



18

ANNUAL REPORT





Boldly going
new ways



RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

CONTENT

LEGEND

Our mission	1	 Download
Our success story	2	 Web reference
Letter to shareholders	4	
Report of the Supervisory Board	6	 Video
The RHÖN-KLINIKUM share	13	 Audited content in the non-financial reporting
A word with the Board of Management	16	
WHAT WE STAND FOR	22	
FUTURE & PROGRESS		
Boldly going new ways	24	
The RHÖN Campus strategy	26	
Digitalisation assists patients and employees	29	
COMPETENCE & KNOWLEDGE		
Medical progress with foresight	32	
Quality at the highest level	34	
RHÖN-KLINIKUM Campus Bad Neustadt	36	
Klinikum Frankfurt (Oder)	38	
Zentralklinik Bad Berka	40	
University Hospital Gießen	42	
University Hospital Marburg	44	
COMPASSION & A FRIENDLY ATMOSPHERE		
Factors for success	46	
Importance of nursing	48	
Encouraging development and competence in leadership	50	
CORPORATE RESPONSIBILITY		
Corporate Social Responsibility Report	56	
Corporate Governance Report	80	
GROUP MANAGEMENT REPORT		
Content	87	
Basic characteristics of RHÖN-KLINIKUM Group	89	
Economic report	103	
Forecast report	110	
Opportunities and risk report	111	
Reporting pursuant to section 315 (4) of the German Commercial Code (Handelsgesetzbuch, HGB)	117	
CONSOLIDATED FINANCIAL STATEMENTS		
Content	119	
Consolidated balance sheet	120	
Consolidated income statement	122	
Consolidated statement of comprehensive income	123	
Statement of changes in equity	124	
Statement of cash flows	125	
Notes	126	
Responsibility statement	187	
Independent auditor's report	188	
SUMMARY REPORT FOR RHÖN-KLINIKUM AG		
Balance sheet and income statement	196	
Proposed appropriation of profit	197	
FURTHER INFORMATION		
Independent practitioner's report on non-financial reporting	198	
Financial calendar, Imprint, Disclaimer	200	

KEY FIGURES

Q1–Q4 2018

in € '000	Jan.–March 2018	April–June 2018	July–Sept. 2018	Oct.–Dec. 2018	Jan.–Dec. 2018
Revenues	311,654	308,527	308,317	304,410	1,232,908
Materials and consumables used	92,823	90,959	95,272	93,386	372,440
Employee benefits expense	199,667	201,638	191,752	203,079	796,136
Depreciation/amortisation and impairment	15,112	15,164	15,017	15,307	60,600
Consolidated profit according to IFRS	10,412	7,179	29,969	3,628	51,188
– Profit share of shareholders of RHÖN-KLINIKUM AG	9,992	7,003	28,627	3,371	48,993
– Profit share of non-controlling interests	420	176	1,342	257	2,195
Return on revenue (%)	3.3	2.3	9.7	1.2	4.2
EBT	12,354	8,506	35,692	6,626	63,178
EBIT	12,498	8,362	36,310	7,773	64,943
EBIT-ratio (%)	4.0	2.7	11.8	2.6	5.3
EBITDA	27,610	23,526	51,327	23,080	125,543
EBITDA-ratio (%)	8.9	7.6	16.6	7.6	10.2
Property, plant and equipment as well as investment property	760,088	779,820	797,198	854,590	854,590
Income tax assets (non-current)	–	–	–	–	–
Equity according to IFRS	1,135,384	1,126,955	1,155,909	1,159,222	1,159,222
Return on equity (%)	3.0	2.5	5.2	–0.6	4.5
Balance sheet total according to IFRS	1,503,724	1,492,518	1,482,103	1,589,288	1,589,288
Investments in goodwill, other intangible assets, as well as in property, plant and equipment and in investment property	27,098	34,592	32,699	75,552	169,941
Earnings per ordinary share (in €)	0.15	0.10	0.43	0.05	0.73
Number of employees (headcount)	16,656	16,673	16,829	16,985	16,985
Number of cases (patients treated)	216,602	215,715	211,860	205,970	850,147
Beds and places	5,370	5,370	5,370	5,369	5,369

KEY FIGURES 2014–2018

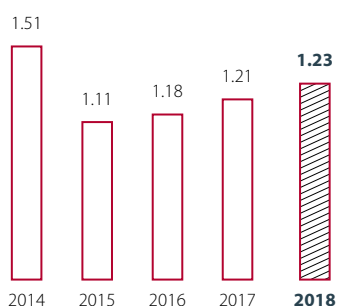
in € '000	2014	2015	2016	2017	2018
Revenues	1,510,519	1,108,189	1,176,349	1,211,077	1,232,908
Materials and consumables used	425,106	321,831	329,542	347,550	372,440
Employee benefits expense	963,937	695,716	757,560	787,899	796,136
Depreciation/amortisation and impairment	82,792	61,023	59,867	59,120	60,600
Consolidated profit according to IFRS	1,227,878	87,443	58,635	36,737	51,188
– Profit share of shareholders of RHÖN-KLINIKUM AG	1,225,711	85,381	56,430	35,150	48,993
– Profit share of non-controlling interests	2,167	2,062	2,205	1,587	2,195
EBT	1,248,466	90,288	60,862	37,116	63,178
EBIT	1,330,850	93,138	96,993	38,697	64,943
EBITDA	1,413,642	154,161	156,860	97,817	125,543
Property, plant and equipment as well as investment property	666,259	671,394	703,782	749,681	854,590
Income tax assets	4,576	2,383	–	–	–
Other non-current assets, other non-current financial assets	11,942	50,115	52,670	35,153	4,682
Equity according to IFRS	1,248,924	1,108,713	1,113,383	1,125,256	1,159,222
Return on equity (%)	84.2	7.4	5.3	3.3	4.5
Balance sheet total according to IFRS	1,804,311	1,634,488	1,456,245	1,471,398	1,589,288
Investments in goodwill, other intangible assets, as well as in property, plant and equipment and in investment property	54,366	69,426	99,065	106,899	169,941
Earnings per ordinary share (in €)	9.36	1.19	0.84	0.53	0.73
Number of employees (headcount)	15,602	15,654	16,486	16,688	16,985
Number of cases (patients treated)	1,222,846	765,109	813,747	836,387	850,147
Beds and places	5,227	5,218	5,348	5,370	5,369

NUMBER OF
PATIENTS
TREATED 2018

850,147

REVENUES

in € billion

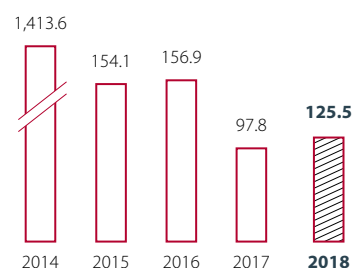


SHARE OF
OUTPATIENTS

75%

EBITDA

in € million





As one of the leading healthcare providers in Germany RHÖN-KLINIKUM AG is taking on a pioneering role in the healthcare industry with its campus and digitalisation strategy. Our campus concept which considers the patient as a whole is a sustainable model of forward-looking healthcare. We are thus setting standards for excellent medical care and not only in rural areas. We are using the opportunities which digitalisation offers us in order to create benefits for our patients. All of our activities are determined by common values such as integrity, responsibility, compassion, well-being and respect.

Our success story




RHÖN-KLINIKUM AG is one of the healthcare providers in Germany with the most innovations. We consistently make use of digital tools and telemedical services. We are the only corporate group in the hospital industry to have the expertise of two university hospitals. We treat our patients at five different locations: Bad Neustadt, Frankfurt (Oder), Bad Berka, Gießen and Marburg.



17,000

EMPLOYEES IN OUR
CORPORATE GROUP



850,000

PATIENTS TREATED IN THE
2018 FINANCIAL YEAR

AREAS OF TREATMENT

TOP 5

- CARDIOVASCULAR
MEDICAL CARE
- NEUROLOGY
- ONCOLOGY
- PULMONOLOGY
- ORTHOPAEDIC AND
ACCIDENT SURGERY



Dear Ladies and Gentlemen, **Dear Shareholders,**



Chairman of the Board of Management
Stephan Holzinger

The continuing reform of the healthcare system is one thing that invariably characterises the political debate and agenda in many established countries. Whereas in the USA healthcare coverage gaps in large segments of the population and the often exorbitant costs of healthcare are giving rise to calls for more regulation, the debate in Germany as well as in many other European countries is marked by a call for cost control. We rarely have a debate on the question of how we can make the healthcare system better, whether with the same or even declining costs.

In this country there is currently no consensus in society – let alone in science – on the question of whether we will see more or less state regulation in the healthcare system in future. The question of what gives the German state from an economic viewpoint – seeing the large number of new laws and regulations in the healthcare sector in 2018 alone – the right to intervene on such a massive scale is scarcely addressed anymore by the public debate. Market failure is the classic argument for state intervention. What exactly is that in the German healthcare system?

My position on this is clear: the German healthcare system is not suffering from a lack of regulation, but from a lack of competition. And where companies boldly embrace competition, where they truly set out to improve the benefit for patients and to make working conditions easier for employees, they quickly find themselves in unfamiliar terrain: the long outdated self-governing structures and processes, for example, are not keeping pace with the speed and the opportunities of the digital transformation. Traditional, sector-based remuneration structures no longer reflect the reality of modern, cross-sector patient care.

Courage is something that is wired into the DNA of RHÖN-KLINIKUM AG: over the past four decades, we have left our mark on the sector with innovative thinking and achievements. Now, too, in view of further regulation in the mission-critical nursing area, we are unrelenting. We don't want to simply grin and bear the fate of the Company, but we want to take it into our own hands: with the Campus Bad Neustadt, our flagship project launched at the turn of 2018/19, we became the first Company in Germany to succeed in establishing a new treatment approach for patients in rural areas, which has become the subject of much debate amongst politicians, in the media and in the sector. You can read about that in the present report.

Economically, 2018 was a successful year. We have met all our forecasts. Our many different efforts resulted in growth in revenues and profits. Compared with the previous year, revenues rose by 1.8 per cent to 1.23 billion euros. Consolidated profit recorded a significant gain by roughly 41 per cent to reach 51.2 million euros. At our five hospital sites RHÖN-KLINIKUM Campus Bad Neustadt, the University Hospitals Gießen and Marburg (UKGM), Zentralklinik Bad Berka and Klinikum Frankfurt (Oder) a total of 850,000 patients were treated. At this juncture – also on behalf of my colleagues on the Board of Management – I wish to express my sincere thanks to our employees for their tremendous dedication.

In 2018 we have taken important steps to prepare for the future. That said, we will not let ourselves be satisfied with what we have achieved but are steadfastly working to reach our objectives of improving healthcare delivery in Germany. With our entry into the future market of telemedicine planned in 2019, i.e. the treatment of patients by phone, video and standard forms, we are opening up a promising growth market. The digital transformation in the medical and nursing areas is taking hold throughout the Group – always in keeping with the principle that it must result in a tangible benefit for our patients and employees.


As a shareholder of RHÖN-KLINIKUM AG, you can have a part in a very exciting development in the German healthcare system – stay with us as we embark on the difficult but feasible challenge of restructuring the healthcare system.

Yours sincerely,




Stephan Holzinger
Chairman of the Board of Management
RHÖN-KLINIKUM Aktiengesellschaft

Bad Neustadt a. d. Saale, March 2019



Courage is
wired into our
DNA. With this
we have left
our mark on
the sector.



Dear Shareholders, **Dear Ladies and Gentlemen,**



Chairman of the Supervisory Board
Eugen Münch

In the following I report to you on the work of the Supervisory Board and its committees during the 2018 financial year:

Cooperation between Supervisory Board and Board of Management

During the 2018 financial year also, the Supervisory Board examined on an ongoing basis and in detail the situation and development of the Company, duly performing the duties incumbent on it by law, the Articles of Association and the Terms of Reference: these include continuously monitoring management activity and regularly advising the Board of Management in connection with the directing of the Company. At the same time the Supervisory Board, in performing its duties, was at all times guided by the decisive principles of appropriateness, compliance with legal provisions, expediency and efficiency. Observance of these principles by the Board of Management was monitored by regularly reviewing the Company's general organisation and verifying the instruments used for internal risk control.

The Supervisory Board was involved in fundamental and important decisions taken by the Board of Management of RHÖN-KLINIKUM AG. The Board of Management as a general rule complied with its information duties, keeping us informed on a timely basis both in

written form and orally, with documents and records of relevance for decisions being provided to the Supervisory Board in good time prior to the respective deliberations and formal meetings. The Supervisory Board reviewed the reporting and the information submitted by the Board of Management regarding strategic and operative business performance, compliance issues as well as risks and risk management for plausibility and comprehensibility, advised the Board of Management, discussed issues of development comprehensively with the Board of Management and also scrutinised the same whenever appropriate.

The areas of focus of deliberations with the corporate bodies and with the Board of Management – as in the previous year – were the further strategic development of the Group, issues, projects and measures aimed at reorienting business activity to that of a full-service healthcare provider. The role of escorting the Board of Management in this process of change in an ongoing advisory capacity, e.g. in the implementation of the RHÖN Campus approach at Group headquarters in Bad Neustadt a. d. Saale as well as the digitalisation of the business model, were among the key tasks of the Supervisory Board during the past financial year.

The Chairman of the Supervisory Board moreover engaged in an intensive and regular exchange of information and ideas with the Chairman of the Board of Management – also between meetings held by the corporate bodies – and was kept thoroughly informed at all times about material developments and current business transactions. The Board of Management complied with its duties to inform. We thoroughly discussed the resolution proposals made by the Board of Management and, to the extent required by statute, the Articles of Association and the Terms of Reference, voted on the same after a thoroughgoing review in the Supervisory Board and the respective competent Supervisory Board committees. In a few cases, we were advised and assisted by external experts and advisers in the interests of the shareholders. Where required in the case of particularly pressing and time-critical business matters, the Supervisory Board, or, as the case may be, the competent committee held meetings by means of conference calls and also adopted resolutions by voting in written form.

Work of the Supervisory Board in committees and plenary session

With a view to performing its tasks and assuming its responsibility in the best possible way, the Supervisory Board has set up a total of seven standing committees whose members possess specific expertise and experience for the special issues dealt with in the committees.

The committees prepare resolutions and issues to be decided in the plenary session of the Supervisory Board. They act as bodies with power to pass resolutions within the scope prescribed by law, the Articles of Association – also in lieu of the Supervisory Board – and the Terms of Reference of the latter to the extent consistent with statute and previously defined by the Supervisory Board. The committees generally meet separately from plenary sessions. Meetings were also held as conference calls convened on short notice as required.

The **Investment, Strategy and Finance Committee** held three ordinary meetings during the year under review (attendance rate: 100 per cent).

At the ordinary meetings of the Investment, Strategy and Finance Committee, the Chairman of the Board of Management reported on current developments in the industry and on the business position of the Group, as well as on the development of investments and financing in a continuously updated investment and finance plan. Specific motions for approval of investment projects and financing measures were subsequently openly discussed, critically reviewed and – after the members carefully considered and were fully convinced of the same – adopted in the Committee based on detailed written resolution proposals of the Board of Management, including market studies and investment calculations. The Committee granted its approval for the issuance of

a successfully placed promissory note for 100 million euros and approved the corporate amalgamation of Herz- und Gefäß-Klinik GmbH Bad Neustadt and Neurologische Klinik GmbH Bad Neustadt/Saale into RHÖN-KLINIKUM AG in the wake of the establishment of the Campus Bad Neustadt.

At all meetings, the focus of interest of supervision and consultations was on the further development and the measures for implementing the project of the Bad Neustadt health campus completed at the end of the year, as well as on developing and planning further campus projects. Additional subjects falling under the corporate strategy on which the Committee focused its attention were the digitalisation of the business model and the tools employed for that purpose, such as the medical cockpit, doctors' portal or health apps. Also of relevance in this context were advising on the implementation of telemedical services in collaboration with the Swiss telemedicine provider Medgate through the establishment of a joint venture in Germany with a view to mitigating the impending shortage of doctors, and on the commencement of a strategic reorientation of full-coverage healthcare delivery in Germany. A key subject of discussion at the meetings was the unsatisfactory performance of our investment in Marburger Ionenstrahl-Therapie Betriebsgesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung (MIT GmbH). With the Board of Management we discussed the alternatives of either continuing to operate the company or of decommissioning the particle therapy facility, and after carefully weighing up the opportunities and risks created the basis for a revitalisation resolution in the plenary session, i.e. acquisition of the interests hitherto held by Universitätsklinikum Heidelberg and the subsequent revitalisation of the company.

During the reporting year, **the Personnel Affairs Committee** held three conference call meetings (attendance rate in each case: 100 per cent). At these meetings, the Committee prepared subjects relating to personnel matters of the Board of Management for the Supervisory Board and, to the extent required, adopted resolutions or made recommendations to the Supervisory Board on the adoption of resolutions. The subject of the meetings was measures for winding up service contracts of removed board members, amendments to service contracts of Board members, and preparing for the appointment of a new Board member.

During the past financial year, **the Mediation Committee** (pursuant to section 27 (3) of the Co-Determination Act (Mitbestimmungsgesetz, MitBestG)) also did not have to be convened.

The **Audit Committee** of the Supervisory Board met five times in the year under review (attendance rate: 97 per cent). All meetings were attended by the Board of Management. Two meetings were attended by the statutory auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). For selected agenda items, the heads of the Internal Auditing, Compliance as well as

Accounting, Tax, Controlling and Finance departments were regularly consulted by the Board of Management, and were available to the committee for additional reports and questions.

This committee notably was responsible for reviewing and preparing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2017. Also reviewed and discussed were the stand-alone financial statements, the management reports and the respective audit reports of the Group subsidiaries which were subjected to critical review by the members of the committee, as well as the proposal on the appropriation of the net distributable profit.

The Audit Committee assessed the independence of the auditor designated for auditing the annual financial statements for the 2018 financial year and for the review of the half-year financial report, obtained the statement regarding the auditor's independence pursuant to Item 7.2.1 of the German Corporate Governance Code, recommended to the plenary session of the Supervisory Board a proposal for the election of the auditor to be submitted to the Annual General Meeting and – after the election – issued the auditor with the audit mandate and concluded with it a reasonable remuneration agreement for the same. The statutory auditor moreover reported to the committee on orders for services performed in addition to the auditing services rendered. The qualification of the statutory auditor was monitored by the committee. A list of audit items was once again prepared and defined for the audit in 2018.

Questions of fundamental importance relating to accounting, corporate planning, the capital base, the supervision of the accounting process, as well as the effectiveness of the internal controlling system, risk management system (including special business risks), and the internal audit system were discussed with the Board of Management and in some cases also with the statutory auditor. The interim reports were thoroughly discussed on a regular basis with the Board of Management prior to their publication, as well as the half-year financial report with the Board of Management and in the presence of the statutory auditor, giving due regard to the review by the latter.

The Group controlling report on performance and finance controlling submitted quarterly, which forms part of our risk management system, was thoroughly discussed at every meeting with the Board of Management. Here, the development of service volumes and earnings of the Group and of the individual Group hospitals was also analysed, questioned and discussed with the Board of Management, also with regard to deviations from targets.

The body kept itself regularly informed about the activity of the Internal Auditing department by the responsible member of the Board of Management and by reports submitted by the head of

Internal Auditing, and examined the auditing plan for 2018 as well as its update. The audit reports of the Internal Auditing department as well as the 2017 activity report were then submitted and discussed with the Board of Management. We kept ourselves informed by the Board of Management on the implementation of the recommendations by the Internal Auditing department through information on the results of follow-up reporting and inspection. We once again satisfied ourselves of the effectiveness of the Internal Auditing department. According to the provision in the Rules of Procedure of the Internal Auditing department, we gave advance approval for the personnel measure of appointing the new head of the Internal Auditing department.

In updating the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) relating to the recommendations of the German Corporate Governance Code, the version of 7 February 2017 was reviewed as to its application and duly considered, with a corresponding resolution proposal being submitted to the Supervisory Board as a whole.

The Committee examined the procedure for the required external rotation of the statutory auditor based on the EU audit reform and prepared a statement at the time of the change in auditor giving due regard to the transitional provisions.

For the non-financial declaration at the Company level and Group level to be submitted in the form of a separate condensed non-financial report for 2018, the Committee once again adopted a resolution on the performance of a voluntary external audit. The audit assignment was issued on the basis of an offer and by fee agreement to the statutory auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC).

The Committee for **Compliance and Communication** serves to advise and supervise the Board of Management and senior executives with respect to compliance with legal and other provisions as well as with regard to communication by the Company with the media and the capital market. To ensure close and non-bureaucratic coordination with the Audit Committee, which among other things is responsible for supervising the Internal Auditing department, the chairman of the Committee for Compliance and Communication is assigned a seat on the Audit Committee.

In 2018, the committee met four times (attendance rate: 94 per cent). The Board of Management was represented at all meetings by one member of the Board of Management and was assisted in the deliberations at all times by the Central Compliance and Internal Auditing departments as well as to a certain extent by the heads of the Group's Investor Relations and Communications divisions as well as the Group data protection officer.

The focus of interest of the meetings was the ongoing compliance reports from headquarters and the individual sites as well as the organisation of the Central Compliance department. In the field of corporate communications, the Board of Management reported on the communication strategy particularly in the context of the opening of the campus in Bad Neustadt, activities in the area of employer branding as well as social media, and presented the new concept of the online presence. The newly oriented investor relations strategy was also presented. The Committee was kept informed on the stage reached in implementing the General Data Protection Regulation.

The **Medical Innovation and Quality Committee** provides the Board of Management with technical advice on developments and trends in medicine and monitors the situation and development of medical quality within the Company. There was no necessity for separate meetings since the special subjects were discussed comprehensively in the plenary session.

The **Nomination Committee**, which selects candidates from the shareholders' representatives for supervisory board office and proposes them to the Supervisory Board, held one meeting (attendance rate: 100 per cent). The subject was the preparation for the Supervisory Board of a proposal to the 2019 Annual General Meeting on the succession to Prof. Dr. h. c. Ludwig Georg Braun, who will be leaving the Supervisory Board upon reaching the retirement age in accordance with the Articles of Association.

During the reporting year, four regular meetings of the full Supervisory Board were held (attendance rate: 94 per cent). No member of the Supervisory Board attended fewer than half the meetings of the Supervisory Board and the committees attached to it. The members of the Board of Management attended the meetings of the Supervisory Board except in the case of agenda items relating to internal matters of the Supervisory Board and matters pertaining to the Board of Management. In the case of one other meeting held in connection with the 2018 Annual General Meeting, the members of the Supervisory Board had the opportunity to inform on the situation of the construction site and construction progress of the healthcare campus at the Bad Neustadt site, which is currently the Group's most significant investment.

At the four ordinary meetings of the Supervisory Board the plenary session, based on detailed reports of the chairman of the Board of Management on current developments, strategic issues and the financial position of the Group, as well as based on the written reports and presentations by the Board of Management, regularly deliberated together with the Board of Management on the net assets, financial position and results of operations, the trend in revenues and earnings, the performance data, key figures and personnel of the Company and Group as well as of the individual Group subsidiaries. The Board of Management moreover informed on the current developments in healthcare policy, the healthcare

environment, healthcare legislation and their impact on the Group as well as the competitive situation. The respective interim reports for the past quarters were explained by the Board of Management in detail at the plenary session prior to publication.

At the first meeting of the financial year on 22 February 2018, the Supervisory Board examined the future development of the Board of Management and a reorientation and distribution of the divisions necessitated by the reduction in the number of members of the Board of Management. The Board of Management submitted a progress report on the Campus Bad Neustadt and informed on progress made in quality management, digitalisation, implementation of the new General Data Protection Regulation and on the current stage reached in a project for reducing avoidable losses from audits by MDK (Medical Review Board of the Statutory Health Insurance Funds). We received the report of the Board of Management on the preliminary 2017 annual financial statements and on the proposal for the appropriation of profit for 2017 and approved the submitted drafts of the Report of the Supervisory Board, the Corporate Governance Report for financial year 2017 and the Declaration on Corporate Governance pursuant to section 289f of the German Commercial Code (Handelsgesetzbuch, HGB).

At the balance sheet meeting on 28 March 2018 also attended by the statutory auditors, the plenary session discussed the annual financial statements and management report of RHÖN-KLINIKUM AG as well as the consolidated financial statements and the Group management report for financial year 2017 together with the Board of Management and the statutory auditor PwC. The auditors reported on the essential findings and results of the audits and were available to the Supervisory Board for questions and additional information. The plenary session approved the annual financial statements. Also discussed at this meeting were the preparations for the Annual General Meeting on 6 June 2018, in particular the adoption of resolution recommendations of the Supervisory Board on the resolution proposals in the agenda items for the Annual General Meeting after a prior discussion of the agenda items. Further approval resolutions were adopted for the Report of the Supervisory Board, Corporate Governance Report, the Declaration on Corporate Governance pursuant to section 289f of the HGB and on Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktengesetz, AktG) updated during the year under way. After the Supervisory Board completed its own review, the separately summarised non-financial report audited by PwC was approved as of 31 December 2017. At this meeting, the Board of Management member Dr. Dr. Martin Siebert was removed from the Board of Management with immediate effect and Dr. Gunther Weiß appointed as new member of the Board of Management.

At the meeting on 5 July 2018 the plenary session, after discharging matters relating to the Board of Management and the Supervisory Board, thoroughly examined the Board of Management reports on the development of the individual sites. In this regard, particular areas of focus covered by the discussions were the digitalisation strategy for the Campus Bad Neustadt as well as the results of reviews carried out regarding the medical and economic situation at the Frankfurt (Oder) and Bad Berka sites. Policy discussions were held on the human resources strategy and on the subjects of human resources recruiting, employee satisfaction, organisation of general working environment and the situation in nursing. The deliberations also focused on the impending deterioration in the economic situation of the investee MIT GmbH and the consequences arising from that.

At the Supervisory Board meeting on 8 November 2018, the Supervisory Board examined the company MIT GmbH in depth, which had since been in preliminary insolvency proceedings. As already discussed in advance in the Investment, Strategy and Finance Committee, the plenary session also held a critical discussion on the alternatives of either continuing to operate the company or decommissioning the particle therapy facility and then, giving due regard to the commercial and legal opportunities as well as the technical criteria for continuing business operations, decided on the basis of a detailed and sound Board of Management concept to approve an investment framework for the revitalisation of MIT GmbH which essentially involved acquiring in the entirety all interests in the company. Another key subject of the meeting was the report by an external expert on a study regarding the development of new remuneration models for regional healthcare delivery that might be used for the Campus Bad Neustadt. Resolutions were adopted on the Declaration of Compliance to be submitted annually pursuant to section 161 AktG, on the recommendations of the German Corporate Governance Code as well as on the updated versions of the Terms of Reference for the cooperation of the Board of Management and on the Special Terms of Reference for the cooperation of the Board of Management and the Supervisory Board.

Conflicts of interests and their management

Ms. Meike Jäger is a member of the supervisory board of Vivantes – Netzwerk für Gesundheit GmbH (in short: Vivantes) where she holds the office of deputy Chairman of the Supervisory Board. As a municipal hospital group, Vivantes is likewise a healthcare services provider like RHÖN-KLINIKUM AG and its Group companies. It is therefore not possible to rule out conflicts of interests. In the view of the Supervisory Board, however, membership in that supervisory board has not given rise during the reporting period to any specific conflicts of interest that resulted in an impairment in the performance of her mandate.

Corporate Governance Code and Declaration of Compliance

During the past financial year, the Supervisory Board also examined the further development and implementation of the recommendations and suggestions as set out in the German Corporate Governance Code. The Declaration of Compliance issued on 9 November 2017 pursuant to section 161 AktG as amended during the year under way on 28 March 2018, was revised and, giving due regard to the Code as amended on 7 February 2018, was replaced by an updated Declaration of Compliance issued on 8 November 2018 by the Board of Management and the Supervisory Board. This Declaration of Compliance subsequently had to be corrected since recommendation pursuant to Code Item 3.8 (3) regarding a deductible for the D&O insurance of supervisory board members was deviated from up to 31 December 2018 because in the adjustment of the D&O insurance in financial year 2016 the continuation of the deductible had been unintentionally refrained from. Since 1 January 2019 the deductible has been resumed. The deviation from Code Item 3.8 (3) of the German Corporate Governance Code was taken into account in the version as updated on 18 January 2019 during the year under way. The declarations were permanently made available to the shareholders on the Company's website. In accordance with Item 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board jointly report on corporate governance on pages 80 et seq. of this Annual Report.

Examination and approval of the 2018 financial statements

The Board of Management adopted the financial statements of the Company and the management report for the year ended 31 December 2018 in accordance with the provisions of the German Commercial Code (HGB), while the consolidated financial statements and Group management report for the year ended 31 December 2018 were adopted pursuant to section 315e of the German Commercial Code (HGB) in accordance with the principles set out in the International Financial Reporting Standards (IFRS). The auditors, PricewaterhouseCoopers GmbH 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 2018. The auditors of the accounts issued an unqualified auditor's report in each case.

The financial statements of the Company and management report, the consolidated financial statements and Group management report as well as the reports of the auditors on the result of their audit were received by all members of the Supervisory Board together with the Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and extensively discussed by the Audit Committee and by the Supervisory Board with representatives of the auditors at the respective balance sheet meetings. As

part of the audit, the Audit Committee and the Supervisory Board examined both the accounting findings and the procedures and processes relating to the accounting findings. As the standard of their review, they primarily applied the criterion of legality and verified whether the documents submitted comply with legislation in force and in particular with applicable accounting rules. Furthermore, in addition to their review of legality they also conducted an expediency review in terms of accounting, financial and business policy aspects. Based on the findings of the preliminary review by the Audit Committee, the Supervisory Board concurred with the findings of the auditors and, having conducted its own review, determined that it 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 at the meeting on 28 March 2019 on recommendation of the Audit Committee; the financial statements of the Company are thus adopted as final.

The Supervisory Board approves the Board of Management's proposals for the appropriation of net distributable profit.

Review of separate condensed non-financial report

The Audit Committee and the Supervisory Board have furthermore examined the separate condensed non-financial report prepared with the Board of Management as at 31 December 2018. The auditing firm PricewaterhouseCoopers GmbH has conducted a review to obtain limited assurance and has issued an unqualified report. The documents were carefully reviewed by the Audit Committee at its meeting on 27 March 2019 and by the Supervisory Board at its meeting on 28 March 2019. The Board of Management thoroughly explained the reports at both meetings. Representatives of the auditor attended the meeting of the Audit Committee on 27 March 2019 and reported on the key results of their review and answered additional questions from the Supervisory Board members. After its review, the Supervisory Board had no objections.

Changes and composition of the Board of Management

This Annual Report presents the composition of the Board of Management and the personal data, functions and duties of the individual members of the Board of Management under the heading "Corporate bodies of the Company".

With effect from 28 March 2018, the member of the Board of Management Dr. Dr. Martin Siebert was removed. Dr. Gunther Weiß was appointed as member of the Board of Management with effect from 1 May 2018 for the period until 31 December 2021. Dr. Weiß holds the position of Chief Operating Officer (COO).

Changes and composition of the Supervisory Board

In accordance with the requirements of the Co-Determination Act (MitBestG) and after the effective date of the amendment of the Articles of Association in § 10 (Size and composition of Supervisory Board) adopted by the 2014 Annual General Meeting, the Supervisory Board of RHÖN-KLINIKUM AG as of 10 June 2015 is comprised of 16 members. Eight Supervisory Board members were elected by the shareholders and eight Supervisory Board members by the employees.

The employee representative Mr. Björn Borgmann resigned his Supervisory Board mandate with effect from 28 February 2018. Mr. Oliver Salomon, specialist nurse, succeeded him as elected substitute member on 1 March 2018.

The personal details of the members of the Supervisory Board in 2018 are set out in the Notes to the consolidated financial statements. 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 are set out in the overview provided following this Report.

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

The Supervisory Board

Eugen Münch
Chairman

Bad Neustadt a. d. Saale, 28 March 2019

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

(period of 1 January to 31 December 2018)

Chair of the Supervisory Board

Eugen Münch
Chairman

Georg Schulze-Ziehaus
1st Deputy Chairman

Wolfgang Mündel
2nd Deputy Chairman

Composition of the committees

Investment, Strategy and Finance Committee

Eugen Münch
Chairman

Dr. Annette Beller
Björn Borgmann (until 28 February 2018)
Prof. Dr. Ludwig Georg Braun
Stefan Härtel
Klaus Hanschur
Wolfgang Mündel
Oliver Salomon (since 5 July 2018)
Georg Schulze-Ziehaus

Personnel Affairs Committee

Eugen Münch
Chairman

Stefan Härtel
Dr. Brigitte Mohn
Georg Schulze-Ziehaus

Mediation Committee

Eugen Münch
Chairman

Prof. Dr. Ludwig Georg Braun
Meike Jäger
Georg Schulze-Ziehaus

Audit Committee

Wolfgang Mündel
Chairman

Dr. Annette Beller
Peter Berghöfer
Meike Jäger
Christine Reißner
Dr. Katrin Vernau

Committee for Compliance and Communication

Dr. Annette Beller
Chairman

Evelin Schiebel
Dr. Katrin Vernau
Natascha Weihs (since 22 February 2018)

Medical Innovation and Quality Committee

Eugen Münch
Chairman

Prof. Dr. Ludwig Georg Braun
Prof. Dr. Gerhard Ehninger
Klaus Hanschur
Evelin Schiebel

Nomination Committee

Eugen Münch
Chairman

Dr. Brigitte Mohn
Wolfgang Mündel

The RHÖN-KLINIKUM share

After reaching an all-time high of € 31.70 on 31 January 2018, the price of the RHÖN-KLINIKUM share first declined before stabilising in the fourth quarter with the share showing relative strength.

RHÖN-KLINIKUM AG plans to raise the dividend by roughly 32 per cent. The Board of Management and the Supervisory Board propose a dividend of € 0.29 (previous year: € 0.22) per eligible share.

Performance of stock markets in 2018

The trend on the international stock markets was helped at the start of the year by the recovery in the global economy, the optimistic business prospects and globally expansive monetary policy. The performance of the US equities market was very positive up to December thanks to the improvements made there (in terms of tax cuts, deregulation, infrastructure investments, advances in digitalisation) as well as the unexpectedly strong upswing in the economy and rising corporate profits. By contrast, the European equities markets were still being hampered by the current crises (Brexit negotiations, debt crisis in Italy, international trade dispute). The upbeat economic mood then faded in the course of the year. In Germany, the ifo business climate index fell from 105.2 points in January 2018 to 101.0 points in December 2018, its lowest level since December 2016.

The European Central Bank (ECB) left its key rate unchanged at zero per cent and decided to gradually phase out its bond repurchase programme by the end of 2018. On 19 December 2018, the US Federal Reserve (Fed) for the fourth time in 2018 raised its key rate by 0.25 percentage points to a corridor of 2.25 per cent to 2.50 per cent, and announced further hikes in the key rate in 2019. Increasing concerns about steeper hikes in interest rates coupled with fears of a cool-down in the global economy and a further escalation in the US-Chinese trade dispute dampened the mood significantly in December, which in turn put a drag on global equity markets.

The German leading index DAX® recorded a new all-time high of 13,560 points on 23 January 2018, before consolidating to 10,382 points on 27 December 2018. In the fourth quarter the German leading index DAX®, in the wake of the steep drop in global share prices in December 2018, then fell by roughly 13.8 per cent. Overall, the DAX® fell roughly 18.3 per cent over the year, closing 2018 at 10,559 points. The second-tier German index SDAX® declined over the year by roughly 20 per cent. Given their greater exposure to exports, the German indices overall underperformed the European benchmark indices. Thus, the DJ EURO STOXX® fell roughly 14.8 per cent and the DJ EURO STOXX 50® around 14.3 per cent. European healthcare stocks likewise came under pressure: the DJ EURO STOXX Healthcare® declined by 16.4 per cent over the year.

RHÖN-KLINIKUM share price shows stabilisation and relative strength in fourth quarter

The RHÖN-KLINIKUM share had a successful start to the stock market year, reaching a new all-time high of € 31.70 on 31 January 2018. After the successful start, the share then went into decline with several sideways movements. Given the small free float and now on average lower trading volumes, as well as the negative developments on the European equities markets, the price of the RHÖN-KLINIKUM share fell at the end of the third quarter to € 22.14 (29 September 2017: € 28.49). In the fourth quarter of 2018, the price and the RHÖN-KLINIKUM share showed relative strength. In the fourth quarter the RHÖN-KLINIKUM share significantly outperformed the SDAX® (which plunged by roughly 20 per cent), as well as the DAX®, DJ EURO STOXX®, DJ EURO STOXX 50® and DJ EURO STOXX Healthcare® (all falling by roughly 12 to 15 per cent). Overall,

RHÖN-KLINIKUM SHARE IN COMPARISON



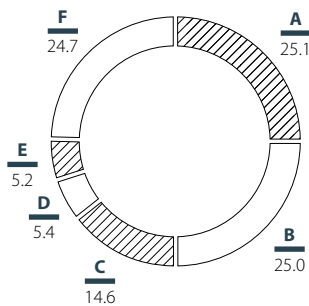
Source: Xetra, indexed (2 January 2018 = 100)

the RHÖN-KLINIKUM share fell during full-year 2018 by some 26.2 per cent and closed the stock market year at a price of € 22.06 (29 December 2017: € 29.88).

In a notification of voting rights on 22 October 2018, Landeskrankenhilfe V.V.a.G., Lüneburg informed RHÖN-KLINIKUM AG that it further strengthened its voting interest as at 19 October 2018 from 3.19 per cent to 5.21 per cent.

SHAREHOLDER STRUCTURE OF RHÖN-KLINIKUM AG

As at 31 December 2018 (on the basis of the most recent notification of voting rights to the company)



- A** Asklepios/Dr. gr. Broermann
- B** B. Braun Melsungen
- C** Eugen Münch (HCM SE)
- D** Ingeborg Münch
- E** Landeskrankenhilfe V.V.a.G.
- F** Shareholders with less than 3 per cent of total voting rights

Shareholder structure

The RHÖN-KLINIKUM share is listed in the Prime Standard of the Frankfurt Stock Exchange and represented on the SDAQ® share index. At year-end 2018, the 66.96 million non-par shares in issue had a market capitalisation of € 1.5 billion (previous year: € 2.0 billion). The RHÖN-KLINIKUM share thus ranked 156th (previous year: 83rd) in the index list as at 28 December 2018 that was further extended by 30 places on 24 September 2018 as a result of the rule changes adopted by Deutsche Börse. The mean value of the daily average trading volume on the German stock exchanges including Xetra® trading stood at 40,040 shares in 2018 (previous year: 98,910 shares).

Dividend

Our dividend policy is geared to a payout ratio of roughly 40 per cent. With this ratio, our Company secures its investment activity in the medium term and at the same time a reasonable participation of shareholders in the Company's success.

For the 2018 financial year, the Board of Management and the Supervisory Board therefore propose to the Annual General Meeting the distribution of a dividend of € 0.29 (previous year: € 0.22) per non-par share with dividend entitlement. This translates into an increase in the dividend of roughly 32 per cent.

Capital market communication

RHÖN-KLINIKUM AG is committed to transparent and fair communication. That is why investor relations (i.e. the dealings we have with our shareholders) enjoy a high priority for us. As part of our financial market communication, we therefore again strived in 2018 to convey a realistic picture of our Company. For that purpose, we make available to investors, analysts and all other interested market participants a platform with comprehensive and timely information about RHÖN-KLINIKUM AG. We moreover maintain a direct, continuous and personal contact with our investors and analysts, for example as part of investor conferences or on investor roadshows. The investor relations division reports directly to Chairman of the Board of Management.

As part of our financial reporting, we report on our operating business performance each quarter. We provide investors, analysts and the media with current and share price-relevant information on our company in real time and directly, also promptly publishing the same as news items on our website. Further sources of information we provide our shareholders with are the regular annual events, such as our annual results press conference in the spring and our Annual General Meeting in the middle of the year. In 2019, a Capital Markets Day will moreover be held at the Campus Bad Neustadt a. d. Saale. The next Annual General Meeting will be held on 5 June 2019 at Stadthalle Bad Neustadt a. d. Saale.

RHÖN-KLINIKUM SHARE

ISIN	DE0007042301
Ticker symbol	RHK
Share capital (€)	167,406,175
Number of shares	66,962,470

in €	2018	2017
Year-end closing price	22.06	29.88
High	31.70	30.70
Low	21.18	23.65
Market capitalisation as of 31 December (€ m)	1,477.19	2,000.83

You will find a financial calendar containing all important financial dates for 2019 on the last page of this report as well as on our website at www.en.rhoen-klinikum-ag.com in the "Investor Relations" section.



A word with **the Board of Management**



Chairman of the Board of Management
STEPHAN HOLZINGER

Operative Board Member
DR. GUNTHER K. WEISS

Board Member for Medical
PROF. DR. BERND GRIEWING

📺 You can find this interview as a video (German only) at rhoen-klinikum-ag.com/vorstandsinterview

The year 2018 was a very successful year for RHÖN-KLINIKUM AG. Which achievements are you especially proud of?

STEPHAN HOLZINGER

In 2018 we, as RHÖN-KLINIKUM AG, once again achieved a great deal. That is why I wish to express to our employees my most sincere thanks, also on behalf of my two colleagues on the Board of Management, for the excellent work they have done for the well-being of our patients. It is owing to their tremendous commitment and extraordinary work that we can look back on a successful the 2018 financial year. For the first time, the contribution we make to research and teaching at Universitätsklinikum Gießen und Marburg (UKGM) is being reasonably remunerated thanks to the agreement on separate accounting. With our new Campus Bad Neustadt, we have implemented our campus strategy for viable, very patient-centred healthcare delivery in its ideal form, with business operations now having started up there. We have the courage not just to think about new treatment and care concepts but also to implement them consistently. That also includes the re-launch of the Marburg Ion Beam Centre (MIT) under our sole medical and commercial management. Many new digital tools are now in use, always with the caveat that they have to be of benefit for patients and staff.

