RHÖN-KLINIKUM AG

ANNUAL REPORT

2005

Contents

The pictures of this Annual Report

In the previous years the themes pictured in the Annual Report were based on surveys: in 2003 we asked our employees, both young and old, to give their opinion on “their” company in terms of past developments and their expectations for the future. In 2004 we turned to members of the general public for their opinion on healthcare services delivered by privately owned hospitals. We also wanted to find out from passers-by in the city centre of Frankfurt what expectations people generally have for the future provision of hospital services.

In this Annual Report we present executives having Group-wide responsibility within their respective areas, with each picture followed by a brief statement. The Munich photographer Axel Griesch together with his colleague Denise Vernillo stayed in Bad Neustadt a. d. Saale for two days at the beginning of March 2006 and met the people pictured ahead of a routine meeting of the Board of Management at our head office. The photographers were allowed to move around the premises and mingle freely, capturing the mood of the individual executive figures as they pondered their brief statements.

In this Annual Report we also take up a further subject: at the end of November and beginning of December 2005 the first two teleportal clinics – in Dippoldiswalde (Saxony) and Stolzenau (Lower Saxony) – opened their doors. We have discussed this strategic concept continually over the past years. The Weimar photographer Steffen Michael Groß, a specialist in architectural themes, spent two days at each of these sites at the beginning of March 2006 and captured on photo the special features of the new buildings with a view to updating the hospitals’ Internet homepage. A small selection of his pictures will give you an idea and feeling of the basic construction concept and design as well as the atmosphere in the two teleportal clinics.

Key ratios

	2001	2002	2003	2004	2005
	€ '000	**€ '000**	**€ '000**	**€ '000**	**€ '000**
Revenues	697,013	879,492	956,265	1,044,753	1,415,788
Material and consumables used	172,487	211,691	230,423	252,418	343,611
Employee benefits expense	340,093	456,090	496,032	546,560	793,593
Depreciation and impairment	38,652	48,930	49,157	57,052	66,825
Net consolidated profit according to IFRS	70,812	75,128	79,695	80,200	88,300
– Earnings share of RHÖN-KLINIKUM AG shareholders	66,080	67,428	73,132	76,404	83,680
– Earnings share of minority owners	4,732	7,700	6,563	3,796	4,620
EBT	93,647	99,076	111,239	111,922	123,532
EBIT	106,643	115,320	125,619	123,780	140,071
EBITDA	145,300	171,468	174,856	180,832	206,896
Operating cash flow	109,464	131,275	128,932	137,792	155,559
Property, plant and equipment as well as investment property	614,093	717,941	757,755	794,774	978,019
Other financial assets	1,973	1,999	2,014	2,647	2,660
Equity capital according to IFRS	396,492	459,943	508,194	568,711	641,532
Return on equity, %	19.3	17.5	16.4	14.9	14.6
Balance sheet total according to IFRS	836,628	1,003,381	1,108,972	1,155,619	1,622,218
Investments					
– in property, plant and equipment as well as in investment property	87,088	168,218	112,454	100,638	290,557
– in other financial assets	19	0	15	634	202
Earnings per ordinary share (€)	1.28	1.30	1.41	1.47	1.61
Total dividend amount	12,614	15,206	17,798	20,390	23,328
Number of employees (at 31 December)	9,432	12,852	13,408	14,977	21,226
Case numbers (patients treated)	342,582	473,775	530,069	598,485	949,376
Beds and places	5,617	7,913	8,365	9,211	12,217

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

Wolfgang Pföhler, Chairman of the Board of Management

Talent strategically pooled for lasting success

With our long-horizoned vision, precise trend analysis, well-honed discernment and dynamic management, we have implemented landmark concepts in financial year 2005 and set the stage for further buoyant growth.

Dear shareholders,

Over the past financial year our Company steadfastly continued its past growth strategy: after starting off the year 2005 with the consolidation of the nine hospitals acquired the year before, we proceeded with the acquisition of the two hospitals from the District of Miltenberg-Erlenbach in April 2005, Heinz Kalk-Krankenhaus in Bad Kissingen in August 2005 and Frankenwaldklinik in Kronach at the end of September 2005. This strategically planned and thus anticipated growth was eclipsed in December 2005 when the Hesse State Government came with its decision in our favour to sell the university hospitals in Gießen and Marburg, an event which gives you, our shareholders, good reason to look for another quantum leap in growth for your Company already in the current financial year, and irrespective of further acquisitions.

Pursuing our past strategy unrelenting, we also witnessed a change in RHÖN-KLINIKUM's top management at the Annual General Meeting in July 2005 when Eugen Münch, long-serving chairman of the Board of Management and co-founder of the Company, presented me with an orchestral baton and by this symbolic gesture entrusted me with the management of your Company.

Right from the start this change was escorted and guided by a seasoned and well-coordinated team of executives. From a constant exchange of experiences we pooled our talent, insight and know-how, and within no time had not only grown together internally but were also successful at conveying this dynamic unity externally. We see ourselves as a strategically oriented executive team pursuing the common goal of turning the RHÖN-KLINIKUM into major full-service provider, not only with an eye to providing healthcare to certain niches, regions or a certain clientele but also with the aim of serving all patients in all clinical areas and at all levels of care.

In financial year 2005 we moved quite a ways along this path – and not just with the takeover of Universitätsklinikum Gießen und Marburg GmbH.

Over the past years we have kept you up-to-date on the development of our teleportal concept in the Annual Report, the Annual General Meeting and in reports published in the media.

The first two teleportal clinics opened their doors at the end of 2005 in Dippoldiswalde/Saxony and Stolzenau/Lower Saxony; three further ones are in the planning or finalisation phase. Given the successes already achieved we are convinced that in future as well these facilities will enable us to make a valuable contribution towards high-quality and yet affordable generalised healthcare for the population, thus strengthening and further expanding our market position.

A detailed look at the figures of the past financial year will be provided to you further on in this Annual Report. Allow me therefore to mention only a few, but striking key figures: During the past financial year a total of 949,376 patients were treated in the Group's hospitals. The 41 hospitals belonging to the Group at the end of 2005 counted a total of 12,217 beds/places, and the Company employed a total of 21,226 persons. The surge in growth during 2005 is reflected, among other things, in the 35.5 per cent rise in revenue to € 1.416 billion. We slightly exceeded our own forecast for earnings by generating a net consolidated profit of € 88.3 million.

We are proud of the results and growth achieved in financial year 2005, which was also one of reorientation for the Company. And we will spare no efforts to make sure we do not disappoint your expectations in future as well.

In order to succeed in this we rely on the performance and commitment of our highly qualified staff. By dint of their motivation and dedication, each in their specific area of work, they provide our patients from Germany and abroad with competent care all year round, thus contributing to the Company's overall performance and success as well as to their own job security. Our sincere thanks goes to them for their invaluable work.

We also thank the Supervisory Board, the Advisory Board and, not least, the employee representatives for their constructive work. A special word of thanks is extended to Mr. Eugen Münch – chairman of the Board of Management until 20 July 2005, member of the Supervisory Board and chairman of the Supervisory Board since 1 September 2005 – for his many years of successful work at the helm of our and your Company, and for his willingness to continue taking on responsibility for the Company in his new position.

Our thanks goes to you, our shareholders, for your trust in our Company's future prospects and the value you attach to your stake in it.

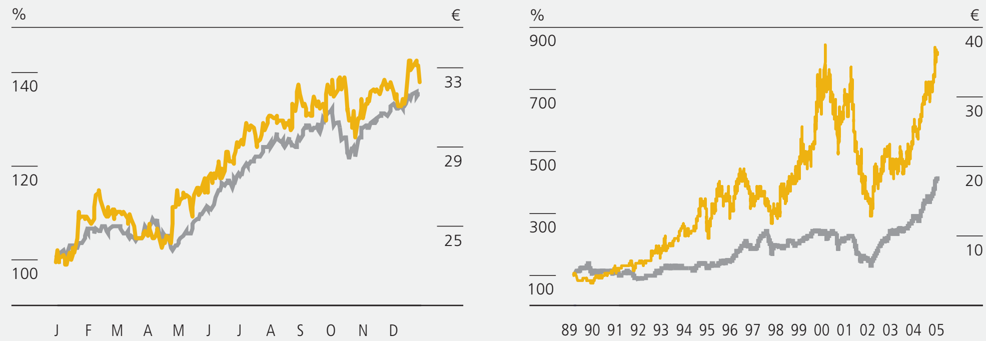
We shall continue our path unrelenting and with the same resolve and diligence as in the past.

Bad Neustadt a. d. Saale, April 2006

Wolfgang Pföhler
Chairman of the Board of Management

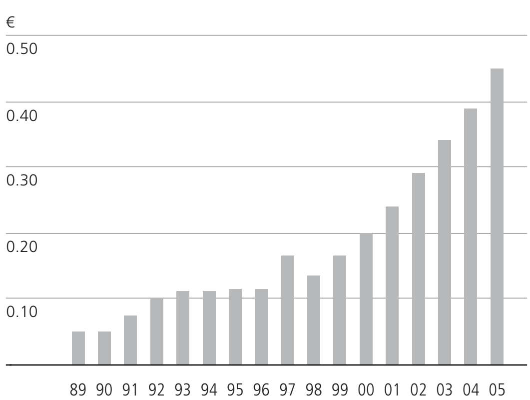
RHÖN-KLINIKUM share
Short-term performance comparison versus MDAX® 2005 (left) and long-term performance versus MDAX® (right)

RHÖN-KLINIKUM share
MDAX®



The RHÖN-KLINIKUM share

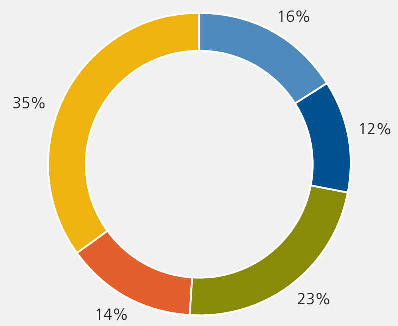
Share soars 41.9 per cent during financial year – dividend proposal of 0.45 euros per ordinary share



Development of dividends
All data adjusted (in €), including all previous capital-related measures (ordinary share):
2005: proposal to the AGM on 19 July 2006
1997: One-off bonus of € 0.04

After putting in a good performance in 2004, the German equity market surprised in 2005 by the rapid pace of gains. This rang true especially towards the end of 2005. The trend was mainly driven by the successes already achieved by companies from restructuring and rationalisation measures launched in previous years. By contrast, little stimulus came from the aggregate economy. The DAX® added 27.1 percentage points, closing the year at 5,408 points. The MDAX® rose 36.0 per cent and ended the year at 7,312 points. Once again, MDAX® second-tier stocks thus clearly outshone the blue chips for the fifth year in a row.

For the RHÖN-KLINIKUM share 2005 was a very robust year. The RHÖN-KLINIKUM share posted a handsome gain of 41.9 per cent, closing at € 32.15. At year-end the Company's market capitalisation stood at € 1.667 billion (previous year: € 1.172 billion), ranking us 21st in the MDAX® (after 41st the year before). Intraday trading volume in the ordinary shares averaged 42,499 (previous year: 9,405), with XETRA trading accounting for 94.7 per cent. The surge in trading volume and the smart improvement in the ranking mainly stem from the broad placement of the HypoVereinsbank AG block of shares and the resolutions adopted at the 2005 Annual General Meeting. On 4 August 2005 the capital increase from company funds took place at a ratio of 1:1 and actually only brought with it the expectation of a doubling in turnover volume. The conversion of the preference shares into ordinary shares on 26 September 2005



Shareholder structure of RHÖN-KLINIKUM AG

- Münch family
- Institutional investors Germany
- Institutional investors rest of Europe
- Institutional investors North America/Asia
- Other free float

The RHÖN-KLINIKUM share[1]	
ISIN	DE0007042301
Ticker symbol	RHK
Share capital	€ 51,840,000
Number of shares	51,840,000

(in € million)	2005	2004
Share capital	51.84	25.92
Market capitalisation	1,666.66	1,172.28
Share prices, in €		
Year-end closing price	32.15	22.65
High	33.22	23.12
Low	22.90	18.06
Key figures per share in €		
Dividend[2]	0.45	0.39
Profit	1.61	1.47
Cash Flow	2.91	2.66
Equity capital	11.75	10.53

[1] *Values adjusted for following capital-related measures in 2005: capital increase from Company funds, conversion of the preference shares into ordinary shares*
[2] *2005 dividend will be proposed to shareholders at the AGM on 19 July 2005.*

enabled a higher liquidity in stock market trading and made the stock more attractive for investors not looking to invest in preference shares.

The dividend policy we have proposed is geared towards both long-term value enhancement and sustained earnings strength from which we want our shareholders to reap the benefits as well. The Supervisory Board and the Board of Management will therefore propose to the Annual General Meeting a dividend of € 0.45 (previous year: € 0.39, value-adjusted to take account of the capital increase from company funds) for financial year 2005.

During the past financial year as well, we maintained a continuous and open dialogue with all market participants as the focus of our communication strategy. This ensures the greatest possible corporate transparency. As an integral part of our investor relations we attach great importance to staying in close contact with shareholders, analysts as well as potential investors. At roadshows, investor and conference calls as well as in company presentations at our hospital sites and at our headquarters, we provide information on our corporate strategy and business developments. We promptly publish current information about the company as corporate news items. We inform about our business performance on a quarterly basis as part of our financial reporting.

The 2006 Annual General Meeting of RHÖN-KLINIKUM AG will be held on Wednesday, 19 July 2006 at 10.00 a. m. at the Congress Center Messe Frankfurt.

A financial calendar containing all important financial dates in 2006 is provided on page 135 as well as on our website under the section “Investors”.

Who will save our university hospitals?

Structural change now reaches the "classic" hospital

By Ute B. Fröhlich[1]

The report by a private German TV station on the catastrophic handling of a medical emergency case caught the attention of the newspaper Frankfurter Neue Presse[2], and prompted its editors to do some thinking about what shape the country's city hospitals are in ahead of the Football World Cup to be hosted by Germany this summer. Various experts were interviewed, but the answers given were anything but reassuring.

The revisited case of an accident patient going back three years still causes quite a stir even today. After all, it could happen to anyone. Sven Gertel was in critical condition following a car accident he survived with severe head injuries and multiple fractures. Lucky for Sven, an emergency doctor was at the scene within 15 minutes and he was taken to the nearest hospital by ambulance. Not so lucky for Sven: the hospital did not see itself in a position to treat his serious injuries, so other hospitals were tried – but to no avail. Even the university hospital in Frankfurt as well as one specialised in accident emergencies, Berufsgenossenschaftliche Unfallklinik, refused to admit Sven. Not surprisingly, this caused quite some concern and uneasiness with television viewers wondering whether hospitals could turn away patients simply because they were no longer able to cover the costs of treatment.

Capacity bottlenecks

"That is a staggering thought and wholly unfounded", retorted Prof. Roland Kaufmann, Medical Director of Frankfurter University Hospital. In emergencies especially and regardless of cost reimbursement issues, treating seriously ill patients was the top priority for doctors, he said. But he also admitted that it was not so much a matter of being able or allowed to treat, but rather one of "bottlenecks in capacities". This had to do with intensive care beds, operating theatres, and of teams of doctors and nurses being immediately on hand. Already now the economic efficiency being called for by payers of the healthcare system meant that operation theatres were often being used around the clock without interruption, and that major interventions such as transplant operations were usually performed at night.

Prof. Reinhard Hoffmann, who has been Medical Director of the aforementioned accident-emergency hospital for only one and a half years, denied that emergency patients are turned away. "Trauma centres have an obligation to admit patients." And at the World Cup in June medical capacities and facilities would certainly be able to handle things like violent outbreaks among football fans or even terrorist attacks or other catastrophes. "This will be a big challenge for everyone, but one that hospitals will be able to handle. Primary care is never a problem. We can also beef up capacities with more artificial respiration places."

1 *freelance journalist in Frankfurt am Main*
2 *issue of 28 February 2006*

Teleportal clinic in Dippoldiswalde Foyer

For patients such assurances sound pretty hollow when mentioned in the same breath with capacity bottlenecks. Insecurity is further fed by the fact that Prof. Kaufmann represents a large and renowned university hospital, so that people are almost afraid to ask: "Then what kind of shape can we expect medium-sized and small hospitals on the outskirts of major German cities to be in?".

For patients, a university hospital has always enjoyed the aura and prestige of being a facility which – by dint of its size and importance as well as its medical affiliation to the university in the areas of research and teaching – provides maximum care to the very highest standards, and above all keeps it available for the population at all times, day and night.

But this image has been shaken of late. The German healthcare system is now in its worst crisis ever. What's more, things are expected to get even worse with the inexorable decline in the economy and demographic change. The woeful state of public finances has brought investment to a halt just as hospitals are coming under mounting pressure with the realisation that case flat rates (DRGs = diagnosis related groups) no longer suffice to cover the actual costs of a highly specialised treatment. According to the German Association of Company Health Insurance Funds (Bundesverband der Betriebskrankenkassen, BKK-BV), treatment costs at German hospitals rose by 6.7 per cent in 2004, with the average inpatient hospital stay costing € 3,350. Hospital treatments account for more than a third of total statutory health insurance spending in Germany.[3]

Privatisation as the recipe of success

This is where privatisation comes in. Most people would associate this primarily with production companies, the transport sector or isolated municipal enterprises, but the concept is now increasingly taking hold in services as well, including hospitals and now even university hospitals.

RHÖN-KLINIKUM AG in Bad Neustadt a. d. Saale is a pioneer on the hospital privatisation market. Since its establishment it has steadfastly strived to create clinical structures for better patient care while improving the hospital's efficiency. This in turn raises the hospital's future viability by enabling it to offer services that are affordable for all and not dependent on people's pocketbooks. At the heart of the company's philosophy is its orientation towards the patient.

Within a relatively short time the hospital Group has succeeded, as it were, in squaring the circle of generating profitability and efficiency despite above-average investments. To a great extent this has been made possible by the development of new clinical models.

Today RHÖN-KLINIKUM AG is one of Germany's largest private hospital operators with 45 facilities counting a total of 14,620 beds and places, mostly in acute hospitals of various categories.

Until now the company's efforts were turned towards small and medium-sized hospitals with an insufficient catchment area or outdated structures, and which were also threatened with closure due to their failure to meet minimum volume requirements. And this is never good news as it always deals a heavy blow to the infrastructure of the region in question.

[3] *Bundesverband der Betriebskrankenkassen, BKK Faktenspiegel February 2006*

Teleportal clinic in Dippoldiswalde
Telemedicine

Now, it seems, the time had come to "reach for the stars", i.e. for a university hospital, thus combining private healthcare with publicly financed research and teaching capabilities. The viability of this approach has already been demonstrated by university hospitals in Cambridge in the UK and Yale in the US.

A sacrilege?

And yet: the takeover of a university hospital seems to attract a good deal of attention, unease or even resistance and distrust. A university hospital is seen as a kind of bulwark of the healthcare system and the patrimony of society which, if lost, would result in the system going out of control. The thought of a university hospital being privatised seems to arouse fears that are also bound up with its responsibility for research and teaching and thus with the future of science in this country. And lastly, the employees concerned see the change in ownership as a threat to their own jobs hitherto largely secured by the State.

This certainly presents no easy task for a commercially oriented company, and calls for a good deal of hard public relations work, since making a strong and convincing case with all parties concerned will be key.

In the specific case of the two university hospitals in Gießen and Marburg, which were strong rivals given their relatively close proximity within a structurally weak region, what made the negotiations more delicate was that initially their very future was on the agenda. The Federal State of Hesse could no longer finance them. What to do? Closure of one facility? If so, which one? Merger? Shared or joint responsibility? Dissolution, reorganisation, restriction of departments? Questions upon questions which also loomed large in the minds of the general public.

To answer these it took tough negotiations culminating in the first privatisation of a university hospital in Germany, after the two hospitals had previously been merged into Universitätsklinikum Gießen und Marburg GmbH. The former chairman of the Supervisory Board of the university hospitals Gießen and Marburg and currently undersecretary of state in the Hesse Ministry of Science and Art, Prof. Dr. Joachim-Felix Leonhard, likes to look back to the talks that were "not always easy but were always conducted fairly with all parties" and offered both sites a real prospect for the future. "I don't see anything we could have done better", he added, indicating his satisfaction with the outcome.

An ambitious project

RHÖN-KLINIKUM AG has a long and proven track record for modernising hospitals in desolate condition. It knows how to shape up service providers by equipping them with state-of-the-art technology to perfect their diagnosis and therapy offering and – even more importantly – knows how to turn them into promising, future-oriented companies by providing their staff with the necessary motivation and moral support. So far it has achieved this in most cases with unorthodox ideas that have made the hospital Group the leader in innovation.

It now wants to participate decisively in the transfer of technology to further develop its core competency.

The listed hospital Group headquartered in the Rhön would have no problem establishing its own research facility, but it would not be free from the influence of external financing or contract principals. It was this aspiration to become a top-ranked healthcare provider with access to international cutting-edge research with a view to retaining its competitiveness in the long-term that impelled RHÖN-KLINIKUM AG to bid for the university

Teleportal clinic in Dippoldiswalde
External view

hospital, since it is only the principle of freedom in research and teaching that allows researchers to partake in the global research community and its research results.

Within the Group, a university hospital like Gießen-Marburg with independent medical departments is to drive innovation by spurring the further development of medical concepts while promoting generalised health-care delivery. At the same time the university hospital also benefits from the day-to-day experience of the affiliated hospitals. And last not but not least, the integration of a top medical facility also brings economic advantages, boosts growth and secures the healthcare delivery network within the entire Group.

On the German hospital and university landscape this is the first time that two university hospitals were merged and privatised. It will take a lot of experience to strike and maintain a balance between the two sites in terms of research and teaching on the one hand and healthcare delivery on the other, while also ensuring qualified working conditions.

Joining forces

RHÖN-KLINIKUM AG intends to realise this goal on the bedrock of investment. Its medical operating concept allows for structures to be networked with other hospitals, teleportal clinics and integrated medical care centres (MVZs), the latter concept being the Group's own development. It therefore will not roll back even one inch the existing structures of the two hospitals, but instead considerably help to strengthen and promote their rapid further development.

For example, the university hospital will adopt, further develop and contribute its scientific expertise to the concept for day-clinical or day-case diagnosis and therapy developed by RHÖN-KLINIKUM a few years ago at Deutsche Klinik für Diagnostik (DKD) in Wiesbaden and actively promoted by the Hesse Ministry of Social Affairs, the Hesse associations of health insurance funds and the Wiesbaden Association of Accredited Physicians. This lowers per-case costs compared with inpatient care – a considerable advantage.

Medical care centres preserve small hospitals

The Group sees vertical integration of outpatient and inpatient care as being the key to substantial advances in future treatments for the well-being of patients. For this reason the Group has begun affiliating medical care centres (MVZs) as a rule to all hospitals of RHÖN-KLINIKUM AG, above all to round off the local offering of basic and standard hospitals by the specialist fields of the MVZs. As has already been realised at the Gießen and Marburg sites, they are the link between the maximum-care or major regional facilities and the basic and standard care hospitals in the respective catchment area referred to as portal hospitals. In addition to providing outpatient (interdisciplinary) care, specialists based at the MVZ also perform pre-operative diagnosis, supervise outpatient operations and deliver specialist know-how at the day clinic. The doctors working at the MVZ either as salaried employees or independent contractors are integrated into the further training structure and can use the centre's technical capacities.

Teleportal clinic in Stolzenau
External view (left)
Foyer (right)

All operative disciplines such as cardiology and anaesthetics as well as many conservative disciplines currently do not have sufficient capacity for intensive medicine and intermediate care. These are to be expanded, reorganised and combined for optimum space use, as well as filled and headed by the respective hospitals.

Further promising projects

In addition to MVZs, the teleportal clinic concept developed by RHÖN-KLINIKUM AG is particularly promising. It makes it possible to preserve smaller basic care hospitals that are not profitable but nonetheless needed to ensure healthcare provision close to where people live. At the same time these facilities fulfil the statutory mandate of ensuring qualified, generalised, and reasonably financed healthcare close to the patient: by integrating the specialist expertise of community-based practitioners and linking up telemedically to state-of-the-art centres, they ensure that the population is provided with comprehensive basic care to high standards around the clock. The first two clinics of this kind were put into service in 2005 in Stolzenau/Lower Saxony (newly built facility) and in Dippoldiswalde/Saxony (adapted and extended facility).

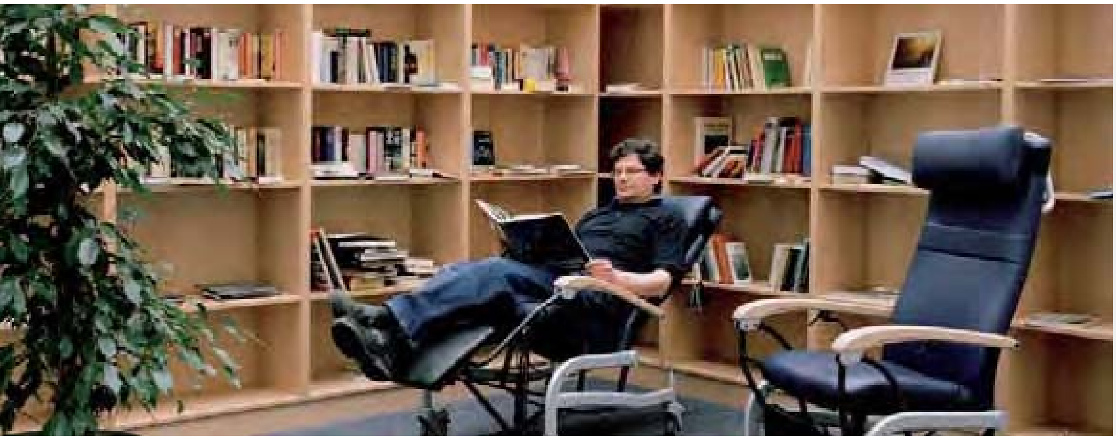
Teleportal means that hospitals become accessible for all patients. The categorisation of facilities from basic- to maximum-care hospitals means that patients are brought to where they get just the right amount of competent, routine and optimum treatment that they need. Treatments are thus organised on a cross-facility basis, tailored to a patient's specific needs.

Cutting-edge medicine is already available to patients at basic-care hospitals through their medical-technology capacities (CT/computer tomography, MRT/magnetic resonance tomography) and telemedical networking with the medical expertise of major centres or maximum-care facilities. The teleportal clinic ensures broad healthcare provision with vertically integrated service volumes as opposed to horizontal specialisation.

RHÖN-KLINIKUM AG envisages realising this concept at the university hospitals in Gießen and Marburg in co-operation with basic-care hospitals based in the region of central Hesse. These facilities could even be given the possibility of installing a CT or MRT. This would allow them to provide primary care for heart attack or stroke patients, and to make a diagnosis in suspected cases of craniocerebral trauma. This would give Universitätsklinikum Gießen und Marburg GmbH both regionally and supra-regionally a broad and varied co-operation task, but above all a very considerable control function. And lastly the system provides the wherewithal of securing the future viability and existence of small and medium-sized hospitals, and the patient the certainty of having a hospital facility close at hand and linked to a major facility.

Investment a must

The merger of the university hospitals in Gießen and Marburg and their privatisation can only be successful if medical care is improved and cutting-edge medicine is further expanded while at the same time raising the efficiency of healthcare delivery. Working conditions will be improved for all employees and the basis for outstanding research and teaching created as the prerequisite for excellent medical training.



Both sites will remain independent with their own medical departments and medical directors, and will be modernised and rebuilt with considerable investments. In Gießen the small and medium-sized old buildings will be amalgamated into a somatic facility on the basis of the new surgery facility comprising a paediatric clinic and paediatric heart transplant centre. In Marburg the Lahntal facilities will be moved up to an additional new building in Lahnberge in order to accommodate the still absent head clinic and particle therapy centre as well as a PET (positron emission tomography) centre. The paediatric and juvenile psychiatry unit as well as the adult psychiatry unit are being modernised.

RHÖN-KLINIKUM AG has committed itself to putting ten per cent of the profit from its Universitätsklinikum or at least two million euros per annum into research. Coming on top of this are the funds allocated to a new trust of the Federal State of Hesse to promote research and teaching university medical field and thus secure the lasting independence of research activities.

New cutting-edge technology

Universitätsklinikum Gießen und Marburg GmbH will be provided with the latest in diagnosis and therapy equipment for patient care, research and teaching: each of the two sites will have a PET (positron emission tomography) unit, and in Marburg there will also be a proton/heavy-ion unit (= particle therapy).

Since the 1990s the importance of PET in diagnosing cancer diseases has grown because it detects cancer at an early stage ten times more frequently than other more radiation-intensive examination methods, and is superior to these in the detecting relapses and the stage of the disease as well as in finding primary tumours. PET also plays a major role in cardiology and neurology, for example in the early detection of Alzheimer's disease or Parkinson's disease.

With the new combined PET/CT unit it is possible to perform a whole body diagnosis within twenty minutes – also resulting in remarkable improvements in interdisciplinary co-operation for the well-being of the patient.

Some 380,000 new cancer cases are diagnosed each year in Germany. For the most part these are treated with high-energy X-rays (photons). Today a treatment using photons and tomorrow one using heavy ions present more gentle and thus indispensable alternatives.

Unlike conventional photon radiation therapy, particle therapy is based on the technique of accelerating matter-particles from carbon, the heavy ions, or from hydrogen, the protons, to about half the speed of light. These particles are then shot into diseased cell groups. This results in the destruction of the cells concerned which die off if the destruction takes on a certain dimension and are then broken down by the body's metabolic processes. Apart from the conditions now treated with proton therapy, further possible indications are prostate cancer, brain tumours, all malignant tumours close to the spinal marrow, the brain or the optical nerves, and – to a limited extent – lung cancers.

The special thing about particle therapy is that the energy thus released into the body causes little destruction on its way through the body to its target.

Teleportal clinic in Stolzenau
Level access drive

The way to excellence

All this reveals quite a different picture to what is commonly feared with mergers and has caused so much concern for so many weeks in Gießen and Marburg – not only among employees but also among people in general and (potential) patients. But all this is part of a fair deal between the Federal State of Hesse and RHÖN-KLINIKUM AG.

The employees can expect better working conditions, and necessary changes will be offset by a social fund and retraining measures with a view to ensuring qualified jobs beyond 2010. The existing public sector wage scale BAT will be replaced by an in-house wage agreement. And the management team will be left unchanged, supported by two additional directors. What will be new for employees is that in future they will have a stake in the success of “their” hospital – which is the most reliable way of kindling and promoting motivation and interest in their work as a team. And of avoiding strikes like the ones currently under way.

Germany is now to see the emergence of its first “universities of excellence”. The first university hospital to earn this title will probably be Universitätsklinikum Gießen und Marburg GmbH.

The sites of RHÖN-KLINIKUM Group

RHÖN-KLINIKUM Group hospitals:

Qualitative growth driven by innovation

At year-end 2005, RHÖN-KLINIKUM Group was present with 41 hospitals at 31 sites in eight federal states with a total of 12,217 beds/places. In December 2005 we marked a further milestone in the sector's privatisation wave, winning the tender for the first privatisation of university hospitals in Germany, Universitätsklinikum Gießen und Marburg GmbH. Including the further hospitals acquired already in 2005, Frankenwaldklinik in Kronach and Heinz Kalk-Krankenhaus in Bad Kissingen, RHÖN-KLINIKUM Group now counts 45 hospitals with 14,620 beds/places (as at February 2006).

In 2005 a total of 949,376 patients (previous year: 598,485) were treated in the Group's hospitals. The surge of 58.6 per cent stems from the first-time consolidation of eleven newly acquired hospitals in total. In case numbers, the trend in the shift from inpatient stays to outpatient attendances continued: the number of cases in the inpatient acute area was 410,585 (previous year: 287,143), in the outpatient area 529,860 (previous year: 304,214) and in the rehab and other area 8,931 (previous year: 7,128).

Developments in Baden-Wuerttemberg

Klinik für Herzchirurgie Karlsruhe is one of the most modern specialised centres for cardiac surgery with 75 beds approved under the state's hospital plan. It offers the entire range of surgical treatments for heart diseases of adults. Its surgeons specialise in patient-friendly (minimal-invasive) cardiosurgical techniques. In 2005, the hospital succeeded in continuing its overall positive performance: compared with the previous year (statistical reporting of cases according to the DRG system), patient numbers were raised by 2.0 per cent to 2,402 (previous year: 2,354) cases. The duration of stay edged up slightly by 0.1 days to 11.5 days.

On 12 October 2005 celebrations at the heart surgery clinic "Klinik für Herzchirurgie" in Karlsruhe marked its 10th anniversary.

Klinikum Pforzheim, an academic teaching hospital affiliated with the University of Heidelberg, is an efficient centralised-care facility with 520 approved beds. Its focus is on cardiovascular medicine, interdisciplinary oncology, gastroenterology/visceral surgery and a mother-child centre including a perinatal centre. The hospital is equipped with state-of-the-art technology such as multisliced computed tomography, 1.5 Tesla nuclear magnetic resonance, nuclear medicine (SPECT) as well as cardiac catheterisation labs.

The year 2005 was marked by preparations for certification as an independent breast centre as well as by intensive construction planning for the hospital's further development and the establishment of modern clinical structures.

In 2005 the centre treated a total of 21,882 inpatients (previous year: 22,166). The decline of 1.28 per cent is attributable to the shift in service volume to the outpatient area, in particular outpatient operations. As in the previous year, the average duration of stay was 6.8 days.

