialist care provider (categorised as "Krankenhaus der Regel- und Schwerpunktversorgung") with 568 beds under the state hospital plan, continued to ensure healthcare delivery at a high level in 2004. In the financial year under review, the centre treated a total of 24,491 inpatients (previous year: 25,332). Outpatient attendances saw a rise of 15.4 per cent to 24,107 (previous year: 20,891).

In the medical area Klinikum Meiningen continues to take advantage of state-of-the-art medical technology, for example through its adoption of double balloon enteroscopy. To date Klinikum Meiningen is the only facility in the Free State of Thuringia that uses this new technique from Japan for examining the small intestine. Advantage: the new eteroscope for the first time makes it possible for the entire small intestine to be examined and for interventions to be performed at the same time.

Attention was also focused on the application and further development of patient-friendlier operation procedures. For example, the successful implementation of the "fast-track" concept as part of laparoscopic colon surgery versus traditional therapy has minimised undesired side effects, reduced general complications and resulted in accelerated post-operative recovery of patients.

NEW HOSPITALS FROM 2005

Bavaria

- Klinik München-Pasing: major regional centre with 442 approved beds
- Klinik München-Perlach: general care facility with 180 approved beds
- Klinikum Dachau: major regional centre with 443 approved beds
- Klinik Indersdorf: general care facility with 50 approved beds, 60 rehabilitation beds, ten day-clinic geriatric rehab places

Lower Saxony

- Krankenhaus Hildesheim: major regional centre with 570 approved beds
- Krankenhaus Gifhorn: major regional centre with 349 approved beds
- Krankenhaus Wittingen: general care facility with 71 approved beds
- Krankenhaus Salzgitter-Lebenstedt: standard care facility with 258 approved beds
- Krankenhaus Salgitter-Bad: standard care facility with 192 approved beds

Medical quality management at RHÖN-KLINIKUM Group

Basic principles of medical quality management at RHÖN-KLINIKUM AG

The task of medical quality management at RHÖN-KLINIKUM AG is to make good medicine "planable" and visible.

In this connection, planable quality first of all means ensuring, by taking the right measures for this, that patients at RHÖN-KLINIKUM AG facilities at all times can expect to find state-of-the-art medicine meeting the highest standards and the individual needs of patients.

By visible quality we mean that the staff must not content themselves with the "felt quality" of their work. No one doubts that every nurse, every physiotherapist and every doctor always "give their best". However, felt quality and spontaneous willingness to improve are not enough: all those involved – employees, patients, the general public and payers – have an interest in the quality of medical activities being made visible to them with quality indicators. These are defined as measuring values that are easy to collect, plausible and useful.

Wherever possible, quality measurement should draw on already existing data – this ensures an efficient use of resources – as well as on result indicators of high scientific value – this ensures that the measurements are convincing. Should either of these not be available, that does not release the individual doctor in charge from the duty to perform a databased review of his or her treatment quality. Medical quality management in this sense is just as much an integral and self-evident part of medical (and nursing) work as a complete anamnesis, good documentation or the observance of hygiene rules.

The principle of making good medicine planable and visible is also duly reflected of in the organisational and construction concept of RHÖN-KLINIKUM AG hospitals.

Structure of medical quality management at RHÖN-KLINIKUM AG

Medical quality management at RHÖN-KLINIKUM AG is organised at three levels – department, hospital, Group.

Department level: Final responsibility for medical activity – as in all other medical subjects – lies with the individual doctor and thus, in the individual department, with the senior or head physician of that department. Together with the hospital's management, the latter identifies his core medical services and in turn the procedures to be described (e. g. for procedures involving considerable risk) and the measuring values of quality (quality indicators). He communicates his knowledge internally – within the department (local PDCA cycle), the hospital and the Group – as well externally (e. g. in quality reports).

Quality assurance measures taken at the hospital level on the one hand have subsidiary character (consistent interdisciplinary description of processes) and on the other represent joint quality assurance projects: if a hospital in a concerted and consistent manner pursues the joint project of gaining greater acceptance among referring doctors, or that of optimising the night shift of the emergency ward, it will describe the corresponding processes as well

as the related measuring values in interdisciplinary terms.

Similarly, medical quality management at the Group level is subsidiary in its effects by bringing about the Group-internal networking among colleagues of the same discipline, by establishing the connection (Group-externally) to the healthcare system and by making available the day-to-day tools of the trade.

While none of these measures discharges the doctor from his ultimate medical responsibility, nor the hospital from its ultimate organisational responsibility, they are able to make it considerably easier to assume and fulfil this responsibility from day to day.

Stage of implementation

The structure outlined above for Group-wide medical quality management was resolved by the Board of Management early in 2004. Starting in July 2004 the corresponding working group was established within Management, and in July and August 2004 a position audit (covering all three levels) was performed on the quality assurance measures established. Since September 2004 quality indicators and quality circles are also identified and established for those clinical disciplines that are not covered by the binding regime pursuant to section 135 a [2] 1 Social Insurance Code V (SGB V) (National Quality Assurance Centre – BQS). An interim report (with concrete results) will be presented by departments, hospitals and the Group in the summer 2005 quality reports.

Conclusion

Medical quality management as understood by RHÖN-KLINIKUM AG means making good medicine planable and visible – planable through optimising and structuring clinical processes and integrating the individual departments into external quality assurance programmes, and visible through identification of significant measuring values of good medicine on an ongoing basis. In so doing, the hospitals of RHÖN-KLINIKUM AG are first and foremost fulfilling their legal obligations. However, where the relevant bearings provided by the self-governing bodies of the German healthcare system are found wanting, we at RHÖN-KLINIKUM AG will avail ourselves of other quality assurance measures.

Management Report for the year 2004

- **Revenue and earnings forecasts achieved amid difficult market conditions**
- **Consolidated profit up 4.5 per cent at € 76.4 million on the back of 9.3 per cent rise in revenue to € 1,044.8 million**
- **Group's inward and outward expansion developed apace**
- **Growth already under way in 2005**

SUMMARY

During the financial year ended 31 December 2004 we raised consolidated revenues by € 88.5 million (9.3%) to € 1,044.8 million. Given the conditions currently prevailing on the hospital market generally, we are on the whole very pleased with the rise in consolidated profit by € 3.3 million (4.5%) to € 76.4 million. We were able to fully finance our 2004 investments of € 101.3 million from the cash flow of € 137.8 million. In the period under review, net debt rose slightly by € 7.0 million to € 222.5 million. It is still 1.2 times earnings before interest, taxes and depreciation (EBITDA). The Group's equity ratio grew from 43.9 per cent to 47.0 per cent.

Hospital market conditions triggered a flurry of acquisitions. Driven by the takeover of the hospitals in Bad Kissingen, Hammelburg and Pforzheim, the total number of beds within the Group rose in financial year 2004 by 846 beds or 10.1 per cent to reach 9,211 beds.

In 2004, company purchase agreements were concluded for nine hospitals counting a total of 2,625 beds. These hospitals were taken over effective 1 January 2005.

The acquisition of a further three hospitals comprising a total of 604 beds is subject to possible prohibition by the Federal Cartel Office. In that event we shall avail ourselves exhaustively of all legal avenues at our disposal. Given the large offering of hospitals seeking privatisation, we do not foresee our growth diminished in any way. That said, a Cartel Office refusal would be diametrically opposed to our strategy and the goals of German healthcare legislation.

In financial year 2004, operative management capacities were stepped up on a massive scale. This will enable us to cope with the substantial growth ahead through integration and quality management. One of our key objectives is to reduce the time-to-turnaround of newly acquired hospitals.

Not taking into account potential new acquisitions, our 2005 revenues will rise to around € 1.4 billion, and we expect a net consolidated profit of roughly € 80.0 million.

Bernd, Christine (40) – education specialist (statutory + private health insurance)

I would definitely have no reservations against a private hospital as long as the qualification of doctors is the same as with state hospitals. In the event of emergency hospitalisation, I would not like to have long waiting times.

ECONOMIC AND LEGAL ENVIRONMENT

Macroeconomic factors

In Germany expectations for a sustained economic recovery were disappointed. The 0.9 per cent rise in adjusted gross national product in the first two quarters was not maintained over the rest of the year. Instead, the fourth quarter of 2004 recorded negative growth of 0.2 per cent, trimming the full-year figure to 0.7 per cent.

Insecurity was fuelled by public debate on the consequences of the reform of social legislation, the absence of a turnaround on the labour market as well as crises of well-known companies at home. Coupled with the subdued mood in general, this has put a lid on any significant rise in private consumption. In the shadow of mounting national debt and the Maastricht criteria, public sector capital expenditures flagged. Growth in exports, far from offsetting the weakness in the domestic economy, instead came under pressure itself from the persistently strong euro and rising commodity prices.

The controversial plan to restructure funding in the healthcare system was unable to achieve its objective of significantly reducing incidental wage costs.

With no tangible prospect of relief from cumbersome labour costs, companies are looking to boost competitiveness by investing in product innovations while making targeted rationalisation investments or expanding capacities abroad to optimise their cost structures.

For 2005 we expect growth at best to match the level of 2004, despite greater flexibility in working times, remuneration and structures in the public service sector. Debate on public infrastructure financing will heat up. With public debt at record levels and public finances saddled each year with an ever-increasing interest burden, the state's manoeuvring room is restricted despite persistently low interest rates. The state's withdrawal from public infrastructure funding and public services is clearly visible from the embracing of PPP (public-private partnership) models or privatisation. This trend will gather pace. The latest example is the planned private financing of motorway construction projects which otherwise could not be finished within an acceptable period.

Developments within the sector

General economic conditions continue to dominate financing issues in the German healthcare system. With only marginal reductions in contributions to statutory health insurance, financial year 2004 saw the payers of the system mostly busy reducing their debt as the tight spending policy continued.

The demographically induced trend towards rising demand for hospital services also continued to pose a challenge to all hospitals in Germany, with the biggest increases being recorded in outpatient attendances and day cases. Against this context the virtually unchanged level of revenue translates into a continuing declining trend in per-case revenue.

At the same time, increasingly shorter durations of stay have brought a further decline in the number of beds approved under state hospital plans in Germany.

State investment aid to hospitals was also unable to alleviate the investment backlog in 2004 also. Anyone taking a walk through hospitals in general cannot help but to notice the obvious dearth of investment – the days of dual financing in the German hospital system are clearly numbered.

For hospitals, financial year 2004 marked the end of the last so-called budget-neutral year prior to introduction of case flat rates (DRGs). Starting from 2005, existing budgets will gradually be replaced by base rates. These apply nationally, resulting in statutorily imposed caps on service volumes being phased out.

The budget-neutral introduction of the system of case flat rates (DRGs) in 2003 and 2004 has made high demands on all hospitals' administrative and organisational capacities. Coming on top of this was the massive pressure on hospitals to change their clinical processes in response to the statutorily stipulated pre-eminence of outpatient over inpatient treatment. At the same time the terms on which providers can co-operate across sectors and offer special treatment programmes for the chronically ill were improved. Failing sufficient investment capabilities, many hospitals simply do not have the wherewithal to seize the opportunities offered by these developments.

In 2004, demand for hospitals up for privatisation was far outstripped by supply. For some facilities the privatisation procedure was called off when they were found not to meet expectations.

We have honed our selection criteria for takeovers, rigorously applying the principle of "quality before quantity". Before entering into negotiations, we first have to convince ourselves of a facility's long-term stability and the future viability of its medical offerings. Increasingly, we tie the vendors to a financing role in restructuring the facilities sold.

Corporate Governance

RHÖN-KLINIKUM AG is committed to responsible corporate management and supervision for long-term value enhancement. Effective co-operation between the Board of Management and the Supervisory Board together with open and timely communication has helped to actively promote investor, employee, patient and public confidence in the Company and its management. Honouring these corporate principles is one of the mainstays of the ongoing success story of RHÖN-KLINIKUM AG, which looks back on more than 25 years of uninterrupted growth.

For financial year 2004, the Company issued a Declaration of Compliance with the German Corporate Governance Code, pursuant to Section 161 of the Stock Corporation Act (AktG), which gives due regard to the recommendations of the Government Commission of the German Corporate Governance Code as amended on 21 May 2003. This Declaration was

Zobeley, Hans (64) – pensioner (statutory health insurance)

» I wouldn't have any problem with using the services. It would be important to have a proper room with two beds at the most, and a complete bathroom unit with toilette, washbasin and shower. Impeccable hygiene conditions would also be a must as well as sufficiently qualified nursing staff and doctors with current medical knowledge. «

published on the Company's website www.rhoen-klinikum-ag.com in March 2004.

The Company's shares are divided into non-voting preference shares and voting ordinary shares. In keeping with past practice, our Annual General Meeting is always held in the month of July. At the beginning of February the Company's preliminary results are published, with the final results being presented with our annual financial statement at a press conference in April each year. The Company provides proxies for shareholders to exercise shareholders' rights at its annual general meetings.

In line with the principle of parity representation of shareholders and staff, the Supervisory Board of RHÖN-KLINIKUM AG comprises eight employees' representatives and eight shareholders' representatives. The Board normally holds four full-day meetings per financial year (in 2004: 6 meetings). Members are appointed for a period of five years. Age restrictions apply. The Supervisory Board regularly takes its decisions in plenary sessions; only in isolated cases are decisions made by circular. The Company has a Mediation Committee, a Personnel Affairs Committee, an Audit Committee as well as an Ad Hoc Committee for Major Investments. Terms of Reference have been adopted for the activities of the Board of Management and of the Supervisory Board, including co-operation between these two bodies.

The Board of Management at present comprises seven members. In line with the Board's Terms of Reference that regulate the allocation of areas of responsibility, there are centralised group-wide responsibilities for defined functions on the one hand and regional responsibilities on the other. The Board of Management is headed by the chairman of the Board, or, in his absence, by the deputy chairman. The chairman determines the principles of corporate policy. The Board of Management as a whole is responsible for further developing, planning and controlling the operations of the entire Group. Age restrictions also apply to the Board of Management.

The compensation of the members of the Supervisory Board and the Board of Management is made up of fixed salary and variable components, with variable components predominating. The Group does not provide stock option programmes or similar forms of compensation. Details of the compensation of each member of the Supervisory Board and the Board of Management are set out in the Notes to the consolidated financial statements, broken down by fixed salary and variable components. The basic principles of the Board of Management's compensation structures are published on the website of RHÖN-KLINIKUM AG. Particulars on holdings of RHÖN-KLINIKUM shares by the Board of Management and the Supervisory Board are also provided in the Notes to the consolidated financial statements.

The consolidated annual financial statements are drawn up in accordance with the provisions of International Accounting Standards/ Financial Reporting Standards and audited in accordance with both national and international auditing standards. The annual financial statements of our subsidiaries are based on the provisions of the German Commercial Code (HGB). When issuing auditor mandates, due care is taken to ensure the requisite independence of the auditors appointed. The audit mandate for the consolidated financial statements and the financial statements of the Company (parent Company) is issued by the chairman of the Supervisory Board after due examination, in accordance with the resolutions of shareholders at the Annual General Meeting.

The chairman of the Board of Management and the board member responsible for financing, investor relations and controlling (CFO) share responsibility for risk management and group-wide controlling systems and procedures. Our fine-tuned system of Terms of Reference at all levels – including the boardroom, regional directors, and managing directors at the subsidiary level – and that system's clearly defined reporting lines and approval duties are designed to ensure respon-sible corporate governance and controlling by the Board of Management as well as timely transfer of information.

CONSOLIDATED TREND

Sites, capacities and services

Compared with the previous year, our sites and bed capacities developed as follows:

	Time	Hospitals	Beds
As at 31 Dec. 2003		**29**	**8,365**
Site closures			
Dohna-Heidenau (integration with Klinikum Pirna)	03/2004	1	0
Hoya	12/2004	1	16
		2	16
Acquisitions			
Krankenhaus Hammelburg	01/2004	1	130
Krankenhaus St. Elisabeth Bad Kissingen	01/2004	1	196
Klinikum Pforzheim	07/2004	1	602
		3	928
Other changes			
Change in approved beds			– 66
As at 31 Dec. 2004		**30**	**9,211**

In 2004 we concluded company purchase agreements for the following – not yet consolidated – hospitals:

	Number of beds	Consolidation date
Krankenhaus Hildesheim	570	1 Jan. 2005
Klinikum Dachau	443	1 Jan. 2005
Klinik Indersdorf	120	1 Jan. 2005
Klinik München-Perlach	180	1 Jan. 2005
Klinik München-Pasing	442	1 Jan. 2005
Krankenhaus Bad Neustadt	208	open
Krankenhaus Mellrichstadt	70	open
Krankenhaus Salzgitter-Lebenstedt	258	1 Jan. 2005
Krankenhaus Salzgitter-Bad	192	1 Jan. 2005
Krankenhaus Eisenhüttenstadt	326	open
Krankenhaus Gifhorn	349	1 Jan. 2005
Krankenhaus Wittingen	71	1 Jan. 2005
	3,229	

Issa, Asis (30) – student (statutory health insurance)

» I certainly wouldn't have any objections, since I think that private operators are compelled by the market to ensure the best services for their patients. But only a small clientele can afford this. «

By the end of February 2005 cartel law approval had been granted for all hospitals with the exception of Eisenhüttenstadt, Bad Neustadt and Mellrichstadt. Excluding further acquisitions in 2005, this brings capacity to 11,836 beds in a total of 39 facilities at 31 sites.