What does this separate accounting scheme mean for UKGM?

DR. GUNTHER K. WEISS

The future agreement paves the way for an investment programme to the tune of at least € 100 million until 2021. This financial commitment will benefit not only the over 500,000 patients each year and the nearly 10,000 employees of UKGM, but also the entire region of Central Hesse. At the Marburg site we will, for example, undertake the new build of the Clinic for Paediatric and Juvenile Psychiatry and completely modernise the Clinic for Psychiatry and Psychotherapy. Moreover, we will bring the centralised OR unit and all intensive care wards up to the latest standards of medicine and technology. Parallel to that, in Gießen, the Paediatric Heart Centre will be expanded and an extension added on to the hospital that will ensure that also in future we will be able to provide a sound basis for the ever-growing demand.



With our campus approach, we will make patient care more convenient, better and quicker thanks to the close networking of all those involved in the patient treatment process.



Board Member for Medical
PROF. DR. BERND GRIEWING



The campus approach as a pathbreaking care model in rural areas was completed at the beginning of 2019 in Bad Neustadt. What can we expect from that?

STEPHAN HOLZINGER

The analysis of the medical care situation in Germany has shown that with our RHÖN Campus approach, which pursues a co-operative and comprehensive approach to patient care, we have the right answer to the big challenges facing the healthcare sector over the coming years. Our innovative healthcare delivery approach, which we have implemented in its ideal form in Bad Neustadt, is geared towards comprehensive interdisciplinary cooperation of our hospitals with community-based practitioners and healthcare service providers, all on the basis of state-of-the-art IT and intelligent digital tools such as an electronic patient file. We are convinced that in future further regions will benefit from our know-how. Demographic and regulatory developments are opening up new opportunities. We are prepared and poised to seize such opportunities.

What are your plans for Campus Bad Neustadt?

PROF. DR. BERND GRIEWING

At RHÖN-KLINIKUM Campus Bad Neustadt, following completion of the first construction phase, we are already working on measures to ensure its successful further development. The plans are for an outpatient operating centre, the refurbishment of the rehabilitation department and the extension of the Centre of Outpatient Medicine (ZaM). Our Centre of Clinical Medicine (ZkM) covers the centralised areas of basic medical care as well as very complex and difficult medical cases in the field of cardiology, neurology and orthopaedic surgery.

What kind of impact will the campus approach have on the quality of care that patients receive?

PROF. DR. BERND GRIEWING

With our campus approach, we will make patient care more convenient, better and quicker, especially in rural regions, thanks to the close networking of all those involved in the patient treatment



process and across the boundaries of outpatient and inpatient care. We offer excellent healthcare delivery in highly specialised fields dealing with complex and difficult medical cases far beyond the region's boundaries.

The campus approach represents a viable healthcare delivery system of the future. Are there any related ideas about new remuneration forms?

PROF. DR. BERND GRIEWING

Looking forward, a modern healthcare delivery approach will also include a new remuneration scheme taking into account the competences of coordination and integration. We advocate exploring new remuneration schemes coupled with a competition on quality between regions, and likewise the establishment of a regional network with clearly defined care objectives.

What are your future plans for the MIT?

DR. GUNTHER K. WEISS

In November 2018 we acquired the majority shares in MIT from Heidelberger Universitätsklinikum. We thus averted the insolvency and prepared a pathway to successfully re-launch the company under our management. The agreement is a very positive signal for the Marburg healthcare site, UKGM and Central Hesse. We thus ensure that our patients can also continue to benefit from this innovative treatment method. Currently, we are working towards furthering clinical and scientific cooperation with all radiation therapists and oncologists in the region and far beyond it.

You have made the takeover conditional on the approval being given by the German Cartel Office, on the Federal State of Hesse granting the operating permit and on new contracts being concluded with the health insurance funds. Where do you stand with that today?

DR. GUNTHER K. WEISS

To sum that up briefly: the German Cartel Office approved the takeover, and we also expect to be granted the operating permit by the Federal State of Hesse shortly. Even more exciting than that will be our discussions with the health insurance funds. But here, too, we expect to come to an agreement soon, allowing us to assume the commercial and medical responsibility for the MIT on time. Meanwhile, patient numbers at the MIT are growing and that is the most important thing.



Chairman of the Board of Management
STEPHAN HOLZINGER



We have the courage not just to think about new treatment and care concepts but also to implement them consistently, whether in analogue or digital form.



Digitalisation is a key element of the corporate strategy. What exactly is that?

STEPHAN HOLZINGER

RHÖN-KLINIKUM AG doesn't just talk about digitalisation, we actively and wholeheartedly embrace it. The many different measures taken to realise digitalisation in our Company are not an end in themselves but are developed and implemented if they improve patient care, noticeably relieve the workload of staff and make administrative processes more efficient.

We are committed to digital networking to integrate all players in the treatment process – community-based practitioners, other hospitals as well as healthcare service providers. That also includes our doctors' portal – an electronic patient file – which enables comprehensive, efficient and safe patient care. Other applications are our online appointment management system, digital anamnesis or our Medical Cockpit that works like a search engine to help our specialist medical staff find all relevant information in just seconds. In that way we make it easier for them to gain an overview of a patient's entire medical history more quickly and securely.

With Medgate you are entering the growth market of telemedicine. What potential do you see in Germany?

STEPHAN HOLZINGER

The relaxing of the tele-treatment prohibition in Germany opens up new market opportunities for our Company which we intend to take advantage of very quickly. The telemedicine market in Germany has huge potential, and we expect to see rising demand for telemedical services. With the joint company that we intend to establish with the Swiss telemedicine company, we are striving to become the market leader in Germany in the field of telemedicine.

Moreover, we are the first hospital group that is looking to introduce telemedicine in Germany on a large scale. That gives us a further important unique selling point over our competitors. Our telemedical offering has the potential of developing into a new

and promising business field. This will also nicely round off our established hospital business.

What telemedical services will you offer?

DR. GUNTHER K. WEISS

The plan in future is to offer patients consultations by phone or video telephony in both urgent and general medical questions. With the offering we would like to help close the growing gaps in healthcare delivery particularly in rural areas. We are currently in negotiations with private insurance companies. As soon as the regulatory requirements on the market for persons under statutory health insurance open up for potential generalised tele-treatment, we will then provide the basis for expanding such service offering to persons under statutory health insurance with reimbursement through their statutory health insurance funds.

How will the new company with Medgate, in which RHÖN-KLINIKUM AG will hold a 51 per cent majority interest, fit with the existing offering?

PROF. DR. BERND GRIEWING

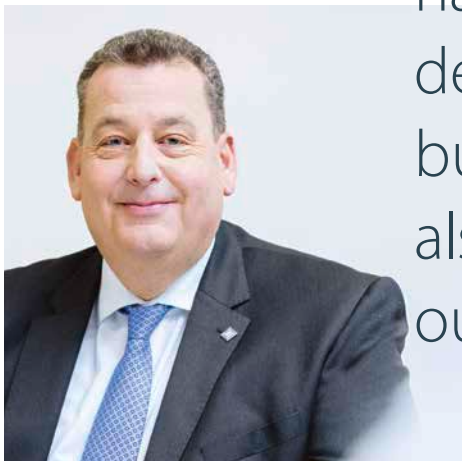
We will expand our existing commitment in the area of telemedicine significantly. We have been offering telemedical services at all our hospital sites for many years. That includes



Our telemedical offering has the potential of developing into a promising business field. This will also nicely round off our hospital business.



Chairman of the Board of Management
STEPHAN HOLZINGER





Operative Board Member
DR. GUNTHER K. WEISS



In November 2018, we acquired the majority shares in MIT and thus prepared a pathway to successfully relaunch the company under our responsibility.



conferences with doctors about patients by way of tele-consultation and exchange of documents, tele-monitoring of patients, tele-radiology networks, also including our Stroke and Cardio Angel systems for telemedical care of stroke and heart attack patients: here there is a direct communicative link of the emergency vehicles and first responders with the hospital.

What advantages does telemedicine offer?

PROF. DR. BERND GRIEWING

Thanks to telemedicine and digital healthcare delivery, patients get easier and quicker access to modern medical care – without having to put up with long waiting times and journeys. This is consistent with a key aspect of the RHÖN Campus approach – digitally assisted, state-of-the-art patient navigation. Here we are pursuing the objective of providing outpatient care whenever possible. However, complex and serious diseases must be treated at hospitals.

Since 1 January 2019 there has been a requirement to adhere to staffing floors in nursing-intensive areas. What does that mean for RHÖN-KLINIKUM AG?

DR. GUNTHER K. WEISS

First of all it is important for me to emphasise that at RHÖN-KLINIKUM AG we have always employed the nursing staff needed to ensure that our patients receive high-quality and safe care. This is reflected not only in the high level of satisfaction of our patients and their referring doctors but also in the wide array of certifications of our medical processes and results quality.

The politically desired short-term introduction of staffing floors is problematic from our viewpoint. Our goal is to further secure and expand our staffing by strengthening the loyalty of our employees, recruiting new employees and taking over highly talented and motivated apprentices. We will closely watch how the latest legislation will impact our Company. The labour market is difficult, even for us as an attractive employer offering good continued and higher-qualification training opportunities, numerous benefits such as kindergarten places, company health management and a high-quality, attractive medical services offering.

What goals have you set for yourself for 2019?

STEPHAN HOLZINGER

During the current financial year 2019 we want to steadfastly continue our profitable growth. We expect revenues of € 1.3 billion within a range of plus or minus 5 per cent. At the same time we expect EBITDA to be between € 117.5 and 127.5 million.

What we stand for

During our 45-year corporate history we have always shown entrepreneurial far-sightedness and had the courage to stray from beaten paths. This has made us what we are today – one of the healthcare providers in Germany with the most innovations.

Entrepreneurial courage

The year 2018 was a special one for us: we completed our flagship project, the new RHÖN-KLINIKUM Campus in Bad Neustadt, in December. We thus confirm our entrepreneurial courage and our claim to provide convincing solutions for the main challenges in the healthcare industry. Through close cooperation and by linking inpatient and outpatient healthcare services on our medical campus we stand for excellent forward-looking medical care for rural areas too. In a difficult market environment characterised by regulatory interventions and with a growing trend towards more outpatient services we are investing in important projects to secure our future and are steadfastly following our campus and digitalisation strategy. As a driver of innovation in the German hospital market we have staked a claim to transfer this concept to other rural areas.

Excellent medical care

Even when we tread new paths, the first priority for us is the well-being and the high expectations of our patients to receive the best possible healthcare. For our patients we renew our commitment every day – with our heart and soul and with the best technology. In our hospitals we provide high-quality and affordable healthcare which is close to home and consistently geared towards the patients' needs.

Excellent medical care requires a three-pronged approach with physicians having the freedom to choose the method of therapy, ongoing investments in modern medical care and efficient clinical processes and structures specifically with a view to meeting the needs of the patients. We specifically promote interdisciplinary cooperation among our physicians and nurses across all our hospitals and are able to raise the quality of treatment noticeably with physicians and nurses closely coordinating with each other.

Our strong healthcare network with a direct link to university medical care allows us to exchange specialist knowledge on a regular basis. We can therefore offer cutting-edge medical care throughout our hospitals and enable rural areas to profit from medical progress.

Digitalisation for the benefit of patients and employees

We see changes in the market and industry as an opportunity to initiate game-changing and innovative projects. We particularly see the increasing digitalisation as an opportunity to ease the workload of our employees both physically and by means of less administration in order to improve patient care and make it even more comfortable.

The backbone of modern high-quality healthcare is digitalisation and the close cooperation of our specialist departments and hospitals with local specialist physicians and network partners. We therefore place our emphasis on integrated medical care totally geared towards the patient – whether the patient requires outpatient or inpatient services or by means of telemedicine.

Our values

Competence, knowledge, compassion and a friendly atmosphere are the motivation for all our activities. RHÖN-KLINIKUM AG's philosophy includes ethical conduct and medical care which put the often seriously ill patient with their needs, worries, fears and hopes at the centre. The way we regard each other and our patients is strongly characterised by values such as well-being, compassion, responsibility, respect and integrity.

We rethink healthcare: our RHÖN campus concept, networking and growing digitalisation in our hospitals all contribute to excellent medical care. With telemedicine we will open up a promising business field of the future that could turn out to be a further key source of revenue for the Company.

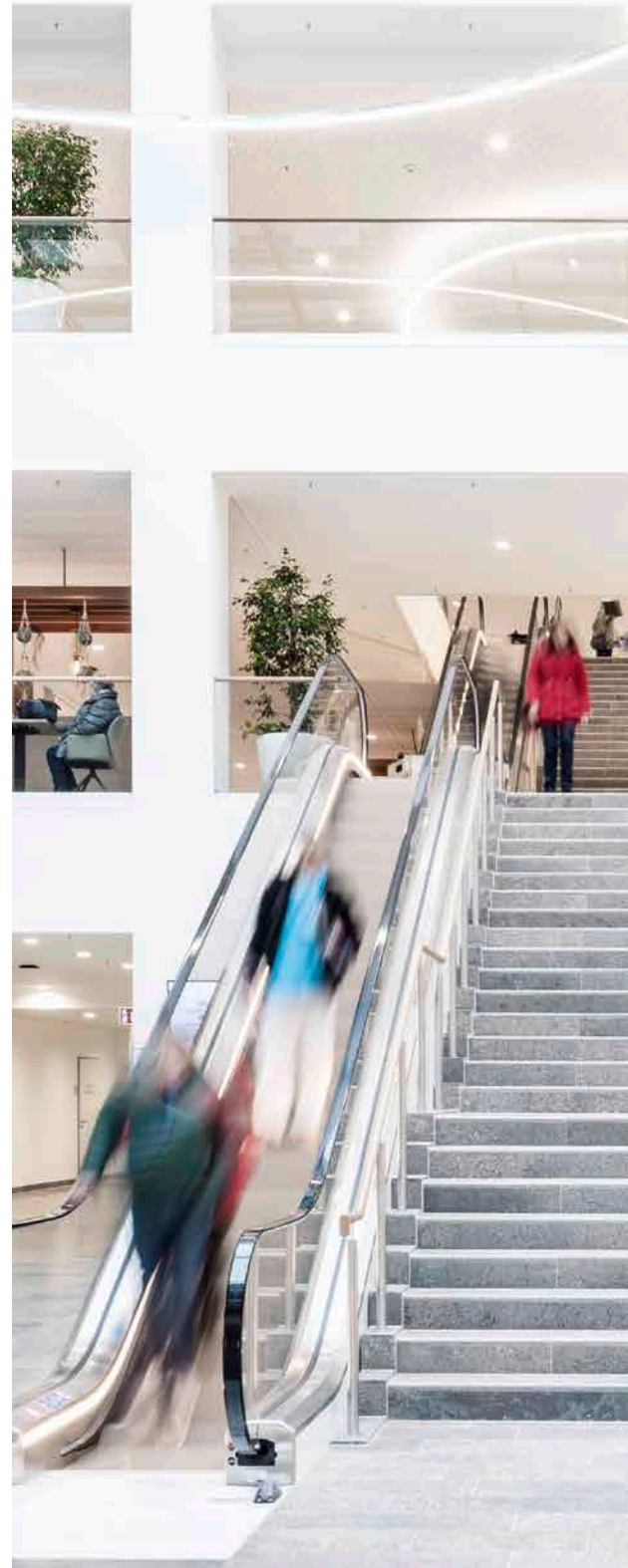
Read more at rhoen-klinikum-ag.com

Watch our Company videos at rhoen-klinikum-ag.com/videos



Boldly going new ways

Medical progress has always been especially important for patients. With our **RHÖN Campus strategy** we are safeguarding medical care for rural areas in particular. **Digitalisation** and state-of-the-art IT allow us to process relevant information from large amounts of data in a short time, thus speeding up the flow of information in order to make clinical processes more efficient.





The RHÖN Campus strategy

Our RHÖN Campus strategy stands for forward-looking healthcare. It overcomes the traditional boundaries between outpatient and inpatient services by means of cooperation and networking and raises medical care in rural areas to a new level of excellence.

RHÖN KLINIKUM AG's Campus in Bad Neustadt a. d. Saale sets new standards

The campus is completed! Its hallmark: the impressive glass dome of the Centre for Outpatient Services (Zentrum für ambulante Medizin – ZaM) made of 85 tonnes of glass with a diameter of 35 metres. It is only slightly smaller than the dome of the Reichstag (German parliament building) in Berlin. The new campus is a prototype for wholistic healthcare which crosses sectoral boundaries, such as RHÖN-KLINIKUM AG is currently pursuing with its campus strategy. It stands for extensive cooperation with doctors and healthcare providers in a particular region and represents a sustainable solution for future healthcare – particularly with respect to the demographic, regulatory and financial developments as well as the increasing lack of specialist staff.

The campus in Bad Neustadt provides patients with fast access to healthcare of the best quality corresponding to the severity of their illness. It happens all in one place and in combination with carefully planned medical care both before and afterwards as well as widespread use of digital tools. This comprehensive service is also made possible by a highly modern IT system and wide-ranging use of digital tools. This is new for a rural area. The aim is to make things as easy as possible for the patient.

Our Centre for Outpatient Services (ZaM) on the new campus is the medical hub and the central point of contact for patients. It is characterised by tight network links and the close cooperation between the hospital and outpatient medical specialists. Every patient receives the right treatment at the right place depending on their individual requirements for healthcare. The campus is also the new home for a wide range of ancillary healthcare services, including the emergency services, a pharmacy, a shop for callipers and other aids as well as gastronomic offerings.

Our Centre for Clinical Services (Zentrum für klinische Medizin – ZkM), the largest reconstruction project on the campus, covers all areas of basic medical care. In addition we provide excellent healthcare services in highly specialised fields such as, for example, cardiology or surgical medicine. Our hospitals enjoy an excellent reputation, both throughout Germany as well as internationally.

Rolling out the campus concept for other rural areas

As a driver of innovation in the German hospital market it is our aim to transfer our campus concept to other rural areas. Such a comprehensive offer for medical services as is available at the new campus in Bad Neustadt remains unique in Germany. We are therefore pioneers in this respect and are convinced that other regions will in future benefit from our know-how. Our hospital in Frankfurt (Oder) where cooperation is already well-advanced was already given the signal in 2017 to be rebuilt as a campus.

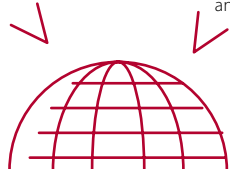
UNIQUE PROTOTYPE WITH NATIONAL APPEAL

INTEGRATION OF OFFERINGS

Integration of outpatient and inpatient offerings with numerous medical services and care offerings

CENTRALISED POINT OF CONTACT

Centralised point of contact for outpatient treatments and healthcare services



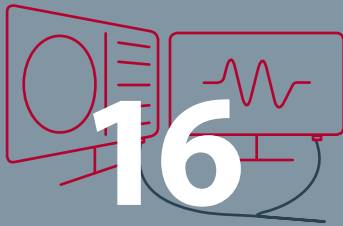
EFFICIENCY GAINS

Optimised care processes help both patients and treating staff

DIGITAL NETWORKING

Digital networking of all players with intelligent IT solutions

Our Campus
Bad Neustadt



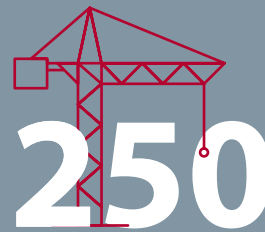
16
OP THEATRES, EQUIPPED
WITH A COMPLEX VIDEO
MANAGEMENT SYSTEM



15,000
VISITORS TO OUR
OPEN DAY

30

30
DIFFERENT SPECIALIST DOCTORS
AS WELL AS HEALTHCARE
PROVIDERS AND ANCILLARY
SERVICE PROVIDERS

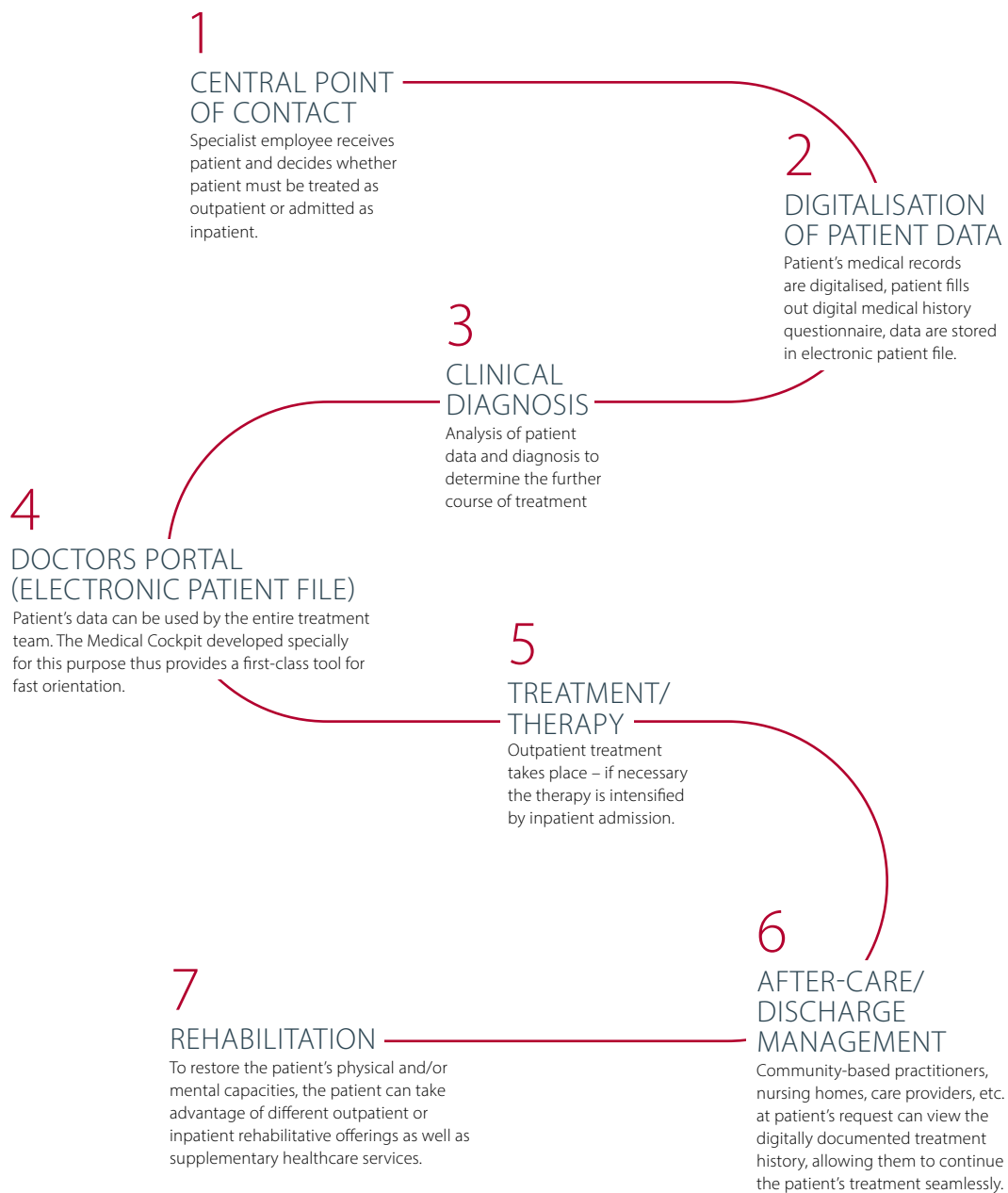


250
WE HAVE INVESTED EUROS
250 MILLION OF OUR OWN
FUNDS IN THE RECON-
STRUCTION OF OUR CAMPUS





The way for the emergency patient at the RHÖN Campus



📍 The scene is set for our campus
rhoen-klinikum-ag.com/campus-in-szene-gesetzt

📱 Our interactive campus
rhoen-klinikum-ag.com/campus-interaktiv



Digitalisation assists **patients and employees**

It is the aim of the extensive digital transformation of our hospital group to further improve ever more efficient patient care, to ease the daily workload of our physicians and nurses and to make administrative processes more efficient.

Digitalisation can guarantee medical care on an even higher level in the future. As society ages, more and more people require medical treatment. At the same time there is also a lack of qualified doctors in rural areas where the need for nursing staff also exceeds supply levels. All of this is also accompanied by rising statutory regulations.

We at RHÖN-KLINIKUM AG use digitalisation to become even better and more efficient. We are currently in an extensive process of transformation which permeates throughout our company and also includes all associated institutions. We are breaking down the silo mentality which is often prevalent in medical circles – in favour of extensive cooperation within our hospital group and with local doctors, other hospitals and regional healthcare providers.

More and more digital tools improve healthcare

Digital technology in the form of tools helps us to link all these areas and design more efficient clinical processes and new concepts for healthcare. Intelligent filtering and structuring of big data allows the patient history to be reviewed more quickly. Medical history, diagnosis and treatment can be provided in a faster manner and of a higher quality. Digitalisation is already proving to be of specific and tangible benefit in the central point of contact. Nursing history and medication taken at home are recorded here digitally. Documentation which the patient brings to the hospital can be scanned and assigned to the electronic patient records. It is also possible to view and control the flow of patients from here. The central point of contact is a major modernisation in the hospital process at our campus and the beginning of the patient's digital documentation.



New technologies enhance our medical excellence – in the best interests of our patients.”



Digitalisation can also make life easier especially for patients with restricted mobility and for people in rural areas. This begins with the possibility to make online appointments digitally and continues through to a Hospital at Home system with an app-based ECG, for example. The nursing staff's daily workload is made easier by the possibility to call the nurse digitally via a smartphone or tablet. Patients' requests and wishes – whether regarding the menu or a vase – are given priority and structure and transmitted to the ward's staff digitally. Special software also makes it easier to document billable services. Medical staff receives an immediate summary of the patient's history via our Medical Cockpit, an intelligent search engine. Furthermore special software makes it easier to bill the medical services as documented. Local doctors

can look at the documentation of jointly treated patients via our medical portal system (i.e. electronic patient records managed by physicians)

Telemedicine is a good solution for rural areas

We are now also intensifying our move into the market for telemedicine and shall therefore establish a joint company with the Swiss telemedicine pioneer Medgate. In this way we wish to contribute to alleviating the lack of qualified doctors in rural areas and reducing the time needed to see a doctor. The technical preconditions such as a smartphone or computer equipped with a camera generally exist in most households.

Digital tools for patients, employees and administration

Read more at rhoen-klinikum-ag.com/digitalisierung

Digital clinical processes

- Mobile doctors' ward rounds
- Medical Cockpit → **A**
- Universal medical archive
- Digital nurse calling system → **B**
- Digital medical history based on information from patient → **C**
- Online management of appointments
- Digitalisation of patient documentation
- Expert databank
- ...

Digital administrative processes

- Semantic DRG coding e.g. Tiplu Momo → **D**
- Digital order picking and ward requirements
- Patient-related material consumption/documentation
- Digital processing of invoices
- E-learning
- ...

Communication & data exchange

- Medical portal system → **E**
- Exchange of medical images & teleradiology
- Telemedicine (telestroke, telemonitoring, teleconsultations)
- Video communication and video consultations
- Screensharing and remote access
- ...

Hi-tech healthcare

- Hybrid OP theatres with video management systems and imaging equipment such as CTs or MRIs
- SPM – Surgical Procedure Manager ("GPS" for the OR, OR procedures can be standardised)
- DaVinci – OP robot
- High-end medical technology
- Robot-based X-ray systems
- Patient monitoring
- Exoskeleton ("Walking robot" for patients with paraplegia and neurological diseases)
- ...



A MEDICAL COCKPIT

- Semantic search engine operating with intelligent algorithms
- Processes data from medical records like doctor's letters, findings and OR reports quickly and comprehensibly

B DIGITAL NURSE CALL

- Patient needs are digitally recorded, prioritised and sent to the ward staff

C DIGITAL SELF-ANAMNESIS

- Patients fill out medical history questionnaires on a tablet themselves
- Data are directly stored in the digital patient file
- No longer necessary to transfer paper-based records to the hospital information system

D MEDICAL CONTROLLING

- More efficient organisation of procedures in documenting services rendered
- Secures revenues through complete coding of services rendered for invoicing with health insurance funds

E DOCTORS' PORTAL

- Doctors can access and view information on commonly treated patients
- Simplifies processing of information during treatment



Medical progress **with foresight**

Our network medicine is of the highest **medical quality** which we are constantly improving in the patient's best interest. A central expert committee, the Medical Board, has overall control with the implementation taking place at our **five hospital sites** in Germany with their main emphasis on different areas of treatment and/or research.



Quality at the highest level

Our networked and interdisciplinary cooperation ensures that our patients benefit from the collective knowledge of all our hospitals. We have set up a group-wide exchange system via twelve specialist expert committees.

Medicine is developing faster and faster. It is our aim to detect such developments throughout the world and also to make our own innovations which continue to raise the quality of our medical care. Our activities go far beyond the legal requirements. As a member of Initiative Qualitätssicherung (initiative for quality assurance in medicine) we regularly publish the results of our research and innovation projects.

Our Medical Board experts advise and assist our medical management officers and the management of our hospitals in the assessment and specific implementation of medical innovations – when introducing new therapeutic procedures, installing complex medical technology or when further developing our facilities, for example. Our Medical Board also manages forward-looking medical

and nursing projects in our hospitals. These include genomic medicine, standardisation in operations and the development and integration of e-health and telemedical processes.

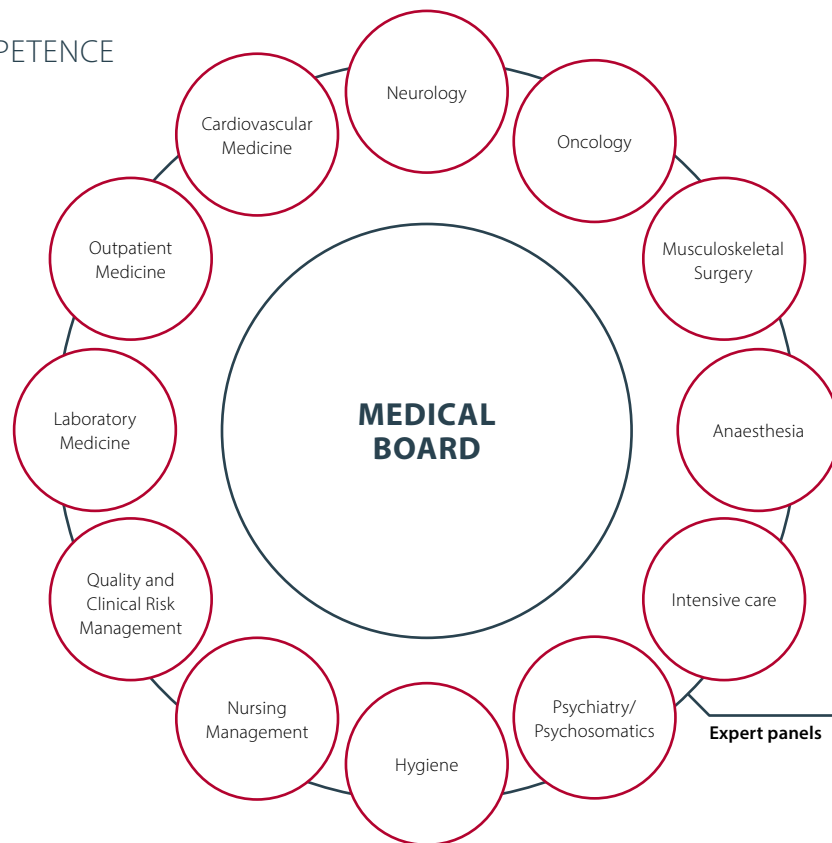
With the close cooperation between our Medical Board, twelve different expert committees and our medical management officers we find solutions which further improve the quality of treatment and therefore patient care. We also prepare our hospital group for strategically important matters of the future.



Our twelve expert panels assist the Medical Board in making decisions on changes and innovations

**MEDICAL BOARD:
CONCENTRATED COMPETENCE**

- Responsible for the conception and implementation of major medical innovations in our company
- Pooling cutting-edge physicians from different locations and linking university with non-university medicine
- Manages forward-looking medical and nursing research projects in our hospitals



Read more at rhoen-klinikum-ag.com/medical-board

Our patients can look for the right expert directly

INDEX OF RHÖN EXPERTS

All specialist areas, including specialisations, main areas of hospital emphasis, further education and contact details are listed

Databank includes roughly 270 specialists from all five hospital sites

Online databank rhoen-klinikum-ag.com/expertenverzeichnis



RHÖN-KLINIKUM Campus Bad Neustadt

The campus in Bad Neustadt stands for extensive and comprehensive healthcare in a rural area. The digital network of all actors involved in the provision of healthcare at the campus is a precondition for the perfect flow of patients and the highest quality of treatment.



Short profile

Our new campus in Bad Neustadt is a symbol: it stands for medical care across sectoral boundaries in a rural area. It provides many of the core medical services which a person needs during their lifetime. A policy of interdisciplinary cooperation is practised in order to be able to treat every patient individually and wholistically. Additional healthcare services can also be found at the campus.

Where long distances previously separated individual physicians and clinics: a single location now links everything together – outpatient and inpatient services as well as many other medical services and preventative services. Local specialist doctors, clinics with various specialist medical areas, rehabilitation facilities and services for maintaining long-term health all work together hand in hand.

All the actors involved in the provision of healthcare are linked to each other in a digital network. Intelligent IT solutions and communication systems make the process of treatment noticeably easier for our patients and also ease the workload of our employees.



Example of excellence

Importance of networking and cooperation

A good example of fruitful cooperation between disciplines is the close cooperation and communication between cardiology and radiology at the campus in Bad Neustadt. For decades X-ray diagnostics has been an elementary component in both specialist areas. Radiologists and cardiologists work closely together in the interdisciplinary working group called “tomography of the heart”. Together they combine their knowledge to analyse all CT and MRI scans of the heart.

Interdisciplinary cooperation has also proved itself in the diagnosis of emergency cases. Different life-threatening diseases with similar symptoms can be detected and diagnosed with a special CT machine in a fast and safe manner.

After many years of cooperation in the specialist areas of cardiology and radiology in Bad Neustadt it has become a standard for us – we are now a competence centre across many regions for the sclerotherapy of the myocardial muscle where the cardiac septum has become particularly hard. It is imperative for the treatment of this condition that radiologists and cardiologists can study the changes in the myocardial muscle via an MRI scan in advance of the operation so that they can assess the effect of the sclerotherapy after the operation.

The structure and basic layout of the new campus is designed to encourage such cooperation. Interdisciplinary networking and cooperation allow for the quicker exchange of information between the treating doctors with regard to diagnosis and the treatment offering for the individual patient. The patient with their questions and health issues is therefore the focal point of action on the new campus.



RHÖN-KLINIKUM CAMPUS BAD NEUSTADT AT A GLANCE

Number of patients: roughly 28,000 outpatient, roughly 50,000 acute inpatient (total) and roughly 16,000 in the medical care centre (MVZ)

Number of beds: 1,579

Number of employees: roughly 2,800

Number of clinics/specialist areas: 22

Academic teaching hospital of the Philipps University Marburg

 campus-nes.de

MAIN AREAS OF TREATMENT

- Medical Care Centre (Medizinisches Versorgungszentrum)
- Cardiovascular diseases
- Rehabilitation of cardiovascular patients
- Hand surgery
- Neurology
- Psychosomatic illnesses
- Addiction therapy

Klinikum Frankfurt (Oder)

Our hospital in Frankfurt (Oder) is a modern healthcare campus for the area of Berlin-Brandenburg and an academic teaching hospital of the Berlin Charité hospital.



**Short
profile**

Our hospital in Frankfurt (Oder) is one of the most state-of-the-art medical facilities in the federal state of Brandenburg. We provide a wide range of core medical services for our patients.

We have specialised in the treatment of various highly complex illnesses in our hospital in Frankfurt (Oder). We particularly provide medical care for patients with vascular diseases and with vascular changes in the brain, tumour diseases, injuries and their after-effects. We take care of high risk pregnancies and births and can treat and look after extremely premature babies.

These cases require interdisciplinary diagnostics and therapy. We have therefore set up competence centres such as the neurology competence centre for Brandenburg-Berlin, the Stroke Unit, the perinatal centre for premature babies, the intestinal centre, the interdisciplinary vascular centre and the tumour centre. In the various centres, the clinics and institutes work together on an interdisciplinary basis.

The quality of treatment and medical care is tested and assessed by independent certification and accreditation companies. As an academic teaching hospital of the Berlin Charité university hospital and training centre we contribute to the high level of treatment also being safeguarded for the future.



**Example of
excellence**

Sustainable concept for healthcare of older patients

Demographic changes require us to rethink geriatrics. The consequences of an ageing society can be felt more clearly in rural areas. As a facility offering maximum medical care this subject is of strategic importance to us: we must develop forward-looking concepts of healthcare for older patients. We are resolutely responding to this in Frankfurt (Oder), for example. We are currently planning a new age-appropriate building and have already set up a geriatric unit in the accident and emergency section. We have also organised a regional geriatric network: with a round table, lectures and a network of actors working in hospitals and care homes. We are planning a new building meeting the needs of the elderly, have set up a unit for the elderly in the emergency ward, and are establishing a regional geriatric network including players in hospitals and nursing homes.



KLINIKUM FRANKFURT (ODER) AT A GLANCE

Number of patients: roughly 38,500 outpatients, roughly 31,000 acute inpatient (total) and roughly 48,000 in the medical care centre (MVZ)

Number of beds: 773

Number of employees: roughly 1,500

Number of clinics/specialist areas: 30

Academic teaching hospital of the Berlin Charité university hospital and training centre

 klinikumffo.de

Our interdisciplinary geriatric unit has hit the headlines beyond the Brandenburg federal state borders. It is based on the knowledge that older patients cannot be treated in the same way as younger ones. Patients over 70 are very often admitted to hospital with broken bones but they also bring other ailments and illnesses with them. The combination of these illnesses is often complicated. So it is all the more important that we carry out multidimensional screening immediately after admitting a patient who has had a fall.

We have set up a specific room for this in Frankfurt (Oder) since older people who often have cognitive deficiencies become insecure when they meet strangers in a new environment. For everybody who is involved in the treatment our geriatric manager documents how the patients behave, how safely they move, how they speak. When admitting a patient we already also think about the time when the patient can leave the hospital. This means that we can avoid the frequently observed need for care following hospital stays. If aftercare is required, we can consult social services in preparation thereof.

MAIN AREAS OF TREATMENT

- Highly complex illnesses
- Geriatrics (under development)
- Neurosurgery
- Vascular diseases and vascular changes in the brain
- Tumour diseases
- Injuries and their aftereffects
- Pain therapy
- High-risk pregnancies and births
- Treatment and care of extremely premature babies



Zentralklinik Bad Berka

Zentralklinik Bad Berka (ZBB) is categorised as one of the top hospitals in Germany and offers services to the population in central Thuringia and also to many patients from abroad.



Short profile

ZBB is one of the most state-of-the-art hospitals in Germany. With a total of 21 specialist clinics and departments the facility belongs to the large Thuringian hospitals – and was awarded the status of “Best Large Hospital” in the federal state of Thuringia by the “Thüringer Allgemeine” newspaper in 2015, for example.

The hospital offers cutting-edge medical care at an international level. Highest priority is given to a friendly bedside manner and the patient’s wishes. Individual care is just as important here as the best possible treatment which is facilitated by the interdisciplinary cooperation between the various clinics.

Particularly patients with chest, lung and vascular illnesses, tumours, cardiological diseases and neuropathic illnesses as well as bone diseases are treated in the specialist clinics and centres. Two medical care centres (MVZ) in Bad Berka and Weimar with branches in Apolda, Erfurt, Mönchenholzhausen and Sömmerda also offer extensive outpatient services under one roof and therefore contribute to safeguarding good specialist medical care close to patients' homes.

Further education measures are regularly given to the roughly 1,800 employees who work every day with the motto: top-quality treatment together with innovation and a human touch. Located in the centre of Germany, ZBB can claim to be also one of the most scenic hospitals in the country which has been practising medicine for 120 years. This tradition together with state-of-the-art healthcare is experienced here – every day, 24 hours long – for 40,000 patients every year.



**Example of
excellence**

Interdisciplinary Cardiological Centre for severe illnesses

The Cardiological Centre in Bad Berka has already been a success story over the past few years and it is now being expanded. Some 1,200 patients are treated here in our atrial fibrillation centre where the patients are looked after by a team of physicians from the department for rhythmology and invasive electrophysiology as well as from the clinic for cardiosurgery. These experts work together to make a diagnosis and devise a treatment strategy. Irregular heart beats in well advanced stages of heart disease can also be treated since it is possible for the physician to make an individual decision regarding the ideal medical therapy for each patient.

The rhythmology and invasive electrophysiology department has launched a telemedicine project which benefits roughly 200 patients with advanced cardiac insufficiency and implanted defibrillators. Such home monitoring is intended to safeguard the well-being of seriously ill patients. Eight medical practices are involved in the project which is backed with € 600,000 from the Thuringian Ministry of Health.



ZENTRALKLINIK BAD BERKA AT A GLANCE

Number of patients: roughly 9,300 outpatients, roughly 30,000 acute inpatient (total) and roughly 75,000 in the medical care centre (MVZ)

Number of beds: 647

Number of employees: roughly 1,800

Number of clinics/specialist areas: 21

Academic teaching hospital of the university hospital in Jena

 zentralklinik.de

MAIN AREAS OF TREATMENT

- Chest illnesses
- Lung and vascular illnesses
- Tumours
- Cardiological diseases and neuropathic illnesses
- Bone diseases

University Hospital Gießen

The University Hospital in Gießen has been part of the RHÖN-KLINIKUM AG corporate group since 2005. It offers top-level medicine and is part of the “Cardio Pulmonary Center” Cluster of Excellence.



