



RHÖN-KLINIKUM AG

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INTERIM REPORT  
FOR THE PERIOD FROM  
1 JANUARY TO 31 MARCH 2003

# INTERIM REPORT TO OUR SHAREHOLDERS FOR THE FIRST QUARTER OF 2003

## Review and outlook

The interim report on the results for the first quarter of 2003 has been prepared in accordance with International Accounting Standards (IAS), using accounting and valuation methods consistent with those used in the previous year.

Revenues totalled € 233.2 million (first quarter 2002: € 212.8 million) in the first three months of 2003, which has met internal targets. Net earnings for the first quarter of 2003 amounting to € 18.4 million or € 0.71 per share clearly exceeded the comparable figures of the year-earlier first quarter of € 14.8 million. Positive contributions to this improvement which primarily reflects our focus on cost containment came from almost all our hospitals.

Our strong Q1 results were also influenced by indemnifications of € 1.5 million as compensation for flood damages suffered in the third quarter of 2002 at our hospital in Freital. A burden on results was the higher tax expense that resulted from an increase in the corporation tax rate to 26.5 %.

Seven of our hospitals had announced to adopt the new DRG-based remuneration system on 1 October 2002 and thus avoided the effects of what is known as statutory „zero round“ for hospitals. Overall, the price increase accounted for only about 0.4 % of group-wide budgets, however. This underscores the strength of our Q1 results in so far as personnel and material cost increases exceeded that level significantly.

Looking forward, we expect the positive development within the Group to continue through 2003, and our earnings forecast for 2003 remains at € 70.0 million plus, as previously announced.

The Group continues to show solid financial structures. In Q1 current capital expenditure as well as costs of hospital takeovers, new building and extension projects totalling € 19.3 million were funded in full from the cash flow of € 32.0 million. In addition, we have been able to improve our net debt position.

Our cost containment programme has helped to more than compensate the decline in revenues per treatment. This, in turn, has enabled us to set higher benchmarks for hospital acquisitions, and we will pay particular attention to whether or not future sales offers comply with our basic conditions for implementing efficiency-driving measures. We continue to value sound qualitative growth higher than mere quantitative growth that involves in part unacceptable compromising on vested rights.

## Development of patient numbers

In the first quarter of 2003, RHÖN-KLINIKUM hospitals recorded a combined total of 128,311 patients, topping the year-earlier Q1 figures by 13,908 treatments or 12 %. This increase resulted in part from the first inclusion of patients treated at our hospitals in Pirna and Dohna-Heidenau (6,674 treatments), with the remainder (7,234 treatments) being accounted for by further increases, driven by medical and demographic developments, at other portfolio hospitals.

	January through March 2003	2002
Inpatient and day-case treatments in acute care hospitals	65,677	58,713
Inpatient treatments in rehabilitation clinics	1,657	1,628
Outpatient attendances	60,977	54,062
	128,311	114,403

Revenues per treatment continued to decline in the first quarter of 2003, due to statutory limitations to revenues, on the one hand, and growing demand for health care services, on the other hand. While in 2002 the average revenue per treatment was still € 1,856, this figure declined to an average of € 1,817 in the first quarter of 2003.

## Staff

At 31 March 2003, the Group employed 13,005 persons (31 December 2002: 12,852). Due to the first inclusion of our hospital Dohna-Heidenau, the number of employees rose by 255 (at 31 March).

## Business development

In the first three months of 2003, the Group posted revenues of € 233.2 million; this represents an increase by € 20.4 million or approximately 9.6 % from the comparable period of the previous year. Of this increase, € 8.8 million resulted from the first inclusion of our hospitals in Pirna and Dohna-Heidenau, with the remainder being largely accounted for by performance improvements, whilst statutory increases were confined to an average 0.4 % of total budgets across the Group.

Other operating income in the first quarter of 2003 includes indemnifications of € 1.5 million as compensation for flood damages at our hospital in Freital. This compares with indemnifications of € 1.1 million in the first quarter of 2002.