The aggregate number of patients treated rose to 598,485, representing a 12.9 per cent increase over the previous year. Around 58,000 patients were accounted for by newly acquired hospitals, and around 11,000 patients, or 2.0 per cent, were added by Group hospitals consolidated prior to 2004.

	2004	2003	Change	
	Patients	Patients	Patients	%
Inpatients, acute	287,204	255,487	31,717	12.4
Inpatients, rehab	7,067	6,656	411	6.2
Outpatients, acute	304,214	267,926	36,288	13.5
Total	**598,485**	**530,069**	**68,416**	**12.9**

On the back of new acquisitions, the rise in inpatient acute bed capacity averaged 9.6 per cent over the year. Based on a rise in inpatient numbers by 12.4 per cent and a reduction in the average duration of stay in hospital by 9.8 per cent or 0.8 days to 7.9 days, overall average occupancy for the year declined by 5.7 per cent to 80.4 per cent. Occupancy in the rehab area averaged 91.5 per cent (previous year: 79.5%) with an average duration of stay of 40.4 days (previous year: 40.6 days). These developments are being driven by group-wide efforts to adapt to DRG-compatible lengths of stays, increasing volumes of day-clinical surgery, and the fact that newly acquired facilities awaiting the necessary restructuring usually show lower occupancy rates than our "older" hospitals.

Per-case revenues declined from € 1,804 to € 1,746 due to statutory budget ceilings and a disproportionate rise in outpatient and day cases.

Business performance

Overall, our hospitals have developed in line with our expectations. A property company is still posting a negative result. Krankenhaus St. Barbara in Attendorn recorded an operating loss due to declining occupancy coupled with depreciation and interest payments in connection with the commissioning of a partial new construction. At Krankenhaus Hammelburg the implementation of a new medical concept led to temporary revenue losses that could not be offset by cost savings. On account of reductions in remuneration which could not be compensated immediately by cost cuts, some of our hospitals did not develop in line with expectations whilst other Group members exceeded internal expectations. The integration of hospitals acquired in the previous year was successful. Even the Group's long-standing hospitals were generally able to match the high level of their pre-year operating results.

Against this background, Group performance figures developed as shown below:

	2004	2003	Change	
	€ million	€ million	€ million	%
Revenues	1,044.8	956.3	88.5	9.3
EBITDA	180.9	174.8	6.1	3.5
EBIT	123.8	125.6	– 1.8	– 1.4
EBT	111.9	111.2	0.7	0.6
Operating cash flow	137.8	128.9	8.9	6.9
Earnings from ordinary operations	111.9	111.2	0.7	0.6
Net consolidated profit	**76.4**	**73.1**	**3.3**	**4.5**

	2004	2003
	%	%
Return on equity (after taxes)	14.8	16.0
Return on sales	7.3	7.6
Cost of materials ratio	24.2	24.1
Personnel cost ratio	52.3	51.9
Depreciation ratio	5.5	5.1
Other cost ratio	9.0	8.6
Tax rate	28.3	28.4

Revenues and earnings

In financial year 2004, revenues rose by 9.3 per cent to € 1,044.8 million, with external growth accounting for 71.0 per cent of this increase and organic growth for 29.0 per cent. Year-on-year organic growth in revenues stood at 2.6 per cent, exceeding the statutory budget growth rates capped to 0.71 per cent in the new federal states and 0.02 per cent in the old federal states.

EBITDA grew by € 6.1 million or 3.5 per cent to reach € 180.9 million, and was the net result on the one hand of improvements in the operating earnings of our hospitals (€ 10.5 million in total), and on the other of additional expenditures for bolstering operative group management and for establishing quality and integration management structures together with higher transaction expenditures (€ 4.4 million in total). The EBITDA margin declined by 1.0 per cent to 17.3 per cent.

Depreciation on tangible assets rose disproportionately by € 7.9 million. However, this was offset by declines in the interest balance to the tune of € 2.5 million thanks to lower interest rates, so that earnings before tax (EBT) still posted an increase of € 0.7 million or 0.6 per cent.

The acquisition of a 12.5 per cent interest in Zentralklinik Bad Berka GmbH saw minority interests decline by € 2.8 million. With the earnings tax burden virtually unchanged, net consolidated profit saw a disproportionately moderate rise by € 3.3 million or 4.5 per cent to € 76.4 million. Return on sales declined by 0.3 percentage points to 7.3 per cent and return on equity (after tax) by 1.2 percentage points to 14.8 per cent.

Other operating income of € 29.3 million (previous year: € 27.1 million) essentially comprises income from ancillary and incidental activities, rental income, as well as grants for operating costs received inter alia for teaching and research. The € 2.3 million increase in revenues stems from the takeover of the new companies.

Röhr, Ute (58) – independent entrepreneur (statutory health insurance)

» When it comes to medical care, you have to get everything right; follow-up treatment, such as physiotherapy and exercise baths, is also extremely important. In addition I would ask for a single room and good care. «

	2004	2003	Change	
	€ million	€ million	€ million	%
Cost of materials	252.4	230.4	22.0	9.5
Personnel costs	546.6	496.0	50.6	10.2
Depreciation	57.1	49.2	7.9	16.1
Other operating expenditure	94.3	82.1	12.2	14.8
Total	**950.4**	**857.7**	**92.8**	**10.8**

The trend in material costs was slightly disproportionate to revenue growth. The cost-of-materials ratio remained nearly constant, with higher ratios at acquired general hospitals offsetting the slight savings achieved at the Group's long-standing consolidated hospitals. The trend towards increased use of higher-priced implants and pharmaceuticals continued in 2004, but was neutralised by lower purchase prices.

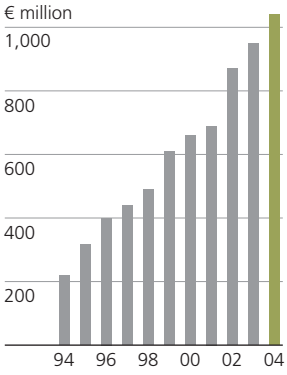
The rise in personnel expenditure was disproportionate to the trend in revenues. The personnel cost ratio rose by 0.4 per cent to 52.3 per cent (previous year: 51.9%), reflecting a combination of improvements in staffing and workflows in our hospitals and the disproportionately higher personnel cost ratios.

The completion of major investment projects – notably the newly constructed hospital in Uelzen commissioned at the beginning of the year and financed fully from own funds – together with the investments in Hildburghausen and Attendorn brought higher depreciations in 2004 (+ € 3.7 million). As a result of the construction of a new teleportal clinic in Dippoldiswalde, extraordinary write-downs totalling € 3.7 million had to be taken on old buildings initially to be restored but now to be torn down.

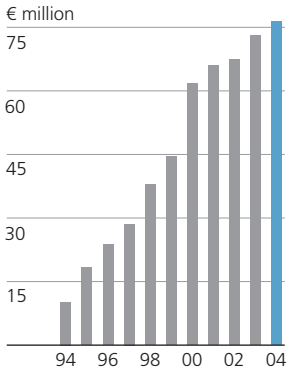
Other operating expenses rose disproportionately, from € 82.1 million in the previous year by € 12.2 million to € 94.3 million in 2004, translating into an increase of 14.8 per cent. € 6.8 million of this increase is accounted for by newly acquired hospitals. At the facilities already consolidated in 2003, a disproportionate rise was recorded above all in transaction costs for hospital acquisitions, costs of expanding EDP structures as well as value adjustments on receivables. Costs of recultivation of sites on which buildings were vacated/torn down in Pirna and Dippoldiswalde were taken into account at a charge of € 1.1 million.

Scheduled and early debt redemption combined with more favourable conditions for short-term interest rates as well as for long-term follow-up financing helped improve the 2003 financial result by € 2.5 million to € 11.9 million (previous year € 14.4 million).

Development of revenues



Net profit for the year



Earnings tax expenditure increased by € 0.2 million to € 31.7 million (previous year: € 31.5 million). The tax rate of 28.3 per cent is almost exactly the same as the pre-year figure of 28.4 per cent. The impact of the 1.5 per cent reduction in the corporation tax rate to 25.0 per cent (plus solidarity surcharge) is diminished by flat-rate taxes on dividend payments and back-payments for previous years.

Minority shares in net profit decreased to € 3.8 million (previous year: € 6.6 million). The acquisition of an additional 12.5 per cent interest in Zentralklinik Bad Berka GmbH resulted in minority interests being halved.

Net consolidated profit for the year rose by € 3.3 million or 4.5 per cent to reach € 76.4 million (previous year: € 73.1 million).

Asset and capital structure

Long-range comparisons since 1995 show that business growth has consistently outpaced indebtedness: while revenues have tripled since 1995, interest-bearing liabilities have increased by only around 26 per cent. The Group's financial position continues to be comfortable, as can be seen in the table below.

	31 Dec. 2004		31 Dec. 2003	
	€ million	%	€ million	%
ASSETS	853.4	73.4	811.9	73.2
Long-term assets	309.1	26.6	297.1	26.8
Short-term assets	**1,162.5**	**100.0**	**1,109.0**	**100.0**
LIABILITIES				
Equity	545.9	47.0	487.3	43.9
Long-term loan capital	305.2	26.2	230.1	20.7
Short-term loan capital	311.4	26.8	391.6	35.3
	1,162.5	**100.0**	**1,109.0**	**100.0**

Group assets increased by 4.8 per cent, driven by acquisition and investing activities. The Group's equity ratio went from 43.9 per cent to 47.0 per cent. Equity now stands at € 545.9 million (previous year: € 487.3 million). Overall, 99.7 per cent (previous year: 88.4%) of long-term assets are covered by equity and long-term liabilities. In financial year 2004, we converted short-term funds employed in 2003 into long-term positions. Net debt to banks rose slightly by € 7.0 million to € 222.5 million at Balance Sheet date. The Group continues to enjoy sound Balance Sheet and financial structures.

Investments and financing

Aggregate investments of € 196.4 million in financial year 2004 are shown in the following table:

	Use of grants	Use of own funds	Total
	€ million	€ million	€ million
Current capital expenditure	29.2	50.3	79.5
Hospital takeovers	65.9	51.0	116.9
Total	95.1	101.3	196.4

During financial year 2004, we invested a total of € 196.4 million in fixed tangible and intangible assets. Of this total, € 95.0 million was funded from grants under the Hospital Financing Act (KHG) and deducted from total investments pursuant to the relevant provisions of IAS. Factoring out these grants, 2004 net investments amounted to € 101.3 million (previous year: € 112.5 million). Assets acquired

Dorscht, Ole (26) – student (private health insurance)

» I would not have any reservations provided that basic care and services at least meet the same standards as in state hospitals. The next prerequisite is the cost factor. Treatments must stay within reasonable financial limits so that everyone can afford them. No multi-tiered society in healthcare. «

on takeovers accounted for € 51.0 million (previous year: € 24.3 million) and current capital expenditure for € 50.3 million (previous year: € 88.2 million) of total net investments during the year under review. An analysis of investments by region is given below:

	€ million
Bavaria	53.4
Baden-Wuerttemberg	82.7
Brandenburg	12.1
Hesse	2.5
Lower Saxony	6.4
North Rhine-Westphalia	4.8
Saxony	15.4
Thuringia	19.1
Total investment	196.4
Deduct: grants under KHG	95.1
Net investments	101.3

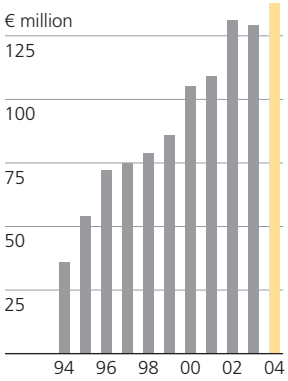
The move into the new building at St. Barbara Attendorn took place in June 2004. The extension project at Fachkrankenhaus für Psychiatrie und Neurologie in Hildburghausen opened its doors from May 2004. New hospital construction projects in Nienburg, Pirna and Dippoldiswalde started on schedule. Construction work on the hospital in Cuxhaven is slated to begin in late autumn 2005.

Major investments at consolidated hospitals in a total volume of € 183.2 million are planned for the construction of major centres (Schwerpunktkliniken) at our Nienburg, Pirna and Cuxhaven sites, for a new forensic clinic in Hildburghausen, as well as for teleportal clinics at our Dippoldiswalde, Stolzenau and Hammelburg sites. Structural improvements designed to optimise clinical processes are planned for our Frankfurt (Oder), Bad Kissingen and Pforzheim sites.

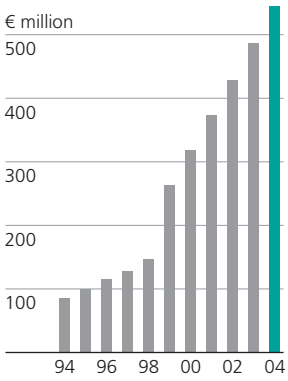
A total of € 52.8 million (previous year: € 41.4 million) was invested in 2004 in hospital equipment, and above all in medical and information technologies. Of this, € 22.8 million (previous year: € 16.6 million) was funded from investment grants under the Hospital Financing Act (KHG). It is this capital expenditure financed out of our own funds that secures our technology lead in the hospital market over the long term. For 2005, replacement investment of roughly € 40.0 million is planned.

The operating cash flow rose to € 137.8 million, a rise of € 8.9 million over the previous year. Besides dividend payments (€ 17.8 million), we financed the full amount of net investments (€ 101.3 million) from the cash flow.

Development of cash flow



Development of capital



Medical specialities represented by physicians within RHÖN-KLINIKUM Group (as at 31 December 2004)

Medical fields
Internal medicine (undivided)
– Cardiology
– Gastroenterology
– Haematology/ Oncology
– Pneumology
– Angiology
Rheumatology
Geriatrics
Palliative medicine
Paediatrics
Neonatology
Surgery (undivided)
Visceral surgery
Vascular surgery
Thoracic surgery
Emergency (accident) surgery
Orthopaedics
Paediatric surgery
Hand surgery
Plastic surgery
Heart surgery
Neuro-surgery
Oral and maxillofacial surgery
Urology
Gynaecology/obstetrics
Oto-rhino-laryngology
Ophthalmology
Dermatology
Neurology
Psychiatry/psychotherapy
Paediatric/juvenile psychiatry
Psychosomatics
Diagnostic radiology
Nuclear medicine
Radio-therapeutics
Anaesthesics/instensive medicine
Rehabilitation

Staff

In our sector, vying for certain staff groups can be intense. Besides executive staff in the medical and administrative area, qualified nursing staff are not easy to come by either. As with any service providing business, major gaps in staff ranks immediately make themselves felt: quality is comprised, risks are increased, and growth opportunities are missed. Timely and qualified staff hiring is becoming increasingly important. By offering incentive components in compensation, possibilities for promotion within the Company, attractive training and higher-qualification opportunities, and a special programme for training young executives, we set out to do more than just win qualified people, but also strive to keep them committed to us long-term.

At 31 December 2004, the Group employed a staff of 14,977 (previous year: 13,408). This translates into an 11.7 per cent rise over the previous year. Medical doctors accounted for 13.2 per cent (previous year: 12.1%), and nursing and other medical/medical-technical staff for 65.4 per cent (previous year: 65.5%). In the financial year under review, we recorded a rise in full-time staff of 10.0 per cent. This is slightly disproportionate to the trend in revenues (+ 9.3%) and stems – despite the noticeable efficiency gains achieved through staff reductions in our long-standing facilities – from the takeover of clinics that still have inefficient personnel structures.

Maghrane, Anis (32) – independent contractor (private health insurance)

» No, I wouldn't have any problem. But for me it would be very important for the hospital to have qualified specialist staff. A stay in a private facility shouldn't be too expensive so that poorer people can also afford to receive medical care. «

Statutory social security contributions and pension expenditures as a percentage of the wage bill amounted to 20.8 per cent (previous year: 20.5%). Expenses for incidental wage costs increased, mainly due to higher contributions to supplementary insurance funds and pension schemes.

As a personnel-intensive service provider we are heavily reliant on the professionalism and high commitment of all our staff throughout the Group. At the same time we expect our people at all times to put the needs and wishes of our patients at the heart of their work.

In return for their dedication we reward our employees with modern and attractive workplaces, incentives in the form of profit-sharing and bonus schemes as well as flexible working-time arrangements.

