RHÖN-KLINIKUM AG

Interim Report
1 January – 30 September 2005

Interim report to our shareholders for the nine months ended 30 September 2005

General remarks

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

Review and outlook

In the first nine months of 2005, revenues rose 34.9% to € 1,044.7 million (previous year: € 774.2 million). This was mainly driven by the takeover of nine hospitals with a total of 2,625 beds and places as per 1 January 2005 and a further two hospitals with 396 beds and places as per 1 July 2005. This in turn lifted net consolidated profit by 13.5% to € 67.1 million. As a result of scrip shares (bonus shares) issued in a ratio of 1:1 following the Annual General Meeting in July 2005, earnings per share can be compared with the pre-year figure only on the basis of the adjusted values. At the end of the third quarter, earnings per share stood at € 1.23 (after € 1.09 in the previous year).

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

As expected, the rise in revenues from the newly consolidated hospitals with uneconomical structures led to a deterioration in margins. That said, these newly consolidated facilities generally possess considerable rationalisation potential. Despite the aforementioned restrictions, we still succeeded in raising the key ratios EBITDA (+ € 17.3 million), EBIT (+ € 12.8 million) and net consolidated profit (+ € 8.0 million) in the first nine months as expected by more than 13% versus the same period last year. The financial result was € 2.3 million lower owing to the higher debt compared with the previous year.

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

In the first nine months of 2005, Group investment totalled € 234.2 million, of which € 172.9 million was accounted for by hospital takeovers. This investment volume was financed by the operating cash flow of € 112.0 million, a higher net debt with banks of € 92.0 million as well as interest-free short- and long-term loan capital.

Net debt to banks stood at € 315.6 million at the end of third quarter of 2005, up sharply from € 223.6 million at year-end 2004 but € 20.1 million lower compared with last quarter. Following a restructuring of long-term debt at the beginning of July 2005, long-term assets are now fully matched by equity capital and long-term liabilities.

The equity ratio declined from 48.9% at the end of financial year 2004 to 42.4% as at 30 September 2005. This follows on logically from the Group's buoyant growth and accompanying increase in assets and loan capital.

At the end of financial year 2005 we expect revenues to reach € 1.4 billion. Since remuneration negotiations are still under way for 2005 and the remuneration-relevant introductory phase of DRGs (case flat-rate remuneration of healthcare services) has yet to be completed, the resulting absence of forecasting certainty prevents us from revising our earnings estimate at this time. Consequently, our forecast announced at the July 2005 Annual General Meeting for € 86.0 million, with our shareholders participating at € 82.0 million, is left unchanged.

Scope of consolidation and acquisitions

As at 30 September 2005 we have 41 consolidated hospitals with 12,222 beds/places at a total of 33 sites. Due to the disputed prohibition by the German Cartel Office, the scope of consolidation does not include the hospitals in Bad Neustadt and Mellrichstadt.

Following approval by the German cartel authorities, the hospitals in the district of Miltenberg in Erlenbach and Miltenberg were consolidated with effect from 1 July 2005. These two hospitals have combined revenues of € 39.5 million with 396 beds/places.

We have also maintained our growth momentum through Q3 2005 with the conclusion of purchase agreements for Frankenwaldklinik in Kronach (312 beds/places) and Heinz-Kalk-Krankenhaus in Bad Kissingen (86 beds/places). For the latter facility cartel office approval has already been granted. Some prospective acquisition deals envisaged for 2005 did not materialise, the reason being that our requirements in terms of qualified growth potential were not met. As in the past, we consistently refrained from further negotiations in such cases. Bidding procedures currently under way hold the prospect of further deals, albeit not before year-end.

Business performance

Patients

January through September	2005	2004
Inpatient and day-case treatments		
acute hospitals	315,252	211,593
rehabilitation hospitals	6,193	5,338
	321,445	216,931
Outpatient treatments, acute hospitals	408,077	222,670
Total	**729,522**	**439,601**

In the first nine months a total of 729,522 patients (up 289,921 from 439,601 for the same period last year) were treated in the Group's hospitals. Of this increase, 261,569 patients were contributed by our hospital facilities consolidated in the year under way. In our long-standing facilities we recorded growth of 28,352 patients or 6.4%, of which 2,634 patients (1.4%) in the inpatient acute area.

The decline in inpatient and day-cases continued, with average per-case revenue going from € 3,489 in the first nine months of 2004 to € 3,151 for the same period in 2005. This trend is being brought about by the changing mix of patients, with average per-case revenue being squeezed by the acquisition-driven rise in the number of general care hospitals generating lower per-case revenues. This trend is in line with the Group's business policy, which is geared towards more sustained generalised healthcare delivery.

