



RHÖN-KLINIKUM AG

Interim Report
First Half 2006

Interim report to our shareholders for the six months ended 30 June 2006

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. The accounting and valuation methods consistent with those used in the previous year were applied.

Review and outlook

With revenue rising 36.3% to reach € 938.1 million (previous year: € 688.3 million), EBITDA increasing by € 4.9 million, EBIT climbing by € 2.3 million, and net consolidated profit up by € 1.2 million at € 45.6 million (previous year: € 44.4 million), we closed the first six months of financial year 2006 in line with our expectations. The result is burdened by a loss of € 5.6 million at Universitätsklinikum Gießen und Marburg. For the period 1 February 2006 to 31 December 2006, Universitätsklinikum Gießen und Marburg is expected to post a loss of € 7.0 million. Measures have been taken to compensate for the effects from the expected increase in doctors' remuneration.

For financial year 2006 we expect revenues to reach € 1.9 billion. We will offset the charge on earnings in 2006 resulting from the takeover of Universitätsklinikum Gießen und Marburg with the improved results of our other facilities. For financial year 2006 we leave our target for net consolidated profit unchanged at € 93 million.

The rise in revenues in the first six months of 2006 mainly stems from the first-time consolidation of Universitätsklinikum Gießen und Marburg GmbH from February 2006 which added revenues of € 172.7 million and 2,262 beds and places, as well as from the takeover of four further hospitals from the second half of 2005 which contributed an additional 794 beds and places.

Net consolidated profit rose by 2.7% to € 45.6 million (previous year: € 44.4 million). At the end of the first half, the earnings-per-share figure stood at € 0.84 (previous year: € 0.81 adjusted).

The newly consolidated facilities still have inefficient structures. Margins therefore worsened as expected. The measures taken to reap the full rationalisation potential of these hospitals are moving ahead as planned. The Group's long-standing facilities also recorded a slight improvement in personnel cost ratios.

In the first six months of financial year 2006, the Group invested a total of € 276.3 million (previous year: € 199.1 million), of which a total amount of € 209.7 (previous year: € 157.8 million) was accounted for by hospital takeovers. We invested € 66.6 million (previous year: € 41.3 million) in new buildings and hospital equipment. This investment volume was financed by our operating cash flow of € 78.1 million (previous year: € 74.5 million), an € 83.7 million higher net debt

with banks as well as interest-free short- and long-term loan capital.

Net debt to banks rose from € 301.0 million at the end of 2005 to € 385.9 million at the end of the first half of 2006 as a result of purchase price payments for the hospitals taken over. After the conclusion of a syndicated loan with a term of five years, long-term assets are now fully matched by equity capital and long-term liabilities.

The equity ratio declined from 39.6% at the end of financial year 2005 to 34.6% as at 30 June 2006. This comes as a result of the Company's buoyant growth and accompanying increase in assets and loan capital.

At the university hospitals in Gießen and Marburg the collective agreements expired on 31 December 2005. Currently collective bargaining negotiations are under way between the doctors' association Marburger Bund and the Federal State of Hesse. So far there has been no final outcome. Since the current collective negotiations in the Federal State of Hesse impose a duty of industrial peace on the parties, strikes by doctors accompanied by major reductions in medical capacities have been virtually absent.

Scope of consolidation and acquisitions

As at 30 June 2006 we have 45 consolidated hospitals with 14,620 beds/places at a total of 34 sites. Due to the disputed prohibition of the takeover by the German Cartel Office, the figures do not include the district hospitals in Bad Neustadt and Mellrichstadt. The action filed with the Düsseldorf Court of Appeals for a decision on our appeal against the German Cartel Office refusal of the merger is ongoing. We expect a decision in the fourth quarter of 2006.

Taking into account Heinz Kalk-Krankenhaus in Bad Kissingen, Frankenwaldklinik in Kronach (both consolidated from 1 January 2006) and Universitätsklinikum Gießen und Marburg (from 1 February 2006), the first quarter of 2006 saw the first-time consolidation of four facilities with 2,660 beds/places and an annual revenue volume of roughly € 450 million.