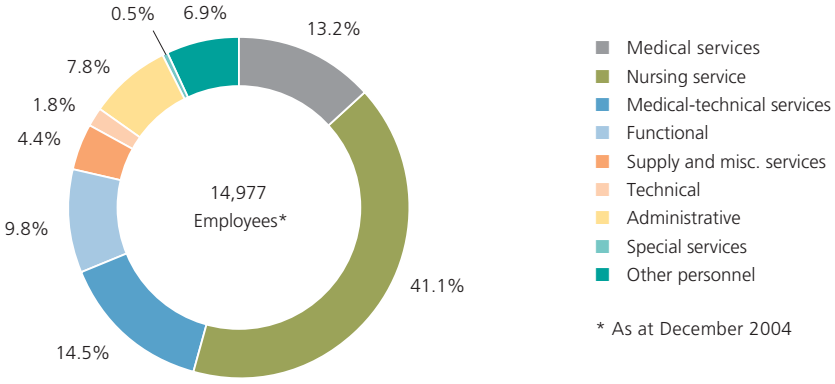
We promote and control our employees' professionalism through systematic training and higher-qualification programmes across all hierarchical levels. We continue to attach special importance to training qualified nursing staff at our eight Group-owned nursing schools.

Finding, motivating and retaining qualified executive staff is an important task for a future-oriented group. To recruit young management talent we work closely with several universities, and increasingly offer abridged training programmes for specialists in the healthcare system.

Procurement

In keeping with the principle of decentralised profit and loss responsibilities, the Group does not run a central purchasing department with Group-wide competence. Instead, we use our intranet to provide purchasing managers at the subsidiary level with procurement data from across the Group. Price comparisons with newly acquired hospitals and comparisons of our materials cost structures with industry

Analysis of personnel at RHÖN-KLINIKUM Group



* As at December 2004

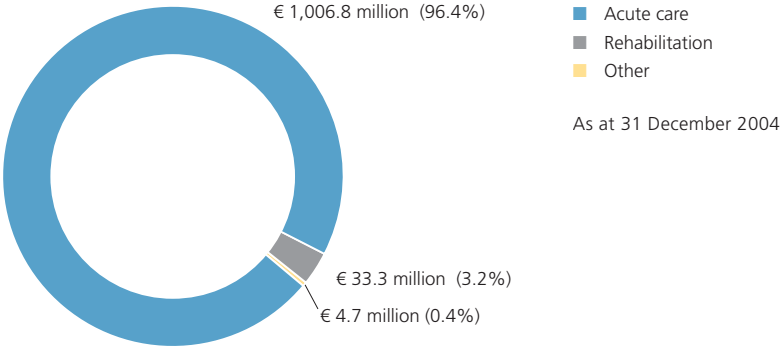
statistics show that the Group enjoys very favourable purchasing price levels. Moreover, all our staff are motivated to control and optimise material consumption, not least thanks to our profit-sharing schemes that reward the responsible use of materials.

Environment

A sound environment is the very basis for health and quality of life. Protecting the environment is therefore a key issue for a health group and enjoys due attention. One interpretation of the guiding principle *"Don't do to others what you would not like done to yourself"* is that all people also need a healthy environment, and we have committed ourselves to do our part. Sustainable management also means avoiding the needless use of resources. This approach, if applied long-term, bestows both ecological and economic benefits. That is why we have made it one of our key corporate goals.

Moreover, steadily rising prices of primary energies in recent years have revealed the necessity to look for new ways to optimise efficiency in this area. With the successful projects already completed in area of fuel cell technology, we need no further convincing: the field trial within the RHÖN-KLINIKUM Group was completed after three years and an operating time of over 21,000 hours – a world record. Since October 2003 Zentralklinik Bad Berka has been equipped with a combination of fuel cell and high-efficiency cold unit. Also in future we will continue to set great store by this technology, which we expect will soon be ready for serial production.

Breakdown of revenues by business area at RHÖN-KLINIKUM Group



Sezginer, Deniz (30) – student (statutory health insurance)

» *Nowadays there are funding problems in all public areas. Healthcare delivery should be reserved to the state to ensure that medical care is provided to everyone and not just to the affluent.* «

We achieve the goal of continually optimising environment management and energy supply at our hospitals not only through ongoing investment but also through efficient exchange of information within the Group. We use reliable and representative data and material as a comparison basis to allow for early detection of unfavourable developments and appropriate corrective action. Further developments and environmentally compatible concepts for restructuring measures and new buildings undergo a careful selection and testing process. These are then applied throughout the Group if convincing results are achieved.

Noticeable improvements following the take-over of a hospital have frequently been achieved in the past with only small investments, and we expect the same thing to ring true for current acquisitions. We welcome the wealth of ideas from the new facilities, since practical protection of the environment is an ongoing process that constantly needs to be looked at and adapted anew.

RISK MANAGEMENT AND QUALITY ASSURANCE

Risk management and quality assurance go hand in hand. Our hospitals have set themselves quality goals. By continually striving to achieve and improve our stated quality goals, we minimise our risks at the same time. In business and historical comparisons we measure developments that may serve as an indicator of potential risks.

By our presence on the market and our activities, it is only natural that we should be exposed to risks. Any corporate activity is a careful balancing act between risks and rewards.

In keeping with the Company's goals and business strategies, our risk policy calls for a careful weighing up of risks and rewards as the prerequisite for any entrepreneurial decision.

Our risk management is regularly updated, monitored and reviewed within the scope of the audited annual accounts.

By applying uniform standards throughout the Group for

- planning and monitoring systems
- guiding rules and reporting systems, and
- risk reporting

in combination with risk controlling, we are able to early identify and evaluate potential risks and take appropriate action. We pay special attention to identifying new risks and integrating these into the risk management system.

Stecker, Melanie (34) – office assistant (statutory health insurance)

» The most important thing for me is to make sure my child receives proper medical care. Here I don't care whether it is a state or private hospital, as long as I can afford it, too. «

Our Group companies regularly evaluate some 150 different risks by potential extent and likelihood of damage. The knowledge gained by the individual companies are summarised in order to ascertain and assess the risk position for the Group.

The following risk fields in particular have a decisive influence on general business performance as well as the development of our asset, financial and earnings position:

Macroeconomic and legal risks

We are not affected by macroeconomic factors given our exclusive focus on the German healthcare market.

Similarly, our exposure to interest rate developments is very minimal thanks to our sound financial structures.

We are indirectly concerned by developments within the German economy since healthcare spending depends to a decisive extent on contribution volumes of the insured and thus on the employment market situation. We are less affected by tax revenues at the various levels of government (local, state and federal) since our investments for the most part are financed from our own funds and not by public grants.

The health market in Germany is highly regulated. Changes in legislation can have both positive and negative consequences. On the revenue side, these regulations relate to the nature and scope of the services provided and the amount of remuneration paid. On the expenditure side we are indirectly affected by collective bargaining agreements concluded for the public service sector.

We deliberately employ our market leadership to exercise an influence in the run-up to proposed legislation through objective information and argumentative discussion. That said, the key focus of our efforts is to preserve and enhance our ability to respond to changes in general conditions. In our wage policy we have long abandoned the rigid structures of public-service collective bargaining law in favour of flexible working-time and compensation models.

Market or revenue risks

In Germany, hospitals approved under state hospital planning enjoy de facto state regulated protection in their respective catchment area. Classic market and revenue risks exist only where site closures are imminent as part of revisions in state hospital planning, or the quality of medical care is considered to be significantly worse than surrounding hospitals.

Within a given region the dividing lines between outpatient and inpatient treatment are unravelling and giving way to integrated healthcare across sectors. This is creating opportunities for our hospitals. With flexibility and investment, we are escorting these structural changes constructively while minimising our risks.

Financial market risks

RHÖN-KLINIKUM AG and its subsidiaries do not hold securities, so that there are no exchange rate risks. And since we operate exclusively in Germany, transaction and currency risks are also excluded. Interest-rate risks in principle do exist within the Group for financial debts and interest-bearing assets, but overall these are of minor importance given our low net debt.

As at Balance Sheet date, our long-term financial debt stood at € 257.5 million, of which € 221.9 million on conditions of fixed interest rates within a range of 4.0 to 6.9 per cent. These rates are locked in until 2011. Long-term financial debts of € 35.6 million are financed in the short term on variable market conditions and from 2006 are hedged by interest-rate caps of € 29.2 million. For financial year 2005 we do not expect short-term interest levels to increase significantly. From 2006, risk is limited to about 1.0 per cent thanks to interest-rate hedging.

Financial derivatives other than for hedging purposes are not used.

Operating and production risks

Treating patients involves complex organisational processes characterised by division of labour. Whenever these processes are disrupted, this signals poor quality and risks for both patients and the hospital. High quality of treatment forms the basis patients' trust in our work and at the same time ensures that operating and production risks are kept to a minimum.

We deliver quality by dividing the entire treatment process for a patient into individual treatment stages and by ensuring that each of these steps along the hospital service chain is the responsibility of those staff members with the highest professional qualification and expertise.

This flow design in patient care not only makes for top professional performance at each individual work-place but also creates a type of self-controlling system through division of labour. We have begun to define quality targets for all medical service providers and to measure quality changes in terms of how well these targets are achieved. This, in combination with regular, systematic employee training courses, strict surveillance of procedures and processes, and equally strict orientation towards patients' needs, helps further reduce operating and production risks.

Hygiene and sterility in hospital are essential when it comes to delivering flawless treatment to patients. New hospital buildings designed and realised by us meet the highest standards of hygiene and sterility. Where we take over hospital buildings as a part of new acquisitions, these are upgraded and adapted to Group standards. Ongoing controlling and checks carried out by internal and external experts combined with continuous education and further training of our staff ensure the highest standards of hygiene and sterility in our hospitals.

Anthony, Charlotte (50) – commercial employee (private health insurance)

» I certainly have reservations, seeing that we are already heading towards a two-tier society. If hospitals under private ownership, then for everyone with equally qualified staff and equally well equipped. «

The operating safety of our hospitals is secured by keeping in readiness several independent power sources. Supply levels are graduated without interruption, tuned to the likelihood of risk for patients. Our substitute (stand-by) energy sources undergo regular service trials at short time intervals, ensuring reliable availability in case of damage or failure (of the main network). With coverage gaps in public power grids becoming more common, we are increasingly providing our hospitals with permanent operational readiness independent of public supply structures should the need arise.

That said, even the best preventive measures cannot completely exclude poor services or mistakes, occasionally leading to complaints that we take very seriously. The chairman of the Board of Management has taken on direct and group-wide responsibility for monitoring and analysing patient complaints, and for taking corrective measures where necessary.

For risks that cannot be fully averted, the Group provides for adequate insurance coverage which is regularly reviewed and updated.

Procurement risks

Since we operate in the area of medical facilities, equipment and supplies and rely on external providers, these dependencies can lead to risks that are triggered, for example, by supply and quality problems.

RHÖN-KLINIKUM Group ensures by ongoing market and product monitoring that dependency on sole suppliers, single products and service providers does not occur. Potential risk from temporary dependence on innovative products is judged to be negligible across the Group. Strict organisational separation of procurement and use – which we require of all our hospitals – is seen as an indispensable means to counter corruption.

Performance and liquidity risks

The monthly, quarterly and annual reports by our subsidiaries are prepared applying uniform standards and analysed at Group level. Regular period-based and inter-operation comparisons of expenses, earnings, performance figures and other indicators enable us to identify adverse developments early on in order to take action as appropriate and necessary. Monthly performance and liquidity analyses back up our published forecasts as well as our liquidity status.

Overall risk assessment

Based on our analysis of the overall risk position of RHÖN-KLINIKUM Group for financial year 2004, we have conclude that there are no risks that could endanger the existence of RHÖN-KLINIKUM AG or any of its subsidiaries. Compared with the previous year, there have been no material changes in the overall risk position as defined by the various single risks.

Schilling, Hana (42) – property manager (private health insurance

» I wouldn't have any problem. It would be important for me to know about the staff in this hospital – nurses, doctors, etc. I would also expect to find it equipped with the latest technology. In addition, a single-bed room with bath would be important, and possibly a balcony as well. «

TEACHING, RESEARCH & DEVELOPMENT

As a leading private hospital service provider in the Federal Republic of Germany, RHÖN-KLINIKUM AG is committed to research and development in its hospitals.

Our research activities are focused on what is referred to as applied medical research. We develop inter alia path-breaking medical diagnosis and therapy concepts.

We define our teaching activities not only as an "academic task" in the strict sense of theoretical and practical training of prospective medical professionals, but also feel called to extend medical basics – with an eye to what people need or want to know – to the broader public within the reach of our hospitals, for example in so-called "Sunday Lectures" in Leipzig, in the series of events entitled "Patientenforum an der DKD" (Patient Forum at the DKD) or in doctors'/patients' seminars in Bad Neustadt.

An academic teaching hospital since inception, Herzzentrum Leipzig GmbH is an integral part of the University of Leipzig and as such is responsible for both theoretical and practical training of that university's medical students. A further eight Group hospitals enjoy the status of academic training hospital whose tasks include the training of prospective medical professionals.

Here are some examples of our R&D and teaching activities in financial year 2004:

- **Zentralklinik Bad Berka** in 2004 was awarded the innovation prize for an interdisciplinary research project regarding the promotion of clinical evaluation and establishment of what is referred to as the biofeedback method in neurology specially conceived for the treatment of epilepsies. This innovation prize is regarded as one of the highest distinctions in the field of medical technology.
- **Neurologische Klinik Bad Neustadt/Saale** emerged as winner of the innovation prize of the Stiftung Deutsche Schlaganfallhilfe (German Stroke Foundation). The hospital was distinguished for unprecedented and innovative processes as well as organisational concepts in the care of stroke patients.
- At **Zentralklinik in Bad Berka** the possibility of treating tumours with the new radiopeptide therapy was introduced in Germany for the first time. These peptides carry radioactive particles (itrium 90) capable of emitting beta rays within a range of 6 mm to kill tumour cells. Compared with existing alternative procedures, this innovative method is largely free from side effects.

  In addition, Zentralklinik Bad Berka has further strengthened its top position in the area of cancer diagnosis by a so-called PET-CT high performance system – after its pioneering work throughout Europe done in this specialist field for over ten years.

Etl, Maren (27) – PR trainee (statutory health insurance)

» I wouldn't have any reservations about using the services of a private hospital. For me it would be important for the medical technology and the specialists to meet the latest research standards and for the hospital to ensure that patients receive individual care. The only drawback would be that using such services would depend on the financial means of the patients. «

The new technology opens up novel and better ways of diagnosing cancer.

- In 2004, **Herz- und Gefäß-Klinik Bad Neustadt/Saale** organised for the second time a training course in the field of reconstructive mitral valve surgery. The course was given by renowned specialists of international standing and attended by cardiac surgeons from all over Europe. The hospital has enjoyed international recognition for its expertise in this field for many years. One of the ways used to teach the individual operating steps was the live transmission of eight operations to the course venue in Bad Neustadt.

EVENTS AFTER THE BALANCE SHEET DATE AND OUTLOOK FOR FINANCIAL YEAR 2005

Addendum 2004

In the case of four hospitals, agreements with payers regarding the 2004 budgets had not yet been concluded. In January 2005 the arbitration bodies applied to granted our petitions in all three cases. The Balance Sheet was based on the arbitrators' findings. Approvals by the competent administrative offices are still pending.

With the exception of Krankenhaus Eisenhüttenstadt and the hospitals of the district of Rhön-Grabfeld, Cartel Office approval has been given for all acquired hospitals.

No other events of significance for assessing the asset, financial and earnings position have occurred since the close of the year.

Outlook for 2005

RHÖN-KLINIKUM AG and its subsidiaries have made a good start into financial year 2005. Patient numbers continue to rise steadily, and results are in line with our targets.

Strategic objectives

Our aim is to achieve steadily rising revenues and earnings. Within the bounds set by legislation, organic growth is possible only to a very limited extent. We therefore have our sights set on external growth in revenue on the back of hospital takeovers to the tune of 10 – 20 per cent p.a. External growth is driven almost exclusively by public hospitals' lack of

investment capacity and mounting pressure on earnings.

The federal states, which in Germany are responsible for hospital investments, are unable to increase their investment programmes; in the large majority of cases these are being scaled back. In our view the negative earnings trend of the public hospitals is set to continue. In the short and medium term, then, we expect our takeover activities to pick up even further and have aligned our structures accordingly.

The German Act on the Modernisation of Statutory Health Insurance (Gesundheitsmodernisierungsgesetz, GMG) makes a closer meshing of inpatient and outpatient treatments possible. We are therefore forging ahead relentlessly with the establishment of medical care centres (MVZs) at our hospital sites. Our goal with MVZs is to achieve improvements in quality, cost savings (through avoidance of redundant examinations), better use of existing resources, and a broadening and improvement in the service range in our small- and medium-sized hospitals.

Economic and legal environment

For 2005, we do not expect the German economy to pick up noticeably, neither do we anticipate any significant easing of the social budgets. Against this background, payers will continue on their course of cost containment. We therefore assume organic growth at below the rate of wage and price increases as demographically induced service volumes increase. The constant pressure for higher productivity through process optimisation as well as rationalisation investments is thus set to continue.

As laid down in the GMG, hospitals and community-based practitioners face a 1 per cent cut in their budgets. This is earmarked to financing integrated care contracts from 2004 onwards. After almost no deductions were made in 2004 in the start-up phase, we expect these to increase in 2005.