Short profile

The results from medical research which are held in high regard both nationally and internationally, the commitment to teaching, medical expertise and nursing knowledge are all essential to the excellent patient care at the University Hospital Gießen.

The hospital greatly supports the areas of research which the specialist medical faculties of the Justus Liebig University Giessen have declared as their main emphasis. In many areas there are successful projects where the hospital cooperates with industry in order to develop products and services which go directly towards improving the therapy of our patients.

The main emphasis in Gießen is in the medical research and care of (paediatric) cardiological and pulmonary diseases as well as in the medical research and care of infections. As a maximum care hospital, the University Hospital also covers the entire spectrum of modern medicine – from ophthalmology to accident surgery and dentistry.

The University Hospital Gießen is part of Universitätsklinikum Gießen und Marburg GmbH (UKGM), the third-largest university hospital in Germany. It is firmly integrated in RHÖN-KLINIKUM AG's Germany-wide hospital network. All our hospitals and patients therefore benefit from the transfer of cutting-edge research and healthcare at a university hospital level.



Example of excellence

Gießen becomes centre for heart and lung research

Our University Hospital Gießen supports the areas of research which the specialist medical faculties of the Justus Liebig University Giessen have declared as their main emphasis. In 2018 we became part of the “Cardio Pulmonary System” excellence cluster, endowed with a coveted research grant from the central German government as well as from the federal states. It supports the cooperation of several scientists at one location on a group of topics which are relevant to society or the economy. The cardio-pulmonary research cluster includes:

- Universities of Giessen & Marburg Lung Center (UGMLC)
- LOEWE Centre (Landes-Offensive zur Entwicklung Wissenschaftlich-ökonomischer Exzellenz – State Offensive for the Development of Scientific Economic Excellence)
- German Center for Lung Research (Deutsches Zentrum für Lungenforschung – DZL)
- Deutsches Zentrum für Herz-Kreislauf-Forschung e.V. (DZHK – German Centre for Cardiovascular Research)
- Kerckhoff Institute
- Max Planck Institute for Heart and Lung Research in Bad Nauheim



The cluster receives funding in the amount of € 50 million over seven years, with which several professorships and junior research groups are being set up.

During the funding period the University Hospital Gießen is also devising a clinical cooperation project with the hospitals in Bad Nauheim and Hersfeld-Rotenburg an der Fulda. Its distinctive characteristic is the close link to the scientific institutions of the excellence cluster. The aim of the cooperation is to set up a clinical centre providing university medical care for cardio-pulmonary diseases in the region of central and northern Hesse. This large network providing cutting-edge medical care will give patients with cardio-pulmonary illnesses medical care at a consistently internationally leading level. The treatment in the hospitals can be adapted to the latest findings in medical research since all the hospitals are linked to each other and also with research institutes. With the coordinated provision of healthcare and areas of competence the hospitals will be able to increase the quality of their treatment and also raise their market position. With our new and large network for cutting-edge medical care we can become an example for providing state-of-the-art healthcare in rural areas.



THE UNIVERSITY HOSPITAL GIESSEN AT A GLANCE

Number of patients: roughly 217,000 outpatients, roughly 53,000 acute inpatient (total) and roughly 36,000 in the medical care centres (MVZs) in Giessen and Marburg

Number of beds: 1,145

Number of employees: roughly 4.800

Hospitals/institutions: 47

Affiliated to the University Hospital Marburg

 ukgm.de

INTERFACILITY CENTRES

- University Adipositas Centre in central Hesse
- Cochlear Implant Centre in central Hesse
- Centre for Fetomaternal Incompatibility
- Competence Centre for Reproductive Medicine
- Interdisciplinary emphasis on haemostaseology (blood coagulation)



University Hospital Marburg

The University Hospital Marburg is considered to be one of the best hospitals in Germany and provides medical care at the highest international level.



Short profile

The University Hospital Marburg links medical care, modern diagnostics and comprehensive therapy of the highest quality with academic teaching and extensive research work at the highest international level.

With the medical faculty of the Philipps University in Marburg we are constantly further developing our joint site as a centre for cutting-edge medicine. As a hospital offering maximum medical care we provide the whole range of modern healthcare – from ophthalmology to accident surgery to dental healthcare.

Cancer patients are treated with particle beams in the “Marburger Ionenstrahl-Therapiezentrum” (MIT – Marburg Ion Beam Therapy Centre) – one of only three such centres in Europe. As another important component this state-of-the-art form of radiotherapy is a further possibility of cancer treatment and an addition to cancer research; it is highly effective and offers patients with tumours which were hitherto difficult to treat new possibilities of treatment.

The University Hospital Marburg is part of Universitätsklinikum Gießen und Marburg GmbH (UKGM), the third largest university hospital in Germany. As part of RHÖN-KLINIKUM AG’s Germany-wide hospital network UKGM also supports the transfer of knowledge to healthcare which is close to home – all our hospitals and patients therefore benefit from cutting-edge research and healthcare at a university hospital level.



Example of excellence

Strong neurology

The emphasis in our neurological clinic is on the treatment of strokes, movement disorders, epilepsy and multiple sclerosis. We see a special duty in promoting research and qualifications and/or further education together with the University of Marburg and other scientific institutions.

For stroke patients we have set up the regional Marburg Stroke Network and a certified Stroke Unit across several regions.

We are recognised internationally in the treatment of Parkinson's disease and other movement disorders and have received the "Center of Excellence" award from the "American Parkinson Foundation". The Marburg Parkinson Network Alliance links us to colleagues and patients in the region.

In our certified epilepsy centre for Hesse we look after patients in an interdisciplinary manner and in close cooperation with the surrounding hospitals and doctors' surgeries. An epilepsy information centre is firmly established.

Our fourth area of neurological emphasis is multiple sclerosis, the most frequent illness among young people which leads to permanent physical disabilities if left untreated. Our centre for neuroimmunology is going new ways both in patient care and also in the area of immunotherapy in order to find better treatment possibilities for MS and other neurological illnesses so that our patients can enjoy a good quality of life in the long-term. This is also happening more and more with the use of digital tools.



UNIVERSITY HOSPITAL MARBURG AT A GLANCE

Number of patients: roughly 168,000 outpatients, roughly 51,000 acute inpatient (total) and roughly 36,000 in the medical care centres (MVZs) in Giessen and Marburg

Number of beds: 1,146

Number of employees: roughly 4.200

Hospitals/institutions: 46

Affiliated to the University Hospital Giessen

 ukgm.de

INTERFACILITY CENTRES

- University Adipositas Centre in central Hesse
- Cochlear Implant Centre in central Hesse
- Centre for Fetomaternal Incompatibility
- Competence Centre for Reproductive Medicine
- Interdisciplinary emphasis on haemostaseology (blood coagulation)

Factors **for success**

Every year almost one million patients put their trust in our healthcare and **specialist areas of competence**. With more than 4,800 employees in auxiliary functional services nursing is one of the largest of our professional categories. Our high medical standard as well as the various **career possibilities** we offer form the basis for us being and remaining an interesting employer for specialist nursing staff in the long term.



Importance of nursing

Our nurses make every effort to look after our patients around the clock in the best possible way. This commitment together with human compassion and empathy is an important component of our high quality and the basis for our economic success.

Patient care is at the heart of our hospitals: our nurses are present around the clock to tend to the personal needs of our patients and their relatives and to support the recovery process at every level. No other professional category in healthcare has so much experience, knowledge and access to our patients. The nurses liaise between physicians and patients and are an important link between patients, their relatives and the social insurance funds.

Appreciation and support in daily work

We are aware that our nurses work very hard. They are responsible for the particularly serious cases in our hospitals. They look after an increasing number of older and seriously ill people. That is not just a mental challenge. It is therefore especially important for us that they are supported in their daily work in the best possible way and that their workload is also eased if possible. The use of state-of-the-art technology such as our digital medical history system or the





JUDITH SCHÄFER, NURSE MANAGER,
PAEDIATRIC CLINIC AND OBSTETRICS
AT THE UNIVERSITY HOSPITAL
GIESSEN

Helping each other, even across wards – that is the best possible nursing. This can only be done to a perfect degree if there is very good training and the qualified specialist staff have a high degree of competency as well as the fact that commitment in the wards is also very high.

... ABOUT IDEAL NURSING SKILLS

Being able to use my experience and having time for the young patients and their parents with their concerns. We make the time needed for this, and it is very helpful that management has increased the number of trainees and their teachers and that management is also always ready to support us in our work.

... ABOUT DIGITAL TOOLS

The electronic patient records save us a lot of time. We are very advanced regarding the transfer of data. Together with the physicians we use a laptop to document the doctors' ward rounds immediately so that everybody who is involved in the treatment process – physicians, nurses and also physiotherapists – all have access to the information. That makes things very much easier for us nurses. Vital signs: We no longer have to enter them manually every hour. We also use modern technology, i.e. digital blood pressure metres. The results are automatically added to the corresponding patient records via Wi-Fi.

... WHAT HAS CHANGED

Everything! For me, that I was given the possibility to move from being a paediatric nurse to a nurse manager. I was able to do a nursing management course. Medically: a hole in the ventricular septum used to be a death sentence. Now the baby is cured when it comes out of the operating theatre. Technology: It gives us more possibilities to ease our workload but it also generates new tasks for us.

digital nurse calling system are only two examples which confirm this. With the use of digital tools and robotics we allow room for compassion in work duties such as a friendly bedside manner.

Nurse managers and nursing expert panel for constructive communication

Our nurse managers have their eye on both the challenges and opportunities. They assist the nurses by providing assistant tools, improved processes and constructive communication and by selecting new colleagues. Apart from overseeing daily work activities they also exchange information with other sites via the expert panel on nursing, for example. They therefore make a decisive contribution to further improving the quality of nursing at the RHÖN sites. Furthermore we initiated various measures in 2018 to help retain our current employees for longer periods and to take on new qualified and committed colleagues.

New ways in nursing qualifications

Since good nursing is the basis for our success, we constantly improve the professional qualifications of our nurses with specific further training and education measures. We run our own nursing schools and go new ways in our training methods in order to safeguard junior nurses for the future. An exchange programme for nursing trainees was commenced at our hospital in Bad Berka and the University Hospital Marburg in 2018. The exchange programme shows, among other things, the various possibilities for employment in the corporate group – and thus the attractiveness of RHÖN-KLINIKUM AG as an employer.



SPECIFIC PROFESSIONAL
CONTINUED AND HIGHER-
QUALIFICATION TRAINING

We are strengthening the professionalism of our employees with training including continued and higher-qualification training



As a committed employer, we go to great lengths to stay attractive to our employees as well as to recruit new, dedicated and talented employees.



Encouraging development and competence in leadership

Despite the best state-of-the-art technology and medical progress: a hospital is only as good as its employees. We therefore do a lot to stay an attractive employer to all the professional categories in our corporate group – from the logistics specialist to the head physician.

Many hands and heads are needed – even in the background – in a hospital which looks after patients around the clock. Many of our employees work in shifts, which is very tiring. It is therefore all the more important that there are enough colleagues so that the work can be spread across many shoulders and that there is a good work/life balance. Our commitment to education, human resources development and training is made clear by the many different measures we provide.

Our own training centres for qualified junior staff

One way to have enough qualified specialists is to train them ourselves. We therefore offer training in many different professions and also run 37 training centres. We also retain most of the graduates.

We also offer positions at all of our sites to medical students for their practical year with a view to hiring them permanently. They are given high-quality education measures since all our hospitals are recognised academic teaching hospitals.

Our employees enjoy work

Most of our employees have a family at home. We therefore provide many measures at all our sites to help combine job and family. Half of our female employees and a quarter of our male employees work part-time – in any job position and at all hierarchical levels.

Most of our sites have a company nursery school. Some hospitals cooperate with local childcare centres. We help new employees – we took on 2,351 this year – in their search for a new home. At

the beginning they can also rent flats which belong to the hospital at a cheap rate. We offer a profit-sharing scheme and a company pension scheme. Our employees benefit from high tax-free bonuses which are also exempt from social insurance contributions due to our company wage agreements. We offer our management staff variable salary components together with the fixed amount.

THE KEY TO THE SUCCESS OF OUR HOSPITALS

To create incentives while at the same time gaining competitive advantages, we offer our employees an attractive working environment and conditions:



IN-HOUSE DAY-CARE CENTRES
and cooperation schemes
with local day-care centres



ASSISTING WITH SEARCH FOR APARTMENT
and provision of affordable
hospital-owned apartments



INDIVIDUAL PENSION FUNDS
and other offerings

For more information please refer to our [CSR report from page 56 on](#)

Management development in Frankfurt (Oder): New concept, many training measures

If you google management, you will soon find a definition in a business dictionary. To actually do the managing, however, is much more work – and decisive for the motivation of the team. That is why head physicians, senior physicians, ward managers, their deputies and department managers, for example, all receive expert support at our hospital in Frankfurt (Oder). Together they have all compiled a management concept and we have also commenced extensive training measures for the roughly 200 management employees in the hospital.

Trainee programme for thorough insight

The healthcare industry is a forward-looking industry. And graduates have the best opportunities to start their career in this industry. We therefore offer graduates an innovative trainee programme lasting 24 months. The trainees work in different departments such

as Purchasing, Finance and Controlling, IT and Medical Technology, Patient and Quality Management and Human Resources at at least two different hospital sites. They assist dedicated management in the day-to-day operative business as well as work in a team and take on responsibility for their own projects.

Our scholarship programme for foreign assistant physicians

We have launched a Scholarship Programme at our campus in Bad Neustadt for foreign physicians who want to become specialist physicians. The programme offers physicians from all over the world the opportunity to follow work at one of the campus hospitals, to become integrated in everyday life at the hospital and to stay at the hospital in the long-term. This is one way how we wish to counteract the lack of assistant physicians.



We gain new colleagues
all the time due to our
attractive benefits and
possibilities for further
development.





RHÖN APPRENTICESHIPS

Specialised healthcare professions

- Biology laboratory technician
- Dietician
- Ergotherapist
- Speech therapist
- Medical documentalist
- Medical-technical assistant for functional diagnosis (MTAF)
- Medical-technical laboratory assistant (MTLA)
- Medical-technical radiology assistant (MTRA)
 - Orthoptist
 - Physiotherapist
 - Dental assistant

Nursing professions

- Anaesthesia technical assistant
- Paediatric nurse
 - Nurse
 - Midwife
- Nursing assistant
- Operation technical assistant (OTA)

Other professions

- Machine mechanic
- Electronics engineer for energy and building technology
- IT specialist in system integration
- Warehouse logistics specialist
 - Office manager
- Healthcare manager
 - Cook
- Medical assistant
- Pharmaceutical commercial employee



Corporate **responsibility**

We assume our medical, ecological and social responsibilities as a provider of healthcare services, an employer and a Company. We wholly embrace quality and sustainable commitment as we are convinced that in addition to high-quality medical care, a healthy working and living environment is also a necessary part of successful healthcare delivery in the long term.



Corporate Social Responsibility Report

SUSTAINABILITY MANAGEMENT AND ORGANISATION

Our sustainability management

✓ | Because sustainability and entrepreneurial success go hand in hand, our Group Board of Management bears responsibility for both of these aspects. As a healthcare Group, we depend on the trust people place in our work. If this trust is not there or is undermined, we cannot succeed. To make sure that doesn't happen, we have developed a Corporate Code setting out both the fundamental conduct of all employees amongst one another as well as the relationship between employees and patients. The Code clarifies that trust for us is the key element of the doctor-patient relationship. Our Board of Management explicitly commits itself to the Corporate Code and the value of personal integrity. Moreover, the Board of Management has entered into Group-level works council agreements with the employee representatives – for example on the interaction with industry and on corruption prevention – by which the personal integrity of our employees is safeguarded whenever we cooperate with external entities. Our own contact for corruption prevention and a Group-wide whistle-blowing system are additional proof that integrity at RHÖN-KLINIKUM AG is a part of our self-perception.

Our sustainability reporting

✓ | For us as a healthcare Group, economic success is inseparably bound up with medical, ecological and social responsibility. That is why sustainability has long formed an integral part of our corporate strategy. We have also been reporting on it since 2015 – first separately and since 2016 integrated in our Annual Report. Since last year, the section also includes the separate condensed Non-Financial Report (NFR) in accordance with sections 315b, 315c in conjunction with sections 289c to 289e of the German Commercial Code (Handelsgesetzbuch, HGB). RHÖN-KLINIKUM AG fulfils its reporting requirements at the Company level and the Group level pursuant to the German CSR Directive Implementing Act (Richtlinie-Umsetzungsgesetz, CSR-RLUG) in the form of the present NFR. Unless otherwise indicated, all information stated refers to the parent (AG) and the Group equally.

✓ | All paragraphs in this Corporate Social Responsibility Report (CSR Report) belonging to the NFR are identified by a tick. The accounting firm PricewaterhouseCoopers has reviewed the present NFR in accordance with the auditing standard ISAE 3000 (Revised) with limited assurance (in this regard see Auditor's Report on page 198.

✓ | The reporting period for the NFR as well as CSR reporting going beyond that, is the year 2018. The NFR covers the Group subsidiaries which are also included in the consolidated financial statements. You will find information on the business model in the Group Management Report of this Annual Report on page 89 ff. and on the Internet under the link www.rhoen-klinikum-ag.com.

✓ | The option of orienting ourselves on general reporting frameworks on sustainability subjects when preparing the NFR was not exercised since our sustainability management is currently being expanded and medical subjects are not reflected in the relevant frameworks. References to statements outside the Group Management Report constitute additional information and are not an integral part of the NFR.

Material subject areas

✓ | In 2017 we performed a materiality analysis for the first time. The purpose of this systematic process was to identify the subjects of material importance for the NFR. The basis of the analysis is provided by a comprehensive catalogue comprising some 100 relevant aspects of the RHÖN-KLINIKUM AG 2016 Progress Report, the sector, the peer group and from reporting standards (ISO 26000, GRI). This catalogue was adjusted for overlaps and clustered into a total of 25 potential material subjects. An internal evaluation was then performed by seven specialist departments of the Company using a structured, written questionnaire. With this questionnaire we determined the subjects which are required both for understanding the business performance, results of operations or the position, and for understanding the impact of the business operations on the non-financial aspects. Here, both the internal assessment from the viewpoint of the Company and our assumptions regarding the significance for external target groups served vicariously to assess the impact on the specified sustainability aspects. This resulted in the subjects of patient well-being, hygiene management, network medicine, ongoing training as well as continued and higher-qualification training being identified as of key importance for RHÖN-KLINIKUM AG. The result was then confirmed by the Board of Management.



Sustainability and entrepreneurial success go hand in hand.



✓ | In 2018, the key subjects of RHÖN-KLINIKUM AG were assessed for relevancy in a workshop with eight relevant departments. Conclusion: the subjects continue to be relevant. However, given that the subject of “hygiene management” leads into the overarching subject of “patient well-being”, it is attributed to the latter and reported on in that context.

✓ | For RHÖN-KLINIKUM AG, the following four items within the aspects of social and employee matters identified as material are thus subject to reporting:

- Patient well-being
- Network medicine
- Training
- Continued and higher-qualification training

✓ | These subjects are of special strategic importance for business development and show the areas in which RHÖN-KLINIKUM AG sees its areas of focus.

✓ | With the materiality analysis it was determined that the aspects of environmental matters, the respect of human rights as well as the combating of corruption and bribery are not material with the meaning of the CSR-RLUG. Accordingly, no concepts within the meaning of the German Commercial Code are reported with regard to these aspects. Since, however, we continue to regard these and other issues as important in the context of responsible corporate governance, we report on further aspects relating to these issues in the sections Employees, Compliance, Environmental protection, Supplier management and Social commitment.

✓ | NFR REFERENCING

Aspect acc. to section 289 (2) HGB	RHÖN-KLINIKUM AG matter	Reporting in section
Social matters	Patient well-being Network medicine	Medical excellence
Employee matters	Training as well as continued and higher-qualification training	Employees
Environmental matters	Subjects not material as defined in law	Voluntary reporting in section “Environmental protection”
Anti-corruption Respect of human rights	Subjects not material as defined in law	Voluntary reporting in section “Compliance”

Our objectives

✓ | We approach the four material subjects strategically. That, in particular, means defining qualitative objectives, establishing specific measures and determining what results RHÖN-KLINIKUM AG achieved

over the past year. These objectives, measures and results are given in the concept table below. We provide further information on these and their related management processes in the sections Medical excellence and Employees.

✓ | CONCEPT TABLE

Material subject	Targets	Measures	Results of concepts
Patient well-being	Continuous improvement in medical quality	Continuous quality controlling through introduction of combined RHÖN Reviews	– From the insights gained, measures to improve internal clinical processes and structures as well as medical efficiency were identified.
		Promoting tools to improve medical quality	– Establishing a new technology platform for personalised medical care for use application in aggressive lymphoma for more precise and last drastic treatment.
		Investments in state-of-the-art technology and procuring replacements	– Decreasing stress on patients from radiation from X-rays, MRIs, etc. – Continuous improvement in diagnostics and thus results of examinations.
	Further enhancement of patient safety through expansion of hygiene management	Training of clinical risk managers	– During the reporting year, a further 21 clinical risk managers were trained, bringing the number of employees trained as clinical risk managers Group-wide to 37.
		Implementation of a risk management software programme	– The selection of a risk management software programme was decided at the end of the reporting year. Implementation of the risk management software program is slated for 2019.
		Inclusion of indicators on patient safety (PSIs) in the Quality Cockpit	– The indicators on patient safety (PSIs) were successfully included. With the PSIs, it will in future be possible to record and monitor the genesis of wound infections in the hospital.
Improvement in patient communication/services	Pilot launch of digital anamneses	– Digital anamnesis (a tablet-based completion of medical and administrative questionnaires by patients) was successfully introduced. That enables systematic recording and evaluation of relevant content in digital form.	
	Introduction of an online appointment management system in individual departments	– The online appointment management system enables patients to make their appointments for specific consultations online.	
Network medicine	Continuous expansion of network medical care	Further expansion of RHÖN Campus approach at Bad Neustadt site	– During the reporting year, a cooperation scheme with specialist physicians was successfully further expanded. The number of affiliated doctors' practices is steadily rising. – Inauguration of the RHÖN Campus on 6 December 2018, opening of Centre of Outpatient Medicine on 27 December 2018 and of the Centre of Clinical Medicine on 1 February 2019.
		Expansion of offering through telemedical tools	– After-care at home for some 50 patients per year with the help of CardioSecur. – Expansion of telemedical emergency management. – Establishment of video communication for cardiological after-care and for neurological-psychological consultations. – Expansion of teleradiological networking on the Campus – Saale Radiology. – Performance of a pilot project for exchanging medical documents and messages between community-based practitioners and partner hospitals.
	Promoting professional exchange between the hospital sites	Continuing the Medical Board and expert panels	– During the reporting year, the Medical Board met five times. – During the reporting year, expert panels were again held at regular intervals, among other things, on the subjects of outpatient medical care, hygiene, laboratory medicine, oncology and nursing management.
		Holding of strategy meetings and subject-specific summit meetings	– During the reporting year, RHÖN-KLINIKUM organised with all its sites a nursing summit and a discharge management summit. – Strategy meetings were held at all sites.

✓ | CONCEPT TABLE

Material subject	Targets	Measures	Results of concepts
Training	Qualitative enhancement of training	Continuation of trainee curriculum	– The new trainees were very well received in the respective departments and entrusted with specific tasks.
		Introduction of new teaching project in practical training: “Experts learning from beginners”	– Positive exchange between beginners and experts, fresh impetus for experienced colleagues.
		Introduction of digital learning platform Certified Nursing Education CNE of the Thieme specialist publisher	– The learning platform was very successfully introduced and was well received by the students.
		Participation application for financing the training costs of therapy students	– Turning point reached in making training in ergotherapy and physiotherapy tuition-free. The decision on allocation is to be made as of February 2019.
	Continued positioning as attractive employer on employment/training market	Performance of site-specific campaigns and other measures to enhance name recognition	– Performance of campaign “We at UKGM Gießen” – Performance of applicant dialogue at UKGM – Through ZBB campaign “Nüsch für Luschen” (Not for weaklings), the number of applications has grown and more training places were allocated.
		Continuous use of social media	– Through the use of social media, we have enhanced our image, caught the attention of many relevant target groups and visibly reached the target group of apprentices/school pupils.
		Initiation of joint project works with students/ universities Responsibility as provider of training	– In the 2018 summer semester, there was successful cooperation with Ludwig-Maximilians-Universität München. Thanks to the project course “Intersectoral care”, the students were able to use the methods and knowledge conveyed to them in their studies based on a specific example from practice.
Enlargement of training classes in nursing	– By stepping up information and advertising campaigns, we are trying to attract more apprentices to enlarge the training classes to as many as 30 students. Already on the April course of the reporting year, 29 students instead of 24 were already admitted.		
Change in starting date for training from April to October	– The change in the training start was decided in 2017 and is expected to be implemented in 2019.		
Continued and higher-qualification training	Qualitative expansion of continued and higher-qualification training programme	Identification of qualification requirements related to site	– Continued education of all roughly 200 executives at the Frankfurt (Oder) site to convey the official leadership mission.
	Expansion of continued training (CT) of teaching staff	Appointment of subject area groups (teaching staff) under the direction of a specialist pedagogical coordinator	– The instructors were given intensive continued training in the field of teaching pedagogy.
		Performance of external and in-house training sessions for the instructors	– Employees receiving continued training externally as multipliers for colleagues.

Risks in relation to non-financial aspects

✓ | As a provider of healthcare services, we always regard the risk posed to the life and health of our patients as the greatest risk. This involves continuously weighing up opportunities against the risks. We give utmost priority to measures that avoid even the smallest errors in the medical and nursing area. That is because any error is one too many. With us, every employee has a personal duty to actively prevent harm or damage to our patients, our business partners and the Company.

✓ | The basis for our risk management system is the Group risk guideline containing both the definition of the term "risk" and the principles of risk management, as well as describing the requirements for the risk management process uniformly binding on the Group as a whole including the related duties and responsibilities. The actual risk manage-

ment process is documented in a risk management software program. For detailed information on our risk management (approach) as well as our material risks, also in connection with non-financial aspects, please refer to page 111 ff. of our Group Management Report.

✓ | RHÖN-KLINIKUM AG has implemented risk reduction measures. On a net view of risks, no risks were identified that are, or will be, very likely to have a serious adverse impact on the aspects.



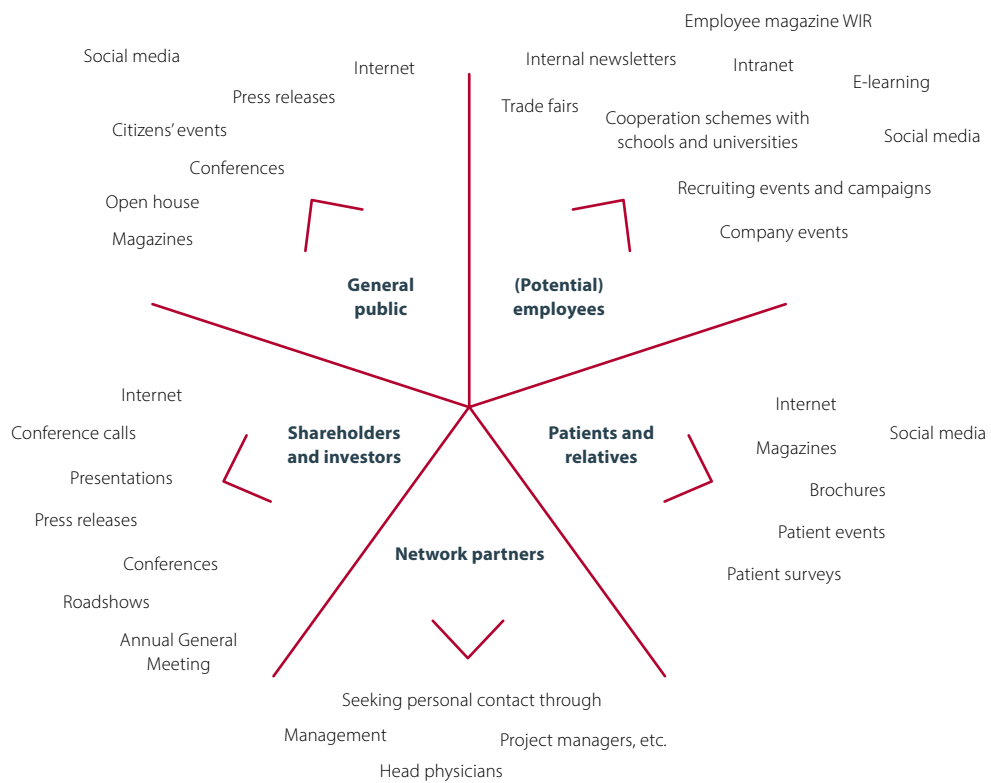
Our stakeholders

✓ | Having an open and constructive dialogue with our key stakeholders is of tremendous importance for our business success. This paves the way to a relationship based on mutual trust. Through active dialogue we receive valuable insights into how we can organise our Group even better in future. At the same time, it gives us the opportunity to steadily improve our understanding of our stakeholders' expectations and thus to enhance specific aspects of our communication. It is not always easy to reconcile the different interests of stakeholders as it may very well be the case that these interests conflict. However, the first and foremost concern for us is the well-being of our patients. As a result, we take the comments by our patients particularly seriously. If patient complaints reveal any specific scope for improvements, these are implemented without delay and carried through by our quality management team. .



WE MAINTAIN CONTINUOUS CONTACT WITH OUR STAKEHOLDERS THROUGH OVER 35 DIFFERENT FORMS OF DIALOGUE

✓ | FORMS OF DIALOGUE WITHIN STAKEHOLDER ENVIRONMENT



MEDICAL EXCELLENCE

The well-being of our patients is our top priority

✓ | Our goal is to ensure excellent medical care for everyone and at all times. For us, medical excellence means examining and treating our patients with the latest, scientifically sound therapy procedures using state-of-the-art medical technology. Following up with that, we endeavour to offer the best possible treatment and care creating the basis for sustainable treatment success.

✓ | For that reason, medical excellence is a key subject within the Group encompassing all areas of medical care, with clinical risk management, hygiene management and medical controlling representing the most important elements. There is a regular exchange between related disciplines and our “traditional” quality management. This results in a stable and viable system.

✓ | To bridge the link between economic efficiency and medical care, we established the Board division Medical in 2016. It is responsible for patient safety, quality and hygiene, medical process management, innovation, network medical care as well as the further development of the Medical Board, an internal expert body. Moreover, promoting a professional exchange with the hospital sites falls under its responsibility as well. This type of exchange takes place inter alia in bodies such as the Medical Board and twelve different expert panels, and also in the form of MVZ dialogues, strategy meetings and summits relating to specific subjects. For example, during the reporting year the discharge management summit and nursing summit were held, at which employees of all hospital sites of the Company were represented. The Medical Board met five times in 2018, and the strategy meetings were successfully held at all sites.



MVZ DIALOGUES

The MVZ dialogues (MVZ = medical care centres) serve to promote an exchange of know-how. The goal is to jointly develop best practice approaches and to implement these throughout the Group.

Medical Board as driver of innovations and medical excellence

✓ | Top physicians from all hospital sites working together for excellence: that is our Medical Board. This permanent advisory body for the Board of Management and the bodies of the hospitals is essential for preparing decisions on issues of medical strategy and synchronises medical expertise with the Company’s aims. It evaluates medical and technological innovations as well as new therapy procedures and manages path-breaking medical and nursing projects at the hospitals. These range from genome medicine to subjects of standardisation in the operative areas, all the way to developing and integrating eHealth and telemedical procedures. The physicians of the Medical Board work together with their colleagues at the individual hospitals on an inter-facility and interdisciplinary basis.



✓ | At the meetings of the Medical Board, current quality results as well as the results of the RHÖN Reviews are also discussed. Furthermore, the key strategic subject of outpatient medical care is also discussed on the Medical Board. During the reporting year there were also personnel changes: Prof. Dr J. Christoph Geller, Head Physician of Internal Medicine at Zentralklinik Bad Berka, left the Medical Board. Prof. Dr med. Waheedullah Karzai, Medical Director and Head Physician of Anaesthesiology at Zentralklinik Bad Berka, joined the Medical Board as a new member.

✓ | The Medical Board is responsible for regularly convening twelve different expert panels constituted on an inter-facility basis. During the reporting year, panels were held inter alia on the subjects of outpatient medical care, hygiene, laboratory medicine, oncology and nursing management. The findings of these panels are each presented subsequently within the Medical Board. Moreover, an intensive communicative support of the expert panels by the Medical Board ensures that the results are transferred to the hospital sites of the Company.



LIQUID BIOPSY

The procedure known as liquid biopsy was developed as an easy and reliable way to monitor patients for recurrent cancer, using a common blood sample taken at the doctor's office. Liquid biopsy is safer than procedures such as MRIs and X-rays – and also a lot less expensive.

In a liquid biopsy, the genetic information of tumour cells released into the blood are detected. We can then collect and analyse the DNA. That allows us to detect genetic variations – i.e. adverse developments in the cell known as mutations – and our doctors to draw conclusions regarding a tumour's behaviour. That makes it easier for them to find the right therapy to enable patients to enjoy the longest life possible.

Intergenomics –
Network for integrated genome medicine
www.intergenomics.org
www.youtube.com/watch?v=OfqanX27bKg



Achieving medical excellence with strategy

✓ | Every patient is to be put into touch with the right experts as quickly as possible. Since this can present some challenges in a complex healthcare system, our medical strategy is designed to provide for optimum patient navigation. That is why the highest priority is given to the processes of reliable diagnosis. The first thing is to determine the medical needs of each patient individually. After that, our experts then define the appropriate treatment path.

✓ | The medical strategy also determines the research and innovation programme by which RHÖN-KLINIKUM AG promotes subjects of medical and strategic relevance, such as genome medicine. In this context, we consistently support a professional exchange between the five hospital sites. Since medical excellence is more than just reaching the right diagnosis and getting the right treatment, our programme also promotes organisational and logistical improvements. That includes, for example, better integration of the inpatient treatment and after-care at home.

RHÖN QUALITY CONCEPT



RHÖN quality concept

✓ | For us, quality is the interaction of various functions: clinical risk management, hospital hygiene, medical controlling. This also includes the RHÖN Quality Cockpit, which enables an overview of the relevant data on quality assurance that is regularly presented as a Group-wide report. Medical controlling is the economic counterpart to quality management. Medical controllers are internal advisers and the interface between the medical and administrative areas. Promoting tools and investments in state-of-the-art technology to improve medical quality is second nature to us. During the reporting year, for example, the Network Intergenomics, a centre for integrated genome medicine for innovative diagnosis and personalised treatment of cancer conditions in children based at Gießen University Hospital, was newly established. With it we promote the continuous improvement of diagnostics and thus examination results and enable more precise and non-invasive treatment for patients.

Clinical risk management

✓ | Particularly in the Group division of Patient Safety, Quality Management and Hygiene, the further development of quality management is given top priority. This is the goal being pursued by our Quality Management and Clinical Risk Management expert panel. For this purpose, the quality management officers from the Group division Medical as well as from the Company's facilities meet semi-annually with the heads of the respective medical controlling departments. Thanks to this interdisciplinary collaboration, they can compare scientific quality indicators with routine data from the invoicing of medical services to gain important insights.

✓ | The safety of our patients is an integral part of our treatment excellence. To ensure such patient safety, we train, among others, clinical risk managers who exchange know-how in an interfacility expert group. Through our innovation pool we also promote projects on the subject of clinical risk management. Building on a risk audit dealing with patient safety at the University Hospital of Marburg, a follow-on project was concluded during the reporting year in which a risk management software programme was selected, and 21 additional clinical risk managers were trained. As a result, we now have 37 clinical risk

managers within the Group. The software supports the performance of structured risk audits by which we can identify relevant risks as well as establish and implement risk reduction measures. Company-wide implementation of the software is scheduled for 2019.

RHÖN Quality Cockpit

✓ | With the RHÖN Quality Cockpit, we present our medical quality which we continuously seek to further improve. For that purpose, we regularly scrutinise our quality indicators. For example, top physicians and specialists from all sites in the expert panels have aggregated quality indicators in some cases into new sets. At the same time, we have added some new indicators in recent years, such as the results from the stroke registries. We now specially highlight legally relevant indicators in the RHÖN Quality Cockpit. Currently these are the ones referred to as the “minimum volumes” that are defined or planned for eight service areas: liver transplantation, kidney transplantation, complex procedures on the oesophagus organ system, complex procedures on the pancreas organ system, stem cell transplantation, total knee joint endoprosthesis, care of premature and newborn babies with a weight at birth of <1,250g; for coronary surgical procedures (operations on the coronary arteries), no minimum volume and “planning-relevant quality indicators” were defined. Both indicators were provided for by the legislature and are to give patients an orientation basis for choosing a hospital in terms of the best possible quality and patient safety. Survey results from what is referred to as the “White List” – a guide to better orient people in the healthcare system – are also included in the RHÖN Quality Cockpit. This ensures that in addition to the objective medical results quality patients’ subjective perception is also taken into account in the reporting.

✓ | Along with that we have also established a structured RHÖN Quality Dialogue through which the Board member for the Medical division can liaise with the hospitals on quality assurance and implementing the quality strategy. Experience gained from this format, which, incidentally, we also have been the only hospital group so far to introduce, is pooled together with the results from the RHÖN Peer Reviews into the work of the Medical Board and the expert panels. These are oriented on the guideline of the German Medical Board (Bundesärztekammer, BÄK) and are used to identify the potential for improvements in medical treatment.

✓ | During the reporting year we combined the RHÖN Peer Reviews with the reviews on coding and documentation. These “combined RHÖN Reviews” were successfully performed at all sites. In this context we have identified, among other things, correlations between the medical quality results and the coding. In addition, we were able to derive valuable recommendations for internal clinical processes and structures. With this format, and thanks to the structured RHÖN Quality Dialogues, we were able to promote to a decisive extent the Group-wide debate on the subject of quality control.

✓ | However, the RHÖN Quality Cockpit also enables us to keep a close eye on the statutory and invoicing-relevant requirements to be met by the structure, process and results quality in medical care, as these are continuously changing. We discuss relevant subjects at the meetings of the Board of Management, the Medical Board and the hospital management bodies. For example, plans to enshrine quality standards for inpatient medical services in law are of relevance in this regard.

✓ | The Institute for Quality and Efficiency in the Healthcare System (Institut für Qualitätssicherung und Transparenz im Gesundheitswesen) (IQTIG) has been mandated to develop and promote binding quality indicators for the services of German hospitals. During the reporting year, indicators on patient safety (PSIs) were included in the RHÖN Quality Cockpit. The goal of this measure is to further enhance patient safety: with the PSIs it will in future be possible, for example, to show and monitor the point in time when post-operative wound infections occur in the hospital.

Hygiene

✓ | Providing effective protection of our patients and employees has always been a top priority for us; that is why hospital hygiene is a permanent and integral part of the quality concept at RHÖN-KLINIKUM AG. To ensure ongoing improvements in this area, we are continuously expanding our existing Group-wide hygiene management scheme. One of our key tasks in this regard is to record and systematically monitor nosocomial infections – i.e. infections from pathogens acquired during treatment at hospital. We compare our hygiene-relevant data recorded in the individual hospitals with national reference data (surveillance), for example on consumption of hand disinfectants and antibiotics. On this basis we can make improvements.

✓ | Other relevant subject fields of our Expert Panel on Hygiene are our personnel concept for specialist hygiene staff, surface disinfection, preparation of medical devices, screening especially for multi-resistant pathogens and outbreak management. One outcome from the work of this Expert Panel is the introduction of an Antibiotic Stewardship Programme at all hospital sites. Antibiotic stewardship is a response to the increasing level of antibiotics resistance. The programme describes strategies and measures for the most effective and least drastic ways for treating patients with infections.

Patient Communication

✓ | A hospital's quality is not only reflected in its medical quality. The way in which we communicate with patients and the kind of service we provide them also matters. We are seeking to optimise both these aspects for the well-being of patients. To achieve this, we launched a pilot project on digital anamnesis during the reporting year, in which patients in the waiting room fill out medical and administrative questionnaires on a tablet, with the data then being sent directly to their electronic patient files. This systematic digital recording and evaluation of relevant content raises efficiency in communication with everyone involved in the patient's treatment. A further novelty during the reporting year was the introduction of an online appointment management system within the individual departments. Patients can now make their appointments for specific consultations online. Already during the past financial year, we had established the RHÖN health blog to improve patient communication. This online platform is addressed to patients and people interested in health issues and provides tips and information from experts as well as interesting facts from the field of medicine. This gives readers a reliable source from which to keep themselves informed about new treatment options and advances in medical technology. A relevant blog appears every two weeks. But offline as well, our hospitals provide comprehensive, site-specific offerings and activities for patients and their relatives.

✓ | To give our patients the assurance of being in good hands also in the case of serious diseases, we are seeking, among other things, to expand our intermediate medical care offering nationally. To achieve that, we are looking to establish further intermediate medical centres in addition to those already in place at all hospital sites to pool expertise. With the medical know-how at these intermediate care centres, we can perform complex operations, for example. The exchange of expertise takes place via tumour boards and internal clinical consultations with other departments.