We are currently seeing a phase of denationalisation. The big challenges come from the fact that the State is unable to cope with the sheer scope of tasks and their performance. That is why privatisation is all the more necessary and logical as an option to take some of the burden off the State.

Wolfgang Pföhler (53)
Chairman of the Board of Management
with the Company since May/2005

Developments in Bavaria

St. Elisabeth-Krankenhaus Bad Kissingen in 2005 again lived up to its standing as the largest acute-care hospital in the district of Bad Kissingen. 7,978 inpatients were treated, 494 cases more (+ 6.6 per cent) than in the previous year. The 428 births recorded by the facility were in line with the slightly declining trend seen nationally (previous year: 450 births). The average duration of stay was 6.9 days (previous year: 7.0 days).

One investment meriting particular mention is the procurement and commissioning of a modern cardiac catheterisation unit at the beginning of 2005. A spacious parking deck completed in May 2005 was welcomed by patients, visitors and staff.

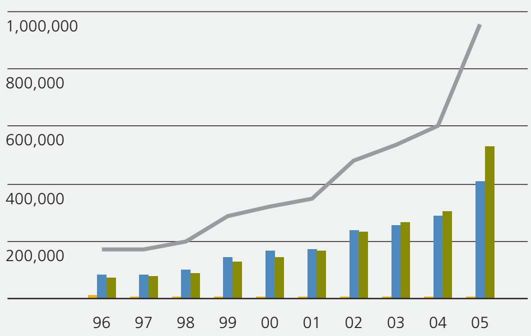
With Klinik **"Haus Franken"** in **Bad Neustadt a. d. Saale** we operate a renowned specialist hospital for prevention and rehabilitation with 122 beds, working together closely also in 2005 with both the cardiovascular centre Herz- und Gefäß-Klinik Bad Neustadt a. d. Saale and referring external hospitals/community-based general practitioners (GPs) and specialists. Most of the patients receive post-cardiosurgical treatment or treatment for other heart and vascular diseases. In 2005 the centre treated a total of 2,219 patients (previous year: 2,357). The hospital will continue to enjoy increasingly stable occupancy levels with the conclusion of a contract for integrated care in co-operation with Herz- und Gefäß-Klinik Bad Neustadt a. d. Saale and by intensive acquisition efforts.

Herz- und Gefäß-Klinik in **Bad Neustadt a. d. Saale** 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. As in previous years, the facility enjoyed satisfactory occupancy levels. The number of inpatients declined to 12,915 (previous year: 14,353), attributable among other things to the rise in outpatient attendances to 3,857 (previous year: 3,379) and the different statistical reporting method applied for accounting with DRGs since 1 January 2005.

In the year under review a second angiography unit was commissioned. It enables the examination and therapy of vessels outside the heart. This will make it possible to meet the higher demand for the therapeutic widening of vessels (PTA).

All of the hospital's medical fields (heart surgery, cardiology, vascular surgery) succeeded in meeting targets for raising their share of patients suffering from severe conditions. Once again, over 1,000 examinations using cardio CT and cardio MRT were performed in the area of cardiac "non-invasive imaging". 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 (replacement and reconstruction) as well as cardiac pacemaker and defibrillator implantations. The share of bypass operations using heart-lung machines as a percentage of total operations continues to decline. Growth in the cardiology area was driven above all by therapeutic interventions (PTCA, catheter ablation) for complex diseases. In the area of vascular surgery the focus was on leg artery bypass operations and interventions relating to aortic aneurysms.

Klinik für Handchirurgie in **Bad Neustadt a. d. Saale** in 2005 treated a total of 6,121 patients (previous year: 6,762) on an inpatient basis or through outpatient operations. The field of hand surgery in particular has witnessed a shift from inpatient stays to outpatient interventions in line with statutory goals. Following the retirement of the hospital's long-standing medical director the hospital has been jointly managed by two senior physicians since January 2006; among other things, an expansion of the offering (elbow, foot surgery) is planned.



Case numbers (patients treated) of RHÖN-KLINIKUM Group

Psychosomatische Klinik in **Bad Neustadt a. d. Saale** operates 180 beds in acute care which were approved by the hospital requirement plan of the Free State of Bavaria in 2005. In the rehabilitation area 160 beds are available. The hospital treated a total of 3,031 patients on an inpatient basis (previous year: 2,905), of which 1,864 (previous year: 1,768) in the acute area and 1,167 (previous year: 1,137) in the rehabilitation area. On 24 and 25 June 2005 the hospital celebrated its 30th anniversary with festivities followed by a specialist congress. In future as well, the hospital will participate in numerous research projects.

"Haus Saaletal" in **Bad Neustadt a. d. Saale** 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, all of these facilities enjoyed full occupancy. On 27 October 2005 Klinik Neumühle celebrated its 25th anniversary with festivities followed by a specialist event. In December 2005 all facilities were certified to ISO DIN 9001 and to IQMP Reha of the Federal Association of Private Health Facilities (Bundesverband der Privatkrankenanstalten).

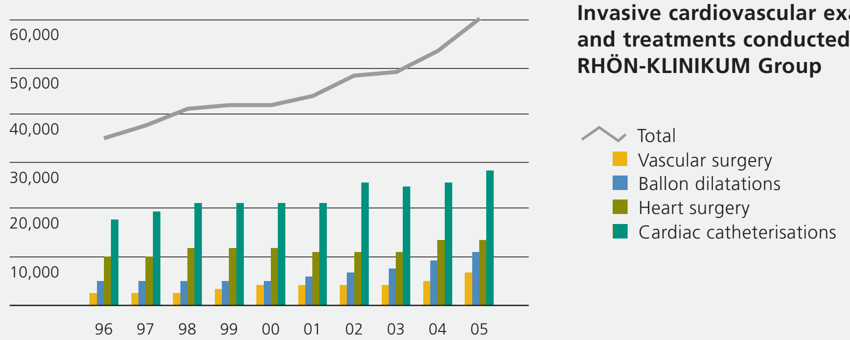
Neurologische Klinik in **Bad Neustadt a. d. Saale**, one of the few integrated neurological centres in Germany (specialist hospital with rehabilitation clinic), achieved a further rise in inpatient treatments to 4,183 (previous year: 4,123).

Already in 2003 the hospital opted for accounting using case flat rates (DRGs) both in acute neurology and the department for patients with extremely severe cranio-cerebral conditions (Phase B). This makes it the only Phase-B facility in Bavaria to apply the new remuneration system.

The clinical research section of the neurological centre reaches a level of competitiveness on a par with university facilities. It not only deals with issues relating to basic research but usually clinical trials as well, which can be conducted in the centre thanks to its good clinical logistics. These activities have earned the facility national recognition.

The facilities of **Amper Kliniken** comprising **Klinikum Dachau** and **Klinik Indersdorf** have been among the Group's hospitals since 1 January 2005, and treated a total of 20,175 acute inpatients and 30,578 outpatients in the year under review. In the area of geriatric rehabilitation case numbers were raised by 80 to 1,197.

The numerous construction measures for modernising and extending Klinikum Dachau were wrapped up in the year under review and the integration of Frauenklinik Dachau was also completed. As a Level III major centre and academic teaching hospital affiliated with Ludwig-Maximilians-Universität in Munich, and now also as an attractively built facility, Klinikum Dachau serves patients in the catchment area with currently 410 approved beds and six treatment places. Targeted investment in state-of-the-art medical technology is especially evident in the installation of a 64-line computer tomograph.



Invasive cardiovascular examinations and treatments conducted within RHÖN-KLINIKUM Group

The **hospitals** in **Erlenbach** and **Miltenberg** were taken over effective 1 July 2005. Both hospitals are classed as Level II facilities (basic and standard care) and in the acute area have over 220 beds in Erlenbach and 140 beds in Miltenberg and 32 geriatric rehabilitation beds in the hospital in Erlenbach, as well as a nursing school with 93 training places. As in the previous years, the facilities enjoyed good occupancy levels and in full-year 2005 treated 16,012 inpatients, 16,464 outpatients and 369 geriatric rehabilitation patients.

In addition to the fields of general surgery, internal medicine, gynaecology/obstetrics, urology and ENT, we offer our patients an outpatient pain department and have been a member of the breast centre “Brustzentrum Heidelberg” since 2005.

In financial year 2005 a real estate site was acquired in Miltenberg in connection with the construction of a new teleportal clinic there; the second stage in the part-modernisation project at Klinik Erlenbach is about to get under way.

Also in the second year after it was taken over, **Krankenhaus Hammelburg** has responded to the future requirements facing modern hospitals and their work structures. The measures taken as a result included the reduction in the number of beds from 130 to 117. The hospital treated a total of 8,105 (previous year: 7,743) patients, of which 3,775 on an inpatient basis and 4,330 as outpatients. The duration of stay was trimmed by 1.6 days to 7.0 days.

The new focus of the oncosurgical department – treatment of peritoneal cancer using peritonectomy – was further expanded in 2005. In addition the new Internal Medicine Department II focusing on the areas of gastroenterology and hepatology took up its work in 2005 under its own senior physician management. In this connection a high-performance ultrasound unit allowing for sonography-guided puncture was put into service.

Klinik Kipfenberg, Neurochirurgische und **Neurologische Fachklinik**, in 2005 provided care to patients with extremely severe craniocerebral conditions to high standards. By extending its offering in November 2004 to cover treatment of all forms of accident-related paraplegic injuries, including combined craniocerebral and spinal cord injuries as well as paraplegia of the upper cervical vertebra requiring respiratory assistance, the hospital not only succeeded in raising occupancy in neurology from 96 to 99.8 per cent thanks to higher case numbers, but also compensated the decline in treatment days for ongoing (long-term) rehabilitation.

On 1 July 2005 Klinik Kipfenberg took over 16 beds for orthopaedic follow-up treatment from Altmühltalklinik Kipfenberg. These beds had an occupancy rate of 93.5 per cent. The number of patients treated at both hospitals recorded a 16.8 per cent increase to 3,590 cases. Service volumes within the outpatient rehabilitation centre were raised by 15.3 per cent.

The number of participants in courses offered by Klinik Kipfenberg’s interdisciplinary training centre rose only slightly by 15 to 1,215 participants, including 715 external participants. The number of courses rose from 65 to 68.

The hospitals in **München-Pasing** and **München-Perlach** were taken over with effect from 1 January 2005. The year 2005 was marked above all by the administrative integration of the hospitals which previously had for the most part been managed as separate facilities.

In 1981 I left a globally operating EDP firm to work in the hospital sector because I was fascinated about restructuring healthcare facilities and about taking an active part in the impending privatisation wave; and to this day the variety that I have encountered and still do encounter in my work has never ceased to fascinate me: on the one hand you are able to help people (patients) while taking on the special challenge of structuring patient care along the lines of clinical processes driven by innovation. RHÖN-KLINIKUM Group is constantly opening up new, creative as well as medically and economically sensible fields of activity (MVZs, teleportal clinics ... and now university hospitals). Acquiring new hospitals and then integrating these into the Group by creating promising and viable structures for the future always challenges me anew and calls for my entire experience and know-how.

Gerald Meder (52)
Deputy Chairman of the Board of Management, Chairman of the Management of Universitätsklinikum Gießen und Marburg GmbH; with the Company since January/1981

Klinikum München-Pasing, a teaching hospital affiliated with Ludwig-Maximilians University of Munich, is an efficient major centre with over 442 approved beds (classed as Level III major centre). In 2005 extensive construction modernisation measures were carried out. Work also got under way on the modernisation and adaptation of the medical-technical infrastructure with the installation of a multislice computer tomograph and a cardiac catheterisation lab. The medical offering was expanded through partnerships with community-based specialists. The number of inpatient treatments was raised to 16,074 (previous year: 15,683), and the number of outpatient attendances to 23,813 (previous year: 23,728).

Klinik München-Perlach, a basic care facility with 180 beds, had witnessed an increasing decline in case numbers over the past years to nearby maximum-care facilities. This trend was reversed thanks to various co-operation schemes, notably in the orthopaedic-neurosurgical field, which focused on disk and spinal surgery to round off the existing accident-emergency surgery capacities. The medical offering was also improved with the commissioning of a multislice computer tomograph. In 2005, 4,973 patients (previous year: 4,679) were treated on an inpatient basis and 9,617 patients (previous year: 9,035) on an outpatient basis.

Developments in Brandenburg

Klinikum Frankfurt (Oder), academic teaching hospital affiliated with Humboldt University (Charité) in Berlin, is a leading regional centre with 908 beds approved under the state hospital plan. The past years have seen it develop into a highly efficient and modern medical care provider in the Federal State of Brandenburg. The hospital is one of the leading medical centres in the region of East Brandenburg.

The topping out ceremony for the new functional building in May 2005 was a further milestone towards a future-oriented and optimised integration between outpatient, day-case and inpatient healthcare for patients. This building is slated for completion in the spring of 2006.

The special standing of Klinikum Frankfurt (Oder) as an oncological centre in the region of East Brandenburg is underscored by the construction measures for the second linear accelerator which got under way in October 2005. The completion of this facility will improve oncological care for patients in the Frankfurt (Oder) region significantly. An improvement in the quality of care will also be achieved with the structural alteration measures on two levels within the bed facility. Following completion in October 2006 patients will enjoy spacious and modern two-bed rooms as well as single-bed barrier-free rooms adapted to the needs of handicapped persons. The expansion of imaging procedures, cardiomagnetic resonance tomography together with positron emission tomography (PET) duly takes account of the importance of the treatment of cardiovascular diseases as the most frequent cause of death in Germany.

Klinikum Frankfurt (Oder) was given approval for an increase in the number of approved beds in the specialist psychiatry department by eight beds to 98 as well as for the construction of psychiatric day clinic with 16 day-clinic places within the neighbouring area. The expansion of beds in psychiatry already took effect in the fourth quarter of this year. The construction of a day clinic is planned for financial year 2006. The expansion in beds was confirmed at the expense of beds in general surgery (nine beds) and the department for women's medicine and obstetrics (15 beds), thus leaving the total number of beds unchanged.

During the period under review, Klinikum Frankfurt (Oder) treated 26,901 (previous year: 27,833) on an inpatient basis. Outpatient attendances increased to 37,747 cases (previous year: 36,154). The hospital's occupancy rate edged up to 73.7 per cent (previous year: 72.7 per cent).

Developments in Hesse

Aukamm-Klinik in **Wiesbaden** is an acute-care specialist hospital for interventional rheumatology and orthopaedics operated as an affiliated-practitioner facility with currently 57 approved beds.

During the period under review, the number of patients treated versus the previous year (1,432 patients) was almost unchanged, with 1,436 patients treated on an inpatient basis. In addition to the stable trend in service volume in the inpatient area, further growth was recorded in outpatient operations (up 14,3 per cent to 368).

Compared with the previous year, average duration of stay fell by 0.5 days to 10.1 days; treatment days rose by 4.5 per cent to 14,498 days.

At **Deutsche Klinik für Diagnostik (DKD)** in **Wiesbaden** 23 specialist departments plus six specialist consultancies work together in close collaboration under one roof. This very close interdisciplinary relationship ensures the diagnosis of unclear clinical pictures as well as the treatment of complex chronic diseases (such as pain, oncological conditions, chronic inflammatory diseases of the gastrointestinal tract, degenerative neurological diseases, incontinence, diabetes mellitus, etc.). The hospital has already achieved the goal set out in healthcare policy for the integration of inpatient, day-case and outpatient care. Originally designed as a model project, the day clinic has proven itself to be an efficient unit performing all the functions of a fully fledged hospital ward, and is admitted to the general hospital requirement plan of the Federal State of Hesse.

The facility has a total of 74 interdisciplinary approved beds, 60 day-clinic places for adults (50) and children (10), and 18 approved beds for bone marrow transplants. Its centre for blood stem cell and bone marrow transplants ranks among the leading centres of its kind in Germany.

In outpatient services DKD's focus is on preventive medicine taking account of individual risk profiles (so-called "medical check-ups") as well as on special outpatient examinations.

In 2005 a total of 36,051 patients (previous year: 35,780) were treated at DKD, with a noticeable shift towards the outpatient sector (outpatient cases totalled 22,261 in 2005 versus 21,271 the year before). On 1 August 2005 the changeover in the inpatient area to DRGs was completed. Given the new statistical reporting method resulting from this, only an approximate comparison with the previous year is possible. There was a further rise in the number of bone marrow transplants, from 79 last year to 82.

Developments in Lower Saxony

Krankenhaus Cuxhaven, an academic teaching hospital affiliated with the Medical College of Hanover, is a basic and standard care hospital operating 270 beds under the state hospital plan. Krankenhaus Cuxhaven operates worldwide as the radio-based medical consultation centre for the German ocean shipping industry.

The overall volume of treatments rose with 10,374 patients (previous year: 10,010) treated on an inpatient basis and 22,337 patients (previous year: 19,104) treated on an outpatient basis in financial year 2005. The reorganisation of the medical offering thus steadily continued. The hospital's occupancy rate averaged 83.5 per cent.

Financial year 2005 was marked by the hospital's organisational and economic consolidation. Attention was also focused on the application and further development of patient-friendlier operation procedures as well as the expansion of outpatient service volumes. The establishment of a medical care centre (MVZ) will result in an even closer meshing between the outpatient and inpatient areas.

Krankenhaus Gifhorn, a KTQ®-certified major regional facility with 349 approved beds, was taken over with effect retroactive to 1 January 2005.

The hospital treated 15,401 patients on an inpatient basis during the year under review (previous year: 15,425). Outpatient attendances stood at 27,599 cases. Of these, 2,223 were outpatient operations performed in the newly established operating centre. Expansion was particularly pronounced in the area of knee and hip endoprosthetics, helped especially by the conclusion of an integrated care contract with the health insurance fund Deutsche BKK and the newly adopted use of state-of-the-art navigation technology. Another buoyant area of late has been gynaecology with the continued successful participation in the breast cancer DMP as well as the re-certification of the existing breast centre by OnkoZert. To secure its lead in this field in future as well, the facility in 2005 purchased a stereotactical unit as well as a digital mammography.

The year 2005 notably witnessed various restructuring measures. These included the merging of the previously decentralised internistic functional departments into a new medical diagnostics centre. Accompanying this were measures to combine the decentralised receptions of the different specialist departments into a single reception unit. The hospital has also begun organising the two currently separate intensive wards into a single, fully integrated interdisciplinary intensive unit with 14 beds and an IMC unit (intermediate care ward). The newly laid-out premises are helping to bring about marked improvements in clinical processes and patient care.

Klinik Herzberg, an academic teaching hospital affiliated with the University of Göttingen, is a basic and standard care hospital operating 260 beds under the state hospital plan. The trend from inpatient stays to outpatient attendances has continued to gather pace: during the period under review, a total of 10,491 inpatients were treated (previous year: 10,753). The hospital's occupancy rate averaged 81.9 per cent. The number of outpatient attendances rose to 15,473 (previous year: 14,500). A total of 500 patients underwent outpatient operations, up from 349 in the previous year.

Krankenhaus Herzberg's acceptance among the population as well as with practitioners based in the community has improved significantly since the hospital became part of the Group more than seven years ago. This has also been helped by the further specialisation and division of surgical capacities into a general vascular surgical department and an orthopaedic accident-emergency surgical department. The "Health Week" event organised for the second time was very well attended. This allowed Klinik Herzberg to present its healthcare offering to a wide public.

In 10, 15 years or so the German healthcare system will have experienced and embraced a "strengthening of individual responsibility". Then people will come to know and appreciate the meaning of value-for-money. As a result people generally will not be interested in the ownership category (public, non-profit, private) that a particular hospital falls under. It will be taken for granted that everyone (including companies) can expect a reward for their work. 20 years from now those belonging to my generation will – for biological reasons – increasingly come to rely on the services of hospitals. What people now spend – under their own responsibility, mind you – on things like tattoos, anti-aging products, facelifts and wellness, etc. that pass as "cool and modern" among the young and pre-senior generations will then give way to purchases of things like a new knee joint or a defibrillator which seniors will need to stay mobile.

Andrea Aulkemeyer (41)
Board member responsible for personnel at Company as well as
for southern Germany and Thuringia; with the Company since January/1991

Klinikum Hildesheim, an academic hospital affiliated with the Medical College of Hanover, is a major centre operating 555 beds under the state hospital plan. In 2005 it treated a total of 21,531 inpatients (previous year: 23,135) on an inpatient basis with an average duration of stay of 7.5 days. The number of outpatient cases was 53,042 (previous year: 50,699).

Financial year 2005 was marked by organisational and economic consolidation measures. To improve its offering particularly in visceral and accident-emergency surgery, an IMC (intermediate care) unit was opened. The external audit in accordance with DIN EN ISO 9001:2000 in 2005 and the first-time certification as a breast centre in June 2005 by the German Senology Association (DGS) and the German Cancer Association (DKG) bear witness to the hospital's high standards. In addition to building and equipment investment, specific plans were drawn up for construction of a new hospital/new part-replacement construction and for a specialist practitioner centre. Construction work on the specialist practitioner centre is slated to begin in the spring of 2006.

The two hospitals of **Mittelweser Kliniken** in **Nienburg** and **Stolzenau** are approved for 2005 under the hospital plan of the Federal State of Lower Saxony as providers of basic care with a combined total of 333 beds. Of these, Krankenhaus Nienburg accounts for 228 beds and Krankenhaus Stolzenau for 105. Due to the closure of the Hoya site as per 31 December 2004, the total number of patients treated on an inpatient and outpatient basis declined during the reporting period by 9.5 per cent to 37,005 (previous year: 40,873). On the other hand, occupancy rates at the Nienburg and Stolzenau sites were raised by 17.2 per cent to 71.6 per cent.

The medical offering was broadened considerably with the successful opening of a specialised neurological department at the Nienburg site with 20 approved beds on 1 May 2005. Case numbers were lifted versus the previous year through the division of surgical capacities into the specialist areas of accident and reconstructive surgery on the one hand and a general and visceral surgical department on the other at the end of the previous year, along with new appointments to the two head physician positions. The rising trend in case numbers is expected to continue as the new hospital building in Nienburg opens its doors at the end of 2006.

Construction on a new teleportal clinic at the Stolzenau site was completed in November 2005 and the facility opened its doors in December. Under the teleradiology concept our doctors now have access on site and around the clock – in collaboration with the Institute of Radiology in Bad Neustadt a. d. Saale – to large radiological units in the form of a 16-line computer tomograph and a magnetic resonance tomograph meeting high quality standards of patient care.

Klinikum Salzgitter, an academic teaching hospital affiliated with the Medical College of Hanover, is a basic and standard care hospital with 450 approved beds at its two sites in **Salzgitter-Lebenstedt** and **Salzgitter-Bad** in the year under review. The hospital has been with the Group since 1 January 2005. During financial year 2005 a total of 16,187 patients (previous year: 16,746) were treated on an inpatient basis and 25,805 patients (previous year: 24,009) on an outpatient basis (including 929 (previous year: 712) outpatient operations).

I have been working with RHÖN-KLINIKUM Group since October 2001; before that I worked as an auditor and tax adviser mainly for hospitals. I know from my own experience that public hospitals frequently suffer from chronic funding shortages as well as limited scope for addressing deficits (legal constraints); that also has an impact on staff motivation.

Wolfgang Kunz (49)
Board member responsible for Company and Group accounting
with the Company since October/2001

Measures taken in financial year 2005 largely focused on investment projects as well as the hospital's modernisation and reorganisation. These have now begun to bear fruit. With a view to help reducing the investment backlog at Klinikum Salzgitter, extensive investments were made in cutting-edge technology during the period under review: at the Salzgitter-Bad site the operative and internistic intensive care units were merged as well as extended by a new intermediate care ward. With this state-of-the-art unit now in operation, the gap between intensive and standard-care ward has been closed. Important steps were taken to modernise medical technology. For the Frauenklinik (women's hospital) in Salzgitter-Lebenstedt, a new 4D ultrasound device – the first of its kind – was acquired in addition to the latest in lighting equipment and a new unit for diagnostic and interventional procedures. Investments were also made in various video-endoscopy units, laser lithotripters for shattering ureterolith stones and devices for minimal-invasive interventions. These investments were increasingly financed out of own funds in addition to government grants received under the Hospital Financing Act (KHG).

Klinikum Uelzen, a major centre and academic teaching hospital affiliated with the Medical College of Hanover, treated 13,722 inpatients (previous year: 13,784) with its 410 approved beds. Case numbers were raised despite a difficult regional environment. The average duration of stay was 7.4 days. In addition the facility's various outpatient units recorded 13,695 cases (previous year: 13,342).

Thanks to co-operation with Nordstadtkrankenhaus Hannover and a neurosurgical practitioner based at the hospital, the treatment of disk prolapse patients was firmly established within the service offering, especially towards the end of the year, as a promising field for the future. The cardiac catheterisation lab financed from own funds was put into service around the end of the year. The aim is to strengthen the cardiology area already established in the previous years while making the hospital a "one-stop" competence centre for (usually) multimorbid patients. To keep its options open for further developments, the hospital purchased an area of roughly 8,000 m² for future expansion.

Krankenhaus Wittingen was taken over with retroactive effect to 1 January 2005 as a basic care facility with 71 approved beds.

During the year under review the hospital recorded 2,888 inpatient cases (previous year: 3,066). By streamlining treatment procedures and modernising measures, the average duration of stay was lowered from 7.2 to 6.0 days.

In view of plans to realise the teleportal clinic concept at the Wittingen site, the process of adapting to modern clinical structures began already in year one after the takeover. For instance, the hospital has already made considerable strides towards adopting the teleportal concept in its future service offering.

Developments in North Rhine-Westphalia

Krankenhaus St. Barbara in **Attendorn** is a basic and standard care facility with 286 approved beds and 16 day-case places. In line with steps begun in the previous year to switch to DRG-based remuneration, the hospital relentlessly forged ahead with the restructuring of the medical offering in 2005. In particular outpatient operations, now backed up by government incentives, was further expanded. In 2005, 9,146 patients (previous year: 9,425) were treated on an inpatient and day-case basis and 10,521 patients (previous year: 11,038) on an outpatient basis as well as 1,267 outpatient operations (after 732 in the previous year).

The major structural alteration and extension measures already completed in the summer of 2004 resulted in quality improvements for patients and met with broad approval among the general public.

Developments in Saxony

Weißeritztal-Kliniken, an academic teaching hospital affiliated with the Dresden University of Technology, is classed as a standard care facility and in 2005 had a total of 400 approved beds, with most inpatient capacities at the **Freital** site (330 beds).

During the year under review, which for the **Dippoldiswalde** site was marked by its restructuring into a teleportal clinic and extensive construction measures performed during the hospital's day-to-day operations, a total of 13,534 (previous year: 13,831) patients were treated on an inpatient basis and 22,332 (previous year: 24,617) patients on an outpatient basis.

Since the part-new building financed by the hospital took up its work on schedule at the Dippoldiswalde site in December 2005, this site now has excellent premises and the requisite equipment basis to be operated as a teleportal clinic. In particular the newly equipped radiological department (16-line CT as well as MRT) and the possibility of digital image transmission are bringing decisive improvements in the available diagnostic means. These will be further reinforced by the greater use of telemedicine to be brought about, among other things, by a strengthening in ties to other hospitals within the Group and to the university hospital Universitätsklinikum Dresden.

The development of the Dippoldiswalde site into an attractive and modern regional centre will continue in 2006 with the construction of a new medical care centre (MVZ) directly linked up to the hospital.

On the back of improvements in medical expertise and an expansion in the offering within the disciplines defined by the hospital requirement plan, Weißeritztal-Kliniken will continue its successful medical and economic development for the benefit of patients also in 2006.

"From the heart, for the heart" – this has been the motto that the university hospital **Herzzentrum Leipzig – Universitätsklinik**, one of the most renowned cardiac centres, has lived by for more than ten years.

As a specialist hospital with a specific healthcare mandate for heart surgery, internal medicine/cardiology and paediatric cardiosurgery, the hospital is a leading heart centre with comprehensive, cutting-edge medical expertise it this field. It currently operates 311 approved beds and ten day-case places.

In the year under review, the centre recorded a total of 16,855 inpatient and day-case treatments (previous year: 17,895). Occupancy with the approved beds reached 93.6 per cent. Since Herzzentrum switched to the DRG remuneration system on 1 September 2005, a direct comparison with the pre-year figures is not possible given the different statutory regulations.

The inauguration of the Children's Intermediate Care Ward in September 2005 enabled the hospital to enhance the quality of its work. At the same time a 64-line computer tomograph for cardial imaging was put into service. This unit, along with a new fully digital two-level left-heart catheterisation lab, help ensure that patients benefit from state-of-the-art diagnostic capabilities.

Private capital is badly needed for funding and modernising hospitals. The owners of capital, e. g. pension funds and private investors, rightly expect a reasonable return in the form enhanced enterprise value and dividends. Since its inception RHÖN-KLINIKUM AG has proven that qualified medical services and profit-orientation are not contradictory but even complement each other.

Dietmar Pawlik (48)
Deputy Board Member, responsible for Financing, Investor Relations, Controlling
with the Company since September/2004

Specialist fields at RHÖN-KLINIKUM Group as at 31 December 2005 (acc. to Annex 1 Hospital Rate Ordinance (BPflV))

SPECIALIST FIELDS
General psychiatry
Forensic treatment
Paediatric and juvenile psychiatry
Psychosomatics/psychotherapy
Treatment of addictions
Anaesthesiology
Ophthalmology
Surgery
Abdominal and vascular surgery
Vascular surgery
Hand surgery
Cardiac and thoracic surgery
Neurosurgery
Oncology
Plastic surgery
Emergency (accident) surgery
Dermatology
Women's medicine and obstetrics
Geriatrics
Otorhinolaryngology (ENT)
Internal medicine
Focus: angiology
Focus: coloproctology
Focus: diabetology
Focus: endocrinology
Focus: gastroenterology
Focus: haematology and internal oncology
Focus: infectious diseases
Focus: cardiology
Focus: nephrology
Focus: pneumology
Focus: rheumatology
Intensive medicine
Surgery
Internal medicine
Operative intensive medicine/focus: surgery
Paediatrics
Children's medicine
Paediatrics/focus: neonatology
Paediatric intensive medicine
Neurology
Nuclear medicine/radiotherapeutics
Orthopaedics
Orthopaedics/focus: rheumatology
Palliative medicine
Psychosomatics/psychotherapy
Rehabilitation
Pain therapy
Urology
Dentistry and orthodontics/oral and orthodontic surgery

Moreover, to continue ensuring the highest standard of care in future as well, Herzzentrum Leipzig is not only investing in the latest technology but also in the qualification of its staff. One example of this is the leading role played by the hospital's physicians in the numerous internationally recognised research studies.

Park-Krankenhaus Leipzig-Südost, an academic teaching hospital affiliated with the University of Leipzig, continued the positive trend seen in the previous year. In 2005 a total of 10,903 patients were treated on an inpatient and day-case basis (previous year: 10,469). For its patients the facility has 240 somatic beds, 240 psychiatric beds and 45 day-clinic places. Occupancy of the approved beds averaged 98.6 per cent over the year.

In 2005 patient care was maintained at a consistently high level in all departments. In addition, the hospital's reorientation to internal medicine I in the course of the year saw the establishment of an angiological service focus, significantly enhancing and rounding off the facility's medical offering.

The series of "Sunday lectures" in Park-Krankenhaus in which various medical subjects are presented and explained in a down-to-earth way that everyone can understand, was once again very well received by the general public in 2005.

Soteria Klinik in **Leipzig** is a specialist centre for alcohol and medicine dependence with 56 approved beds in psychiatry/psychotherapy (of which 12 under intensive monitoring), 162 therapy places for rehabilitation, 20 therapy places for adaptation, 10 assisted living apartments and an outpatient psychiatric institute treating patients suffering from alcohol, medicine or multiple dependence as part of a intersectoral holistic approach. During the financial year under review, the centre treated a total of 2,534 inpatients (previous year: 2,524).

Klinikum Pirna treated 14,267 inpatients (previous year: 13,784) and 14,977 outpatients (previous year: 14,733) during 2005. The number of outpatient operations reached 853 (previous year: 843).

The amalgamation of the Kliniken Dohna-Heidenau and Pirna sites in 2004 brought considerable improvements in patient care thanks to the new possibilities opened up for interdisciplinary treatments and the common use of the expanded diagnostic and therapy facilities.

More intensive co-operation between the specialist departments of general surgery, gynaecology and urology led to the establishment of a pelvic floor centre in 2005. As a further step along this path the hospital also plans to obtain approval as a continence centre. Other important areas of development include the application and further promotion of patient-friendlier operating procedures such as laparoscopic operations in visceral surgery, urological renal surgery and gynaecology. In order to reduce the overall rate of complications in laparoscopic colon surgery and speed up the post-operative recovery phase for patients, a “fast-track concept” has also been developed and implemented.

In 2005 preparations were under way at the gynaecology and obstetrics clinic together with the corresponding specialist department of Weißeritztal-Kliniken for certification as a breast centre. The certification of the breast centre is due to take place in the course of 2006. With a view to improving co-operation across sectors and raising birth rates at Klinikum Pirna, co-operation agreements were concluded with community-based affiliated midwives from the region.

Additional medical specialties represented by physicians
Allergology
Occupational medicine
Blood stem cell and bone marrow transplantation
Chirotherapy
Obstetrics and perinatal medicine
Clinical geriatrics
Pathology
Phlebology
Physical therapy
Rescue medicine
Sleep centre
Transfusion and laboratory medicine
Zoonoses, microbiology and hygienic medicine

Construction work on the new total replacement building for the somatic unit is moving ahead on schedule. The shell work has been completed and the internal finishing works have begun. We expect completion at the end of 2006, with the facility taking up its work on 1 February 2007.