The introductory phase for remuneration based on case flat rates (DRGs) was extended in December 2004 from three to five years (2005 – 2009). The convergence of individual rates of hospital remuneration (base rates) to national base rates has begun in financial year 2005 at 15.0 per cent. At the same time changes have been made to the hospitals' so-called revenue budget: for hospitals whose revenue budget is diminished by the introduction of DRGs, compensation of the revenue budget is subject to a 1.0 per cent cap for the year 2005. For any foreseeable rise or decline in service volumes, a scope equal to 33.0 per cent of the national base rate is provided for in 2005 for negotiation of a budget increase or decrease.

National base rates, i.e. the targets for adjusting to DRGs, are currently the subject of heated negotiations between the state hospital associations and the associations of health insurance funds. We expect this issue to reverberate throughout the country, with decisions being issued by the competent arbitration bodies and provisional base rates statutorily being fixed by the Federal Ministry of Health and Social Security. For all the imponderables, we see

more opportunities than risks overall from the introduction DRGs thanks to our favourable cost structures compared with the sector.

Business development in 2005

Despite the difficult market environment, we expect the positive trend in overall performance to continue in financial year 2005. In particular, we expect rising profit contributions from the hospitals acquired over the past three years. Further improvements in earnings are being brought by the end to scheduled goodwill amortisation. Our long-standing Group members will continue to make every effort to stabilise earnings at their high levels.

Not taking into account potential new acquisitions, we expect 2005 revenues to reach € 1.4 billion, and net consolidated profit roughly € 80 million. In financial year 2005, investments – excluding new acquisitions – will be in the order of € 100.0 million.

Bad Neustadt/Saale, 24 February 2005

The Board of Management

Andrea Aulkemeyer Heinz Falszewski Wolfgang Kunz Joachim Manz

Gerald Meder Eugen Münch Manfred Wiehl

Consolidated Income Statement for the year ended 31 December 2004

	Notes		2004	2003
		€ thousand	€ thousand	€ thousand
Revenues	VI. 1.	1,044,753		956,265
Other operating income	VI. 2.	29,336		27,060
			1,074,089	983,325
Cost of materials	VI. 3.			
Materials, supplies and merchandise		187,373		172,017
Services		65,045		58,406
			252,418	230,423
Personnel costs	VI. 4.			
Wages and salaries		452,460		411,629
Social security contributions and pension costs		94,100		84,403
			546,560	496,032
Depreciation on tangible and intangible assets	VI. 5.	57,052		49,157
Other operating expenses	VI. 6.	94,279		82,094
			151,331	131,251
Income from operations			**123,780**	**125,619**
Income from investments		40		174
Other interest and similar income		1,760		2,381
Interest and similar expenses		13,658		16,935
Financial result			– 11,858	– 14,380
Income from ordinary activities/ Earnings before taxes			**111,922**	**111,239**
Taxes on income and earnings	VI. 9.	31,722		31,544
Net profit for the year			**80,200**	**79,695**
Minority interest in profit			3,796	6,563
Net consolidated profit			**76,404**	**73,132**
Earnings per preference share, in €	VI. 10.		2.96	2.84
Earnings per ordinary share, in €			2.94	2.82

Consolidated Balance Sheet 31 December 2004

ASSETS

	Notes	31 December 2004 € thousand	31 December 2004 € thousand	31 December 2003 € thousand
Fixed assets				
Intangible assets	VII. 1.			
Industrial and similar rights and assets		2,692		3,229
Goodwill		46,322		41,565
			49,014	44,794
Tangible assets	VII. 2.			
Land, land rights and buildings, including buildings on third-party land		685,855		658,087
Technical plant and machinery		13,324		13,998
Other plant and equipment		73,013		65,599
Payments on account and construction in progress		22,582		20,071
			794,774	757,755
Financial assets	VII. 3.			
Interests in associated companies		1,779		1,779
Other loans		868		235
			2,647	2,014
			846,435	**804,563**
Deferred taxes	**VII. 4.**		**6,845**	**7,226**
Current assets				
Inventories	VII. 5.			
Materials and supplies		18,966		13,749
Payments on account		715		1,796
			19,681	15,545
Receivables and other assets				
Receivables from supplies and services	VII. 6.	148,518		149,730
Tax claims	VII. 7.	11,222		9,943
Other receivables and other assets	VII. 8.	60,073		19,479
			219,813	179,152
Liquid funds	VII. 9.		68,495	101,817
			307,989	**296,514**
Prepaid expenses			**1,195**	**669**
			1,162,464	**1,108,972**

EQUITY AND LIABILITIES

	Notes	31 December 2004 € thousand	31 December 2004 € thousand	31 December 2003 € thousand
Equity	VII. 10.			
Subscribed capital		25,920		25,920
Capital reserve		37,582		37,582
Consolidated retained earnings		406,095		350,757
Consolidated profit		76,404		73,132
Own shares		– 77		– 83
			545,924	**487,308**
Minority interests	VII. 11.		22,787	20,886
Provisions				
Provisions for pensions and similar obligations	VII. 12.	11,121		9,236
Other provisions	VII. 13.	8,199		5,124
			19,320	**14,360**
Deferred taxes	**VII. 4.**		**31,275**	**31,726**
Liabilities				
Long-term financial debts	VII. 14.	257,487		179,763
Tax liabilities	VII. 15.	10,158		10,052
Other liabilities	VII. 16.	275,020		364,390
			542,665	**554,205**
Deferred income			**493**	**487**
			1,162,464	**1,108,972**

Consolidated Statement of Changes in Shareholders' Equity

	Subscribed capital						
	Ordinary shares	Preference shares	Capital reserve	Consolidated retained earnings	Consolidated profit	Own shares	Share holders' equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Balance at 1 Jan. 2003	**17,280**	**8,640**	**37,582**	**298,530**	**67,428**	**– 85**	**429,375**
Consolidated profit					73,132		73,132
Dividends paid					– 15,201		– 15,201
Allocation to reserves				52,227	– 52,227		0
Own shares						2	2
Balance at 31 Dec. 2003/ 1 Jan. 2004	**17,280**	**8,640**	**37,582**	**350,757**	**73,132**	**– 83**	**487,308**
Consolidated profit					76,404		76,404
Dividends paid					– 17,794		– 17,794
Allocation to reserves				55,338	– 55,338		0
Own shares						6	6
Balance at 31 Dec. 2004	**17,280**	**8,640**	**37,582**	**406,095**	**76,404**	**– 77**	**545,924**

Consolidated Cash Flow Statement

	2004	2003
	€ million	€ million
Earnings before taxes	111.9	111.2
Elimination of financial result	11.9	14.4
Depreciation and book losses on fixed assets	57.6	49.2
EBITDA (plus book losses)	**181.4**	**174.8**
Change in inventories	– 0.9	– 1.2
Change in receivables from supplies and services	15.5	– 13.8
Change in other receivables	– 3.0	– 8.0
Change in liabilities	– 15.1	6.4
Change in provisions	1.1	0.9
Earnings taxes paid	– 33.0	– 27.6
Interest paid	– 13.7	– 16.9
Cash generated by operating activities	**132.3**	**114.6**
Investments in tangible and intangible fixed assets	– 62.2	– 70.6
Acquisitions of subsidiaries less cash acquired	– 28.5	– 27.5
Surplus on realisation of fixed assets	1.8	2.0
Interest received	1.8	2.6
Cash utilised in investing activities	**– 87.1**	**– 93.5**
Change in short-term financial debts	– 133.8	49.5
Change in long-term financial debts	75.1	– 39.2
Dividends paid and dividend distributions to minority shareholders	– 19.8	– 18.7
Cash generated by financing activities	**– 78.5**	**– 8.4**
Change in liquidity	– 33.3	12.7
Net cash resources at 1 January	101.8	89.1
Net cash resources at 31 December	**68.5**	**101.8**

Notes to the Consolidated Financial Statements for the year 2004

I. ACCOUNTING POLICIES

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB), London, UK. Moreover, in connection with the application of IFRS 3 ("Business Combinations") from 31 March 2004, the amended standards IAS 36 ("Impairment of Assets") and IAS 38 ("Intangible Assets") were also applied. Further changes in existing standards resolved as part of the so-called "Improvement Project" of the IASB or standards issued for the first time will be applied from 2005. We do not expect this to have any significant impact on the results. These consolidated financial statements are in conformity with the requirements set out in the European Union's directives on consolidated financial statements (Directive 83/349/EEC).

For RHÖN-KLINIKUM AG, these consolidated financial statements exempt it, as set out in Section 292a of the German Commercial Code (HGB), from the requirement to prepare consolidated financial statements in accordance with German accounting standards. To achieve equivalence with consolidated financial statements prepared in accordance with HGB, all disclosures and explanatory statements required by HGB but going beyond IASB standards have been included.

The deviations of relevance for RHÖN-KLINIKUM between the accounting policies and valuation methods applied nationally and those used in preparing these financial statements concern:

- capitalisation of advantages from tax loss carry-forwards
- accounting of financial instruments at market values
- elimination of goodwill amortisation for acquisitions on or before 31 March 2004.

For the financial statements of the companies included in the consolidated financial statements, uniform accounting and valuation principles have been used. Where valuations are based on tax regulations, they are not adopted in the consolidated financial statements. The annual financial statements of companies in which the group holds an interest show the same Balance Sheet date as the consolidated financial statement.

In preparing the consolidated financial statements, some items have been valued taking into account assumptions and estimates, though to a very limited extent, which affect the amounts and the presentation of assets and liabilities, income and expenses as well as contingent liabilities disclosed in the consolidated financial statements. The actual values may differ from the assessed values.

II. PRINCIPLES OF CONSOLIDATION

1. Scope of consolidation

The Group parent company is RHÖN-KLINIKUM Aktiengesellschaft, headquartered in Bad Neustadt/Saale and registered with the local court of Schweinfurt (company registration number 1670). In addition to the parent company, RHÖN-KLINIKUM AG, the scope of consolidation comprises 54 domestic subsidiaries in which RHÖN-KLINIKUM AG directly or indirectly holds a majority of

voting rights. Compared with the previous year a total of 14 companies were added mainly as shelf companies set up ahead of the establishment of medical care centres (MVZs). Seven subsidiaries of minor importance for the Group's asset, financial and earnings situation have not been included in the consolidated financial statements; their combined revenues account for less than one per cent of consolidated revenues.

Acquisitions are consolidated using the purchase method. Accordingly, results of subsidiaries are included in the consolidated financial statements from their effective dates of acquisition, i. e., from the date on which control by RHÖN–KLINIKUM Group becomes operative.

The following changes to the scope of consolida-tion have occurred in financial year 2004:

Companies consolidated	Number
At 31 December 2003	40
Merger of Krankenhausgesellschaft Dippoldiswalde mbH, Dippoldiswalde, into Krankenhaus Freital GmbH, Freital, and Krankenhaus Freital GmbH renamed Weißeritztal-Kliniken GmbH, Freital	– 1
Foundation of RK Klinik Betriebs GmbH Nr. 6, Bad Neustadt/Saale, renamed MVZ Management GmbH Unterfranken, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 7, Bad Neustadt/Saale, renamed in MVZ Management GmbH Thüringen, Bad Berka	1
Foundation of RK Klinik Betriebs GmbH Nr. 8, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 9, Bad Neustadt/Saale, renamed MVZ Management GmbH Leipzig, Leipzig	1
Foundation of RK Klinik Betriebs GmbH Nr. 10, Bad Neustadt/Saale, renamed MVZ Management GmbH Wiesbaden, Wiesbaden	1
Foundation of RK Klinik Betriebs GmbH Nr. 11, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 12, Bad Neustadt/Saale, renamed MVZ Service Gesellschaft mbH, Bad Neustadt/Saale	1
Foundation of MVZ Management GmbH Attendorn, Attendorn	1
Foundation of MVZ Management GmbH Sächsische Schweiz, Pirna	1
Foundation of MVZ Management GmbH Weißeritzkreis, Freital	1
Foundation of Kreiskrankenhaus Gifhorn GmbH, Gifhorn	1
Foundation of Kreiskrankenhaus Wittingen GmbH, Wittingen	1
Foundation of RK Klinik Betriebs GmbH Nr. 13, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 14, Bad Neustadt/Saale	1
Foundation of RK Klinik Betriebs GmbH Nr. 15, Bad Neustadt/Saale	1
At 31 December 2004	**54**

Krankenhausgesellschaft Dippoldiswalde mbH was merged by way of absorption into Krankenhaus Freital GmbH. As a result of the merger, Krankenhaus Freital GmbH was renamed Weißeritztal-Kliniken GmbH, Freital.

The financial year under review saw the first-time consolidation of the following hospital businesses acquired by subsidiaries:

Hospitals	Number of beds	Date of acquisition	Interest held
Carl von Heß-Krankenhaus Hammelburg	130	1 January 2004	94.9
St. Elisabeth-Krankenhaus Bad Kissingen	196	1 January 2004	100.0
Städtisches Klinikum Pforzheim	602	1 July 2004	100.0

The acquisition of these three hospital businesses together have a total volume of € 41.3 million. This is largely accounted for by the acquisition of Städtisches Klinikum Pforzheim. Payments on the purchase price for Städtische Klinik Pforzheim were still outstanding as at Balance Sheet date.

Goodwill generated from the acquisitions totalled € 8.3 million. Of this, Städtisches Klinikum Pforzheim accounted for € 5.5 million, with St. Elisabeth Krankenhaus Bad Kissingen and Carl von Heß-Krankenhaus Hammelburg each contributing € 1.4 million. Apart from goodwill carried on the Balance Sheet, no further clearly identifiable intangible assets were to be stated within the meaning of IAS 38 as part of the purchase price allocation. In this connection, the main factors leading to the formation of goodwill were revenue opportunities as well as reorganisation potentials.

In addition, purchase agreements on the acquisition of 12 further hospitals were concluded over the past financial year. These will be consolidated in 2005 subject to fulfilment of the conditions for validity:

Hospitals	Number of beds	Interest held
Amper Kliniken AG – Klinikum Dachau	443	74.9
Amper Kliniken AG – Klinikum Indersdorf	120	74.9
Kreisklinik München-Pasing	442	100.0
Kreisklinik München-Perlach	180	100.0
Städtisches Krankenhaus Hildesheim gGmbH	570	100.0
Städtisches Krankenhaus Eisenhüttenstadt GmbH	326	100.0
Kreiskrankenhaus Gifhorn	349	96.0
Städtisches Krankenhaus Wittingen	71	96.0
Klinikum Salzgitter GmbH – Krankenhaus Salzgitter-Lebenstedt	258	94.9
Klinikum Salzgitter GmbH – Krankenhaus Salzgitter-Bad	192	94.9
Kreiskrankenhaus Mellrichstadt	70	100.0
Kreiskrankenhaus Bad Neustadt/Saale	208	100.0

As at 24 February 2005, Cartel Office approval had been granted for all acquired hospital businesses with the exception of the hospitals in Eisenhüttenstadt, Bad Neustadt and Mellrichstadt.

The acquisitions had the following effects on Group assets and liabilities at the respective dates of acquisition or disposal:

	€ million
Goodwill	8.3
Other intangible assets	0.5
Fixed assets	41.7
Financial assets	0.5
Receivables from supplies and services	14.3
Liquid funds	3.3
Other current assets	14.4
Acquired assets	**83.0**
Deferred taxes	0.1
Provisions	3.9
Liabilities	37.7
Acquired debts	**41.7**
Net assets acquired	**41.3**

The newly acquired hospitals contributed 6.0 per cent to 2004 revenues, and less than 1.0 per cent to the net profit for the year.

Details of the Group's interests in major subsidiaries are given in note VIII.

2. Methods of consolidation

The consolidated financial statements incorporate the annual financial statements of RHÖN-KLINIKUM AG and all subsidiaries included in the scope of consolidation. These financial statements are prepared in accordance with the German Commercial Code (HGB), using uniform accounting and valuation methods, audited by independent auditors and adapted to IFRS principles at the consolidation level.

Capital consolidation is effected using the benchmark method. Since 1 January 1995, any excess of the purchase price over the fair value of the attributable assets of a subsidiary at date of acquisition is recognised as goodwill. Where there is an excess of the attributable assets acquired over the purchase price, these differences are stated as negative goodwill.

Goodwill accrued before 1 January 1995 continues to be offset against equity, in accordance with the transitional provisions of SIC 8 in conjunction with IAS 22.101.

All intercompany transactions and balances between consolidated companies as well as resulting intercompany profits have been eliminated on consolidation.

III. ACCOUNTING AND VALUATION METHODS

Where items have been summarised in the consolidated income statement and the consolidated Balance Sheet, their components are shown separately in the notes to the consolidated financial statements.

Revenues are realised at delivery of services or, in case of sales, at transfer of risk to buyer. Revenues from flat-rate remunerations are reflected in proportion to the progress in the services to which the payments relate. Operating expenses are charged against income at utilisation of the services received or as incurred. Interest income and interest paid is recognised in the respective period; profit distributions are included at the date of distribution.

Research costs are shown as current expenditure, in accordance with IAS 38. There are no development costs that would require a statement as capital expenditure.

Intangible assets are stated at acquisition cost and amortised on a systematic basis over their respective useful lives (3-15 years) using the straight-line method.