	Date consolidated	No. of hospitals	Beds/ places
Heinz Kalk-Krankenhaus Bad Kissingen	1 Jan. 2006	1	86
Frankenwaldklinik Kronach	1 Jan. 2006	1	312
Universitätsklinikum Gießen und Marburg	1 Feb. 2006	2	2,262
		4	2,660

At the beginning of 2006 we disengaged, without exception, from other acquisition projects that did not meet our requirements in terms of qualitative growth potential.

Business performance

Patients

January through June	2006	2005
Inpatient and day-case treatments		
acute hospitals	261,092	209,304
rehabilitation hospitals and other facilities	4,560	3,933
	265,652	213,237
Outpatient treatments, acute hospitals	411,963	274,598
Total	677,615	487,835

In the first six months a total of 677,615 patients (up +189,780 or +38.9%) were treated in the Group's hospitals. Of this increase, outpatient treatments account for roughly 72.4%. The growth is mainly attributable to the takeover of the two university hospitals with their large polyclinic facilities.

Our long-standing hospitals treated 258,184 patients on an outpatient basis (previous year: 274,598). The decline in patient numbers at the long-standing hospitals by 16,414 patients mainly concerns the hospital in Hildesheim given the roughly 25,690 pathology cases outsourced in Hildesheim. On an adjusted basis, outpatient cases saw an increase of 9,276.

In inpatient cases we recorded internal growth of 1.9% at our long-standing facilities. In the first half of 2006 we treated 180,812 patients (previous year: 177,400, +3,412).

Per-case revenues

January through June	2006	2005
Per-case revenue, inpatient (€)	3,390	3,122
Per-case revenue, outpatient (€)	91	82
Average per-case revenue (€)	1,384	1,410

Compared with the first half of the previous year, per-case revenue rose by 8.6% in the inpatient area and by 11.0% in the outpatient area.

Average per-case revenue within the Group declined by 1.8% owing to the disproportionate rise in outpatient case numbers. Universitätsklinikum Gießen und Marburg has much higher per-case revenues (€ 4,234 for inpatient cases and € 101 for outpatient cases) than the average within the Group.

At our long-standing facilities, inpatient per-case revenue recorded an increase of roughly 4.2%. The gains mainly stem from higher remuneration for implants and a change in accounting of the tax levied for training and education, which however are also offset by similarly higher material expenditures and other operating expenditures.

Overall, average revenue of all cases declined slightly by 0.8% owing to the disproportionate rise in outpatient case numbers.

Staff

At 30 June 2006, the Group employed 30,785 persons (at 31 December 2005: 21,226). The newly consolidated facilities added 9,869 new employees. The hospitals consolidated at the end of 2005 witnessed a slight decline in staff numbers (-310).

Revenues and earnings

Compared with the first quarter of 2006, revenues in the second quarter grew by € 30.5 million (+ 6.7%), reaching € 484.3 million. Compared with the first half of 2005, revenues in the first half of 2006 grew by € 249.8 million (+ 36.3%), reaching € 938.1 million (previous year € 688.3 million). The hospitals consolidated after the first half of 2005 contributed € 211.6 million to this growth in revenues, with Universitätsklinikum Gießen und Marburg accounting for € 172.7 million. Internal growth stood at € 37.9 million (+5.5%), with € 8.6 million attributable to the earnings-neutral change in accounting of, for example, the tax levied for training and education.

Universitätsklinikum Gießen und Marburg accounted for € 25.1 million of other operating income totalling € 53.5 million. Other operating income reflects, among other things, the net effect of revenues from ancillary and incidental activities and corresponding expenditures.

Compared with the pre-year period, the cost-of-materials ratio saw a disproportionate rise in the first half of 2006 to 25.7% (previous year: 25.0%). This rise stems from unfavourable purchasing terms at the newly acquired hospitals – at the hospitals consolidated in the first half of 2005 the cost-of-materials ratio remained unchanged at 25.0%.