Developments in Thuringia

As in the previous years **Zentralklinik Bad Berka**, a supraregional provider with 669 beds approved under the state's hospital plan, continued to ensure healthcare delivery at a high level in 2005. In the year under review, it recorded a total of 31,215 inpatient treatments (previous year: 31,762). Outpatient attendances rose to 10,792 cases (previous year: 9,140). Thanks to alteration works and investments in the latest medical equipment, the intermediate care units were further optimised. In addition, measures were taken to optimise space use as well as organisational structures for the treatment of acute stroke patients (stroke unit).

A new cardiac catheterisation lab was also put into service along with a new two-level X-ray flat-panel detector system. As the first of its kind in Germany, this innovative system makes it possible for coronary arteries to be viewed from two directions simultaneously, allowing for quicker diagnosis and safer treatment of vascular problems in the area of the heart. The information provided from a second angle is of relevance particularly when unforeseeable complications arise during balloon dilatations (widening of occluded or narrowed vessels) or stent implantations (use of a vessel support). In addition a complete system for electrophysiological examinations with three-dimensional computer analysis capability is integrated.

Krankenhaus Waltershausen-Friedrichroda is standard-care hospital with 234 beds. In the financial year under review the facility treated a total of 10,070 inpatients (previous year: 10,079).

Given the shift in treatments from the inpatient to the outpatient area, the number of outpatient operations rose to 666, which was a marked increase over the previous year (572).

On 1 October 2005 the medical care centre (MVZ) Friedrichroda was established with a paediatric consultancy and one psychologist. For this purpose the current short-stay ward has been modified to accommodate two consultancies.

Fachkrankenhaus für Psychiatrie und **Neurologie Hildburghausen** recorded a total of 4,295 inpatient treatments, 460 more than the previous year. Thanks to a new day clinic for adults in Suhl with 20 places, a day clinic at the Hildburghausen site with 12 places as well as a paediatric and juvenile psychiatric day clinic with four places, the quality of medical care within the catchment area was improved. A total of 208 beds are now available for adult psychiatry, 28 beds for paediatric and juvenile psychiatry as well as 50 beds for neurology. All beds are approved under the state's hospital requirement plan. In neurology there are eight IMC places available for qualified care of stroke patients.

In outpatient care the specialist hospital offers patients expertise in the fields of adult psychiatry, paediatric and juvenile psychiatry as well as neurology. The first new facility for forensic psychiatry is slated to open its doors in Thuringia in 2006. For this new building the Company is providing advance financing of € 24.4 million. The investment will be refinanced by the Free State of Thuringia through the cost rates for the forensic hospital.

Medical services represent an especially sensitive product. Engaging as an entrepreneur in this field means working together with many people on an interdisciplinary basis to achieve results that are significant for our customers/patients, our employees, shareholders as well as for the healthcare system.

Dr. Brunhilde Seidel-Kwem (50)
Deputy Board Member responsible for western and northern Germany
with the Company since February/2005

At **Klinikum Meiningen**, a standard and basic care hospital, a total of 23,592 inpatients (previous year: 24,491) and 24,712 outpatients (previous year: 24,107) were treated during the year under review. The hospital's occupancy rate for the 568 approved beds averaged 86.2 per cent (previous year: 87.3 per cent).

In the medical area Klinikum Meiningen continues to take advantage of state-of-the-art medical technology. One notable example of this is the newly commissioned 64-line computer tomograph – a major step towards more patient-friendly diagnosis procedures. The use of this cutting-edge technology, hitherto found at only a few locations in Germany, allows for the range of diagnoses to be broadened with much shorter examination times and improved detail images in heart, lung and stomach diagnosis as well as in stroke and accident-emergency treatment.

Moreover, Klinikum Meiningen has witnessed further developments in its interdisciplinary quality management system: the breast centre "Brustzentrum Meiningen", the second facility of its kind in the Free State of Thuringia, was certified by TÜV-Management Service GmbH and received the distinction as "breast centre" with recommendations from the German Cancer Association (DKG) and the German Senology Association (DGS). As part of the certification procedure applying the quality management standards of the German Stroke Society (DSG) and the German Stroke Foundation (Stiftung Deutsche Schlaganfallhilfe), the stroke unit of the neurology clinic satisfied the high quality requirements and was recognised and certified as a national centre for stroke treatment.

Medical care centres

On 1 January 2005 the first **medical care centre (MVZ)** of RHÖN-KLINIKUM AG opened its doors at the **Bad Neustadt a. d. Saale** site. In **Friedrichroda** and **Weimar** two further MVZs were established simultaneously on 1 October 2005.

The basis for this was provided in January 2004 by the German Act on the Modernisation of Statutory Health Insurance (Gesundheitsmodernisierungsgesetz, GMG), under which hospital operators also have the possibility of participating in the provision of outpatient care. The possibility of creating medical care centres at hospitals means that outpatient and inpatient structures can be combined, providing the basis for very close co-operation between what until now have been two separate sectors. MVZs have the advantage of being directly linked up to hospitals of RHÖN-KLINIKUM AG, creating synergies from the common use of equipment and staff as well as short distances for and to the patient.

This meshing of inpatient and outpatient structures – which in future will be promoted by a telemedical network and the electronic patient file – will cover outpatient treatments spanning the whole range of specialist fields while taking advantage of interdisciplinary integration. With doctors working on a consultative basis in the inpatient area, the workscope of MVZ doctors will also be broadened.

For 2006 preparations are under way for six to eight further MVZs to be established, some of them in yet-to-be-constructed buildings directly linked up to the respective hospital.

New hospitals from 2006

Bavaria

Effective 1 January 2006 we acquired **Heinz Kalk-Krankenhaus Bad Kissingen** and **Frankenwaldklinik Kronach**.

Heinz Kalk-Krankenhaus Bad Kissingen, a specialist hospital with 86 approved beds, provides acute care in the area of internal medicine focusing on gastroenterology, hepatology, and metabolic disorders. It began in 1966 as the world's first specialised hepatology clinic and ever since has continually strengthened its reputation as a national competence centre. In 2005 it treated a total of 2,715 inpatients; the duration of stay was 8.9 days.

Frankenwaldklinik Kronach is a facility providing basic and standard care with 282 approved beds. Last year it saw a positive overall trend with patient numbers rising by 5.5 per cent. The number of inpatient cases reached 11,052, while the outpatient area recorded 18,013 cases. The average duration of stay was 7.4 days. With the extensive construction and modernisation measures completed, the facility offers its patients high quality services in an extremely pleasant atmosphere. There is also close co-operation with numerous consultations based within the facility or its premises with a view to integrated care structures.

Hesse

In December 2005 the Hesse State Government decided to sell the **university hospitals** in **Gießen** and **Marburg** to RHÖN-KLINIKUM AG. Since 10 February 2006 representatives from RHÖN-KLINIKUM AG have been appointed as managing directors. The Gießen site currently operates 1,087 approved beds and 35 day-case places, and the Marburg site has 1,103 approved beds and 37 day-case places.

Teleportal clinic in Stolzenau
Foyer

Report of the Supervisory Board

for the financial year of RHÖN-KLINIKUM AG
from 1 January 2005 to 31 December 2005

Close dialogue between the Supervisory Board and the Board of Management

During financial year 2005 the Supervisory Board performed the duties incumbent on it by law and the Articles of Association, regularly advising the Board of Management on the direction of the Company and supervising it with regard to the management of the Company. The Supervisory Board was involved in all decisions of fundamental importance for RHÖN-KLINIKUM AG. The Board of Management informed us regularly, 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, on the development of transactions, the position of the Group including its risk position, as well as on risk management. We have also kept ourselves informed of all major projects and developments as well as transactions of major significance. Where business performance deviated from the Company's plans and targets, this was discussed with us and plausibly explained by the Board of Management with reasons for such deviations being stated. Based on the reports of the Board of Management we thoroughly discussed transactions of decisive importance for the Company in the committees and in the plenary meeting and, to the extent required by law and the Articles of Association, voted on the proposed resolutions of the Board of Management after careful and thorough review and consultation.

Moreover, the chairman of the Supervisory Board was in regular contact with the chairman of the Board of Management and advised on the strategy, business performance and risk management of the Company in individual meetings.

The work in the 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 composition of each of the committees during the financial year and their current composition is shown in the overview of the Supervisory Board's organisational structure below.

The Personnel Affairs Committee met twice during financial year 2005. During the reporting year this committee mainly dealt with the selection and recommendation to the plenary meeting for the appointment of members to the Board of Management, measures for the conclusion, performance and termination Board members' service contracts, as well as the review of the remuneration structure and updating of guidelines on the remuneration of Board members. Other agenda of the meetings were the evaluation of individual Board members' development as well as long-term succession planning within the Board of Management with a view to a smooth transition to the next generation.

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 Audit Committee met twice in the year under review. This committee notably was responsible for reviewing and preparing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2004. The committee examined the independence of the auditor designated for the auditing of the annual financial statements for financial year 2005, recommended to the plenary meeting of the Supervisory Board a proposal for the election of auditor to be submitted to the Annual General Meeting, and after the election issued the auditor with the audit mandate, defined the scope of the audit as well as concluded the remuneration agreement for the same. Material issues of accounting and corporate planning as well as the controlling and risk management system were discussed with the Board of Management and the auditor. The auditor attended both meetings of the Audit Committee.

The Ad Hoc Committee for Investments convened for four meetings in the year under review. For investments requiring immediate attention during the periods between the ordinary meetings of the Supervisory Board, this committee examines the acquisition of hospitals, participations and major investments and approves these on behalf and in lieu of the Supervisory Board. At its four meetings, the committee discussed and approved numerous takeover projects based on written resolution proposals submitted by the Board of Management. Several meetings dealt with the project for the takeover and privatisation of the university hospitals in Gießen and Marburg which was successfully concluded at the end of 2005. A further subject of the consultations was the particle therapy investment project involving the construction and operation of a unit for radiotherapy of cancer with heavy ions and protons. From 10 January 2006 this committee was established as a standing Investment Committee with power to adopt resolutions.

The chairmen of the committees regularly reported to the plenary meeting of the Supervisory Board in writing and orally on the meetings and work of the committees.

The work of the Supervisory Board's plenary meeting

The Supervisory Board held five meetings during financial year 2005.

The plenary meeting, based on extensive but concise and systematised written reports by the Board of Management, regularly consulted and discussed with the Board of Management the trend in the revenues and earnings, the performance data and the key ratios of the Company and Group as well as the individual Group subsidiaries.

In addition to routine subjects, previously defined areas of focus as well as trends impacting the Group's future development were discussed. In the wake of changes in capital market legislation at the end of 2004, the Supervisory Board's first meeting on 16 March 2005 examined the Investor Protection Improvement Act (AnSVG) and the Board of Management informed on the implementation of the statutory requirements, notably for disclosure of directors' dealings, maintaining insider lists and ad hoc publicity.

Subjects of special importance discussed in the plenary meeting during financial year 2005 included the impact on the Company's future acquisition strategy of the German Cartel Office's unfavourable decisions regarding hospital takeovers, the development of young management talent within the Group, the realisation of medical care centres (MVZs) as well as new acquisitions of public hospitals and, most notably, the acquisition and privatisation of the university hospitals in Gießen and Marburg. At several meetings of the Supervisory Board a great deal of attention was devoted to the particle therapy project for cancer treatment. For all these subjects, in-depth discussions were held with the Board of Management to which the Supervisory Board members also contributed their experience and know-how. Specific projects were approved by way of resolution following a thoroughgoing review based on detailed documentation and reports.

The agenda items discussed in preparation for the 2005 Annual General Meeting were the conversion of the preference shares into ordinary shares, the planned and executed capital increase, as well as the by-election for the Supervisory Board – including the selection and nominations for the new members to be elected to the Supervisory Board – required by the rise in the number of persons employed with the Group.

Also of significance were consultations on the impact of the introduction of DRGs (diagnosis related groups), measures for financing the Group's continuous growth, and – in response to events at the end of the financial year – measures and provisions in the event of the outbreak of a flue epidemic.

As a result of the by-election of the Supervisory Board at the Annual General Meeting, the changes were duly taken account of in a meeting directly following the Annual General Meeting with the by-election of the chairman of the Supervisory Board and the appointment of the committees. With a view to expanding the Board of Management and a smooth transition to the next-generation Board of Management, the plenary meeting in its session on 9 November 2005 resolved on the appointment and removal of members of the Board of Management based on recommendations of the Personnel Affairs Committee and after intensive discussions.

The Board of Management informed us fully and in continuously updated reports about 2005 investment, revenue and liquidity planning for the Company and the Group, as well as revenue, earnings and liquidity planning for financial year 2006, the latter having been submitted to the Supervisory Board on 9 November 2005. The Supervisory Board examined all these reports, deliberated with the Board of Management on deviations, with the grounds for these being stated, and adopted the requisite resolutions.

Corporate governance and Declaration of Compliance

The Supervisory Board took great care in thoroughly considering the issues of the German Corporate Governance Code and in further developing the same, thereby keeping derogations from the Code's recommendations to a minimum. Following the revision of the Code on 2 June 2005, the Declaration of Compliance issued on 16 March 2005 pursuant to Section 161 of the Stock Corporation Act (AktG) was replaced by an updated Declaration of Compliance issued on 9 November 2005 by the Board of Management and the Supervisory Board. This updated Declaration of Compliance was then permanently made available to shareholders on the Company's homepage.

In accordance with Item 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board report on corporate governance on pages 38 to 41 of this Annual Report.

In the internal efficiency audit reviewing the work of the Supervisory Board, we examined the issues of timely and comprehensive reporting and the flow of information between the committees and the plenary meeting. The Terms of Reference of the Supervisory Board were extended and revised. The resolution was adopted at the constituent meeting of the newly elected Supervisory Board on 10 January 2006. In the year under review we refrained from having an external efficiency audit of our work performed given the expiry of the term of office of the current Supervisory Board and the numerous changes in the Supervisory Board's chair.

Composition of the Board of Management

This Annual Report shows the composition of the Board of Management and the personal data of the members of the Board of Management.

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 was appointed chairman of the Board of Management. Mr. Gerald Meder was confirmed as deputy chairman of the Board of Management. The then incumbent chairman of the Board of Management, Mr. Eugen Münch, gave notice of his resignation as member of the Board of Management from conclusion of the Annual General Meeting on 20 July 2005.

In its meeting on 9 November 2005 Supervisory Board, on recommendation of the Personnel Affairs Committee, appointed Dr. Brunhilde Seidel-Kwem and Mr. Dietmar Pawlik as deputy members of the Board of Management each for a term of five years from 1 January 2006. Mr. Dietmar Pawlik succeeds Mr. Manfred Wiehl in the areas of Financing, Investor Relations and Controlling. Mr. Manfred Wiehl handed over to the next generation and resigned from his office as member of the Board of Management on 31 December 2005. Mr. Wiehl will continue to make available his experience and knowledge to the Company as senior divisional director. On expiry of his term of office on 31 December 2005, Mr. Joachim Manz retired from the Board of Management for age reasons. Mr. Manz will continue make his expertise available to the Company in a consulting capacity. Ms. Andrea Aulkemeyer was appointed member of the Board of Management for a further term of five years from 1 January 2006.

Composition and structure of the Supervisory Board

In compliance with the provisions of the Co-Determination Act (MitbestG), the Supervisory Board continued to be composed of 16 members up to the expiry of its term on 30 December 2005. As a result of the rise in the number of persons employed within the Group of RHÖN-KLINIKUM AG to over 20,000, the Supervisory Board has been composed of 20 members since 31 December 2005. Ten Supervisory Board members must be elected by the shareholders and 10 Supervisory Board members by the employees. The by-election of the shareholders' representatives took place at the Annual General Meeting on 20 July 2005.

After Dr. Friedrich-Wilhelm Graf von Rittberg resigned his office as member of the Supervisory Board from 31 August 2005, a by-election of the shareholders for the remaining term of the outgoing Supervisory Board member had to take place. On 20 July 2005 the Annual General Meeting elected Mr. Eugen Münch to the Supervisory Board with effect from 1 September 2005.

During the financial year, Mr. Wolfgang Mündel was chairman of the Supervisory Board in the period from 1 January to 31 August 2005. The first deputy chairman was Mr. Bernd Becker and the second deputy chairman Mr. Michael Mendel. In a by-election at its meeting on 20 July 2005, the Supervisory Board modified the structure of the chair of the Supervisory Board until the expiry of its term of office. Chairman of the Supervisory Board from 1 September 2005 was Mr. Eugen Münch, and his second deputy chairman was Mr. Wolfgang Mündel. Mr. Eugen Münch also succeeded Mr. Wolfgang Mündel on the re-appointed Personnel Affairs Committee and Mediation Committee. Mr. Michael Mendel was additionally elected to the Audit Committee. The change within the committees also took place effective 1 September 2005.

For the term of office of the newly elected Supervisory Board commencing on 31 December 2005, Mr. Caspar von Hauenschild and Dr. Heinz Korte were elected as shareholder representatives by the Annual General Meeting to the Supervisory Board for the first time. New members on the Supervisory Board for the employees are Dr. Bernhard Aisch, Ms. Gisela Ballauf, Ms. Sylvia Bühler and Mr. Joachim Lüddecke. The employee representatives Ms. Ursula Derwein and Ms. Anneliese Noe left the Supervisory Board.

The Supervisory Board thanks the departed Supervisory Board members for their many years of valued and trusted work.

Our special thanks goes to the long-standing chairman of the Supervisory Board Dr. Friedrich-Wilhelm Graf von Rittberg for his many years of worthy service for the Company.

The personal details of the Supervisory Board members 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 as well as their further mandates. The organisational structure of the Supervisory Board and the composition of the committees during the past financial year and at the present time are set out in overview provided below.

Examination and approval of the 2005 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 2005 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 2005 have been prepared in accordance with the principles set out in the International Financial Reporting Standards (IFRS). The auditors, PricewaterhouseCoopers 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 2005. Their audit gave no cause for objections; the auditors have issued an unqualified auditor's report.

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 by the Audit Committee and by the Supervisory Board with representatives of the auditors. Having concluded its own examination, the Supervisory Board concurs with the auditors and sees no grounds for objections.

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 adopted as final.

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

The Supervisory Board thanks the members of the Board of Management, all employees as well as the employee representatives of the Group companies for their commitment and work during the past financial year.

Bad Neustadt a. d. Saale, 25 April 2006

The Supervisory Board

Eugen Münch
Chairman

OVERVIEW OF ORGANISATIONAL STRUCTURE OF THE SUPERVISORY BOARD AND THE COMPOSITION OF THE COMMITTEES

Chair of the Supervisory Board	until 31 Aug. 2005	1 Sep. to 30 Dec. 2005	since 10 Jan. 2006
Chairman	Mündel	Münch	Münch
1st Deputy Chairman	Becker	Becker	Becker
2nd Deputy Chairman	Mendel	Mündel	Mündel

Composition of the committees

Mediation committee

Chairman	Mündel Becker Derwein Klimpe	Münch Becker Derwein Klimpe	Münch Becker Bühler Dr. Korte

Personnel Affairs Committee

Chairman	Mündel Becker Dr. Mohn Wendl	Münch Becker Dr. Mohn Wendl	Münch Becker Dr. Mohn Schaar

Anti-Corruption Committee

Chairman			von Hauenschild Harres Prange

Audit Committee

Chairman	Mündel Klimpe Wendl	Mündel Klimpe Mendel Wendl	Mündel von Hauenschild Klimpe Dr. Korte Mendel Wendl

Ad Hoc Committee for Investment/ Investment Committee

Chairman	Mündel Becker Mendel Wendl	Mündel Becker Mendel Wendl	Münch Becker Klimpe Dr. Korte Lüddecke Mendel Mündel Prange Wendl

Entrance of teleportal clinic in Stolzenau

Corporate Governance Report

The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG hereby report on corporate governance in accordance with Item 3.10 of the German Corporate Governance Code as amended on 2 June 2005.

Since RHÖN-KLINIKUM AG went public in 1989, the principles of good corporate governance have assumed greater importance in the management of the Company and form the basis of our entrepreneurial activities. Effective co-operation between the Board of Management and the Supervisory Board together with open and timely communication has helped to promote investor, employee, patient and public confidence in the Company and its management.

The corporate code of RHÖN-KLINIKUM AG summed up in our leading principle "Don't do to others what you would not like done to yourself, and don't leave off doing anything that you would like done to yourself" serves as the guideline for all the Company's employees in their dealings with patients and shareholders.

INVESTOR PROTECTION IMPROVEMENT ACT

The organisational measures for satisfying the requirements of the German Investor Protection Improvement Act (Anlegerschutzverbesserungsgesetz, AnSVG) were completed after publication of the issuer guidelines of the BaFin, Germany's financial supervisory authority.

Statement of Compliance of 9 November 2005 regarding the recommendations of the German Corporate Governance Code

On 9 November 2005 the Board of Management and the Supervisory Board submitted the Statement of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG).

STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

"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 2005, with the following recommendations – as stated on 16 March 2005 – having been deviated from:

Code Item 2.1 *RHÖN-KLINIKUM AG issued a total of 17,280,000 ordinary shares and 8,640,000 non-voting preference shares. The merger of the two share classes by resolution adopted by the 2005 Annual General Meeting on 20 July 2005 was executed in September 2005.*

Code Item 5.4.5 *The Supervisory Board and the Board of Management apply Item 5.4.5 of the German Corporate Governance Code subject to the condition that membership of Supervisory Board members on the committees is covered by the general remuneration provision contained in § 14 (2) of the Articles of Association.*

Code Item 5.5.3 *On the Supervisory Board of RHÖN-KLINIKUM AG, the trade union ver.di and the Company's employees are represented in accordance with the provisions of the German Co-Determination Act (MitbestG). This structure as laid down by law may lead to conflicts of interest in individual cases. For this reason the Company refrains from a general application of Item 5.5.3.*

Code Item 7.1.2 *The Company's and the Group's financial year is 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 of RHÖN-KLINIKUM AG furthermore declare that the recommendations issued by the "Government Commission of the German Corporate Governance Code" as amended on 2 June 2005 will be implemented with the following exceptions:

Code Item 5.4.7 *The Supervisory Board and the Board of Management apply Item 5.4.7 of the German Corporate Governance Code subject to the condition that membership of Supervisory Board members on the committees is covered by the general remuneration provision contained in § 14 (2) of the Articles of Association.*

Code Item 7.1.2 *The Company's and the Group's financial year is 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."

With the merger of the two share classes, resolved by the 2005 Annual General Meeting on 20 July 2005 and executed in September 2005, the deviation from Item 2.1 no longer applies.

The Supervisory Board holds the view that generally abstract conflicts of interest as arise, for example, from the presence of employee representatives on the Supervisory Board, are not covered by Item 5.5.3. The Supervisory Board is to report to the Annual General Meeting only in specific cases of conflicts of interest. For this reason the past deviation from Item 5.5.3 no longer applies.

EXERCISE OF VOTING RIGHTS BY OUR SHAREHOLDERS

As a result of the merger of the share classes, only voting ordinary shares exist. Shareholders may exercise their voting rights at the Annual General Meeting themselves, through an authorised person of their choice, or may appoint proxies for this purpose.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As a German corporation, RHÖN-KLINIKUM AG is subject to the two-tier board system comprising a management as well as a supervisory board. Under this system the Board of Management directs the Company while the Supervisory Board appoints, supervises and advises the Board of Management. Simultaneous membership in both corporate bodies is not possible.

The Board of Management and the Supervisory Board co-operate closely. The Board of Management reports to the Supervisory Board regularly, without delay and comprehensively on all significant issues relating to the business development and position of the Group and its companies.

Terms of Reference have been adopted for the co-operation between the Board of Management and the Supervisory Board. Regular personal contacts as well as an intensive and comprehensive exchange of information between the chairman of the Supervisory Board and the chairman of the Board of Management ensure close co-operation between both bodies based on mutual trust.

RHÖN-KLINIKUM AG has taken out indemnity insurance cover (D&O insurance) subject to a reasonable deductible amount.

Board of Management

At the end of financial year 2005 the Board of Management of RHÖN-KLINIKUM AG was comprised of seven members. The work of the Board of Management is co-ordinated by the chairman of the Board of Management or, in his absence, by the deputy chairman. The members of the Board of Management are jointly accountable for the management of the Company. Further information on the Board of Management is provided on page 43 and in the notes of this Annual Report.

Supervisory Board

In line with the principle of equal representation of shareholders and staff pursuant to the German Co-Determination Act (Mitbestimmungsgesetz), the Supervisory Board of RHÖN-KLINIKUM AG comprises an equal number of employees' and shareholders' representatives and held five meetings in 2005.

During financial year 2005 the Supervisory Board had 16 members. On 1 January 2005 Mr. Wolfgang Mündel succeeded Dr. Friedrich-Wilhelm Graf von Rittberg as chairman of the Supervisory Board of RHÖN-KLINIKUM AG who resigned his office as chairman of the Supervisory Board for health reasons with effect from 31 December 2004 and remained a member of the Supervisory Board until 31 August 2005. Mr. Wolfgang Mündel led the Supervisory Board in the period from 1 January 2005 until being succeeded as chairman of the Supervisory Board by Mr. Eugen Münch on 1 September 2005. Also during this period Mr. Wolfgang Mündel continued as chairman of the Audit Committee which he has led since 24 March 2004.

Our co-founder and then chairman of the Board of Management, Eugen Münch, resigned his office after conclusion of the Annual General Meeting on 20 July 2005 and changed to the Supervisory Board to become its chairman. The proposal for his election as chairman of the Supervisory Board was announced to the Annual General Meeting, with the reasons for this proposal being stated in accordance with Item 5.4.4 of the German Corporate Governance Code.

Mr. Eugen Münch has exercised his office as chairman of the Supervisory Board as a full-time position.

Pursuant to § 14.1 of the Articles of Association, a Supervisory Board office including a secretariat are available to him for the discharge of his duties.

Since Mr. Eugen Münch took up his duties as chairman of the Supervisory Board of RHÖN-KLINIKUM AG, the additional workload of the Supervisory Board resulting from the quickened pace of growth at RHÖN-KLINIKUM AG was shifted to the committees and the work of the committees intensified.

On 30 June 2005 the number of persons employed with the Group rose to 20,361. The expansion and re-election of the Supervisory Board effective 31 December 2005 was the statutory outcome of this development.

In accordance with the recommendations of the German Corporate Governance Code, the shareholders' representatives were elected to the Supervisory Board on an individual basis. When proposing persons for election as members of the Supervisory Board, due regard was given to the requirements for their qualifications and their independence from RHÖN-KLINIKUM AG to avoid conflicts of interest. Members of the Supervisory Board are elected for a term of five years. Age restrictions are provided for in the Articles of Association.

Since 31 December 2005 the Supervisory Board of RHÖN-KLINIKUM AG has been comprised of 20 members.

The Supervisory Board established four committees in 2005: the Personnel Affairs Committee, the Audit Committee, the Ad Hoc Committee for Investments and the Mediation Committee.

The chairman of the Audit Committee is Mr. Wolfgang Mündel. As a long-standing member of the Supervisory Board of RHÖN-KLINIKUM AG he possesses the required knowledge of the Company and its market environment, and as an auditor and tax adviser has the required qualifications for this demanding position in accordance with Item 5.3.2 German Corporate Governance Code.

A detailed overview of the work of the individual committees and their composition is provided in the Report of the Supervisory Board on page 36 of this Annual Report.

In ten years' time RHÖN-KLINIKUM AG, with its offering of generalised healthcare delivery, will be the biggest player on the German hospital market. Over the next ten years I expect the Company to expand in Europe so that it can also play a leading role in a wider market context.

Manfred Wiehl (63)
Position: Divisional Head, Managing Director of Universitätsklinikum Gießen und Marburg GmbH; with the Company since October/1989

On 10 January 2006 the new Supervisory Board elected at the Annual General Meeting on 20 July 2005 held its constituent meeting. In addition to the already existing committees, the Anti-Corruption Committee was additionally established. The Ad Hoc Committee for Investments was established as an Investment Committee with power to adopt resolutions within the meaning of Section 107 (3) AktG.

Other corporate bodies

The Advisory Board of RHÖN-KLINIKUM AG confers with the Board of Management regarding future trends in the hospital and healthcare sector as well as on medical development issues.

Its composition is shown on page 43.

REMUNERATION OF BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board and the Board of Management comprises fixed and variable components, with variable components predominating. The Group does not provide stock option programmes or similar forms of compensation. Details on the remuneration received by each member of the Supervisory Board and the Board of Management, broken down by fixed and variable components, are set out in the Notes to the consolidated financial statements on pages 120/122.

Remuneration of the Board of Management

With effect from 26 January 2005, the Supervisory Board of RHÖN-KLINIKUM AG adopted the principles on the remuneration of the members of the Board of Management in the version of 26 January 2005. Pursuant to Item 4.2.3 (3) of the German Corporate Governance Code as amended on 2 June 2005, the remuneration system is published on the Internet under the heading Corporate Governance.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is provided for by § 14.2 of the Articles of Association of RHÖN-KLINIKUM AG.

Related parties

Members of the Supervisory Board of RHÖN-KLINIKUM AG, Dr. Friedrich-Wilhelm Graf von Rittberg and Prof. Dr. Gerhard Ehninger, as well as enterprises and establishments related to them, have rendered services based on contractual agreements with RHÖN-KLINIKUM AG or its subsidiaries. These are set out in the Notes to the consolidated financial statements on page 119. The contracts and the services rendered were reviewed and approved by the Supervisory Board. In the view of the Board of Management and the Supervisory Board, the contracts have no impact on the independence of the two aforementioned members of the Supervisory Board.

Directors' dealing and shareholdings greater than 1%

The members of the Supervisory Board and the Board of Management together hold 16.29% of the Company's registered share capital, of which the Supervisory Board accounts for 16.05% of the shares in issue. Mr. Eugen Münch and his wife Ingeborg together hold 16.00% of the Company's registered share capital and the other members of the Supervisory Board 0.05% of the shares in issue. The members of the Board of Management together hold 0.24% of the Company's registered share capital.

No transactions subject to notification pursuant to Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG) of members of the Board of Management or the Supervisory Board (directors' dealings) were recorded by RHÖN-KLINIKUM AG during the reporting period.

Corporate bodies and Advisory Board of RHÖN-KLINIKUM AG

CORPORATE BODIES

Supervisory Board

Eugen Münch
Bad Neustadt a. d. Saale
Chairman (since 1 September 2005)
Chairman of the Board of Management of RHÖN-KLINIKUM AG
(until 20 July 2005)

Bernd Becker (né Häring)
Leipzig
1st Deputy Chairman, nurse; BA (VWA)

Wolfgang Mündel
Kehl
2nd Deputy Chairman
(since 1 September 2005),
Chairman
(1 January until 31 August 2005),
auditor and tax advisor

Dr. Bernhard Aisch
Hildesheim
medical control officer
(since 31 December 2005)

Gisela Ballauf
Harsum
children's nurse
(since 31 December 2005)

Sylvia Bühler
Düsseldorf
Regional Director and Secretary of ver.di (since 31 December 2005)

Helmut Bühner
Bad Bocklet
nurse

Ursula Derwein
Berlin
Secretary of ver.di,
Federal Administration
(until 30 December 2005)

Professor Dr. Gerhard Ehninger,
Dresden
MD

Ursula Harres
Wiesbaden
medical-technical assistant

Caspar von Hauenschild
Munich
corporate consultant
(since 31 December 2005)

Detlef Klimpe
Aachen
director of administration

Dr. Heinz Korte
Munich
notary (since 31 December 2005)

Professor Dr. Dr. sc. (Harvard)
Karl W. Lauterbach
Cologne
member of the German Parliament

Joachim Lüddecke
Hanover
Regional Director and Secretary of ver.di (since 31 December 2005)

Michael Mendel
Munich
2nd Deputy Chairman
(until 31 August 2005)
member of the Board of Management of Bayerische Hypo-Vereinsbank AG
(until 18 November 2005)

Dr. Brigitte Mohn
Gütersloh
Member of the Board of Management of Bertelsmann Stiftung

Anneliese Noe
Blankenhain
nurse (until 30 December 2005)

Timothy Plaut
London
investment banker

Werner Prange
Osterode
nurse

Dr. Friedrich-Wilhelm Graf von Rittberg
Munich
(German) lawyer
(until 31 August 2005),

Joachim Schaar
Wasungen
Director Human Resources

Michael Wendl
Munich
Secretary of ver.di,
regional directorate Bavaria

Board of Management

Wolfgang Pföhler
business address in Bad Neustadt a. d. Saale
Chairman of the Board of Management
(since 21 July 2005, and from 1 May 2005
member of the Board of Management)
provisionally responsible for the region of Northern Germany (Berlin, Brandenburg, Mecklenburg-West Pomerania, Saxony, Saxony-Anhalt)

Eugen Münch
business address in Bad Neustadt a. d. Saale
Chairman of the Board of Management
(until 20 July 2005)

Gerald Meder
business address Bad Neustadt a. d. Saale
Deputy Chairman of the Board of Management
Regional Division Southern and South-West Germany (South-Bavaria, Hesse, Baden-Wuerttemberg, Rheinland-Palatinate, Saarland)

Andrea Aulkemeyer
business address in Bad Neustadt a. d. Saale
Regional Division Northern Bavaria and Thuringia

Heinz Falszewski
business address in Bad Neustadt a. d. Saale
Deputy Board Member
Company and Group Human Resources, Works Director

Wolfgang Kunz
business address in Bad Neustadt a. d. Saale
Company and Group Accounting

Joachim Manz
business address in Berlin
Association Policy, Regional Division Brandenburg and Northern Germany (until 31 December 2005)

Dietmar Pawlik
business address in Bad Neustadt a. d. Saale
Deputy Board Member (since 1 January 2006)
Finance, Investor Relations, Controlling

Dr. Brunhilde Seidel-Kwem
business address in Hamburg
Deputy Board Member (since 1 January 2006)
Regional Division Western and Northern Germany (Bremen, Hamburg, Lower Saxony, North Rhine-Westphalia, Schleswig-Holstein)

Manfred Wiehl
business address in Bad Neustadt a. d. Saale,
Finance, Investor Relations, Controlling
(until 31 December 2005)

ADVISORY BOARD

Wolf-Peter Hentschel
Bayreuth (Chairman)

Professor Dr. Robert Hacker
Bad Neustadt a. d. Saale

Dr. Heinz Korte
Munich (until 30 December 2005)

Ministerialrat a. d. Helmut Meinhold
Heppenheim (since 20 July 2005)

Professor Dr. Michael-Jürgen Polonius
Dortmund

Helmut Reubelt
Dortmund

Liane Seidel
Bad Neustadt a. d. Saale (until 29 July 2005)

Dr. Karl-Gustav Werner
Düsseldorf (since 20 July 2005)

Franz Widera
Duisburg

Prof. Dr. Dr. h.c. Klaus D. Wolff
Bayreuth

Medical Quality Management:

Subsidiarity as guiding principle

Last year's annual report looked at how quality management is structured at RHÖN-KLINIKUM AG and its hospitals as an activity taking place at three levels: department, hospital and Group. That said, responsibility for this work itself lies mainly with the departments and the hospitals; at the Group level, quality management work is done on a subsidiary basis.