Following IASB's adoption of the standard IFRS 3 "Business Combinations" on 31 March 2003, amortisation of all goodwill assets has been replaced by an impairment test to be performed at least once a year. Here the individual hospitals (subsidiaries) are defined as "cash generating units" within the meaning of IAS 36. The new standard was applied to all acquisitions effected after 31 March 2004. In accordance with the provisions of IFRS 3, all goodwill acquired before 31 March 2004 continued to be amortised or, as the case may be, negative goodwill continued to be written back up to the end of 2004.

Depreciation of goodwill is reflected in the income statement under depreciation; reversals of negative goodwill are included in other operating income.

Tangible assets are recognised at acquisition or production cost and depreciated systematically over their expected useful lives using the straight-line method:

	Years
Buildings	33 1/3
Technical plant and machinery	5 – 15
Other plant and equipment	3 – 12

Public grants are deducted from the carrying values of the assets to which they relate, in line with IAS 20 on the disclosure of government assistance.

Where there is an unscheduled depreciation in the value of fixed assets, including intangible assets, the Board of Management will decide, based on expected future cash flows, whether the respective assets are to be written off, using as a measure the higher of the net realisable sales price or the value of use. Impairment write-downs are reversed if and when the reason for the impairment in value ceases to exist.

Financial assets are reflected at acquisition cost. Write-downs are made where, in the Management's opinion, the value of an asset has been permanently impaired.

Inventories are carried at acquisition or production cost, using the average cost method in order to simplify valuation processes.

Receivables from supplies and services as well as other receivables are shown at their nominal value less value adjustments. Where value adjustments are made, due account is taken of all identifiable risks, taking as a basis individual risk assessments and empirical values. Given the short-term nature of these items, carrying values essentially correspond to market values.

Liquid funds comprise payment means exclusively and are stated at their nominal value.

Financial instruments are carried at acquisition cost and subsequently at fair value. Changes in the market value of financial instruments are charged at income.

Provisions are made in so far as there are legal or factual obligations to third parties which have been incurred in the past, are likely to produce asset outflows in the future and the amounts of which can be assessed with reasonable assurance. Interests accrued are deducted if the interest effect is significant.

Provisions for pensions and compensatory obligations are determined in accordance with IAS 19 (revised 2000) using the projected unit credit method. Further details are given in the notes to the consolidated Balance Sheet.

Deferred taxation is provided on taxable time differences arising from variances in the accounting and valuation in the tax Balance Sheets and commercial Balance Sheets of subsidiaries, on adjustments made at the consolidation level as well as on consolidation measures, in accordance with IAS 12 (revised 2000). Where expected to be reversible, tax-loss carry forwards are provided in the amount of deferred tax assets. Deferred taxes have been calculated using a corporation tax rate of 25.0 per cent (plus the 5.5% solidarity surcharge on corporation tax) in so far as underlying accountable events are expected to reverse in future periods.

Long-term financial debts are reflected at the amount received or the amortised acquisition costs, other liabilities are reflected at redemption value, and pension commitments are recognised at present value.

Interests and other costs of loan capital are included in current expenditure.

Short-term items include items with a residual term of up to one year; long-term items are items with a residual term of more than one year.

IV. CASH FLOW STATEMENT

The consolidated cash flow statement has been prepared in accordance with IAS 7 using the indirect method and classifying cash flows from operating, investing and financing activities. Cash resources include cash on hand and cash with banks.

V. SEGMENT INFORMATION

Our hospital operations are legally and economically independent enterprises which enjoy autonomy in carrying on their business activities in their respective regional markets. There are no dependent operations or branches within RHÖN-KLINIKUM Group.

IAS 14 (revised 1997) requires the reporting of segment information classified by business areas and geographical segments that are characterised by different business opportunities and risks and show a defined minimum size.

RHÖN-KLINIKUM Group operates on the German market, exclusively, which is a highly homogenised market due to uniform regulations under federal law. As a result, our acute hospitals' business risks and opportunities are the same in the various federal states. Since the Group's rehabilitation business as well as other operations do not show the minimum size as defined by IAS 14 (revised 1997) as measured by inpatient numbers and revenues, there are no business areas for which segment information would be required.

VI. Consolidated income statement

The consolidated income statement has been prepared using the total cost method.

1. Revenues

The development of revenues by business areas and geographical regions has been as follows:

	2004	2003
	€ million	€ million
Business areas		
Acute care	1,006.8	918.8
Rehabilitation	33.3	32.8
Other	4.7	4.7
	1,044.8	**956.3**
Regions		
Saxony	238.6	229.6
Thuringia	227.1	219.6
Bavaria	211.0	182.1
Lower Saxony	136.1	126.4
Brandenburg	85.7	89.2
Hesse	70.4	32.1
Baden-Wuerttemberg	48.8	51.3
North Rhine-Westphalia	27.1	26.0
	1,044.8	**956.3**

Of the increase in revenues, € 63.9 million, or 72.0 per cent, is accounted for by acquisitions concluded in financial year 2004.

2. Other operating income

Other operating income comprises:

	2004	2003
	€ million	€ million
Income from services rendered	15.7	12.9
Income from grants and other allowances	4.5	3.6
Income from the release of provisions	1.0	0.9
Indemnifications received	0.8	3.2
Other income	7.3	6.5
	29.3	**27.1**

Income from services rendered includes income from ancillary and incidental activities as well as income from rental and lease agreements.

3. Cost of materials

Compared with the previous year, the cost of materials increased by € 22.0 million to € 252.4 million. The material cost ratio remained nearly unchanged at 24.2 per cent.

4. Personnel expenses

Compared with the previous year, personnel expenses increased by € 50.5 million to € 546.6 million. This increase was due to the extended scope of consolidation, leading to an increase in staff numbers and an average wage increase of around 1.5 per cent. The personnel cost ratio rose to 52.3 per cent (previous year: 51.9 %).

Retirement benefit costs, including contributions to external insurance funds, amounted to € 12 million (previous year: € 9.0 million).

5. Depreciation

Depreciation on tangible and intangible assets increased to € 57.1 million (previous year: € 49.2 million). This includes unscheduled depreciation of € 4.0 million (previous year: € 0.0 million). This concerns the value impairment of buildings that are to be torn down in 2005. The determination of unscheduled depreciation is oriented on the residual life up to the time the buildings are torn down. It moreover reflects commissionings of newly built hospitals in Uelzen, Hildburghausen and Attendorn.

Scheduled amortisation of goodwill acquired before 31 March 2004 amounting to € 1.9 million (previous year: € 2.3 million) was performed for the last time in 2004. In the past financial year, we reviewed the value of goodwill carried as part of the acquisition transaction for Städtisches Klinikum Pforzheim applying IFRS 3. This review did not reveal any need for a write-down.

6. Other operating expenses

Other operating expenses break down as shown in the following table:

	2004	2003
	€ million	€ million
Maintenance	29.0	26.1
Charges, subscriptions and consulting fees	12.9	11.0
Administrative and EDP costs	10.3	8.7
Depreciation on receivables	7.4	5.6
Insurances	5.1	4.1
Rents and leaseholds	4.8	3.4
Travelling, entertaining and representation expenses	3.1	2.6
Other personnel and further training costs	3.0	2.6
Losses from the deletion of fixed assets	1.1	0.7
Secondary taxes	0.7	0.8
Other	16.9	16.5
	94.3	**82.1**

7. Research costs

The Group's annual research costs amount to about 2.0 per cent to 3.0 per cent of revenues. They are primarily made up of personnel costs and other operating expenses.

8. Financial result

The financial result is shown as follows:

	2004	2003
	€ million	€ million
Income from investments	0.0	0.2
Other interest and similar income	1.8	2.4
Other interest and similar expenses	– 13.7	– 16.9
	– 11.9	**– 14.4**

9. Earnings taxes

Compared with the previous year, earnings tax expenditure increased by € 0.2 million to € 31.7 million. Earnings taxes shown are comprised of corporation tax and the solidarity surcharge. In line with IAS 12 (revised 2000), this item also reflects deferred taxation provided on differences in valuations in the tax Balance Sheets and commercial Balance Sheets of subsidiaries as well as on consolidation measures and reversible tax-loss carry forwards which, as a rule, can be brought forward without time limits. By utilising tax-loss carry forwards, the tax load was reduced by approximately € 0.9 million.

Earnings taxes are composed as follows:

	2004	2003
	€ million	€ million
Current taxes	31.8	31.3
Deferred taxes	– 0.1	0.2
	31.7	**31.5**

Deferred tax income was the result of benefits from the reversal of tax-loss carry forwards (€ 0.3 million) and deductible time differences (€ 0.7 million) less tax losses carried forward (€ 0.9 million).

The table below sets out details of taxes on earnings:

	2004		2003	
	€ million	%	€ million	%
Earnings before taxes	**111.9**	**100.0**	**111.2**	**100.0**
Arithmetical tax load (tax rate 25%)	28.0	25.0	27.8	25.0
Effect of temporary 1.5% corporation tax increase in 2003	–	–	1.7	1.5
Solidarity surtax	1.5	1.3	1.6	1.4
Additional expense for dividend payment from 2004	1.0	0.9	–	–
Increase in tax load due to non-deductible charges	0.6	0.5	0.6	0.5
Tax liabilities for previous periods	0.4	0.4	0.5	0.4
Tax-exempt earnings	0.0	0.0	– 0.2	– 0.2
Goodwill amortisation	0.5	0.4	0.3	0.3
Other items	– 0.3	– 0.3	– 0.8	– 0.7
Effective tax load	**31.7**	**28.3**	**31.5**	**28.3**

Further details of how tax deferrals break down by assets and liabilities are given in the notes to the consolidated Balance Sheet.

Secondary taxes are reflected in the operating result.

10. Minority interests in profit

These are profit shares to which other shareholders are entitled.

11. Earnings per share

Earnings per share are calculated using the net consolidated profit and the weighted average number of shares in issue during the year.

	Ordinary shares	Preference shares
Share in net consolidated profit, in € '000	50,822	25,581
(previous year)	(48,646)	(24,486)
Weighted average number of shares in issue, in units '000	17,277	8,638
(previous year)	(17,277)	(8,635)
Earnings per share, in €	2.94	2.96
(previous year)	(2.82)	(2.84)
Dividend per share, in €	0.78	0.80
(previous year)	(0.68)	(0.70)

Diluted earnings per share correspond to non-diluted earnings per share, as there were no stock options or convertible debentures outstanding at the respective Balance Sheet dates. Preference shares enjoy a priority ranking over ordinary shares, conferring a € 0.02 higher dividend per share but no voting rights.

VII. Consolidated Balance Sheet

1. Intangible assets

	Industrial and similar rights and assets	Goodwill	Total
	€ million	€ million	€ million
Acquisition costs			
1 January 2004	7.7	50.0	57.7
Additions due to changes in the scope of consolidation[1]	0.1	8.3	8.4
Additions	1.5	0.0	1.5
Losses	0.4	0.0	0.4
31 December 2004	8.9	58.3	67.2
Cumulative depreciation			
1 January 2004	4.5	8.4	12.9
Write-downs	1.9	3.6	5.5
Losses	0.2	0.0	0.2
31 December 2004	6.2	12.0	18.2
Balance Sheet value at 31 December 2004	**2.7**	**46.3**	**49.0**
Balance Sheet value at 31 December 2003	3.2	41.6	44.8

[1] Including acquisitions

"Industrial and similar rights and assets" mainly refer to software.

The additions from changes in the scope of consolidation stem from the acquisition of St. Elisabeth-Krankenhaus Bad Kissingen (€ 1.4 million), Carl von Heß-Krankenhaus Hammelburg (€ 1.5 million) and Städtisches Klinikum Pforzheim (€ 5.4 million) by our respective subsidiaries.

There are no restrictions on ownership titles and/or disposing rights.

2. Tangible assets

	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other plant and equipment	Payments on account and construction in progress	Total
	€ million	€ million	€ million	€ million	€ million
Acquisition costs					
1 January 2004	816.8	35.3	184.9	20.1	1,057.1
Additions due to changes in the scope of consolidation[1]	27.7	0.9	2.6	11.7	42.9
Additions	4.2	1.3	27.4	15.5	48.4
Losses	1.3	0.1	7.9	0.0	9.3
Rebookings	23.3	0.1	1.3	– 24.7	0.0
31 December 2004	870.7	37.5	208.3	22.6	1,139.1
Cumulative depreciation					
1 January 2004	158.7	21.3	119.3	0.0	299.3
Additions due to changes in the scope of consolidation[1]	0.4	0.0	0.4	0.0	0.8
Write-downs	25.7	2.9	22.9	0.0	51.5
Losses	0.0	0.0	7.3	0.0	7.3
31 December 2004	184.8	24.2	135.3	0.0	344.3
Balance Sheet value at 31 December 2004	**685.9**	**13.3**	**73.0**	**22.6**	**794.8**
Balance Sheet value at 31 December 2003	658.1	14.0	65.6	20.1	757.8

[1] Including acquisitions

The Group has registered charges on real property as a collateral for bank loans with a total residual carrying value of € 168.2 million.

Public grants and allowances for investment financing are offset against acquisition or production costs of the assets for which they have been granted and reduce current depreciation. These are, in substance, appropriated grants under the Hospital Financing Act (KHG) with a residual carrying value of € 296.0 million (previous year: € 236.1 million). To secure conditional repayment of single grants under the Hospital Financing Act totalling € 149.4 million, the Group holds registered

charges on real property in the amount of € 200.1 million. Nothing has come to the attention of the Board to indicate that repayment of these grants is required in the foreseeable future.

3. Financial assets

	Interests in associated companies	Other loans	Total
	€ million	€ million	€ million
Acquisition costs			
1 January/31 December 2004	4.1	0.3	4.4
Change in the scope of consolidation[1]	0.0	0.5	0.5
Additions	0.0	0.2	0.2
31 December 2004	4.1	1.0	5.1
Cumulative depreciation			
1 January/31 December 2004	2.3	0.1	2.4
Balance Sheet value at 31 December 2004	**1.8**	**0.9**	**2.7**
Balance Sheet value at 31 December 2003	1.8	0.2	2.0

[1] Including acquisitions

Interests in affiliated companies are shown at acquisition cost or, where the value of an affiliate has been permanently impaired, at an appropriate lower value. The carrying values of financial assets correspond to market values. Additions as a result of changes in the scope of consolidation notably relate to employer's pension liability claims on insurance policies for refinancing pension obligations. These are not qualified insurance policies within the meaning of IAS 19.

Interest-bearing loans are recognised at nominal value.

4. Tax deferrals

Tax deferrals result from variances in valuations in the tax Balance Sheets and commercial Balance Sheets of consolidated subsidiaries, from consolidation adjustments and from tax-loss carry forwards expected to be reversible, in accordance with IAS 12 (revised 2000).

Deferred tax assets and liabilities break down by tax loss carry forwards and Balance Sheet items as shown below:

	31 December 2004		31 December 2003	
	Assets	Liabilities	Assets	Liabilities
	€ million	€ million	€ million	€ million
Tax-loss carry forwards	5.4	0.0	6.0	0.0
Tax-exempt reserves	0.0	17.1	0.0	18.5
Tangible assets	0.0	12.0	0.0	11.8
Provisions	0.0	1.2	0.0	0.6
Other items	1.5	1.0	1.2	0.8
Total	**6.9**	**31.3**	**7.2**	**31.7**

As at Balance Sheet date, deferred tax assets of € 21.4 million (previous year: € 23.6 million) were not yet utilised; there are no time limits with regard to carrying forward such assets. The tax base used for tax deferrals was € 20.4 million (previous year: € 22.6 million).

5. Inventories

Stores and materials valued at € 19.0 million (previous year: € 13.7 million) are primarily medical supplies. Write-downs have been taken on acquisition costs; as at Balance Sheet date, these value adjustments amounted to € 2.3 million (previous year: € 1.6 million). All inventories are owned by RHÖN-KLINIKUM Group; there are no assignments or pledges of inventories.

6. Receivables from supplies and services

	31 December 2004		31 December 2003	
	of which long-term		of which long-term	
	€ million	€ million	€ million	€ million
Receivables from clients	164.8	0.0	163.2	0.0
Value adjustments	16.3		13.5	
	148.5	**0.0**	**149.7**	**0.0**

The time value of receivables from supplies and services corresponds to their book value. Discernible single risks are accounted for by value adjustments, measured by the likely risk of default. Increases and decreases in receivables during 2004 are included in other operating expenditure and other operating income, respectively, in the consolidated income statement. Adjusted for additions from changes in the scope of consolidation, receivables declined thanks to the improved payment morale of the health insurance funds.

7. Tax receivables

Tax receivables in the amount of € 11.2 million (previous year: € 9.9 million) comprise corporation tax reimbursement claims of consolidated subsidiaries.

8. Other receivables and other assets

Other receivables and other assets are shown at nominal value less value adjustments.

	31 December 2004	of which long-term	31 December 2003	of which long-term
	€ million	€ million	€ million	€ million
Receivables under hospital financing law	17.2	0.0	14.2	0.0
Receivables from affiliated companies	0.1	0.0	0.1	0.0
Other assets	42.8	0.2	5.2	0.1
	60.1	**0.2**	**19.5**	**0.1**

Receivables under hospital financing law mainly relate to compensation claims for services rendered under the federal hospital compensation schemes [Federal Hospital Nursing Rate Ordinance (Bundespflegesatzverordnung) and the Hospital Remuneration Act (Krankenhausentgeltgesetz)].