Expansion of network medical care

✓ | During the past financial year, we came one step closer to realising our entrepreneurial and healthcare policy vision when we celebrated the opening of our Campus on 6 December: creating national full-coverage, integrated healthcare delivery. Since the individual clinics moved into the new premises at the beginning of January 2019, we now make it possible for patients from the surrounding areas to get optimum treatment – also beyond regional boundaries and giving regard to freedom of choice. For example, patients from a catchment area of some 100 kilometres – explicitly in rural regions – can be provided with comprehensive care at one site since with our campus approach there we are seeking to closely integrate outpatient and inpatient offerings as well as numerous medical and healthcare services. Particularly specialist doctor's practices and other providers of medical services can establish themselves directly on-site. With communications work we support reporting on the campus approach in the specialised media as well as regional and

national publications to raise awareness of this offering with as many players in the healthcare industry as possible. Some 15,000 visitors and several hundred guests from politics and industry were thus on hand for the opening.

✓ | As a further objective – in addition to the physical establishment of cooperation partners on the Campus – we want to forge ahead with telemedicine as an additional type of link. Already now, specialist practices can connect to the Campus through various telemedical systems. At the Campus Bad Neustadt, for example, CardioSecur, a system for telemedical after-care and monitoring patients with cardiac arrhythmia, is being used. With CardioSecur, we can currently provide after-care to some 50 patients in their home setting. For ECG monitoring, patients are equipped with a mobile ECG device and an Internet-enabled mobile terminal device that transmits the results to the hospital directly. Hospital doctors thus receive up to 20 ECGs daily. During the reporting year, we furthermore performed various pilot projects on telemedicine. For example, telemedical emergency management was expanded and a video communication link set up which can be used for cardiological after-care and neurological-psychological consultations.

✓ | Moreover, we further developed the Medical Cockpit – a semantic search engine enabling specific, term-based searches of machine-readable medical documents such as doctor's letters and OR reports. The documents can be filtered by keywords or metadata. With the Medical Cockpit the specialist staff can better record the great variety of medical patient data. During the reporting year, efforts were focused on integrating the Medical Cockpit into the local hospital information system (KIS) at the Bad Neustadt site into the doctors portal. After a patient is discharged, we can use the doctors' portal to make available relevant medical documents in digital form and in compliance with data protection rules. Furthermore, the infrastructure of the Medical Cockpit is directly linked to the universal digital archive. With the launch of the new Campus Bad Neustadt, the Medical Cockpit is available for clinical operations; its introduction at further Group sites is planned.

✓ | Not all users at the hospitals and not all patients are convinced of the new digital tools. That is why we are escorting their integration into existing clinical processes through project teams and those in charge on-site. We moreover evaluate and reflect on a continuing basis the digital tools and clinical processes in terms of their specific benefits. It is only when this is the case that we will introduce such tools to standard care.



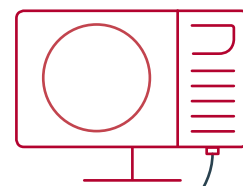
Funding programmes for excellence projects

To promote medical innovations, we carry out our own funding projects: successfully concluded projects within our Group can make a contribution towards optimising processes, patient safety, treatment, networking and strengthening public awareness. In addition, a big focus is on medical and scientific basic research. That is because the new findings gained from them can make a substantial contribution towards improving our treatment excellence.

In 2018 we completed two funding rounds. In the first one, from 2015 to the summer of 2017, over 50 – in some cases inter-facility – projects were completed. In the areas of “treatment excellence” and “research”, projects relating to the subjects of genome medicine, treatment excellence, simulation, digitalisation, telemedicine, clinical research and basic research, among others, were funded. Also after the completion of the funding totalling € 8 million, many of these projects will continue at the facilities where they have become a permanent part of day-to-day clinical routine.

The second funding round went from 2016 to the summer of 2018. It focused on the key subjects of “Personalised medicine” in the area of research and innovation, and “Simulation training/procedures for employees” in the area of treatment excellence.

Personalised medicine, for example, opens up for doctors the possibility of developing tailored therapy procedures and of minimising side effects, thus increasing therapy efficiency significantly. In the area of treatment excellence, the simulation tool “Arthro Trainer” was funded, for example.



ARTHRO TRAINER

Arthro Trainer is a state-of-the-art operation simulator by which medical students and aspiring physicians at UKGM and the Campus Bad Neustadt can authentically practise operating treatment methods on the shoulder joint for the first time. This project in future will be accompanied in teaching by a quality-checking doctorate.

EMPLOYEES

Excellent employees as key to success

✓ | It is only with excellent employees that we offer above-average medical care based on the latest medical research. Recruiting enough highly qualified and motivated employees is also a growing challenge for our Group, given the particularly labour-intensive field we work in. We are among the largest private healthcare providers in Germany with 16,985 employees.

✓ | The greying of the population means that the number of people requiring nursing care in Germany is steadily rising. There is a shortage of qualified personnel needed to meet this growing demand. RHÖN-KLINIKUM AG is rising to this challenge with its own training facilities, good working conditions and intensive continued and higher-qualification training schemes. In 2018, the focus of our personnel strategy was on acquiring nursing personnel. At UKGM, the collective bargaining agreement on “strengthening nursing and support functions as well as other service types” and for adapting the collective agreement on profit sharing of employees at Universitätsklinikum Gießen und Marburg GmbH was entered into. It provides in particular for creating and financing about 100 new full-time positions.

✓ | Each of our hospitals recruits its employees with the help of their own human resources department that reports to the respective management body. It in turn reports to the Board of Management, which means that the latter indirectly influences the human resources policy of the individual subsidiaries. Overarching issues such as collective agreement law, fundamental issues of personnel law, works council constitution law as well as co-determination within the Group are organised at the Group level.

✓ | The subjects of training as well as continued and higher-qualification training are also matters for which the Board of Management is responsible. RHÖN-KLINIKUM AG has set itself the objective of continuously enhancing training. In addition, the quality of the continued and higher-qualification training programme within the Group is to be enhanced. This applies especially to the continued training of the instructors. Already today, the Group is promoting knowledge management among staff. Led by the Chief Medical Officer (CMO), numerous expert panels have been established in which physicians and nursing staff exchange knowledge and experience on an inter-facility basis. Moreover, we are building on close integration of medical care and management.

✓ | We want to further position ourselves as an attractive employer on the labour and training market. We therefore frequently seek contact with students of medicine – e.g. by making job offers for the practical year of training at all our sites. Or – as in Bad Neustadt – by organising one-week courses in cardiosurgery at Herz- und Gefäßklinik. To convey to potential employees a positive picture of our Group already in the application process, we are implementing an electronic job application management system, to ensure that applications are handled promptly and competently.



✓ | EMPLOYEES

	2018		2017	
	Total	Proportion of part-time employees (%)	Total	Proportion of part-time employees (%)
Employees (headcount)	16,985	44.75	16,688	42.17
Employees (full-time positions)	13,529	32.36	13,383	31.83
Female employees (headcount)	12,282	52.87	12,168	50.31
Male employees (headcount)	4,703	23.56	4,520	20.27

Continued and higher-qualification training

✓ | All professional groups within our Group enjoy specific continued and higher-qualification training – both nursing employees and our doctors and therapists. Physicians have the option of obtaining supplementary qualifications and of completing their training as specialists at all our sites. Each hospital organises its continued and higher-qualification training programmes itself. In that way demand for training courses can be adapted to the need for qualification locally, thus including the continued training requests and suggestions of employees in the planning. In 2018, for example, a continued training programme for around 200 executives was held at Klinikum Frankfurt (Oder) in which they were conveyed the newly developed leadership mission.

✓ | In continued and higher-qualification training, our employees can use different learning formats. It often turns out that classroom training sessions are best-suited to conveying content and for discussing issues. However, that is also always associated with a high level of coordination work. To give our employees the means of completing continued training at their own pace as well as when and where they wish, we have implemented the e-learning system that employees of all sites use. It moreover gives us the advantage of being able to quickly adapt and flexibly create teaching content. Within the e-learning system, our employees can converse directly with the respective experts. At the same time, it serves as our organisational platform for continued and higher-qualification training. There, employees can register for courses, take exams and print out certificates. With the Group-level works council RHÖN-KLINIKUM AG has entered into a "Group-level works agreement on e-learning" in which training curricula for professional groups are defined while, at the same time, ensuring that employee rights are safeguarded.

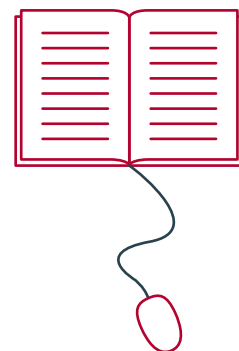
✓ | Some employees have an interest in in-service training. To enable this, we have entered into a cooperation scheme with Technische Hochschule in Mittelhessen (THM), which offers in-service training courses. A dual study curriculum is also being planned for 2019 jointly with THM. The areas of focus here are on the areas of business administration, hospital management, medical technology and IT.

✓ | We provide our instructors with continued training didactically and methodologically according to a fixed schedule – in external and internal training courses. For us, the obligation to provide continued training goes beyond the statutory requirements. For this purpose, we discussed an agreement in 2018 with the works council of our training institution ESB. For each instructor we are compiling a specific continued training schedule through our e-learning system. For the development of discipline-specific and teaching-pedagogical content for e-learning, ESB is planning to use specialist groups led by a specialist pedagogical coordinator. In 2018 we provided our instructors with continued training particularly in the field of teaching pedagogy.

✓ | We can carry out the state-recognised continued specialist training programmes for specialist nursing, intensive care nursing, oncological nursing, psychiatry and practice management ourselves at UKGM, as we have acquired the certification for that based on the high quality of our instructors.

OUR E-LEARNING SYSTEM

Flexibility in time, space and content for continued training of our employees and our own continued training curriculum for each instructor.



✓ | Expenditure on continuous, higher qualification and further training totalled roughly € 3.5 million in 2018. It is not possible to calculate the total number of hours spent on continued and higher-qualification training within the Group. This is owing to the fact that, on the one hand, internal training sessions take place in some cases during working hours, and that, on the other hand, our employees do not record the time spent on e-learning.

Training

✓ | Anyone having the reputation of providing good training for its young talent will have better prospects of successfully coping with the shortage of skilled staff. We go to great lengths in this area and during the reporting year as a result had 984 young persons in training with us, of which 850 in nursing professions, 34 in commercial professions and 100 in other areas. Of the apprentices having completed their training in 2018, most of them – 183 – were taken over into an employee relationship.

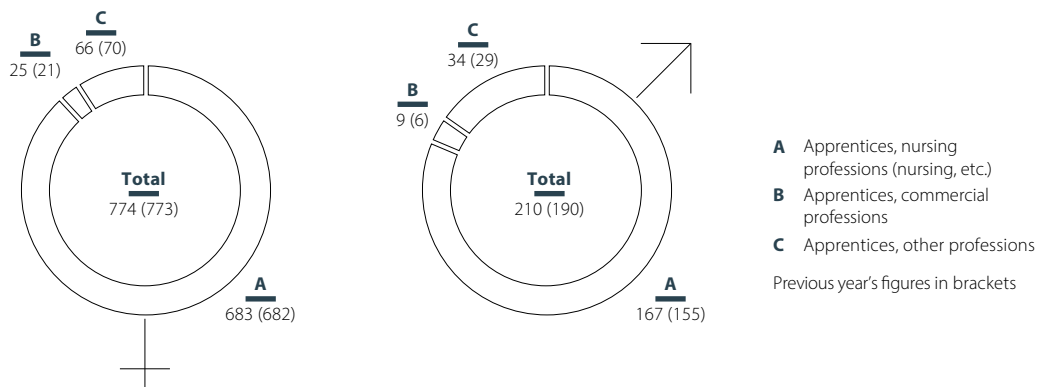
✓ | We run numerous schools of our own, namely for nursing, physiotherapy, ergotherapy, logopaedics, dietician services, medical assistance professions in the areas of functional diagnosis (MTAF), laboratory (MTLA), radiology (MTRA) and medical documentation (MDA) as well as for commercial, gastronomy and IT professions. In 2017 we once again filled two trainee positions after leaving them vacant for several years. The new trainees were very well received in the respective departments and provide valuable support to colleagues. Based on these positive experiences, two more trainees started their training again in 2018.

Training and promoting young talent is particularly important to our Company.



✓ | APPRENTICES (TRAINING YEAR 1–3)

Headcount



✓ | APPRENTICES TAKEN ON AFTER COMPLETION OF TRAINING

Headcount

	2018			2017		
	Total	Female	Male	Total	Female	Male
Number of apprentices taken on after training	183	138	45	162	133	29
Number of apprentices taken on after training, nursing professions (nursing, etc.)	172	133	39	148	122	26
Number of apprentices taken on after training, commercial professions	3	3	0	4	4	0
Number of apprentices taken on after training, other professions	8	2	6	10	7	3

✓ | To ensure training is continuously promoted, the new instruction project "Experts learning from beginners" was introduced in practical training for nursing at the Bad Neustadt a. d. Saale site. The students prepare a newly learned instruction subject which they present to the specialist staff on the ward or carry out jointly with the specialist staff. In that way the specialist staff reflect on their own activity and can even learn new methods. At the same time, the students can elaborate and put into practice what they have learned from that. To additionally support the students of the school of nurses in Bad Neustadt a. d. Saale, the digital learning platform "Certified Nursing Education (CNE)" of the Thieme specialist publisher was likewise introduced in 2018. By means of this learning platform, the students can complete e-learning credits for nursing training. These credits encourage independent learning for the students.

✓ | Offering good training is one thing. Becoming known for that takes efforts of our own. For us to become better known, and for young people to see us as an attractive employer on the training market, we conduct site-specific campaigns and make consistent use of social media, for example. We are happy to have recorded in 2018 a rise in applicant numbers at Zentralklinik and to have assigned more training places. We see that as the result of our campaign "Nüschst für Luschen" ("Not for weaklings") launched in 2017, which is aimed at creating greater awareness for training as nurses. At Universitätsklinikum Gießen und Marburg, the campaign "We at UKGM Gießen" was launched in 2018. With posters, placards and displays, UKGM is raising curiosity within its region for the various training possibilities. As part of the campaign, staff from the Gießen site present their work and what motivates them for their profession. As a further recruiting tool, UKGM performed applicant dialogues. In this dialogue, interested persons are given the opportunity to get to know the daily work in obstetrics and neurology.

✓ | As preparation for generalist nursing training, as provided for by the new Nursing Profession Act (Pflegerberufegesetz, PflBG) throughout Germany as of 2020, we began in 2018 to select suitable cooperation partners. For that purpose, we have been liaising closely with managers of nursing services. In this way we counteract a possible shortage in skilled employees at an early stage and can admit more students to training classes, particularly in patient nursing. Already on the April course of the reporting year, we admitted 29 students instead of 24. As of 2019 we have also decided to move the starting date for training from April to October, so as to allow school leavers quicker access to training right after they have finished school. In the 2018 summer semester, there was also successful cooperation with Ludwig-Maximilian-Universität (LMU) Munich. Thanks to the project course "Intersectoral care", the students were able to use the methods and knowledge conveyed to them in their studies based on a specific example from practice. Specifically, they spend one semester dealing with a currently key Company subject: the RHÖN Campus strategy an innovative, cross-sector concept for healthcare delivery in rural areas. The focus of their comprehensive analysis was on three key elements: remuneration, quality management and mobility.

13%

MORE APPRENTICES TAKEN ON INTO PERMANENT EMPLOYMENT AS COMPARED WITH THE PREVIOUS YEAR

AGE STRUCTURE OF EMPLOYEES

Headcount	2018			2017		
	Total	Female	Male	Total	Female	Male
Number of employees	16,985	12,282	4,703	16,688	12,168	4,520
of which under 30 years	3,858	2,896	962	3,947	3,028	919
of which over 30 to 50 years	7,752	5,445	2,307	7,908	5,645	2,263
of which over 50 years	5,375	3,941	1,434	4,833	3,495	1,338

Attractive employer

As an attractive employer, we are committed to equal opportunity and diversity. We are opposed to any form of discrimination. As a result, the composition of our staff in terms of age and gender is very diverse (see table "Age structure of employees"). The share of female executives at the three management levels below the Board of Management is high (see table "Executive employees by management level"). With various measures, we want to promote this diversity even further. For example, during the reporting year we successfully conducted at the Frankfurt (Oder) site the seminar "Women in management positions within healthcare".

Shift work is a necessity for hospital operations, and defines the life of many of our employees. Since we depend on their flexibility for this, we give them the most flexible working-time scheme possible in return. For example, our personnel work under trust-based, flexible working hours or part-time work. In 2018, 7,601 employees (44.75 per cent) were employed part-time. We have entered into individual agreements for each site in which we take account of employees' personal priorities to a greater extent.

Many of our employees have children. That is why we make sure they can balance their professional and family life as well as possible. UKGM, for example, has been certified as a family-friendly employer already since 2009. Likewise, UKGM in 2014 signed the "Career and Nursing" charter. This is an initiative of the Hesse Ministry of Social Affairs and Integration and the Hesse Hospital Association. The

initiative provides companies and their employees with support in balancing their work with providing nursing care to their relatives. Moreover, in-house kindergartens are established at most of our sites, or the hospitals have established cooperation schemes with local day-care centres.

Fair pay is part of an attractive workplace. Our employees benefit from our in-house collective agreement that we have negotiated together with the social partners ver.di and Marburger Bund for our hospitals. Compared with the other collective wage scales within the healthcare system, our employees, for example, enjoy high night-shift premiums exempt of tax and social insurance contributions, and are given a stake in the Company's result before tax. Our executive employees enjoy a remuneration scheme with fixed and variable components providing them with incentives to help achieve the Company's goals. Our collective agreements guarantee the same thing by giving employees a share in the result.

Preventative healthcare for our employees is an important issue for us as a healthcare group. For example, our hospital in Bad Berka entered into a cooperation agreement on occupational healthcare management with AOK PLUS. Over the past years, over 30 preventive care courses covering areas such as sports and nutrition were offered. At UKGM, regular sessions are held in which all issues of occupational safety are discussed and modified together with the works council. We moreover analyse systematically the workplace design and working situation of our employees, their continued and higher-qualification training and organise Health Week conferences. In addition, we try to create good working conditions for our employees through structural building measures. For example, a large number of our operating theatres and staff rooms have natural daylight.

EXECUTIVE EMPLOYEES BY MANAGEMENT LEVEL IN 2018

Headcount	Total	Female	Male
Management level 1	36	11	25
Management level 2	202	50	152
Management level 3	980	423	557
Total	1,218	484	734

COMPLIANCE

Protection with clear rules

The relationship of trust existing between doctors and patients is essential. It is safeguarding such a relationship that is the purpose of the Hippocratic Oath – the ethical standard for doctors and other employees working closely with patients – and numerous statutory provisions. In addition, we have defined this relationship of trust as a decisive business basis in our Corporate Code. It is binding on all employees. In that way we raise their awareness of the code while protecting them at the same time. We also have our Rules of Procedure for Compliance, guidelines as well as recommendations, and have entered into agreements valid Group-wide. By adhering to rules, we reduce the risks to our patients, employees and officers, whether they be legal risks, risks of bad press or other risks.

Our compliance management system

The central importance of the subject of compliance is reflected in our compliance organisation. The structure and functioning of the compliance management system (CMS) are defined in our Rules of Procedure for Compliance valid Group-wide. In this regard, the highest level of responsibility is held by the Chairman of the Board of Management, who reports to the Supervisory Board Committee for Compliance and Communication. It meets once per quarter so that it can respond at all times promptly to current events and to promote a continuous further development. In addition to the committee, a Central Compliance department is set up at the Group level. It gears its efforts towards developing a corporate organisation ensuring already at an early stage the best possible prevention of compliance breaches. The Central Compliance department is also the point of contact for the individual subsidiaries whenever they have questions relating to compliance issues.

The hospitals are thus advised on managing patent data, working together with industry and reviewing sponsoring and research agreements. For example, based on the Group works council agreement on relations with industry, checklists are created with which the hospitals are prospectively enabled to review the sponsoring and research agreements themselves. In future we will focus our efforts to an even greater extent towards developing recommendations and standards to assist employees and safeguard the processes at the sites.

Each hospital has its own compliance officer who reports to the Central Compliance department and acts as a contact person on-site. To ensure an ongoing exchange between the Risk Management, Internal Auditing and Compliance departments, there is also a Compliance Committee that meets several times each year and deals with compliance cases and their risk assessment.

We make sure that our CMS can be well implemented in practice. We have thus developed a guide on the subject of compliance and a recommended procedure for dealing with potentially critical contracts. We also question our work procedures and control them on a continuous basis. Together with our regular training sessions for employees relating to the rules currently in force, this results in compliant work procedures being firmly established.

In addition, our employees are given an awareness of compliance issues thanks to regular training sessions. Every employee must complete such a classroom or online training session at least every two years.

Subjects of the training sessions are:

- Basic training in compliance focusing on the duty of confidentiality and relations with investigation authorities
- Face-to-face training for employees working in a management capacity
- Purchasing
- Optional services for private patients

For this, RHÖN-KLINIKUM AG has set up a learning management system by which training levels of the employees can be maintained. Our comprehensive compliance management system is rounded off by the training sessions of our staff.

In addition to implementing these rules, we also keep our CMS up to date at all times and adapt the rules as required. That is because we want to prevent such breaches from the outset by identifying and averting risks in good time. We therefore review the rules on a regular basis and adapt them as required. This may be occasioned by both internal incidents and information on compliance breaches at similar companies. If, for example, reports in the press deal with subjects that might be of relevance for us also, these are examined and various measures initiated to deal with such issues.

How we handle compliance reports

Through our whistle-blower hotline, employees can report compliance breaches on an anonymous basis. The contact persons available for this are the compliance officers at the hospitals, the head of the Central Compliance department, the Chairman of the Board of Management of RHÖN-KLINIKUM AG as well as the Chairman of the Supervisory Board Committee for Compliance and Communication.

If a compliance report is made through one of the above contact persons, it is sent immediately – regardless of its form or the person submitting it – to the Central Compliance department. That is the procedure provided for in the Rules of Procedure for Compliance of RHÖN-KLINIKUM AG. The Central Compliance department and the compliance officer then jointly review whether a compliance event exists. Together they establish the facts of the case on-site. If required, they consult the Internal Auditing and Risk Management departments. If the investigations reveal a sufficient suspicion of a breach, they initiate appropriate measures to make sure such a breach does not happen again in future. Moreover, the team determine the risk and level of damage and prepare a written report to the Chairman of the Board of Management of RHÖN-KLINIKUM AG.

Compliance programme in 2018

Every year, we define the areas of focus for the work of the Central Compliance department. In 2018, the compliance programme, for example included the adoption of a guideline on dealing with internal and external advertising media. That ensures that responsibility for the content of external ads or ads published online is clearly identified. By this guideline, we prevent breaches of advertising law governing remedies.

Working through the Professional Association of Compliance Managers (Berufsverband der Compliance Manager, BCM), we began work already in 2017 on updating the “Common Position” on the Act on Combating Corruption in the Healthcare Sector (Gesetz zur Bekämpfung von Korruption im Gesundheitswesen, GWKBBG). We continued this work in 2018.

Another project started by the Central Compliance department in 2017 is an audit addressing anaesthetics and the equipping of emergency vehicles. As a result of the change in the head of the Central Compliance department, the Group standard on anaesthetics had not yet been drawn up in 2018. Its effective date is scheduled for the beginning of 2019. Also planned for 2019 is the presentation of a revised and updated compliance concept as well as the creation of a guideline on relations with investigating authorities.



DATA PROTECTION

The General Data Protection Regulation (GDPR) and the resulting revised German federal and state rules on data protection have been in force since 25 May 2018. In addition to provisions on managing personal data in compliance with data protection legislation, they also include various new or amended requirements.

RHÖN-KLINIKUM AG made intensive preparatory efforts to manage data volumes arising in the wake of digitalisation in a legally compliant and responsible manner. On both facility-internally and a cross-facility basis, procedures of relevance for data protection were reviewed and extensive action plans implemented. In this context, the Board of Management of RHÖN-KLINIKUM AG adopted a data protection guideline adapted to the rules and regulations which addresses key points of the new regulation, presents the Company's data protection law strategy and sets out the organisational framework for employees.

In addition to Group-wide statements, for example on data protection management, roles and responsibilities as well as consequences in the event of breaches of requirements of data protection legislation, the guideline also includes information on the operative implementation which is being adapted by the Group-affiliated facilities in the context of their own data protection concepts.

The implementation of data protection-compliant actions is rounded off by manifold technical and organisational measures. Internal and external audits help ensure compliance with the requirements and enable the measures established to be improved. In addition, employees and executive staff are given greater awareness of the lawful management of personal data through web-based training in a Learning Management System (LMS) and through target group-based classroom training sessions.

ENVIRONMENTAL PROTECTION

Caring is part of our nature

As a modern hospital Group with innovative technology and the highest standards of patient well-being, we also focus our attention on the responsible and efficient use of energy.

Environmental management is enshrined in our decentralised corporate structure at several levels. At every hospital, implementing clinical measures is the responsibility of the respective technical control department. It not only monitors the safe operation of all technical and medical-technical equipment and systems but also various construction projects. It also assumes the task of energy controlling as well as equipment and commissioning planning. If modernisation or optimising measures are planned at the sites in the area of energy supply, they are deliberated on by the Group division Construction and Technology, which is also responsible for Group-wide energy and emissions controlling and promotes Group-wide development of new energy supply standards. In the case of more comprehensive investment measures, these are implemented at the hospital sites led by the Group division Construction and Technology. The members of the Group's Board of Management are involved in all related decisions through their function of being responsible for the sites.

Since the end of 2016, we have pooled the procurement of energy Group-wide in the newly founded company "RHÖN Energie für Gesundheit GmbH". That enables us to have a centralised overview and monthly controlling with regard to the energy volumes used. At the same time, we cut the purchasing prices for electricity and gas and the number of utilities.

Energy supply

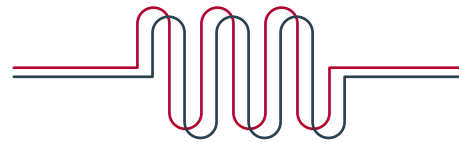
Patient safety and patient well-being are always a top priority for us. We are therefore increasingly using digitalisation, efficient diagnosis and new offerings to enhance patient comfort. Increasing digitalisation within the Group is leading to higher energy consumption in the long term. Unfortunately, we cannot always prevent this if we are to ensure the well-being of our patients and medical excellence.

To make energy supply as effective and efficient as possible, modernisation measures are regularly carried out at the sites. For example, as a result of the completion of the Campus Bad Neustadt and the related vacating of the less energy-inefficient existing buildings, the heating energy needed is set to drop significantly.

In 2019, with the start of the new construction of the Clinic for Paediatric and Juvenile Psychiatry in Marburg, we will take the first step towards the full modernisation of the psychiatry department at the Ortenberg site. In addition to the new construction modernisation – including measures to raise energy efficiency – of the adult psychiatry department and the installation of a photovoltaic unit is planned. After the overall work is completed (planned in 2023), part of the old building will be decommissioned and then torn down.

Moreover, we have been pursuing efforts in generating our own energy with our cogeneration plants (CHPs) for over 20 years. In addition to the electrical energy generated, we use the heat produced by our CHPs for heating and hot water as well as cooling generation.

In 2018, these combined heat and power units generated a total of 35,549 megawatt hours (MWh) of electricity, thus covering roughly 42 per cent of our requirements. This is cost-efficient and saves around



EFFECTIVE COOLING

At the Bad Neustadt Campus, all patient rooms of the standard and optional service wards are actively cooled during the hot summer months. This is done using what is referred to as concrete-core activation. It works similarly to an underfloor heating system – with the difference that it cools instead of heats. Lines in which cool water circulates are laid in the concrete ceilings of the building. Similar to underfloor heating, the concrete functions as a mass storage means, absorbing the cold at night and releasing it slowly during the day. It ensures a pleasant room environment. This measure is particularly effective and requires relatively little energy since the cold needed is produced as a result of evaporative cooling at the re-cooling system.

3,014 t in CO₂ emissions each year as compared with conventional energy supply. Compared with the previous year, electricity consumption at RHÖN-KLINIKUM AG in 2018 increased/decreased by 2 per cent to 93,379 MWh. Roughly 44 per cent of the electricity purchased comes from renewable energies (green electricity). Heat consumption increased/decreased by 3 per cent to 126,434 MWh.

High availability of electricity, heat and cooling is a fundamental necessity for a healthcare group. We meet a potential failure of external energy supply by pursuing redundant energy supply concepts. Two emergency power generators per hospital ensure self-sufficiency in electricity for several days. With oil-operated back-up boilers, we additionally ensure a supply with sufficient heat or steam. In this way we can also ensure safe operation for our patients even in the event of protracted external supply failures.

Emissions

In our hospitals, emissions are produced primarily in the form of CO₂ from heat and electricity generation – either directly from the use of natural gas or indirectly from the procurement of electricity and district heating. By modernising our cooling systems and heat supply, we want to diminish these emissions further. We thus installed new cooling units in Bad Neustadt in the middle of 2018 and will modernise the supply of heat at the Marburg-Ortenberg site during the current financial year. After conclusion of these measures in 2019 and 2020, we also expect a reduction in the emissions produced as a result of the higher efficiency of the modernised systems.

What are referred to as Scope 1 emissions are produced directly on-site in our own heat and electricity generation. During the reporting period, these amounted to over 37,512 t of CO₂. Scope 2 emissions cover all indirect emissions from district heating and electricity deliveries. In 2018 they were roughly 25,533 t of CO₂.

Fresh and wastewater

Having drinking water of the highest quality available is a must for a healthcare group. We therefore carry out regular water-quality inspections through microbiological tests that exceed the legal requirements. Moreover, we flush out infrequently used lines systematically to prevent bacteria from building up in stagnant water. During the reporting period, water consumption declined by 3 per cent to 729,831 m³. The total amount of wastewater of all sites was roughly 674,214 m³ in 2018. Contaminants of such wastewater result from excretions of contrast agents or medications as well as from the preparation of medical accessories. Wastewater containing grease resulting from the preparation of food is discharged to the public sewerage system exclusively via grease separators.

Waste

Given that hygiene requirements are constantly becoming more stringent, we use disposable products in many areas. There is a tendency to rising waste volumes. We are endeavouring to counteract this trend through consistent waste management.

Reducing waste holds advantages from an ecological as well as economic perspective since costs are generated by both the use of materials in procurement, and by waste disposal. That is why we attach tremendous importance to our environmental management efforts. At each of our hospitals we have a separate waste officer to ensure professional waste management. We moreover regularly train our employees to update their knowledge of proper sorting and disposal of waste, on the one hand, and sparing use of consumables, on the other. That includes, for example, knowing which types of waste from our hospitals have to be disposed of by special processes.



For over 20 years,
we have been
pursuing efforts
in generating our
own energy with
highly efficient
cogeneration
plants (CHPs).



SUPPLIER MANAGEMENT

There are three factors that define our supplier management: quality, supply reliability and efficiency. For daily clinical operations there is always the risk of supply shortages or problems with quality since we procure material for our medical equipment and medical supplies almost exclusively from external suppliers. Adverse developments with our suppliers – such as short-term changes in pricing or supply shortages – are largely beyond our control. Despite that, we have to ensure at all times the continuous availability of all required medical products and pharmaceuticals in sufficient quality and quantity – a tremendous logistical challenge for our medical facilities. We therefore keep a close watch on our purchasing markets continuously for any relevant developments and work together with at least two suppliers for each product group. In addition, we rate our main suppliers on an annual basis. Despite these efforts, supply shortages occasionally do occur for specific drugs. In 2018, for example, there was a shortage in Remifentanyl and Heparin – and the situation is not expected to get better in subsequent years either.

Shortages occur frequently also in the area of medical consumables; the cause of this is regulatory interference (authorisations) or portfolio adjustments of manufacturers.

Our supplier management activities are centralised for the entire Group. In this regard, there is a close coordination for certain groups of medical products between the materials management heads of the individual sites and our staff from our Group Materials Management department. The individual sites are involved in procurement activities themselves only if they have to purchase products or services exclusively for their own requirements. In 2018 we pooled the purchasing process of the individual sites to an even greater extent than before, and in this way had a positive impact on quality and prices.

Key goods categories of RHÖN-KLINIKUM AG are:

- Drugs and blood products
(blood supplies and blood coagulation factors)
 - Transcatheter aortic valve implants (TAVI)
 - Cardiac pacemakers and defibrillators
 - Stents
 - Endoprosthesis
 - Nursing items
-

Standardisation and the harmonising of products is a subject of intensive discussion within the Group within the expert panels and among the doctors. The primary objective is to use only those products that have proven themselves from a medical standpoint and are characterised by outstanding quality and excellent long-term results. Coming after that is the aspect of costs, since many manufacturers give rebates for purchasing large volumes. The open debate does reveal that such standardisation does not lend itself to all products. For example, it is still necessary to use many different osteosynthesis plates for different bone fractures in patients of varying ages.

For other products, though, standardisation does make sense. The Expert Panel of Cardiovascular Medicine has thus agreed on standard products for pacemakers, defibrillators, stents and transcatheter aortic valve implants.

SOCIAL COMMITMENT

Good health is the highest good enjoyed by humankind. We wish to give all people access to the best medical care possible. At the same time, we see our healthcare mandate as being bound up with our fundamental understanding of social responsibility. This understanding is reflected not only in the social commitment of RHÖN-KLINIKUM AG but also in our RHÖN Campus approach.

For us, there are many facets to our social commitment. This is seen in the different ways it manifests itself at our sites. Given our decentralised organisation, the individual sites themselves decide on the ways they wish to commit themselves and to what extent. Besides the commitment as a Company, we are witnessing tremendous support for volunteer work on the part of the employees at our hospitals. Moreover, numerous employees throughout the world have committed themselves to making a voluntary social contribution to international aid projects such as Doctors Without Borders. We are proud of their commitment and very thankful.

International cooperation

Over 20 years ago, Dr Samwel Minja founded the regional facility Faraja Hospital in the north of Tanzania. From a small ward in a garage, the facility was able to further develop into a state-of-the-art hospital with over 100 beds today. This became possible, among other things, thanks to the volunteer support of employees and colleagues of Marburg University Hospital. In the spring of 2018, a long-term hospital partnership was also established between Marburger Universitätsmedizin, Faraja Hospital and Kilimanjaro Christian Medical College, the only institution in North Tanzania with a university profile and a medical college for training doctors. The goal of this partnership is to establish the creation and development of cooperation in the field of student training, patient care and research on a long-term basis.

Online consultation in Afghanistan

According to the World Health Organization (WHO), life expectancy in Afghanistan is less than 50 years. This is due, among other things, to a shortage of well-trained doctors. To help rebuild the healthcare system, the head physician of Zentralklinikum Bad Berka – Azim Mosafer – founded the Afghan-German Physicians Association Weimar (ASAV) in 2004. Azim Mosafer fled Afghanistan himself in 1980. Since then he has been travelling to his old homeland several times a year to hold courses of continued training in examination methods and sonography, or to perform operations himself at hospitals on an alternating basis. Given the increasingly insecure situation locally and the growing number of those needing aid, treatment has now been taking place telemedically. An entire telemedical network of some 150 specialists from a wide range of disciplines from Germany, Sweden, Austria and the USA are now helping to respond to the requests from Afghanistan.

Promoting young talent together

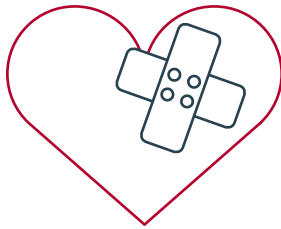
The German Scholarship Programme is a programme of the German Federal Ministry of Education and Research (BMBF) in which the state matches donations from sponsors. Marburg University Hospital has been committed for years to three scholarships under this programme for the faculty of medicine. These scholarships are awarded to excellent students who either had many obstacles on the path to their achievements – due to migration, the early start of family or similar – or made social commitments early on, putting the interests of others ahead of their own.

Support for education

At Klinikum Frankfurt (Oder), around 100 ninth-grade students from the Gauß-Gymnasium school completed a three-day training period during the reporting year. The students were distributed among 20 different wards within the hospital based on their specific interests. The aim was to give the students a broad insight into the working life of a hospital. The students that decided on oncology were present, for example, during a bone marrow puncture. Other students participated in an art project in the hospital. To create a positive and pleasant environment for patients, the white wall in the oncology department was embellished with pictures the students created themselves. The young students both in this project and on the other wards were able to gain positive experiences and a very good insight into the workings of a hospital.

300,000 HEART ATTACKS IN GERMANY EACH YEAR

The foundation "Gießener Herz" has set itself the target of actively fighting heart attacks.



Consultation with heart

Universitätsklinikum Giessen und Marburg (UKGM) has been supporting the foundation "Gießener Herz" now for almost six years. Based on the motto "Consultation with heart", the heart specialists of our hospitals volunteer to answer all questions relating to heart disease. The foundation does information work on the subjects of heart attack and cardiovascular diseases, optimises treatment measures and promotes research in this area. Each year, around 300,000 people suffer a heart attack in Germany. Of those, about 170,000 people die from an acute heart attack or its sequelae. Experts estimate that the number of these deaths will double by 2025. The foundation "Gießener Herz" has therefore set itself the goal of fighting heart attacks and the early stages of cardiovascular diseases actively and effectively, so as to counteract the predicted increase in these diseases.

Menschenkinder Marburg e.V.

Unfortunately, those suffering from mental illness even today have to deal with the stigma associated with it. To help change that, staff at the Clinic for Paediatric and Juvenile Psychiatry, Psychosomatics and Psychotherapy of Marburg University Hospital, along with further sponsors and those taking up the causes of children and youths suffering from mental illness in the region, founded the support association "Menschenkinder in Marburg e. V." in 2012 for children and youths suffering from mental illness. The goals pursued by the Association are:

- Promoting awareness about mental disorders and their de-stigmatisation
- Preventing mental illness
- Improving cooperation between the various institutions involved in the care and treatment for children and youths suffering from such illnesses.

This is to be achieved by providing funding towards expanding therapeutic options and offerings as well as for promoting engaging in important activities during therapy. For such therapy-accompanying activities, special emphasis is put on making these age-appropriate for children and youths.

Care for patients

Moreover, the hospital sites of RHÖN-KLINIKUM AG have dedicated efforts towards various charitable associations concerned with the well-being of patients or their relatives. This association work ranges from parent associations for children suffering from cancer and heart disease, to associations for children with kidney disease, as well as associations like "Palliativ Pro". In 2006 the Palliative Pro Association was established at Universitätsklinikum Gießen to support palliative medical care in Central Hesse. The activities of the association range from psycho-oncological support to spiritual counselling and organising continued training events, right through to support for palliative medical research. The aim of palliative medicine is to give patients the greatest possible satisfaction of life, quality of life and independence – even when a cure is no longer possible.

Assistance to refugees

Since 2015, UKGM in Giessen has been operating an "intercultural medical outpatient service", unique in Germany, to meet the special needs of patients with a migrant background. The aim is to achieve intercultural opening by providing reasonable medical care giving particular consideration to special cultural aspects. This model project is funded by the Hessian Ministry of Social Affairs and Integration.

In Bad Neustadt a. d. Saale and in Gießen there is also an integration programme for refugees. The aim is to qualify refugees in the nursing profession. In this way refugees are given the opportunity to make a new professional start, and hospitals the prospect of recruiting qualified new nursing staff. Both sides thus stand to benefit from the integration programme.

The first nursing integration programme was launched at the Campus Bad Neustadt already in 2015. Back then, nurses from Serbia and Bosnia were hired as nursing assistants at the hospital for an initial period of twelve months. To acquire the necessary language skills, they were given German courses. We then worked to have their professional training recognised. The goal was to then continue employing the refugee nursing staff in the long term. Since the beginning of the nursing integration programme, more than 70 employees with professional and social skills have been recruited for the Bad Neustadt site.

Corporate Governance Report

In the annual Corporate Governance Report, the Board of Management and Supervisory Board of RHÖN-KLINIKUM AG report jointly on corporate governance.

Corporate Governance stands for good and responsible corporate management practice and forms the basis of efficient, responsible decision-making and control processes of supervisory boards and boards of management oriented towards long-term corporate success. A transparent as well as legally and ethically sound corporate culture for us is the basis for ensuring value enhancement at our companies on a sustained basis as well as for preserving and further strengthening the trust that shareholders, business partners, patients and employees place in us.

In the 2018 financial year, the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG conducted a thoroughgoing regular examination of the German Corporate Governance Code. Its development, amendments as well as compliance at RHÖN-KLINIKUM AG and its subsidiaries were the subject of detailed consultations.

Two declarations of compliance – jointly drafted by the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG pursuant to section 161 of the German Stock Corporation Act (Aktien-gesetz, AktG) – were submitted in the 2018 financial year in accordance with Item 3.10 of the German Corporate Governance Code as amended on 7 February 2017: on 28 March 2018 an updated declaration of the version of 9 November 2017, and on 8 November 2018 updated during the year under way on 18 January 2019. In this regard we currently and in future depart from the Code's recommendations in a total of three disclosed exceptions.

- Code Item 4.2.2 (2) sentence 3: Relationship between remuneration of the Board of Management and that of senior management and staff overall
- Code Item 4.2.3 (3): Pension commitments
- Code Item 5.4.1 (2) to (4) and second half-sentence of (5) sentence 3: Objectives regarding the composition of the supervisory board and competency profile, stating the number and names of independent members as well as publication of curricula vitae (CVs)

Exclusively for the past up to 28 March 2018, we declared a departure from Code Item 5.5.2 (Conflicts of interests) by the aforementioned updating because an employee representative on the Supervisory Board disclosed her membership on the supervisory board of another company belatedly.

Furthermore, the recommendation pursuant to Code Item 3.8 (3) regarding the agreement of a deductible for the D&O insurance of supervisory board members was deviated from up to 31 December 2018 because in the adjustment of the D&O insurance in financial year 2016 the continuation of the deductible had been unintentionally refrained from.