In the area of medical quality management as a core task, efforts in 2005 were focused on the provision, establishment and first-time application of the important tools as well as the first-time preparation of the quality reports Group-wide. In addition, medical quality management was expanded to cover two further – related – areas: assisting the hospitals with general hygienic issues as well as with defining the scope of medical services.

1. Medical quality management

Individual hospital targets

The 2004 quality reports published in 2005 show that concrete quality assurance projects had already been carried out in the past at all the Group's hospitals – through optimising clinical procedures, evaluating results on site to detect risks or performance weaknesses, gathering data on customer satisfaction (patients and admitters), establishing interdisciplinary structures, etc. In 2005 this led to targets being agreed between the Group's quality management department and each individual Group hospital for quality-relevant projects, with the Group quality management department and the Group's hospitals liaising continuously on the progress made. The Group hospitals communicate project targets and project results internally and make these transparent externally in the quality reports.

Quality-relevant measurement results

A systematic approach has been established for gathering routine and binding quality parameters for each discipline as well as on an interdisciplinary basis; these parameters are then fed to a continuous internal-clinical process of evaluating results and deriving consequences; the parameters are selected in keeping with the "risk orientation" principle; the results are published in the 2005 quality reports.

From my past work experience I am familiar with public, non-profit as well as private operators from the German healthcare sector. What really fascinates me with private operators is their ability to take swift and targeted decisions.

Prof. Martin L. Hansis (55)
Position: Head of Quality Management/Group
Deputy Medical Managing Director of Universitätsklinikum Gießen und Marburg GmbH; with the Company since July/2004

Process descriptions

Clinical paths were defined at all hospitals, primarily in connection with planned certifications or re-certifications, as a result of a shift in service volumes to the outpatient area or due to the formation of interdisciplinary hospital-internal units (interdisciplinary emergency ward, interdisciplinary abdominal wards). In keeping with the principles of decentralisation, only department-internal and hospital-internal, but not Group-wide clinical paths and standards are provided. Based on the principle of subsidiarity, we have decided to make these standards and paths available in order to be exchanged (and adapted at individual sites).

Regular reporting

In line with our statutory obligations, we prepared quality reports for the 2004 reporting year for the Group's hospitals as well as at the Group level. All reports are available in German both on the Internet and in printed form. Each hospital had the possibility of defining and documenting its specific performance as well as the quality profile of its medical services. In some cases the hospitals presented a wealth of quality-relevant measurement results, something which is also characteristic of the reports prepared by the Group's hospitals and which sets them apart from the vast majority of the hospital quality reports published last year. Further quality reports will follow each year, the content of which will be standardised as of reporting year 2005.

2. Hospital hygiene

It has proven useful and sensible to centralise supervision of the Group's hospitals where hygiene issues are concerned. The chief objective here is to ensure a consistently high standard of hygiene in the hospitals. To achieve this objective, common guidelines have been issued (e. g. on measures to be taken in the event of multi-resistant germs or on the organisation of centralised sterilisation supply facilities). In addition, the Group's hospitals are assisted by the Group's quality management department in the event of local or regional problems.

3. Medical offering

At the Group hospitals as well as at the Group level, the broad tasks of "medical controlling" are divided into three areas: invoice controlling, cost and revenue controlling, and the planning and evaluation of medical performance. Within the Group's quality management department, tools were developed making it possible to take a prospective (planning) and retrospective (evaluative) approach to planning a hospital's service scope, planning service volumes, analysing future outpatient potential or analysing durations of stay.

Risks and opportunities

BASIC PRINCIPLES

At RHÖN-KLINIKUM AG, the economic control of risks and opportunities is a permanent part of our active management aimed at value enhancement.

Our value-oriented company management duly regards and protects the interests of our shareholders and other capital market participants, taking account of the requirements for early detection of risks jeopardising the existence of the Company as prescribed by law (KonTraG).

Our risk management system is based on the following elements:

- **Responsibility of each employee** Every employee has a personal duty to actively prevent harm or damage to our patients, our business partners and the Company with a view to safeguarding the success and continued existence of the Company. Each employee also has to duty to inform superiors without delay about existing and emerging risks or any arising opportunities or prospects.
- **Integration of risk identification into business and work procedures** The highest possible division of labour and self-controlling interfaces within the working and business procedures allow for integration of risk identification. At the same time we endeavour to promote our employees' sense of responsibility with a view to gaining a qualified, early and regular overview of the risk situation.
- **Uniform and systematic risk assessment Group-wide** We apply Group-wide uniform and objectively comprehensible procedures to evaluate the likelihood of a risk event occurring and the potential loss involved in order to ensure efficient risk management to uniform standards Group-wide. In this context, risks posed to life and health have always been regarded by us as a high risk as well as our greatest risk.
- **Risk control** Based on the value ascertained for risks, these risks are controlled and weighed up against the opportunities they hold. Not all risks can be prevented. Wherever possible we act to pre-empt, prevent or limit damage or to make provision for these. For this purpose we avail ourselves of defined response mechanisms. When weighing up risks and opportunities the interests of patients have top priority, since indirectly this is also the best way of safeguarding the interests of the Company.
- **Communication and transparency** By timely and open communication both internally and externally, we create trust and the basis for self-criticism and an ongoing learning process. We regularly review, evaluate and adjust our risk management system to constantly changing framework conditions, thus securing its acceptance while promoting its further development.

People still have a lot of reservations towards private hospital operators. Dispelling these and opening up the healthcare system to more market is a life task.

Dr. Elmar Keller (51)
Position: Regional Director for North-Eastern Germany
with the Company since October/2005

Results of risk evaluation for 2005

In financial year 2005 we monitored a total of 192 single risks from the following areas:

- Group-specific risks
- Nursing and medical field
- General business and operator risks
- Safety risks
- Insurance
- EDP and telecommunication
- Personnel
- Materials management
- Technology and equipment
- Real estate risks

For the likelihood of a risk event occurring and potential loss involved there are three levels (low, medium, high) with value weightings ranging from 1 and 3. The value weighting of the potential loss is oriented on the size parameters of the company. The risk value is calculated as the product from the likelihood of the risk occurring and potential loss involved and a value weighting of between 1 and 9.

The risk evaluation for financial year 2005 has yielded the following risk values and risk spread compared with the previous year:

Risk values	2005		2004	
	Number	%	Number	%
< 1,5	90	47	70	39
≥ 1,5 and < 2,5	84	44	78	43
≥ 2,5	18	9	33	18
Total	192	100	181	100
Average risk value	1,63		1,81	
Maximum risk value	3,42		3,08	

The average risk value saw a slight decline from 1.81 in the previous year to 1.63. As in the previous year, we rate the Group-wide overall risk position as low. The maximum risk value concerns the single risk “declining trend of inpatient service volumes”. We see no trends that jeopardise the Group’s existence.

Management Report for the year 2005

- **Opening of teleportal clinics and acquisition of university hospitals sends us off to new horizons.**
- **Group executes textbook relay of key positions on Supervisory Board and Board of Management.**
- **Gains in patient treatments (+ 58.6%), revenues (+ 35.5%) and earnings (+ 10.1%) despite more difficult competitive environment**
- **Acquisition-induced decline in margins offers future prospects, earnings upside and mandates for the Management.**

SUMMARY

Financial year 2005 saw two path-breaking developments with the opening of the first teleportal clinics in Stolzenau and Dippoldiswalde and the acquisition of the first university hospitals in Gießen and Marburg.

The Group also witnessed a smooth transition in key positions on the Board of Management and the Supervisory Board, with Wolfgang Pföhler taking over as chairman of the Board of Management on 20 July and Eugen Münch as chairman of the Supervisory Board on 1 September 2005.

In the financial year ended 31 December 2005 we raised consolidated revenues by € 371.0 million (35.5%) to € 1,415.8 million. Given the current hospital market environment, we are on the whole very pleased with the rise in net consolidated profit by € 8.1 million (10.1%) to € 88.3 million. The expected decline in return on revenues from 7.7% to 6.2% stems from the acquisition-driven growth.

We were able to fully finance our 2005 current investments of € 118.1 million from the operating cash flow (calculated from net consolidated profit plus depreciation and amortisation and corresponding book profits/losses) of € 155.6 million.

In the period under review, net debt to banks witnessed an acquisition-induced rise by € 78.5 million to € 301.0 million. It is still 1.4 times earnings before interest, tax, depreciation and amortisation (EBITDA). Our equity capital grew by € 72.8 million (12.8%) to reach € 641.5 million.

As in the past, deteriorating conditions on the hospital market are the reason for our lively acquisition activity. With the takeover of eleven hospitals we raised our bed capacities by 3,188 (34.6%) to 12,217 beds.

Before seeing off financial year 2005 we were still able to put the finishing touches on two company purchase agreements: one for the takeover of two hospitals effective 1 January 2006, and another for two university hospitals taken over with effect from 1 February 2006. These facilities have added a combined total of 2,660 beds to the Group. Our takeover of the university hospitals in Gießen and Marburg and related investment commitments in the field of particle therapy will enable

In most sectors (automotive, banking, mechanical engineering, etc.) the market structures are for the most part established, and hardly anything changes. Not so in the hospital sector: it is undergoing a sweeping transformation. So much is in flux; the cards are being reshuffled. This holds considerable professional opportunities.

Dr. Erik Hamann (35)
Position: Divisional Head within the Board's office
authorised officer (Prokurist) with the Company since May/2005

us to introduce cutting-edge technology on the German healthcare market in the fight against cancer at acceptable prices.

Given the large offering of hospitals seeking privatisation, we do not foresee our growth being diminished by any prohibiting measures the German Cartel Office might take. That said, we believe the legal view held by the Federal Cartel Office on mergers and partnerships within the hospital market to be diametrically opposed to the goals of German healthcare legislation as reflected, for example, in the German Social Insurance Code (SGB V).

In financial year 2005, operative management capacities were stepped up considerably to enable us cope with the substantial growth ahead through our qualified integration and quality management system.

Not taking into account potential new acquisitions, our 2006 revenues will rise to around € 1.9 billion, and we expect a net consolidated profit of roughly € 93 million.

ECONOMIC AND LEGAL ENVIRONMENT

Macroeconomic factors

As measured by its adjusted growth in gross national product (GNP) of 0.9% (previous year: + 1.6%), Germany lagged behind Western Europe (roughly 1.3%) and other growth regions in the world.

In 2005 also growth in the German economy of 0.7% on a price-adjusted basis was primarily driven by dynamic external trade, whereas the domestic economy contributed a mere 0.2% on a price-adjusted basis, resulting from slightly declining consumer spending (despite the reduction in earnings tax) together with a slight pick-up in investment activity.

The rise in new government debt by roughly € 78 billion or 3.5% of GDP meant that Germany not only failed for the fourth year in a row to meet the 3.0% limit defined by the Maastricht criteria but also further restricted its scope for efficient economic development.

Germany's inflation rate of roughly 2% largely reflected higher energy prices.

On the issue of long-overdue reforms the country remained deadlocked as the federal government, reeling from the upset at state-level elections, called Germans to the polls in early federal elections. This left the jobless rate virtually unchanged at 9.2%, and there was no significant reduction in incidental wage costs.

In the area of healthcare finance as well, the current heated and contentious debate within the Grand Coalition makes any decisions that might safeguard the contribution-financed system in the long term unlikely before 2007. The risk is that Germany's healthcare system could well be in for a further dose of regulation instead of being gradually coaxed towards market-economy elements. This in turn will further entrench the misallocation of the already limited funds.

Developments within the sector

Having been designed as a cognitive, learning system, the DRG remuneration catalogue was revised for a third time in 2005 and in our view is doing an increasingly better job of accurately reflecting the procedures to be remunerated. The initial underfunding in cutting-edge medicine was gradually diminished. Each year the system gets better at defining a performance-based level of remuneration for inpatient hospital services. Further revisions will make broad acceptance of the remunerations very likely, opening the way for the existing "performance-blind" budget-based system to be abandoned for good.

With the year 2005 began the convergence period defined until 2009 for an earnings-oriented approximation of individual hospital budgets to a single price level set nationally. This has meant budget cuts for expensive hospitals and budget increases for efficiently run facilities, with the downward rate of adjustment in 2005 being set at 1% of the budget sum to promote the convergence process.

In financial year 2005 the trend in the substitution of outpatient services for what have hitherto been inpatient treatments gathered pace. In its wake this has brought a decline in inpatient treatments and shorter durations of stay throughout Germany, further exposing overcapacities in the German hospital market. This in turn will accelerate reduction in hospital beds and the closure of hospital sites.

The DRG remuneration catalogue still gives only a rudimentary outline of day-case treatments.

In 2005 also, the statutorily fixed rates of price increases lagged behind the true rise in the cost of personnel and material. Amplified by the effects of declining inpatient treatments and prices, as well as judging from the due diligence reports we have seen, the situation especially with public hospitals has become particularly bleak of late. A long inadequate system of investment grants in healthcare has taken its toll, with many hospitals on the brink of ruin. And it is also hardly surprising that for many years now investment has failed to keep pace with advances in medicine.

To bring its legislation in line with the European Court of Justice's decision on working time, Germany has been given a final grace period until 1 January 2007. Since this will not be possible on an earnings-neutral basis unless some kind of wage deal is struck at public hospitals, pressure on earnings and with it the privatisation wave will continue to gather pace.

Cross-sector partnerships opened up by legislation with a view to better integration between the acute inpatient sector and the rehabilitation and outpatient sector as well as the establishment of medical care centres (MVZs) were slow to catch on in 2005. Payers at first were not very eager to conclude co-operation agreements and the bodies representing the medical profession tried to prevent the establishment of MVZs by putting up barriers to their approval and authorisation.

All these developments are quickening the pace of privatisation on the hospital market. Privatisation targets are no longer limited to hospitals under the control of local government entities but also include facilities belonging to the federal states, such as (psychiatric) state-run hospitals and university hospitals. The terms of a successful privatisation also worsened in 2005. Since privatisations are increasingly becoming impossible for economic reasons as well as the performance trends at smaller hospitals, facilities face a very real prospect of closure.

The capacity to invest and (indirectly related to this) the ability to raise capital have come to be an increasingly important prerequisite for qualitative growth with both public and private hospital operators. But what public hospital operators frequently fail to see is that externally financed investments have to be serviced from surpluses and that their usually very poor economic situation severely restricts their qualification for a loan. It is precisely within the context public facilities' debt situation and the resulting bar on borrowing and/or issuing collateral that the good credit rating given to public borrowers will increasingly become a thing of the past.

Before the integration of Amper Kliniken AG into RHÖN-KLINIKUM Group, Amper Kliniken AG was wholly owned by the District of Dachau as a public hospital company. From my long experience I can say that public hospitals can also be operated very efficiently. The difference between public and private operators lies more in their future viability. The challenges of the future, e. g. capacity to invest, will present public hospitals with insurmountable problems in the medium and long-term given the collapse public funding and grants. It is only through continuous investment in medical technology and infrastructure that the market viability of a site can be ensured.

Uwe Schmid (57)
Position: Board of Amper Kliniken AG, Regional Director at RHÖN-KLINIKUM Group responsible for southern Bavaria; with Amper Kliniken AG since July/1993

With private hospital operators the level and sustainability of cash flow and net profit is decisive when it comes to the question of how much capital they can raise and on what terms, which is also key to the growth pace of the respective operator. In various acquisitions over 2005 we observed that there were fewer private operators vying for attractive and thus capital-intensive projects. At the same time we have noted a greater interest on the part of international financial investors in the privatisation of the German healthcare system. The sector's high attractiveness is further borne out by the lively demand in connection with the sale of HVB's block of RHÖN-KLINIKUM AG shares to a broad group of institutional investors in the summer of 2005 as well as by the takeover of the Helios group by Fresenius.

We have upheld our stringent selection criteria for acquisitions, giving top priority to safeguarding a facility's long-term viability and to the "quality before quantity" principle as the basis for starting negotiations.

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 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.

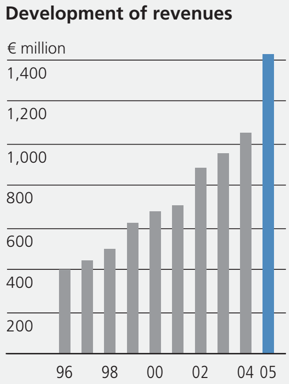
By joint resolutions of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG from March and November 2005, the Company made the corresponding declarations pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the application of the Code in financial year 2005. These were deposited on the homepage of RHÖN-KLINIKUM AG and thus made available to the general public.

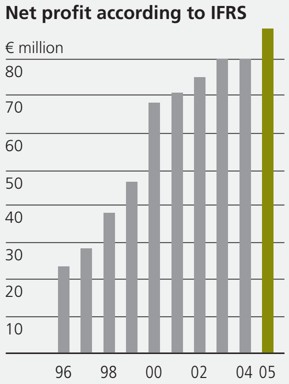
Pursuant to the resolution by the 2005 Annual General Meeting, our non-voting preference shares were converted into voting ordinary shares. From then on our entire shares conferred full voting rights. Shareholders may exercise their voting rights themselves at the Annual General Meeting or through proxies appointed for this purpose.

As always, we hold our Annual General Meeting 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 of each year. In addition, we confer with financial analysts in November of each year.

In line with the principle of equal representation of shareholders and staff pursuant to the German Co-Determination Act (Mitbestimmungsgesetz), the Supervisory Board of RHÖN-KLINIKUM AG comprises an equal number of employees' and shareholders' representatives. The Board normally holds four full-day meetings per financial year (in 2005: five meetings). After exceeding the threshold of 20,000 employees in the course of the year, the Supervisory Board was re-appointed and since 31 December 2005 has been composed of 20 members. Members are appointed for a period of five years. Age restrictions apply. The Supervisory Board regularly takes its decisions in plenary sessions as well as by circular in isolated cases. The Company has a Mediation Committee, a Personnel Affairs Committee, an Audit Committee, an Anti-Corruption Committee as well as an Ad Hoc Committee for Major Investments. Terms of Reference





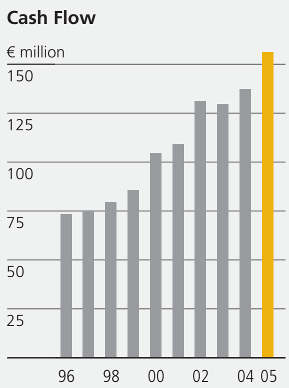
have been adopted for the activities of the Board of Management and of the Supervisory Board, including co-operation between these two bodies.

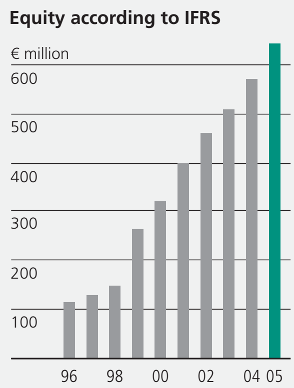
The Board of Management at present comprises seven members. In line with the Board's Terms of Reference that regulate the allocation of areas of responsibility, there are centralised Group-wide responsibilities for defined functions on the one hand and regional responsibilities on the other. The Board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

Compensation of the members of the Supervisory Board and the Board of Management comprises fixed and variable components, with variable components predominating. The Group does not provide stock option programmes or similar forms of compensation. Details on the compensation received by 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 and variable components. The basic principles of the Board of Management's compensation structures are published on the website of RHÖN-KLINIKUM AG. The compensation of the Supervisory Board is governed by the relevant provisions in the Articles of Association. The holdings of RHÖN-KLINIKUM shares by the Board of Management and the Supervisory Board are shown in the Notes to the Consolidated Financial Statements.

The Consolidated Annual Financial Statements are drawn up in accordance with the provisions of International Financial Reporting Standards (IFRS) 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 Group's ultimate parent company is issued by the chairman of the Audit Committee 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, divisional directors, and managing directors at the subsidiary level – and that system's clearly defined reporting lines and approval duties are designed to ensure responsible corporate governance and controlling by the Board of Management as well as immediate transfer of information.





CONSOLIDATED TREND

Sites, capacities and services

The Group of RHÖN-KLINIKUM AG is horizontally structured. The hospital companies are organised in the form of legally independent corporations, have their registered office at the respective facility site and are direct subsidiaries of the ultimate parent company that has its registered office in Bad Neustadt a. d. Saale. In addition to Bad Neustadt a. d. Saale, other important sites are Leipzig, Bad Berka, Frankfurt (Oder) and Munich.

Compared with the previous year, we consolidated the following sites and bed capacities in the Group. As in previous years, adjustments in approved beds were made at our long-standing facilities.

	Hospitals	Beds
As at 31 December 2004	**30**	**9,211**
Klinikum Hildesheim	1	717
Klinikum Dachau	1	443
Klinik Indersdorf	1	120
Klinik München-Pasing	1	442
Klinik München-Perlach	1	180
Krankenhaus Salzgitter-Lebenstedt	1	258
Krankenhaus Salzgitter-Bad	1	206
Krankenhaus Gifhorn	1	355
Krankenhaus Wittingen	1	71
Klinik Erlenbach	1	256
Klinik Miltenberg	1	140
Beds, new hospitals		3,188
Change in approved beds, long-standing hospitals		– 182
As at 31 December 2005	**41**	**12,217**

In 2005 we concluded purchase agreements for the following hospitals (not yet consolidated):

	Date	Hospitals	Beds
Heinz Kalk-Krankenhaus Bad Kissingen	1 January 2006	1	86
Frankenwaldklinik Kronach	1 January 2006	1	312
Universitätsklinikum Gießen und Marburg GmbH	1 February 2006	2	2,262
		4	**2,660**

By the end of January 2006 cartel law approval had been granted for all the aforementioned hospitals. This brings the number of approved beds from 1 February 2006, including changes in the number of approved beds, to 14,620.

The German Cartel Office withheld approval for the acquisition of the two hospitals from the District of Rhön-Grabfeld in Bad Neustadt a. d. Saale and Mellrichstadt with a total of 278 approved beds. With the company purchase agreement still valid and in force, the District of Rhön-Grabfeld in the meantime has decided to close the Mellrichstadt site with effect on 31 December 2006 amid the hospital's chronic losses. Both the District of Rhön-Grabfeld and RHÖN-KLINIKUM AG are appealing the prohibitive order. We expect the Düsseldorf Court of Appeals to reach a decision in late-summer 2006. In a wider context and in the interests of high-quality and efficient healthcare, we are trying to bring policymakers to see the disadvantages of a healthcare market regulated in this way by the Cartel Office.

The total number of patients treated rose – mainly acquisition-driven – to 949,376, which is a 58.6% increase over the previous year. Around 324,400 patients were accounted for by newly acquired hospitals, and around 26,500 patients, or 4.4%, were added by Group hospitals consolidated prior to 2005.

	Patients		Change	
	2005	2004	absolute	%
Inpatient and day-case treatments:				
acute hospitals	410,585	287,204	123,381	43.0
rehabilitation hospitals and other facilities	8,931	7,067	1,864	26.4
	419,516	**294,271**	**125,245**	**42.6**
Outpatient treatments, acute hospitals	529,860	304,214	225,646	74.2
Total	**949,376**	**598,485**	**350,891**	**58.6**

Inpatient acute bed capacity saw a 34.7% increase. Based on a shortening in the average duration of stay in hospital by 6.3% or 0.5 days to 7.4 days, overall average occupancy of our inpatient beds during the year declined slightly by 1.5% to 79.2% (previous year: 80.4%). These developments are also being driven by Group-wide efforts to adapt to DRG-compatible durations of stay, increasing volumes of day-clinical surgery, and the fact that newly acquired facilities prior to necessary restructuring usually have lower occupancy rates than our "older" hospitals.

Occupancy in the rehabilitation area averaged 87.0% (previous year: 91.5%) with an average duration of stay of 36.3 days (previous year: 40.4 days).

Per-case revenues in the inpatient area declined by 5.2% (€ 179) to € 3,276. Apart from the statutorily imposed caps on revenue, this development is also explained by the newly acquired hospitals whose per-case revenues are below the Group average. Including the outpatient cases, average per-case revenue is € 1,491 or 14.6% lower versus the previous year (€ 1,746). This disproportionate decline comes as a result of the rise in outpatient cases.

Business performance

Our hospitals developed in line with our targets and expectations for 2005. We have exceeded our expectation in last year's Management Report for a profit of € 80.0 million by roughly 5%.

Of the hospitals already consolidated as per 31 December 2004 only Krankenhaus St. Barbara in Attendorn still reported a negative result of € 0.3 million (previous year: – € 1.0 million). The restructuring measures introduced there have already brought a marked improvement in earnings, and for financial year 2006 we expect to see the facility in profit.

Of the hospitals consolidated for the first time on a full-year basis from 2005, Amper Kliniken in Dachau in particular as well as the hospital in Gifhorn made a positive contribution to consolidated earnings with a combined surplus of € 3.4 million. The other newly acquired facilities considerably improved their loss-making structures and put an aggregate charge on the consolidated result of € 0.5 million.

In line with our expectations, the ten MVZ companies being established record start-up losses of € 0.7 million.

Our four property companies reported a loss of € 1.5 million after impairments of € 2.8 million.

The integration of the new hospitals went better than expected. Even the Group's long-standing hospitals were generally able to match the high level of their pre-year results.

In the medium to long term I expect that, alongside a system of basic care funded by society as a whole, a privately funded care level will establish itself in which insurees will define (and to a large extent help finance) their individual needs. This new system will offer considerably more transparency than the current health-care system. On the provider side, the current consolidation process with the reduction of current overcapacities will be accelerated considerably.

Harald Jeguschke (53)
Position: Regional Director for southern Hesse/Baden-Wuerttemberg
with the Company since October/2003

The Group's economic performance is shown as follows according to the key figures used for tax purposes (pre-year figures adjusted in accordance with IAS 1):

	2005	2004	Change	
	€ million	€ million	€ million	%
Revenues	1,415.8	1,044.8	371.0	35.5
EBITDA	206.9	180.8	26.1	14.4
EBIT	140.1	123.8	16.3	13.2
EBT	123.5	111.9	11.6	10.4
Operating cash flow	155.6	137.8	17.8	12.9
Net consolidated profit	88.3	80.2	8.1	10.1

	2005	2004
	%	%
Return on equity (after taxes)	14.6	14.9
Return on revenue	6.2	7.7
Cost of materials ratio	24.3	24.2
Personnel cost ratio	56.1	52.3
Depreciation and amortisation ratio	4.7	5.5
Other cost ratio	8.3	9.0
Tax rate	28.5	28.3

Revenues and earnings

In financial year 2005 revenues posted a 35.5% rise to € 1,415.8 million, with external growth accounting for roughly 95% and organic growth for roughly 5% of this gain. Year-on-year organic growth in revenues stood at 1.6% or € 17.1 million, exceeding the statutory cap on budget growth rates fixed at 0.38% nationally.

EBITDA rose € 26.1 million or 14.4% to reach € 206.9 million, with improvements in operating earnings at our hospitals contributing a total of € 28.4 million to this rise. The quantitative and qualitative expansion in management at the Group, notably in the areas of quality and integration management, IT organisation and the establishment of regional management structures resulted in € 2.3 million of additional costs. The EBITDA margin declined from 17.3% to 14.4%, with the EBITDA margin at hospitals already consolidated in 2004 reaching 17.8%. The hospitals consolidated for the first time in 2005 show an EBITDA margin of 4.9%.

The depreciation and amortisation expense rose by € 9.8 million to € 66.8 million. The depreciation and amortisation ratio declined from 5.5% to 4.7% as the new hospitals are financed to a greater extent by government grants and have yet to implement their future investment projects to be financed out of own funds. Of this depreciation and amortisation expense, € 2.8 million was attributable to impairments on the land in Leipzig. The teleportal clinics in Stolzenau and Dippoldiswalde completed in December were financed from own funds and will not raise the depreciation and amortisation expense before 2006.

The negative interest balance increased by € 4.7 million or 39.5% to reach € 16.6 million. As the interest level remained virtually unchanged, this trend was attributable to the rise in net debt from € 222.5 million to € 301.0 million (35.2%).

Earnings before tax (EBT) reached € 123.5 million, a gain of € 11.6 million or 10.4% over the previous year. Of this, € 7.3 million is accounted for by the hospitals already consolidated in 2004 and € 4.3 million by the hospitals consolidated from 2005. The EBT margin at our long-standing hospitals went from 10.7% to 11.3%. This

What I especially like about my job now is the variety that comes with being confronted with new challenges each day, developing target planning concepts and reviewing their viability together with the payers of the system and planning authorities, optimising processes and procedures, getting staff involved in concept planning and convincing them of the need for process optimisation.

Martin Menger (46)
Position: Regional Director for northern and south-western Lower Saxony, North Rhine-Westphalia; with the Company since May/2001

compares with the EBT margin of 1.3% at our new hospitals.

Subject to a slightly higher earnings tax burden of 28.5% (previous year: 28.3%), net consolidated profit recorded a disproportionately moderate rise by € 8.1 million or 10.1% to reach € 88.3 million. The newly acquired hospitals contributed € 3.4 million to this result. Return on revenue declined, growth-induced, by 1.5 percentage points to 6.2% and return on equity (after tax) by 0.3 percentage points to 14.6%

The earnings share of minority owners rose by € 0.8 million to € 4.6 million. About half of this increase stems from the improved earnings in Bad Berka and Hildburghausen as well as from the minority interest held by the District of Dachau in Amper Kliniken AG. At year-end we acquired the minority share in our hospital in Hildburghausen from the Federal State of Thuringia, so that the share of minority owners in earnings is set to decline noticeably from 2006.

Other operating income in the amount of € 46.7 million (previous year: € 29.3 million) essentially comprises income from ancillary and incidental activities, from rental and lease agreements, from the write-back of impairments on receivables and of provisions, as well as from grants for operating costs for – among other things – teaching and research. The € 17.4 million increase in income is reflected in the € 16.5 million recorded with the new hospitals coupled with the slight rise at our long-standing facilities of € 0.9 million.

	2005	2004	Change	
	€ million	€ million	€ million	%
Material and consumables used	343.6	252.4	91.2	36.1
Employee benefits expense	793.6	546.6	247.0	45.2
Depreciation and amortisation expense	66.8	57.1	9.7	17.0
Other operating expenditure	118.4	94.3	24.1	25.6
Total	**1,322.4**	**950.4**	**372.0**	**39.1**

The trend in material costs was slightly disproportionate to revenue growth. The rise in the cost-of-materials ratio stems from the higher ratios at acquired hospitals, whereas at our long-standing consolidated hospitals we trimmed the ratio slightly – in spite of price increases – thanks to effective cost-cutting. In 2005 we once again noted a marked trend towards increased use of higher-priced implants and drugs.

The rise in personnel expenditure was disproportionate to the trend in revenues. The personnel cost ratio rose by 3.8% to 56.1% (previous year: 52.3%), reflecting the still ample scope for improving staffing and workflows at our hospitals acquired in 2005: at our long-standing hospitals the personnel cost ratio stood at 51.7% (previous year: 52.3%), whereas at the new facilities it was still 69.0%. We do not expect the structural improvement measures introduced at the new hospitals in 2005 to bring any noticeable adjustment in the cost ratios for 2006.

Other operating expenses saw a disproportionately moderate rise from € 94.3 million in the previous year by € 24.1 million to € 118.4 million in 2005, translating into an increase of 25.6%. € 29.7 million of this increase is accounted for by newly acquired hospitals. The disproportionately moderate trend at the long-standing hospitals results from the absence of one-off costs in the previous year.