No write-ups or unscheduled write-downs have been taken on other receivables and other short-term assets.

Other assets also include € 36.3 million in short-term financing loans granted for planned takeovers. Under long-term other assets, four interest options are recorded which are stated at market value.

Given the short-term nature of the remaining receivables and other assets, carrying values essentially correspond to nominal values.

9. Liquid funds

Liquid funds comprise cash on hand and cash with banks, exclusively. The Group shows a credit balance of € 21.5 million (previous year € 40.7 million) with Bayerische Hypo- und Vereinsbank AG.

10. Equity

In accordance with IAS 1 (revised 1997), changes in equity are presented in a separate statement of changes in shareholders' equity which forms part of the consolidated financial statements.

The share capital of RHÖN-KLINIKUM AG is divided into:

	Number of shares outstanding	Arithmetical interest in the share capital 31 Dec 2001
		€
Ordinary shares to bearer	17,280,000	17,280,000
Non-voting preference shares	8,640,000	8,640,000
	25,920,000	**25,920,000**

Each non-par share equals an arithmetical interest of € 1.00 in the share capital.

Agio derived from capital increases is included in the capital reserve.

Consolidated retained earnings include retained earnings from previous periods of consolidated subsidiaries as well as consolidation effects.

Own share holdings are valued at € 0.1 million and deducted from equity. At Balance Sheet date, the portfolio of own shares consisted of 3,054 ordinary shares (previous year: 3,054) and 4,126 preference shares (previous year: 5,031).

In accordance with the provisions of the Stock Corporation Act (AktG), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of the parent company, RHÖN-KLINIKUM AG, which is prepared in accordance with the German Commercial Code (HGB). The Board of Management and the Supervisory Board will propose to shareholders at the forthcoming annual general meeting to appropriate the Company's net distributable profit of € 29.1 million as shown below and to carry forward the dividend on own share holdings.

	Dividend	Total
	€ per share	€
Ordinary shares	0.78	13,478,400.00
Preference shares	0.80	6,912,000.00
Allocation to other retained earnings		8,720,562.07
		29,110,962.07

11. Minority interests

Minority interests in the amount of € 22.8 million (previous year: € 20.9 million) include outside shareholders' interests in the capital of consolidated subsidiaries:

	Outside share-holders' interests
	%
Altmühltalklinik-Leasing GmbH, Kipfenberg	49.00
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH	25.27
Zentralklinik Bad Berka GmbH, Bad Berka	12.50
Krankenhaus Hammelburg GmbH, Hammelburg	5.10

Profit attributable to minorities as a share of net consolidated profit for the year amounted to € 3.8 million (previous year € 6.6 million).

12. Provisions for pensions and similar obligations

The Group provides post-retirement benefits for eligible employees under its company pension scheme which comprises both defined-benefit and defined-contribution pension plans. Obligations under this scheme comprise current pension payments and future entitlements.

Defined-benefit obligations are financed by the formation of provisions and are not covered by outsourced assets nor by qualified insurance policies. No provisions are made for defined-contribution pension plans.

All obligations arising from the defined-benefit pension plan and related pension costs have been assessed using the projected unit credit method in accordance with IAS 19 (revised 2002).

Obligations include pension commitments to executive staff members of two Group companies in the form of defined-benefit post-retirement, disability and survivor's pensions. Provisions for pension obligations under the Company pension scheme cover commitments to existing eligible employees as well as former employees holding non-forfeitable titles, and pensioners. Benefits are determined on the basis of employees' service lives and pensionable salaries.

In addition, RHÖN-KLINIKUM AG recognises compensatory commitments to Management Board members; these commitments are also included in pension obligations, as required by IAS 19 ("Employee Benefits"). Following more recent assessments, the calculation of the obligations no longer assumes an overall scheme with a uniform age at maturity of 65, but instead uses the individual qualification dates. This resulted in a one-off expenditure of € 1.2 million.

The current cost of pension plans and compensatory commitments breaks down as follows:

	2004	2003
	€ million	€ million
Current service costs (accrued entitlements)	0.3	0.3
Interests (projected entitlements)	0.6	0.6
Amortisation	0.0	0.1
	0.9	**1.0**

Pension payments amounted to € 0.5 million (previous year: € 0.5 million).

Defined-benefit obligation and funding status of pensions and compensations:

	31 Dec. 2004	31 Dec. 2003
	€ million	€ million
Defined benefit obligation	**12.6**	**10.2**
Obligation in excess of plan assets	12.6	10.2
Actuarial gains or losses not yet recognised	– 1.5	– 1.0
Provision for pensions (Defined Benefit Liability)	**11.1**	**9.2**

Provisions for pensions developed as follows:

	2004	2003
	€ million	€ million
Balance at 1 January	**9.2**	**8.8**
Additions due to extended scope of consolidation	0.3	0.0
Pensions paid	0.5	0.5
Allocations	2.1	0.9
Balance at 31 December	**11.1**	**9.2**

The calculation is based on the following assumptions:

	31 Dec. 2004	31 Dec. 2003
	%	%
Rate of interest	5.00	5.75
Projected increase in wages and salaries	2.00	2.50
Projected increase in pensions	1.50	1.50
Average fluctuation	0.00	0.00

We continue to use Prof. Dr. Klaus Heubeck's 1998 Tables as biometrical bases of calculation.

Income from pension liability insurance policies amounts to € 0.2 million. The corresponding pension liability claims were reflected in financial assets at present value.

Within the framework of collective bargaining agreements, the Group pays contributions to the Versorgungswerk des Bundes und der Länder (VBL) and to supplementary insurance schemes under public law (Zusatzversorgungskassen/ZVK) for the benefit of a defined group of employees. Such independent pension schemes under public law are to be categorised as defined-benefit pension plans as described by IAS 19, since post-retirement benefits for pensioners of VBL and ZVK member companies are not determined by contributions. However, in light of the great variety of VBL and ZVK member companies, these pension schemes must be regarded as multi-employer pension plans, subject to special rules according to IAS 19. In particular, IAS 19 does not allow the creation of provisions, in consideration of the fact that the Group lacks sufficient information for a detailed assessment of the share of RHÖN-KLINIKUM companies in future pension obligations under those schemes. Obligations under the VBL/ZVK pension schemes are therefore recognised as obligations under defined-contribution pension plans, as required by IAS 19.30a.

Current contributions are reflected as pension costs in the operating result for the respective financial years. In 2004, contributions to VBL and ZVK totalled approximately € 8.7 million (previous year: € 6.1 million). Provided that membership in VBL and ZKV is continued, there are no other obligations for RHÖN-KLINIKUM companies besides paying in regular contributions.

13. Other provisions

Other provisions developed in financial year 2004 as shown below:

	1 Jan. 2004	Changes in the scope of consolidation	Consumed	Released	Allocated	31 Dec. 2004	Of which short-term
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Provisions for risks of default	0.6	0.1	0.4	0.0	0.0	0.3	0.3
Provisions for third-party risks	1.3	0.1	0.3	0.4	0.5	1.2	1.2
Other provisions	3.2	3.3	0.0	0.6	0.8	6.7	6.7
	5.1	**3.5**	**0.7**	**1.0**	**1.3**	**8.2**	**8.2**

Provisions for risks of default mainly relate to risks arising from rental agreements.

Provisions for third-party risks are formed to cover possible damage compensation claims. Except for agreed deductible amounts (net retention), these risks are covered by existing insurance contracts and corresponding rights of recourse. The Group provides for potential negative effects of net retention, taking as a measure the likely utilisation of deductible amounts.

Other provisions primarily comprise provisions for contractually stipulated obligations incurred in the context of acquisitions concluded in 2004 and in previous periods.

14. Long-term financial debts

	31 December 2004		31 December 2003	
	Residual term > 1 year	Residual term up to 1 year	Residual term > 1 year	Residual term up to 1 year
	€ million	€ million	€ million	€ million
Liabilities to banks	238.8	17.6	166.9	12.4
Other liabilities	0.0	1.1	0.0	0.5
	238.8	**18.7**	**166.9**	**12.9**

Of the long-term financial debts, € 34.5 million is subject to variable interest rates. To limit exposure to interest rates we have concluded interest rate hedging agreements under which the rise in interest rates is capped at 4.0 per cent from 2006 until 2009 and to 5.7 per cent p.a. until 2006. € 148.7 million (previous year: € 139.1 million) of the stated financial debts is accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG.

Other liabilities refer to an revolving loan redeemable every four weeks.

The table below specifies durations, terms and conditions (weighted rate of interest) as well as nominal values and book values of financial debts.

Duration of fixed interest agreements	Interest rate[1]	31 Dec. 2004 Nominal value	Book value	31 Dec. 2003 Nominal value	Book value
	%	€ million	€ million	€ million	€ million
Liabilities to banks					
2004				34.8	24.9
2005	4.73	105.4	74.1	72.6	46.1
2006	5.32	62.1	47.2	60.6	48.9
2007	5.20	36.8	32.7	36.8	34.8
2008	4.20	23.0	17.4	22.7	18.5
2009	4.20	56.0	54.5	0.0	0.0
2011	4.83	32.9	30.5	7.7	6.1
		316.2	**256.4**	**235.2**	**179.3**
Other liabilities					
2005	5.00	1.1	1.1	0.5	0.5
		317.3	**257.5**	**235.7**	**179.8**

[1] weighted 2004 rate of interest

Book values shown correspond to market values of financial debts.

Of the amounts stated, € 168.2 million are primarily secured by registered charges on real property.

Long-term financial debts with a residual term of more than five years total € 147.7 million.

15. Tax liabilities

Tax liabilities in the amount of € 10.2 million (previous year: € 10.1 million) comprise corporation tax payable plus the solidarity surcharge. Reflected in this item are tax liabilities incurred in the current year and in previous periods.

16. Other liabilities

	31 December 2004	of which long-term	31 December 2003	of which long-term
	€ million	€ million	€ million	€ million
Liabilities from supplies and services	48.7	0.1	60.1	0.0
Personnel liabilities	72.0	0.0	59.2	0.0
Financial debts	34.6	0.0	138.0	0.0
Liabilities under hospital financing law	48.3	0.0	32.1	0.0
Operating taxes and social security	18.6	0.0	17.6	0.0
Prepayments received	0.6	0.0	1.4	0.0
Other	52.2	1.1	56.0	1.5
	275.0	**1.2**	**364.4**	**1.5**

Personnel liabilities are mainly accounted for by performance-linked wage components as well as holiday leave compensation.

Short-term financial debts relate to debts incurred in the ordinary course of business, of which € 24.2 million (previous year: € 71.9 million) are accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG.

Liabilities under the German Hospital Financing Act (KHG) include not yet appropriated global investment allowances granted under state legislation as well as repayment obligations under the federal hospital compensatory schemes [Federal Hospital Nursing Rate Ordinance (Bundespflegesatzverordnung) and Hospital Remuneration Act (Krankenhausentgeltgesetz)].

The book values of monetary liabilities included in these items correspond to their market values.

Other liabilities with a residual term of more than five years amount to € 0.4 million.

VIII. INTERESTS IN MAJOR SUBSIDIARY COMPANIES

1. Consolidated subsidiaries

	Percentage held	Equity[1] 31 Dec. 2004	Result for the year[1] 2004
	%	€ thousand	€ thousand
Altmühltalklinik-Leasing GmbH, Kipfenberg	51.0	3,391	383
Aukammklinik für operative Rheumatologie und Orthopädie GmbH, Wiesbaden	100.0	1,085	4
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt/Saale	100.0	24,476	– 34
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH, Hildburghausen	74.7	24,927	3,622
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	9,410	10
GTB Grundstücksgesellschaft mbH, Leipzig	100.0	34,604	877
Haus Saaletal GmbH, Bad Neustadt/Saale	100.0	169	56
Heilbad Bad Neustadt GmbH, Bad Neustadt/Saale	100.0	1,953	449
Herz- und Gefäß-Klinik GmbH, Bad Neustadt/Saale	100.0	7,928	0[2]
Herzberger Klinik Leasing GmbH, Herzberg am Harz	100.0	10,027	304
Herzklinik Karlsruhe Bauträger GmbH, Karlsruhe	100.0	4,363	191
Herzzentrum Leipzig GmbH, Leipzig	100.0	23,481	17,037
KBM Grundbesitzgesellschaft mbH, Bad Neustadt/Saale	100.0	– 1,671	881
Klinik "Haus Franken" GmbH, Bad Neustadt/Saale	100.0	503	56
Klinik Feuerberg GmbH, Bad Neustadt/Saale	100.0	39	– 3
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	8,868	6,172
Klinik für Wirbelsäulenrehabilitation GmbH, Bad Berka	100.0	17	0
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	5,460	2,290
Kliniken Herzberg und Osterode GmbH, Herzberg am Harz	100.0	6,334	1,065
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	26,167	621
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	77,589	4,632
Klinikum Meiningen GmbH, Meiningen	100.0	14,410	9,200
Klinikum Pirna GmbH, Pirna	100.0	18,112	2,445
Klinikum Pforzheim GmbH, Pforzheim	100.0	169	72
Krankenhaus Cuxhaven GmbH, Cuxhaven	100.0	10,515	293
Krankenhaus Hammelburg GmbH, Hammelburg	94.9	1,835	– 144
Kreiskrankenhaus Gifhorn GmbH i.G., Gifhorn	96.0	24	0
Städtisches Krankenhaus Wittingen GmbH i.G., Wittingen	96.0	24	0
MVZ Management GmbH Unterfranken, Bad Neustadt/Saale	100.0	608	– 92
MVZ Management GmbH Thüringen, Bad Berka	100.0	188	– 12
RK Klinik Betriebs GmbH Nr. 8, Bad Neustadt/Saale	100.0	196	– 4
MVZ Management GmbH Leipzig, Leipzig	100.0	196	– 4
MVZ Management GmbH Wiesbaden, Wiesbaden	100.0	195	– 5
MVZ Service Gesellschaft mbH, Bad Neustadt/Saale	100.0	195	– 5

Continued: Consolidated subsidiaries

	Percentage held	Equity[1] 31 Dec. 2004	Result for the year[1] 2004
	%	€ thousand	€ thousand
MVZ Management GmbH Attendorn, Attendorn	100.0	197	– 3
MVZ Management GmbH Sächsische Schweiz, Pirna	100.0	197	– 3
MVZ Management GmbH Weißeritzkreis, Freital	100.0	197	– 3
MVZ Management GmbH Brandenburg, Frankfurt (Oder)	100.0	196	– 2
Krankenhaus St, Barbara Attendorn GmbH, Attendorn	100.0	10,678	– 935
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	14,310	1,393
Mittelweser Kliniken GmbH Nienburg Hoya Stolzenau, Nienburg	100.0	23,863	111
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt/Saale	100.0	2,894	1,691
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	7,653	1,710
Psychosomatische Klinik GmbH, Bad Neustadt/Saale	100.0	0	– 3
RK Klinik Betriebs GmbH Nr. 11, Bad Neustadt/Saale	100.0	170	– 130
RK Klinik Betriebs GmbH Nr. 13, Bad Neustadt/Saale	100.0	47	– 3
RK Klinik Betriebs GmbH Nr. 14, Bad Neustadt/Saale	100.0	47	– 3
RK Klinik Betriebs GmbH Nr. 15, Bad Neustadt/Saale	100.0	27,992	– 8
Soteria Klinik Leipzig GmbH, Leipzig	100.0	3,236	1,174
St, Elisabeth-Krankenhaus GmbH Bad Kissingen, Bad Kissingen	100.0	5,488	504
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	19,099	437
Weißeritztal-Kliniken GmbH, Freital	100.0	29,342	1,339
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	84,907	22,767

[1] accounting in acc. with HGB
[2] after profit transfer

2. Affiliated companies not included in the scope of consolidation

	Percentage held	Equity[1] 31 Dec. 2004	Result for the year[1] 2004
	%	€ thousand	€ thousand
ESB-Gemeinnützige Gesellschaft für berufliche Bildung mbH. Bad Neustadt/Saale	100.0	1,832	70
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH. Leipzig	100.0	306	43
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH. Bad Neustadt/Saale	100.0	337	5
Kurverwaltung Bad Neustadt GmbH. Bad Neustadt/Saale[2]	60.0	94	0
RK Bauträger GmbH. Bad Neustadt/Saale	100.0	187	– 16
Seniorenpflegeheim GmbH Bad Neustadt/Saale. Bad Neustadt/Saale[2]	25.0	– 227	– 325
Wolfgang Schaffer GmbH. Bad Neustadt/Saale	100.0	509	5

[1] accounting in acc. with HGB
[2] acc. to 2003 financial statements.

IX. ADDITIONAL INFORMATION

1. Annual average number of employees[1]

	2004	2003	Change	
	Number	Number	Absolute	%
Medical	1,801	1,586	215	13.6
Nursing	5,929	5,555	374	6.7
Medical-technical	2,079	1,922	157	8.2
Functional	1,391	1,202	189	15.7
Support functions	630	611	19	3.1
Technical	261	247	14	5.7
Administrative	1,073	1,001	72	7.2
Other	194	160	34	21.3
	13,358	**12,284**	**1,074**	**8.7**

[1] Headcount; excluding board members, managing directors, apprentices, trainees and those in alternative national service.