Staff

At 30 September 2005, the Group employed 21,200 persons (at 31 December 2004: 14,977), with 6,314 contributed by the newly consolidated facilities. The hospitals consolidated at the end of 2004 witnessed a slight decline in staff numbers (-91). One statutory consequence of staff numbers exceeding the 20,000 mark is the expansion of the Supervisory Board as at 31 December 2005 to 20 members and with it the reelection of the Supervisory Board members in accordance with German co-determination regulations.

Revenues and earnings

Compared with the second quarter of 2005, revenues in the third quarter of 2005 grew by € 8.8 million (+2.5%), reaching € 356.4 million. Looking at the first nine months, revenues rose by € 270.5 million to € 1,044.7 million (34.9%) versus the same period last year. The first-time consolidated hospitals contributed € 261.0 million to this growth in revenues. Internal growth thus accounted for € 9.5 million (1.2%).

Other operating income rose by € 16.4 million to € 37.2 million. This results among other things from the net effect of revenues from ancillary and incidental activities and corresponding expenditures on the one hand, as well as from settlements agreed with hospital sellers in 2005 to offset start-up losses on the other.

In the first three quarters of 2005 the cost of materials rose disproportionately to 24.8% compared with the same period last year (24.4%). This rise stems from the unfavourable purchasing terms of acquired facilities. These terms will be normalised and are thus part of our rationalisation potential. The decline to 24.5% in the third quarter of 2005 (Q3/2004: 24.7%) shows that integration is moving ahead. For quality reasons, a trend towards the use of cost-intensive and higher-quality materials can still be seen in the hospitals consolidated at year-end 2004, resulting in a temporary rise in the material cost ratio in the first nine months of 2005.

At 56.4% the personnel cost ratio in the first nine months of 2005 well exceeds the previous year's level of 52.9%, an increase which reflects the composition of the newly acquired facilities. In the hospitals already consolidated in the previous year, though, the personnel cost ratio declined by 0.9% to 52.0%.

Relative to revenues, other operating expenses fell from 8.4% in the previous year to 8.1% (8.0% with the newly consolidated hospitals and 8.1% with the other hospitals) during the period under review. The increase compared with the first two quarters from 7.9% to 8.4% is attributable to scheduled maintenance and expenditure in connection with the integration of the new hospitals.

In the first nine months EBITDA (earnings before depreciation/amortisation, interest and tax) rose by € 17.3 million (+13.1%) to reach € 149.1 million. The third quarter accounted for € 50.4 million of this increase (previous year: € 45.1 million).

The depreciation and amortisation expense rose by € 4.5 million to € 44.7 million (previous year: € 40.2 million), thus showing a moderate trend relative to revenues. The depreciation and amortisation ratio is 4.3% (previous year: 5.2%).

Financing expenditure, being the result of acquisitions and investments, saw a slightly underproportionate rise by € 2.3 million to € 11.8 million.

Relative to earnings, income tax rose moderately to € 25.5 million (previous year: € 23.0 million).

Net consolidated profit was up € 8.0 million at € 67.1 million, with the new hospitals contributing € 3.4 million. € 2.1 million of this earnings growth is accounted for by the hospitals already consolidated over the same period last year and € 2.5 million by the cessation of goodwill amortisation from 2005 onwards

The rise in minority interests in profit by € 0.6 million to € 3.2 million is attributable above all to interests held by sellers in the hospitals acquired in 2005

The interest of RHÖN-KLINIKUM AG shareholders in profit for the first nine months of 2005 rose by € 7.4 million or 13.1% to € 63.9 million compared with the same period last year. This corresponds to earnings per share of € 1.23 (previous year: € 1.09).

January through September	2005 € million	%	2004 € million	%
Revenues	1,044.7	100.0	774.2	100.0
Other operating income	37.2	3.6	20.8	2.7
	1,081.9	**103.6**	**795.0**	**102.7**
Cost of materials	259.6	24.8	188.8	24.4
Personnel expenses	589.1	56.4	409.6	52.9
Other operating expenses	84.1	8.1	64.8	8.4
	932.8	**89.3**	**663.2**	**85.7**
Intermediate result (EBITDA)	**149.1**	**14.3**	**131.8**	**17.0**
Depreciation/amortisation	44.7	4.3	40.2	5.2
Operating result (EBIT)	**104.4**	**10.0**	**91.6**	**11.8**
Cost of financing	14.1	1.3	10.8	1.4
Financial income	2.3	0.2	1.3	0.2
Financial result	**11.8**	**1.1**	**9.5**	**1.2**
Earnings before tax (EBT)	**92.6**	**8.9**	**82.1**	**10.6**
Income tax	25.5	2.4	23.0	3.0
Net consolidated profit	**67.1**	**6.5**	**59.1**	**7.6**
of which				
Minority owners	**3.2**	**0.3**	**2.6**	**0.3**
Shareholders of RHÖN-KLINIKUM AG	**63.9**	**6.2**	**56.5**	**7.3**
Earnings per share in €	**1.23**		**1.09***	