Asset and capital structure

Long-range comparisons since 1995 show that business growth has continued to outpace our indebtedness: while revenues have more than quadrupled since 1995, interest-bearing liabilities have increased by only around 63%. The Group's financial position continues to be comfortable. Currently we have the following balance sheet structures (pre-year values adjusted in accordance with IAS 1):

	31 Dec. 2005		31 Dec. 2004	
	€ million	%	€ million	%
ASSETS				
Non-current assets	1,069.7	65.9	846.4	73.2
Current assets	552.5	34.1	309.2	26.8
	1,622.2	**100.0**	**1,155.6**	**100.0**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity	641.5	39.5	568.7	49.2
Non-current liabilities	415.5	25.6	281.8	24.4
Current liabilities	565.2	34.9	305.1	26.4
	1,622.2	**100.0**	**1,155.6**	**100.0**

Group assets increased by 40.4% on the back of acquisition and investing activities.

The Group's equity ratio fell from 49.2% to 39.5% with the higher debt-financing of our acquisitions and investments. Equity now stands at € 641.5 million (previous year: € 568.7 million). The increase stems from the net consolidated profit (€ 88.3 million) as well as contributions from minorities (€ 7.6 million) less dividends paid to shareholders and minority owners (€ 23.1 million). Overall, 98.8% (previous year: 100.5%) of non-current assets are covered by equity and non-current liabilities. In financial year 2005 we provided for sound long-term financing of our growth to date by issuing a bond for the nominal amount of € 110 million. Net debt to banks rose by € 78.5 million to € 301.0 million at balance-sheet date. The Group continues to enjoy sound balance-sheet and financial structures.

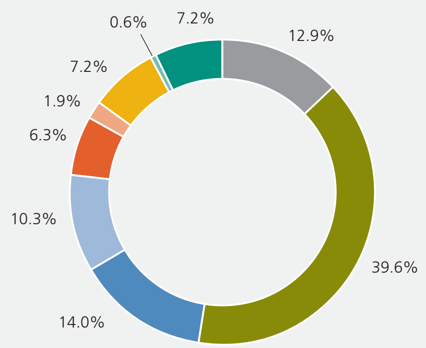
The operating cash flow rose to € 155.6 million, a rise of € 17.8 million over the previous year. Besides dividend payments (€ 20.4 million), we financed the full amount of our net total investments (€ 118.1 million) and part of the hospital takeovers out of the cash flow.

Investments

Aggregate investments of € 492.6 million (previous year: € 196.4 million) in financial year 2005 are shown in the following table:

	Use of grants	Use of own funds	Total
	€ million	€ million	€ million
Current capital expenditure	33.3	118.1	151.4
Hospital takeovers	168.6	172.6	341.2
Total	**201.9**	**290.7**	**492.6**

During financial year 2005, we invested a total of € 492.6 million (previous year: € 196.4 million) in intangible assets and in property, plant and equipment. Of this total, € 201.9 million (previous year: € 95.1 million) was funded from grants under the Hospital Financing Act (KHG) and deducted from total investments pursuant to the relevant provisions of IAS.



Analysis of personnel at RHÖN-KLINIKUM Group

In the consolidated financial statements we report net investments of € 290.7 million (previous year: € 101.3 million). Assets acquired on takeovers accounted for € 172.6 million (previous year: € 51.0 million) and current capital expenditure for € 118.1 million (previous year: € 50.3 million) of total net investments during the year under review.

As a result our total net investments exceeded by roughly € 15 million the grants paid out by two federal states of Hamburg and Bremen under the Hospital Financing Act (KHG) for the year 2003. Our total net investments represent roughly 5.3% of aggregate government grants in Germany or a market share of some 2%.

An analysis of investments by region is given below:

	€ million
Bavaria	272.7
Baden-Wuerttemberg	5.0
Brandenburg	9.9
Hesse	5.4
Lower Saxony	148.6
North Rhine-Westphalia	0.9
Saxony	27.7
Thuringia	22.4
Total investment	**492.6**
Deduct: grants under KHG	201.9
Net investment	**290.7**

Teleportal clinics were put into service at our Stolzenau and Dippoldiswalde sites. At our sites in Hildburghausen, Nienburg, Pirna and Frankfurt (Oder) new buildings as well as extensions are in full swing and will be completed in 2006.

For the Cuxhaven, Hildesheim, Salzgitter, Gifhorn, Bad Kissingen, Pforzheim, Erlenbach, München-Pasing, Hammelburg and Wittingen sites hospital construction projects (major investments) with a volume (also taking account of the commitments entered into on acquisition) of € 308.2 million are planned and will also come on stream by 2010.

At the Gießen and Marburg sites we have made investment commitments of € 367 million. The major investments for Gießen of € 170 million for a complete rebuild and Marburg of € 90 million for a partial rebuild will be concluded at the latest in 2010. We have undertaken to complete the particle therapy unit with an investment volume of € 107 million by 2012.

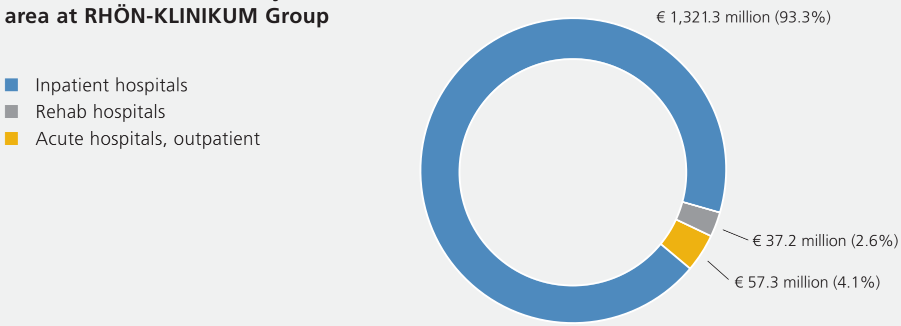
Staff

In our sector, vying for certain staff groups can be intense. Besides executive staff in the medical and administrative area, qualified doctors in particular are not easy to come by. There is also a greater demand for qualified IT and logistics staff as integration and co-operation among our sites moves ahead.

With our hospitals – as with any other service providing business – major gaps in staff ranks immediately make themselves felt: quality is compromised, business risks are increased, and growth opportunities are missed. Timely and qualified staff hiring is becoming increasingly important.

By offering possibilities for promotion within the Company, attractive training and higher-qualification, 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. In this same vein an innovative in-house wage policy forms

Breakdown of revenues by business area at RHÖN-KLINIKUM Group



the basis inter alia for constructive negotiations with trade unions and the establishment of incentive-based remuneration schemes.

At 31 December 2005, the Group employed a staff of 21,226 (previous year: 14,977). This translates into a + 41.7% rise over the previous year. Doctors accounted for 12.9% (previous year: 13.2%), and nursing and other medical/medical-technical staff for 63.9% (previous year: 65.4%) of the total headcount. In the financial year under review, we recorded a 41.3% rise in full-time staff. This is disproportionate to the trend in revenues (+ 35.5%) and stems from the takeover of hospitals that still have inefficient staff structures.

Statutory social security contributions and pension expenditures as a percentage of the wage bill amounted to 22.1% (previous year: 20.8%). Expenses for incidental wage costs increased, mainly due to the fact that the hospitals taken over for the most part are members of supplementary insurance funds and other 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 our employees' professionalism through systematic training and higher-qualification measures at all hierarchical levels. We continue to attach special importance to training qualified nursing staff at our 14 Group-owned nursing schools with a total of 1,359 training places for nursing professions.

Finding, motivating and retaining qualified executive staff is a particularly important task for a future-oriented group. To recruit young management talent we work closely with several universities, and increasingly offer targeted graduate programmes for specialists in the healthcare system as well as for qualified lateral hires.

Procurement

Our purchasing organisation follows the principle of decentralised accountability. We have refrained from establishing a central, Group-wide purchasing department. The purchasing departments are co-ordinated by our tried-and-tested project group organisation. Procurement data from across the Group are available to our purchasing managers via our intranet. Price comparisons with newly acquired hospitals and comparisons of our materials cost structures with industry 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 and energy

For us as a healthcare service provider, we naturally regard sustainable activity and protection of the environment as one of our primary corporate goals. In this regard our guiding principle "Don't do to others what you would not like done to yourself" can also be applied to the protection of our environment.

Our environmental management work includes numerous measures such as reducing primary energy consumption, using drinking water sparingly as well as reducing and avoiding waste. These activities have been summarised in our environmental report published annually for the past ten years.

Implementing architectural and structural concepts while at all times exercising a reflexively critical review of innovative hospital concepts – e. g. the teleportal clinic or the particle therapy centre – is a real challenge. And of course it goes without saying that this is no less the case when you are responsible for several hundred millions of euros in construction volume.

Franz Mlynek (53)
Position: Divisional Head of Major Investments
with the Company from 1990-1994 and since 2001

In addition to ecological improvements there are also economic benefits. This is especially important in view of the mounting cost pressures in the healthcare system. With the takeover of new hospitals it is often the case that marked improvements in the use of resources is achieved with moderate investment measures thanks to organisation optimisation and know-how transfer.

With the numerous new construction projects and modernisation measures, current technological developments are carefully reviewed and evaluated in selected individual measures.

We attach great importance to making sparing use of natural resources not only when it comes to a building's utility systems but also in the choice of building materials and equipment used. In this way we make a lasting contribution towards protecting the environment.

Given the great number of companies belonging to the Group we have now developed an extensive and up-to-date database of all key environmentally relevant figures, serving as a benchmark for all categories of hospitals.

This provides us with a useful tool when it comes to the routine quality analysis of our facilities and the evaluation of new hospitals.

In response to inexorably rising prices for primary energy, we committed ourselves early to research and development into better ways of exploiting energy with new technologies. Our fuel cell pilot projects in Bad Neustadt a. d. Saale and Bad Berka have achieved the goals set for them, and we expect this technology to be used widely once it goes into serial production.

We are also looking at the possible use of renewable energies for selected sites. Currently in the planning stage is a biomass heating unit. The goal is for the unit to serve both as a heating and possibly (in a second step) cooling system fuelled by wood chips from the hospital site's surrounding areas. For the partial replacement construction of a standard-care hospital, we plan to use geothermal energy.

QUALITY ASSURANCE

Quality assurance and risk management go hand in hand. Our hospitals have set themselves quality goals. By continually striving to achieve and improve our 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.

The medical quality assurance department of RHÖN-KLINIKUM AG is headed by a duly qualified physician with responsibility for the Group as a whole. This department has set itself the task, among others, of measuring the results of medical performance using defined quality indicators, interpreting the data gathered in a systematic manner and discussing these jointly with the hospitals.

The department is also responsible for monitoring hospital hygiene standards Group-wide. By means of Group-wide specifications, recommendations, guidelines and controls, quality standards are set and monitored while reducing operating risks.

In ten years' time I see RHÖN-KLINIKUM Group as one of the market leaders of integrated healthcare in Germany, and in the longer term in Europe also.

Ralf Stähler (37)
Position: Regional Director
with the Company since December/2005

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.

Uniform planning, monitoring and reporting systems for all subsidiaries as well as rights of the Group's ultimate parent company to interpose provide the basis for risk control within the Group. In this way it is ensured at all times that we can respond to risks adequately by identifying them early on.

Our Group companies regularly evaluate some 200 different risks by the potential extent and likelihood of damage. The assessments made by the individual companies are summarised in order to ascertain and assess the risk position for the Group.

We have broadened the risk catalogue for financial year 2005 to include risks to be monitored in connection with corruption of staff (receiving and granting undue advantages) as well as various operating risks in the technical, medical and nursing areas.

Focus in 2005

In financial year 2005 our attention in the area of general operating risks was turned particularly towards the risks to our hospitals from terrorist attacks as well as from plagues and epidemics (pandemia). For these risks we drew up adequate recommendations for actions and made reasonable risk provision. In the area of economic risks the main focus of interest was on rising energy prices and the trend in interest rates.

Rulings by the European Court of Justice on working times for doctors and the obligation to transpose these in Germany from 1 January 2007 will likely be followed by lower incomes for professional groups performing on-call service, as their weekly working hours will diminish significantly. In the public sector, employers will be confronted by employee (and especially doctor) representative associations with demands for higher pay they will be able to meet at best only partly given the statutory constraints on expenditure. In addition, public employers will try to raise the weekly working time to 40 hours without compensation.

We are closely watching the situation as it becomes increasingly acute, culminating in strikes. Given the flexible provisions in our in-house wage agreements and our working time models, we do not see any present or future risk of strikes at the hospitals. We have stepped up our efforts to quickly introduce in-house wage agreements in the newly consolidated hospitals. In view of the wage dispute between the trade union and the Tarifgemeinschaft der Länder (TDL, the collective bargaining union of the German federal states), the possibility of university staff, over whom we have no direct influence, going on strike and of this affecting operations at the university hospitals in Gießen and Marburg cannot be excluded.

As a legal advisor I have worked for RHÖN-KLINIKUM AG since 1992, and as a staff member since 2005. Before my time as a staff member I was a partner at a large national law firm, and before that was employed at a university and with the holding of a DAX company (energy utility). What I like about my work now is that the issues and tasks are always changing. Basically, the group of those who prepare decisions or take them is still small. My work does not have a "far-reaching" but only an indirect "immediate effect". We/I have to be really good, otherwise it would not be possible to do the work.

Dr. Christoph Heller (45)
Position: Head of Legal Controlling
with the Company since 2005

In financial year 2005 the management of the Group carefully and closely examined whether growth in future presented more opportunities or risks for the Group both in general and with respect to the scope and pace of growth. From this the management of the Group has concluded a compelling case for continuing steadfastly to pursue opportunities for qualitative growth as they arise, based on sound analysis and sufficiently backed by internal and external financing sources. We are looking for a market share of 8 to 10% in which no two Group facilities are more than 100 km apart, enabling us to take advantage of synergies from generalised healthcare delivery – this in the interests of qualified patient care and of ensuring that margins are maintained in line with our targets. In pursuing these goals we are committed to putting qualitative growth before purely quantitative growth. To cope with the current and expected further growth, the management of the Group will undergo further qualitative and quantitative expansion. The pace of growth will (not temporarily, but always) affect the Group's margins. Developments in this regard are regularly discussed and communicated.

Risk fields

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 for the most part unaffected 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 affected by developments within the German economy since healthcare spending depends to a decisive extent on contribution volumes of the insured and thus on the job 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. Coming on top of hospital requirement planning rules that we have had to observe to date are cartel law provisions as we look to further growth.

Changes in legislation can have both positive and negative effects. On the revenue side, these regulations relate to the nature and scope of the services provided and the amount of remuneration paid. The measured pace in which performance-insensitive hospital budgets are replaced by performance-oriented prices for patient treatments over a convergence phase until 2009 will present an equally measured share of risks and opportunities for revenues. With the advancing reorganisation especially of our newly acquired hospitals, prospective revenue opportunities will rise.

On the expenditure side we are indirectly affected by collective bargaining agreements concluded for the public service sector, by developments in energy prices and by the hike in the rate of value-added tax announced for 1 January 2007. 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. We respond to rising energy prices by making efficient use of resources.

We deliberately employ our market leadership to exercise an influence ahead of legislation through objective, informative and argumentative discussion. Independent of this we attach a great deal of importance to maintaining and enhancing our ability to respond to changes in the legal environment.

Our new hospital buildings allow for variable space-use concepts. The current transformation in treatment concepts towards increasing day-clinical and outpatient treatments can be organised optimally in our hospital buildings at no significantly higher costs. Since this enables us to respond to changing demand – also in the event of reduced remuneration – by adjusting our cost structures accordingly, we can also maintain our margins.

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 due to revisions in state hospital planning or where 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 also creating opportunities for our hospitals. With flexibility and investment, we are escorting these structural changes constructively while minimising our risks.

Financial market risks

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

At balance sheet date, our long-term financial debt stood at € 393.8 million, of which € 342.5 million on conditions of fixed interest rates within a range of 4.0 to 7.0%. These rates are locked in until 2012. Long-term financial debts of € 51.3 million were financed on variable market conditions until the end of 2005, with their interest-rate exposure limited by hedging from 2006.

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 for 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, stringent 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 training and higher-qualification measures for our staff ensure the highest standards of hygiene and sterility in our hospitals.

The operating safety of our hospitals is secured by keeping in readiness several independent power sources. Supply levels are graduated interruption-free, 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 has 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 promptly to uniform standards and analysed at Group level. Regular time series and interoperation comparisons of expenses, earnings, performance figures and other indicators enable us to early identify negative developments and take action, where appropriate and necessary. Monthly performance and liquidity analyses back up our published forecasts as well as our liquidity status.

From my experience gained from working in a German university hospital for five years I see considerable benefits of working with a private hospital operator in terms of innovative changes as well as in the flexibility and speed in decision-making.

Ulrich Dahmann (49)
Position: EDP/IT Coordinator
with the Company since April/2002

Overall risk assessment

Based on our analysis of the overall risk position of RHÖN-KLINIKUM Group for financial year 2005, we have concluded 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 has been a slight improvement in the overall risk position as defined by the various single risks.

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.

In financial year 2005 and together with Siemens, we pressed ahead with the technological development of a proton- and heavy-ion-based particle therapy unit slated to be installed in Marburg. We are confident we will be able to operate the unit successfully from both a technological and commercial standpoint. The potential applications of heavy ion treatments are currently being explored, but it is already clear now that for various tumorous diseases these promise to open the way to cures for what today are regarded as hopeless cases.

We have also further developed our construction concepts at the lower and upper end of the medical treatment chain. Thus, for medical care centres (MVZs) we have designed space concepts to complement the structures of teleportal hospitals and major centres. Following the takeover of the university hospitals in Gießen and Marburg, we set about envisaging how to optimise building structures to take account of the additional workscope of a university hospital while optimising patient care as well. By detaching a university hospital from its general claim to providing its patients with maximum care services and by replacing this by the treatment and/or needs-oriented structures of an MVZ, a teleportal clinic and a major centre, we can unlock reorganisation reserves that can also be put to work for research purposes.

We not only define our teaching activities as an "academic task" in the strict sense of theoretical and practical training of prospective medical professionals, but also see it as our duty 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.

Together with Siemens we have developed a web-based electronic patient file (web EPF). Unlike the EPF being propagated by the German health minister, our EPF does not store the patient's data on the file itself. Instead it merely has the function of accessing and searching the databases of all the patient's treating doctors. The system is currently being operated in a pilot phase within the Group.

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

Here are just a few examples of our R&D and teaching activities in financial year 2005:

- At **Klinikum Frankfurt (Oder) GmbH** the development of new operating methods together with new operating instruments and modified prosthesis designs has recently made possible less-invasive operations for artificial joint replacement. Not only the skin but also the tissue incisions are smaller, reducing the length of the operation and the loss of blood.
- At **Krankenhaus St. Barbara Attendorn GmbH** the orthopaedists, working together with scientists from Fraunhofer Gesellschaft Stuttgart, have been developing a procedure to grow and implant cartilage with a view to restoring mobility to joints. To do this, endogenous cells are removed from a patient and then cultivated during a laboratory phase for about 14 days.
- At **Stiftung Deutsche Klinik für Diagnostik GmbH** new resection techniques have been introduced in urology. By means of what is referred to as bipolar resection to avoid the dangerous TUR syndrome, an advance has been made with a modern, minimum-invasive and yet optimal treatment technique.
- At **Herzzentrum Leipzig GmbH** the influence of physical exercise on chronic heart weakness (cardiac insufficiency) was examined during a two-year research programme. Animal experiments demonstrated that with physical exercise it was possible to regenerate the endogenous stem cells and thus increase the damaged heart's pump function. This work won an award at the "2nd World Congress on Regenerative Medicine".

ADDENDUM 2005

On 31 January 2006 the Hesse State Government approved the sale of the university hospitals in Gießen and Marburg to RHÖN-KLINIKUM AG. Since all other conditions for validity were satisfied in January, the sale is now valid and effective. From 1 February 2006 we included Universitätsklinikum Gießen und Marburg GmbH in our consolidated accounts. The Board members and divisional directors of RHÖN-KLINIKUM AG, Gerald Meder and Manfred Wiehl, were appointed as managing directors and took up their work on 10 February 2006.

The takeover of the two university hospitals will increase our balance sheet total and our revenues by roughly 30% each. We expect positive earnings contributions from 2007. Roughly 90% of the purchase price of € 112 million is financed by debt capital. The purchase price and loan are reflected in the consolidated financial statements for 2005.

OUTLOOK FOR 2006

RHÖN-KLINIKUM AG and its subsidiaries have made a good start into financial year 2006. 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% to 20% p.a. and a market share of 8% to 10%. External growth

For an engineer there is hardly a more exciting area of work than hospital technology. The whole range of innovative medical technology including environmentally friendly and safe energy supply giving due regard to medical, hygienic and economic aspects is as varied as it is challenging.

Jörg Demmler (53)
Position: Head of Technical Controlling/Environment
with the Company since 1992

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 investment, 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 further takeover activities 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 (specialist MVZs) at our hospital sites and are stepping up efforts to establish teleportal clinics within their reach as regional health centres. 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 offering at our small- and medium-sized hospitals.

We will expand and establish the acquired university hospitals in Gießen and Marburg as the Group's flagship in medicine and science with a view to positioning ourselves as forerunners within Germany and Europe.

Economic and legal environment

For 2006 we expect a moderate upturn in the German economy, which however will not lead to any sustained relief of social budgets. We believe that in particular consumer spending will be brought forward ahead of the announced increase in VAT in 2007; recessive tendencies in 2007 cannot be ruled out.

For demographic reasons, we see the healthcare sector poised for rising demand for hospital services, but expect payers to wholly maintain their policy of reining in costs.

The statutory remuneration rules will provide for steadily improving conditions for the remuneration of additional service volumes which we intend to exploit to reduce convergence risks with individual hospitals. We therefore expect our hospitals to record internal growth in revenue in 2006 as well.

Given the experience we have already gained from the introductory phase of the case flat rate system, and despite all the imponderables, we see more opportunities than risks in the medium-to-long term from the further gradual introduction DRGs thanks to our favourable cost structures compared with the sector.

Business performance

For 2006 we expect rising profit contributions from the hospitals acquired over the past three years. Our long-standing Group members will continue to make every effort to further improve earnings at a high level. We therefore expect the Group to improve earnings in spite of operating losses at the two university hospitals in Gießen and Marburg that cannot be fully eliminated in the short term.

Not taking into account potential new acquisitions, we expect 2006 revenues to reach € 1.9 billion, and net consolidated profit of roughly € 93 million. In financial year 2006, investments – excluding new acquisitions – will be in the order of € 197 million.

Bad Neustadt a. d. Saale, 10 March 2006

The Board of Management

Andrea Aulkemeyer   Heinz Falszewski   Wolfgang Kunz   Gerald Meder

Dietmar Pawlik   Wolfgang Pföhler   Dr. Brunhilde Seidel-Kwem

Consolidated Income Statement 1 January to 31 December 2005

	Notes	31 Dec. 2005		31 Dec. 2004 [1]
		€ '000	€ '000	€ '000
Revenues	6.1	1,415,788		1,044,753
Other operating income	6.2	46,739		29,336
			1,462,527	1,074,089
Material and consumables used	6.3	343,611		252,418
Employee benefits expense	6.4	793,593		546,560
Depreciation/amortisation and impairment	6.5	66,825		57,052
Other operating expenses	6.6	118,427		94,279
Operating earnings			**140,071**	**123,780**
Finance income		3,041		1,800
Finance expenditure		19,580		13,658
Financial result (net)	6.8		– 16,539	– 11,858
Earnings before tax			**123,532**	**111,922**
Income taxes	6.9	35,232		31,722
Net consolidated profit			**88,300**	**80,200**
of which attributable to minority owners	6.10	4,620		3,796
of which attributable to the shareholders of RHÖN-KLINIKUM AG			83,680	76,404
Earnings per ordinary share in euros (diluted/undiluted)	6.11		1.61	1.47

[1] *Pre-year value adjusted.*

Consolidated Balance Sheet 31 December 2005

ASSETS	Notes	31 Dec. 2005		31 Dec. 2004[1]
		€ '000	€ '000	€ '000
Non-current assets				
Goodwill and other intangible assets	7.1	88,975		49,014
Property, plant and equipment	7.2	973,516		790,105
Investment property	10.3.2	4,503		4,669
Other financial assets	7.3	2,660		2,647
			1,069,654	**846,435**
Current assets				
Inventories	7	27,816		19,681
Accounts receivable, other Receivables and other financial assets	7.5	257,677		209,786
Current income tax claims	7.6	12,727		11,222
Cash and cash equivalents	7.7		254,344	68,495
			552,564	**309,184**
			1,622,218	**1,155,619**

[1] *Pre-year values adjusted to classification by maturity in accordance with IAS 1 (revised).*

EQUITY AND LIABILITIES	Notes	31 Dec. 2005		31 Dec. 2004[1]
		€ '000	€ '000	€ '000
Equity	**7.8**			
Subscribed capital		51,840		25,920
Capital reserve		37,582		37,582
Other reserves		436,194		406,095
Net consolidated profit attributable to shareholders of RHÖN-KLINIKUM AG		83,680		76,404
Treasury shares		– 77		– 77
Equiity attributable to shareholders of RHÖN-KLINIKUM AG			609,219	545,924
Outside owners' minority interests in Group equity		32,313		22,787
			641,532	**568,711**
Long-term debt				
Financial debt	7.9	371,984		238,764
Deferred tax liabilities	7.1	18,178		24,430
Provisions for post-employment benefits	7.11	12,942		11,121
Other provisions	7.12	6,121		6,246
Accounts payable	7.13	6		153
Other liabilities	7.14	6,297		1,065
			415,528	**281,779**
Short-term debt				
Accounts payable	7.13	79,269		48,527
Current income tax liabilities	7.15	10,182		10,158
Financial debt	7.9	184,478		53,311
Other provisions	7.12	6,291		1,953
Other liabilities	7.14	284,938		191,180
			565,158	**305,129**
			1,622,218	**1,155,619**

[1] *Pre-year values adjusted to classification by maturity in accordance with IAS 1 (revised).*

Consolidated Statement of Changes in Shareholders' Equity

	Subcribed Capital								
	Ordinary	Prefer-ence	Capital reserve	Other reserves	Net consolidated profit attributable to shareholders of RHÖN-KLINIKUM AG	Treasury shares	Equity attributable to shareholders of RHÖN-KLINIKUM AG	Outside owners' minority interests in Group equity	Equity
	€ '000	**€ '000**	**€ '000**	**€ '000**	**€ '000**	**€ '000**	**€ '000**	**€ '000**	**€ '000**
Balance at 1 Jan. 2004	**17,280**	**8,640**	**37,582**	**350,757**	**73,132**	**– 83**	**487,308**	**20,886**	**508,194**
Net consolidated profit					76,404		76,404	3,796	80,200
Dividends paid					– 17,794		– 17,794	– 2,000	– 19,794
Allocation to reserves				55,338	– 55,338		0		0
Capital contribution							0		0
Change in scope of consolidation							0	105	105
Other changes						6	6		6
Balance at 31 Dec. 2004/ 1 Jan. 2005	**17,280**	**8,640**	**37,582**	**406,095**	**76,404**	**– 77**	**545,924**	**22,787**	**568,711**
Net consolidated profit					83,680		83,680	4,620	88,300
Dividends paid					– 20,385		– 20,385	– 2,750	– 23,135
Allocation to reserves				56,019	– 56,019		0		0
Capital increase/conversion of preference shares	34,560	– 8,640		– 25,920			0		0
Change in scope of consolidation							0	7,656	7,656
Balance at 31 Dec. 2005	**51,840**	**0**	**37,582**	**436,194**	**83,680**	**– 77**	**609,219**	**32,313**	**641,532**

Consolidated Cash Flow Statement

	Notes	31 Dec. 2005		31 Dec. 2004[1]
		€ million	**€ million**	**€ million**
Earnings before taxes		123.5		111.9
Financial result (net)	6.8	16.5		11.9
Depreciation and losses on disposal of assets	6.5	67.3		57.6
			207.3	**181.4**
Change in net current assets				
Change in inventories	7.4	– 0.8		– 0.9
Change in accounts receivable	7.5	– 2.9		15.5
Change in other receivables	7.5	4.5		– 3.0
Change in liabilities (excluding financial debts)	7.13	– 8.3		– 15.1
Change in provisions	7.12	3.1		1.1
Income taxes paid	6.9	– 36.2		– 33.0
Interest paid		– 19.6		– 13.7
Cash generated from operating activities			**147.1**	**132.3**
Investments in property, plant and equipment and in intangible assets	7.2	– 110.8		– 62.2
Acquisition of subsidiaries, net of cash acquired	4	– 64.6		– 28.5
Sale of interests in subsidiaries		1.7		0.0
Sale proceeds from disposal of assets		0.3		1.8
Interest received		3.1		1.8
Net cash used in investing activities			**– 170.3**	**– 87.1**
Payments on issuance of a bond	7.9	110.0		0.0
Payments on contracting of long-term financial debts	7.9	45.0		81.0
Repayment of financial debts	7.9	– 61.6		– 36.3
Deposits from minorities		11.7		0.0
Dividend payments to shareholders of RHÖN-KLINIKUM AG	7.8	– 20.4		– 17.8
Dividends paid to minority owners	7.8	– 2.7		– 2.0
Cash generated from financing activities			**82.0**	**24.9**
Change in cash and cash equivalents	7.7	58.8		70.1
Cash and cash equivalents at beginning of year		33.9		– 36.2
Cash and cash equivalents at end of year			**92.7**	**33.9**

[1] *Pre-year values adjusted.*

Notes to the Consolidated Financial Statement

CONTENTS

1 GENERAL INFORMATION

RHÖN-KLINIKUM AG and its subsidiaries build, acquire and operate primarily acute-care hospitals of all categories. We provide our services exclusively in Germany.

These hospital services are provided in a statutorily regulated market which is subject to strong political influences.

The Company has been listed on the stock market (MDAX®) since 1989. The registered office of the Company is in Bad Neustadt a. d. Saale, Salzburger Leite 1, Germany.

2 ACCOUNTING AND VALUATION METHODS

The consolidated financial statements have been prepared on the basis of uniform accounting and valuation principles.

2.1 Basic principles of the consolidated financial statements

The consolidated financial statements of RHÖN-KLINIKUM AG (also referred to as “the Group”) for the year ended 31 December 2005 have been prepared applying Section 315a German Commercial Code (Handelsgesetzbuch, HGB) in accordance with the rules, effective at the reporting date, of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and will be approved by the Supervisory Board for publication on 25 April 2006. Preparation of the consolidated financial statements was effected on the basis of historical cost qualified by the financial assets and financial liabilities (incl. financial derivatives) recognised at fair value through profit or loss.

Preparing consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made. Moreover, the application of Group-wide accounting and valuation principles means that the Management has to exercise its reasonable judgment. Areas that call for a greater degree of judgment to be exercised or that are characterised by higher degree of complexity, or areas for which assumptions and estimates are of decisive importance for the consolidated financial statements, are set out and explained.

In financial year 2005 the Group applied the following rules for the first time on the effective dates of their adoption:

- IAS 1 (revised 2003) “Presentation of Financial Statements”
- IAS 2 (revised 2003) “Inventories”
- IAS 8 (revised 2003) “Accounting Policies, Changes in Accounting Estimates and Errors”
- IAS 10 (revised 2003) “Events after the Balance Sheet Date”
- IAS 16 (revised 2003) “Property, Plant and Equipment”
- IAS 17 (revised 2003) “Leases”
- IAS 21 (revised 2003) “The Effects of Changes in Foreign Exchange Rates”
- IAS 24 (revised 2003) “Related Party Disclosures”
- IAS 32 (revised 2004) “Financial Instruments: Disclosure and Presentation”
- IAS 33 (revised 2003) “Earnings per Share”
- IAS 39 (revised 2004) “Financial Instruments: Recognition and Measurement”
- IFRS 2 “Share-based Payment”
- IFRS 4 “Insurance contracts”

- IFRS 5 “Non-current assets held for sale and discontinued operations”
- IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”
- IFRIC 2 “Members’ Shares in Co-operative Entities and Similar Instruments”

The first-time application of these Standards and Interpretations had the following effects on the consolidated financial statements:

- Based on IAS 1, the classification of assets and liabilities was changed to a presentation by maturity; the previous year’s data were adjusted. Minority interests are now reflected in equity. In addition, a number of other accounting duties were influenced.
- Based on the revised IAS 8, any material errors and changes in accounting principles in future will be treated retrospectively.
- IAS 2, 10, 16, 17, 21, 27, 28, 33 as well as IAS 32 and 39 did not have any material influence on the Group’s accounting policies. This is also the case for the first-time application of IFRIC 1 and IFRIC 2.
- The Group is generally not concerned by IFRS 2 and currently not concerned by IFRS 5.

As of 1 January 2005, goodwill acquired before 1 April 2004 is no longer amortised. Instead, it is tested for impairment annually according to IFRS 3 in conjunction with IAS 36. The cumulative amortisation expenses have been set off with the earlier historical costs with effect to 1 January 2005.

All Standards adopted by the Group require retroactive application with the exception of the special areas of IAS 16, IAS 21, IAS 39, IFRS 2.

The following already published Standards and Interpretations will be applied on their respective effective dates in financial years 2006 and 2007:

- IFRS 6 “Exploration for and Evaluation of Mineral Resources”
- IFRS 7 “Financial Instruments: Disclosures”
- IFRIC 4 “Determining whether an Arrangement contains a Lease”
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”
- IFRIC 6 “Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”

IFRS 6, IFRIC 5 and IFRIC 6 do not result in any effects given their non-relevance for RHÖN-KLINIKUM AG. The extent to which changes in existing accounting policies are required as a result of IFRIC 4 is currently being examined. Moreover, the effects of IFRS 7 on the nature and scope of disclosures relating to financial instruments is also being reviewed.

