RHÖN-KLINIKUM AG

INTERIM REPORT
FOR THE PERIOD FROM
1 JANUARY TO 30 JUNE 2002

INTERIM REPORT TO OUR SHAREHOLDERS FOR THE SECOND QUARTER OF 2002*

Summary an Outlook

Revenues posted during the first six months of 2002 in the amount of € 431.9 million are within our expectations. Second-quarter earnings stood at € 13.8 million after depreciation of our South African venture (€ 3.2 million). This reflects a positive change of tendency if compared to the same quarter of 2001 – a result of massive cost-cutting measures introduced during the period under review.

The trend reversal does not show quite as clearly when comparing the 2002 half-year result of € 28.7 million with the corresponding previous-year figure of € 32.9 million, but this comparison rather indicates that we must make up leeway during the second half of 2002 if we are to achieve our goal of topping our 2001 result.

Capital spending continued at its high level throughout the period under review: we invested a total of € 119.2 million, financed from liquid funds, a cash flow of € 61.0 million and loan capital of € 64.9 million. The Group continues to show very sound and stable financial structures.

Considering that the macroeconomic picture, characterised by excessive wage claims from employees and unions (example: the strike in Attendorn, called off in the meantime), and the mistaken opinion that success is not necessarily a result of performance, which seems to spread not only in our society in general but also within our organisation, has had effects on the Group as well, we have reviewed and weighed existing constraints and possibilities and made the following decisions:

1. The Company's venture in South Africa was based on a good idea but would, in the given environment, require out-of-proportion efforts and financial backing to make it proceed. It is, therefore, intended to dispose of this asset, preferably in a way that will not damage the Cape Town region nor require earmarking of further funds for this project. This decision has led to a loss of € 3.2 million.

2. The past 18 years of uninterrupted revenue and earnings growth seem to have reduced , to some extent, our sensitivity to first signs of inefficiency. This might be one reason why we have failed to meet our own earnings expectations for the first quarter of 2002. We are, however, convinced that the second-quarter earnings pattern is signalling a trend improvement. To strengthen this positive trend, we have taken the following measures:

   a) For business year 2002, we have set our earnings target at € 66.1 million plus, which we believe is realistic though it will require great efforts, as a basis for intensified qualitative growth during 2003.

   b) Our future dividend policy will be more perfor mance-oriented. We hope that this will provide an incentive for our shareholders to take a more direct interest in the Company's fortunes and, in turn, for us an incentive to perform – similar to the profit-sharing incentive for our employees.

   c) To signal Management's commitment to cutting costs and enforcing an inner turn, all members of the Board of Management and top-level Group executives have agreed to accept a reduction by 10 % of their annual remunerations with an effect of approximately 660.000 €. Furthermore, it has been agreed that a further 20 % bonus reduction (i.e. 30 % in total) will apply, should our 2002 earnings target of € 66.1 million not be reached. In this (unwelcome) case, the effects of the total package, which is supported by six Board members and three regional directors, would be € 1,640,000.

3. We have embarked on a cost cutting and staff reduction programme that will accompany the Company's re-focusing on its core business, acute care, and freeze or stop peripheral activities. The corresponding decisions will be made on the basis of an in-depth strategic review.

In the period under review, we continued our acquisition activities with the take-over of a 342-bed hospital in Pirna (Saxony) effective 1 October 2002. We expect the pressure on public-sector hospital owners to increase in line with their growing losses from hospital operations, and this should lead to a marked acceleration of the hospital privatisation market. This trend, in combination with the structural measures that we have initiated as detailed above, will strengthen our position in take-over negotiations and enhance the chances for Rhön-Klinikum's successful proprietary hospital concept to win over inertia and persistence in old structures.

The increases in patients treated, beds operated, and the number of employees evidence the drive behind our growth but also show the demanding tasks that go with growth. Compared to the previous year, the total number of beds included in the various federal states' Hospital Plans has risen by 1,650 beds or 27.8 % and the number of employees by 2,807 or 29.8 %, with the corresponding effects on balance sheet and performance ratios.

Patient treatments

During the first six months of 2002, the number of patients treated at RHÖN-KLINIKUM hospitals increased by 60.055 or 35.5 %, compared to the same period of the previous year.