We observe most of the non-mandatory suggestions of the German Corporate Governance Code. The current and all past declarations of compliance are published on the Internet at www.rhoen-klinikum-ag.com.

Shareholder communication and transparency

Engaging in an active and open, i.e. transparent communication with our shareholders and treating them equally are things that are self-evident to us. We use suitable communication channels such as the Internet to provide information promptly and uniformly to all market participants, and to ad hoc service providers for mandatory publications to be disseminated. All reports and notices can be accessed on our Company's website at www.rhoen-klinikum-ag.com. Our financial calendar containing all important financial dates for analysts, investors, shareholder associations and media likewise can be viewed on our website under the Investor Relations section. Information relating to our share and its price trend as well as inside information directly concerning us are published on our website.

We report to the public on a quarterly basis on business development as well as the Group's net assets, financial position and results of operations in accordance with the applicable International Financial Reporting Standards (IFRS), applying section 315a of the German Commercial Code (Handelsgesetzbuch, HGB). As a rule, its preliminary business figures and forecasts for the current year are made known approximately six to eight weeks from the end of the financial year in accordance with the requirements.

On our website we promptly disclose notices pursuant to Article 19 of the Market Abuse Regulation (MAR) (Managers' Transactions) by members of the Board of Management and the Supervisory Board as well as by parties closely associated with them on the acquisition and sale of shares of the Company or other financial instruments relating thereto. If we become aware of the fact that an individual reaches, exceeds or falls below the statutory thresholds of voting rights in the Company by means of a purchase, sale or in any other manner, we also publish this information on our website immediately.

Dealings of RHÖN-KLINIKUM AG and its subsidiaries with related parties of as well as companies related to such parties are disclosed in the Consolidated Financial Statements. Contracts entered into with related parties were reviewed and approved by the Supervisory Board. In the view of the Board of Management and the Supervisory Board, such contracts have no impact on the independence of the member of the Supervisory Board.

Shareholders and general meeting

At the Annual General Meeting of the Company, which is normally held within the first six months of each year, the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG report to their shareholders on business performance as well as the financial position and results of operations.

Based on the scope of possibilities afforded to them by the Articles of Association, it is stipulated that the shareholders of RHÖN-KLINIKUM AG avail themselves of their rights exclusively at the Annual General Meeting by exercising their voting rights. Shareholders are free to decide whether to exercise their voting rights themselves or through an authorised person of their choice, or may have themselves represented by proxies appointed by the Company for this purpose. Each share confers one vote. In the interests of securing the resolution procedure, we maintain at the present time the system whereby voting rights are exercised by attendance in person or by legitimised representation at the Annual General Meeting.

On convening of the Annual General Meeting, the Invitation with the Agenda as well as the reports and documents required by law including the Annual Report are made accessible on our website under the Annual General Meeting section.

Board of management and supervisory board

In keeping with the requirements of German legislation governing joint stock corporations and corporations, RHÖN-KLINIKUM AG has a dual management system subject to the strict separation at the personnel level between the management and supervisory bodies. The Board of Management has powers to direct the Company and the Supervisory Board powers to supervise the Company. The current composition of our Board of Management, the Supervisory Board and its committees is published on our website at www.rhoen-klinikum-ag.com. Simultaneous membership in both corporate bodies is not permissible.

To achieve the objective of sustainable value-added, the Board of Management and the Supervisory Board have committed themselves to cooperating closely in a spirit of mutual trust in the best interests of the Company and on the basis of a balanced allocation of duties and responsibilities in accordance with the law, the Articles of Association and the Terms of Reference.

In May 2017, a representative of the employees on the Supervisory Board of RHÖN-KLINIKUM AG became a member of the Supervisory Board of Vivantes – Netzwerk für Gesundheit GmbH (in short: Vivantes) and then assumed the office of deputy chairman of the supervisory board. As a municipal hospital group, Vivantes is likewise a healthcare services provider like RHÖN-KLINIKUM AG and its Group companies. It is therefore not possible to rule out conflicts of interests. It was only in March 2018 that the employee representative reported to RHÖN-KLINIKUM AG her appointment to the supervisory board of Vivantes. Since Code Item 5.5.2 of the German Corporate Governance Code provides that every supervisory board member should disclose conflicts of interests to the supervisory board, the Declaration of Compliance pursuant to section 161 of the AktG, as already mentioned above, had to be updated and a departure from Code Item 5.5.2 of the German Corporate Governance Code declared for the past. For the future, however, the Board of Management and the Supervisory Board have decided once again to observe also Code Item 5.5.2 of the German Corporate Governance Code. The Supervisory Board will moreover urge the employee representative concerned not to participate in discussions and the adoption of resolutions in which a conflict of interests is to be assumed by reason of her membership on the supervisory board of Vivantes. Apart from that, no conflicts of interests of members of the Board of Management and the Supervisory Board subject to disclosure to the Supervisory Board occurred.

The Board of Management informs the Supervisory Board regularly and timely on the current situation of the Company. At the level of RHÖN-KLINIKUM AG and its subsidiaries, the Board of Management has implemented a compliance and risk management system. Our Group-wide compliance management system pursues the aim of ensuring that statutory requirements and ethical codes of conduct are observed over all hierarchical levels. Our Rules of Procedure and Guidelines for Compliance define the relationship with our patients, customers, suppliers, shareholders and the general public as well as the conduct of employees amongst one another. Our compliance activities are focused on combating corruption both actively and

passively. Thus, any contraventions in the area of corruption are not tolerated and strictly sanctioned at all management and employee levels. Initiation and implementation of measures is event-driven. RHÖN-KLINIKUM AG moreover maintains a whistleblowing system in which everyone enjoys protection when they report evidence of legal violations within the Company. To identify risks of substantial losses in time, a risk management system has been implemented Group-wide. The risk profile allows the Board of Management to respond early and adequately to changes in the Group's risk position and to exploit opportunities. Our handling of risks and opportunities is also consistent with the principles of responsible corporate behaviour. The risk management system is reviewed by our auditor as part of the annual audit of the financial statements.

Both for members of the Supervisory Board and for members of the Board of Management, RHÖN-KLINIKUM AG has taken out indemnity insurance cover (D&O insurance) with an adequate coverage concept and in accordance with the deductible mandatory for the Board of Management in accordance with Code Item 3.8 (2) of the GCGC. In this connection, the insurance premium (including insurance tax) paid by the Company in the 2018 financial year was € 151 thousand.

Board of Management

The Board of Management is responsible for directing the Company. In accordance with the Terms of Reference, its business operations are carried out under joint responsibility. Each member of the Board of Management has his own areas of responsibility as determined by operative and/or functional competencies. The Chairman of the Board of Management is responsible for corporate policy as well as the Group's fundamental strategic orientation. When filling management positions within the Company, the Board of Management gives due regard to the principle of diversity and has defined targets at the management levels below the Board of Management which are published in the Declaration on Corporate Governance accessible on our website.

The Board of Management reports regularly, without delay and comprehensively to the Supervisory Board on all significant issues relating to the business development and position of the Group and its subsidiaries. The Board of Management furthermore coordinates with the Supervisory Board the Group's further strategic development and discusses its implementation. If any events of special significance should arise, the Chairman of the Board of Management informs the Chairman of the Supervisory Board of these without delay. Any transactions and measures which are subject to consent are presented to the Supervisory Board in due time. Moreover, the Supervisory Board must give its consent to any side activity of the members of the Board of Management. The consent of the Supervisory Board is also required for transactions between the members of the Board of Management or parties related to them on the one hand and RHÖN-KLINIKUM AG on the other. For the members of the Board of Management, a fixed age limit of 65 years is enshrined in the Articles of Association.

On 28 March 2018, the Supervisory Board resolved unanimously to remove Dr Dr Martin Siebert as member of the Board of Management of the Company with immediate effect and unanimously appointed Dr Gunther K. Weiß as member of the Board of Management with effect from 1 May 2018 to 31 December 2021. The responsibilities within the Board of Management were adjusted accordingly and the Terms of Reference updated. The Board of Management is thus currently comprised of three members: Mr. Stephan Holzinger, Chairman of the Board of Management and Chief Financial Officer (CEO/CFO), Prof. Dr Bernd Griewing, Chief Medical Officer (CMO), and Dr Gunther K. Weiß, Chief Operating Officer (COO).

Supervisory Board

The Supervisory Board is responsible for advising the Board of Management on directing the Company and for supervising its management activity. By their close and efficient cooperation, the Board of Management and the Supervisory Board pursue the common goal of achieving sustained value enhancement. The basis for this is provided by the Terms of Reference for the work between the Board of Management and the Supervisory Board.

In accordance with the requirements of the German Co-Determination Act (Mitbestimmungsgesetz, MitbestG), the Supervisory Board of RHÖN-KLINIKUM AG, in accordance with the principle of equal representation of shareholders and staff and pursuant to the Articles of Association, currently comprises an equal number of shareholder and employee representatives (16 in total). In 2018 five meetings were held. The Supervisory Board is chaired by Mr. Eugen Münch in a full-time capacity.

The Supervisory Board has refrained from specifying definitive targets for its composition. Consequently, no criteria such as age, gender, education or professional background were defined, either, as specific targets for the diversified composition of the Supervisory Board as part of an explicitly stipulated diversity concept. The Corporate Governance Report does not inform separately on what the Supervisory Board regards as an adequate number of independent members of shareholders and their names, and the supplemented CVs – where no Supervisory Board elections are impending – are not permanently published and annually updated on the website. The Supervisory Board has stated the deviations regarding Code Item 5.4.1 of the GCGC in the Declaration of Compliance pursuant to section 161 of the AktG.

As scheduled, the last election of the shareholder representatives to the Supervisory Board took place at the Annual General Meeting on 10 June 2015. The election of the shareholders' representatives was based on a recommendation of the Nomination Committee of the Supervisory Board and was held in accordance with the recommendations of the German Corporate Governance Code on an individual basis. For the proposed candidates, due regard was given both to their qualification on the basis of a profile of professional requirements and to their independence with a view to avoiding conflicts of interests as well as in terms of their expected time commitment. The five-year term of office of the Supervisory Board ends upon conclusion of the Annual General Meeting resolving on the formal approval of the actions of the Supervisory Board for financial year 2019. The Articles of Association provide for an age limit of 75 years for members.

New members of the employee representatives on the Supervisory Board are Ms. Natascha Weihs since 1 January 2018 (as substitute member for Ms. Bettina Böttcher, who left the Supervisory Board on 31 December 2017) and Mr. Oliver Salomon since 1 March 2018 (as substitute member for Mr. Björn Borgmann, who left the Supervisory board on 28 February 2018).

As a result, 43.8% of the Supervisory Board is currently comprised of women and 56.2% of men. The composition of our Supervisory Board is presented in the 2018 Annual Report in the annex to the Report of the Supervisory Board and in the Notes to the consolidated financial statements.

The Terms of Reference of the Supervisory Board provide for the formation of committees. In 2018 there were seven standing committees: the Mediation Committee, Personnel Affairs Committee, Audit Committee as well as the Investment, Strategy and Finance Committee and the Committee for Compliance and Communication as committees with power to adopt resolutions, as defined in section 107 (3) AktG, and the Nomination Committee and Medical Innovation and Quality Committee. The respective committee chairmen report at regular intervals to the Supervisory Board on the work of the committees.

The **Mediation Committee** submits proposals to the Supervisory Board for the appointment of members to the Board of Management if in the first round of voting the required majority of two thirds of votes of the Supervisory Board members is not reached.

The **Personnel Affairs Committee** is responsible for the personnel-related matters of the Board of Management. Its tasks include reviewing candidates for service as members on the Board of Management and making proposals to the Supervisory Board regarding appointments. It is also responsible for negotiating, making preparations for entering into, amending and terminating service contracts of members of the Board of Management and other contracts. Furthermore, it evaluates the performance of the Board of Management, and

at regular intervals conducts a review of whether the remuneration of the Board of Management is reasonable and customary as well as of the guidelines for the remuneration of members of the Board of Management. In this regard, it makes proposals to the full Supervisory Board for adoption of resolutions.

The **Audit Committee** prepares the resolutions of the Supervisory Board on the adoption of the annual financial statements and the approval of the consolidated financial statements. This is done by way of preparatory internal review of the annual financial statements and management reports. It reviews the resolution on the appropriation of profit and discusses the annual financial statements and audit reports with the auditor and the Board of Management.

The Audit Committee is moreover responsible for selecting and appointing the statutory auditor, including agreeing on the auditing fees and concluding the required agreements pursuant to the German Corporate Governance Code for the performance of the audit of the annual financial statements. Prior thereto, the Audit Committee is required to thoroughly satisfy itself of the independence of the statutory auditor and to assure itself that neither grounds for disqualification nor grounds for bias exist. The Audit Committee is further responsible for reviewing and monitoring the auditor, the auditor's independence and quality as well as the services additionally provided by the auditor.

Monitoring of financial reporting including the interim reports, the accounting process, the effectiveness of the internal controlling system, risk management system and the internal audit system likewise fall within the scope of duties of the Audit Committee, as does dealing with questions of fundamental importance relating to accounting and corporate governance. For all members elected to the Audit Committee, due regard is given to their independence and particular experience and knowledge with regard to the application of accounting rules and internal controlling processes.

The chairman of the Audit Committee, Mr. Wolfgang Mündel, possesses the required knowledge of the Company and its market environment given his long-standing membership in the Supervisory Board of RHÖN-KLINIKUM AG. He meets the requirements pursuant to Item 5.3.2 of the German Corporate Governance Code for this challenging position thanks to his qualification as auditor and tax adviser. Mr. Mündel is the 2nd deputy Chairman of the Supervisory Board and performs his duties on the Supervisory Board in a full-time capacity. The Audit Committee comprises three financial experts who satisfy the conditions of section 100 (5) of the AktG.

The **Investment, Strategy and Finance Committee** is responsible for advising the Board of Management regarding the strategy for the Company's further development. It furthermore adopts resolutions pursuant to section 107 (3) of the AktG on the approval of hospital takeovers, on other investments subject to approval and their financing. Reports to be remitted by the Board of Management to the Supervisory Board on the Company's investment and financial development as well as on fundamental strategic developments are reviewed and commented by this Committee.

The **Committee for Compliance and Communication** may be approached in all compliance matters directly by all patients, employees, suppliers and other third parties, and devotes its efforts to advising on and monitoring the Group's compliance management as well as communication with the media and the capital markets. To ensure close ties to the Audit Committee, the chairman of the Committee for Compliance and Communication is also represented on the Audit Committee. She has the right in certain cases to request a special audit.

The **Nomination Committee** selects candidates from the shareholder representatives to be members of the Supervisory Board and proposes them to the Supervisory Board for nomination.

The **Medical Innovation and Quality Committee** works in an advisory capacity, particularly with regard to developments and trends in medicine. It also monitors the development of medical quality at the Company.

The Supervisory Board internally reviews the efficiency of its activity on an ongoing basis and at regular intervals arranges for an efficiency audit to be carried out by an external consultant. The latest independent external audit in 2016 included questionnaires and discussions. Its results were in line with the Supervisory Board's expectations in terms of efficient performance of duties.

A detailed overview of the work of the individual committees and their composition in the 2018 financial year is provided in the Report of the Supervisory Board in the 2018 Annual Report.

The remuneration report and the remuneration tables of the Supervisory Board and the Board of Management are disclosed in the Notes to the Group Management Report.

Bad Neustadt a. d. Saale, 28 March 2019

The Supervisory Board

The Board of Management

This Report is published in connection with the Declaration on Corporate Governance on our website at www.rhoen-klinikum-ag.com under the Corporate Governance section.

Group Management Report

1 BASIC CHARACTERISTICS OF THE RHÖN-KLINIKUM GROUP	89
1.1 Overview	89
1.2 Future of the Group	89
1.3 Objectives and strategies	91
1.4 Controlling system	92
1.5 Quality	93
1.6 Medical research and its transfer into practice	94
1.7 Compliance	94
1.8 Corporate Governance	94
1.9 Declaration on Corporate Governance	103
2 ECONOMIC REPORT	103
2.1 Macroeconomic conditions	103
2.2 Sector-specific conditions	103
2.3 Business performance	104
3 FORECAST REPORT	110
3.1 Strategic objectives	110
3.2 Economic and legal environment	110
3.3 Forecast	111
4 OPPORTUNITIES AND RISK REPORT	111
4.1 Risk report	111
4.2 Report on opportunities	115
5 Reporting pursuant to section 315 (4) of the German Commercial Code (Handelsgesetzbuch, HGB)	117

Group Management Report

In the 2018 financial year we treated 850,147 patients in our hospitals and medical care centres, generating revenues of € 1,232.9 million, EBITDA of € 125.5 million as well as consolidated profit of € 51.2 million. We thus reached our stated financial targets for 2018.

With the plausibility review of the agreement on separate accounting having been completed by an independent auditor, the last contingent condition was met. This had a positive one-off effect on our EBITDA of the 2018 financial year to the tune of roughly € 20.0 million.

Given the favourable interest rate environment, a promissory note for € 100.0 million to secure the planned investment requirement in the medium-to-long term was successfully issued on the market at the end of October 2018.

With our cross-sector campus approach for delivering care to patients quickly and efficiently which we have been offering with the new RHÖN-KLINIKUM Campus Bad Neustadt for the first time since the turn of 2018/2019, we have the right strategy to continue our leading role on a healthcare market still characterised by state regulatory intervention.

As a trailblazer of digital transformation within the German healthcare system, we have made significant progress during the reporting period in the use of digital applications. This includes testing, introducing and constantly enhancing digital solutions in the physician, nursing and administrative areas.

1 | BASIC CHARACTERISTICS OF THE RHÖN-KLINIKUM GROUP

1.1 Overview

RHÖN-KLINIKUM AG provides cross-sector, i.e. inpatient and out-patient, healthcare services. As a rule, the Group has a single-tier structure. The individual hospital companies are organised in the form of legally independent corporations which have their registered office at the respective facility sites and are managed as direct subsidiaries of RHÖN-KLINIKUM AG (ultimate Group parent company). There are no dependent hospital operations or branches within the Group. The ultimate Group parent company has its registered office in Bad Neustadt a. d. Saale, Federal Republic of Germany.

With our eleven hospitals and 5,369 beds/places at a total of five sites in four federal states, we are one of the largest hospital operators in Germany. A total of 850,147 patients (previous year: 836,387) were treated in our facilities in the 2018 financial year. As at the balance sheet date, the Group employed 16,985 persons (31 December 2017: 16,688), with the share of women at nearly 73% (previous year: roughly 73%). Compared with the previous year, the development of our key financial ratios was as follows:

in € million

	2018	2017	Change (in %)
Revenues	1,232.9	1,211.1	1.8
EBITDA	125.5	97.8	28.3
EBIT	64.9	38.7	67.7
EBT	63.2	37.1	70.4
Consolidated profit	51.2	36.7	39.5
Balance sheet total	1,589.3	1,471.4	8.0
Investments	187.2	122.4	52.9
Equity	1,159.2	1,125.3	3.0
Net liquidity	141.2	253.7	-44.3

1.2 Future of the Group

RHÖN-KLINIKUM AG can look back on a very successful financial year in 2018. The hospital Group was able to forge ahead further with numerous strategic issues and projects such as separate accounting, the RHÖN Campus approach and the digital transformation of the Company, thus setting the course for the future.

Separate accounting

Following many years of dispute over the separate accounting – an agreement that governs the remuneration of research and teaching at our university hospitals – the last contingent condition of this

important future package was met in October 2018: the plausibility check of the agreement between RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg GmbH (UKGM), the Federal State of Hesse and the two Universities of Gießen and Marburg by an independent auditor.

Already in 2017, the parties involved had agreed on the key terms of the agreement and signed such white paper, which was then adopted in the 2018/2019 Hesse State Budget in February 2018.

UKGM is the third-largest and the only privatised university hospital in Germany. Since 2006 it has been a part of RHÖN-KLINIKUM AG and in addition to providing patient care in highly challenging cases also fulfils public statutory tasks in the area of research and teaching. The agreement reached now sets out a remuneration scheme in this area for the first time. The term of the agreement runs until the end of 2021 but has the potential of serving as a permanent solution beyond the agreed term.

The agreement furthermore paved the way for a comprehensive and sustainable investment programme to the tune of € 100 million for both university hospitals that will benefit patients, employees and the region of Central Hesse. In the first construction stage the Marburg site will see, among other things, the modernisation of the Clinic for Paediatric and Juvenile Psychiatry, the Clinic for Psychiatry, the central operating area and the intensive care units. At the Gießen site, the Paediatric Heart Centre will be expanded and an extension added on to the University Hospital. These construction projects will be completed by 31 December 2024. UKGM has moreover undertaken until the end of financial year 2021 to forego redundancies and to take over trainees into permanent employment if they possess the right qualifications for those positions.

Marburg Ion Beam Therapy Centre (MIT)

At the end of last year, the new strategy for the Marburg Ion Beam Therapy Centre (MIT) was also laid out. As at 1 January 2019, RHÖN-KLINIKUM AG acquired from Universitätsklinikum Heidelberg (UKHD) 75.1% of the interests in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung and thus assumes sole medical and entrepreneurial responsibility as of 2019.

The takeover of MIT allows it to be successfully relaunched under the medical as well as commercial management of RHÖN-KLINIKUM AG. Using protons and heavy ions to achieve pinpoint precision, the centre offers a highly effective way of treating tumour disease while minimising the impact on high-risk organs such as the heart, lungs, liver and kidneys. It was thus possible to secure care of patients with this innovative treatment therapy despite the withdrawal by University Hospital of Heidelberg.

The RHÖN Campus approach

With its RHÖN Campus approach, RHÖN-KLINIKUM AG is committed to excellent medical care especially in rural regions. Prevention, outpatient and inpatient medical treatment, rehabilitation and promoting health are the key elements of this innovative and pathbreaking approach. With short communication paths as well as interdisciplinary cooperation overcoming the barriers between outpatient and inpatient care, the treatment process for patients is simplified and expedited. This is further helped by common IT platforms and the use of state-of-the-art patient- and employee-oriented digital tools.

The approach is being realised for the first time in its ideal form at the Company's headquarters. At the beginning of December 2018, the inauguration of the new RHÖN-KLINIKUM Campus Bad Neustadt was celebrated in the presence of the Bavarian Minister President Dr. Markus Söder along with several hundred guests. On the existing hospital grounds, the Company erected the first section of an ultra-modern health campus after three years of construction. The investment budget at the site totals roughly € 250 million, which is being financed for the most part from the Company's own funds.

The planning amalgamation of the various clinics into the new building was an intensive process taking several years. The hospital move in which the hospital Kreisklinik, formerly located in the town centre of Bad Neustadt, was integrated into the new campus was made at the turn of 2018/2019.

The new campus, together with the Centre for Outpatient Medicine (COM), the Centre for Clinical Medicine (CCM) and the Centre for Rehabilitative Medicine (CRM) offers a one-stop care delivery approach: prevention, treatment, rehabilitation and nursing – everything at one location and based on state-of-the-art IT and various innovative digitalisation tools.

Given the demographic, regulatory and budgetary developments and the oversupply within the German hospital sector, we are convinced that in future other regions will be able to benefit from our know-how and the RHÖN Campus approach.

Digitalisation

RHÖN-KLINIKUM AG is pressing ahead with digital networking to integrate all players in the treatment process – community-based practitioners, hospitals and healthcare service providers. Our objective is to make the work of doctors and nursing staff easier and care for patients even safer and better.

The basis for our interfacility information systems and digital applications is a modern, high-performance IT infrastructure ensuring the security of patient data.

One of the new elements is the Medical Cockpit, a search engine that helps process relevant information found in doctor's letters, OR reports and X-ray findings in structured form and provides the treating medical staff with an interface enabling them to gain a faster and more comprehensive overview. The cockpit is integrated into a hospital configuration system and accesses a universal archive. With the launch of the new Campus Bad Neustadt, the Medical Cockpit became available for clinical operations. It is slated to be rolled out at other sites as soon as possible.

A further application is our newly developed doctors' portal, enabling comprehensive, efficient and safe patient care. It simplifies the communication between community-based doctors and hospital doctors thanks to the possibility of up-to-date, same-day access to information electronically. With the integration of the Medical Cockpit and the doctor-managed electronic patient file, we offer the prospect of greatly facilitating the work of community-based practitioners.

Action plan

In the past financial year, the Company further forged ahead with implementing the action plan to improve operative efficiency adopted in 2017. In addition to issues of organisational and process improvements, greater attention was paid to the requirements to be met by patient documentation so as to counter reductions in invoices, and a Group-wide training programme was launched. In addition, intelligent verification software is used in this area.

During the reporting year, the purchasing process of the individual sites was pooled to an even greater extent than before. Key goods categories of RHÖN-KLINIKUM AG are drugs and blood products (blood supplies and blood coagulation factors), transcatheter aortic valve implants (TAVI), pace-makers and defibrillators, stents, endoprosthesis and nursing items.

Standardisation and harmonising of products is a subject of intensive discussion within the Group within the expert panels and amongst the doctors. The primary objective is to use only those products that have proven themselves from a medical standpoint and are characterised by outstanding quality and excellent long-term results. Coming after that is the aspect of costs, since many manufacturers give rebates for purchasing large volumes. The Expert Panel of Cardiovascular Medicine has thus agreed on standard products for pacemakers, defibrillators, stents and transcatheter aortic valve implants.

Corporate model

"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." From the very beginning, this has been the ethical principle that has guided everything we do. It applies to all employees of the Company – both in patient care and in the administration and management areas.

Our corporate model defines the overall body of rules and guidelines and in that way ensures the ethically sound activity within the Company. The areas of management of risks and opportunities, compliance, corporate governance as well as quality management are governed by this and are thus the key tools by which we steadily increase the value of RHÖN-KLINIKUM AG on a sustainable basis and strengthen the trust of our investors.

Corporate social responsibility

RHÖN-KLINIKUM AG wholly embraces sustainable commitment – as a provider of healthcare services, as an employer and as a Company. In this regard, our success is always inseparably bound up with medical, ecological and social responsibility. That is why sustainability forms an integral part of our corporate strategy.

Since last year, the Corporate Social Responsibility Report (CSR Report) also includes the separate condensed Non-Financial Report (NFR) pursuant to sections 315b and 315c in conjunction with sections 289b to 289e of the German Commercial Code (Handelsgesetzbuch, HGB). RHÖN-KLINIKUM AG fulfils its reporting requirements at the Company level and the Group level pursuant to the German CSR Directive Implementing Act (Richtlinie-Umsetzungsgesetz, CSR-RLUG) in the form of the present NFR.

a) Improving the quality of life

The well-being of our patients is our top priority. Providing excellent medical care for everyone at all times – that is the stated aim of RHÖN-KLINIKUM AG. That is why we examine and treat our patients based on the latest, scientifically founded therapy procedures using state-of-the-art medical technology. Moreover, we endeavour to offer the best possible treatment and care so as to ensure sustained treatment success.

Equally important to us is to press ahead with medical innovations. We want as many people as possible to benefit from our advances and to share in the successes of modern medical research. That is why we promote cutting-edge medical services with external research and development partners and find innovative solutions for the well-being of our patients. To this end, we rely on a mutual exchange between the individual competence centres at our hospitals.

b) Protecting the environment

For a future-oriented company like RHÖN-KLINIKUM AG, protecting the environment is part of responsible corporate governance. As a modern hospital Group with innovative technology and the highest standards of patient well-being, we make responsible and efficient use of resources. That is because good environmental conditions are the basic condition for human well-being and health.

c) Promoting and retaining employees

RHÖN-KLINIKUM AG is among the largest private healthcare providers in Germany with nearly 17,000 employees. They are our key factor of success. Their expertise, experience and commitment make it possible to give our patients excellent medical care.

The aim pursued with our long-term human resources strategy is to recruit the best employees for our team, to promote them and to keep them loyal to our Company. That is why we go to great lengths to be an attractive employer for all professional groups within our Group. All hospitals are characterised by equipment meeting state-of-the-art standards of medical technology. A wide array of human resources development and human resources promotion measures as well as numerous offerings for balancing working and family life make us an attractive employer, also nationally.

Demographic trends and the new regulatory interventions of healthcare policy will see demand for qualified staff rise further. RHÖN-KLINIKUM AG is rising to this challenge with its own training facilities in which we train our young staff in a wide range of professions.

For further information on the item Corporate Social Responsibility, reference is made to the separate non-financial report in accordance with section 289b (3) and section 315b (3) HGB in the Annual Report published on our website at www.en.rhoen-klinikum-ag.com/annual-report.

1.3 Objectives and strategies

RHÖN-KLINIKUM AG aims to continue taking new paths to uphold the standard of offering patients the best medical care. For example, patients will continue to be diagnosed and treated on the basis of the latest, scientifically founded therapy procedures with state-of-the-art medical technology. The ethical basis and the principles underlying all our activity is the well-being of our patients who entrust themselves to our staff at our hospitals and facilities and who are daily the focus of our efforts.

We do not advocate size in absolute terms, but for the courage, in the face of the increasingly difficult regulatory environment and increasing budgetary constraints for medical services, to break the old moulds and to take new and, in some cases, previously untrodden paths. At the forefront of our commitment is the further strengthening of treatment excellence and patient care by implementing the RHÖN Campus approach described below and focusing on digitalisation and network medicine.

With our RHÖN Campus approach, the digital transformation of our Company and telemedicine, we are convinced that we have the right strategy to continue enjoying a leading position on a healthcare market characterised by regulatory intervention. In this context, the RHÖN Campus approach is pursuing a new, highly efficient and modern form of healthcare delivery particularly in rural regions. Essentially, our RHÖN Campus approach is concerned with the logistical and spatial integration of outpatient and inpatient services in conjunction with the offer to community-based doctors to work together closely with the respective hospital – in this way patients can be quickly diagnosed and treated at one location instead, as is often the case, of being tediously navigated through the healthcare system for days. We consistently seek a cross-sector networking with doctors as well as healthcare service providers in the respective region. Outpatient and inpatient offerings are being closely integrated with numerous medical services and care offerings which up to now had been separated both spatially and in terms of personnel. Here, care, diagnostics, treatment, rehabilitation and nursing work hand in hand. With the completion of the new building at the RHÖN-KLINIKUM Campus Bad Neustadt at the turn of 2018/2019 and the offering of first-class, rapid diagnostics and treatment transcending the traditional sectoral boundaries, this model is currently being implemented in the outpatient and inpatient areas. The RHÖN Campus approach represents a viable solution model for the healthcare delivery of the future. Given the inevitable shake-up of oversupply within the German hospital sector, we are convinced that in future other regions will be able to benefit from our know-how.

A key focus for implementing our concept is the use of digital tools and state-of-the-art IT. On the basis of stable IT, we use numerous clinical information systems and round these off with various digital innovations, such as the Medical Cockpit, the doctors' portal and many other tools whose aim it to simplify the work of our doctors and nurses and to make the care of patients even safer and better. Of course, we will achieve the greatest level of maturity in this at the new Campus Bad Neustadt. But even beyond that, we have also shown ourselves to be a leader in the digital transformation in the healthcare system throughout the reporting period, making significant advances in the use of digital applications to further improve the treatment quality for our patients, to relieve the workload on our employees and support them, as well as to further optimise processes, e.g. for documenting services rendered.

One of the landmark digital projects is the Medical Cockpit now ready for use – a search engine that helps to find relevant information found in doctor's letters, X-ray findings and OR reports within the shortest possible time. With the launch of the Campus, the Medical Cockpit will be implemented gradually at the RHÖN-KLINIKUM Campus Bad Neustadt in regular clinical operations in active dialogue with the clinical users. The Medical Cockpit was likewise integrated into our newly designed doctors' portal, the doctor-managed electronic patient file, and is thus also available to community-based doctors.

A further application among the many projects is the planned introduction of digital anamnesis and questionnaires. By recording patient questionnaires on a tablet, we enable the consistent gathering of treatment-relevant information. Telemedicine, too, will become increasingly important with us, not least on account of the gradual phasing-out of the ban on tele-treatments. RHÖN-KLINIKUM AG has the courage to seize the opportunities of digital transformation in the healthcare system to achieve its corporate goals as well as develop new business models outside its current core area.

In this regard, digitalisation not only means collecting, evaluating and interpreting large amounts of data. Rather, it provides the basis for significantly optimised patient management, integration and harmonisation of outpatient and inpatient care, and the interlinking of related services as well as numerous applications in the area of telemedicine.

1.4 Controlling system

For our Company, we have a target system which we believe allows us to perform consistently, and often also outperform, the market and our competitors. It defines key figures of relevance for control, such as revenues and EBITDA, as well as key figures for growth in service volumes and consolidated profit. Key ratios are monitored by the Board of Management. Monthly reporting to the Board of Management includes the hospitals. Group management costs are fully distributed to the operative segments. The monthly target-to-actual and actual-to-actual comparison in the report to the Board of Management, by aggregating the operative segments into one reporting segment, serves to control the targets published in the Company forecast.

In our view, profitable growth in our service volumes, number of cases or our valuation ratios as well as our revenues are important factors when it comes to increasing our enterprise value.

Valuation ratios are key figures used to account for medical services at hospitals. For each group of patients, the respective valuation ratio is obtained in combination with the case-mix index (variable indicating average case severity in the system of diagnosis related groups, DRGs). The valuation ratio is thus a measure of how severe a medical case is and also of cost expenditure. If the valuation ratios are multiplied by the base rate, the material amount that a payer (health insurance fund) has to pay to a hospital for an inpatient treatment case is obtained. Through supplementary fees and remuneration, e.g. for new forms of treatment, this amount may increase even further in certain cases.

Even if the share of outpatient revenues in total revenues is steadily rising, inpatient revenues still represent the most important controlling-relevant indicator of financial performance. For the purposes of measuring and controlling, revenues as a general rule are adjusted for consolidation effects so as to calculate organic growth.

EBITDA describes our operative performance efficiency before depreciation/amortisation, interest and tax and represents a further important controlling-relevant financial performance indicator. Our objective is to achieve EBITDA margins throughout the financial year which are amongst the most attractive in the hospital market in keeping with the orientation of the individual facilities. These margins are defined as the quotient of EBITDA and revenues.

Consolidated profit after tax is used to measure and control earnings strength at the Group level. This figure has the biggest influence on earnings per share (EpS) used for capital market communication.

The aim of the management with regard to the handling of equity and debt is to adopt a strict policy of matching maturities (horizontal balance sheet structure) of the source and use of funds. Non-current assets should be funded on a long-term basis. The items of equity and non-current liabilities shown in the balance sheet are included under the source of long-term funds. This key ratio is to be at least 100%. Although given the personnel cost ratio of more than 50% the Group is frequently attributed to the services sector, our business model has a long-term focus and is initially investment-driven. In this regard we seek to ensure that at least 35% of capital expenditure is sustainably backed by equity.

With regard to the use of debt capital, we focus on the following management ratio for minimising risks. The aim is to limit the ratio between net financial debt (corresponding to financial liabilities less cash and cash equivalents) and EBITDA to a maximum 3.5 multiple.

In the liquidity management of our operating activities, we analyse the turnover factors of operating net current assets. Moreover, we have defined minimum requirements that generally have to be considered before making an acquisition. In particular, acquisitions must have the potential of making a positive contribution to enterprise value within three years from integration at the latest, and of generating a positive cash return of 15% within three to five years from our investment and modernisation measures.

In addition to the financial key figures for growth in service volumes, we use further non-financial performance indicators to further develop the Company on a sustainable basis. The further non-financial performance indicators include quality assurance, occupational protection, patient surveys, human resources development and the subjects of energy and the environment.

1.5 Quality

Every patient is entitled to the best possible medical care – every day, and around the clock. That is the central guideline of our medical quality management. In this context, we strictly adhere to a comprehensive approach, with clinical risk management, hospital hygiene and medical controlling representing the most important elements in this scheme. Regular exchange between disciplines covering similar medical subjects and “classic” quality management thus gives rise to a stable and viable system – the quality concept of RHÖN-KLINIKUM AG.

We understand quality management as an ongoing task which we deliberately and gladly assume. We are continually striving to further raise the quality of our care. That is the standard and yardstick we apply to ourselves.

In our quality reports we make the reality behind this claim transparent. Our consistent and comprehensive publication of the results gives patients, relatives, referring doctors and health insurance funds the possibility of informing themselves extensively on the treatment quality at the hospital sites.

For further information, reference is made to the separate non-financial report in accordance with section 289b (3) and section 315b (3) HGB in the Annual Report published on our website.

1.6 Medical research and its transfer into practice

Our hospitals participate in an ongoing transfer of knowledge from research to practice to ensure that scientific findings are put into medical practice at hospitals faster, better and more effectively. Our university hospitals in Gießen and Marburg enable a continuous transfer of university knowledge from research into practice. Thanks to the direct link that the Group's hospitals have to university maximum care and in turn the direct access to university research findings, scientific knowledge can be quickly translated into modern medical care and competently delivered to the regions.

Apart from our university medical sites, our Group hospitals engage in an open scientific dialogue. This ranges from holding scientific conferences over participation in long-term clinical studies and promising international research projects to performance of university teaching mandates and offering specific further training measures for hospital doctors.

For further information, reference is made to the separate non-financial report in accordance with section 289b (3) and section 315b (3) HGB in the Annual Report published on our website.

1.7 Compliance

Compliance – i.e. acting in accordance with legislation and Company-wide ethical standards – is of key importance for a healthcare provider because it ultimately serves the well-being of our patients.

The relationship of trust existing between doctors and patients is essential. It is safeguarding such a relationship that is the purpose of the Hippocratic oath – the ethical standard for doctors and other employees working closely with patients – and numerous statutory provisions. In addition we have defined this relationship of trust as a decisive business basis in our Corporate Code. It is binding on all

employees. In that way we raise their awareness of the code while protecting them at the same time.

In addition to the statutory regulations, we also adhere to our own internal requirements which are based on even more stringent ethical standards. These are expressed as Group works agreements, the Rules of Procedure for Compliance as well as guidelines and recommendations (e.g. code of conduct) so that every employee is enabled to pursue our corporate objectives in accordance with our values. The Group-wide Rules of Procedure for Compliance governs the establishment and functioning of our compliance management system. The primary responsibility for compliance is assumed by the Chairman of the Board of Management of RHÖN-KLINIKUM AG.

For further information, reference is made to the separate non-financial report in accordance with section 289b (3) and section 315b (3) HGB in the Annual Report published on our website.

1.8 Corporate Governance

Issued share capital

The subscribed capital of RHÖN-KLINIKUM AG stated in the consolidated financial statements is completely made up of 66,962,470 ordinary voting bearer shares (non-par shares) each having a nominal share in the registered share capital of € 2.50. Restrictions on voting rights or the transfer of shares – even if these may result from agreements of shareholders – do not exist or are not known to us. None of our shares is issued with special rights that confer on its holder special powers of control. Employees who hold shares exercise their voting right freely. Shareholders may exercise their voting rights themselves at the Annual General Meeting or through proxies appointed for this purpose. Based on the threshold events notified to us, the following picture pursuant to sections 33, 34 WpHG in terms of shareholder structure emerges as at the relevant key date of 31 December 2018:

Person subject to notification requirement	Published on	Held directly %	Attributed %	Voting rights held %	Date that interest exceeds/falls below the threshold	Interest exceeding/falling below threshold in the case of	Notification pursuant to section 33 f. WpHG Attribution pursuant to WpHG/ additional information:
Asklepios Kliniken GmbH & Co. KGaA	5 January 2018	0.0005	25.10	25.10	29 December 2017	>25%	attributed (section 34 WpHG): Asklepios Kliniken GmbH & Co. KGaA
B. Braun Melsungen Aktiengesellschaft	7 April 2017		25.0003	25.00	6 April 2017	>25%	attributed (section 34 WpHG): B. Braun Melsungen Aktiengesellschaft
Eugen Münch	28 November 2017	6.94	7.61	14.56	23 November 2017	>10%	attributed (section 34 WpHG): HCM SE
Ingeborg Münch	26 October 2015	5.44		5.44	15 October 2015	>5%	held directly (section 33 WpHG)
Landeskrankenhilfe V.V.a.G.	22 October 2018	5.21		5.21	19 October 2018	>5%	held directly (section 33 WpHG)

Consolidated financial statements, communication with shareholders and analysts

The consolidated financial statements are drawn up in accordance with the provisions of International Financial Reporting Standards (IFRS) applicable within the European Union and applying section 315e HGB, and audited in accordance with both national and international auditing standards. The half-year financial statements are subjected on a voluntary basis to a review by a statutory auditor in accordance with the same aforementioned principles. When issuing auditor mandates, due care is taken to ensure the requisite independence of the auditors appointed. The audit mandate for the annual financial statements and for the half-year financial statements of the Group as well as for the Group's ultimate parent company is issued by the chairman of the Audit Committee after due examination pursuant to the resolutions adopted at the Annual General Meeting.

We publish our consolidated financial statements in March of the following financial year. The Annual General Meeting normally takes place within the first six months of the new financial year. We announce our forecasts for the respective financial years in accordance with the requirements. We conduct analyst and analysis and investor discussions and also report on business performance in analyst conference calls. With our financial calendar published in the Annual Report and on the Internet on our homepage, we inform our shareholders, shareholder associations, analysts and the media of all other recurring key dates.

Corporate bodies

The Board of Management and the Supervisory Board are constituted according to legislation governing German stock corporations. Under this regime the Board of Management directs the Company; the Supervisory Board advises the Board of Management and supervises its management activity. Members of the Supervisory Board and the Board of Management are appointed and dismissed in accordance with the provisions of stock corporation law (Supervisory Board: section 101 et seq. of the German Stock Corporation Act (Aktiengesetz, AktG); Board of Management: section 84 AktG) and the German Co-Determination Act (Mitbestimmungsgesetz, MitbestG).