2.2 Consolidation

Subsidiaries are all companies (including special-purpose companies) in which the Group exercises control over finance and business policy; this is normally accompanied by a share of more than 50.0% in the voting rights. When assessing whether the Group exercises control, the existence and impact of potential voting rights that are currently exercisable or convertible are considered.

Subsidiaries are included in the consolidated financial statements (full consolidation) from the date that the Group obtains control and are deconsolidated when the control ends. Acquired subsidiaries are accounted for using the purchase method. The cost of the acquisition is measured as the fair value, at the transaction date (date of exchange), of assets given, equity instruments issued, and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Assets, liabilities and contingent liabilities identifiable within the scope of a business combination are recognised separately at their fair values at the acquisition date, regardless of the scope of minority interests. Any excess in the cost of the acquisition over the Group's interest in the fair value of the net assets is recognised as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the consolidated income statement.

Group-internal transactions, balances and unrealised gains from transactions between Group companies are eliminated, but can provide indications of potential impairments. Unrealised losses are also eliminated unless the transaction indicates an impairment on the asset transferred. To the extent necessary, the accounting and valuation principles of subsidiaries were amended to ensure application of uniform accounting principles within the Group.

Participating interests of between 20.0% and 50.0% that do not have a material impact on the Group's asset and earnings position, either individually or on aggregate, are not consolidated using the equity method but are included in the consolidated financial statements at the lower of cost or fair value.

2.3 Segment information

A business segment is a group of assets and business activities that is engaged in providing products or services and that is subject to risks and returns that are different from those of other business areas. A geographical segment is one that provides products or services within a particular economic environment and that is subject to risks and returns different from those of other economic environments.

2.4 Goodwill and other intangible assets

2.4.1 Goodwill

Goodwill is the excess of the cost of the company acquisition over the Group's interest in the fair value of the net assets of the acquired company at the acquisition date. Goodwill arising on acquisitions is attributed to intangible assets. Goodwill is subjected to an impairment test at least once a year and measured at its historical cost less any impairment losses. Write-back amounts are excluded. Profits and losses arising on the sale of a company include the carrying amount of the goodwill attributed to the company sold.

For the purpose of the impairment test, goodwill is allocated to cash generating units. At RHÖN-KLINIKUM AG these correspond to the individual hospitals.

2.4.2 Computer software

Acquired computer software licenses are recognised at the cost of production plus the costs of bringing them to a ready-for-use condition. These costs are amortised over the estimated useful life (3 to 7 years).

Costs relating to the development or maintenance of computer software are expensed as incurred.

2.4.3 Other intangible assets

Other intangible assets are stated at historic cost and – to the extent depletable – amortised over their respective useful lives (3-15 years) using the straight-line method.

2.4.4 Research and development costs

Research costs are recognised as current expenditure in accordance with IAS 38. Development costs are capitalised if the criteria of IAS 38 are satisfied. There are no development costs that meet the criteria for capitalisation.

2.4.5 Government grants

Government grants are recognised at fair value if it can be assumed with reasonable assurance that the grant will be received and that the Group has satisfied the necessary conditions for this. Government grants for investments are deducted from cost to arrive at the carrying amount for the assets to which they relate. They are written back in the income statement using the straight-line method over the expected useful life of the related assets. Such grants are received within the framework of investment finance legislation for hospitals.

Government grants received for current business expenses are recognised over the respective periods necessary to match them with the related costs which they are intended to compensate. Government grants are generally given with conditions attached that must be observed within a certain period. Grants promised by government entities in connection with the acquisition of hospitals are also accounted for as described above.

Grants not yet used for their intended purpose are stated separately under "Other liabilities" at the balance sheet date.

2.5 Property, plant and equipment

Land and buildings are stated under "Property, plant and equipment" and mainly comprise hospital buildings. In the same way as the other items of property, plant and equipment, they are measured at cost less any depreciation. Costs include the expenditure directly attributable to the acquisition as well as the overheads attributable to the costs.

Subsequent costs are recognised as being attributable to an costs of the asset or – where applicable – as a separate asset only if it is probable that future economic benefits associated with the asset will accrue to the Group and if the cost of the asset can be measured reliably. All other repair and maintenance work is recognised as expenditure in the income statement in the financial year in which they are incurred.

Land is not depreciated. All other assets are depreciated using the straight-line method, with costs being depreciated over the expected useful life of the assets as follows:

Buildings	33 1/3 years
Machinery and equipment	5 to 15 years
Other plant and equipment	3 to 12 years

The residual carrying amounts and useful economic lives are reviewed at each balance sheet date and adjusted where applicable.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately depreciated to such amount.

Profits and losses on disposal of assets are measured as the difference between the disposal income and the carrying amount and recognised through profit or loss. If revalued assets are sold, the corresponding amounts are transferred from the market valuation reserve to retained earnings.

2.6 Impairment of assets

Assets subject to depreciation or amortisation are tested for impairment if relevant events and/or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised in the amount exceeding the recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell it and its value in use. For the impairment test, the lowest aggregation of assets is determined for which separate cash flows can be identified (cash generating units). Non-financial assets (other than goodwill) for which an impairment loss was recognised are examined in the following years to determine whether a reversal of the impairment loss is required.

2.7 Financial assets and investment property

Financial assets are comprised of the receivables, equity instruments, financial derivatives with positive fair values, and cash.

These financial assets are divided into the following categories:

- a financial asset or financial liability at fair value through profit or loss,
- loans and receivables, held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the respective financial assets were acquired. The Management determines the classification of financial assets when they are recognised initially, reviewing this classification thereafter at each balance sheet date.

At the balance sheet date, the Group had neither available-for-sale financial assets nor held-to-maturity investments.

All purchases and sales of financial assets are recognised at the settlement date, i.e. the date when the purchase or, as the case may be, the sale is transacted.

Financial assets not classified as at fair value through profit or loss are initially measured at fair value plus transaction costs.

Financial assets recognised at fair value through profit or loss are recognised at fair value at the date of acquisition; transaction costs are recognised as expenditure.

Financial assets are derecognised if the rights to payments from the investment expire or have been transferred and the Group has substantially transferred all the risks and rewards of ownership of the financial asset. After initial recognition, available-for-sale financial assets and assets at fair value through profit or loss are measured at their fair values. Loans and receivables as well as held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from fluctuations in the fair value of financial assets classified as at fair value through profit or loss, including dividends and interest payments, are carried in the income statement under finance expenditure and income in the period in which they arise.

If no active market exists for financial assets or if these are assets that are not quoted, the fair values are calculated using suitable valuation methods. These include references to recently concluded transactions between independent business partners, the use of current market prices of other assets that are substantially similar to the asset under consideration, discounted cash flow methods, as well as option price models which make use as far as possible of market data and as little as possible of individual company data. At each balance sheet date it is reviewed whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

2.7.1 Assets at fair value through profit or loss

This category is divided into two sub-categories: financial assets which from the outset were classified as “held for trading”, and those which from the outset were classified as “at fair value through profit or loss”. A financial asset is assigned to this category if it was acquired principally for the purpose of selling it in the near term, or has been designated accordingly by the Management.

Also deemed to be financial instruments held for trading as defined in IAS 39 are certain hedging instruments which, though used by RHÖN-KLINIKUM AG for interest-rate hedging based on business management criteria, do not satisfy the strict criteria of IAS 39 for hedge accounting. These are derivative financial instruments such as interest-rate caps and options. Derivatives also belong to this category provided they do not qualify as hedging instruments. Assets of this category are stated as current assets if they are either held for trading or are likely to be realised within 12 months of the balance sheet date.

2.7.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are deemed to be current assets provided their maturity does not exceed 12 months from the balance sheet date. Otherwise they are stated as non-current assets. Loans and receivables are reflected on the balance sheet under “Accounts receivable” and “Other receivables”.

2.7.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either explicitly assigned to this category or could not be assigned to any of the other categories described. They are assigned to non-current assets provided that the Management does not have the intention of selling them within 12 months from the balance sheet date.

2.7.4 Investment property

If we retain economic ownership in leased assets as lessor (operating leases), these assets are identified as such and stated separately in the balance sheet. Leased assets are recognised at cost and depreciated in accordance with the accounting principles for property, plant and equipment. Lease income is recognised on a straight-line basis over the term of the lease.

2.8 Inventories

Inventories at RHÖN-KLINIKUM AG are materials and supplies. These are measured at the lower of cost (including ancillary costs) and net realisable value. Cost of inventories is determined by the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2.9 Accounts receivable

Accounts receivable are initially stated at fair value and subsequently measured at amortised cost using the effective interest method as well as deducting any impairments. An impairment of accounts receivable is recognised when there is objective evidence that the receivable amounts owed are not fully collectible. The amount of the impairment is recognised in profit or loss under the item “Other expenditure”. Significant financial difficulty of a debtor, the probability that a debtor will enter insolvency, become bankrupt or be liquidated can be indicators of the impairment of accounts receivable. The depreciation charge of the impairment is measured by the difference between the current carrying amount of a receivable and the expected cash flows of the receivable discounted at the effective interest rate.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term, highly liquid financial assets with original maturities of up to three months. Utilised bank overdrafts are shown on the balance sheet as liabilities to banks under the item “Short-term financial debts”.

2.11 Equity

Ordinary shares are classified as equity. Costs that are directly attributable to the issuance of new shares are reflected in equity (net of tax) as a deduction from the issuance proceeds.

If a company belonging to the Group acquires treasury shares of RHÖN-KLINIKUM AG, the value of the consideration paid including directly attributable additional costs (net of tax) is deducted from the equity capital to which the shareholders of the company are entitled until the shares are either redeemed, re-issued or re-sold. If such shares are subsequently re-issued or re-sold, the consideration received, net of directly attributable additional transaction costs and related income tax, is recognised in the equity to which the shareholders of RHÖN-KLINIKUM AG are entitled.

2.12 Financial liabilities

Financial liabilities are comprised of liabilities and the negative fair values of financial derivatives. Liabilities are measured at their amortised cost. For current liabilities this means that they are recognised at their repayment or settlement amount.

Non-current liabilities as well as financial debts, after initial recognition, are stated at fair value after deduction of transaction costs. In the ensuing periods they are measured at amortised cost; every difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is recognised over the term of the lending in the income statement under the financial result using the effective interest method. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time no earlier than 12 months from the balance sheet date.

2.13 Deferred tax

Deferred tax is recognised using the liability method for all temporary differences between taxable carrying amounts of the assets and liabilities and the respective IFRS consolidated carrying amounts. If, however, in a transaction which is not a business combination, a deferred tax liability arises from the initial recognition of an asset or liability which at the time of the transaction affects neither accounting nor taxable profit or loss, no deferred tax liability is recognised. Deferred taxes are measured at the tax rates (and tax laws) that apply or have been substantively enacted on the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred taxes have been calculated using a corporation tax rate of 25.0% (plus the 5.5% solidarity surcharge on corporation tax).

Deferred tax assets are recognised to the extent it is probable that they will result in a tax benefit when offset against taxable profits.

Deferred tax liabilities in connection with temporary differences arising from participating interests in subsidiaries are as a rule recognised unless the time of the reversal of the temporary differences can be controlled by the Group and a reversal of the temporary differences is not probable in the foreseeable future.

2.14 Employee benefits

2.14.1 Pension obligations

Various pension plans exist within the Group. These plans are financed by payments to insurance companies or pension funds or through the formation of provisions (direct commitments) whose amount as a rule is based on actuarial calculations. The Group has both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (insurance company or pension fund). The Group does not have any legal or constructive obligation to pay further contributions if this entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that does not fall under the definition of a defined contribution plan. It typically stipulates the amount of pension benefits that an employee will receive on retirement which is usually dependent on one or several factors such as age, length of service and salary.

The provision stated in the balance sheet for defined benefit plans is equal to the present value of the defined benefit obligation (DBO) at the balance sheet date, adjusted for cumulative unrecognised actuarial gains and losses and unrecognised past service cost not yet recognised.

The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is calculated by discounting the expected future cash outflows with the interest rate of high quality corporate bonds which are issued in the currency in which the benefits are also paid and whose terms are consistent with those of the pension obligation.

Actuarial gains and losses based on experience adjustments and changes in actuarial assumptions are recognised in profit or loss if the net amount from both of these exceeds the greater of 10.0% of the DBO and of any existing plan assets (corridor method). The amount thus calculated is recognised over the expected remaining working lives of the employees.

Past service cost is recognised immediately in profit or loss unless changes to the pension plan depend on the employee remaining in the company for a fixed period (period until vesting). In this case the past service cost is recognised in profit or loss on a straight-line basis over the period until vesting.

For defined contribution plans the Group pays contributions to state or private pension insurance plans based on statutory or contractual obligations. The Group has no further payment obligations other than the payment of the contributions. The contributions recognised in personnel expenditure when due.

On the basis of collective agreement provisions the Group pays contributions on a pay-as-you-go basis to the Federal and State Pension Scheme (VBL) and other pubic service pension schemes (ZVK) for a certain number of employees. Both of these are essentially variants of pay-as-you-go plans. Given the numerous VBL and ZVK member companies, these pension schemes must be regarded as multi-employer pension plans subject to the special rules of IAS 19. According to IAS 19 the VBL/ZVK schemes are to be qualified as defined benefit plans since the employees are legally entitled to the benefits as defined in the statutes, irrespective of the contributions actually paid. For this reason the employees generally have a claim against the VBL/ZVK and not the company, although a subsidiary obligation can exist in some circumstances. Provisions for this are to be formed if the assets of such insurance funds are not sufficient to cover the obligations and a state guarantee does not apply. A possible gap in coverage can only be measured and calculated based on the cash assets allocable to the beneficiaries of the plans. Since no information in this regard could be obtained from the organisations concerned, we recognised these plans as defined contribution plans.

Current contributions to the VBL/ZVK as well as employer contributions to statutory pension insurance are reflected as expenses for post-employment benefits in the operating result.

Provided that membership in VBL and ZKV is continued, there are no other obligations for RHÖN-KLINIKUM companies besides paying in regular contributions.

2.14.2 Termination benefits

Termination benefits are paid if an employee is made redundant before the normal retirement date or accepts voluntary redundancy in return for severance compensation. The Group recognises severance compensation payments if it is demonstrably committed to terminate the employment of current employees subject to a detailed formal plan which cannot be rescinded, or is demonstrably committed to pay severance compensation if employees accept voluntary redundancy. Termination benefits which fall due more than 12 months after the balance sheet date are discounted to their present value.

2.14.3 Tantiems and profit-sharing bonuses

Tantiems and profit-sharing bonuses are recognised as liabilities using a valuation method oriented on the consolidated result or the results of the consolidated subsidiaries. The Group recognises a liability in the cases in which a contractual obligation exists or a constructive obligation arises from a past practice.

2.14.4 Provisions

Provisions for restructuring and legal obligations are recognised when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the value of the outflow of resources can be reliably determined. Restructuring provisions essentially include the costs of early termination of employment contracts with employees. In particular, no provisions are formed for future operating losses.

Where there are a number of similar obligations, the probability of an outflow of resources being required for settlement is assessed based on an aggregate view of such similar obligations. A provision is also formed if the likelihood of outflow for any one of such obligations is deemed to be small.

Provisions are measured as the present value of the expenditure expected to be required to settle the obligation applying a pre-tax rate as discounting rate reflecting current market assessments of the time value of money and the risks specific to the liability. Increases in the value of provisions based on interest effects reflecting the passage of time are stated in the income statement as interest expenditure.

2.14.5 Realisation of revenue

Revenue is recognised at the fair value of the consideration received for the provision of services. Revenue from intragroup sales and services is eliminated by way of consolidation. Revenue is realised as follows:

2.14.5.1 Inpatient and outpatient hospital services

Hospital services are recognised by reference to the stage of performance based on the proportion of the services rendered to aggregate services rendered in the financial year in which the services are performed. Consideration agreed with the payers is essentially invoiced at flat remuneration rates depending on duration of stay (in particular diagnosis related groups). In certain segments daily nursing rates are invoiced.

Hospital services are capped under an agreed budget during the convergence phase (gradual transition until 2009 from hospital-specific base rates to uniform base rates at the federal state level). As a result, service volumes exceeding the budget and service volumes falling short of the budget are offset by statutory provisions.

2.14.5.2 Interest revenue

Interest revenue is recognised pro rata temporis using the effective interest method. If a receivable is impaired, an impairment provision is effected to the recoverable amount. The recoverable amount is measured on the basis of the expected payments discounted using the original effective interest rate. The discounting amount is based on the calculation of the interest revenues by ongoing application of the original effective interest rate.

2.14.5.3 Dividend revenue

Dividend revenue is recognised when the right to receive payment is established.

2.14.6 Rental and lease agreements

Rental and lease agreements within the meaning of IAS 17 (Leases) are classified as operating leases if substantially all the risks and rewards incidental to ownership remain with the lessor. Payments made in connection with an operating lease are recognised on a straight-line basis over the term of the lease in the income statement.

2.14.7 Borrowing costs

Borrowing costs are recognised as current expenditure.

2.14.8 Dividend payments

Shareholders' claims to dividend payments are recognised as a liability in the period in which the corresponding resolution is adopted.

2.15 Financial risk management

2.15.1 Financial risk factors

Given its field of activity, the Group is exposed to various financial risks:

- the market risk,
- the credit risk,
- the liquidity risk, and
- the cash-flow interest rate risk

The Group's comprehensive risk management focuses on the unpredictable nature of developments on the financial markets and aims at minimising the potentially adverse impacts on the Group's financial position. To a very limited extent the Group avails itself of derivative financial instruments to hedge against the cash-flow interest rate risk. Contracts on derivative financial instruments and financial transactions are only concluded with credit institutions of the highest credit standing. Risk management is conducted by the CFO in line with the guidelines adopted by the Board of Management and the Supervisory Board. He identifies, measures and secures financial risks in close co-operation with the operative units of the Group. The CFO defines both the principles for interdivisional risk management and the guidelines for certain areas such as the management of interest and credit risks, the use of derivative and non-derivative financial instruments as well as the investment of liquidity surpluses.

2.15.2 Market risk

2.15.2.1 Foreign currency risk

The Group has no foreign currency risks since all transactions in the Group are effected in euros as the functional currency.

2.15.2.2 Price risks

The Group is not exposed to the risk of fluctuations in prices since no interests held by the Group were classified either as "available for sale" or as "at fair value through profit or loss".

2.15.3 Credit risk

The Group provides over 90.0% of its services for members of the statutory social insurance entities and self-paying persons insured with private health insurance companies. There are no significant concentrations with respect to individual payers. The hospital services of our companies as a rule are settled by payers within the legally prescribed period.

2.15.4 Liquidity risk

Careful liquidity management includes holding a sufficient reserve of liquid funds, having the possibility of obtaining finance for an adequate amount under agreed credit lines, and being able to raise liquidity from market issuances. Given the dynamic nature of the business environment in which the Group operates, the objective of the Group's CFO is to maintain the necessary flexibility in finance matters by having sufficient credit lines available and access to the capital markets at all times.

2.15.5 Cash-flow and fair-value interest rate risk

Since the Group, with the exception of balances on current account with banks, does not have any interest-bearing assets, the net consolidated profit and the operating cash flow are very largely independent of changes in the market interest rate. The Group's interest rate risk arises from non-current interest-linked liabilities. Floating-rate liabilities expose the Group to a cash-flow interest rate risk. Fixed-rate liabilities result in a fair-value interest rate risk.

3 CRITICAL ESTIMATES AND ASSESSMENTS IN ACCOUNTING AND VALUATION

All estimates and assessments are subject to ongoing review and are based on historical experience and other factors, including expectations with respect to future events which appear reasonable under the given circumstances.

The Group makes assessments and assumptions relating to the future. The estimates derived from these of course only rarely reflect actual future circumstances. These uncertainties in particular concern:

- The planning parameters taken as a basis of the impairment test for goodwill
- Assumptions made in determining pension obligations
- Assumptions and probabilities for determining provision requirements
- Assumptions relating to the credit risk of accounts receivable

The estimates and assumptions that entail a significant risk of a substantial adjustment in carrying amounts of assets and liabilities during the next financial year are discussed in the following. Reference is also made to the explanations on pension liabilities (Note 2.14.1), accounts receivable (Note 2.9) and provisions (Note 2.14.4).

3.1 Estimated impairment of goodwill

To determine goodwill at fair value less cost of sale, the operating cash flows of the individual hospitals were discounted at the weighted average cost of capital (WACC) after tax of 6.0%. Based on this calculation no impairment requirement was ascertained. With the cash flow from the hospitals, according to the values on the date of measurement, the Group is also able to operate free from losses based on an assumed alternative investment of 8.5%. The development of goodwill at the newly acquired hospitals is influenced to a substantial extent by how quickly we succeed in optimising work procedures in order to significantly reduce personnel expenditure. For the perpetuity, a growth rate of 0.5% p.a. for all hospitals is taken as the basis.

3.2 Revenue realisation

The hospitals of RHÖN-KLINIKUM AG, like all other hospitals in Germany, are subject to the statutory regulations on remuneration.

In order to create planning and revenue certainty, these regulations normally provide for prospective remuneration agreements. In practice, however, these negotiations take place only in the course of the financial year or even thereafter, creating uncertainties as to the remunerated service volume at the balance sheet date. These are reflected in the balance sheet through objective estimates either as claims or liabilities. Past experience has shown that the inaccuracies relating to the estimates represent well under 1.0% of our revenues.

The Group generates over 90.0% of its revenue from the statutory health insurance funds. As a general rule, the budgets for the individual hospitals are defined together with the statutory health insurance funds at the beginning of each year. The agreed volumes and the aggregate budget results in the individual hospital base rate that serves as a basis for calculating the prices of DRGs. DRGs are valued nationally on a uniform basis through the DRG catalogue. The valuation ratios are reviewed and adjusted each year by the InEK (Institut für das Entgeltsystem im Krankenhaus gGmbH).

If service volumes exceed or fall short of the agreed aggregate budget, only the variable costs additionally incurred or additionally saved are remunerated or deducted for the surplus or shortfall service volumes, respectively. Up to the preparation of the consolidated balance sheet, remuneration agreements existed in almost all hospitals, making it possible to precisely calculate any compensations of excess or shortfall volumes. In hospitals in which no budget agreements had yet been concluded, we adhered strictly to the legal framework conditions in our accounting. We assume that the agreements for 2005 will not have any negative impact on the result in 2006.

3.3 Income taxes

For the formation of tax provisions as well as deferred tax items, estimates are required.

For determining the valuableness of deferred tax it is decisive to assess the likelihood of the reversal of the valuation differences and the usability of the tax loss carry forwards that led to the recognition of deferred tax assets. This depends on the generation of future taxable profits during the periods in which tax valuation differences reverse and tax loss carry-forwards can be utilised. Uncertainties exist with regard to the interpretation of complex tax regulations and the amount and timing of future taxable income that result in changes in the tax result in future periods. The Group forms adequate provisions for the possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience from past tax audits and differing interpretations of substantive tax law by the taxable entity and the competent tax authorities on specific issues.

4 COMPANY ACQUISITIONS

The Group's ultimate parent company is RHÖN-KLINIKUM Aktiengesellschaft headquartered in Bad Neustadt a. d. Saale. Apart from RHÖN-KLINIKUM AG as the ultimate parent company, the scope of consolidation comprises 60 domestic subsidiaries.

During the financial under review year seven business combinations were effected, five as asset deals and two as share deals:

Hospitals	Hospital sites	Number of beds	Interest acquired in %
Amper Kliniken	2	563	74.9
Kliniken München Pasing und Perlach	2	622	100.0
Klinikum Hildesheim GmbH	1	717	100.0
Kreiskrankenhaus Gifhorn	1	355	96.0
Städtisches Krankenhaus Wittingen	1	71	96.0
Kliniken Miltenberg-Erlenbach	2	396	100.0
Klinikum Salzgitter GmbH	2	464	94.9

Acquisitions of various hospitals gave rise to obligations to set up social hardship funds after the employee representatives of the acquired hospitals accepted to conclude certain collective agreements. In connection with similar transactions in the past, social funds were set up in the amount stipulated in the purchase agreement so that a 95.0% probability of claims being asserted under this obligation was assumed. The expected value of the obligation amount was not discounted given the short time interval from the acquisition date.

			Cost			Earnings share since inclusion in consolidated statements	
	Date of acquisition	Interest acquired	Purchase price	Ancillary costs	Total	Revenue	Earnings
		%	€ million	€ million	€ million	€ million	€ million
Amper Kliniken	1 February 2005	74.9	31.9	0.2	32.1	59.1	2.5
Kliniken München Pasing und Perlach	1 January 2005	100.0	27.7	0.2	27.9	62.7	– 0.4
Klinikum Hildesheim GmbH	1 January 2005	100.0	7.8	1.3	9.1	74.8	– 0.4
Kreiskrankenhaus Gifhorn	1 February 2005	96.0	18.7	0.3	19.0	44.1	1.4
Städtisches Krankenhaus Wittingen	1 February 2005	96.0	1.9	0.0	1.9	5.8	– 0.5
Kliniken Miltenberg-Erlenbach	1 June 2005	100.0	7.9	0.3	8.2	20.2	0.2
Klinikum Salzgitter GmbH	1 February 2005	94.9	11.5	0.3	11.8	50.8	0.1
Total for first-time consolidated acquisitions in 2005			**107.4**	**2.6**	**110.0**	**317.5**	**2.9**

In the past fiscal year we founded five shelf companies. Moreover, we merged three already consolidated companies with other companies.

In December 2005 we acquired the remaining shares (25.27%) of Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH at a purchase price of € 8.5 million and now hold an interest of 100.0%. We sold 5.1% of our interest in Klinikum Pforzheim GmbH at a price of € 1.7 million. The purchase of the remaining minority interests in Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH led to a difference of € 0.5 million which was recognised as additional goodwill.

Amper Kliniken	**Carrying amount before acquisition**	**Adjustment amount**	**Carrying amount after acquisition**
	€ million	**€ million**	**€ million**
Acquired assets and liabilities			
Intangible assets	0.2		0.2
Property, plant and equipment	38.1	14.6	52.7
Accounts receivable	7.7		7.7
Cash and cash equivalents	5.2		5.2
Other assets	8.5		8.5
Financial debt	– 30.4		– 30.4
Accounts payable	– 7.0		– 7.0
Provisions	– 0.3		– 0.3
Other liabilities	– 9.1		– 9.1
Net assets acquired			**27.5**
+ goodwill			4.6
Cost			**32.1**
./. purchase price payments outstanding			– 5.1
./. acquired cash and cash equivalents			– 5.2
Cash outflow on transaction			**21.8**

The inclusion of these acquisitions impacted the asset position as follows:

Kliniken München Pasing und Perlach	**Carrying amount before acquisition**	**Adjustment amount**	**Carrying amount after acquisition**
	€ million	**€ million**	**€ million**
Acquired assets and liabilities			
Intangible assets	0.2		0.2
Property, plant and equipment	25.2	5.7	30.9
Accounts receivable	6.3		6.3
Cash and cash equivalents	– 11.6		– 11.6
Other assets	27.1		27.1
Financial debt	0.0		0.0
Accounts payable	– 6.1		– 6.1
Provisions	0.0		0.0
Other liabilities	– 23.4		– 23.4
Net assets acquired			**23.4**
+ goodwill			4.5
Cost			**27.9**
./. purchase price payments outstanding			– 4.7
./. acquired current net financial debt			11.6
Cash outflow on transaction			**34.8**

Klinikum Hildesheim GmbH	Carrying amount before acquisition	Adjustment amount	Carrying amount after acquisition
	€ million	€ million	€ million
Acquired assets and liabilities			
Intangible assets	0.2		0.2
Property, plant and equipment	13.1	16.1	29.2
Accounts receivable	5.7		5.7
Cash and cash equivalents	1.0		1.0
Other assets	11.5		11.5
Financial debt	– 13.2		– 13.2
Accounts payable	– 3.5		– 3.5
Provisions	– 1.4		– 1.4
Other liabilities	– 30.9	– 3.0	– 33.9
Net assets acquired			**– 4.4**
+ goodwill			13.6
Cost			**9.2**
./. purchase price payments outstanding			– 7.8
./. acquired cash and cash equivalents			– 1.0
Cash outflow on transaction			**0.4**

Kreiskrankenhaus Gifhorn	Carrying amount before acquisition	Adjustment amount	Carrying amount after acquisition
	€ million	€ million	€ million
Acquired assets and liabilities			
Intangible assets	0.0		0.0
Property, plant and equipment	5.9	0.3	6.2
Accounts receivable	7.0		7.0
Cash and cash equivalents	7.8		7.8
Other assets	2.2		2.2
Financial debt	0.0		0.0
Accounts payable	– 2.4		– 2.4
Provisions	0.0		0.0
Other liabilities	– 5.9	– 1.5	– 7.4
Net assets acquired			**13.4**
+ goodwill			5.6
Cost			**19.0**
./. purchase price payments outstanding			– 1.9
./. acquired cash and cash equivalents			– 7.8
Cash outflow on transaction			**9.3**

Städtisches Krankenhaus Wittingen	Carrying amount before acquisition	Adjustment amount	Carrying amount after acquisition
	€ million	€ million	€ million
Acquired assets and liabilities			
Intangible assets	0.1		0.1
Property, plant and equipment	1.4	– 1.1	0.3
Accounts receivable	0.6		0.6
Cash and cash equivalents	0.0		0.0
Other assets	0.5		0.5
Financial debt	0.0		0.0
Accounts payable	– 0.3		– 0.3
Provisions	0.0		0.0
Other liabilities	– 0.7	– 0.5	– 1.2
Net assets acquired			**0.0**
+ goodwill			1.9
Cost			**1.9**
./. purchase price payments outstanding			0.0
./. acquired cash and cash equivalents			0.0
Cash outflow on transaction			**1.9**

Kliniken Miltenberg-Erlenbach	Carrying amount before acquisition	Adjustment amount	Carrying amount after acquisition
	€ million	€ million	€ million
Acquired assets and liabilities			
Intangible assets	0.2		0.2
Property, plant and equipment	11.5	– 6.6	4.9
Accounts receivable	3.7		3.7
Cash and cash equivalents	0.0		0.0
Other assets	10.9		10.9
Financial debt	0.0		0.0
Accounts payable	– 2.1		– 2.1
Provisions	0.0		0.0
Other liabilities	– 9.4		– 9.4
Net assets acquired			**8.2**
+ goodwill			0.1
Cost			**8.3**
./. purchase price payments outstanding			0.0
./. acquired cash and cash equivalents			0.0
Cash outflow on transaction			**8.3**

Klinikum Salzgitter GmbH	Carrying amount before acquisition	Adjustment amount	Carrying amount after acquisition
	€ million	€ million	€ million
Acquired assets and liabilities			
Intangible assets	0.2		0.2
Property, plant and equipment	9.8	0.6	10.4
Accounts receivable	7.1		7.1
Cash and cash equivalents	0.7		0.7
Other assets	6.6		6.6
Minority interests	– 0.3		– 0.3
Financial debt	– 0.2		– 0.2
Accounts payable	– 2.9		– 2.9
Provisions	– 1.5		– 1.5
Other liabilities	– 12.4	– 2.5	– 14.9
Net assets acquired			**5.2**
+ goodwill			6.5
Cost			**11.7**
./. purchase price payments outstanding			0.0
./. acquired cash and cash equivalents			– 0.7
Cash outflow on transaction			**11.0**

Purchase price payments that are outstanding/contingent include both payments having certainty of being performed but whose payment date has merely been postponed, and contingent purchase price payments conditional on certain facts or events occurring (earnings trend, extension of investment grants). These contingent purchase price payments were measured at their fair values.

Payment of the purchase prices for acquiring the shares of Klinikum Hildesheim GmbH amounting to € 5.0 million and the share of Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH amounting to € 8.5 million were still outstanding at the balance sheet date.

On the assumption that all business combinations took place already on 1 January 2005, net consolidated profit would be € 88.3 million.

Goodwill arising from the acquisitions is mainly reflected in revenue opportunities and expected synergies. In particular, inclusion in the hospital requirement plan (a transaction similar to a concession agreement) was not to be identified as a separate intangible asset in the purchase price allocation as it could not be reliably measured.

In addition, during the past financial year the Group entered into purchase agreements for four further hospital facilities in which the Group will obtain a controlling influence only after the balance sheet date.

Hospitals	Date of acquisition	Purchase price incl. ancillary costs	Hospital sites	Nimber of beds	Interest acquired
		€ million			in %
Heinz Kalk-Krankenhaus Bad Kissingen	1 January 2006	5.1	1	86	100.0
Frankenwaldklinik Kronach	1 January 2006	11.1	1	312	94.9
Universitätsklinikum Gießen und Marburg	1 February 2006	112.6	2	2,262	95.0

The agreed purchase prices are to be paid in cash. With regard to the assets, liabilities and contingent liabilities existing at the respective acquisition date no information can be provided since annual financial statements of the companies acquired at the time the consolidated financial statements were prepared were not yet available and the purchase price allocations could not yet be prepared.

5 SEGMENT INFORMATION

Our hospitals are operated in the legal form of independent subsidiaries which carry on their business activities in their respective regional markets in line with the guidelines and specifications of the parent company. There are no dependent hospital operations or branches within RHÖN-KLINIKUM Group.