As a result of acquisitions, the personnel cost ratio of 59.1% in the first six months of 2006 well exceeds the previous year's level of 56.4%. The personnel cost ratio of the hospitals already consolidated in the first half of 2005 declined by 4.2 percentage points to 52.2%.

Due to the less favourable financial circumstances of the hospitals taken over, other operating expenses relative to revenues also rose from 7.9% in the previous year to 9.8% (10.6% with the newly consolidated hospitals and 9.6% with the other hospitals). With the latter facilities payments into the training and education fund resulted in a € 7.7 million rise in expenditure which is matched by corresponding revenues.

We raised EBITDA (earnings before depreciation / amortisation, interest and tax) in the first six months of 2006 by € 4.9 million (+ 5.0%) to € 103.6 million.

The depreciation and amortisation expense rose in the first half of 2006 by € 2.6 million to € 32.5 million (previous year: € 29.9 million), thus showing a moderate trend relative to revenues. The depreciation and amortisation ratio is 3.5% (previous year: 4.3%).

The financial result saw an acquisition- and investment-induced decline by € 0.7 million, from - € 7.9 million to - € 8.6 million.

Based on the higher assessment basis with an unchanged tax rate, income tax recorded a slight rise from € 16.5 million in the first half of 2005 to € 16.9 million in the first half of 2006.

In the first six months of 2006 we raised net consolidated profit by € 1.2 million to € 45.6 million (previous year: € 44.4 million). The result in the first half of 2006 was burdened in particular by the loss at Universitätsklinikum Gießen und Marburg of € 5.6 million, which however was offset by improvements at the other hospitals.

Minority interests in profit declined slightly by € 0.2 million.

The interest of RHÖN-KLINIKUM AG shareholders in profit for the first six months of 2006 rose by € 1.4 million or 3.3% to € 43.6 million compared with the same period last year. This translates into earnings per share of € 0.84 (previous year: € 0.81 adjusted).

January through June	2006		2005	
	€ million	%	€ million	%
Revenues	938.1	100.0	688.3	100.0
Other operating income	53.5	5.7	25.2	3.7
	991.6	105.7	713.5	103.7
Material and consumables used	241.1	25.7	172.4	25.0
Employee benefits expense	554.5	59.1	388.2	56.4
Other operating expenses	92.4	9.8	54.2	7.9
	888.0	94.6	614.8	89.3
Interim result (EBITDA)	103.6	11.1	98.7	14.4
Depreciation/amortisation	32.5	3.5	29.9	4.3
Operating result (EBIT)	71.1	7.6	68.8	10.1
Cost of financing	12.8	1.4	9.3	1.4
Financial income	4.2	0.4	1.4	0.2
Financial result	8.6	0.9	7.9	1.1
Earnings before tax (EBT)	62.5	6.7	60.9	9.0
Income taxes	16.9	1.8	16.5	2.4
Net consolidated profit	45.6	4.9	44.4	6.6
of which				
Minority owners	2.0	0.2	2.2	0.3
Shareholders of RHÖN-KLINIKUM AG	43.6	4.7	42.2	6.3
Earnings per share in €	0.84		0.81*	

* Earnings per share in € 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

April through June	2006		2005	
	€ million	%	€ million	%
Revenues	484.3	100.0	347.6	100.0
Other operating income	25.0	5.2	11.4	3.3
	509.3	105.2	359.0	103.3
Material and consumables used	123.9	25.6	87.3	25.1
Employee benefits expense	288.6	59.6	195.6	56.3
Other operating expenses	45.2	9.3	26.3	7.6
	457.7	94.5	309.2	89.0
Interim result (EBITDA)	51.6	10.7	49.8	14.3
Depreciation/amortisation	16.3	3.4	15.1	4.3
Operating result (EBIT)	35.3	7.3	34.7	10.0
Cost of financing	6.5	1.3	5.0	1.4
Financial income	2.4	0.5	0.8	0.2
Financial result	4.1	0.8	4.2	1.2
Earnings before tax (EBT)	31.2	6.5	30.5	8.8
Income taxes	8.3	1.7	8.3	2.4
Net consolidated profit	22.9	4.8	22.2	6.4
of which				
Minority owners	0.9	0.2	1.1	0.3
Shareholders of RHÖN-KLINIKUM AG	22.0	4.6	21.1	6.1
Earnings per share in €	0.42		0.41*	