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 employee and shareholder representatives (16) and held five meetings in 2018 (2017: four meetings). The last election of the shareholder representatives to the Supervisory Board took place as scheduled at the Annual General Meeting on 10 June 2015. The five-year term of office of the Supervisory Board ends upon conclusion of the Annual General Meeting resolving on the formal approval of the actions of the Supervisory Board for financial year 2019. The Articles of Association provide for an age limit of 75 years for members. New members of the employee representatives on the Supervisory Board are Ms. Natascha Weihs since 1 January 2018

(as substitute member for Ms. Bettina Böttcher, who left the Supervisory Board on 31 December 2017) and Mr. Oliver Salomon since 1 March 2018 (as substitute member for Mr. Björn Borgmann, who left the Supervisory board on 28 February 2018). Currently, 43.8% of the Supervisory Board is comprised of women and 56.2% of men. The Terms of Reference of the Supervisory Board provide for the formation of committees. In 2018 there were seven standing committees: the Mediation Committee, Personnel Affairs Committee, Audit Committee, the Investment, Strategy and Finance Committee, as well as the Committee for Compliance and Communication as committees with power to adopt resolutions, as defined in section 107 (3) AktG, and the Nomination Committee and Medical Innovation and Quality Committee. The respective committee chairmen report at regular intervals to the Supervisory Board on the work of the committees.

Terms of Reference have been adopted for the activities of the Board of Management as well as of the Supervisory Board, including cooperation between these two bodies.

The Board of Management of RHÖN-KLINIKUM AG is responsible for directing the Company. In accordance with the Terms of Reference, its business operations are carried out under joint responsibility. The Board of Management reports regularly, without delay and comprehensively to the Supervisory Board on all significant issues relating to the business development and position of the Group and its subsidiaries. On 28 March 2018, the Supervisory Board resolved unanimously to remove Dr. Dr. Martin Siebert as member of the Board of Management of the Company with immediate effect and unanimously appointed Dr. Gunther K. Weiß as member of the Board of Management with effect from 1 May 2018 to 31 December 2021. The responsibilities within the Board of Management were adjusted accordingly and the Terms of Reference updated. The Board of Management of RHÖN-KLINIKUM AG is thus currently composed of three members: Mr. Stephan Holzinger, Chairman of the Board of Management and Chief Financial Officer (CEO/CFO), Prof. Dr. Bernd Griewing, Chief Medical Officer (CMO), and Dr. Gunther K. Weiß, Chief Operating Officer (COO).

Remuneration Report

In the Remuneration Report, the principles applied in determining the remuneration of the Board of Management of RHÖN-KLINIKUM AG are summarised. Moreover, the structure and amount of the payments of the Board of Management as well as the principles and amount of the remuneration of the Supervisory Board are explained.

In 2018 the remuneration of the Board of Management is made up of fixed and variable components. The remuneration of the Supervisory Board exclusively comprises fixed components. The payments of each member of the Supervisory Board and the Board of Management, broken down into their components, are set out in tabular form in the Group Management Report.

Remuneration of the Board of Management

The Supervisory Board has established in principle the remuneration scheme for the Board of Management in the guidelines on the remuneration of the members of the Board of Management of RHÖN-KLINIKUM AG (Remuneration Guidelines).

The aggregate remuneration of the members of the Board of Management is comprised of several remuneration components. Specifically, the remuneration is comprised of the base salary, the management profit sharing bonus, fringe benefits (non-cash benefits), as well as partly a long-term share price-based remuneration and a contingent retirement benefit.

As a result of the Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG), which entered into force on 5 August 2009, the plenary session of the Supervisory Board is responsible for defining the individual remuneration of the Board of Management after preparation by the Personnel Affairs Committee.

Essential provisions of Board of Management remuneration scheme

As specified by the remuneration scheme, the total payments of the members of the Board of Management are defined and reviewed by the Supervisory Board giving due regard to the criteria for assessing the reasonable and customary level of remuneration as well as the duties of each individual member of the Board of Management, to such member's personal performance, as well as to the economic position and success of the Company. Moreover, the total payments are not to exceed the customary level of remuneration unless there are special grounds for doing so. If the Company's economic position deteriorates, the Supervisory Board will lower the total payments subject to the provisions of section 87 (2) AktG if continuation of such total payments would be unreasonable.

The remuneration of the members of the Board of Management is comprised of a non-results-based and a results-based component as well as short-term and long-term incentives. The non-results-based part is comprised of the basic salary and fringe benefits, and the results-based component covers a management profit sharing component. Provisions for a minimum remuneration and for a cap on total remuneration have been put in place to compensate for unexpected earnings developments. Moreover, there is a long-term share-based remuneration (virtual stock options) for some former members of the Board of Management which is tied to a long-term development of the RHÖN-KLINIKUM AG share and is disclosed in the Group Management Report. The contingent retirement benefits are always based on the annual remuneration at the time when the service relationship is terminated. These benefits are thus influenced by the non-results-based and results-based components of the remuneration scheme.

The basic salary as a rule is € 192,000 p.a. and is paid out as non-performance-linked remuneration in twelve equal monthly instalments. The Chairman of the Board of Management is normally entitled to 1.5 times to twice said standard salary or currently a fixed annual basic salary. Any permanent representative of the Chairman of the Board of Management can receive a 10% higher basic salary for this. The members of the Board of Management also receive additional non-cash benefits essentially consisting of the value determined by the tax guidelines for use of a company car, the insurance premiums for accident insurance, moving expenses and the D&O insurance. Since use of a company car and the accident insurance premiums are remuneration components, each individual member of the Board of Management has to pay tax on these benefits. As a general rule, all members of the Board of Management are entitled to these in the same way, the amount of which varies depending on the member's personal situation.

The managing profit sharing element represents the results-based component of the remuneration. The multi-year or one-year assessment basis for its level is the development of the consolidated result after minority interests in accordance with the currently applicable IFRSs as the reference value. In the event that the consolidated result has been influenced by extraordinary developments, the one-off impacts of such developments are not included. The calculation of the management profit sharing bonuses is adjusted to the changed circumstances of the Group. The provisions for the management profit sharing bonuses of the members of the Board of Management holding office in the 2018 financial year comprised the following elements:

The assessment basis of the management profit sharing bonuses follows from the average of consolidated results of the last three financial years weighted by the factors of 3, 2 and 1. The consolidated results which are furthest in the past are weighted with the lowest factor. The assessment basis for the Chairman of the Board of Management is calculated from the consolidated result of the year less a fixed pre-determined basic amount. The consolidated result used as a basis is the consolidated result after minority interests in accordance with the currently applicable IFRSs. In the event that the consolidated result has been influenced by extraordinary developments, the one-off impacts of such developments are eliminated. The rate of management profit sharing is defined by the Supervisory Board individually for each member of the Board of Management on recommendation by the Personnel Affairs Committee, giving due regard to the performance, duties and number of terms of office. Normally, the Chairman of the Board of Management receives 1.5 times to twice the rate of management profit sharing. For members and in particular deputy members who have been appointed to the Board of Management for the first time, it is possible to agree on an appropriate reduction in the rates of management profit sharing. This option exists when justified by special grounds, also for the other members of the Board of Management.

As of financial year 2016, the members of the Board of Management receive a guaranteed total annual remuneration (sum of base salary and management profit sharing) of at least € 600 thousand. The caps are each represented individually. The guaranteed total remuneration for the year is paid out in advance in twelve equal monthly instalments. As a general rule, the minimum remuneration and the cap can be fixed at up to 2.5 times these amounts for the Chairman of the Board of Management and at up to twice these amounts for his permanent representative and the Chief Financial Officer (CFO). In the event of a change of control at the level of RHÖN-KLINIKUM AG, the Chairman of the Board of Management has the right, within a period of four months, to resign from his Board of Management position and to give notice of termination of his service contract subject to a defined severance package.

In 2014, members of the Board of Management holding office during that year were granted an incentive programme of virtual shares. This was a long-term share-based remuneration component. The aim was to support the Company's re-orientation in the long term. Each incumbent member of the Board of Management in 2014 received vested virtual shares participating in all capital-adjustment measures and dividends. After five years (as calculated from 2014), the members of the Board of Management will be remunerated for the virtual shares remaining at that time at the then applicable market price.

If a service contract of a member of the Board of Management ends without this being attributable to good cause in the person of such member, or in the event of decease of the member of the Board of Management during such member's term of office, the member of the Board of Management receives (or, in the event of decease, that member's heirs receive) an old-age pension benefit in the form of a one-off payment. For each full year of work as member of the Board of Management, this benefit amounts to 0.125 times the annual payments (annual basic salary plus management profit sharing excluding virtual shares) for the calendar year in which such member leaves the Board of Management or deceases – not more than 1.5 times

such latter payments, but at least 1.5 times the average remuneration during the contractual term for the term of work for the Board of Management. The retirement benefit is due and payable six months after the close of the financial year in which the service contract ends or the member of the Board of Management has deceased. As a rule, no old-age pension benefit is granted if a member of the Board of Management terminates the service contract of his/her own accord before reaching the age of 60 for a reason not attributable to the Company, or does not renew the service contract despite having received an offer for a renewal.

If a member of the Board of Management having terminated their activity on the Board of Management without good cause is granted severance compensation, the amount of such benefit including the additional benefits may not exceed the value of two years' remuneration and may not provide remuneration for more than the remaining term of the service contract.

Currently, pension commitments, loans and similar benefits are not granted to the members of the Board of Management.

In the 2018 financial year, the payments of the members of the Board of Management holding office as at the balance sheet date totalled € 3.9 million (previous year: € 4.8 million). Of this total, € 2.2 million (previous year: € 2.3 million) was accounted for by components that are not results-based and € 1.7 million (previous year: € 2.5 million) by variable components. The provision for claims to post-retirement benefits by the incumbent Board of Management in accordance with IFRS amounted to € 1.0 million (previous year: € 1.8 million) as at 31 December 2018. The remuneration of the members of the Board of Management no longer holding office as at the balance sheet date or their surviving dependants totalled € 3.7 million in financial year 2018 (previous year: € 2.8 million).

The total payments of the Board of Management break down as follows:

in € '000

Incumbent member of Board of Management	Stephan Holzinger (Chairman of Board of Management)					
	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	1,800	1,650	1,800	1,800	1,800	1,650
Fringe benefits	16	10	16	16	16	10
Total	1,816	1,660	1,816	1,816	1,816	1,660
One-year variable remuneration						
Management profit sharing	216	0	0	1,000	0	0
Total payments	2,032	1,660	1,816	2,816	1,816	1,660
Pension expense ¹	239	0	239	239	239	0
Total remuneration	2,271	1,660	2,055	3,055	2,055	1,660

¹ Pension expenditure includes past service cost according to IAS 19.

in € '000

Incumbent member of Board of Management

Prof. Dr. Bernd Griewing (member of Board of Management)

	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	12	11	12	12	12	11
Total	204	203	204	204	204	203
One-year variable remuneration						
Management profit sharing	1,008	1,008	1,008	1,308	1,008	1,008
Total payments	1,212	1,211	1,212	1,512	1,212	1,211
Pension expense ¹	158	135	158	158	158	135
Total remuneration	1,370	1,346	1,370	1,670	1,370	1,346

¹ Pension expenditure includes past service cost according to IAS 19.

in € '000

Incumbent member of Board of Management

Dr. Gunther K. Weiß (member of Board of Management since 1 May 2018)

	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	128	0	128	128	128	0
Fringe benefits	8	0	8	8	8	0
Total	136	0	136	136	136	0
One-year variable remuneration						
Management profit sharing	472	0	472	872	472	0
Total payments	608	0	608	1,008	608	0
Pension expense ¹	79	0	79	79	79	0
Total remuneration	687	0	687	1,087	687	0

¹ Pension expenditure includes past service cost according to IAS 19.

in € '000

Former member of Board of Management

Dr. Dr. Martin Siebert (member of Board of Management until 28 March 2018)

	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	96	384	96	96	96	384
Fringe benefits	5	10	5	5	5	10
Total	101	394	101	101	101	394
One-year variable remuneration						
Management profit sharing	279	1,116	279	654	279	1,116
Multi-year variable remuneration						
Virtual share options	0	379	0	1,043	20	32
Total payments	380	1,889	380	1,798	400	1,542
Pension expense ¹	48	213	48	48	48	213
Total remuneration	428	2,102	428	1,846	448	1,755

¹ Pension expenditure includes past service cost according to IAS 19.

in € '000

Former member of Board of Management

Martin Menger (member of Board of Management until 23 February 2017)

	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	0	32	0	0	0	32
Fringe benefits	0	5	0	0	0	5
Total	0	37	0	0	0	37
One-year variable remuneration						
Management profit sharing	0	68	0	0	0	68
Multi-year variable remuneration						
Virtual share options	0	379	0	1,043	20	32
Total payments	0	484	0	1,043	20	137
Pension expense ¹	0	94	0	0	0	94
Severance payments	0	1,496	0	0	0	1,496
Total remuneration	0	2,074	0	1,043	20	1,727

¹ Pension expenditure includes past service cost according to IAS 19.

in € '000

Former member of Board of Management

Jens-Peter Neumann (member of Board of Management until 23 February 2017)

	Inducements granted				Inflow	
	2018	2017	2018 (min.)	2018 (max.)	2018	2017
Base salary (fixed remuneration)	0	35	0	0	0	35
Basic salary (arrears payment for the previous year)	901	0	901	901	901	0
Fringe benefits	0	3	0	0	0	3
Total	901	38	901	901	901	38
One-year variable remuneration						
Management profit sharing	0	165	0	0	0	165
Multi-year variable remuneration						
Virtual share options	0	379	0	1,043	52	0
Total payments	901	582	901	1,944	953	203
Pension expense ¹	0	154	0	0	1,050	154
Severance payments	2,400	0	2,400	2,400	2,400	0
Total remuneration	3,301	736	3,301	4,344	4,403	357

¹ Pension expenditure includes past service cost according to IAS 19.

In financial year 2014, RHÖN-KLINIKUM AG, by agreements entered into in May 2014, granted the three members of the Board of Management who were active members in financial year 2014 warrants in the form of virtual shares. The virtual shares are vested. The commitments have a term running until June 2019. Payment of the virtual shares granted shall be made at the average price of the previous three months before the end of the term, with the payment per virtual share being limited to € 40. According to IFRS 2, this plan is to be treated as a cash-settled plan and thus accounted for as a payment with cash settlement. The provision for the liability resulting from the virtual shares was formed in the amount of the expected expenditure. The fair value of the virtual shares in the amount of € 6.0 million is calculated with the aid of a binomial model.

An equity interest of 3.0% (previous year: 6.0%) was held by the incumbent and former members of the Board of Management, and an interest of 3.2% (previous year: 1.2%) by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made on founding of the company for the interests in the amount of € 0.3 million (previous year: € 0.4 million) – of which € 0.1 million (previous year: € 0.3 million) is attributable to the members of the Board of Management) – are reported under the other liabilities item as share-based remuneration as defined in IFRS 2 (cash-settled share-based payment transactions). The result for the period of the reporting year does not contain

any income or expenses in this connection. In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. Moreover, the option of returning the interests on termination of the service relationship exists. In 2018, one employee made use of this provision. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable. No expenses as part of this remuneration were incurred during the reporting period.

On termination of their service contracts, the board members receive a post-retirement benefit 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 (twelve 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 have been formed for post-employment benefits:

in € '000

	Provision as at 31 Dec. 2017	Change in retirement benefits	Provision as at 31 Dec. 2018	Nominal amount on contract expiry ¹
Retirement benefits				
Incumbent members of the Board of Management				
Stephan Holzinger	215	255	470	1,125
Prof. Dr. Bernd Griewing	316	153	469	750
Dr. Gunther K. Weiß	0	79	79	413
Total	531	487	1,018	2,288

¹ Claim according to expiry of service contract of the incumbent members of the Board of Management based on remuneration.

in € '000

	Provision as at 31 Dec. 2017	Change in retirement benefits	Provision as at 31 Dec. 2018
Retirement benefits			
Former members of the Board of Management			
Dr. Dr. Martin Siebert (until 28 March 2018)	1,001	180	1,181
Jens-Peter Neumann (until 23 February 2017)	756	-756	0
Total	1,757	-576	1,181

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is governed by section 14 of the Articles of Association. The remuneration is performance-linked, taking into account of the amount of time worked, the duties and the functional responsibilities assumed by the members of the Supervisory Board. The remuneration of the Supervisory Board is comprised of a fixed basic remuneration, a fixed attendance fee as well as a share in the annual fixed total remuneration.

The fixed basic remuneration is € 40 thousand for each full financial year. The Chairman of the Supervisory Board receives three times, and the deputy chairmen of the Supervisory Board twice the amount of the fixed basic remuneration. In the case of the fixed basic remuneration, a share of € 20 thousand is conditional on attendance of the plenary sessions and the Annual General Meeting. For each non-attendance, this share is reduced by one fifth.

For their participation in person in a meeting of the Supervisory Board, of a committee and of an Annual General Meeting, each member of the Supervisory Board receives a fixed attendance fee of € 2 thousand. The Chairperson of the Supervisory Board and the deputy Chairpersons of the Supervisory Board shall receive double the amount of the fixed attendance fee. Chairpersons of Supervisory

Board committees with power to adopt resolutions on behalf of the Supervisory Board shall also receive twice the aforementioned amount unless they hold office as Chairman of the Supervisory Board or deputy Chairman of the Supervisory Board at the same time. If a Supervisory Board member chairs several committees with power to adopt resolutions, he shall receive double the amount only once. Supervisory Board members belonging to the Supervisory Board during only part of the financial year receive a pro rata remuneration.

Moreover, the members of the Supervisory Board receive overall a fixed total remuneration equal to € 800 thousand per year. This fixed total remuneration is distributed amongst the individual members of the Supervisory Board in accordance with the terms of remuneration issued by the Supervisory Board. In addition to the responsibility assumed, this duly reflects in particular also the time devoted by the individual member as well as the fluctuating workload of the members of the Supervisory Board during the course of the year.

All expenditures which members of the Supervisory Board incur in the performance of their mandate as well as the VAT payable on the payments are reimbursed. The Company's chauffeur service and an office including a secretariat are made available to the Chairman of the Supervisory Board. No loans are granted by the Company to

the members the Supervisory Board. In the 2018 financial year, the remuneration of the active members of the Supervisory Board was € 2.0 million (previous year: € 2.0 million). The total amount in 2018 was completely accounted for by fixed remuneration components.

Expenses (excluding VAT) for members of the Supervisory Board break down as follows:

in € '000					
Total payments	Fixed basic remuneration	Fixed attendance fee	Fixed total remuneration	Total 2018	Total 2017
Eugen Münch	120	36	201	357	368
Georg Schulze-Ziehaus	80	32	26	138	150
Wolfgang Mündel	80	48	173	301	300
Dr. Annette Beller (since 22 March 2017)	40	56	76	172	112
Peter Berghöfer	40	20	40	100	102
Björn Borgmann (until 28 February 2018)	6	4	7	17	69
Prof. Dr. h. c. Ludwig Georg Braun	36	14	23	73	90
Prof. Dr. Gerhard Ehninger	36	8	10	54	70
Stefan Härtel	40	16	26	82	90
Klaus Hanschur	40	16	26	82	75
Meike Jäger	36	18	37	91	102
Dr. Brigitte Mohn	36	10	10	56	63
Christine Reißner	40	20	40	100	100
Oliver Salomon (since 1 March 2018)	34	10	15	59	0
Evelin Schiebel	40	18	22	80	82
Dr. Katrin Vernau	40	26	46	112	112
Natascha Weihs (since 1 January 2018)	40	18	22	80	0
Bettina Böttcher (until 31 December 2017)	0	0	0	0	74
Stephan Holzinger (until 31 January 2017)	0	0	0	0	8
	784	370	800	1,954	1,967

Shareholdings of members of corporate bodies

As at 31 December 2018, the members of the Supervisory Board and the Board of Management and their related parties together held, pursuant to Article 19 of the Market Abuse Regulation (MAR), roughly 45% of the Company's registered share capital, of which the Supervisory Board and its related parties account for roughly 45% of the shares in issue. The members of the Board of Management and their related parties do not hold any interests in the registered share capital.

We continue to disclose all transactions of members of the Board of Management and the Supervisory Board which are subject to notification pursuant to Article 19 of the MAR.

Contracts containing a change-of-control clause

The company purchase agreements of the hospitals acquired by us contain provisions according to which, subject to the condition of a change of control as a result of a takeover bid for RHÖN-KLINIKUM AG, a re-transfer of the company shares can be demanded. This rings true in particular for Universitätsklinikum Gießen und Marburg GmbH up to the end of 2019. Likewise, various contracts relating to financial instruments exist in which the lenders may demand immediate repayment in the event of a change of control. Furthermore, the Chairman of the Board of Management of RHÖN-KLINIKUM AG, in the event of a change of control at the level of RHÖN-KLINIKUM AG, has the right, within a period of four months, to resign from his Board of Management position and to give notice of termination of his service contract subject to a defined amount of severance compensation. Beyond

that there are no agreements from which the Board of Management or employees may establish claims to compensation in the event of a company takeover.

1.9 Declaration on Corporate Governance

The Declaration on Corporate Governance, in addition to the Declaration of Compliance of the Board of Management and the Supervisory Board pursuant to section 161 AktG, also contains information on corporate governance practices, the work approach of the Board of Management and the Supervisory Board as well as the committees established by them, and the report on equal participation of men and women in management positions as well as the diversity concept.

For further details please visit our website where the Declaration on Corporate Governance is made accessible to the public at www.rhoen-klinikum-ag.com under the Corporate Governance section.

2 | ECONOMIC REPORT

2.1 Macroeconomic conditions

The upswing in the German economy continued in 2018. According to initial calculations of the Federal Statistical Office (Destatis), price-adjusted gross domestic product (GDP) was up 1.5% in 2018 over the previous year.

Compared with the previous years, the pace of growth could no longer be sustained. In each of the past two years, price-adjusted GDP had risen by 2.2%. However, a longer-term view shows that German economic growth in 2018 was above the average of the past ten years of +1.2%.

Nearly all sectors of the economy made a positive contribution to economic performance in 2018. For the first time in five years, economic momentum in the manufacturing sector lagged behind that of the services sector.

The number of gainfully employed persons once again witnessed a positive trend, with 44.8 million people being employed in Germany. According to initial calculations, that is roughly 562,000 persons more than a year ago. The rise of 1.3% primarily stems from an increase in employment subject to social insurance contributions.

As in the previous years, the higher share of persons in employment as well as the immigration of workers from abroad compensated for age-related demographic effects. In 2018, the state generated a record surplus of € 59.2 billion (2017: € 34.0 billion). According to preliminary calculations, the federal government, federal states and municipalities ended the year with a surplus for the fifth time in a row. With reference to GDP in respective prices, this translates into a surplus ratio for the state of 1.7% in 2018.

2.2 Sector-specific conditions

Total costs of hospitals increased in 2017 by 4.0% to € 105.7 billion (2016: € 101.7 billion). This rise in costs essentially consists of a rise in personnel costs by 4.5% to € 63.8 billion (+4.5% over 2016) and material costs by 3.1% to € 39.1 billion (+3.1%). The change in personnel costs is attributable amongst other things to an increase in hospital employment figures.

In 2017, there were 1,942 hospitals in Germany (2016: 1,951). The 0.5% decrease in the number of facilities was accompanied by a fall in total beds capacity by 0.3% to 497,182 (2016: 498,718). Some 19.4 million patients (2016: 19.5 million) were treated in the hospitals as inpatients.

In 2017 the costs of inpatient hospital care stood at roughly € 91.3 billion, 3.9% more than in the previous year. Per-case inpatient costs increased by 4.4% to € 4,695 on average (2016: € 4,497).

The number of privately owned hospitals also grew over the previous year, by 1.8% to 720 facilities. The number of public and other non-profit hospitals witnessed a decline. In 2017, Germany had 560 public hospitals (2016: 570/-1.8%) and 662 other non-profit facilities (2016: 674/-1.8%).

Despite the good revenue situation, the hospitals' capital base continues to be unsatisfactory. Their annual investment requirement (excluding university hospitals) totals roughly € 5.8 billion. However, the federal states have only € 2.8 billion in available public grants, resulting in a funding gap of € 3 billion. This was the conclusion reached by the 14th Hospital Rating Report published in June 2018.

Demographic change is presenting big challenges for hospitals. The number of patients and those in need of nursing will continue to rise over the coming years. By 2025, 80,000 additional full-time employees are expected to be needed in the medical services of hospitals. At the same time, the number of people between the age of 20 and 65 will decrease, thus exacerbating the shortage in skilled staff and making it more difficult to cover the related staffing requirements.

Labour-saving technical innovations – innovations from the areas of digitalisation, telemedicine, artificial intelligence and robotic assistance – are becoming increasingly important when it comes to reducing the workload of doctors and nurses. Moreover, it is important to recruit more young employees for the healthcare sector, particularly in nursing. In addition to that, the number of persons returning to employment after a leave of absence and the immigration of qualified specialists must be stepped up.

2.3 Business performance

2.3.1 Overall statement on economic position

In the 2018 financial year, a total of 850,147 patients were treated in our hospitals and medical care centres (MVZs). Compared with the same period last year, this translates into a total increase of 13,760 patients or 1.6%. However, the trend throughout Germany away from inpatient care towards outpatient care is still continuing, also at our facilities.

The regulatory measures following the Act Reforming the Structures of Hospital Care (Krankenhausstrukturgesetz, KHSG) such as the reduction in remuneration for material cost-intensive services, in particular for cardiological and specialist orthopaedic services, as well as the fixed cost degression discount applicable since 1 January 2017, continue to put a drag on our organic development. A further burden also comes from the increasing inspection rate and more restrictive inspection practice of the Medical Review Board of the Statutory Health Insurance Funds (MDK). Moreover, the trend of a widening gap between revenues and costs that has persisted within the hospital sector for years continues to have an impact on the operating side. Our expertise in dealing with these regulatory framework conditions, our flexibility as well as our trailblazing role in innovation and digitalisation are the best means of holding our own in a challenging market environment.

Besides the regulatory challenges in the healthcare system, we are also feeling the increasing effects from the shortage of specialist staff to which we have responded and will continue to respond with numerous measures. We offer modern remuneration structures, an attractive work environment, in-house kindergartens at the hospitals, provision of affordable apartments, etc. in addition to a wide range of career options and benefits.

In 2018 we further pressed ahead with our core issues of the RHÖN Campus approach, digitalisation and the measures initiated in 2017 to consistently improve profitability. The RHÖN Campus approach, which integrates outpatient and inpatient services at one site and includes offerings tailored to the elderly such as rehabilitation and nursing, is being realised in its ideal form with the new RHÖN-KLINIKUM Campus Bad Neustadt opened at the turn of the year 2018/2019. The planned roll-out of our RHÖN Campus approach to other locations in Germany continues to be in full swing.

The improvement of profitability continues to be given high priority in our action plan. For example, we have optimised internal processes in our cooperation with MDK with a view to reducing losses of receivables. In addition, processes relating to patient documentation have been made more efficient. The use of intelligent software enables

patient-specific coding recommendations and coding clarifications by which the revenues for services rendered can be secured while complying with German coding guidelines.

2.3.2 Trend in service volumes

As at 31 December 2018, our consolidated financial statements included eleven hospitals with 5,369 beds/places at a total of five sites in four federal states.

	Hospitals	Beds
As at 1 January 2018	11	5,370
Change in capacities	-	-1
As at 31 December 2018	11	5,369

Of the change in capacities compared with 31 December 2017, -1 bed/place or -0.0% is accounted for entirely by our inpatient capacities:

	Approved beds/ places		Change	
	31 Dec. 2018	31 Dec. 2017	absolute	%
Inpatient capacities				
Acute hospitals	4,637	4,638	-1	0.0
Rehabilitation hospitals and other inpatient facilities	537	537	0	0.0
	5,174	5,175	-1	0.0
Semi-inpatient and day-clinical capacities	195	195	0	0.0
Total	5,369	5,370	-1	0.0

With the legal amalgamation of Herz- und Gefäß-Klinik GmbH Bad Neustadt and Neurologische Klinik GmbH Bad Neustadt/Saale as at 1 January 2018 as well as the implementation of the RHÖN Campus approach, the number of hospitals, based on hospital requirement planning as at 1 January 2019, decreased from eleven hospitals to eight hospitals and the number of beds/places from 5,369 beds/places to 5,297 beds/places.

As at 31 December 2018, we operate seven medical care centres with a total of 42.00 specialist practices:

	Medical care centres	Specialist practices
As at 31 December 2017	7	40.00
Opened/acquired		
MVZ Bad Berka	–	2.00
As at 31 December 2018	7	42.00

Patient numbers at our hospitals and medical care centres developed as follows:

January to December	2018	2017	Change	
			absolute	%
Inpatient and semi-inpatient treatments at our				
Acute hospitals	209,802	210,522	–720	–0.3
Rehabilitation hospitals and other facilities	4,900	4,954	–54	–1.1
	214,702	215,476	–774	–0.4
Outpatient attendances at our				
Acute hospitals	460,117	467,266	–7,149	–1.5
Medical care centres	175,328	153,645	21,683	14.1
	635,445	620,911	14,534	2.3
Total	850,147	836,387	13,760	1.6

A total of 850,147 (previous year: 836,387) patients were treated at our hospitals and medical care centres in the 2018 financial year (+13,760 patients or +1.6%). Whereas the number of patients treated on an outpatient basis rose by 14,534 or 2.3%, case numbers of patients treated on an inpatient and semi-inpatient basis declined slightly by –774 or –0.4%. The trend towards outpatient care in the entire German hospital sector and also in our facilities is still continuing.

Per-case revenues in the inpatient and outpatient area were as follows:

in €			
January to December	2018		2017
Per-case revenue			
Inpatient (€)	5,242		5,149
Outpatient (€)	169		164

Compared with the previous year, per-case revenue rose in the 2018 financial year by 1.8% in the inpatient area and by 3.0% in the outpatient area.

2.3.3 Results of operations

For computational reasons rounding differences of ± one unit (€, %, etc.) may occur in the tables below. If data is provided below on individual companies, these are values before consolidation.

Consolidated performance figures developed as shown below:

in € million					
January to December	2018	2017	Change		
			absolute	%	
Income					
Revenues	1,232.9	1,211.1	21.8	1.8	
Other income	183.4	151.9	31.5	20.7	
Total	1,416.3	1,363.0	53.3	3.9	
Expenditure					
Materials and consumables used	372.4	347.6	24.8	7.1	
Employee benefits expense	796.1	787.9	8.2	1.0	
Other expenditure	122.1	129.7	–7.6	–5.9	
Result of impairment on financial assets	0.2	–	0.2	n.a.	
Total	1,290.8	1,265.2	25.6	2.0	
EBITDA	125.5	97.8	27.7	28.3	
Depreciation/amortisation and impairment	60.6	59.1	1.5	2.5	
EBIT	64.9	38.7	26.2	67.7	
Finance result	1.7	1.6	0.1	6.2	
EBT	63.2	37.1	26.1	70.4	
Income taxes	12.0	0.4	11.6	n.a.	
Consolidated profit	51.2	36.7	14.5	39.5	

In the 2018 financial year we recorded a rise in EBITDA by € 27.7 million or 28.3% to € 125.5 million, a rise in EBIT by € 26.2 million or 67.7% to € 64.9 million, as well as a rise in consolidated profit by € 14.5 million or 39.5% to € 51.2 million compared with the previous year. In this context it has to be kept in mind that the agreement on separate accounting between RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg, the Federal State of Hesse and the two Universities of Gießen and Marburg took effect in the 2018 financial year and that as a result our key figures are positively impacted to the tune of a one-off amount of roughly € 20.0 million before tax.

Our key figures developed as follows:

in %	2018	2017
EBITDA margin, adjusted	10.4	8.1
EBITDA margin	10.2	8.1
EBIT margin	5.3	3.2
EBT margin	5.1	3.1
Return on revenues	4.2	3.0
Return on equity (after taxes)	4.5	3.3

The EBITDA margin of the 2018 financial year, adjusted for the invoicing of an additional remuneration component for the medicamentous treatment of SMA (spinal muscle atrophy) remunerated in addition to the relevant DRG and burdening the item materials and consumables by the same amount, is 10.4% (previous year: 8.1%).

Our ratios, with reference to revenues, developed as follows:

in %	2018	2017
Materials ratio	30.2	28.7
Personnel ratio	64.6	65.0
Other cost ratio	9.9	10.7
Depreciation and amortisation ratio	4.9	4.9
Finance result ratio	0.2	0.1
Effective tax ratio	0.9	0.1

Compared with the same period last year, revenues witnessed a rise of € 21.8 million or 1.8%. In this regard it has to be kept in mind that revenues of the 2018 financial year are being burdened by implementation of the provisions of IFRS 15, subject to mandatory adoption as of 1 January 2018. As a result of this, revenue reductions due to verity risks previously reported under depreciation on receivables are no longer reported under the other expenses item but included in the realisation of revenues. In the previous year these revenue reductions were essentially reported under other expenses. In addition, revenues of the 2018 financial year have been helped by the invoicing of an additional remuneration component for the medicamentous treatment of SMA, which is remunerated in addition to the relevant DRG and burdens by the same amount as the item materials and consumables used. Moreover, the trend of a widening gap between revenues and costs that has persisted for years is continuing and has intensified compared with previous years. Personnel and material expenses in some cases are offset only partly by refinanced revenues and service volumes are not adequately remunerated.

The rise in other income by € 31.5 million or 20.7% is essentially attributable to the agreement reached on separate accounting.

The cost of materials increased disproportionate to revenues by € 24.8 million or 7.1% from € 347.6 million to reach € 372.4 million, and the materials ratio worsened from 28.7% to 30.2%. The rise includes expenditures for the medicamentous treatment of SMA, which are remunerated in the same amount and reported under revenues. Adjusted for this effect, the materials ratio is at the previous year's level of 28.7%.

Employee benefits expenses saw a rise of € 8.2 million or 1.0% compared with last year. The personnel expense ratio declined from 65.0% to 64.6%. In this regard it has to be taken into account that employee benefits expenses of the 2018 financial year include positive effects from separate accounting in the mid-single-digit € range and that the figure for employee benefits expenses of financial year 2017 included one-off expenditures from changes in the Board of Management in the mid-single-digit € million range.

The other expenses item declined by € 7.6 million or 5.9% primarily as a result of the implementation of IFRS 15 provisions subject to mandatory adoption from 1 January 2018. In the 2018 financial year, these will be reported under revenues. The other expense ratio declined from 10.7% to 9.9%.

The negative result from the impairment on financial assets in the amount of € 0.2 million results from IFRS 9, subject to first-time mandatory adoption as of 1 January 2018, which among other things governs the future expected losses of financial assets.

At a nearly constant depreciation rate of 4.9% compared with the previous year, depreciation/amortisation/impairments increased in the 2018 financial year by € 1.5 million or 2.5% to € 60.6 million. This was essentially owing to our investments at the Gießen, Marburg and Frankfurt (Oder) sites.

The negative finance result deteriorated slightly by € 0.1 million to € 1.7 million. Whereas finance expenses rose by € 1.2 million as a result of availability fees for the promissory note issued in October 2018 as well as a recognised impairment on loans in the amount of € 1.1 million relating to an associated company, the loss shares in companies consolidated using the equity method were reduced by € 1.5 million. Moreover, finance income declined by € 0.3 million as a result of a lower investment volume. Expenses from the impairment on financial assets resulting from IFRS 9 subject to mandatory adoption for the first time as of 1 January 2018 were recognised in the amount of € 0.1 million.

At an unchanged rate of taxation, the income tax expense item rose by € 11.6 million to € 12.0 million (previous year: € 0.4 million) compared with the same period of the previous year on the back of a higher taxable result.

Consolidated profit rose by € 14.5 million to € 51.2 million (previous year: € 36.7 million). Profit attributable to non-controlling interests increased compared with the same period last year by € 0.6 million to € 2.2 million.

With revenues of € 1.23 billion, we met our forecast for revenues for 2018 made in the 2017 Group Management Report of € 1.24 billion within a range of plus or minus 5%. We also met the forecast for EBITDA made in the 2017 Group Management Report for the 2018 financial year of between € 117.5 million and € 127.5 million with the actual figure of € 125.5 million.

The interest of RHÖN-KLINIKUM AG shareholders in profit for the 2018 financial year increased to € 49.0 million (previous year: € 35.2 million) compared with the previous year. This translates into earnings per share of € 0.73 (previous year: € 0.53) in accordance with IAS 33.

The total result (sum of consolidated profit and other earnings) for the 2018 financial year stands at € 51.1 million (previous year: € 36.8 million). In this connection, losses from changes in fair value through other comprehensive income (FVOCI) in the amount of € 0.4 million (previous year: € 0.0 million) as well as gains from the revaluation of defined benefit pension plans amounting to € 0.3 million after tax (previous year: gains of € 0.1 million after tax) had to be recognised directly at equity.

2.3.4 Net assets and financial position

in € million

	31 Dec. 2018		31 Dec. 2017	
		%		%
ASSETS				
Non-current assets	1,039.6	65.4	968.8	65.8
Current assets	549.7	34.6	502.6	34.2
	1,589.3	100.0	1,471.4	100.0
EQUITY AND LIABILITIES				
Equity	1,159.2	72.9	1,125.3	76.5
Long-term loan capital	116.9	7.4	25.2	1.7
Short-term loan capital	313.2	19.7	320.9	21.8
	1,589.3	100.0	1,471.4	100.0

Compared with the balance sheet date of 31 December 2017, the balance sheet total rose by € 117.9 million or 8.0% to € 1,589.3 million (previous year: € 1,471.4 million). The rise is attributable in particular to the promissory note issued in October 2018, which resulted in an increase in current assets on the assets side and an increase in long-term debt capital in the amount of € 99.5 million on the liabilities side. Our non-current assets increased essentially as a result of our investment programmes being realised with an effect on liquidity.

The equity capital ratio saw a decline compared with the last reporting date, from 76.5% to 72.9%, but remains at a very high level. The decline is attributable to the rise in the balance sheet total essentially resulting from the issue of promissory note in October 2018. Equity now stands at € 1,159.2 million (previous year: € 1,125.3 million). The increase in equity capital compared with the reporting date

of 31. December 2017 by € 33.9 million results from consolidated profit of the 2018 financial year (€ 51.2 million) as well as from gains from the revaluation of defined benefit pension plans (€ 0.3 million). This was counteracted by distributions to RHÖN-KLINIKUM AG shareholders and non-controlling interests in profit amounting to € 16.0 million as well as losses from the change in fair value through other comprehensive income (FVOCI) in the amount of € 0.4 million. At the initial adoption date of 1 January 2018 for IFRS 9, a decline in financial assets without effect on the income statement occurred in connection with the inclusion of the future expected loss of financial assets. This likewise resulted in a decline in equity by € 1.2 million.

A total of 122.7% (previous year: 118.8%) of non-current assets is nominally covered by equity and non-current liabilities at fully matching maturities. As at 31 December 2018, we report net liquidity of € 141.2 million (31 December 2017: € 253.7 million). Net liquidity is calculated as follows:

in € million		
	31 Dec. 2018	31 Dec. 2017
Current cash	132.3	122.5
Current fixed term deposits	114.4	105.1
Non-current fixed term deposits	0.0	30.0
Cash, fixed term deposits	246.7	257.6
Current financial liabilities	0.3	–
Non-current financial liabilities	99.5	–
Finance lease liabilities	5.7	3.9
Financial liabilities	105.5	3.9
Net liquidity	141.2	253.7

The origin and appropriation of our liquidity are shown in the following overview:

in € million		
January to December	2018	2017
Cash generated from (+)/cash used in (–) operating activities	49.5	80.3
Cash generated from (+)/cash used in (–) investing activities	–125.0	–2.9
Cash generated from (+)/cash used in (–) financing activities	85.3	–35.7
Change in cash and cash equivalents	9.8	41.7
Cash and cash equivalents as at 1 January	122.5	80.8
Cash and cash equivalents as at 31 December	132.3	122.5

Cash and cash equivalents increased in the 2018 financial year by € 9.8 million (change in financial year 2017: + € 41.7 million).

The change in cash and cash equivalents compared with the period of the previous year is attributable amongst other things to the difference in cash generated from/cash used in financing activities resulting from the issue of the promissory note and cash generated in the amount of € 99.5 million in the 2018 financial year. This was offset by the increase in cash used in investing activities as a result of € 47.6 million higher investments in property, plant and equipment as well as in intangible assets, and by € 80.0 million lower cash generated from fixed deposit investments. Furthermore, the cash and cash equivalents item was also impacted by the declining level of cash generated from operating activities as a result of advance payments on tax and the change in terms of payment of the university hospitals in Gießen and Marburg as a result of the agreement reached on separate accounting.

The finance management department of RHÖN-KLINIKUM Group is essentially centrally organised and encompasses the functions of raising capital, capital investment, Group-internal liquidity management as well as settlement. The processes implemented give due regard to the fundamental principles of checks performed by a second person, segregation of functions as well as transparency. We have established the finance management department as a service provider within our business model.

Our finance management has to deal with the competing goals of securing liquidity, minimising risk, and ensuring profitability and flexibility.

In this regard, top priority is given to securing liquidity with the objective of fixing terms at matching maturities and in line with the Company's planning and project horizon. To secure the Company's liquidity, internal cash flows are available. Cash is invested on extremely conservative terms.

As at the balance sheet date, we have cash investments available in the short term as well as available credit lines together amounting to roughly € 375.3 million.