IAS 14 (revised 1997) requires a segmentation by business and geographical units that are characterised by different risks and rewards and that meet certain size criteria.

RHÖN-KLINIKUM Group operates on the German market, exclusively, which is highly homogenised 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), there are no reportable segments.

6 CONSOLIDATED INCOME STATEMENT

6.1 Revenues

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

	2005	2004
	€ million	€ million
Business areas		
Inpatient hospitals	1,321.3	978.5
Acute outpatient hospitals	57.3	33.0
Rehabilitation hospitals	37.2	33.3
	1,415.8	1,044.8
Regions		
Bavaria	351.9	211.0
Lower Saxony	313.4	136.1
Saxony	243.5	238.6
Thuringia	233.5	227.1
Brandenburg	91.6	85.7
Baden-Wuerttemberg	103.8	70.4
Hesse	50.9	48.8
North Rhine-Westphalia	27.2	27.1
	1,415.8	**1,044.8**

Acquisitions account for € 353.9 million, or 95.4%, of the increase in revenues in financial year 2005. Internal growth accounted for € 17.1 million or roughly 1.6%.

6.2 Other operating income

Other operating income comprises:

	2005	2004
	€ million	€ million
Income from services rendered	25.8	15.7
Income from adjustment of receivables	6.2	1.3
Income from grants and other allowances	4.7	4.5
Income from the release of provisions	0.5	1.0
Indemnities received	0.6	0.8
Other	8.9	6.0
	46.7	**29.3**

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

The Group received grants and other allowances as compensation for expenditures during the period (e.g. use of subsidised assets of the hospitals, benefits under German legislation governing part-time employment for senior workers, and for other subsidised measures). The rise in revenue from adjusted receivables relates to the recovery of disputed receivables that were realised in our favour by way of agreement or legal action.

Acquisitions account for € 16.5 million, or 94.8%, of the increase in other operating income in financial year 2005.

6.3 Material and consumables used

	2005	2004
	€ million	**€ million**
Expenditure for materials and supplies	261.1	187.4
Expenditure for services	82.5	65.0
	343.6	**252.4**

Compared with the previous year, the cost of materials increased by € 91.2 million to € 343.6 million. Acquisitions account for € 79.0 million, or 86.6%, of the increase in material and consumables used in financial year 2005.

6.4 Employee benefits expense

	2005	2004
	€ million	**€ million**
Wages and salaries	649.9	452.5
Social insurance contributions	61.9	45.0
Expenditure for post-employment benefits		
defined contribution plans	79.7	47.0
defined benefit plans	2.1	2.1
	793.6	**546.6**

Expenditures for defined benefit plans concern payments to statutory pension insurance as well as to the supplementary insurance funds and to the Federal and State Pension Scheme (VBL).

Acquisitions account for € 244.2 million, or 98.9%, of the increase in the employee benefits expense in financial year 2005.

6.5 Depreciation/amortisation and impairment

Besides depreciation and amortisation on intangible assets, on tangible fixed assets (property, plant and equipment) and on investment property, this item also includes impairment losses recognised for adjusting residual carrying amounts to an appropriate lower fair value less costs of sale totalling € 5.5 million (previous year: € 3.9 million). These relate to impairment losses on land, buildings and machinery and are attributed to lower earnings expectations in connection with declines in occupancy at a senior citizens' home and lower standard ground values.

In addition, the residual useful life of buildings at the Bad Neustadt a. d. Saale site was adjusted to reflect changes in a utilisation concept that will lead to an early demolition of the buildings. This led to an additional depreciation expense of € 3.3 million.

6.6 Other operating expenses

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

	2005	2004
	€ million	€ million
Maintenance	43.9	29.0
Charges, subscriptions and consulting fees	15.2	12.9
Administrative and IT costs	13.5	10.3
Impairment on receivables	3.1	7.4
Insurance	8.2	5.1
Rents and leaseholds	6.7	4.8
Travelling, entertaining and representation expenses	3.7	3.1
Other personnel and continuing training costs	4.3	3.0
Losses on disposal of non-current assets	0.8	1.1
Secondary taxes	0.8	0.7
Other	18.2	16.9
	118.4	**94.3**

6.7 Research costs

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

6.8 Financial result (net)

The financial result is shown as follows:

	2005	2004
	€ million	€ million
Finance income		
Cash with banks	3.0	1.8
Finance expenditure		
Bond	1.9	0.0
Liabilities to banks	17.3	13.7
Losses from change in fair values of financial derivatives	0.4	0.0
	19.6	13.7
	– 16.6	**– 11.9**

6.9 Income taxes

Income taxes consist of the corporation tax and the solidarity surcharge. This item also reflects deferred taxes provided on differences in valuations in the tax balance sheets and commercial balance sheets of subsidiaries as well as on consolidation adjustments and realisable tax-loss carry forwards which, as a rule, have no expiry date.

Income tax comprises the following:

	2005	2004
	€ million	€ million
Current income tax	34.7	31.8
Deferred taxes	0.5	– 0.1
	35.2	**31.7**

The table below sets out details of income tax:

	2005		2004	
	€ million	%	€ million	%
Earnings before taxes	**123.5**	**100.0**	**111.9**	**100.0**
Nominal tax expense[1]	30.9	25.0	28.0	25.0
Solidarity surcharge	1.7	1.4	1.5	1.3
Additional expense from dividend payment	1.3	1.0	1.0	0.9
Increase in tax liability due to non-deductible charges	0.6	0.5	0.6	0.5
Tax expense for previous periods	0.2	0.2	0.4	0.4
Tax-exempt income	0.0	0.0	0.0	0.0
Goodwill amortisation	– 0.8	– 0.7	0.5	0.4
Derecognition of hitherto deferred loss carry-forwards	2.1	1.7	0.0	0.0
Other	– 0.8	– 0.6	– 0.3	– 0.3
Effective income tax expense	**35.2**	**28.5**	**31.7**	**28.3**

[1] *Tax rate 25.0%.*

Further details of how tax deferrals break down by assets and liabilities are given in the Notes to the consolidated balance sheet. After the adoption of impairment tests for goodwill, the Group has discontinued goodwill amortisation from 2005. Loss carry-forwards were derecognised in connection with merger transactions and a revised assessment with regard to realisation periods.

6.10 Interests of minority owners in profit

These are profit shares to which other owners are entitled.

6.11 Earnings per ordinary share

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

The Annual General Meeting on 20 July 2005 adopted a resolution converting the preference shares into ordinary shares and doubling the number of ordinary shares by way of a capital increase from Company funds.

	Number of shares on 1 Jan. 2005	Capital increase resolution	Conversion	Number of shares on 31 Dec. 2005	Arithmetic share in registered share capital
					€
Ordinary shares	17,280,000	17,280,000	17,280,000	51,840,000	51,840,000.00
Preference shares	8,640,000	8,640,000	– 17,280,000	0	0.00
	25,920,000	**25,920,000**	**0**	**51,840,000**	**51,840,000.00**

For further details, please refer to the explanations regarding equity capital (Note 7.8).

Earnings per share are calculated as follows:

		Ordinary shares[1]
Share in net consolidated profit (€ '000)		83,680
(previous year)		(76,404)
Weighted average number of shares in issue (in '000 units)		51,833
(previous year)		(51,829)
Earnings per share in €		1.61
(previous year)		(1.47)
Dividend per share in €		0.45
(previous year)	ordinary shares	(0.39)
	Preference shares	(0.40)

[1] *Previous year adjusted.*

Given the above-described capital measure which doubled the number of shares, the previous year's figures were adjusted accordingly. Diluted earnings per share correspond to basic earnings per share, as there were no stock options or convertible debentures outstanding at the respective balance sheet dates. Preference shares enjoyed a priority ranking over ordinary shares, conferring a € 0.01 higher dividend per share but no voting rights.

7 CONSOLIDATED BALANCE SHEET

7.1 Goodwill and other intangible assets

	Goodwill	Industrial property and similar rights and assets	Total
	€ million	€ million	€ million
Cost			
1 January 2005	**58.3**	**8.9**	**67.2**
Elimination of cumulative amortisation prior to adoption of IFRS 3	– 12.0		– 12.0
Additions due to change in scope of consolidation[1]	36.7	0.6	37.3
Additions	0.9	4.0	4.9
Disposals	0.0	0.2	0.2
31 December 2005	**83.9**	**13.3**	**97.2**
Cumulative depreciation and impairment			
1 January 2005	**12.0**	**6.2**	**18.2**
Elimination of cumulative amortisation prior to adoption of IFRS 3	– 12.0		– 12.0
Amortisation	0.0	2.3	2.3
Disposals	0.0	0.2	0.2
31 December 2005	**0.0**	**8.3**	**8.3**
Balance sheet value at 31 December 2005	**83.9**	**5.0**	**88.9**

[1] *Including acquisitions.*

Previously recognised amortisation from the time before adoption of IFRS 3 was set off against gross cost.

The item “Industrial property rights” primarily includes software.

	Goodwill	Industrial property and similar rights and assets	Total
	€ million	€ million	€ million
Cost			
1 January 2004	**50.0**	**7.7**	**57.7**
Additions due to change in scope of consolidation[1]	8.3	0.1	8.4
Additions	0.0	1.5	1.5
Disposals	0.0	0.4	0.4
31 December 2004	**58.3**	**8.9**	**67.2**
Cumulative depreciation and impairment			
1 January 2004	**8.4**	**4.5**	**12.9**
Amortisation	3.6	1.9	5.5
Disposals	0.0	0.2	0.2
31 December 2004	**12.0**	**6.2**	**18.2**
Balance sheet value at 31 December 2004	**46.3**	**2.7**	**49.0**

[1] *Including acquisitions.*

There are no restrictions on title and/or other rights related to the assets.

Goodwill is subject to an annual impairment test for the respective cash generating unit (each hospital). This impairment test is performed at 1 October of each year, and compares the carrying amount of the cash generating unit with the recoverable amount for the unit calculated as the fair value less cost of the unit. In this connection a corresponding present value is calculated on the basis of a detailed 15-year plan. This forms an integral part of the company's planning and insofar is based on the management's actual expectations for the respective unit. We believe that it is only with this longer detailed view that the measures already planned at the time of the company acquisition (e.g. demolition and rebuilding, modernisation measures) can be correctly recognised. At the end of each year it is reviewed whether the economic situation continues to support the results of the impairment test in the same way as before. On 31 December 2005 this was the case.

The weighted cost of capital of a potential investor from the healthcare sector is taken as the discounting rate at the time of valuation. This amounts to 6.0%.

Significant goodwill relates to the following cash generating units:

Company	**Stated goodwill**
	€ million
Kreiskrankenhaus Gifhorn GmbH	5.6
Klinikum Hildesheim GmbH	13.6
Klinikum Pforzheim GmbH	5.8
Klinikum Pirna GmbH	6.0
Klinikum Salzgitter GmbH	6.5
Krankenhaus Waltershausen-Friedrichroda GmbH	6.2
Zentralklinik Bad Berka GmbH	13.8
Other goodwill of less than € 5.0 million	26.4
	83.9

7.2 Property, plant and equipment

	Land and buildings	Technical plant and equipment	Operating and business equipment	Plant under construction	Total
	€ million	€ million	€ million	€ million	€ million
Cost					
1 January 2005	**865.7**	**37.5**	**208.3**	**22.6**	**1,134.1**
Additions due to change in scope of consolidation[1]	112.2	4.0	8.7	10.2	135.1
Additions	43.5	1.2	33.2	35.3	113.2
Disposals	2.8	0.4	17.2	0.1	20.5
Transfers	16.8	0.3	0.7	– 17.8	0.0
31 December 2005	**1,035.4**	**42.6**	**233.7**	**50.2**	**1,361.9**
Cumulative depreciation and impairment					
1 January 2005	**184.5**	**24.2**	**135.3**	**0.0**	**344.0**
Depreciation	28.9	2.8	27.0	0.0	58.7
Impairments	5.3	0.2	0.0	0.0	5.5
Disposals	2.6	0.4	16.8	0.0	19.8
Transfers					0.0
31 December 2005	**216.1**	**26.8**	**145.5**	**0.0**	**388.4**
Balance sheet value at 31 December 2005	**819.3**	**15.8**	**88.2**	**50.2**	**973.5**

[1] *Including acquisitions.*

	Land, land rights and buildings, including buildings on third-party land	Technical plant and equipment	Other plant and equipment	Plant under construction	Total
	€ million	€ million	€ million	€ million	€ million
Cost					
1 January 2004	**811.8**	**35.3**	**184.9**	**20.1**	**1,052.1**
Additions due to change in 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
Disposals	1.3	0.1	7.9	0.0	9.3
Transfers	23.3	0.1	1.3	– 24.7	0.0
31 December 2004	**865.7**	**37.5**	**208.3**	**22.6**	**1,134.1**
Cumulative depreciation and impairment					
1 January 2004	**158.6**	**21.3**	**119.3**	**0.0**	**299.2**
Additions due to change in scope of consolidation[1]	0.4	0.0	0.4	0.0	0.8
Depreciation	21.6	2.9	22.9	0.0	47.4
Impairments	3.9	0.0	0.0	0.0	3.9
Disposals	0.0	0.0	7.3	0.0	7.3
31 December 2004	**184.5**	**24.2**	**135.3**	**0.0**	**344.0**
Balance sheet value at 31 December 2004	**681.2**	**13.3**	**73.0**	**22.6**	**790.1**

[1] *Including acquisitions.*

The Group has registered charges on real property as collateral for bank loans with a total residual carrying amount of € 126.6 million (€ 168.2 million).

Public grants related to assets are deducted from the cost of the asset for which they are given, reducing the depreciation over the period. The deducted amortised amount of assistance granted under the Hospital Financing Act (KHG) totals € 437.9 million (previous year: € 296.0 million) which was invested in line with the applicable conditions. To secure conditionally repayable single grants under the Hospital Financing Act (e.g. for the construction of new hospitals or major extensions) totalling € 287.2 million (previous year: 149.4 million), the Group holds registered charges on real property in the amount of € 386.5 million (previous year: € 200.1 million). Nothing has come to the attention of the Group to indicate that repayment of these grants is required in the foreseeable future.

7.3 Other financial assets (non-current)

	2005	2004
	€ million	**€ million**
Interests in affiliated companies	1.8	1.8
Interests in associated companies	0.1	0.0
Other financial assets	0.8	0.9
Balance sheet value at 31 December	**2.7**	**2.7**

Subsidiaries that do not have a material influence on the Group's asset and earnings position, either individually or on aggregate, are not consolidated. These are included at their fair values which generally correspond to their amortised cost. This also applies for non-material associated companies and their financial assets.

7.4 Inventories

Materials and supplies of € 27.8 million (previous year: € 19.7 million) mainly consist of medical supplies. In financial year 2005 impairments of € 3.5 million (previous year: € 2.3 million) were recognised. All inventories are owned by RHÖN-KLINIKUM Group; there are no assignments or pledges of inventories.

7.5 Accounts receivable, other receivables and other financial assets (current)

	31 Dec. 2005	31 Dec. 2004
	< 1 year	**< 1 year**
	€ million	**€ million**
Accounts receivable (gross)	205.0	164.8
Impairments on accounts receivable	– 12.9	– 16.3
Receivables under hospital financing law	40.4	17.2
Other receivables	25.0	43.9
Other financial assets	0.2	0.2
	257.7	**209.8**

Accounts receivable totalling € 192.1 million (previous year: € 148.5 million) duly reflect identifiable risks from impairment provisions, which are determined based on the likelihood of a default. Increases and decreases during the financial year under review are reflected in other operating expenses and other operating income, respectively, in the consolidated income statement. For accounts receivable no concentrations of credit risks exist since virtually all public payers are legal entities not subject to insolvency.

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

Other receivables include reimbursement claims against insurers for loss events in the amount of € 3.0 million. There was no reversal of impairment losses nor recognition of any impairment loss for other receivables.

The fair values of accounts receivables and other receivables essentially correspond to their carrying amounts since they are primarily short-term in character.

Under other financial assets, financial derivatives (interest swaps and interest caps) are stated at the their market values.

7.6 Current income tax claims

Current income tax claims include claims against the tax authorities for reimbursement of corporation tax and solidarity surcharge.

7.7 Cash and cash equivalents

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Cash with banks and cash on hand	194.8	50.9
Short-term bank deposits	59.5	17.6

The effective interest rate for short-term bank deposits was 2.0% (previous year 2.0%). These deposits have an average term of 30 days.

Of the stated cash with banks, € 112.0 million was assigned to the Federal State of Hesse as security in connection with the purchase of Universitätsklinikum Gießen und Marburg GmbH.

Cash and bank overdrafts are aggregated as follows for the purpose of the cash flow statement:

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Cash and cash equivalents	254.3	68.5
Bank overdrafts	– 161.6	– 34.6
	92.7	33.9

7.8 Equity

On 20 July 2005 the Annual General Meeting of RHÖN-KLINIKUM AG adopted a resolution for a capital increase from Company funds. The capital increase was effected by issuing 17,280,000 new ordinary bearer shares (no-par shares), each having a nominal interest in the share capital of 1.00 euro, and 8,640,000 new bearer non-voting preference shares (no-par shares), each having a nominal interest in the share capital of 1.00 euro. The Company's share capital now amounts to € 51,840,000.00 (previously € 25,920,000.00). The issuing ratio was 1:1 in each case.

The Annual General Meeting also adopted a resolution for the conversion of the non-voting preference shares into ordinary shares, ending the preference and special dividend. Accordingly, the depository banks, as at 23 September 2005 in the evening, transferred the deposits of preference shares (ISIN DE 000 704 233 5) into ordinary shares at a ratio of 1:1, i.e. each preference share was replaced by one ordinary share (ISIN DE 000 704 230 1).

The 17,280,000 ordinary shares created from the conversion of the preference shares conferred profit participation rights from 1 January 2005 and were admitted to official trading on the stock exchanges of Frankfurt am Main and Munich. Trading and listing of the new shares started on 26 September 2005. After 23 September 2005 trading and listing of the preference shares (ISIN DE 000 704 233 5) was discontinued.

Overview of development in share capital of RHÖN-KLINIKUM Group:

	Number of shares on 1 Jan. 2005	Capital increase resolution	Conversion	Number of shares on 31 Dec. 2005	Arithmetic share in registered share capital
					€
Ordinary shares	17,280,000	17,280,000	17,280,000	51,840,000	51,840,000.00
Preference shares	8,640,000	8,640,000	– 17,280,000	0	0.00
	25,920,000	**25,920,000**	**0**	**51,840,000**	**51,840,000.00**

A premium resulting from a capital increase is included in capital reserves.

The "Other reserves" include retained earnings from previous periods of consolidated subsidiaries as well as consolidation effects.

Treasury shares are valued at € 0.1 million (previous year: € 0.1 million) and deducted from equity. At balance sheet date, the number of treasury shares stood at 13,430 (previous year: 14,360).

In accordance with the provisions of the German 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 € 29.8 million (previous year: € 29.1 million) as shown below and to carry forward the dividend on treasury shares.

	Total
	€
Distribution of a dividend of 45 cents per ordinary share (previous year: 39 cents)	23,328,000.00
Allocation to other retained earnings	6,427,847.69
	29,755,847.69

Minority interests in the amount of € 32.3 million (previous year: € 22.8 million) relate to outside shareholders' interests in the capital of the following consolidated subsidiaries:

	Outside shareholders' interests	
	31 Dec. 2005	31 Dec. 2004
	%	%
Altmühltalklinik-Leasing GmbH, Kipfenberg	49.00	49.00
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH, Hildburghausen	0.00	25.27
Zentralklinik Bad Berka GmbH, Bad Berka	12.50	12.50
Krankenhaus Hammelburg GmbH, Hammelburg	5.10	5.10
Kreiskrankenhaus Gifhorn GmbH, Gifhorn	4.00	0.00
Städtische Krankenhaus Wittingen GmbH, Wittingen	4.00	0.00
Klinikum Salzgitter GmbH, Salzgitter	5.10	0.00
Amper Kliniken AG, Dachau	25.10	0.00
Amper Medico Gesellschaft für medizinische Dienstleistungen mbH, Dachau	25.10	0.00
KDI Klinikservice GmbH, Dachau	25.10	0.00
Klinikum Pforzheim GmbH, Pforzheim	5.10	0.00
SGHi-Service-Gesellschaft Hildesheim GmbH, Hildesheim	49.00	0.00

7.9 Financial debt

	31 Dec. 2005		31 Dec. 2004	
	Residual term > 1 year	Residual term up to 1 year	Residual term > 1 year	Residual term up to 1 year
	€ million	€ million	€ million	€ million
Non-current financial debts				
Bond	109.3	1.9	0.0	0.0
Liabilities to banks	262.7	19.9	238.8	17.7
Other liabilities	0.0	0.0	0.0	1.1
Total long-term financial debts	**372.0**	**21.8**	**238.8**	**18.8**
Current financial debts				
Liabilities on current account to banks	0.0	161.6	0.0	34.5
Negative market values of derivative financial instruments	0.0	1.1	0.0	0.0
Total short-term financial debts	**0.0**	**162.7**	**0.0**	**34.5**
Total financial debts	**372.0**	**184.5**	**238.8**	**53.3**

In 2005 RHÖN-KLINIKUM AG refinanced the rise in its current interest-bearing liabilities in connection with the business combinations in the financial year under review by issuing a bond on the capital market in the amount of € 110.0 million. The term of the bond runs from 7 July 2005 until 7 July 2010. The coupon will pay a nominal rate of 3.5%. Interest will be paid in arrears on 7 July of each year, for the first time on 7 July 2006. The transaction costs totalled € 0.8 million and are written back using the effective interest method.

The rise in liabilities on current account stems from borrowings to finance the purchase price for acquiring the university hospitals in Gießen and Marburg. These are matched by pledged cash of equal amount under the item "Cash and cash equivalents".

Of the long-term financial debts to banks, € 51.3 million is subject to variable interest rates on a EURIBOR basis. To limit exposure to interest rates we have concluded interest rate hedging agreements whereby the rise in interest rates is capped at 4.0% from 2006 until 2009 and at 5.7% p.a. until 2006. € 130.9 million (previous year: € 148.7 million) of the stated financial debts is accounted for by liabilities to Bayerische Hypo- und Vereinsbank AG.

The interest fluctuation risks and contractual interest adjustment dates relating to the interest-bearing liabilities are shown as follows:

	31 Dec. 2005			31 Dec. 2004		
Duration of fixed interest agreements	**Interest rate [1]**	**Original value**	**Carrying amount of loans**	**Interest rate [1]**	**Original value**	**Carrying amount of loans**
	%	**€ million**	**€ million**	**%**	**€ million**	**€ million**
Bond	3.65	110.0	111.2	0.00	0.0	0.0
Liabilities to banks						
2005				4.73	105.4	74.1
2006	4.25	129.3	102.7	5.32	62.1	47.2
2007	5.24	44.9	33.6	5.20	36.8	32.7
2008	4.20	23.1	16.4	4.20	23.0	17.4
2009	4.20	56.0	52.9	4.20	56.0	54.5
2010	4.09	50.2	24.9	0.00	0.0	0.0
2011	4.83	39.2	35.3	4.83	32.9	30.5
2012	5.51	14.4	12.3	0.00	0.0	0.0
2013	3.42	4.9	4.5	0.00	0.0	0.0
		362.0	282.6		316.2	256.4
Other liabilities						
2005	0.00	0.0	0.0	5.00	1.1	1.1
		472.0	**393.8**		**317.3**	**257.5**

[1] *Weighted interest rate.*

The original values, carrying amounts and fair values of long-term financial debts were as follows as at 31 December 2005:

	31 Dec. 2005		
	Original value	Carrying amount	Fair value
	€ million	€ million	€ million
Bond	110.0	111.2	113.0
Liabilities to banks			
Loans without agreed interest rate (variable)	57.2	51.3	51.3
Loans with fixed interest rate	304.8	231.3	232.5
	472.0	**393.8**	**396.8**

The carrying amount of the bond includes ancillary costs and interest deferrals.

The original values, carrying amounts and fair values of long-term financial debts were as follows as at 31 December 2004:

	31 Dec. 2004		
	Original value	Carrying amount	Fair value
	€ million	€ million	€ million
Liabilities to banks			
Loans without agreed interest rate (variable)	32.8	31.2	31.2
Loans with fixed interest rate	283.4	225.3	226.6
Other liabilities	1.1	1.1	1.1
	317.3	**257.6**	**258.9**

Fair values are calculated based on term-congruent interest rates of 3.14% and 3.87% (previous year: 2.84% to 3.79%).

The effective interest rates at balance sheet date are:

	31 Dec. 2005	31 Dec. 2004
	%	%
Bond	3.65	–
Liabilities to banks	4.17	4.74
Liabilities on current account to banks	3.00	3.87

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Up to 1 year	21.8	18.8
Between 1 and 5 years	225.8	91.1
More than 5 years	146.2	147.7
Total	**393.8**	**257.6**

Of the financial debts stated, € 126.6 million is secured by registered charges on real property and € 7.0 million by assignments of receivables.

7.10 Deferred tax liabilities

Deferred tax assets and liabilities are recognised if there is a recoverable right to set off current tax assets against current tax liabilities and if the deferred taxes exist against the same tax authority. The following amounts were recognised:

	31 Dec. 2005		31 Dec. 2004	
	assets	liabilities	assets	liabilities
	€ million	€ million	€ million	€ million
Tax-loss carry forwards	9.8	0.0	5.4	0.0
Property, plant and equipment	0.0	28.9	0.0	29.1
Interest bearing debts	0.0	0.3	0.0	0.0
Tax liabilities	0.0	0.8	0.0	0.3
Other assets and liabilities	4.5	2.5	1.5	1.9
Total	**14.3**	**32.5**	**6.9**	**31.3**
Balance		**18.2**		**24.4**

Deferred tax assets for tax loss carry-forwards are recognised at the amount at which the realisation of the tax benefits in connection therewith is probable as a result of future taxable profits. As at the balance sheet date, unused tax loss carry-forwards amounted to € 41.7 million (previous year: € 21.4 million). They have no expiry date. Tax loss carry-forwards in an amount of € 4.7 million were not included in the calculation of deferred tax because their realisation is not likely. The tax base used for deferred taxes was € 37.0 million (previous year: € 20.4 million). When tax loss carry-forwards exist, the current taxable result in Germany can be set off with tax loss carry-forwards fully up to an amount of € 1.0 million, and beyond that only at the rate of 60.0%.

Deferred taxes from property, plant and equipment result from hidden reserves released by purchase price allocations as well as from the useful lives defined in tax law and the existing economic depreciation periods in accordance with IFRS. In addition, tax impairments were corrected in IFRS.

Interest bearing debts are deferred tax differences resulting from the treatment of liabilities with a term of over one year and from differences in the tax treatment of costs in connection with borrowing.

Deferred tax liabilities for non-distributed profits of subsidiaries totalling € 62.5 million, which at the parent company lead to non-tax-deductible expenditures amounting to 5.0% of the dividend total on the distributed amounts, were stated in the consolidated financial statements.

Changes in deferred taxes are shown as follows:

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Deferred tax liability at beginning of year	24.4	24.5
Liabilities acquired on company acquisitions	– 6.7	0.0
Expenditure in income statement	0.5	– 0.1
Deferred tax liability at end of year	**18.2**	**24.4**

7.11 Provisions for post-employment benefits

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 include current pension payments and future entitlements.

Defined benefit obligations are financed by forming provisions. Amounts relating to defined contribution plans are recognised immediately in profit or loss.

Obligations under defined benefit plans relate to pension commitments of four Group companies in the form of retirement, disability and survivors' pensions. Provisions cover commitments to existing eligible employees as well as former employees with vested benefits and pensioners. Benefits are determined on the basis of length of service and pensionable salaries.

Apart from general pension plans the members of the Board of Management are covered by a plan providing for post-employment compensation benefits. In addition to their regular remuneration the members of the Board of Management, on termination of their employment as Board members, receive a severance payment depending on the length of service and level of remuneration and not exceeding 1.5 times the last annual remuneration. The scope of the obligation was calculated based on the individual contract terms and not on a uniform retirement age as with the other pension plans.

The expenditure recognised in profit or loss for defined benefit plans is calculated as follows:

	2005	2004
	€ million	€ million
Current service cost	0.8	1.5
Interest cost (unwinding of the discount related to projected benefits)	0.5	0.6
Netted actuarial gains or losses	0.7	0.0
	2.0	**2.1**

The provision volume on the balance sheet is calculated as follows:

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Defined benefit obligation	14.5	12.6
Actuarial gains or losses not yet netted	– 1.6	– 1.5
Provision for pensions (defined benefit liability)	**12.9**	**11.1**

The amounts recognised on the balance sheet under the provision item developed as follows:

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
As at 1 January	**11.1**	**9.2**
Additions due to extended scope of consolidation	0.3	0.3
Total expenditure recognised in income statement	2.0	2.1
Payments rendered	– 0.5	– 0.5
As at 31 December	**12.9**	**11.1**

The calculation is based on the following assumptions:

	31 Dec. 2005	31 Dec. 2004
	%	%
Rate of interest	4.25	5.00
Projected increase in wages and salaries	1.50	2.00
Projected increase in pensions	1.00	1.50

We used Prof. Dr. Klaus Heubeck's 2005G Tables (previous year: 1998 Tables) as actuarial tables.

7.12 Other provisions

Other provisions developed in financial year 2005 as shown below:

	1 Jan. 2005	Change in scope of consoli-dation	Con-sumption	Write-back	Addition	31 Dec. 2005	O. w. < 1 year	O. w. > 1 year
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Demolition obligations	6.2	0.1	0.1	0.1	0.0	6.1	0.0	6.1
Provision for self-retention related to damage claims	1.3	1.5	0.3	0.2	3.8	6.1	6.1	0.0
Provisions for onerous contracts	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Other provisions	0.4	0.0	0.0	0.2	0.0	0.2	0.2	0.0
	8.2	**1.6**	**0.6**	**0.6**	**3.8**	**12.4**	**6.3**	**6.1**

Provisions for self-retention are formed to cover the risks of third-party damage claims. Provisions at balance sheet date of € 6.0 million compared with reimbursement claims against insurers in the amount of € 3.0 million under "Other receivables".

Provisions for demolition obligations are attributable to services agreed by contract in previous years as part of company purchase agreements. The amounts falling due over the long term are discounted as an interest rate of 3.5% p.a.

Expected future claims:

	31 Dec. 2005	2006	2007	2008
	€ million	€ million	€ million	€ million
Demolition obligations	6.1	0.0	2.2	3.9
Provision for self-retention related to damage claims	6.1	6.1	0.0	0.0
Other	0.2	0.2	0.0	0.0
	12.4	**6.3**	**2.2**	**3.9**

With respect to other contingent liabilities, the budgets negotiated with the payers for two consolidated hospitals for 2005 were approved by the competent authorities subject to the condition that administrative complaints lodged by the payers do not invalidate the approved budgets for 2004. Currently we do not believe that the payers are likely to prevail and have therefore not recognised possible repayment obligations as liabilities. It is not practicable to make a reliable estimate of the impact of these factors.

7.13 Accounts payable

	31 Dec. 2005		31 Dec. 2004	
	< 1 year	> 1 year	< 1 year	> 1 year
	€ million	€ million	€ million	€ million
Accounts payable	79.3	0.0	48.7	0.0

Accounts payable existed towards third parties. Of the total amount of € 79.3 million (previous year: € 48.7 million), € 79.3 million (previous year: € 48.7 million) were due within one year. The change versus the previous year largely stems from the addition of new hospitals.

7.14 Other liabilities

	31 Dec. 2005		31 Dec. 2004	
	< 1 year	> 1 year	< 1 year	> 1 year
	€ million	€ million	€ million	€ million
Personnel liabilities	112.2	0.0	72.0	0.0
Liabilities under Hospital Financing Act	87.0	0.0	48.3	0.0
Operating taxes and social security contributions	24.5	0.0	18.6	0.0
Payments received	0.3	0.0	0.6	0.0
Purchase prices	9.6	5.3	0.0	0.0
Other	51.3	1.0	51.7	1.1
	284.9	**6.3**	**191.2**	**1.1**

Personnel liabilities are mainly accounted for by performance-linked wage components, leave compensation as well as severance compensation obligations resulting from personnel adjustment measures in the new hospitals.

Liabilities under the German Hospital Financing Act (KHG) include public grants related to assets and to income not yet spent in accordance with the conditions for their use 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 purchase prices relate to contractually stipulated obligations subject to conditions. The amounts falling due over the long term are recognised at the present value of future payments based on an interest rate of 3.5% p.a.

The carrying amounts of the monetary liabilities recognised under these items correspond to their fair values. Non-current obligations under purchase price payments as well as other non-current liabilities are discounted at a market interest rate of 3.5%.

Other liabilities with a residual term of more than five years amount to € 0.3 million (previous year: € 0.4 million).

7.15 Current income tax liabilities

Current income tax liabilities in the amount of € 10.2 million (previous year: € 10.2 million) comprise as yet not assessed corporation tax and solidarity surcharge for the past financial year and previous years.

7.16 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 € 393.8 million (previous year: € 257.5 million), of which € 342.5 million (previous year: € 221.9 million) on conditions of fixed interest rates and terms running until 2013. 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 € 43.0 million (previous year: € 26.2 million). Interest rate swaps in a volume of € 13.6 million (previous year: € 5.4 million) are in place for long-term financial debts, of which € 9.0 million for newly acquired hospitals.

Financial derivatives measured at fair value in profit or loss resulted in losses of € 0.2 million.