July through September	2005 € million	%	2004 € million	%
Revenues	356.4	100.0	275.4	100.0
Other operating income	12.0	3.4	6.8	2.5
	368.4	**103.4**	**282.2**	**102.5**
Cost of materials	87.2	24.5	67.9	24.7
Personnel expenses	200.9	56.4	146.1	53.1
Other operating expenses	29.9	8.4	23.1	8.4
	318.0	**89.3**	**237.1**	**86.2**
Intermediate result (EBITDA)	**50.4**	**14.1**	**45.1**	**16.3**
Depreciation/amortisation	14.7	4.1	13.5	4.9
Operating result (EBIT)	**35.7**	**10.0**	**31.6**	**11.4**
Cost of financing	4.9	1.4	3.7	1.3
Financial income	0.9	0.3	0.5	0.2
Financial result	**4.0**	**1.1**	**3.2**	**1.2**
Earnings before tax (EBT)	**31.7**	**8.9**	**28.4**	**10.2**
Income tax	9.0	2.5	8.2	3.0
Net consolidated profit	**22.7**	**6.4**	**20.2**	**7.2**
of which				
Minority owners	**0.9**	**0.3**	**0.8**	**0.3**
Shareholders of RHÖN-KLINIKUM AG	**21.8**	**6.1**	**19.4**	**6.9**
Earnings per share in €	**0.42**		**0.37***	

* Earnings per share in € for 2004 was adjusted to the volume of shares after the capital increase from own funds and the merging of the preference and ordinary shares in 2005.

Investing activities

In In the first nine months of 2005 we invested € 234.2 million, of which € 172.9 million is accounted for by the addition of fixed assets acquired on hospital takeovers and € 61.3 million by current investments in our hospitals. These new and top-up investments along with investments in fittings, furnishings and equipment were realised at the following sites:

	€ million
Mittelweser Kliniken	10.1
Bad Neustadt	6.9
Frankfurt (Oder)	5.2
Pirna	5.1
Dachau	4.8
Hildburghausen	4.7
Wiesbaden	3.9
Weißeritztalkliniken	3.6
Bad Berka	3.7
Leipzig	2.5
Other sites	10.8
Total	**61.3**

Asset and financial structure

Growth in assets by € 319.3 million to € 1,481.8 million versus 31 December 2004 was mainly driven by the first-time consolidation of newly acquired hospitals and by the smart increase in cash and cash equivalents by € 69.2 million to € 137.7 million.

Coverage of long-term assets by long-term financing is 100.5%, i.e. is with full matching maturities. We achieved this in July 2005 by the conversion of short-term loan capital into long-term loan capital.

Compared with 31 December 2004, we recorded an investment- and acquisition-induced rise in net debt to banks by € 92.0 million to € 315.6 million. In the third quarter of 2005 net debt was thus reduced by € 20.1 million versus the end of the first half of 2005.

In capital expenditure contracted for, liabilities under lease agreements as well as other current financial liabilities, there have been no material changes since the last balance sheet date. Financial liabilities under purchase agreements concluded (whether currently in force or not) currently amount to € 374.1 million (after € 332.7 million at 31 December 2004).

The Group continues to enjoy stable and sound financial structures.

	30 September 2005		31 December 2004	
	€ million	%	€ million	%
ASSETS				
Long-term assets				
Intangible fixed assets	81.2	5.5	49.0	4.2
Tangible fixed assets	951.6	64.2	794.8	68.4
Other loans and investments	2.8	0.2	2.6	0.2
	1,035.6	69.9	846.4	72.8
Deferred income tax receivables	14.5	1.0	6.8	0.6
	1,050.1	**70.9**	**853.2**	**73.4**
Short-term assets				
Inventories	26.6	1.8	19.7	1.7
Accounts receivable	180.5	12.1	148.5	12.8
Current income tax receivables	11.3	0.8	11.2	1.0
Other assets	75.6	5.1	61.4	5.3
Cash and cash equivalents	137.7	9.3	68.5	5.8
	431.7	**29.1**	**309.3**	**26.6**
	1,481.8	**100.0**	**1,162.5**	**100.0**

SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity				
Equity attributable to shareholders				
Subscribed capital	51.8	3.5	25.9	2.2
Reserves	537.7	36.3	520.0	44.7
	589.5	39.8	545.9	46.9
Minority interests in equity capital	38.9	2.6	22.8	2.0
	628.4	**42.4**	**568.7**	**48.9**
Long-term debt				
Financial debt	382.1	25.8	238.7	20.5
Provisions for pensions	14.9	1.0	11.1	1.0
Deferred income tax liabilities	30.3	2.0	31.3	2.7
	427.3	**28.8**	**281.1**	**24.2**
Short-term debt				
Accounts payable	66.9	4.5	48.7	4.2
Current income tax liabilities	8.9	0.6	10.2	0.9
Financial debt	71.2	4.8	53.4	4.6
Other provisions	11.3	0.8	8.2	0.7
Other liabilities	267.8	18.1	192.2	16.5
	426.1	**28.8**	**312.7**	**26.9**
	1,481.8	**100.0**	**1,162.5**	**100.0**

Shareholders' equity developed as shown below:

Statement of changes in shareholder's equity	Shareholders € million	Minorities € million	Total € million
As at 31 December 2003	**487.3**	**20.9**	**508.2**
Addition from first-time consolidation	0.0	0.1	0.1
Consolidated result for ethe first nine months of 2004	56.5	2.6	59.1
Capital increase	0.0	0.0	0.0
Dividends paid	- 17.8	- 2.0	- 19.8
As at 30 September 2004	**526.0**	**21.6**	**547.6**
As at 31 December 2004	**545.9**	**22.8**	**568.7**
Addition from first-time consolidation	0.0	8.8	8.8
Consolidated result for the first nine months of 2005	63.9	3.2	67.1
Capital increase	0.0	6.8	6.8
Dividends paid	- 20.3	- 2.7	- 23.0
As at 30 September 2005	**589.5**	**38.9**	**628.4**

The Group's share capital increased from € 25,920,000 to € 51,840,000 with the issuance of scrip shares (bonus shares) at a ratio of 1:1.

The conversion of the preference shares into ordinary shares resolved at the July 2005 Annual General Meeting was completed in September.

Cash flow statement

At 30 September 2005, cash and cash equivalents showed an increase by € 69.2 million to € 137.7 million over the period under review. This compares with the more moderate rise in short-term financial debt, by € 5.6 million to € 71.2 million. Long-term debt rose by € 94.9 million. Following a restructuring of debt to long-term financing in July 2005, long-term debt increased by € 78.2 million versus 30 June 2005.

We have improved our internal financing strength. In the first nine months of financial year 2005 we generated an operating cash flow of € 112.0 million (previous year: € 99.3 million).

January through September	2005 € million	2004 € million
Earnings before taxes	92.6	82.1
Adjustment for financial result	11.8	9.5
Depreciation/amortisation expense and book losses on fixed assets	44.9	41.7
EBITDA (plus book losses)	**149.3**	**133.3**
Change in inventories	0.4	0.2
Change in accounts receivable	8.8	- 4.0
Change in other receivables	- 3.1	12.0
Change in liabilities	4.5	- 13.6
Change in provisions	1.3	0.4
Income taxes paid	- 27.3	- 25.8
Interest paid	- 14.1	- 10.8
Cash generated (+) / utilised (-) by operating activities	**119.8**	**91.7**
Investments in tangible and intangible fixed assets	- 61.4	- 52.9
Acquisition of subsidiaries, net of cash acquired	- 75.6	1.3
Proceeds from disposal of fixed assets	0.0	0.2
Interest received	2.3	1.3
Cash generated (+) / utilised (-) in investing activities	**- 134.7**	**- 50.1**
Change in short-term financial debts	5.6	- 90.1
Change in long-term financial debts	94.9	26.4
Deposits from outside shareholders	4.0	0.0
Dividends paid and dividend distributions to minority owners	- 20.4	- 19.8
Cash generated (+) / utilised (-) by financing activities	**84.1**	**- 83.5**
Change in liquidity	69.2	- 41.9
Cash and cash equivalents at 1 January	68.5	101.8
Cash and cash equivalents at 30 September	**137.7**	**59.9**

Bad Neustadt/Saale, 26 October 2005

RHÖN-KLINIKUM AG

THE BOARD OF MANAGEMENT