2.3.5 Investments

Aggregate investments of € 187.2 million (previous year: € 122.4 million) in the 2018 financial year are shown in the following table:

in € million			
	Use of govt grants	Use of own funds	Total
Current investments	17.4	169.2	186.6
Takeovers	–	0.6	0.6
Total	17.4	169.8	187.2

During the 2018 financial year, we invested a total of € 187.2 million (previous year: € 122.4 million) in intangible assets, in property, plant and equipment as well as in investment property. Of this total, € 17.4 million (previous year: € 15.5 million) relates to capital expenditure funded under the Hospital Financing Act (KHG), with the grants being reflected as a deduction from acquisition cost.

In the consolidated financial statements we report net investments of € 169.8 million (previous year: € 106.9 million). Current capital expenditure accounted for € 169.2 million (previous year: € 105.7 million) and assets and specialist practices acquired on takeovers for € 0.6 million (previous year: € 1.2 million) of total net investments during the year under review.

An analysis of investments financed from company funds by site in the 2018 financial year is given below:

in € million	
Bad Neustadt a. d. Saale	131.8
Gießen, Marburg	23.8
Frankfurt (Oder)	9.4
Bad Berka	4.8
Total	169.8

Investments financed from Company funds are dominated by our campus new build in Bad Neustadt a. d. Saale.

The agreement with the Federal State of Hesse in connection with the financing of the services to be rendered for research and teaching at the Group's university hospitals provides for investment commitments in the total amount of € 100.0 million over the next five years. As at the balance sheet date of 31 December 2018, there were investment obligations totalling € 100.0 million.

As at the balance sheet date, we do not have any investment obligations under company acquisition agreements entered into.

2.3.6 Employees

On 31 December 2018, the Group employed 16,985 persons (31 December 2017: 16,688):

Number	
As at 31 Dec. 2017	16,688
Change in employees at hospital companies	226
Change in employees at medical care centre companies	26
Change in employees at service companies	45
As at 31 Dec. 2018	16,985

In this increase by 297 versus the reporting date of 31 December 2017, 226 persons were added as a result of staffing increases at our hospitals, 26 persons as a result of staffing changes in our MVZ companies, and 45 persons as a result of staffing increases at our service companies.

Doctors accounted for 15.3% (previous year: 15.6%) of the total headcount on the reporting date, while nursing and medical-technical staff accounted for 55.7% (previous year: 55.5%). On average over the year, we recorded a rise of 0.7% in full-time staff. The share of women is around 73% (previous year: roughly 73%).

3 | FORECAST REPORT

3.1 Strategic objectives

RHÖN-KLINIKUM AG pursues the objective of continuing to take new paths and to uphold the standard of offering patients the best medical care, diagnosing and treating patients with the latest, scientifically sound therapy procedures with state-of-the-art medical technology. At the same our employees provide them with the best possible nursing and care. Our corporate activities are essentially aimed at keeping the Company lean and agile, promoting exchange of knowledge and experience and offering market-oriented services at a high-quality level.

Also in future, our aim is to continue to be one of the largest hospital operators in Germany. At the forefront of our activities is strengthening treatment excellence and patient care by implementing the campus approach and focusing on digitalisation and network medicine.

With our RHÖN Campus approach, the digital transformation of our Company and telemedicine, we believe that we have the right strategy to continue enjoying a leading position on a healthcare market characterised by regulatory intervention. In this context, the RHÖN Campus approach is pursuing a new, highly efficient and modern form of healthcare delivery particularly in rural regions. We consistently seek a cross-sector networking with doctors as well as healthcare service providers in the respective region. Outpatient and inpatient offerings are being closely integrated with numerous medical services and care offerings which up to now had been separated both spatially and in terms of personnel. Here, care, diagnostics, treatment, rehabilitation and nursing work hand in hand. The RHÖN Campus approach represents a viable solution model for the healthcare delivery of the future. Given the inevitable shake-up of oversupply within the German hospital sector, we are convinced that in future other regions will be able to benefit from our know-how.

A key focus for implementing our RHÖN Campus strategy is the use of digital tools and state-of-the-art IT. On the basis of stable IT, we use numerous clinical information systems and round these off with various digital innovations, such as the Medical Cockpit, the doctors' portal and many other tools whose aim it to simplify the work of our doctors and nurses and to make the care of patients even safer and better.

One of the landmark digital projects is the Medical Cockpit now ready for use – a search engine that helps to find relevant information found in doctor's letters, X-ray findings and OR reports within the shortest possible time. With the launch of the Campus, the Medical Cockpit will be implemented gradually at the RHÖN-KLINIKUM Campus Bad Neustadt in regular clinical operations in active dialogue with the clinical users. The Medical Cockpit was likewise integrated into our newly designed doctors' portal, the doctor-managed electronic patient file, and is thus also available to community-based doctors.

A further application among the many projects is the planned introduction of digital anamnesis and questionnaires. By recording patient questionnaires on a tablet, we enable the consistent gathering of treatment-relevant information. Telemedicine, too, will become increasingly important with us, not least on account of the gradual phasing-out of the ban on tele-treatments. RHÖN-KLINIKUM AG has the courage to seize the opportunities of digital transformation in the healthcare system to achieve its corporate goals as well as develop new business models outside its current core area.

3.2 Economic and legal environment

Leading research institutions as well as the German government expect the economy in Germany to deteriorate in 2019. The business climate index of the ifo Institute declined from 101.0 points in December 2018 to 99.1 points in January 2019, the lowest index level since February 2016. The German government is projecting growth of 1.0%, which represents a sharp downward revision compared with the autumn forecast, and thus expects domestic demand to still remain intact. However, the smouldering trade conflicts and the unclarified exit of the UK from the EU are taking their toll on exports. Despite the dip in growth, the German government predicts that the upswing on the employment market will continue.

Regulatory effects, such as lower remuneration for services entailing high material cost intensity particularly in the case of cardiological and special orthopaedic services, or the fixed cost degression discount on surplus services, will continue to hamper earnings in the hospital sector. Demand for medical services will continue to rise, but by contrast the remuneration received for them is still not being adequately adjusted. That means that the gap between revenues and costs within the hospital sector is increasingly widening and that this trend of the past years will continue to have a detrimental impact on the operating side.

Labour-saving technical innovations – innovations from the areas of digitalisation, telemedicine, artificial intelligence and robot assistance – will become increasingly important when it comes to reducing the workload of doctors and nurses. For hospitals to remain economically viable and efficient, they have to gear their strategic targets to the current and future challenges, such as social and demographic change, advances in medical care and technology as well as digitalisation. The latter is providing medicine the opportunity to diagnose and treat patients in future more individually and with greater precision.

3.3 Forecast

Also in the coming year, the economic basis of the RHÖN-KLINIKUM Group will be provided by its five large sites in four federal states counting some 5,400 beds and nearly 17,000 employees. That makes us one of the largest hospital operators in Germany.

For the current financial year 2019, we expect revenues of € 1.30 billion within a range of plus or minus 5%. For earnings before interest, tax and depreciation/amortisation (EBITDA), we expect a level of between € 117.5 million and € 127.5 million.

This forecast reflects the (compared with 2018 once again heightened) regulatory measures taken by the legislature, such as lower remuneration for services entailing high material cost intensity, particularly in the field of cardiology, or the fixed cost degression discount on surplus services, expenditures in the area of telemedicine and digitalisation as well as effects from the commissioning at the turn of 2018/2019 of the new construction project Campus Bad Neustadt. EBITDA is influenced among other things by the delayed effects from the Helios transaction in the low double-digit € million range.

Our outlook is of course subject to any regulatory measures impacting our remuneration structure in 2019.

4 | OPPORTUNITIES AND RISK REPORT

A decisive element of a value-oriented and sustainable corporate governance is a company's wholehearted embracement of risk and opportunity management. The capacity to adequately weigh up opportunities and risks is a crucial factor of entrepreneurial success, and that decisively depends on the quality of the decisions made by a company's management. Within the Group of RHÖN-KLINIKUM AG, we therefore see managing risks and opportunities and controlling them effectively and on a sustainable basis as a core entrepreneurial task firmly enshrined in our management culture. The objectives of our value-oriented corporate strategy are to protect the Company's resources from risks of substantial losses, to identify new opportunities as well as to safeguard the interests of our shareholders and other capital market participants.

Our corporate activity is inseparably bound up with risks and opportunities. As a services provider in the healthcare sector, we operate in an extremely complex risk environment. The challenge for us is to ensure reasonable management of these risks – since it is only companies that recognise their material risks in time and take steps to systematically counter the same that are also able at the same time to identify the opportunities arising and to exploit them in an entrepreneurially responsible manner. As a provider of healthcare services, we always regard the risk posed to the life and health of our patients as the greatest risk. This involves continuously weighing up opportunities against the risks. We give utmost priority to measures that avoid even the smallest errors in the medical and nursing area. Further factors such as the regulatory and legislative environment, continually mounting cost, competitive and consolidation pressures within the sector, the rising expectations for the quality of inpatient healthcare delivery and the expectations of patients present opportunities but also involve risks.

4.1 Risk report

4.1.1 Risk management system

The Board of Management of RHÖN-KLINIKUM AG has implemented a Group-wide risk management system to detect imminent risks early on and to specifically counter them in a systematic process. Our risk management system fully meets the statutory requirements for early detection of risks posing a threat to the Company's existence and meets the requirements of section 91 (2) AktG. The centrally managed risk management function has the task of continually further developing and optimising the system. It offers the possibility of reporting both opportunities and risks.

The basis for our risk management system is the Group risk guideline containing both the definition of the term 'risk' and the principles of risk management, as well as describing the requirements for the risk management process uniformly binding on the Group as a whole including the related duties and responsibilities. The actual risk management process is documented in a risk management software program. Thanks to an open risk culture, regular training sessions and feedback rounds, we ensure acceptance of risk management within the Company. On an event-driven basis, the Internal Auditing department is entrusted by the Board of Management with the process-dependent review of matters. In this connection, it also monitors the operability of risk management and correct application of the corresponding requirements in subdivisions or companies of RHÖN-KLINIKUM AG.

Definition

By risks we understand events and potential developments within and outside RHÖN-KLINIKUM AG that might adversely impact the achievement of the Company's stated objectives, future performance of tasks as well as the quality and reputation of RHÖN-KLINIKUM AG and its subsidiaries. By analogy to the definition of risk, we understand opportunities as events and potential developments that may have a positive impact.

Risk management process

We understand risk management as an ongoing process that is divided into the phases of:

- risk identification,
- risk analysis and evaluation,
- risk control and management,
- risk monitoring,
- risk communication.

These processes are to ensure that potential risks are made manageable and opportunities are identified. At the same time, our risk management function relates not only to financial risks but also all manner of risks within the Company. We regard the risk posed to the life and health of our patients that a medical intervention in principle involves as the greatest risk.

With us, identifying risks and recognising opportunities are integrated into our standard business procedures, since it is only when we are aware of risks and opportunities that we can manage and control them. Risk identification encompasses the systematic and structured documentation of all relevant risks in the Company. Given constantly changing circumstances and requirements, risk identification is an ongoing task, and is performed on a decentralised basis in accordance with responsibilities defined in the individual Company divisions.

Any relevant risks identified are categorised and recorded within the risk management system in a centrally predefined risk atlas.

The analysis and evaluation of the relevant risks is the task of the respective persons entrusted with such responsibility. In the case of risk analysis and evaluation, their probability of occurrence and potential monetary impact (amount of damage) are derived with an explanation being given on the evaluation assumptions (gross valuation). The case to be assessed is the most realistic one, with the potential amount of damage being calculated as the impact on earnings before tax with future reference to the financial year.

In risk control and management, it is analysed by what measures risks can be controlled. For this, suitable measures for each identified risk are to be recorded with the expected effect of the measures. The primary objective of risk management is to minimise, and where possible, prevent risks, while always keeping in mind the opportunities associated with the risks. From the effects expected from the measures it is possible to determine how effective the measures are and the need for further measures. In this regard, the measures contemplated are to be weighed up in terms of cost-benefit aspects and selected in such a way that the expected probability of occurrence and/or amount of damage are brought to within the Company's own limits of risk tolerance.

Within the scope of risk monitoring, the implementation of measures introduced and their impact are reviewed. The results of the risk management process are made available at the defined dates. By timely and open risk communication both internally and externally, we create trust and the basis for self-criticism and an ongoing learning process.

4.1.2 Risk assessment

Not all risks are to be weighted equally. To ensure efficient risk management, we perform a systematic assessment of the risks identified. Within the context of risk evaluation, the probability of occurrence and potential monetary impact of the risk are determined, also giving due regard to already existing and planned measures. Using a risk matrix, probability of default and impact of risks are classified to the three levels: low, medium and high. Risks whose probability of occurrence and impact are high are classified as posing a threat to the Company's existence. We classify a medium probability of occurrence as being greater than 30%, and a high probability of occurrence as greater than 70%. Generally, all risks meeting the definitions of the Group risk guideline are to be reported, irrespective of their risk amount. Risks posing a threat to the Company's existence are assessed as high.

IMPACT	PROBABILITY OF OCCURRENCE		
	Low	Medium	High
High			
Medium			
Low	6		

Throughout the Group, six relevant risks from various risk fields were reported. No risks posing a threat to the Company's existence were identified. Based on the risk assessment and giving due regard to the measures initiated, all risks are classified as being relatively low. We continue to rate the overall risk position as low. We expect a risk expectation value for the full year of roughly € 400 thousand. Given the developments in service volumes as well as further cost-cutting potential, these risks can be treated as neutral in terms of result and should not have any material impact on planning for 2019.

In addition to risk classification, risks are also categorised in the risk fields below that have an influence on general business performance as well as the development of our net assets, financial position and results of operations:

General environment and industry risks

We are affected only indirectly by developments in the German economy since healthcare spending is influenced by contribution volumes of the insured and thus by the job market situation. We are for the most part unaffected by foreign economic factors given our exclusive focus on the German healthcare market.

For any future potential company transactions and their selection, we continue to follow our dual strategy of digitalisation and the campus model. Any legal risks arising from takeovers or equity investments are reviewed, monitored and evaluated by us as required.

As a healthcare service provider, our Company operated under the already known framework conditions over the past financial year as well. These are marked by strong influences from healthcare policy regulations. To implement successfully the dynamic potential and complexity of digitalisation, policy framework conditions have to be created where patients must be the focus of interest. For us,

digitalisation is one of the prerequisites for innovations and better healthcare delivery. The provisions on the fixed cost degression discount which replaced the three-year discount on surplus revenues following the KHSG will also continue to put a drag on our earnings.

In December 2017, RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg GmbH (UKGM), the Federal State of Hesse and the two Universities of Gießen and Marburg signed an agreement to implement the white paper for the further development of university medicine in Central Hesse (separate accounting) for the university hospitals in Gießen and Marburg. The plausibility check of the agreement on separate accounting has been completed. The auditing company Wirtschaftsprüfungsgesellschaft KPMG reviewed the agreement for plausibility and attested that the agreement satisfies the arm's-length principle. The last contingent condition is thus met. The agreement initially has a term running until the end of 2021, but given its specific terms and conditions in our view has the potential of serving as the basis for a permanent solution beyond the agreed term. The agreement provides amongst other things that Universitätsklinikum Gießen und Marburg GmbH as of 2017 will receive an additional amount each year to finance the services provided by it for research and teaching.

Two other developments continue to influence our sector decisively. Demand for medical services, in particular also cutting-edge medical services, continues to rise. At the same time, remuneration of the services provided is not being adequately adjusted.

The developments described above have already been taken into account in our targets. Looking to the future, we will counter them through suitable activities and measures. Further regulatory and industry risks relating to us are classified as very low. The provisions of the German Nursing Personnel Strengthening Act (Pflegepersonal-Stärkungsgesetz, PpSG) may lead to further risks for the Group of RHÖN-KLINIKUM AG.

Risks to service volumes

In Germany, hospitals approved under state hospital planning enjoy de facto state regulated protection in their respective catchment area. Traditional market and revenue risks exist only where site closures are ordered or a hospital's quality is assessed by referring physicians or by patients as significantly worse than for those of neighbouring hospitals. In the latter case, that results in large numbers of patients switching to other hospitals. The increasing auditing activities of the Medical Review Board of the Statutory Health Insurance Funds (MDK), in particular of services and/or cases exhibiting a high degree of severity, are also making themselves felt.

Fluctuations in service volumes at our facilities, shifts in service volumes from the inpatient to outpatient sector, but also to nearby facilities of other companies (also as a result of refurbishment works during ongoing operations), pricing regulation as well as possible quality-related discounts may result in losses in revenues and cost increases, and consequently to a decrease in earnings. Through regular period-based and inter-operation comparisons with regard to service volumes, revenues and earnings as well as selected business ratios and other indicators, it is possible for us to identify adverse developments early. Where it is appropriate and necessary, we can take corrective action and manage a reasonably low risk potential. Already in financial year 2017, we initiated a comprehensive raft of measures to improve profitability so as to ensure we remain efficient also in future. In addition to reviewing preventive maintenance and servicing agreements, we have, among other things, looked at the structures at the Group and at our sites and taken measures to make our processes more efficient. Furthermore, we have tackled the industry-wide issue of avoidable losses from audits of the Medical Review Board of the Statutory Health Insurance Funds (MDK). Here we have launched numerous measures. Among other things, we have been stepping up the use of semantic coding assistance in invoice so as to work towards the complete to achieve full coverage of the services provided given the significantly higher audit rates by MDK, and increasingly training courses and the establishment of Group-internal databases.

Operating risks

Advances in medicine and the call for a holistic approach to diagnosing and treating patients (instead of diagnosis and treatment being limited to certain aspects) are requiring increasingly strong interdisciplinary processes characterised by a division of labour. In this regard, cooperation is needed not only at the hospital but also between outpatient and inpatient care. Whenever these processes are disrupted, this carries risks for both patients and the hospital. We attach utmost importance to minimising such risks by ensuring the quality of treatment with qualified and trained staff through guideline-oriented procedures in safe and hygienic hospital buildings. Permanent monitoring of all procedures and processes involved in the treatment of patients as well as the consistent orientation of all efforts to the needs of our patients create a high level of treatment quality and limit existing operating risks.

In addition to the typical clinical risk fields in the area of patient safety (hygiene, nursing and medical care), potential risks are also seen, as in the previous years, in infrastructure such as risks of fire and in equipment of IT systems. Following the EU General Data Protection Regulation (GDPR) that entered into force in May 2018, companies dealing with personal health data are subject to a particularly high degree of accountability and must be able to furnish proof of the "integrity and confidentiality" of data processing. We are well prepared for this level of IT security and should be able to reasonably withstand any targeted attacks.

Overall, we rate the risk position in this area as low, particularly given the existing measures in place. For risks in the clinical area that cannot be fully averted, the Group has adequate insurance coverage which is regularly reviewed and updated.

Personnel risks

To achieve sustained success as a diversified healthcare group with leading expertise, we need committed and highly qualified employees and executive staff. Hospitals on average have personnel cost ratios of between 50% and 70%, making them particularly dependent on developments in wages. A shortage of specialist employees is a key issue also in the healthcare sector, it being necessary to recognise regional differences in the individual facilities. For RHÖN-KLINIKUM AG, too, finding highly qualified and motivated staff to meet the wide-ranging and complex requirements of the healthcare industry is a challenge. We meet these requirements with numerous measures at our sites tailored to local challenges. As a modern employer we offer not only modern remuneration structures, an attractive work environment, in-house kindergartens at the hospitals, provision of affordable apartments and assistance in searching for apartments, but also a wide range of career options and benefits.

Recruiting and retaining qualified staff at our Company is of key importance to us. For example, we run state-recognised schools for nursing and non-medical professions, and through academic teaching hospitals are committed to training medical students to the highest standards. Moreover, thanks to our cooperation with further training facilities and specialised universities we make contact at an early stage with qualified graduates so that we can recruit the necessary young talent for our staff. On account of the establishment and expansion of structured recruiting and qualification concepts for doctors, nursing and healthcare professions as well as for our executive talent, however, we currently still see opportunities to efficiently counteract the current shortage of personnel and continue to classify personnel risks throughout the Group as relatively low.

Procurement risks

For materials procurement in the areas of medical facilities, equipment as well as supplies, we rely on external providers. These business ties can give rise to risks that are triggered, for example, by delivery and quality problems. Particularly affected by supply shortages and the procurement of alternative drugs are consumption-intensive specialist departments such as neurology and oncology. In the context of the programme of measures, Materials Management is currently undertaking intensive and systematic efforts to reach Group contract agreements as well as to overhaul and simplify the product range and to optimise internal procurement processes. By ongoing market and product monitoring we moreover ensure that dependency on sole suppliers, on single products and service providers is kept to a bare minimum, and classify the risk position in this area also as low overall.

Financial risks

Our Company is characterised by a high and sound capital base, a sustainable internal financing strength and a strong liquidity position in the triple-digit € million range. In the wake of the strategic reorientation in 2014, we redeemed all financial liabilities. In October 2018 we issued a promissory note in the amount of € 100 million. We regard the issue as a sensible complement to our syndicated line of credit taken out in the previous year and an integral part of our long-term financing strategy. A combination of exclusively fixed-interest tranches with different maturities provides for long-term financing and planning certainty. We currently see no financing and liquidity risks. Since we operate exclusively in Germany, we are not subject to any transaction and currency risks. No securities (except for 24,000 treasury shares) are held within the Group of RHÖN-KLINIKUM AG. Likewise, there are no corresponding credit rating and share price risks either.

Overall assessment

In our risk evaluation for the 2018 financial year, no risks jeopardising our corporate existence were reported to us. The principles of the statutorily prescribed system of early identification of risks jeopardising corporate existence were continued in the reporting year as in the previous years.

As an overall assessment based on our analysis of the risk position within the Group and at its subsidiaries for the 2018 financial year, we have concluded that there are no risks that could endanger the existence of the subsidiaries or the Group of RHÖN-KLINIKUM AG, and do not see any matters having an adverse effect on corporate development. The risks at the individual companies as well as at the Group as a whole continue to be rated as low.

4.2 Report on opportunities

To take advantage of opportunities, it is sometimes necessary to deliberately accept potential risks. Taking just one example: any medical intervention will expose patients to a risk, but at the same time also holds out the prospect or opportunity of recovery and/or cure. Our management of opportunities thus covers the totality of all measures promoting the systematic and transparent handling of opportunities.

We control and optimise our processes and strategies on a continuous basis. For example, we have further pursued our activities to optimise our sites by reviewing their service portfolios and identifying performance potential. The process and communication paths involved are analogous to risk management.

Similar to the concept of risks, we understand opportunities as events and potential developments within and outside RHÖN-KLINIKUM AG that might favourably impact the achievement of the Company's stated objectives, future performance of tasks as well as the quality and reputation of RHÖN-KLINIKUM AG.

Financial year 2018 was a success not only economically but also strategically. With our RHÖN Campus approach, the digital transformation of our Company and the development of new business fields such as telemedicine, we have the right strategy to continue enjoying a leading position on a healthcare market characterised by regulatory intervention.

With the RHÖN Campus approach we are pursuing an organic, moderate growth model. If the demographic situation exacerbates further from 2022 as forecast, we are well positioned on the market with the RHÖN-KLINIKUM Campus Bad Neustadt a. d. Saale and the related expertise and will know how to realise our opportunities with the roll-out of the RHÖN Campus approach.

With our Campus Bad Neustadt that we inaugurated at the beginning of December 2018, we implemented our RHÖN Campus approach for the first time and in its ideal form in a rural setting. Across traditional sectoral boundaries, we offer first-class, fast diagnosis and patient treatment. Outpatient as well as inpatient diagnosis and treatment are integrated and are rounded off by numerous additional services. In this integrative approach, prevention, treatment, rehabilitation, health promotion and nursing all work together collaboratively, thus enabling our patients to be cared for on a comprehensive basis.

A key focus for implementing our concept is the use of digital tools and state-of-the-art IT. On the basis of a stable IT structure, we make use of numerous clinical information systems.

One of the most important digital projects is the Medical Cockpit – a semantic search engine that helps to find relevant information found in doctor's letters, X-ray findings and OR reports in the shortest possible time, and thus facilitating the work of doctors and all other persons involved in the treatment process while at the same time, making the treatment process faster and safer for patients. With the launch of the Campus, the Medical Cockpit will be implemented gradually at the Campus Bad Neustadt in regular clinical operations in active dialogue with the clinical users. The Medical Cockpit was likewise integrated into our newly designed doctors' portal (the doctor-managed electronic patient file) and is thus also available to community-based doctors. A further application among the many projects is the planned introduction of digital anamnesis and questionnaires. By recording patient questionnaires on a tablet, we enable the consistent gathering of treatment-relevant information.

At the beginning of 2019 we made known a declaration of intent to establish a joint company with the Swiss telemedicine provider Medgate. Under this agreement, we are planning to provide telemedical and digital-medical services in Germany on the promising future market of telemedicine. The new company has the potential

of developing into a major additional business field. In February 2019 we announced the minority interest we were taking in Tiplu GmbH. Here we are pursuing the goal of securing revenues by improving processes in case coding.

In addition to the advance in digitalisation, the conceptual and constructional modernisation of our sites continues to be a major issue. With the agreement reached for the Ion Beam Therapy Centre allowing for MIT to be successfully relaunched under the medical as well as commercial management of RHÖN-KLINIKUM AG, we can secure at our Marburg site continued ongoing care of patients with an innovative treatment method. The agreement on separate accounting paves the way for a comprehensive investment programme to the tune of at least € 100 million at UKGM until 2021. This financial commitment will benefit not only patients and employees of UKGM but also the entire region of Central Hesse. In Frankfurt (Oder), the site is gradually being rebuilt into a further campus.

On 1 May 2018, the third term (2018 to 2020) of the Medical Board began. In addition to its strategic advisory function to the Board of Management and management bodies of the hospitals, the Medical Board is involved in preparing decisions on issues of medical strategy and also has the task of escorting innovation projects and synchronising medical expertise with the Company's objectives. The main task of the Medical Board in this context is to bring together, coordinate and escort the respective special competences of medical care and economic efficiency.

In 2018 we once again demonstrated courage and the innovative force to seize the opportunities in a competitive environment characterised by regulatory challenges in order to achieve our corporate objectives. Here, our objectives have remained the same: a sound and agile company, excellent medical services and – always at the focus of everything we do – the well-being of our patients. Overall, we see our Group very well positioned. Also in future, we will continue to be amongst the major hospital operators in Germany as an efficient, homogenous Group with a consistent orientation and focus on cutting-edge medicine geared towards maximum care, further strengthening of treatment excellence and patient care through our focus on digitalisation and network medical care as well as the steady implementation of the campus approach. To this end we avail ourselves of all opportunities presented to us and thus counteract the potential risks with a practised and functioning risk management system at our hospitals, medical care centres and service companies.

5 | REPORTING PURSUANT TO SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH, HGB) ON INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE ACCOUNTING PROCESS

Within the RHÖN-KLINIKUM Group the accounting-related internal control system is made up of the internal control and the internal monitoring system that ensures preparation of the annual financial statements for the Group of RHÖN-KLINIKUM AG and RHÖN-KLINIKUM AG itself and its subsidiaries. As a component of the internal control system, the risk management system, with reference to accounting, is also concerned with the risk of misstatements in accounting as well as in external reporting.

The accounting-related internal control system within our Group embraces all principles, processes and measures to ensure the effectiveness, efficiency and adequacy of accounting as well as compliance with the relevant legal regulations.

The Group's accounting process is organised in such a way that for each of the subsidiaries on each reporting date – i. e. monthly, quarterly and annually – a financial statement according to HGB is prepared in the Group's own data centres based on a uniform Group-wide accounting guideline and a uniform Group-wide accounting programme. From these financial statements, a consolidated financial statement is derived for each quarter in accordance with the International Financial Reporting Standards (IFRSs). The data for the financial statements of the subsidiaries are aggregated to form one consolidated financial statement using certified consolidation

software after capital consolidation and a consolidation of expenses and earnings, receivables and liabilities as well as an elimination of any intercompany profits. IFRS-relevant revaluations and/or reclassifications are performed at the Group level according to uniform accounting and valuation methods.

After the end of the respective reporting date, the financial statements are reported promptly to the Group accounting department and then prepared and published. The financial statements are analysed, subjected to a plausibility test and evaluated together with the controlling department and in certain cases also with the Internal auditing department.

Both for the preparation of the separate financial statements according to HGB and for the preparation of the consolidated financial statements according to the valid IFRS, comprehensive accounting requirements and guidelines whose compliance is strictly monitored are observed to ensure uniform accounting. Responsibilities for the preparation of the annual financial statements are clearly defined both for the individual companies and within the Group. The controls applied in this context, which depending on the specific case may be preventive or downstream, manual or automated, give due regard to the principles of segregation of functions.

The quarterly financial statements, the half-year financial statements and the annual financial statements are submitted for review to the Audit Committee of the Supervisory Board. The findings of the Audit Committee are documented. Moreover, the Audit Committee also regularly engages the statutory auditor to conduct an accounting-related in-depth audit. If the examinations by the Audit Committee and of the statutory auditor call for improvements in the Group accounting process, these are implemented without delay.

Bad Neustadt a. d. Saale, 15 February 2019

The Board of Management

Prof. Dr. Bernd Griewing

Stephan Holzinger

Dr. Gunther K. Weiß



Consolidated financial **statements**

Consolidated balance sheet	120
Consolidated income statement	122
Consolidated statement of comprehensive income	123
Statement of changes in equity	124
Statement of cash flows	125
Notes	
Contents of the consolidated financial statements	126
General information	128
Accounting policies	128
Critical estimates and assessments in accounting and valuation	146
Company acquisitions	147
Notes to the consolidated income statement	149
Notes to the consolidated balance sheet	153
Statement of cash flows	174
Shareholdings	176
Other disclosures	177
Corporate bodies of RHÖN-KLINIKUM AG	184
Responsibility statement	187
Independent auditor's report	188

Consolidated balance sheet

31 DECEMBER 2018

ASSETS

in € '000	Notes	31 Dec. 2018	31 Dec. 2017
Non-current assets			
Goodwill and other intangible assets	6.1	176,707	174,482
Property, plant and equipment	6.2	852,100	747,050
Investment property	9.3.3	2,490	2,631
Investments accounted for using the equity method	6.4	390	389
Deferred tax assets	6.3	3,178	9,134
Other financial assets	6.5	4,682	35,153
		1,039,547	968,839
Current assets			
Inventories	6.6	25,939	25,022
Trade receivables	6.7	212,376	203,963
Other financial assets	6.8	169,276	140,021
Other assets	6.9	7,820	9,385
Current income tax assets	6.10	2,047	1,716
Cash and cash equivalents	6.11	132,283	122,452
		549,741	502,559
		1,589,288	1,471,398

EQUITY AND LIABILITIES

in € '000	Notes	31 Dec. 2018	31 Dec. 2017
Equity			
Issued share capital	6.12	167,406	167,406
Capital reserve		574,168	574,168
Other reserves		393,821	360,803
Treasury shares		-76	-76
Equity attributable to shareholders of RHÖN-KLINIKUM AG		1,135,319	1,102,301
Non-controlling interests in equity		23,903	22,955
		1,159,222	1,125,256
Non-current liabilities			
Financial liabilities	6.13	99,525	-
Provisions for post-employment benefits	6.14	2,199	2,288
Other financial liabilities	6.17	15,170	15,005
Other liabilities	6.18	0	7,982
		116,894	25,275
Current liabilities			
Financial liabilities	6.13	303	-
Trade payables	6.16	115,883	108,225
Current income tax liabilities	6.19	3,847	1,299
Other provisions	6.15	62,436	92,673
Other financial liabilities	6.17	23,557	19,909
Other liabilities	6.18	107,146	98,761
		313,172	320,867
		1,589,288	1,471,398

Consolidated income statement

1 JANUARY TO 31 DECEMBER 2018

in € '000	Notes	2018	2017
Revenues	5.1	1,232,908	1,211,077
Other income	5.2	183,469	151,930
		1,416,377	1,363,007
Materials and consumables used	5.3	372,440	347,550
Employee benefits expense	5.4	796,136	787,899
Depreciation/amortisation and impairment	5.5	60,600	59,120
Other expenses	5.6	122,080	129,741
Result from impairment on financial assets	5.7	178	–
		1,351,434	1,324,310
Operating result		64,943	38,697
Result of investments accounted for using the equity method	5.9	83	–1,395
Finance income	5.9	342	624
Finance expenses	5.9	2,046	810
Result of impairment on financial investments	5.9	144	–
Finance result (net)	5.9	1,765	1,581
Earnings before taxes		63,178	37,116
Income taxes	5.10	11,990	379
Consolidated profit		51,188	36,737
of which			
non-controlling interests	5.11	2,195	1,587
shareholders of RHÖN-KLINIKUM AG		48,993	35,150
Earnings per share in €			
undiluted	5.12	0.73	0.53
diluted	5.12	0.73	0.53

Consolidated statement of comprehensive income

1 JANUARY TO 31 DECEMBER 2018

in € '000	2018	2017
Consolidated profit	51,188	36,737
of which		
non-controlling interests	2,195	1,587
shareholders of RHÖN-KLINIKUM AG	48,993	35,150
Changes in fair value through other comprehensive income (FVOCI)	-471	-
Income taxes	75	-
Other comprehensive income (changes in fair value through other comprehensive income) not subsequently reclassified to income statement	-396	-
Revaluation of defined benefit pension plans	322	29
Income taxes	-51	-5
Other comprehensive income (revaluation of pension plans) not subsequently reclassified to income statement	271	24
Total other comprehensive income ¹	-125	24
of which		
non-controlling interests	-	-
shareholders of RHÖN-KLINIKUM AG	-125	24
Total comprehensive income	51,063	36,761
of which		
non-controlling interests	2,195	1,587
shareholders of RHÖN-KLINIKUM AG	48,868	35,174

¹ Sum of value changes recognised directly at equity.

Statement of changes in equity

in € '000	Issued share capital	Capital reserve	Retained earnings	Treasury shares	Equity attributable to shareholders of RHÖN-KLINIKUM AG	Non-controlling interests in equity ¹	Equity
As at 31 Dec. 2016/1 Jan. 2017	167,406	574,168	349,057	-76	1,090,555	22,828	1,113,383
Equity transactions with owners							
Dividend payments	-	-	-23,428	-	-23,428	-1,460	-24,888
Consolidated profit	-	-	35,150	-	35,150	1,587	36,737
Other comprehensive income	-	-	24	-	24	-	24
Other changes							
Changes in consolidated companies	-	-	-	-	-	-	-
As at 31 Dec. 2017	167,406	574,168	360,803	-76	1,102,301	22,955	1,125,256
As at 31 Dec. 2017/1 Jan. 2018 before adjustments	167,406	574,168	360,803	-76	1,102,301	22,955	1,125,256
Adjustments through adoption of IFRS 9 (after tax)	-	-	-1,122	-	-1,122	-30	-1,152
As at 31 Dec. 2017/1 Jan. 2018 after adjustments	167,406	574,168	359,681	-76	1,101,179	22,925	1,124,104
Equity transactions with owners							
Dividend payments	-	-	-14,728	-	-14,728	-1,217	-15,945
Consolidated profit	-	-	48,993	-	48,993	2,195	51,188
Other comprehensive income	-	-	-125	-	-125	-	-125
Other changes							
Changes in consolidated companies	-	-	-	-	-	-	-
As at 31 Dec. 2018	167,406	574,168	393,821	-76	1,135,319	23,903	1,159,222

¹Including other comprehensive income (OCI).

Statement of cash flows

in € million	Notes	2018	2017
Earnings before taxes		63.2	37.1
Finance result (net)	5.9	1.8	1.6
Depreciation/amortisation and impairment and gains/losses on disposal of assets	5.5	60.6	58.8
		125.6	97.5
Change in net current assets			
Change in inventories	6.6	-0.9	-0.2
Change in trade receivables	6.7	-9.0	-12.9
Change in other financial assets and other assets	6.8 f.	-18.7	-10.3
Change in trade payables	6.16	-15.7	7.9
Change in other net liabilities/other non-cash transactions	6.17 f.	2.5	3.5
Change in provisions	6.14 f.	-30.0	-3.1
Income taxes paid	5.10	-3.6	-1.3
Interest paid		-0.7	-0.8
Cash generated from operating activities		49.5	80.3
Investments in property, plant and equipment and in intangible assets	6.1 f.	-163.4	-115.8
Government grants received to finance investments in property, plant and equipment and in intangible assets		17.4	15.5
Change in investments in fixed term deposits	6.5/6.8	20.1	100.1
Investments in financial assets	6.5	-1.0	-3.0
Acquisition of subsidiaries, net of cash acquired	4	-0.6	-1.2
Sale proceeds from disposal of assets		2.2	0.9
Interest received		0.3	0.6
Cash used in investing activities		-125.0	-2.9
Payments on contracting of financial liabilities	6.13	99.7	-
Repayment of financial liabilities	6.13	-	-10.0
Payments of financial dept	6.13	-0.2	-0.8
Payments from finance leases	9.3	1.7	0.0
Dividend payments to shareholders of RHÖN-KLINIKUM AG	6.12	-14.7	-23.4
Payments to non-controlling interests in equity	6.12	-1.2	-1.5
Cash generated/used in financing activities		85.3	-35.7
Change in cash and cash equivalents	6.11	9.8	41.7
Cash and cash equivalents as at 1 January		122.5	80.8
Cash and cash equivalents as at 31 December	6.11	132.3	122.5

Notes

CONTENTS

1 General information	128		
2 Accounting policies	128		
2.1 Principles applied to the preparation of the financial statements	128	2.16.2 Termination benefits	143
2.2 Consolidation	134	2.16.3 Management profit sharing and employee profit sharing	143
2.2.1 Subsidiaries	134	2.16.4 Share-based payments	143
2.2.2 Transactions with non-controlling interests	135	2.17 Provisions	143
2.2.3 Associated companies and joint ventures	135	2.18 Revenue recognition	143
2.2.4 Sale of subsidiaries and associated companies	135	2.18.1 Inpatient and outpatient hospital services	143
2.3 Segment reporting	136	2.18.2 Interest income	144
2.4 Goodwill and other intangible assets	136	2.18.3 Income from distribution and dividends	144
2.4.1 Goodwill	136	2.19 Leasing	144
2.4.2 Computer software	136	2.20 Costs of borrowing	144
2.4.3 Other intangible assets	137	2.21 Dividend payments	144
2.4.4 Research and development expenses	137	2.22 Financial risk management	144
2.5 Property, plant and equipment	137	2.22.1 Financial risk factors	144
2.6 Government grants	137	2.22.2 Credit risk	144
2.7 Impairment of property, plant and equipment and intangible assets (excl. goodwill)	137	2.22.3 Liquidity risk	145
2.8 Financial assets	138	2.22.4 Interest rate risk	145
2.8.1 Assets measured at fair value through profit and loss	139	2.22.5 Management of equity and debt	145
2.8.2 Assets measured at fair value directly in equity (fair value through other comprehensive income; without recycling)	139		
2.8.3 Assets measured at amortised cost	139	3 Critical estimates and assessments in accounting and valuation	146
2.8.4 Assets measured at fair value directly in equity (fair value through other comprehensive income; with recycling)	139	3.1 Estimated impairment of goodwill	146
2.9 Investment property	140	3.2 Revenue recognition	146
2.10 Inventories	140	3.3 Income taxes	147
2.11 Trade receivables	140		
2.12 Cash and cash equivalents	140	4 Company acquisitions	147
2.13 Equity	140		
2.14 Financial liabilities	140	5 Notes to the consolidated income statement	149
2.15 Current and deferred taxes	141	5.1 Revenues	149
2.16 Employee benefits	141	5.2 Other income	149
2.16.1 Pension obligations and other long-term benefits due to employees	141	5.3 Materials and consumables used	149
		5.4 Employee benefits expense	150
		5.5 Depreciation/amortisation and impairment	150
		5.6 Other expenses	150
		5.7 Result from impairment on financial assets	150
		5.8 Research costs	150
		5.9 Finance result – net	151
		5.10 Income taxes	151
		5.11 Profit to non-controlling interests	152
		5.12 Earnings per share	152

6 Notes to the consolidated balance sheet	153	9 Other disclosures	177
6.1 Goodwill and other intangible assets	153	9.1 Average annual number of employees	177
6.2 Property, plant and equipment	155	9.2 Other financial obligations	178
6.3 Deferred tax assets	156	9.3 Leases within the Group	178
6.4 Financial investments accounted for using the equity method	157	9.3.1 Obligations as lessee of operating leases	178
6.4.1 Investments accounted for using the equity method	157	9.3.2 Obligations as lessee of finance leases	178
6.4.2 Associated companies	157	9.3.3 Investment property	179
6.4.3 Joint ventures	158	9.4 Related parties	179
6.5 Other financial assets (non-current)	158	9.5 Total payments of the Supervisory Board, the Board of Management and the Advisory Board	182
6.6 Inventories	158	9.6 Declaration of Compliance with the German Corporate Governance Code	183
6.7 Trade receivables	158	9.7 Disclosure of the fees recognised as expenses (including reimbursement of outlays and excluding VAT) for the statutory auditors	183
6.8 Other financial assets (current)	159	9.8 Events after the reporting date	183
6.9 Other assets (current)	161		
6.10 Current income tax assets	161	10 Corporate bodies of RHÖN-KLINIKUM AG	184
6.11 Cash and cash equivalents	161		
6.12 Equity	161		
6.13 Financial liabilities	162		
6.14 Provisions for post-employment benefits	163		
6.15 Other provisions	165		
6.16 Trade payables	166		
6.17 Other financial liabilities	166		
6.18 Other liabilities	167		
6.19 Current income tax liabilities	167		
6.20 Derivative financial instruments	167		
6.21 Additional disclosures regarding financial instruments	168		
6.21.1 Carrying amounts, recognised figures and fair values according to measurement categories	168		
6.21.2 Net gains or losses by measurement category	173		
6.21.3 Financial liabilities (maturity analysis)	174		
7 Statement of cash flows	174		
8 Shareholdings	176		
8.1 Companies included in the consolidated annual report	176		
8.2 Other companies according to section 313 (2) No. 2 et seq. HGB	177		

1 | GENERAL INFORMATION

RHÖN-KLINIKUM AG and its subsidiaries build, acquire and operate primarily acute-care hospitals of all categories, with the focus being on cutting-edge medicine oriented towards maximum care with a direct tie-in to universities and research facilities. At some sites, rehabilitation services are also offered for selected medical disciplines to complement existing acute inpatient offerings. Moreover, out-patient structures in the form of medical care centres are also being expanded. We provide our services exclusively in Germany.