Financial derivatives are reflected at market values (as measured at balance sheet date on the basis of recognised valuation models using current market data).

	Fair value	Term	Interest rate 31 Dec. 2005	Interest rate cap	Reference amount 31 Dec. 2005
	€ million		%	%	€ million
Interest swaps, assets	0.0	4 May 2004 until 31 December 2011	5.68	5.70	4.6
Interest swaps, liabilities	1.1	28 February 2012	5.99/6.30	5.99/6.30	9.0
Interest caps, assets	0.2	2 January 2006 until 30 June 2009/ 30 September 2009/26 February 2010/ 31 March 2010	3.08/3.38	4.00	43.8

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

8 CASH FLOW STATEMENT

The cash flow statement shows how the item “Cash and cash equivalents” of RHÖN-KLINIKUM Group has changed over the year under review as a result of cash inflows and outflows. The impacts of acquisitions, divestments and other changes in the scope of consolidation were eliminated. In accordance with IAS 7 (Cash flow statements), a distinction is made between cash flows from operating activities, investing activities as well as financing activities. The liquidity shown in the financing statements includes cash on hand, cheques as well as cash with banks. For the purposes of the cash flow statement, bank overdrafts are deducted from cash and cash equivalents. A reconciliation is provided in the Notes on cash and cash equivalents. Construction invoices outstanding in the amount of € 12.9 million (previous year: € 5.5 million) were included under accounts payable and property, plant and equipment as non-cash items.

The capital flow statement presents the change in cash and cash equivalents between two balance sheet dates. At RHÖN-KLINIKUM Group such cash and cash equivalents exclusively contain inflows from continuing operations as we have not discontinued any operations.

9 INTERESTS IN MAJOR SUBSIDIARY COMPANIES

9.1 Consolidated subsidiaries

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
Hospital companies			
Amper Kliniken AG, Dachau	74.9	48,747	1,758
Aukamm-Klinik für operative Rheumatologie und Orthopädie GmbH, Wiesbaden	100.0	1,086	1
Fachkrankenhaus für Psychiatrie und Neurologie Hildburghausen GmbH, Hildburghausen	100.0	28,484	3,557
Haus Saaletal GmbH, Bad Neustadt a. d. Saale	100.0	180	67
Herz- und Gefäß-Klinik GmbH, Bad Neustadt a. d. Saale	100.0	7,928	0 [1]
Herzzentrum Leipzig GmbH, Leipzig	100.0	23,101	16,620
Klinik "Haus Franken" GmbH, Bad Neustadt a. d. Saale	100.0	506	3
Klinik für Herzchirurgie Karlsruhe GmbH, Karlsruhe	100.0	12,760	6,329
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik, Kipfenberg	100.0	4,952	1,792
Kliniken Herzberg und Osterode GmbH, Herzberg am Harz	100.0	16,133	1,272
Kliniken Miltenberg-Erlenbach GmbH, Erlenbach	100.0	7,316	– 181
Kliniken München Pasing und Perlach GmbH, Munich	100.0	27,233	– 759
Kliniken Uelzen und Bad Bevensen GmbH, Uelzen	100.0	27,104	937
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	83,858	6,269
Klinikum Hildesheim GmbH, Hildesheim	100.0	4,232	– 1,492
Klinikum Meiningen GmbH, Meiningen	100.0	15,009	11,269
Klinikum Pforzheim GmbH, Pforzheim	94.9	41,483	1,363
Klinikum Pirna GmbH, Pirna	100.0	22,323	4,212
Klinikum Salzgitter GmbH, Salzgitter	94.9	20,327	380
Krankenhaus Cuxhaven GmbH, Cuxhaven	100.0	10,816	301
Krankenhaus Hammelburg GmbH, Hammelburg	94.9	3,965	130
Krankenhaus St. Barbara Attendorn GmbH, Attendorn	100.0	11,844	– 334
Krankenhaus Waltershausen-Friedrichroda GmbH, Friedrichroda	100.0	16,223	1,613
Kreiskrankenhaus Gifhorn GmbH, Gifhorn	96.0	16,785	1,285
Mittelweser Kliniken GmbH Nienburg Hoya Stolzenau, Nienburg	100.0	25,155	1,292
Neurologische Klinik GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale	100.0	2,349	1,145
Park-Krankenhaus Leipzig-Südost GmbH, Leipzig	100.0	9,242	1,589
Soteria Klinik Leipzig GmbH, Leipzig	100.0	3,354	1,218
Städtisches Krankenhaus Wittingen GmbH, Wittingen	96.0	1,658	– 842
St. Elisabeth-Krankenhaus GmbH, Bad Kissingen	100.0	6,037	549
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden	100.0	21,041	1,942
Weißeritztal-Kliniken GmbH, Freital	100.0	30,596	2,453
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	86,083	23,176

[1] *After profit transfer.*

Continued: Consolidated subsidiaries

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
MVZ companies			
MVZ Management GmbH Attendorn, Attendorn	100.0	194	– 3
MVZ Management GmbH Brandenburg, Frankfurt (Oder)	100.0	190	– 6
MVZ Management GmbH Leipzig, Leipzig	100.0	192	– 4
MVZ Management GmbH Niedersachsen, Nienburg	100.0	195	– 1
MVZ Management GmbH Sächsische Schweiz, Pirna	100.0	194	– 3
MVZ Management GmbH Thüringen, Bad Berka	100.0	100	– 88
MVZ Management GmbH Unterfranken, Bad Neustadt a. d. Saale	100.0	784	– 424
MVZ Management GmbH Weißeritzkreis, Freital	100.0	194	– 4
MVZ Management GmbH Wiesbaden, Wiesbaden	100.0	188	– 7
MVZ Service Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	829	– 166
Property companies			
Altmühltalklinik-Leasing-GmbH, Kipfenberg	51.0	3,804	413
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt a. d. Saale	100.0	24,203	– 273
Grundstücksgesellschaft Park Dösen GmbH, Leipzig	100.0	6,569	– 2,841
GTB Grundstücksgesellschaft mbH, Leipzig	100.0	35,798	1,194
Shelf companies/other companies			
Amper Medico Gesellschaft für medizinische Dienstleistungen mbH, Dachau	74.9	67	6
Heilbad Bad Neustadt GmbH, Bad Neustadt a. d. Saale	100.0	1,908	405
KDI Klinikservice GmbH, Dachau	74.9	83	11
SGHi-Service Gesellschaft Hildesheim mbH, Hildesheim	51.0	111	86
Klinik Feuerberg GmbH, Bad Neustadt a. d. Saale	100.0	36	– 2
Psychosomatische Klinik GmbH, Bad Neustadt a. d. Saale	100.0	17	– 3
RK Klinik Betriebs GmbH Nr. 11, Bad Neustadt a. d. Saale	100.0	120	– 200
RK Klinik Betriebs GmbH Nr. 16, Bad Neustadt a. d. Saale	100.0	35	– 7
RK Klinik Betriebs GmbH Nr. 17, Bad Neustadt a. d. Saale	100.0	193	– 7
RK Klinik Betriebs GmbH Nr. 18, Bad Neustadt a. d. Saale	100.0	45	– 5
RK Klinik Betriebs GmbH Nr. 19, Bad Neustadt a. d. Saale	100.0	45	– 5
RK Klinik Betriebs GmbH Nr. 20, Bad Neustadt a. d. Saale	100.0	45	– 5
RK Klinik Betriebs GmbH Nr. 21, Bad Neustadt a. d. Saale	100.0	45	– 5

9.2 Associated and affiliated companies not included in the scope of consolidation

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
Dialyse Alfeld GmbH, Hildesheim	33.3	– 469	– 14
ESB – Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt a. d. Saale	100.0	1,876	43
FAZ Facharztzentrum Dachau GmbH[2], Dachau	19.5	47	– 2
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH, Leipzig	100.0	315	50
Imaging Service AG[1], Niederpöcking	18.8	255	47
incos Gesellschaft für Informations- und Kommunikationsmanagement mbH, St. Wolfgang	43.5	154	51
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	343	6
Kurverwaltung Bad Neustadt GmbH[1], Bad Neustadt a. d. Saale	60.0	79	– 15
miCura Pflegedienste Dachau GmbH[1], Dachau	36.7	100	0
RK Bauträger GmbH, Bad Neustadt a. d. Saale	100.0	191	4
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale[1]	25.0	– 481	– 254
Wolfgang Schaffer GmbH, Bad Neustadt a. d. Saale	100.0	513	5

[1] *According to financial statements as at 31 December 2004.*
[2] *According to financial statements as at 31 December 2003.*

10 OTHER INFORMATION

10.1 Annual average number of employees

	2005	2004	Change	
	Number[1]	Number[1]	Number[1]	%
Medical services	2,668	1,801	867	48.1
Nursing services	8,276	5,929	2,347	39.6
Medical-technical services	2,884	2,079	805	38.7
Functional	2,111	1,391	720	51.8
Supply and misc. services	1,269	630	639	101.4
Technical	377	261	116	44.4
Administrative	1,451	1,073	378	35.2
Other personnel	198	194	4	2.1
	19,234	**13,358**	**5,876**	44.0

[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.

10.2 Other financial obligations

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
Capital expenditure contracted for	**27.3**	**50.7**
Rental and lease agreements		
Maturity subsequent year	6.4	4.6
Maturity 2 to 5 years	0.0	0.0
Maturity 5 years	0.0	0.0
Input tax adjustments		
Maturity subsequent year	0.2	0.2
Maturity 2 to 5 years	0.0	0.1
Maturity 5 years	0.0	0.0
Other		
Maturity subsequent year	52.1	40.3
Maturity 2 to 5 years	15.1	22.4
Maturity 5 years	7.7	8.9

Lease obligations comprise leases of residential and office space and of medical equipment which are cancellable on short notice.

Other financial obligations stem mainly from outsourcing contracts.

Financial obligations in the form of purchase prices and capital expenditure arising from validly concluded company purchase agreements total € 320.5 million (previous year: € 264.2 million); for the most part these obligations have to be performed within a period of up to 84 months. Concluded company purchase agreements not yet fully in force will result in further current liabilities of € 7.5 million (previous year: € 68.5 million) once these agreements enter into force; they relate to the purchase of the district hospitals in Bad Neustadt a. d. Saale and Mellrichstadt. This purchase was prohibited by the German Cartel Office. The court applied to has not yet ruled on the Cartel Office decision.

There are also purchase price obligations of € 112.0 million, investment obligations of € 367.0 million and other liabilities of € 26.0 million from the purchase of the university hospitals in Gießen and Marburg which have to be performed within a period of 84 months.

10.3 Leases within the Group

Under IAS 17 the term “lease” covers all contractual forms of rental and lease agreements.

10.3.1 Obligations as lessee of operating leases

The Group rents medical equipment as well as residential and office space; these are qualified as cancellable operating leases. Under these lease agreements the Group has a maximum termination notice of 12 months. Lease expenditure recognised during the financial year in the income statement amount to € 6.7 million.

10.3.2 Investment property

The Group lets residential space to employees, office and commercial space to third parties (e.g. cafeteria), as well as premises to doctors co-operating with the hospital and to joint laboratories as part of cancellable operating leases.

The most significant operating lease contracts by amount stem from the letting of property to third parties. The largest item in absolute terms is the letting of a building to a nursing home operator. On the basis of income valuations we see no material differences between the fair value of the properties and the carrying amounts shown below:

	€ '000
Cost at 1 January 2004	4,987
Cumulative depreciation at 1 January 2004	– 112
Carrying amount at 1 January 2004	4,875
Disposals in 2004	– 40
Depreciation in 2004	– 166
Carrying amount at 31 December 2004	4,669
Depreciation in 2005	– 166
Carrying amount at 31 December 2005	4,503

These depreciations are effected over a useful life of 33 1/3 years using the straight-line method.

Other spaces let under operating leases are insignificant and dependent partial areas of building sections. We have therefore refrained from showing these separately.

Minimum lease payments to be received in future at up to 12 months' sight amount to € 3.5 million. Minimum lease payments for up to five years' sight amount to € 10.6 million, and beyond five years to € 4.5 million.

10.4 Related parties

RHÖN-KLINIKUM Group companies, in given instances, enter into transactions with related parties. Such service or lease relations are arranged at arm's length terms.

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

Related parties	Companies as defined by IAS	Nature of services	€ million
Mr. Michael Mendel (until 18 November 2005)	Bayrische Hypo- und Vereinsbank AG	Financial services	see below
Dr. Friedrich-Wilhelm Graf von Rittberg (until 31 August 2005)	Seufert Rechtsanwälte	Advisory services for the entire financial year 2005	2.7
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 accounts payable.

In 2005, 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
	€ '000	€ '000	€ '000
Dr. Bernhard Aisch (since 31 December 2005)	0	0	0
Gisela Ballauf (since 31 December 2005)	0	0	0
Bernd Becker	28	5	33
Helmut Bühner	22	5	27
Ursula Harres	37	1	38
Anneliese Noe (until 30 December 2005)	33	3	36
Werner Prange	42	2	44
Joachim Schaar	44	33	77
	206	**49**	**255**

In addition, the Group paid employer's statutory insurance contributions totalling € 49.0 thousand. The above costs are shown under personnel expenses in the consolidated income statement.

Bayerische Hypo- und Vereinsbank AG (HVB), Munich, held over 25.0% of the voting capital of RHÖN-KLINIKUM AG from 2 May 2002 until 17 June 2005. Mr. Mendel was a member of the Board of Management of HVB until 18 November 2005. The Group continues to maintain relations with HVB as a provider of credit lines and other financial services at arm' length conditions. In addition, HVB provides defined services under a Designated Sponsor Agreement. Amounts received as reflected in the consolidated income statement for the entire financial year amounted to € 0.7 million (previous year: 0.5 million) for interests received; interests paid, including other expenditure, amounted to € 7.5 million (previous year: € 9.1 million). The corresponding asset and liability items were recorded on the balance sheet under cash and cash equivalents in the amount of € 38.5 million (previous year: € 21.5 million), short-term bank liabilities in the amount of € 57.5 million (previous year: € 24.2 million) and financial debts in the amount of € 130.9 million (previous year: € 148.7 million).

10.5 Total remuneration Supervisory Board, Board of Management and Advisory Board

	2005	2004
	€ '000	€ '000
Remuneration of the Supervisory Board	1,061	1,105
Remuneration of the Board of Management	8,508	8,493
Remuneration of the Advisory Board	22	13

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 and the members of the Supervisory Board – except the chairman of the Supervisory Board, Mr. Eugen Münch – together have a shareholding interest in RHÖN-KLINIKUM AG which does not exceed 1.0% of total equity capital. The family of the chairman of the Supervisory Board, Mr. Eugen Münch, holds 16.0% of the shares of RHÖN-KLINIKUM AG.

No transactions subject to notification pursuant to Section 15a of the Securities Trading Act (WpHG) were recorded at RHÖN-KLINIKUM AG in financial year 2005.

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

	Fixed	Performance-linked	Total 2005	Total 2004
	€ '000	€ '000	€ '000	€ '000
Eugen Münch (since 1 September 2005)	8	33	41	0
Wolfgang Mündel	38	149	187	84
Bernd Becker	26	100	126	134
Dr. Bernhard Aisch (since 31 December 2005)	0	0	0	0
Gisela Ballauf (since 31 December 2005)	0	0	0	0
Sylvia Bühler (since 31 December 2005)	0	0	0	0
Helmut Bühner	10	38	48	47
Ursula Derwein (until 30 December 2005)	10	38	48	45
Prof. Dr. Gerhard Ehninger	10	38	48	47
Ursula Harres	10	38	48	47
Caspar von Hauenschild (since 31 December 2005)	0	0	0	0
Detlef Klimpe	11	44	55	58
Dr. Heinz Korte (since 31 December 2005)	0	0	0	0
Prof. Dr. Dr. sc. (Harvard) Karl W. Lauterbach	9	35	44	42
Joachim Lüddecke (since 31 December 2005)	0	0	0	0
Michael Mendel	17	69	86	102
Dr. Brigitte Mohn	10	38	48	51
Anneliese Noe (until 30 December 2005)	10	38	48	47
Timothy Plaut	10	38	48	42
Werner Prange	10	38	48	47
Dr. Friedrich-Wilhelm Graf von Rittberg (until 31 August 2005)	5	22	27	200
Joachim Schaar	10	38	48	45
Michael Wendl	13	50	63	67
	217	**844**	**1,061**	**1,105**

The aggregate remuneration of the Board of Management breaks down as follows:

	Fixed	Performance-linked	Increase in severance claims	Total 2005	Total 2004
	€ '000	€ '000	€ '000	€ '000	€ '000
Andrea Aulkemeyer	190	335	55	580	587
Heinz Falszewski	174	268	36	478	375
Hartmut Hain	0	0	0	0	209
Wolfgang Kunz	185	335	52	572	550
Joachim Manz	210	502	184	896	759
Gerald Meder	293	1,072	136	1,501	1,674
Eugen Münch	140	1,248	544	1,932	3,092
Wolfgang Pföhler	262	819	107	1,188	0
Manfred Wiehl	203	781	377	1,361	1,247
	1,657	**5,360**	**1,491**	**8,508**	**8,493**

Mr. Hartmut Hain was deputy member of the Board of Management of RHÖN-KLINIKUM AG until 31 December 2004.

On termination of their service contracts the Board members receive severance compensation when certain conditions are met. This compensation amounts to 12.5% of the annual remuneration owed on the date of termination of the service contract for each full year (12 full calendar months) of service as member of the Board of Management, but not exceeding 1.5 times such latter remuneration. For such post-termination entitlements of the members of the Board of Management, the following provisions were formed for severance compensation:

	Provisions As at 31 Dec. 2004	Provisions As at 31 Dec. 2005	Nominal amount of compensation [1]
	Tsd €	Tsd €	Tsd €
Andrea Aulkemeyer	168	223	644
Heinz Falszewski	28	64	272
Wolfgang Kunz	136	188	322
Joachim Manz	686	870	870
Gerald Meder	1,112	1,248	2,040
Eugen Münch	3,026	3,570	3,570
Wolfgang Pföhler	0	107	1,008
Manfred Wiehl	1,347	1,724	1,724
	6,503	**7,994**	**10,450**

[1] *Claim according to ordinary expiry of service contract based on remuneration of the past financial year.*

The Group does not have any long-term incentive plans (e.g. stock options) for executives.

The members of the Board of Management – except Mr. Eugen Münch – each hold less than 1.0% of the shares of RHÖN-KLINIKUM AG. The entire interest held by these Board members in shares issued by the Company is also less than 1.0%. The entire shareholding of all members of the Supervisory Board – except Mr. Eugen Münch – amounts to less than 1.0% of the shares in issue. There are no options or other derivatives. The family of the chairman of the Supervisory Board, Mr. Eugen Münch, holds 16.0% of the shares of RHÖN-KLINIKUM AG.

10.6 Statement of Compliance with the German Corporate Governance Code

By joint resolutions of the Supervisory Board and the Board of Management of RHÖN–KLINIKUM AG from March and November 2005, the Company made the corresponding declarations pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the application of the Code in financial year 2005. These were deposited on the homepage of RHÖN-KLINIKUM AG and thus made available to the general public.

10.7 Disclosure of the fees recognised as expenses (incl. reimbursement of outlays and VAT) for the statutory auditor of the consolidated financial statements

	2005
	€ '000
Audit of annual financial statements	1,015
Other auditing or valuation services	85
Tax advice	185
Other services	36
	1,321

11 CORPORATE BODIES AND ADVISORY BOARD OF RHÖN-KLINIKUM AG

1. The **Supervisory Board** of RHÖN-KLINIKUM AG is comprised as follows:

Eugen Münch
Bad Neustadt a. d. Saale
Chairman
(since 1 September 2005)
Chairman of the Board of Management of RHÖN-KLINIKUM AG (until 20 July 2005)
Also a member of the Supervisory Board of:
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden (until 13 October 2005)

Bernd Becker (né Häring)
Leipzig
1st Deputy Chairman
nurse; BA (VWA)

Wolfgang Mündel
Kehl
2nd Deputy Chairman
(since 1 September 2005)
Chairman (1 January until 31 August 2005),
auditor and tax advisor
Other mandates:
Parfum & Cosmétique Jean d'Arcel GmbH & Co. KG, Kehl (chairman of the Advisory Board)

Dr. Bernhard Aisch
Hildesheim
medical control officer (since 31 December 2005)

Gisela Ballauf
Harsum
children's nurse (since 31 December 2005)

Sylvia Bühler
Düsseldorf
Regional Director and Secretary of ver.di
(since 31 December 2005)

Helmut Bühner
Bad Bocklet
nurse

Ursula Derwein
Berlin
Secretary of ver.di,
Federal Administration (until 30 December 2005)

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

Ursula Harres
Wiesbaden
medical-technical assistant

Caspar von Hauenschild
Munich
corporate consultant (since 31 December 2005)
Also a member of the supervisory board of:
St. Gobain ISOVER AG, Ludwigshafen; TA Triumph Adler AG, Nuremberg; IS Teledata AG, Frankfurt am Main

Detlef Klimpe
Aachen
director of administration

Dr. Heinz Korte
Munich
notary (since 31 December 2005)

Professor Dr. Dr. sc. (Harvard)
Karl W. Lauterbach
Cologne
member of the German Parliament

Joachim Lüddecke
Hanover
Regional Director and Secretary of ver.di
(since 31 December 2005)

Michael Mendel
Munich, 2nd Deputy Chairman
(until 31 August 2005)
member of the Board of Management of Bayerische Hypo-Vereinsbank AG
(until 18 November 2005)
Also a member of the supervisory board of:
Bank Austria Creditanstalt AG, Vienna (chairman): German Incubator GI Ventures AG, Munich; MAHAG Münchner Automobil-Handel Haberl GmbH & Co. KG, Munich

Dr. Brigitte Mohn
Gütersloh
Member of the Board of Management of Bertelsmann Stiftung
Other mandates:
Board of Trustees of Urania Berlin e.V.

Anneliese Noe
Blankenhain
nurse (until 30 December 2005)

Timothy Plaut
London
investment banker

Werner Prange
Osterode
nurse

Dr. Friedrich-Wilhelm Graf von Rittberg
Munich
German lawyer (until 31 August 2005),
Also a member of the supervisory board of:
Nordsaat-Holding GmbH, Böhnshausen (until 31 March 2005); Nordsaat Saatzuchtgesellschaft mbH, Böhnshausen (until 31 March 2005)

Joachim Schaar
Wasungen
Director Human Resources

Michael Wendl
Munich
Secretary of ver.di, regional directorate Bavaria
Other mandates:
Städtisches Klinikum München GmbH (Supervisory Board); Zusatzversorgungskasse Bayer. Gemeinden (Board of Directors)

2. The **Board of Management** of RHÖN-KLINIKUM AG is comprised as follows:

Wolfgang Pföhler
business address in Bad Neustadt a. d. Saale,
Chairman of the Board of Management (since 20 July 2005, and from 1 May 2005 member of the Board of Management) provisionally responsible for the region of northern Germany (Berlin, Brandenburg, Mecklenburg-West Pomerania, Saxony, Saxony-Anhalt)
Other mandates:
Deutsche Krankenhausgesellschaft e.V. (President until 31 December 2005); Gesellschaft Deutscher Krankenhaustag GmbH (chairman of Management Board until 31 December 2005); Kuratorium gemeinnützige Schoeps-Stiftung, Mannheim (until 31 December 2005); Baden-Württembergische Bank AG (Advisory Board); Zentralinstitut für Seelische Gesundheit, Stiftung ö.R.Mannheim (Management Board); Raumordnungsverband Rhein-Neckar (chairman until 31 December 2005); Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden (Supervisory Board since 13 October 2005); gemeinnützige Diakoniekrankenhaus Mannheim GmbH (deputy chairman of the Supervisory Board); gemeinnützige Heinrich-Lanz-Stiftung, Mannheim (chairman of the Supervisory Board)

Eugen Münch
business address in Bad Neustadt a. d. Saale
Chairman of the Board of Management
(until 20 July 2005)
Member of the Supervisory Board of:
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden (until 13 October 2005)

Gerald Meder
business address Bad Neustadt a. d. Saale
Deputy Chairman of the Board of Management, Regional Division Southern and South-West Germany (South-Bavaria, Hesse, Baden-Wuerttemberg, Rheinland-Palatinate, Saarland)
Also a member of the supervisory board of:
Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden (chairman); Amper Kliniken AG, Dachau (chairman)

Andrea Aulkemeyer
business address in Bad Neustadt a. d. Saale,
Regional Division northern Bavaria and Thuringia

Heinz Falszewski
business address in Bad Neustadt a. d. Saale
Deputy Board Member, Company and Group Human Resources, Works Director

Wolfgang Kunz
business address in Bad Neustadt a. d. Saale
Company and Group Accounting

Joachim Manz
business address in Berlin
Association Policy, Regional Division Brandenburg and northern Germany
(until 31 December 2005)
Also a member of the supervisory board of:
Amper Kliniken AG, Dachau; Klinikum Hildesheim GmbH, Hildesheim; Klinikum Pforzheim GmbH, Pforzheim; Klinikum Salzgitter GmbH, Salzgitter

Dietmar Pawlik
business address in Bad Neustadt a. d. Saale,
Deputy Board Member (since 1 January 2006),
Finance, Investor Relations, Controlling
Member of the Supervisory Board of:
Amper Kliniken AG, Dachau

Dr. Brunhilde Seidel-Kwem
business address in Hamburg
Deputy Board Member (since 1 January 2006),
Regional Division Western and Northern
Germany (Bremen, Hamburg, Lower Saxony,
North Rhine-Westphalia, Schleswig-Holstein)
Also a member of the supervisory board of:
Klinikum Hildesheim GmbH, Hildesheim; Klinikum Salzgitter GmbH, Salzgitter

Manfred Wiehl
business address in Bad Neustadt a. d. Saale
Finance, Investor Relations, Controlling
(until 31 December 2005)
Also a member of the supervisory board of:
Amper Kliniken AG, Dachau: Klinikum Hildesheim GmbH, Hildesheim (chairman); Klinikum Salzgitter GmbH, Salzgitter (chairman); Stiftung Deutsche Klinik für Diagnostik GmbH, Wiesbaden

3. **Advisory Board** of RHÖN-KLINIKUM AG

Wolf-Peter Hentschel
Bayreuth (Chairman)

Professor Dr. Robert Hacker
Bad Neustadt a. d. Saale

Dr. Heinz Korte
Munich (until 30 December 2005)

Ministerialrat a. D. Helmut Meinhold
Heppenheim (since 20 July 2005)

Professor Dr. Michael-Jürgen Polonius
Dortmund

Helmut Reubelt
Dortmund

Liane Seidel
Bad Neustadt a. d. Saale (until 29 July 2005)

Dr. Karl-Gustav Werner
Düsseldorf (since 20 July 2005)

Franz Widera
Duisburg

Prof. Dr. Dr. h.c. Klaus D. Wolff
Bayreuth

Bad Neustadt a. d. Saale, 10 March 2006

The Board of Management

Andrea Aulkemeyer   Heinz Falszewski   Wolfgang Kunz   Gerald Meder

Dietmar Pawlik   Wolfgang Pföhler   Dr. Brunhilde Seidel-Kwem

Auditor's Report

Based on the result of our audit, we have issued the following unqualified auditor's report dated 10 March 2006:

"**Auditor's Report**

We have audited the consolidated financial statements prepared by RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, comprising the consolidated balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement, and the notes to the consolidated financial statements together with the group management report, for the financial year ended 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS as adopted by the EU and the additional requirements of Section 315a (1) of the German Commercial Code (Handelsgesetzbuch, HGB) is the responsibility of the Board of Management of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. We were also instructed to give an opinion on whether the consolidated financial statements also comply with the IFRS as a whole.

We conducted our audit of the consolidated financial statements in accordance Section 317 HGB and German generally accepted accounting standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW) as well as the International Standards on Auditing (ISA). These standards require an audit to be planned and performed in such a way that misstatements having a material impact on the view of the asset, financial and earnings position as presented by the consolidated financial statements in compliance with the applicable accounting principles and by the group management report are identified with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of the audit procedures. We have examined, primarily on a test basis, the effectiveness of the accounting-related internal control system as well as evidence supporting the disclosures in the consolidated financial statements and management report. Our audit also included an assessment of the annual financial statements of those companies included in the scope of consolidation, the determination of the companies included in the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not given rise to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, the additional requirements of Section 315a (1) HGB, as well as the IFRS as a whole, and give a true and fair view of the asset, financial and earnings position of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and presents a true and fair view of the Group's overall position and the potential risks and rewards for its future development."

Frankfurt am Main, 10 March 2006

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schmidt)
Auditor

(Burkhart)
Auditor

Balance Sheet and Income Statement

Balance Sheet

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
ASSETS		
Intangible assets	0.8	0.8
Tangible assets	27.1	29.3
Financial assets	624.3	432.9
Fixed assets	**652.2**	**463.0**
Inventories	2.6	2.4
Receivables and other assets	79.6	58.6
Securities, cash and cash equivalents	13.3	2.4
Current assets	**95.5**	**63.4**
Prepaid expenses	**0.5**	**0.4**
	748.2	**526.8**

	31 Dec. 2005	31 Dec. 2004
	€ million	€ million
EQUITY AND LIABILITIES		
Subscribed capital	51.8	25.9
Capital reserve	37.6	37.6
Retained earnings	243.4	230.9
Net distributable profit	29.8	29.1
Equity	**362.6**	**323.5**
Tax provisions	0	0.1
Other provisions	34.1	28.9
Provisions	**34.1**	**29.0**
Liabilities	**351.5**	**174.3**
	748.2	**526.8**

Income Statement

	2005	2004
	€ million	€ million
Revenues	123.6	124.5
Changes in services	0.4	– 0.1
Other operating income in progress	12.0	7.0
Cost of materials	33.7	30.5
Personnel costs	66.7	65.0
Depreciation	4.0	3.8
Other operating expenses	31.4	29.3
Operating result	**0.2**	**2.8**
Investment result	71.2	61.3
Financial result	– 9.8	– 2.3
Earnings from ordinary operations	**61.6**	**61.8**
Taxes	2.1	3.6
Net profit for the year	**59.5**	**58.2**
Allocation to retained earnings	29.7	29.1
Net distributable profit	**29.8**	**29.1**

The annual financial statements of RHÖN-KLINIKUM AG, which have been audited and certified by Pricewater-houseCoopers Aktiengesellschaft, Wirtschaftsprüfungs-gesellschaft, 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 profit

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2005, 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 € 29,755,847.69. 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 € 0.45 per ordinary share on 17,280,000	23,328,000.00
Allocation to other retained earnings	6,427,847.69
Net distributable profit	**29,755,847.69**

Bad Neustadt a. d. Saale, 24 February 2006

RHÖN-KLINIKUM AKTIENGESELLSCHAFT
The Board of Management

Andrea Aulkemeyer   Heinz Falszewski   Wolfgang Kunz   Gerald Meder

Dietmar Pawlik   Wolfgang Pföhler   Dr. Brunhilde Seidel-Kwem

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 a. d. Saale comprising 1,500 condominium units as a rehabilitation centre

1975

Opening of psychosomatic hospital Psychosomatische Klinik Bad Neustadt a. d. 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 a. d. 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 (€ 7.67 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% 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 a. d. 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 a. d. Saale

1992

Opening of the hand surgery clinic Klinik für Handchirurgie in Bad Neustadt a. d. Saale

1993

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

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 a. d. Saale

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 Stadtkrankenhaus in Pforzheim/Baden-Wuerttemberg with 602 beds

Conclusion of purchase agreement for the acquisition of Kreiskrankenhaus in Bad Neustadt a. d. Saale with 200 beds[1]

Conclusion of purchase agreement for the acquisition of Kreiskrankenhaus in Mellrichstadt (near Bad Neustadt a. d. Saale) with 70 beds[1]

2005

Takeover of Stadtkrankenhaus in Hildesheim/Lower Saxony with 570 beds

Takeover of Kreiskrankenhaus in Gifhorn with 360 beds (interest of 95 per cent)

Takeover of Städtisches Krankenhaus in Wittingen with 71 beds (interest of 95 per cent)

Takeover of Kreiskrankenhaus in München-Pasing with 442 beds

Takeover of Kreiskrankenhaus in München-Perlach with 180 beds

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

Takeover of Klinik Indersdorf with 50 beds (interest of 74.9 per cent)

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)

Takeover of Kreiskrankenhaus in Erlenbach with 220 beds

Takeover of Kreiskrankenhaus in Miltenberg with 140 beds

Capital increase from company funds from 25,920,000 shares to 51,840,000 shares

Conversion of preference shares into ordinary shares

Takeover of 25.27 per cent interest of Free State of Thuringia in Fachkrankenhaus für Psychiatrie und Neurologie in Hildburghausen GmbH

2006

Takeover of Frankenwaldklinik in Kronach with 282 beds

Takeover of Heinz-Kalk-Krankenhaus in Bad Kissingen with 86 beds

Takeover of Universitätsklinikum Gießen und Marburg GmbH with 2,262 beds (interest of 95 per cent)

[1] *Prohibited in March 2005 by the Cartel Office; appeal lodged*

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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 RHÖN-KLINIKUM shareholders and financial analysts

13 February 2006	Publication of preliminary results for financial year 2005
26 April 2006	Publication of Q1 Interim Report
26 April 2006	Press Conference – Presentation of 2005 results
19 July 2006	Publication of Q2 Interim Report
19 July 2006	Annual General Meeting
26 October 2006	Publication of Q3 Interim Report
9 November 2006	Analyst Conference

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