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* In line with our annual financial statements, this Interim Report has been prepared in accordance with the International Accounting Standards (IAS), using accounting and valuation methods consistent with those used in the previous period.

	January through June 2002	2001
In-patient and day case treatments at acute hospitals	113,386	87,378
Inpatient treatments at rehabilitation clinics	3,416	3,383
Outpatient treatments	112,540	78,526
Total	**229,342**	**169,287**

In both acute hospitals and rehabilitation clinics the positive trend towards performance improvements has held up, while the duration of stays in hospital continues to shorten. Total revenues rose by 27.5 %, with revenue growth being influenced by legal budget restrictions and exceptional facts. Revenues per case decreased from € 2,047 to € 1,883.

Staff

At 30 June 2002, the Group employed 12,239 persons, compared with 12,211 at 31 march 2001.

Financials

2002 first-half revenues were € 431.9 million (previous year: € 346.6 million), which is within our expectations. The above-proportion increases in the per-case costs of personnel and material are mainly due to rationalisation reserves at newly acquired hospitals not being tapped yet and are in so far to be considered as 'normal'; only a minor percentage of these increases comes from established Group hospitals whose structures will now be reviewed in the frame of our change programmes. The trend in costs of material (higher expenditure mainly in the areas of implants and diagnostics) has continued. The interest result, which is shown higher, includes refinancing costs of acquisitions and capital spending.

	January through June 2002 € million	%	January through June 2001 € million	%
Revenues	431.9	100.0	346.6	100.0
Other operating income	16.8	3.9	10.8	3.1
	448.7	**103.9**	**357.4**	**103.1**
Cost of materials	105.0	24.3	87.1	25.1
Personnel costs	224.0	51.9	168.1	48.5
Depreciation	25.1	5.8	19.2	5.5
Other operating expenses	37.9	8.8	28.7	8.3
	392.0	**90.8**	**303.1**	**87.4**
	56.7	**13.1**	**54.3**	**15.7**
Financial result	- 8.3	- 1.9	- 6.1	- 1.8
	48.4	**11.2**	**48.2**	**13.9**
Extraordinary expenditure	- 3.2	0.7	0.0	0.0
	45.2	**10.5**	**48.2**	**13.9**
Taxes on earnings	-12.8	3.0	-12.7	3.7
	32.4	7.5	35.5	10.2
Minority interests in profit	- 3.7	0.9	- 2.6	0.8
Net consolidated profit for the period January to June 2002	**28.7**	**6.6**	**32.9**	**9.5**

This corresponds to earnings per share of 1.10 €.

	April through June 2002 € million	%	April through June 2001 € million	%
Revenues	219.1	100.0	171.8	100.0
Other operating income	10.2	4.7	6.1	3.6
	229.3	**104.7**	**177.9**	**103.6**
Cost of materials	52.7	24.1	43.2	25.1
Personnel costs	113.3	51.7	84.2	49.0
Depreciation	13.4	6.1	9.6	5.6
Other operating expenses	19.7	9.0	14.7	8.6
	199.1	90.9	151.7	88.3
	30.2	13.8	26.2	15.3
Financial result	- 4.2	- 1.9	- 2.9	- 1.7
	26.0	**11.9**	**23.3**	**13.6**
Extraordinary expendiure	- 3.2	1.5	0.0	0.0
	22.8	**10.4**	**23.3**	**13.6**
Taxes on earnings	- 6.8	3.1	- 6.0	3.5
	16.0	7.3	17.3	10.1
Minority interests in profit	- 2.2	1.0	- 1.1	0.6
Net consolidated profit for the period April to June 2002	**13.8**	**6.3**	**16.2**	**9.4**

This corresponds to earnings per share of 0.53 €.

Investing and Financing

During the first six months of financial year 2002, the Group has invested € 119.2 million, of which € 74.1 million in new acquisitions (after deduction of grants under the hospital financing law (KHG)) in Frankfurt (Oder), Nienburg, Hoya, Stolzenau, Wiesbaden, and Hildburghausen.
Current capital spending during the period under review breaks down by locations as follows:

	€ million
Leipzig	20.4
Uelzen	5.2
Wiesbaden	2.9
Freital	2.7
Herzberg	3.1
Attendorn	1.3
Bad Berka	3.5
Other locations	6.0
Total	**45.1**

Financing was effected from short-term loan capital, the cash flow, and liquid funds available.