* Earnings per share in € 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 the first six months of financial year 2006 we invested a total of € 276.3 million, of which € 209.7 million is accounted for by the addition of fixed assets acquired on hospital takeovers and € 66.6 million by current investments in our hospitals. These new, additional and replacement investments were realised at the following sites:

	€ million	€ million
Frankfurt (Oder)	12.5	brought forward 50.4
Gießen/Marburg	10.1	Meiningen 2.2
Hildburghausen	6.6	Herzberg 1.8
Mittelweser Kliniken	6.4	Leipzig 1.6
Bad Neustadt	6.1	Weißeritztal-Kliniken 1.4
Pirna	5.3	Pforzheim 1.4
Bad Berka	3.4	Other sites 7.8
brought forward	50.4	Total 66.6

Asset and financial structure

Driven mainly by the first-time consolidation of the newly acquired hospitals, assets as at 30 June 2006 reached € 1,993.8 million, a rise of € 371.6 million versus 31 December 2005. Of this, € 158.5 million is accounted by goodwill, € 77.7 million by other non-current assets, and € 135.4 million by the rise in current assets mainly as a result of higher accounts receivable from the higher revenue volume.

Coverage of non-current assets by long-term financing is 102.3%. Matching maturities were restored by the conversion of short-term loan capital into long-term loan capital using a syndicated loan with a term of 5 years in the second quarter of the current financial year.

Short-term loan capital of € 259.8 million exceeds short-term financial debts of € 83.8 million.

Compared with 31 December 2005 we recorded an investment- and acquisition-induced rise in net financial debt to banks by € 83.7 million to € 385.9 million.

The balance of current assets and current liabilities remained essentially unchanged. The rise in assets and liabilities relates almost exclusively to the new acquisitions. A rise in service receivables compares with substantially higher liabilities to employees and external allocations of funds not yet utilised according to their intended purpose.

Investment obligations under purchase agreements currently total € 642.0 million, with € 367.0 million of this accounted for by Universitätsklinikum Gießen und Marburg. Investment obligations for the other hospitals acquired in the past total € 275.0 million as at 30 June 2006 (31 December 2005: € 308.2 million) and were reduced by € 33.2 million through investments.

The Group continues to enjoy stable and sound financial structures.