The rise in the number of employees stemmed exclusively from the extended scope of consolidation.

2. Other financial obligations

	31 Dec. 2004	31 Dec. 2003
	€ million	€ million
Capital expenditure contracted for	50.7	18.1
Rental and lease agreements		
Maturity subsequent year	2.2	1.5
Maturity 2 – 5 years	1.9	1.2
Maturity 5 years	0.5	0.2
Pre-tax adjustments		
Maturity subsequent year	0.2	1.2
Maturity 2 – 5 years	0.1	0.2
Maturity 5 years	0.0	0.0
Other		
Maturity subsequent year	40.3	35.5
Maturity 2 – 5 years	22.4	17.5
Maturity 5 years	8.9	8.9

Financial obligations in the form of purchase prices and capital expenditure arising from validly concluded company purchase agreements total € 264.2 million (previous year: € 225.6 million); the greater part of these obligations has to be met within a period of up to 84 months. Concluded

company purchase agreements not yet fully in force will result in further short-term liabilities of € 68.5 million once these agreements enter into force.

3. Financial derivatives

The Group is exposed to fluctuations of market interest rates in respect of its financial debts and interest-bearing investments. Our long-term financial debt totalled € 257.5 million, of which € 221.9 million on conditions of fixed interest rates and maturities running until 2011. The remaining financial debts, financed on variable rates to take advantage of market interest rates, are hedged by interest rate caps in a volume of € 26.2 million. Interest rate swaps in a volume of € 5.4 million are in place for long-term financial debts. Derivative financial instruments are reflected at market values.

	Present value	Term	Interest rate 31 Dec. 2004	Interest rate cap	Subscription amount 31 Dec. 2004
	€ million		%	%	€ million
Interest swap	0.0	4 May 2004 – 31 Dec. 2006	4.732	5.70	5.4
Interest caps	0.2	2 Jan. 2006 – 30 Jun./30 Sep. 2009	2.98 and 3.08	4.00	29.2

Financial derivatives are monitored and controlled directly by the Board of Management.

4. Related parties and persons

RHÖN-KLINIKUM Group companies, in given instances, enter into transactions with related companies. Such service or lease relations are arranged at arm's length terms. Expenses and income as well as open accounts resulting from such transactions are of negligible importance at group level.

In the year under review, members of the Supervisory Board of RHÖN-KLINIKUM AG, or companies and entities related with these, rendered the following services at arm's length terms:

Related persons	Related companies (as defined by IAS, 24.3e)	Nature of services	€ million
Dr. Friedrich-W. Graf von Rittberg	Seufert Rechtsanwälte	Consulting	2.8
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	0.1
	DKMS – Deutsche Knochenmark-spenderdatei gemeinnützige Ges. mbH, Tübingen	transplants/ removals	0.3

These expenses are reflected in other operating expenses in the consolidated income statement, and resulting open accounts are included in liabilities from supplies and services.

In 2004, staff members of RHÖN-KLINIKUM AG or its subsidiaries who act as labour representatives on the Supervisory Board received the following compensation within the scope of their employment contracts:

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Bernd Häring	29.0	4.0	33.0
Helmut Bühner	41.0	5.0	46.0
Ursula Harres	38.0	2.0	40.0
Anneliese Noe	29.0	3.0	32.0
Werner Prange (since 15 Jan. 2004)	45.0	2.0	47.0
Joachim Schaar	43.0	33.0	76.0
	225.0	**49.0**	**274.0**

In addition, the Group paid employer's national insurance contributions totalling € 53,000. The above costs are shown under personnel expenses in the consolidated income statement.

Bayerische Hypo- und Vereinsbank AG, Munich, has held over 25.0 per cent of the voting capital of RHÖN-KLINIKUM AG since 2 May 2002. The Group maintains relations with that bank as a Provider of credit lines and other financial services at prevailing market conditions. In addition, the bank provides defined services under a Designated Sponsor Agreement. Interests received as reflected in the consolidated income statements amounted to € 0.5 million (previous year: 1.0 million); interests paid, including other expenses, totalled € 9.1 million (previous year: € 10.7 million). The corresponding asset and liability items are shown in the consolidated Balance Sheet under liquid funds, long-term financial debts, and other liabilities, respectively.

Mr. Eugen Münch, Bad Neustadt/Saale, is the chairman of the Board of Management of RHÖN-KLINIKUM AG and, together with his wife, continues to own more than 20.0 per cent of the voting capital of the Company.

5. Total remuneration Supervisory Board, Board of Management and Advisory Board

	2004	2003
	€ thousand	€ thousand
Supervisory Board	1,105	940
Board of Management	6,731	5,763
Advisory Board	13	15

No loans were granted to members of the Supervisory Board, the Board of Management or the Advisory Board. The members of the Board of Management – except the chairman – and the members of the Supervisory Board together have a shareholding interest in RHÖN-KLINIKUM AG which does not exceed 1.0 per cent of total equity capital. No transactions which are subject to

notification pursuant to Section 15 a of the Securities Trading Act (Wertpapierhandelsgesetz) were recorded at RHÖN-KLINIKUM AG in financial year 2004.

Details of the remuneration for Supervisory Board members are given in the table below:

	Fixed	Performance-linked	Total
	€ thousand	€ thousand	€ thousand
Dr. Friedrich-Wilhelm Graf von Rittberg	47	153	200
Bernd Häring	32	102	134
Michael Mendel	24	78	102
Helmut Bühner	11	36	47
Ursula Derwein	11	34	45
Prof. Dr. Gerhard Ehninger	11	36	47
Ursula Harres	11	36	47
Detlef Klimpe	14	44	58
Prof. Dr. Dr. sc. (Harvard) Karl W. Lauterbach	10	32	42
Dr. Brigitte Mohn	12	39	51
Wolfgang Mündel	20	64	84
Anneliese Noe	11	36	47
Timothy Plaut	10	32	42
Werner Prange (since 15 January 2004)	11	36	47
Joachim Schaar	11	34	45
Michael Wendl	16	51	67
	262	**843**	**1,105**

The compensation of Board of Management members is made up of fixed and variable components as shown in the table below:

	Gross remuneration			Net remuneration[1]
	Fixed	Performance-linked	Total	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Eugen Münch	241	2,088	2,329	1,139
Andrea Aulkemeyer	172	285	457	224
Heinz Falszewski	145	202	347	170
Hartmut Hain	147	62	209	102
Wolfgang Kunz	183	285	468	229
Joachim Manz	201	449	650	318
Gerald Meder	225	954	1,179	577
Manfred Wiehl	204	888	1,092	534
	1,518	**5,213**	**6,731**	**3,293**

[1] based on 45 per cent income tax load plus solidarity surcharge and church tax

The compensatory obligations of RHÖN-KLINIKUM towards members of the Board of Management developed as follows:

	Provision as at 31 Dec. 2003	Provision as at 31 Dec. 2004	Nominal amount of compensatory payment [1]
	€ thousand	€ thousand	€ thousand
Eugen Münch	2,263	3,025	3,492
Andrea Aulkemeyer	38	168	280
Heinz Falszewski	0	28	256
Wolfgang Kunz	54	136	288
Joachim Manz	577	686	809
Gerald Meder	617	1,112	1,766
Manfred Wiehl	1,192	1,348	1,631
	4,741	**6,503**	**8,522**

[1] On expiry of service contract based on earnings in the past financial year.

The Group does not provide any long-term incentive plans for executives.

With the exception of Mr. Eugen Münch, the other members of the Board of Management each hold less than 1.0 per cent of the shares of RHÖN-KLINIKUM AG. The entire interest held by all Board members in shares issued by the Company amounts to 16.3 per cent. The entire shareholding of all members of the Supervisory Board amounts to less than 1.0 per cent of the shares in issue. There are no options or other derivatives.

6. Statement of Compliance with the German Corporate Governance Code

By joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG, the Company issued a Statement of Corporate Governance, pursuant to Section 161 of the German Stock Corporation Act (AktG), regarding the application of the German Corporate Governance Code in financial year 2004. This statement was published on the web site of RHÖN-KLINIKUM AG.

7. Corporate bodies of RHÖN-KLINIKUM AG (last amended 31 December 2004)

Supervisory Board

Dr. Friedrich-Wilhelm Graf von Rittberg
Munich
Chairman, lawyer
Also a member of the supervisory board of:
Nordsaat-Holding GmbH, Böhnshausen
Nordsaat Saatzuchtgesellschaft mbH, Böhnshausen

Bernd Häring
Leipzig,
Deputy Chairman, nurse

Michael Mendel
Munich
Deputy Chairman
member of the Board of Directors
of Bayerische Hypo-Vereinsbank AG
Also a member of the supervisory board of:
Bank Austria Creditanstalt AG, Vienna ; German Incubator GI Ventures AG, Munich ; Kennametall Hertel AG, Nuremberg; MAHAG Münchner Automobil-Handel Haberl GmbH & Co. KG, Munich; Vereinsbank Victoria Bauspar AG, Munich (chairman); BioM AG, Martinsried
Other mandates:
HVB Banque Luxembourg, S.A. (vice president of the Board of Directors); HVB Beteiligungs-GmbH & Co. Verwaltungs AG (vice president of the Board of Directors); HVB Wealth Management Holding GmbH, Munich (chairman of the Board of Directors)

Helmut Bühner
Bad Bocklet, nurse

Ursula Derwein
Berlin, Secretary of ver.di
Federal Administration

Professor Dr. Gerhard Ehninger
Dresden, MD
Also a member of the supervisory board of:
Universitätsklinikum Carl Gustav Carus Dresden AöR, Dresden
Other mandates:
DKMS Deutsche Knochenmarkspenderdatei gemeinnützige Gesellschaft mbH, Tübingen, (chairman of the Board of Directors); Deutsche Klinik für Diagnostik GmbH, Wiesbaden, (advisor bone marrow transplantations); Stiftung Leben spenden (member of the Board of Trustees)

Ursula Harres
Wiesbaden, medical-technical assistant

Detlef Klimpe
Aachen, director of administration

Professor Dr. Dr. sc. (Harvard)
Karl W. Lauterbach
Cologne, university professor

Dr. Brigitte Mohn
Gütersloh, Member of the Board of Management
of Bertelsmann Stiftung,
responsible for healthcare issues
Other mandates:
member of the Advisory Board of startsocial 2002 (until 31 December 2004); member of the Board of Trustees of Urania Berlin e.V.; member of the Advisory Board of OWL-Marketing GmbH – Initiative Gesundheitswirtschaft und Gesundheit; member of BVG & Bertelsmann Verwaltungsgesellschaft

Wolfgang Mündel
Kehl, auditor and tax consultant
Other mandates:
Parfum & Cosmétique Jean d'Arcel GmbH & Co. KG, Kehl (chairman of the Advisory Board)

Anneliese Noe
Blankenhain, nurse

Timothy Plaut
London, investment banker

Werner Prange
Osterode, nurse
(since 15 January 2004)

Joachim Schaar
Wasungen, Director Human Resources

Michael Wendl
Munich, Secretary of ver.di,
regional directorate Bavaria
Also a member of the supervisory board of:
Städt. Klinikum München GmbH
Other mandates:
Zusatzversorgungskasse Bayer. Gemeinden (Board of Directors)

Board of Management

Eugen Münch
Bad Neustadt/Saale, Chairman
Member of the Supervisory Board of
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Gerald Meder
Hammelburg, Deputy Chairman,
Quality and Development, Acquisitions, Major Investment, Procurement, Regional Divisions south-western and north-western Germany
Member of the Supervisory Board of
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Andrea Aulkemeyer
Leipzig, Regional Division Saxony

Heinz Falszewski
Bad Neustadt/Saale, Deputy Board Member, Central Services

Hartmut Hain
Bad Neustadt/Saale, Deputy Board Member (until 31 December 2004),
Regional Divisions Bavaria and Thuringia, Labour Relations

Wolfgang Kunz
Würzburg
Company and Group Accounting

Joachim Manz
Berlin
Associations, Regional Division northern Germany

Manfred Wiehl
Bad Neustadt/Saale, Finance, Controlling, Investor Relations
Member of the Supervisory Board of
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Advisory Board of RHÖN-KLINIKUM AG

Wolf-Peter Hentschel
Bayreuth (Chairman)

Professor Dr. Robert Hacker
Bad Neustadt/Saale

Dr. Heinz Korte
Munich

Professor Dr. Michael-J. Polonius
Dortmund

Helmut Reubelt
Dortmund

Liane Seidel
Bad Neustadt/Saale

Franz Widera
Duisburg

Dr. Dr. Klaus D. Wolff
Bayreuth

Bad Neustadt/Saale, 24 February 2005

The Board of Management

Andrea Aulkemeyer Heinz Falszewski Wolfgang Kunz Joachim Manz

Gerald Meder Eugen Münch Manfred Wiehl

Auditor's Certificate

We have audited the consolidated financial statements (comprising the consolidated Balance Sheet, income statement, statement of changes in shareholders' equity, cash flow statement, and the notes to the consolidated financial statements) prepared by RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt/Saale, for the financial year ended 31 December 2004. The preparation of and the disclosures made in these consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, are the responsibility of the Company's Board of Management. Our responsibility is to verify, based on our audit, whether these consolidated financial statements comply with the provisions of IFRS.

We conducted our audit in accordance with generally accepted German auditing principles, taking account of the standards for professional auditing issued by the Institut der Wirtschaftsprüfer (IDW) and, in addition, of the International Standards on Auditing (ISA). These standards require that an audit be planned and performed such as to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. When determining the features of audit, due regard is shown to the knowledge of the Group's business activities and its economic and legal environment, as well as to expectations with respect to potential errors. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our audit also included an assessment of the accounting principles applied and material estimates made by the Management, as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements are in accordance with the IFRS and give a true and fair view of the Group's asset, financial and earnings position as well as the cash flows for the year.

No defences have resulted from our audit which, in accordance with German auditing standards, also included the Management's consolidated report for the year ended 31 December 2004. In our opinion, this report presents a fair view of the Group's overall position and the potential risks for its future development. Furthermore, we confirm that these consolidated financial statements and the Management's consolidated report for the year ended 31 December 2004 comply with the conditions for the Company's exemption from the obligation of preparing consolidated financial statements and a consolidated management report in accordance with German law.

Frankfurt am Main, 25 February 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner) *Auditor*

(ppa. Burkhart) *Auditor*

RHÖN-KLINIKUM AG Annual Financial Statements

Balance Sheet

	31 Dec. 2004 € million	31 Dec. 2003 € million
ASSETS		
Intangible assets	0.8	0.8
Tangible assets	29.3	31.0
Financial assets	432.9	370.3
Fixed assets	**463.0**	**402.1**
Inventories	2.4	2.3
Receivables and other assets	58.6	53.1
Securities, cash and cash equivalents	2.4	0.3
Current assets	**63.4**	**55.7**
Prepaid expenses	**0.4**	**0.1**
	526.8	**457.9**

	31 Dec. 2004 € million	31 Dec. 2003 € million
EQUITY AND LIABILITIES		
Subscribed capital	25.9	25.9
Capital reserve	37.6	37.6
Retained earnings	230.9	193.9
Net distributable profit	29.1	25.7
Equity	**323.5**	**283.1**
Tax provisions	0.1	0.2
Other provisions	28.9	24.9
Provisions	**29.0**	**25.1**
Liabilities	**174.3**	**149.7**
	526.8	**457.9**

Income Statement

	2004 € million	2003 € million
Revenues	124.5	125.2
Changes in services in progress	– 0.1	– 0.1
Other operating income	7.0	6.4
Cost of materials	30.5	29.8
Personnel costs	65.0	61.1
Depreciation	3.8	3.5
Other operating expenses	29.3	29.6
Operating result	**2.8**	**7.5**
Investment result	61.3	52.9
Financial result	– 2.3	– 3.1
Earnings from ordinary operations	**61.8**	**57.3**
Taxes	3.6	6.0
Net profit for the year	**58.2**	**51.3**
Allocation to retained earnings	29.1	25.6
Net distributable profit	**29.1**	**25.7**

The annual financial statements of RHÖN-KLINIKUM AG, which have been audited and certified by PwC Deutsche Revision, Wirtschaftsprüfungsgesellschaft, will be published in the Federal Gazette (Bundesanzeiger) and deposited with the Commercial Register of the Local Court of Schweinfurt.

Should you wish to receive a full copy, please write to RHÖN-KLINIKUM AG.