Structure of assets and liabilities

The first consolidation of newly acquired hospitals has had only marginal effects on balance sheet ratios, except that the balance sheet total increased by 17.3 %. The long-term nature of our business activities continues to be reflected in the Company's high investment ratio implying long-term capital ties. The deterioration in asset coverage at the long end has resulted from short-term debt financing of new acquisitions. The change in equity capital is consistent with the quarterly result.

	30 June 2002 € million	%	31 December 2001 € million	%
ASSETS				
Long-term assets				
Fixed assets				
- Intangible assets	24.1	2.5	16.7	2.0
- Tangible assets	699.5	71.3	614.0	73.4
- Financial assets	2.0	0.2	2.0	0.2
	725.6	73.9	632.7	75.6
Deferred taxes	7.5	0.8	7.7	0.9
	733.1	**74.7**	**640.4**	**76.5**
Short-term assets				
Current assets				
- Inventories	12.4	1.3	10.4	1.2
- Receivables from supplies and services	134.9	13.7	107.5	12.8
- Liquid funds	80.8	8.2	71.5	8.5
- Other items	17.3	1.8	6.4	1.0
Prepaid expenses	2.9	0.3	0.4	0.0
	248.3	**25.3**	**196.2**	**23.5**
	981.4	**100.0**	**836.6**	**100.0**
EQUITY AND LIABILITIES				
Long-term capital				
- Equity	390.6	39.8	361.5	43.2
- Minority shareholders	26.3	2.7	22.4	2.7
- Long-term financial debts	245.6	25.0	238.4	28.5
- Provisions for pensions	9.2	0.9	9.0	1.1
- Deferred taxes	33.3	3.4	33.2	4.0
	705.0	**71.8**	**664.5**	**79.5**
Short-term capital				
- Proposed dividend distribution	12.6	1.3	12.6	1.5
- Other provisions	2.9	0.3	2.9	0.3
- Short-term liabilities to banks	89.6	9.1	29.0	3.5
- Liabilities from supplies and services	40.2	4.1	33.7	4.0
- Other items	130.5	13.3	93.4	11.1
- Deferred income	0.5	0.1	0.5	0.1
	276.3	**28.2**	**172.1**	**20.5**
	981.4	**100.0**	**836.6**	**100.0**

Our financial structures continue to be stable. The table below shows the composition of, and changes in, shareholders' equity:

Composition of capital of 31 Dezember 2001	**€ million**
Ordinary shares	17.3
Preference shares	8.6
Capital reserve	37.6
Consolidated retained earnings	245.1
Consolidated profit	66.1
Own shares	- 0.1
Exchange rate adjustments	- 0.5
	374.1
Consolidated result for the first half of 2002	28.7
Booking exchange rate adjustement	0.5
Balance at 30 June 2002	**403.2**

Cash flow statement

Cash generated from operating and financing activities has almost completely been utilised in investing.

	January through June 2002 € million	2001 € million
Earnings before taxes	45.2	48.2
Elimination of financial result	8.3	6.1
Depreciation of fixed assets	25.1	19.2
EBITDA	**78.6**	**73.5**
Changes in inventories	- 0.2	0.3
Changes in receivables from supplies and services	- 7.0	- 16.7
Changes in other receivables	- 15.1	- 1.5
Changes in liabilities	25.2	2.3
Changes in provisions	- 0.3	0.2
Other changes	0.2	- 0.4
Earnings taxes paid	- 10.4	- 17.9
Interest paid	- 10.0	- 7.9
Cash generated from operating activities	**61.0**	**31.9**
Investments in tangible and intangible fixed assets	-119.2	- 32.7
Interest received	0.5	0.0
Interest paid	1.6	1.8
Cash utilised in investing activities	**-117.1**	**- 30.9**
Changes in short-term financial debts	57.4	16.5
Changes in long-term financial debts	7.5	- 0.7
Contribution from outside companies	3.6	0.0
Dividends paid	- 3.1	0.0
Cash generated from financing activities	**65.4**	**15.8**
Change in liquidity	9.3	16.8
Net cash resources at 1 January	71.5	63.6
Net cash resources at 30 June	**80.8**	**80.4**

Bad Neustadt/Saale, 11 July 2002

RHÖN-KLINIKUM AG - The Board of Management