	30 June 2006		31 Dec. 2005	
	€ million	%	€ million	%
ASSETS				
Non-current assets				
Goodwill and other intangible assets	283.6	14.2	89.0	5.5
Property, plant and equipment	1,015.1	50.9	973.5	60.0
Investment property	4.4	0.2	4.5	0.3
Other financial assets	2.8	0.1	2.7	0.2
	1,305.9	65.4	1,069.7	66.0
Current assets				
Inventories	34.9	1.8	27.8	1.7
Accounts receivable, other receivables and other financial assets	365.9	18.4	257.7	15.8
Current income tax claims	27.3	1.4	12.7	0.8
Cash and cash equivalents	259.8	13.0	254.3	15.7
	687.9	34.6	552.5	34.0
	1,993.8	100.0	1,622.2	100.0
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity				
Subscribed capital	51.8	2.6	51.8	3.2
Capital reserve	37.6	1.9	37.6	2.3
Other reserves	519.9	26.1	436.2	26.9
Net consolidated profit attributable to shareholders of RHÖN-KLINIKUM AG	43.6	2.2	83.7	5.2
Treasury shares	- 0.1	0.0	- 0.1	0.0
Equity attributable to shareholders of RHÖN-KLINIKUM AG	652.8	32.8	609.2	37.6
Outside owners' minority interests in Group equity	35.7	1.8	32.3	2.0
	688.5	34.6	641.5	39.6
Long-term debt				
Financial debt	561.9	28.1	372.0	22.9
Deferred tax liabilities	15.3	0.8	18.2	1.1
Provisions for post-employment benefits	7.3	0.4	12.9	0.8
Other provisions	4.9	0.2	6.1	0.4
Other liabilities	57.9	2.9	6.3	0.4
	647.3	32.4	415.5	25.6
Short-term debt				
Accounts payable	116.3	5.8	79.3	4.9
Current income tax liabilities	13.5	0.7	10.2	0.6
Financial debt	83.8	4.2	184.5	11.4
Other provisions	7.4	0.4	6.3	0.4
Other liabilities	437.0	21.9	284.9	17.5
	658.0	33.0	565.2	34.8
	1,993.8	100.0	1,622.2	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 2004	545.9	22.8	568.7
Net consolidated profit for the first half of 2005	42.2	2.2	44.4
Dividends paid	0.0	- 2.7	- 2.7
Allocation to reserves	0.0	0.0	0.0
Capital contributions	0.0	6.7	6.7
Change in scope of consolidation	0.0	6.8	6.8
As at 30 June 2005	588.1	35.8	623.9
As at 31 December 2005	609.2	32.3	641.5
Net consolidated profit for the first half of 2006	43.6	2.0	45.6
Dividends paid	0.0	- 2.7	- 2.7
Allocation to reserves	0.0	0.0	0.0
Capital contributions	0.0	0.0	0.0
Change in scope of consolidation	0.0	4.1	4.1
As at 30 June 2006	652.8	35.7	688.5

Cash flow statement

At 30 June 2006, cash and cash equivalents showed an increase since the last balance sheet date by € 144.5 million to € 237.2 million after deducting short-term financial debts.

Our internal financing strength is high. In the first six months of financial year 2006, our operating cash flow rose by € 3.6 million to € 78.1 million (previous year: € 74.5 million).

January through June	2006	2005*
	€ million	€ million
Earnings before taxes	62.5	60.9
Financial result (net)	8.6	7.8
Impairment and losses on disposal of assets	32.5	30.1
	103.6	98.8
Change in net current assets		
Change in inventories	0.3	1.3
Change in accounts receivable	- 1.6	4.0
Change in other receivables	26.8	- 13.0
Change in liabilities (excluding financial debts)	- 9.3	- 7.2
Change in provisions	- 6.0	- 0.1
Income taxes paid	- 29.0	- 20.6
Interest paid	- 12.8	- 9.3
Cash generated (+) / utilised (-) by operating activities	72.0	53.9
Investments in property, plant and equipment and in intangible assets	- 64.8	- 40.7
Acquisition of subsidiaries, net of cash acquired	- 93.7	- 75.8
Sale of interests in subsidiaries	0.0	0.0
Sale proceeds from disposal of assets	1.8	0.1
Interest received	4.2	1.4
Cash generated (+) / utilised (-) in investing activities	- 152.5	- 115.0
Payments on issuance of a bond	0.0	0.0
Payments on contracting of long-term financial debts	235.7	0.0
Repayment of financial debts	- 8.0	167.9
Deposits from minorities	0.0	6.7
Dividend payments to shareholders of RHÖN-KLINIKUM AG	0.0	0.0
Dividends paid to minority owners	- 2.7	- 2.7
Cash generated (+) / utilised (-) by financing activities	225.0	171.9
Change in cash and cash equivalents	144.5	110.8
Cash and cash equivalents after deduction of short-term financial debts as at 1 January	92.7	68.5
Cash and cash equivalents after deduction of short-term financial debts as at 30 June	237.2	179.3

* Pre-year values adjusted

Bad Neustadt a.d.Saale, 19 July 2006

RHÖN-KLINIKUM AG
THE BOARD OF MANAGEMENT