Proposed appropriation of net distributable profit

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2004, which have been prepared by the Board of Management, approved by the Supervisory Board and thus adopted as final, show a net distributable profit of € 29,110,962.07. The Board of Management will propose to shareholders at the forthcoming annual general meeting that this profit be appropriated as follows:

	€
Distribution of a dividend of € 0.78 per ordinary share on 17,280,000 ordinary shares	13,478,400.00
Distribution of a dividend of € 0.80 per non-voting preference share on 8,640,000 preference shares	6,912,000.00
Allocation to other retained earnings	8,720,562.07
Net distributable profit	29,110,962.07

Bad Neustadt/Saale, 24 February 2005

The Board of Management

Andrea Aulkemeyer Heinz Falszewski Wolfgang Kunz Joachim Manz

Gerald Meder Eugen Münch Manfred Wiehl

Milestones

1970

Establishment of the Kurbetriebs- und Verwaltungsgesellschaft m.b.H., predecessor of RHÖN-KLINIKUM GmbH

1973

Takeover of management of Kur- und Therapiezentrum Bad Neustadt/Saale comprising 1,500 condominium units as a rehabilitation centre

1975

Opening of psychosomatic hospital Psychosomatische Klinik Bad Neustadt/Saale

1977

Development of a training concept for ethnic German immigrants in partnership with a non-profit associated company providing room and board

1984

Opening of the cardiovascular hospital Herz- und Gefäß-Klinik Bad Neustadt/Saale

1988

Inception of RHÖN-KLINIKUM AG with an initial capital of DM 10 million (€ 5.11 million), through conversion of the share capital of RHÖN-KLINIKUM GmbH (limited liability company) into ordinary share capital. Resolution on approved capital

1989

Increase in share capital of RHÖN-KLINIKUM AG by DM 5 million (€ 2.56 million) to DM 15 million (€ 5.11 million) through issuance of 100,000 non-voting preference shares;

Takeover of majority of condominium rights; on 27 November 1989 IPO of first German hospitals group: listing of preference shares for official trading on the stock exchanges in Munich and Frankfurt am Main

Takeover of 50 per cent of the shares of DKD – Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

Takeover of all shares of Heilbad Bad Neustadt GmbH & Co. Sol- und Moorbad

1991

Opening of neurology hospital Neurologische Klinik Bad Neustadt/Saale

Founding and takeover of 75 per cent of shares in Zentralklinik Bad Berka GmbH, Bad Berka

Listing of the ordinary shares and placement of 25 per cent of ordinary shares

Increase in the share capital of RHÖN-KLINIKUM AG against cash contributions from DM 15 million (€ 7.67 million) by DM 15 million (€ 7.67 million) to DM 30 million (€ 15.34 million); admission of all ordinary and preference shares to the stock exchanges in Munich and Frankfurt am Main

Commissioning of the extension of Herz- und Gefäß-Klinik Bad Neustadt/Saale

1992

Opening of the hand surgery clinic Klinik für Handchirurgie in Bad Neustadt/Saale

1993

Opening of a specialist centre for addictive diseases as temporary solution until the opening of a planned new facility (opened in January 1997)

Opening of specialist hospital for neurology Neurologische Klinik in Kipfenberg

Increase in the share capital of RHÖN-KLINIKUM AG against cash contributions from DM 30 million (€ 15.34 million) by DM 6 million (€ 3.07 million) to DM 36 million (€ 18.41 million) – notional.

1994

Opening of operative and intensive care centre of Zentralklinik Bad Berka with 14 operating rooms and 88 intensive care beds

Opening of Herzzentrum Leipzig with the status of a university hospital

1995

Opening of Klinikum Meiningen, an acute hospital for standard and specialist care with 532 beds

Opening of replacement bed facility of Zentralklinik Bad Berka with 488 beds

Opening of heart surgery clinic Klinik für Herzchirurgie in Karlsruhe with 65 beds

Reduction in nominal value of RHÖN-KLINIKUM shares from DM 50.00 to DM 5.00

Increase in the share capital of RHÖN-KLINIKUM AG against cash contribution from DM 36 million (€ 18.41 million) by DM 7.2 million (€ 3.68 million) to DM 43.2 million (€ 22.09 million) – notional.

1996

Takeover of a further 50 per cent of the shares of DKD –Deutsche Klinik für Diagnostik in Wiesbaden/Hesse, making us sole shareholder

Commissioning of reconstructed central facility of Zentralklinik Bad Berka/Thuringia

1997

Opening of Soteria-Klinik, Leipzig-Probstheida

Takeover of Krankenhaus Waltershausen-Friedrichroda/Thuringia with 248 beds

1998

Takeover of Kliniken Herzberg und Osterode/Lower Saxony with 279 beds

Opening of west wing of Zentralklinik Bad Berka (Thuringia) including centre for paraplegia (66 beds), central diagnostics, PET and low-care ward

Commissioning of vascular centre at Herz- und Gefäß-Klinik Bad Neustadt

1999

Takeover of Kreiskrankenhaus Freital (near Dresden)/Saxony with 301 beds

Opening of world's first robot-assisted operation wing in Herzzentrum Leipzig-Universitätsklinik

Takeover of Städtische Klinik Leipzig Süd-Ost (Park-Krankenhaus)/Saxony with 526 beds

Takeover of Städtisches Krankenhaus St. Barbara Attendorn GmbH/ North Rhine-Westphalia with 297 beds

Increase in share capital of RHÖN-KLINIKUM AG from own funds to € 25.92 million as well as 1:3 stock split

2000

Takeover of Kreiskrankenhaus Uelzen and Hamburgisches Krankenhaus Bad Bevensen with 410 beds

Takeover of Krankenhaus in Dippoldiswalde (near Freital and Dresden)/Saxony with 142 beds

2001

Commissioning of extension of Kliniken Herzberg und Osterode GmbH/amalgamation of Herzberg and Osterode locations

2002

Takeover of hospitals in Nienburg/ Weser, Hoya and Stolzenau in Lower Saxony with a total of 388 beds (now: Mittelweser Kliniken GmbH Nienburg, Hoya, Stolzenau)

Takeover of Klinikum Frankfurt(Oder) with 910 beds

Takeover of Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen/Thuringia with a total of 405 beds

Takeover of Aukammklinik für operative Rheumatologie und Orthopädie in Wiesbaden/Hesse with 63 beds

Takeover of Pirna/Saxony (near Dresden) with 342 beds

2003

Takeover of Johanniter-Krankenhaus in Dohna-Heidenau (near Pirna, today amalgamated with Pirna)/Saxony with 142 beds

Opening of new facility of Kliniken Uelzen und Bad Bevensen GmbH/ amalgamation of Uelzen and Bad Bevensen locations

Takeover of 12.5 per cent interest of Free State of Thuringia in Zentralklinik Bad Berka GmbH

Takeover of Stadtkrankenhaus Cuxhaven/Lower Saxony with 270 beds

2004

Takeover of Krankenhaus in Hammelburg/Bavaria with 130 beds

Takeover of St.Elisabeth-Krankenhaus in Bad Kissingen/Bavaria with 196 beds

Opening of new facility for neurology, child and youth psychiatry, extension of adult psychiatry – at Fachkrankenhaus in Hildburghausen

Commissioning of extension and refurbishment at St. Barbara Krankenhaus in Attendorn

Takeover of Krankenhaus in Eisenhüttenstadt/Brandenburg with 326 beds[1,2]

Takeover of Stadtkrankenhaus in Pforzheim/Baden-Wuerttemberg with 602 beds

Takeover of Kreiskrankenhaus in Bad Neustadt/Saale with 200 beds[1]

Takeover of Kreiskrankenhaus in Mellrichstadt (near Bad Neustadt/ Saale) with 70 beds[1]

2005

Takeover of Stadtkrankenhaus in Hildesheim/Lower Saxony with 570 beds

Takeover of Kreiskrankenhaus in Gifhorn with 360 beds

Takeover of Städtisches Krankenhaus in Wittingen with 71 beds

Takeover of Kreiskrankenhaus in München-Pasing with 442 beds

Takeover of Kreiskrankenhaus in München-Perlach with 180 beds

Takeover of Kreiskrankenhaus in Dachau with 443 beds (interest of 74.9 per cent)

Takeover of Klinik Indersdorf with 50 beds

Takeover of Kreiskrankenhaus in Salzgitter-Lebenstedt with 258 beds (interest of 94.9 per cent)

Takeover of Kreiskrankenhaus in Salzgitter-Bad with 192 beds (interest of 94.9 per cent)

[1] *Prohibited in March 2005 by Cartel Office; appeal has been lodged.*

[2] *The city of Eisenhüttenstadt announced at the beginning of April 2005 – to avoid significant financial losses – its rescission of the purchase agreement.*

The addresses of RHÖN-KLINIKUM AG's hospitals

Baden-Wuerttemberg

Klinik für Herzchirurgie Karlsruhe GmbH
Franz-Lust-Straße 30
76185 Karlsruhe
Phone: (0721) 973 8-0
Fax: (0721) 9738-111
gf@herzchirurgie-karlsruhe.de

Klinikum Pforzheim GmbH
Kanzlerstraße 2-6
75175 Pforzheim
Phone: (07231) 969-0
Fax: (07231) 969-353
gf@klinikum-pforzheim.de

Bavaria

St. Elisabeth-Krankenhaus GmbH Bad Kissingen
Kissinger Straße 150
97688 Bad Kissingen
Phone: (0971) 805-0
Fax: (0971) 805-281
info@elisabeth-online.de

Klinik "Haus Franken" GmbH
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (09771) 67-04
Fax: (09771) 67-3300
fk@frankenklinik-bad-neustadt.de

Herz- und Gefäß-Klinik GmbH
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (09771) 66-0
Fax: (09771) 65-1221
gf@herzchirurgie.de

Klinik für Handchirurgie der Herz- und Gefäß-Klinik GmbH
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (09771) 66-0
Fax: (09771) 65-1221
gf@handchirurgie.de

Neurologische Klinik GmbH Bad Neustadt
Von-Guttenberg-Straße 10
97616 Bad Neustadt/Saale
Phone: (09771) 908-0
Fax: (09771) 991464
gf@neurologie-bad-neustadt.de

Psychosomatische Klinik
Salzburger Leite 1
97616 Bad Neustadt/Saale
Phone: (09771) 67-01
Fax: (09771) 65-9301
psk@psychosomatische-klinik-bad-neustadt.de

Haus Saaletal GmbH
Salzburgweg 7
97616 Bad Neustadt/Saale
Phone: (09771) 905-0
Fax: (09771) 905-4610
stk@saaletalklinik-bad-neustadt.de

Amper Kliniken AG
Krankenhausstraße 15
85221 Dachau
Phone: (08131) 76-0
Fax: (08131) 76-530
info@amperkliniken.de

- **Klinikum Dachau**
  Krankenhausstraße 15
  85221 Dachau
  Phone: (08131) 76-0
  Fax: (08131) 76-530
  info@amperkliniken.de
- **Klinik Indersdorf**
  Maroldstrasse 45
  85229 Markt Indersdorf
  Phone: (08136) 939-0
  Fax: (08136) 939-444
  info@amperkliniken.de

Krankenhaus Hammelburg GmbH
Ofenthaler Weg 20
97762 Hammelburg
Phone: (09732) 900-0
Fax: (09732) 900-113
gf@klinik-hammelburg.de

Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik
Kindinger Straße 13
85110 Kipfenberg
Phone: (08465) 175-0
Fax: (08465) 175 -111
gf@neurologie-kipfenberg.de

Kliniken München Pasing und Perlach GmbH
Steinerweg 5
81241 Müchen-Pasing
Phone: (089) 8892-0
Fax: (089) 8892-2599
direktion@krankenhaus-pasing.de

- **Klinik München-Pasing**
  Steinerweg 5
  81241 Müchen-Pasing
  Phone: (089) 8892-0
  Fax: (089) 8892-2599
  direktion@krankenhaus-pasing.de
- **Klinik München-Perlach**
  Schmidbauerstraße 44
  81737 Müchen-Perlach
  Phone: (089) 67802-1
  Fax: (089) 67802-434
  direktion@kkh-perlach.de

Brandenburg

Klinikum Frankfurt (Oder) GmbH
Müllroser Chaussee 7
15236 Frankfurt (Oder)
Phone: (0335) 548-0
Fax: (0335) 548-2003
gf@klinikumffo.de

Hesse

Aukammklinik für operative Rheumatologie und Orthopädie GmbH
Leibnizstraße 21
65191 Wiesbaden
Phone: (0611) 572-0
Fax: (0611) 565681
info@aukammklinik.de

Stiftung Deutsche Klinik für Diagnostik GmbH
Aukammallee 33
65191 Wiesbaden
Phone: (0611) 577-0
Fax: (0611) 577-320
gf@dkd-wiesbaden.de

Lower Saxony

Krankenhaus Cuxhaven GmbH
Altenwalder Chaussee 10-12
27474 Cuxhaven
Phone: (04721) 78-0
Fax: (04721) 78-1200
info@skh-cux.de

Kreiskrankenhaus Gifhorn GmbH
Bergstraße 30
38518 Gifhorn
Phone: (05371) 87-0
Fax: (05371) 87-1008
KKHGF@t-online.de

Kliniken Herzberg und Osterode GmbH
Dr.-Frössel-Allee
37412 Herzberg am Harz
Phone: (05521) 866-0
Fax: (05521) 5500
gf@klinik-herzberg.de

Klinikum Hildesheim GmbH
Weinberg 1
31134 Hildesheim
Phone: (05121) 89-0
Fax: (05121) 89-4646
gf@stk-hildesheim.de

Mittelweser Kliniken GmbH Nienburg Hoya Stolzenau
Marienstraße 2
31582 Nienburg a.d.Weser
Phone: (05021) 809-0
Fax: (05021) 809-119
gf@mittelweser-kliniken.de

- **Mittelweser Klinik Nienburg**
  Marienstraße 2
  31582 Nienburg a. d.Weser
  Phone: (05021) 809-0
  Fax: (05021) 809-119
  gf@mittelweser-kliniken.de
- **Mittelweser Klinik Stolzenau**
  Holzhäuser Weg 28
  31592 Stolzenau
  Phone: (05761) 708-0
  Fax: (05761) 708-238
  gf@mittelweser-kliniken.de

Klinikum Salzgitter GmbH
Kattowitzer Straße 191
38226 Salzgitter
Phone: (05341) 835-0
Fax: (05341) 835-1515
info@klinikum-salzgitter.de

- **Klinikum Salzgitter-Lebenstedt**
  Kattowitzer Straße 191
  38226 Salzgitter
  Phone: (05341) 835-0
  Fax: (05341) 835-1515
  info@klinikum-salzgitter.de
- **Klinikum Salzgitter-Bad**
  Paracelsusstraße 1-9
  38259 Salzgitter
  Phone: (05341) 835-4
  Fax: (05341) 835-1515
  info@klinikum-salzgitter.de

Kliniken Uelzen und Bad Bevensen GmbH
Hagenskamp 34
29525 Uelzen
Phone: (0581) 83-0
Fax: (0581) 83-1004
gf@klinikum-uelzen.de

Städtisches Krankenhaus Wittingen GmbH
Gustav-Dobberkau-Straße 5
29378 Wittingen
Phone: (05831) 22-0
Fax: (05831) 22-99
info@krankenhaus-wittingen.de

North Rhine-Westphalia

Krankenhaus St. Barbara Attendorn GmbH
Hohler Weg 9
57439 Attendorn
Phone: (02722) 60-0
Fax: (02722) 60-2430
gf@krankenhaus-attendorn.de

Saxony

Weißeritztal-Kliniken GmbH
Bürgerstraße 7
01705 Freital
Phone: (0351) 646-60
Fax: (0351) 646-7010
gf@weisseritztal-kliniken.de

– **Krankenhaus Freital**
Bürgerstraße 7
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Phone: (0351) 646-60
Fax: (0351) 646-7010
gf@weisseritztal-kliniken.de

– **Krankenhaus Dippoldiswalde**
Rabenauer Straße 9
01744 Dippoldiswalde
Phone: (03504) 632-0
Fax: (03504) 632-241
gf@weisseritztal-kliniken.de

Herzzentrum Leipzig GmbH
– Universitätsklinik –
Strümpellstraße 39
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Fax: (0341) 865-1405
gf@herzzentrum-leipzig.de

Park-Krankenhaus Leipzig-Südost GmbH
Strümpellstraße 41
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Phone: (0341) 864-0
Fax: (0341) 864-2108
gf@parkkrankenhaus-leipzig.de

Soteria Klinik Leipzig GmbH
Morawitzstraße 4
04289 Leipzig
Phone: (0341) 870-0
Fax: (0341) 870-3000
gf@soteria-klinik-leipzig.de

Klinikum Pirna GmbH
Schandauer Straße 12
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Phone: (03501) 766-0
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Thuringia

Zentralklinik Bad Berka GmbH
Robert-Koch-Allee 9
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gf@zentralklinik-bad-berka.de

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99894 Friedrichroda
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Fax: (03623) 350-630
gf@krankenhaus-waltershausen-friedrichroda.de

Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH
Eisfelder Straße 41
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For further information on our hospitals, visit our website at www.rhoen-klinikum-ag.com under the section "Hospitals".

Financial calendar

Dates for shareholders and analysts

Date	Event
28 April 2005	Publication of interim report for the first quarter of 2005
28 April 2005	Press conference: presentation of results for financial year 2004
20 July 2005	Publication of 2005 half-year report
20 July 2005	Annual General Meeting
26 October 2005	Publication of interim report for the third quarter of 2005
10 November 2005	DVFA analysts conference

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