Slightly more than proportional increases in material costs resulted essentially from volume increases in medical supplies in excess of the increase in revenues, and from our accompanying new developments in medicine.

The slightly less than proportional increase in personnel costs reflects noteworthy rationalisation gains, which we achieved despite the fact that newly acquired hospitals usually require far-going restructuring.

Depreciation on fixed assets developed in line with acquisition and investing activities.

The improved financial result reflects both higher cash flow and lower investments, compared to the previous year, leading to an improvement in long-term and short-term net indebtedness.

The 1.3 % increase in the tax rate to 28.8 % is explained by the 2003 increase in the corporation tax rate by 1.5 % to 26.5 %.

	January through March 2003		January through March 2002	
	€ million	%	€ million	%
Revenues	233.2	100.0	212.8	100.0
Other operating income	6.9	3.0	6.6	3.1
	<b>240.1</b>	<b>103.0</b>	<b>219.4</b>	<b>103.1</b>
Cost of materials	57.8	24.8	52.3	24.6
Personnel costs	120.7	51.8	110.7	52.0
Depreciation	12.0	5.1	11.7	5.5
Other operating expenses	17.7	7.6	18.1	8.5
	<b>208.2</b>	<b>89.3</b>	<b>192.8</b>	<b>90.6</b>
	<b>31.9</b>	<b>13.7</b>	<b>26.6</b>	<b>12.5</b>
Financial result	- 3.8	- 1.6	- 4.1	- 1.9
	<b>28.1</b>	<b>12.1</b>	<b>22.5</b>	<b>10.6</b>
Taxes on earnings	8.1	3.5	6.2	2.9
	<b>20.0</b>	<b>8.6</b>	<b>16.3</b>	<b>7.7</b>
Minority share in profit	1.6	0.7	1.5	0.7
<b>Net consolidated profit</b>	<b>18.4</b>	<b>7.9</b>	<b>14.8</b>	<b>7.0</b>

This corresponds to per-share earnings of € 0.71.

### *Investing and financing*

During the first three months of 2003, we invested a total of € 19.3 million, of which € 2.5 million (after deduction of grants under the Hospital Financing Act (KHG) in our new acquisition in Dohna-Heidenau.

Current capital expenditure breaks down by RHÖN-KLINIKUM sites as follows:

	€ million
Uelzen	5.4
Bad Neustadt	2.9
Pirna	2.7
Freital	1.4
Bad Berka	0.9
Frankfurt (Oder)	0.8
Leipzig	0.6
Hildburghausen	0.6
Attendorn	0.6
Other sites	0.9
<b>Total</b>	<b>16.8</b>

Financing was effected in full from the cash flow.

### *Structure of assets and liabilities*

The first consolidation of the newly acquired hospital in Dohna-Heidenau has had only minor effects on balance sheet relations. The increase in the balance sheet total has resulted from Q1 earnings (€ 18.4 million), first consolidations (€ 4.9 million), and the increase in short-term assets and short-term liabilities. As always, the long-term nature of our activities is shown in a high investment rate with corresponding long-term capital engagement. The improvement in asset coverage by long-term liabilities has resulted from cash flow generated from operations being used for loan redemption, as well as from first-quarter profits realised. The change in shareholders' equity corresponds to first-quarter results.

Group finances continue to show stable structures:

	31 March 2003		31 December 2002	
	€ million	%	€ million	%
<b>ASSETS</b>				
<b>Long-term assets</b>				
Fixed assets				
- Intangible assets	25.1	2.4	23.4	2.3
- Tangible assets	723.2	69.0	717.9	71.5
- Financial assets	2.0	0.2	2.0	0.2
	750.3	71.6	743.3	74.0
Deferred taxes	7.8	0.7	8.0	0.8
	<b>758.1</b>	<b>72.3</b>	<b>751.3</b>	<b>74.8</b>
<b>Short-term assets</b>				
Current assets				
- Inventories	13.7	1.3	13.9	1.4
- Receivables from supplies and services	155.7	14.9	128.1	12.8
- Liquid funds	97.7	9.3	89.1	8.9
- Other	20.5	2.0	20.4	2.0
Prepaid expenses	2.5	0.2	0.6	0.1
	<b>290.1</b>	<b>27.7</b>	<b>252.1</b>	<b>25.2</b>
	<b>1.048.2</b>	<b>100.0</b>	<b>1.003.4</b>	<b>100.0</b>
<b>LIABILITIES</b>				
<b>Long-term capital</b>				
- Share capital	432.6	41.3	414.2	41.3
- Minority interests	32.2	3.1	30.6	3.0
- Long-term financial debts	216.8	20.7	219.0	21.8
- Provisions for pensions	9.0	0.9	8.8	0.9
- Deferred taxes	31.7	3.0	32.1	3.2
	<b>722.3</b>	<b>69.0</b>	<b>704.7</b>	<b>70.2</b>
<b>Short-term capital</b>				
- Profit distribution, as proposed	15.2	1.5	15.2	1.5
- Other provisions	4.6	0.4	4.6	0.5
- Short-term liabilities to banks	122.9	11.7	116.1	11.6
- Liabilities from supplies and services	34.5	3.3	35.1	3.5
- Tax liabilities	8.7	0.8	6.4	0.7
- Other	139.5	13.3	120.8	12.0
- Deferred income	0.5	0.0	0.5	0.0
	<b>325.9</b>	<b>31.0</b>	<b>298.7</b>	<b>29.8</b>
	<b>1.048.2</b>	<b>100.0</b>	<b>1.003.4</b>	<b>100.0</b>

### *Development of shareholders' equity*

The following changes in shareholders' equity have occurred:

	€ million	
<b>At 1 January 2003</b>	<b>429.4</b>	
Net consolidated profit for the first three months of 2003	18.4	
Dividend distribution	0.0	
<b>At 31 March 2003</b>	<b>447.8</b>	
Ordinary share capital and capital reserves remained unchanged.		
<b>Cash flow statement</b>		
Cash resources have increased by € 8.6 million since the beginning of financial year 2003. Cash generated from operations, including interests received and income from the disposal of assets totalling € 20.9 million and net loans of € 4.5 million, compares with cash utilised in investing activities amounting to € 16.8 million.		
	January through March 2003	2002
	€ million	€ million
Earnings before taxes	28.1	22.5
Elimination of financial result	3.8	4.2
Depreciation and book losses on fixed assets	12.0	11.7
<b>EBITDA</b>	<b>43.9</b>	<b>38.4</b>
Change in inventories	0.3	- 2.0
Change in receivables from supplies and services	- 25.9	- 35.3
Change in other receivables	- 1.7	- 3.6
Change in liabilities	13.3	45.1
Change in provisions	0.1	0.4
Earnings taxes paid	- 5.7	- 9.6
Interests paid	- 4.4	- 4.9
<b>Cash generated by operations</b>	<b>19.9</b>	<b>28.5</b>
Investments in tangible and intangible assets	- 16.8	- 98.4
Surplus from the disposal of fixed assets	0.4	0.0
Interests received	0.6	0.7
<b>Cash utilised in investing activities</b>	<b>-15.8</b>	<b>-97.7</b>
Change in short-term financial debts	6.7	75.9
Change in long-term financial debts	- 2.2	7.4
Payments from minority shareholders	0.0	3.6
Dividends paid and profit distributions to minority shareholders	0.0	0.0
<b>Cash generated by financing activities</b>	<b>4.5</b>	<b>86.9</b>
Change in liquidity	8.6	17.7
Cash resources at 1 January	89.1	71.5
<b>Cash resources at 31 March</b>	<b>97.7</b>	<b>89.2</b>

Bad Neustadt/Saale, 7 May 2003

RHÖN-KLINIKUM AG  
The Board of Management