The Company is a stock corporation established under German law and has been listed on the stock market (SDAX®) since 1989. The registered office of the Company is in Bad Neustadt a. d. Saale, Salzburger Leite 1, Germany. The Company is entered in the Commercial Register of the Register Court of Schweinfurt under HRB 1670.

2 | ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the basis of uniform accounting policies which have been consistently applied. The functional currency of the Group is the euro, which is also the currency used for preparing the financial statements. The figures shown in the Notes to the consolidated financial statements are

generally shown in millions of euros (€ million). The nature of expense method has been used for presenting the income statement. For computational reasons, rounding differences of ± one unit (€, %, etc.) may occur in the tables.

2.1 Principles applied to the preparation of the financial statements

The consolidated financial statements of RHÖN-KLINIKUM AG for the year ending 31 December 2018 have been prepared applying section 315e of the German Commercial Code (Handelsgesetzbuch, HGB) in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as well as the related Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), which are the subject of mandatory adoption in accordance with the European Parliament and Council Directive number 1606/2002 concerning the application of international accounting standards in the European Union in the 2018 financial year. No early adoption of new standards is planned at this time.

a) New accounting rules from the 2018 financial year

The following new or revised standards and interpretations – to the extent adopted by the European Union – are to be applied as of the 2018 financial year. As far as can be seen at present, they have no material impact on, or are of no practical relevance for, the consolidated financial statements of RHÖN-KLINIKUM AG as of the 2018 financial year as well as subsequent years:

Standard/interpretation			Mandatory adoption date	Endorsement ¹	Impact
New	IFRS 9	Financial Instruments	1 Jan. 2018	Yes	No material impact
New	IFRS 15	Revenue from Contracts with Customers	1 Jan. 2018	Yes	No material impact
Clarifications	IFRS 15	Revenue from Contracts with Customers	1 Jan. 2018	Yes	No material impact
Amendments	IFRS 2	Share-based Payment	1 Jan. 2018	Yes	No practical relevance
Amendments	IFRS 4	Insurance Contracts	1 Jan. 2018	Yes	No practical relevance
Amendments	Annual improvements to IFRS: 2014–2016 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2017/ 1 Jan. 2018	Yes	No practical relevance
Clarifications	IAS 40	Investment Property	1 Jan. 2018	Yes	No practical relevance
Clarifications	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	Yes	No practical relevance

¹ Adoption of IFRS standards and/or IFRS interpretations by the European Union.

The standards and interpretations already adopted by the European Union are explained below:

IFRS 9 “Financial Instruments”

The Standard IFRS 9 “Financial Instruments” was published in July 2014 and replaces the Standard IAS 39 “Financial Instruments”. It contains in particular the following fundamentally revised provisions:

– **Classification and measurement of financial instruments**

The provisions on classification and measurement of financial instruments were subjected to a fundamental revision, particularly in respect of financial assets. Classification and measurement of such financial instruments in future will depend on key issues:

- a) What business model of the entity governs the portfolio to which the financial asset was attributed? In this sense, IFRS 9 as a rule provides for the models “Holding-to-collect contractual cash flows”, “Holding and selling” as well as “Intention to trade”.
- b) What contractual cash flows does the instrument comprise and do such cash flows exclusively constitute interest and redemption payments on the amount extended (cash-flow test)? Based on the design of the cash-flow test, debt instruments alone, e.g. bonds from a creditor viewpoint, can meet these requirements.

The rules on classification and measurement for financial liabilities have remained almost unchanged as a result of IFRS 9. Only for liabilities designated at fair value that are to be attributable to changes in their own credit risk are no longer to be recognised in the income statement but in other comprehensive income (OCI).

– **Accounting for impairments of financial assets**

The new standard results in a fundamental change in recognition, since under it no longer only incurred losses are to be recognised (hitherto incurred loss model) but also already expected losses (referred to as expected loss model), wherein the extent of the recognition of expected losses again requires a differentiation to be made as to whether or not the default risk of financial assets has materially deteriorated since their acquisition. If there is a deterioration and the default risk on the reporting date is not to be classified as low, all expected losses as of that point in time are to be recognised over the entire term (lifetime expected credit losses). Otherwise, only those losses expected over the term of the instrument are to be taken into account which result from future potential loss events within the next twelve months (12-month expected credit losses). Exemptions exist for trade receivables (or contract assets as defined in IFRS 15

“Revenue from Contracts with Customers”) and lease receivables. For these assets, regardless of the change in the risk of default, all expected losses must (trade receivables or contract assets without a significant financing component) or may (trade receivables or contract assets with a significant financing component and lease receivables) be recognised over the entire term.

– **Hedge accounting**

With IFRS 9, the accounting of hedging relationships (hedge accounting) was revised. As previously, entities are required at the beginning of a hedging relationship to document the respective risk management strategy along with the risk management objectives. In future, however, the ratio between the hedged item and hedging instrument (hedge ratio) underlying the hedge accounting must correspond to the ratio actually used for risk management purposes.

Moreover, the requirements for proof of the effectiveness of hedging transactions change. Under IFRS 9, both retrospective proof and the effectiveness criterion cease to apply. Entities instead are required to prove, without being bound to quantitative limiting values, that between the underlying transaction and the hedging instrument an economic relationship exists which by reason of a common underlying or the hedged risk leads to opposite value changes. This proof may also be furnished on a purely qualitative basis. The standard is to be applied as of financial years beginning on or after 1 January 2018. First-time adoption must generally be retrospective, but various simplification options are granted.

At RHÖN-KLINIKUM AG, the switch to IFRS 9 resulted in the following effects: as of the initial adoption date, investments are measured at fair value directly in equity (fair value through other comprehensive income, without recycling). The other financial assets continue to be measured at RHÖN-KLINIKUM AG unchanged at amortised cost. With regard to impairment of financial assets or the amended impairment model, a decline in financial assets measured at amortised cost without effect on the income statement in the amount of € 1.4 million, and in equity in the amount of € 1.2 million (after taxes) occurs as of the initial adoption date of 1 January 2018. Moreover, RHÖN-KLINIKUM AG currently does not use any hedging relationships and does not intend to do so in the near future either.

IFRS 15 “Revenue from Contracts with Customers”

The IASB published IFRS 15 in September 2015. According to IFRS 15, revenues are recognised when the customer obtains control over the agreed goods and services and can derive the benefits from the same. The transfer of material risks and rewards is no longer decisive as under the old provisions of IAS 18 “Revenues”. The new standard provides, for determining the realisation of revenues, a five stage scheme whereby the customer contract and the separate performance obligations contained therein are first to be identified. The transaction price of the customer contract is then to be determined and allocated to the individual performance obligations. After that, under the new model, revenue is to be recognised for each performance obligation in the amount of the allocated pro rated transaction price as soon as the agreed performance was rendered or the customer has obtained control over the same. In this context, a distinction is to be made between date related and period related performance.

In April 2016, the IASB also published clarifications on IFRS 15 relating to the following subjects:

- Identification of performance obligations and verification of whether they are separately identifiable within the context of the contract
- Classification as principal or agent
- Revenues from licences

Remuneration claims exist from treatment of patients still undergoing treatment as at the balance sheet date. These are classified as contract assets and reflected under the trade receivables item. The remuneration claim arises only after the treatment has been concluded. All remuneration claims are due within one year.

The standard is to be applied to financial years beginning on or after 1 January 2018. In the 2018 financial year, the first-time adoption of IFRS 15 resulted in a decline in revenues amounting to € 11.3 million. At the same time, other expenses decreased in substantially the same amount. The switch to the new standard takes place in accordance with the relevant transitional provisions.

Amendments to IFRS 2 “Share-based Payment”

The amendments to IFRS 2 include the following three clarifications:

- **Measurement of cash-settled share-based transactions**
As of the time of initial adoption of the amendments, the measurement of cash-settled grants is to be performed in accordance with the measurement provisions for equity-settled grants. Pursuant to IFRS 2.33 A, service conditions as

well as non-market conditions are not to be recognised in the determination of fair value but in the number of (virtual) equity instruments expected to vest. If it is not considered likely that the service or non-market conditions will be reached, no expenditure and no liability is to be recognised since in such cases the number of (virtual) equity instruments expected to vest is zero.

- **Classification of share-based payments while withholding tax**

The amendments to IFRS 2 equally relate to payment transactions in which equity instruments from which a portion is withheld to settle a tax liability of the beneficiary are granted (referred to as net settlement feature). This is the case if the entity is required to pay to the competent tax authority tax incurred by the beneficiary as a result of share-based payment. The amendments provide that such a commitment is to be classified in its entirety as an equity-settled grant unless such classification for such commitment would have been approved for application without a net settlement feature (IFRS 2.33 F). Pursuant to IFRS 2.33 G, the payment to the tax authority is to be recognised as a deduction from equity capital. The exception to this is the proportion of the amount paid in cash by which the entire payment exceeds the fair value of the equity instruments retained for tax at the time of settlement.

- **Modification of a cash-settled share-based payment to a share-based payment with settlement in equity instruments**

The standard clarifies that the equity-settled grant is measured at the fair value of the equity instruments granted at the time of the modification and recognised at equity provided that the company has already received the goods and services. The liability applied to the cash-settled grant at the time of the modification is to be derecognised. Any differences between the amount of the derecognised liability and the amount recognised in equity are to be recognised through profit or loss in the income statement.

The amendments to IFRS 2 are to be applied to financial years beginning on or after 1 January 2018. The amendments of this standard are of no practical relevance for RHÖN-KLINIKUM AG.

Amendments to IFRS 4 "Insurance Contracts"

The amendments to IFRS 4 provide two options, to be applied voluntarily, to avoid certain accounting consequences resulting from the divergence of initial adoption dates of IFRS 9 and IFRS 17:

- Temporarily postponing adoption of IFRS 9
- Applying the "overlay approach"

Entities whose primary activity relates to insurance business may continue to adopt IAS 39 instead of IFRS 9 for financial years commencing before 1 January 2021. The exemption applies only at the reporting entity level.

According to the overlay approach, entities must adopt IFRS 9 as of 1 January 2018 at the latest. However, the overlay approach allows entities issuing insurance contracts within the scope of IFRS 4 the option of reclassifying fluctuations in market value of qualifying financial assets within the comprehensive income statement from profit and loss to other comprehensive income. As a result of such reclassification, a profit or loss for the period is reported in the income statement that likewise would have resulted from the adoption of IAS 39.

Entities exercising one of the above options have to meet additional disclosure requirements.

The amendments to IFRS 4 are to be applied to financial years beginning on or after 1 January 2018. The amendments of this standard are of no practical relevance for RHÖN-KLINIKUM AG.

Annual improvements to IFRS: "2014–2016 Cycle"

The "Annual improvements to IFRS: 2014–2016 Cycle" published as part of its process for making improvements to standards and interpretations, which as a general rule are applicable for the first time for financial years beginning on or after 1 January 2018, relate to the following standards:

– IAS 28 "Investments in Associates and Joint Ventures"

Pursuant to IAS 28.18, an option applies to measure investments in associated companies or joint ventures held directly or indirectly by venture capital organisations, investment funds, unit trusts and similar entities, including unit-linked insurance undertakings – instead of using the equity method – at fair value through profit or loss in accordance with IFRS 9. In this regard, the IASB clarifies that this decision must be made by each associate or joint venture at the time of initial recognition

separately. Investment entities as defined in IFRS 10.27 as a rule are not required to consolidate investments in subsidiaries but to measure the interests pursuant to IFRS 10.31 at fair value. If an investment entity for its part is included as an associate or joint venture in a consolidated financial statement of a non-investment entity, the latter may retain the fair value measurement applied by the investment entity to its interests in subsidiaries pursuant to IAS 28.36 A. In this regard it was clarified that this decision likewise must be made for every investment entity included in the consolidated financial statement as an associate or joint venture separately and that the option must be exercised at the later of the following two dates: the date of initial recognition of the application of the investee or the date when the investee became an investment entity, or the date when the investee became a parent company for the first time. The clarifications to IAS 28 are of no practical relevance for RHÖN-KLINIKUM AG.

– IFRS 1: "First-time Adoption of International Financial Reporting Standards"

The limited-term leniency provisions for first-time adopters of the IFRSs, which include the temporary exemptions to applying transitional provisions of IFRS 7, IAS 19 and IFRS 10, were deleted since they have ceased to be relevant anymore through expiry of term.

– IFRS 12: "Disclosures of Interests in Other Entities"

The clarification to IFRS 12 already the subject of mandatory adoption since 1 January 2017 provides that, with the exception of aggregated financial information pursuant to IFRS 12.B17, all other disclosure obligations of IFRS 12 apply also to interests classified in accordance with IFRS 5 as non-current assets held for sale or discontinued operations. The clarification is of no practical relevance for RHÖN-KLINIKUM AG.

Clarifications to IAS 40 "Investment Property"

The IASB clarifies that, in the event of changes in the use of properties and thus subsequent transfers to or from the portfolio of investment properties, such changes in use must exist and be verifiable and that the list of examples given in IAS 40.57 of changes in use is not exhaustive. It is likewise emphasised that the mere intention of the management to make a change in use does not on its own suffice for a transfer as defined in IAS 40.57. The clarifications to IAS 40 are to be applied to financial years beginning on or after 1 January 2018. They are of no practical relevance for RHÖN-KLINIKUM AG.

Clarifications to IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

The IFRS IC clarifies in the Interpretation that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If an entity in a transaction makes or receives

multiple payments in advance, the date of transaction and thus the exchange rate is to be established separately for each advance payment. The provision does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of consideration received or paid. Also, the Interpretation need not be applied to insurance contracts and the recognition of income taxes. The clarifications to IFRIC 22 are to be applied to financial years beginning on or after 1 January 2018. They are of no practical relevance for RHÖN-KLINIKUM AG.

b) New accounting rules from the financial year 2019 and subsequent financial years

The following standards and Interpretations newly published by the IASB – to the extent adopted by the European Union – are applicable as of financial year 2019 and subsequent years and have a material impact on, no material impact on or are of no practical relevance for the consolidated financial statements of RHÖN-KLINIKUM AG or are subject to a review by the Management:

Standard/Interpretation			Mandatory adoption date	Endorsement ¹	Impact
New	IFRS 16	Leasing	1 Jan. 2019	Yes	Material impact
New	IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan. 2019	Yes	No material impact
Amendments	IFRS 9	Financial Instruments	1 Jan. 2019	Yes	No practical relevance
Amendments	IAS 1, IAS 8	Presentation of Financial Statements, Accounting Policies	1 Jan. 2020	No	Subject to a review by the Management
Amendments	IAS 19	Employee Benefits	1 Jan. 2019	No	No material impact
Amendments	IAS 28	Investments in Associates	1 Jan. 2019	No	No material impact
Amendments	IFRS 3	Business Combinations	1 Jan. 2020	No	Subject to a review by the Management
New	IFRS 17	Insurance Contracts	1 Jan. 2021	No	Subject to a review by the Management
Amendments	Various	Conceptual Framework for IFRS Standards	1 Jan. 2020	No	Subject to a review by the Management
Amendments	Annual improvements to IFRS: 2015–2017 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2019	No	No material impact

¹ Adoption of IFRS standards and/or IFRS interpretations by the European Union.

The Standards and Interpretations already adopted by the European Union are explained below:

IFRS 16 “Leasing”

The new standard published in January 2016 on accounting of leases replaces IAS 17 “Leases” as well as the related interpretations (IFRIC 4, SIC-15, SIC-27).

IFRS 16 defines a lease as a contract which conveys the right to use an asset for a period of time in exchange for consideration. In it a lease requires performance of the contract be conditional on the use of an identified asset and at the same time the customer to obtain the right to control the use of such asset through the contract. Control of use is conveyed where the customer obtains substantially all the economic benefits from the asset and furthermore has the right to direct the identified asset’s use, i.e. can decide how and for what purpose the asset is used. Pricing between the customer and supplier in future is no longer of any relevance for the classification of an agreement as a lease.

For lessees, the new standard requires a totally new approach towards accounting for lease contracts. Where under IAS 17 the transfer of material risks and rewards in the leased property was decisive for the lessee’s accounting for leases, in future every lease as a general rule has to be represented on the balance sheet as a financing transaction in the form of a right of use. For lessors, the accounting rules remain largely unchanged.

IFRS 16 provides for two exemptions from the principle of recognising all leases, each of which may be used alternatively. Leases with a term of twelve months maximum as well as leases relating to low-value assets may continue to be treated as operating leases. The standard setter understands low-value assets in particular as low-value IT equipment as well as operating and office equipment having a maximum value of 5,000.00 US dollars.

The standard is to be applied as of financial years beginning on or after 1 January 2019. Voluntary early adoption is possible provided that IFRS 15 is also already applied at such time. Initial adoption can be applied by lessees alternatively either in full retrospectively as defined in IAS 8 or in modified form retrospectively on the basis of the transitional rules defined in the standard. Lessors as a general rule continue their past accounting practice unchanged as of the date of initial adoption; only for subleases do special transitional provisions apply to intermediate lessors.

Within the Group of RHÖN-KLINIKUM AG, the new standard will be adopted as of 1 January 2019 with application in modified form retroactively. Leases with a term of twelve months maximum as well as leases relating to low-value assets will continue to be treated as operating leases. The Group will adopt the exemption with regard to retaining the definition of a lease. IFRS 16 will thus be adopted for all contracts which were entered into before 1 January 2019 and classified as leases in accordance with IAS 17 and IFRIC 4. The adoption of IFRS 16 as lessee has a material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG. On the initial adoption date of 1 January 2019 there is thus an increase in assets and liabilities within the balance sheet (balance sheet extension) by € 8.0 million as well as a lower equity ratio. Existing lease expenditure is expected to benefit EBITDA of financial year 2019 by € 2.0 million, which in turn is expected to result in an increase in the depreciation/amortisation item by € 1.9 million. As a result of the mark-up on lease liabilities, the finance result of financial year 2019 is expected to be burdened by € 0.1 million by higher interest expenses. In all other respects, the adoption of IFRS 16 as lessor will have no material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG.

IFRIC 23 “Uncertainty over Income Tax Treatments”

The interpretation IFRIC 23 “Uncertainty over Income Tax Treatments” published by the IFRS IC on 7 June 2017 contains provisions on the application and measurement of tax risk positions and in this regard thus closes gaps in the provisions of IAS 12 “Income Taxes”.

Tax risk positions as defined in IFRIC 23 comprise all risk-related tax matters over which uncertainty exists regarding the acceptance by the tax authority, and thus are not only limited to already existing disputes with the tax authorities. The prerequisite for applying a tax risk position as an asset or liability is that a payment or a refund is considered likely. Risk-related tax matters may be applied individually or on an aggregated basis depending on which approach provides the best predictions regarding the resolution of the uncertainty. For measuring the tax risk position, either the most likely value or the expected value is to be applied, depending on which method best reflects the entity’s expectation regarding the resolution of the respective risk-related tax matter. It is moreover clarified that risk-related tax matters may have an impact on the calculation of both actual tax and deferred tax and that as a result uniform estimates and assumptions are to be made for the calculation in each case. The standard is to be applied as of financial years beginning on or after 1 January 2019. The adoption of IFRS 23 has no material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG.

Amendments to IFRS 9 “Financial Instruments”

On 12 October 2017, the IASB published amendments to IFRS 9. The amendments are to allow a measurement at amortised cost or fair value through other comprehensive income (FVOCI) also for financial assets with prepayment features that permit or require a party either to pay or receive reasonable compensation on termination. Furthermore, the amendments provide that the exception that had already applied previously for compensation payments in the event of termination may also apply in that the reasonable consideration mentioned there is negative for the early termination, i.e. de facto represents consideration for the terminating party. The supplementary provision makes it necessary to modify the existing exemption in such a way that according to its wording it is now based on “reasonable consideration” (instead of on “reasonable additional consideration” as was previously the case). As was already previously the case, the amount of early repayment essentially must represent the nominal contractual value and the contractual interest accrued but not yet paid and may include reasonable consideration for the early termination of the contract. The amendments to the standard IFRS 9 are to be applied as of financial years beginning on or after 1 January 2019. The adoption of IFRS 9 is of no practical relevance for RHÖN-KLINIKUM AG.

c) Estimates

Preparing consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made. Moreover, the application of Group-wide accounting policies means that management has to exercise reasonable judgment. Areas that call for a greater degree of judgment to be exercised or that are characterised by a 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. The preparation of the consolidated financial statements was based on historical cost, qualified by the financial assets and financial liabilities recognised at fair value through profit or loss.

d) Publication

The consolidated financial statements will be approved for publication by the Supervisory Board on 28 March 2019.

2.2 Consolidation

The annual financial statements of the companies included in the consolidated Annual Report have been prepared in accordance with uniform accounting and valuation principles in relation to the same date as the consolidated financial statements.

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) which the Group has the possibility of controlling pursuant to IFRS 10. When assessing whether control exist, it is examined whether the parent has power over the subsidiary, obtains positive or negative variable returns and from it can influence the amount of such returns through exercising its power. The Group examines whether control is exercised also when the parent company does not hold the majority of the voting rights but has the possibility of controlling the relevant activities of the subsidiary based on de facto control. De facto control exists for example in the case of voting right agreements or high minority rights.

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, of assets rendered, equity instruments issued and liabilities incurred or acquired. They also contain the fair values of all recognised assets and liabilities resulting from a contingent consideration agreement. Upon their first-time consolidation, assets, liabilities and contingent liabilities identifiable within the scope of a business combination are recognised separately at their fair values at the acquisition date. For each company acquisition the Group decides on a case-by-case basis whether the non-controlling interests in the acquired company are recognised at fair value or based on the proportionate share in the net assets of the acquired company. Costs relating to the acquisition are expensed as incurred.

In the event of a successive business combination, the previously acquired equity capital share of the company is redefined at its fair value applicable at the acquisition date. The resulting profit or loss is recognised in the income statement.

The value resulting from any excess in the cost of the acquisition, the amount of the non-controlling interests in the acquired company as well as the fair value of any previously held equity interests at the acquisition date 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 and balances as well as unrealised gains and losses from transactions between Group companies are eliminated. To the extent necessary, the accounting policies of subsidiaries are adjusted to ensure application of uniform accounting principles within the Group.

2.2.2 Transactions with non-controlling interests

Transactions with non-controlling interests are treated like transactions with equity investors. Any difference arising on acquisition of a non-controlling interest between the consideration paid and the relevant share in the carrying amount of the subsidiary's net assets is recognised in equity. Positive or negative effects arising on disposal of non-controlling interests are likewise recognised in equity. This applies only to the extent the disposal does not give rise to any loss of control.

2.2.3 Associated companies and joint ventures

Associated companies are those companies over which the Group has a substantial influence. A substantial influence is refutably presumed if the share of voting rights is between 20.0% and 50.0%. Investments in associated companies and jointly controlled entities (joint ventures) are accounted for using the equity method and initially recognised at cost. The Group's interest in associated companies and jointly controlled entities includes the goodwill arising on acquisition (less accumulated impairment losses).

The Group's interest in the profits and losses of associated companies or joint ventures is recognised in the income statement as of the date of acquisition and the cumulative changes are offset against the carrying amount of the investment. Changes in equity without effect in profit or loss are not to be considered. If the Group's share in the loss of an associate or joint venture is equal to or greater than the Group's share in this company including other unsecured receivables, no further losses are recognised unless the Group has entered into an obligation for the associate or jointly controlled entity or has made payments for it.

Unrealised intercompany profits or losses from transactions between Group companies and associated companies or joint ventures are eliminated on a pro rata basis if the underlying circumstances are material.

In an impairment test, the carrying amount of a company accounted for using the equity method is compared with its recoverable amount. If the carrying amount exceeds the recoverable amount, an impairment equal to the difference must be recognised. If the reasons for a previously recognised impairment have ceased to exist, the impairment is reversed through the income statement.

The financial statements of investments accounted for using the equity method are prepared using uniform accounting principles within the Group. Associated companies whose individual or overall impact on the net assets and results of operations is not material are not accounted for using the equity method. They are included in the consolidated financial statements at fair value. Immaterial equity interests whose market value cannot be calculated due to the absence of an active market are measured at cost.

2.2.4 Sale of subsidiaries and associated companies

If the Group loses either control or material influence over a company, the remaining interest is re-measured at fair value and the resulting difference recognised as profit or loss. Fair value is the fair value calculated upon the initial recognition of an associate, joint venture or financial asset. Moreover, all amounts stated in other income are recognised with reference to such company in the same way as would be required if the related assets and liabilities had been sold by the parent company directly. That means that a profit or loss previously recognised under other income is transferred to the income statement. If it cannot be transferred to the income statement, it remains in equity (e.g. actuarial profits or losses from pensions).

2.3 Segment reporting

According to IFRS 8 – Operating Segments, segment information on operating segments is to be presented in accordance with the internal reporting to the chief operating decision maker (management approach). An operating segment is a company component

- which carries out business activities from which revenue is earned and for which expenses may be incurred. For us these include all revenues relating to services provided directly and indirectly for patients, as well as all expenses necessary for providing services,
- whose operating result is regularly reviewed by the company's chief decision maker to make decisions about resources to be allocated to this segment and assess its earnings strength, and
- for which separate financial information is available.

The chief decision making body in our Group is the Board of Management. It is in this body that the strategic decisions are made for the Group and to this body that the key ratios of the hospitals, which represent our operating segments, are reported.

Monthly reporting to the Board of Management includes the hospitals. Group management costs are fully distributed to the operative segments. The monthly target/actual comparison and actual/actual comparison in the report to the Board of Management, by aggregating the operative segments into one reporting segment, serves to control the targets published in the Company forecast, in particular the EBITDA margin.

Given our understanding of an integrated healthcare services offering, we do not make any distinction in control by whether the services as defined in German social insurance legislation are attributed to the inpatient or the outpatient sector, or to the rehab or nursing sector. All expenses and income which are directly or indirectly related to patients are included under the operating segments.

The operating segments are aggregated to one reporting segment since they exhibit similar economic characteristics. As a result of the same structural framework conditions, the operating segments in the Group with the healthcare services provided are characterised by a similar risk and rewards profile whose economic environment is largely regulated by legislation. The politically desired state interference is felt both on the income side and with expenses. It is thus possible for the operating segments to achieve similar EBITDA margins. We thus continue to have only one operating segment subject to reporting.

We generate all revenues for all our areas of activity in Germany. We generate most of our revenues in the inpatient, outpatient, rehab and nursing area with the statutory health insurance funds, the state pension insurance agency, the statutory occupational insurance agencies and the other public healthcare institutions. Only a small share of revenues is generated with private health insurance funds or self-payers. Regarding the breakdown of revenues by business areas and federal states, we refer to section 5 of the Notes.

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 allocated to intangible assets. Goodwill is subjected at least to an annual impairment test and measured at its historical cost less any impairment losses. A review is also performed when there are events or circumstances indicating that the value might be impaired. Impairment losses are not reversed. Profits and losses arising on the sale of a company include the carrying amount of the goodwill allocated to the company sold.

For the purpose of the impairment test, goodwill is allocated to cash generating units. At RHÖN-KLINIKUM AG these correspond as a rule to the individual hospitals (each hospital site with its inpatient, semi-inpatient and outpatient care structures including any existing rehabilitation facilities) unless the related goodwill of co-operating units is monitored at a higher level.

If the recoverable amount is below the carrying amount, an impairment is recognised. Here, the recoverable amount is the higher of the two fair value amounts less costs to sell the asset and its value in use.

2.4.2 Computer software

Purchased computer software licences are recognised at cost plus the cost of bringing them to their working condition. These costs are amortised over the estimated useful life (three to seven years, straight-line method), and are shown under "depreciation/amortisation and impairment" in the income statement.

Costs relating to the development of websites or maintenance of computer software are expensed as incurred if the conditions for capitalisation are not satisfied.

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 (three to five years) using the straight-line method, and are shown under “depreciation/amortisation and impairment” in the income statement.

2.4.4 Research and development expenses

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

2.5 Property, plant and equipment

Land and buildings are reported 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. Cost includes the expenditure directly attributable to the acquisition or construction of an asset as well as any overheads attributable to construction. Subsequent costs are recognised as part of the cost 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 it is incurred.

Property, plant and equipment are tested for impairment if events or changed circumstances suggest that an impairment may have occurred. In such a case, the impairment test is performed pursuant to IAS 36 according to the principles explained for intangible assets. Where an impairment is to be made, the remaining useful life of the asset may be adjusted accordingly. If the reasons for a previously recognised impairment have ceased to exist, such impairment losses are reversed, in which case such reversal may not exceed the carrying amount that would have resulted if no impairment had been recognised in the previous periods.

Land is not depreciated. All other assets are depreciated using the straight-line method, with costs being depreciated over the expected useful lives of the assets so as to write down the value of the assets to their residual carrying amount as follows:

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

The net book values and useful economic lives are reviewed at each balance sheet date and adjusted where applicable. Gains and losses on the disposal of assets are measured as the difference between the disposal proceeds and the carrying amount and recognised through profit or loss.

2.6 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 distributed as a reduction in expenses over the expected useful life of the related assets using the straight-line method. Such grants are granted to hospitals within the framework of investment finance legislation. Grants not yet used for their intended purpose are reported under “Other financial liabilities” at the balance sheet date.

2.7 Impairment of property, plant and equipment and intangible assets (excl. goodwill)

The Group assesses on every balance sheet date whether there are any indications that an asset might be impaired. If such indications exist or if an annual impairment test has to be performed in relation to an asset, the Group estimates the recoverable amount. If it is not possible for independent inflows to be allocated to the individual asset, the Group estimates the recoverable amount for the cash generating unit to which the asset belongs. The recoverable amount is the higher of the fair value of the asset less costs to sell it and its value in use. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In order to calculate the value-in-use, the estimated future cash flows are discounted to their present value using a discount rate before taxes which reflects the current market expectation with regard to the interest effect and the specific risks of the asset. Impairments are shown in the income statement under the item depreciation/amortisation.

On every balance sheet date, a test is performed to establish whether there are any indications that an impairment recognised in previous reporting periods no longer exists or might have diminished. If such an indication exists, the recoverable amount is estimated. An impairment previously recognised has to be reversed if there has been a change in the estimates used for determining the recoverable amount since the last impairment was recognised. If this is the case, the carrying amount of the asset has to be increased to the recoverable amount of the asset. However, this must not exceed the carrying amount which would have resulted after the recognition of depreciation/amortisation if no impairment had been recognised in previous years. Any such reversal of a prior impairment has to be recognised immediately in the profit or loss for the period. After a prior impairment has been reversed, the amount of depreciation/amortisation in future reporting periods has to be adjusted in order to systematically distribute the revised carrying amount of the asset, less any residual value, over the remaining useful life of the asset.

2.8 Financial assets

Financial assets in principle comprise receivables, other financial assets, equity instruments, derivative financial instruments with positive fair values, and cash.

As of 1 January 2018, these financial assets are principally divided into the following categories as defined in IFRS 9:

- Measured at fair value through profit and loss
- Measured at fair value directly in equity (fair value through other comprehensive income; without recycling)
- Measured at amortised cost
- Measured at fair value directly in equity (fair value through other comprehensive income; with recycling)

Until 31 December 2017, the financial assets are principally divided into the following categories as defined in IFRS 39:

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Financial assets available for sale

All purchases and sales of financial assets are recognised at the settlement date, i. e. the date when the purchase or the sale is transacted. Derivative financial instruments are recognised on the trading date.

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

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

Assets measured at fair value directly in equity (fair value through other comprehensive income; without recycling) are measured after initial recognition at their fair values. Financial assets in the category of amortised cost are carried at amortised cost using the effective interest method. 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.

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 principally reported in the income statement under finance cost and income in the period in which they arise. Investments in equity instruments (equity interests) are carried in accordance with IFRS 9 at RHÖN-KLINIKUM AG as fair value through other comprehensive income (without recycling). Related gains and losses from the sale are not reclassified in the income statement.

If no active market exists for financial assets or if these assets are not listed, the fair values are calculated using suitable measurement methods. These may include references to recent 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.

On each balance sheet date it is reviewed whether any losses incurred or already expected losses are to be recognised. Unless the simplified impairment approach is applied, an additional differentiation is made as to whether or not the default risk of financial assets has materially deteriorated since their acquisition. If the default risk has deteriorated significantly (e.g. if the financial asset can no longer be allocated to the investment grade rating category), all expected losses as of that point in time are recognised over the entire term. Otherwise, only those losses expected over the term of the instrument are taken into account which result from future potential loss events within the next twelve months.

Within the Group of RHÖN-KLINIKUM AG, the general impairment model is essentially applied to fixed deposit investments. In this regard, the expected credit loss is calculated taking into account external ratings and rates of insolvency.

2.8.1 Assets measured at fair value through profit and loss

According to IFRS 9, financial assets are subject to mandatory measurement at fair value through profit or loss if they are held neither as part of a business model whose purpose consists in holding assets to collect contractual cash flows, nor as part of a business model whose purpose is fulfilled if contractual cash flows are collected and financial assets are sold. In a business model which leads to a FVTPL measurement, the financial assets are held for trading or managed on a fair value basis. Moreover, financial assets are to be measured at fair value through profit or loss if they do not fulfil the cash flow conditions as defined in IFRS 9. At RHÖN-KLINIKUM AG, no assets in the form of debt capital instruments that could be allocated to this category exist.

2.8.2 Assets measured at fair value directly in equity (fair value through other comprehensive income; without recycling)

Investments in equity instruments do not fulfil the cash flow conditions as defined in IFRS 9; they are principally to be measured at fair value. For equity instruments not held for trading, an entity has the irrevocable right on initial recognition to avail itself of the fair-value OCI option. Within the Group of RHÖN-KLINIKUM AG, equity investments in the amount of € 4.7 million as of the initial adoption date of IFRS 9 are measured at fair value (fair value through other comprehensive income; without recycling).

2.8.3 Assets measured at amortised cost

Financial assets held as part of a business model whose purpose consists in holding assets to collect the contractual cash flows are measured at amortised cost provided that the assets also fulfil the cash flow conditions as defined in IFRS 9.

When assessing whether cash flows are realised through collection of the contractually agreed payments from the financial asset, the frequency and scope of the sales in earlier periods are to be considered, whether the assets sold were about to mature, as well as the reasons for such sales and the expectations with respect to the future sales activities.

Within the Group of RHÖN-KLINIKUM AG, trade receivables, other financial assets, cash and cash equivalents as well as financial liabilities are allocated to this category.

2.8.4 Assets measured at fair value directly in equity (fair value through other comprehensive income; with recycling)

This category covers financial assets which fulfil the cash flow conditions as defined in IFRS 9 and whose purpose consists in collecting contractual cash flows and selling financial assets. Currently, no such financial assets exist at RHÖN-KLINIKUM AG.

2.9 Investment property

Investment properties comprise land and buildings which are held for the purpose of generating rental income or for achieving capital gains, and which are not used for the Company's own provision of services, for administrative purposes or for revenues within the scope of ordinary operations. Investment properties are measured at cost less cumulative depreciation.

Since RHÖN-KLINIKUM AG or its subsidiaries retain beneficial ownership in leased properties as lessor (operating lease), these properties are identified as such and reported 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.

2.10 Inventories

Inventories within the Group of RHÖN-KLINIKUM AG are materials and supplies. These are measured at the lower of cost (including transaction 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 to sell.

2.11 Trade receivables

Trade receivables are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost less impairments. The Group generates over 90% of its revenue from the statutory health insurance funds. The material part of accounts receivable is likewise due from statutory health insurance funds. For calculating expected credit losses, we have used the country default risk for the Federal Republic of Germany as a basis for this category of receivables. In the case of the other receivables, the Group uses aged debtor lists and past experience as the basis for estimating the percentage of expected credit losses as at the balance sheet date in relation to the period of time overdue. Macroeconomic risks are included with a time lag in the assessment through the country default risk of the Federal Republic of Germany or through the individual receivables defaults. Receivables are derecognised within the Group of RHÖN-KLINIKUM AG after expiry of the legally prescribed limitation periods or after conclusion of unsuccessful insolvency proceedings. In addition, the Group recognises specific valuation allowances if, as a result of particular circumstances, it is not likely that trade receivables will be recovered.

2.12 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 current financial liabilities.

2.13 Equity

Ordinary shares are classified as equity. Costs that are directly attributable to the issuance of new shares are recognised 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 attributable to shareholders of the company 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 attributable to the shareholders of RHÖN-KLINIKUM AG.

2.14 Financial liabilities

Financial liabilities in principle comprise financial debt (including the negative fair values of derivative financial instruments), trade payables as well as other financial liabilities. Loan liabilities are classified as current liabilities unless the Group has the unconditional right to postpone settlement of the liability to at least twelve months from the balance sheet date.

Financial liabilities as well as financial debt are initially recognised at fair value (less transaction costs). In subsequent periods they are measured at amortised cost; any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is recognised over the term of the loan in the income statement in the finance result using the effective interest method.

Derivative financial instruments are measured at fair value. For current financial liabilities this means that they are recognised at their repayment or settlement amount.

2.15 Current and deferred taxes

The tax expense of the period is made up of current and deferred taxes. Taxes are recognised in the income statement unless they relate to items which were directly recognised in equity or in other income. In this case, taxes are likewise recognised in equity or other income.

Deferred tax is recognised using the liability method for all temporary differences between the tax basis of assets and liabilities and the respective IFRS consolidated carrying amounts. If, however, in a transaction which is not a business combination, deferred tax 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 is recognised. Deferred taxes are measured subject to 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 corporate income tax rate of 15.0% (plus the 5.5% solidarity surcharge on corporate income 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 equity interests in subsidiaries are always recognised unless the point in 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.

2.16 Employee benefits

2.16.1 Pension obligations and other long-term benefits due to employees

Various pension plans exist within the Group. These plans are financed by payments to insurance companies or pension funds or by recognising provisions (direct commitments) whose amount 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 possibility of claims being asserted against the Group for payment of additional contributions exists only within the scope of subsidiary liability. Since RHÖN-KLINIKUM AG regards the risk of default of an insurance company or pension fund as extremely low, such commitments are accounted for as defined contribution plans.

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 are recognised in personnel expenses when due.

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. 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 issued in the currency in which the benefits are paid and whose terms are consistent with those of the pension obligation.

Actuarial gains and losses resulting from changes in actuarial assumptions and/or from discrepancies between earlier actuarial assumptions and the actual development are recognised directly at equity in the period in which they occur giving due regard to deferred tax. In this way the balance sheet – after deduction of any existing plan assets – shows the full scope of the obligations avoiding fluctuations in expenses that may arise in particular in the case of changes in the calculation parameters. The actuarial gains and losses recognised in the respective reporting period are shown separately as “revaluations of defined benefit pension plans” in the statement of comprehensive income.

Pursuant to IAS 19, past service cost, i.e. all changes in benefits diminishing the defined benefit obligation, are fully recognised in the income statement at the time of the plan modification.

Multi-employer plans

On the basis of collective agreements, the Group pays contributions to the Federal and State Pension Scheme (VBL) and other public service pension schemes (Supplementary Insurance Scheme for Municipalities, ZVK) for a certain number of employees. The supplementary pension schemes are public-law corporations or institutions. The contributions are paid on a pay-as-you-go (PAYGO) basis. This financing structure carries the risk of rising contributions through the levy of reform imposts that may be charged unilaterally or disproportionately to employers.

The present plans are multi-employer plans (IAS 19.8) since the participating companies share both the risk of the capital investment and the actuarial risk. In principle, the VBL/ZVK benefit plan is to be classified as a defined benefit plan (IAS 19.38), but the information needed for an objectively correct representation of the Group's share of the future payment is not available due to the existing PAYGO financing regime. Because of such PAYGO financing approach in which the levy rate is calculated for a certain coverage layer on the basis of the aggregate insurance portfolio and not on the basis of the individual risk of insurees, the benefit plan pursuant to IAS 19.34 is to be recognised as a defined contribution plan. Since no agreements within the meaning of IAS 19.37 exist, there is no recognition of a corresponding asset or liability. Any superordinated guarantee obligations of public-law entities take precedence over the recognition of any liability item in the balance sheet.

The current contributions to VBL/ZVK were reflected in the employee benefits item as pension expenses or post-employment benefits for the respective years.

In addition to the levy, the VBL also levies reform imposts from the participating employers with compulsory insurees in the separately organised and managed settlement class "Abrechnungsverband West". The flat-rate monies cover the additional financing requirement necessary until the comprehensive healthcare system is switched over to the points model. The share in the reform impost that the individual employers have to pay depends on which residual liabilities and insured remunerations they cover. Up to 2015, the reform impost amounted to roughly 2% of the remunerations on average. Since in particular the insurance portfolio developed more favourably than had originally been assumed, cash assets of VBL have risen significantly. As things now stand, no recapitalisation charge would have been required for the period 2013 to 2015. At its meeting on 12 November 2015, the Supervisory Board of the VBL therefore decided to refund the recapitalisation charges paid for those years, including the net return in 2016. Since 2016, the recapitalisation charge to 31 December 2022 has been roughly 0.14%.

In the settlement class "Abrechnungsverband West", the VBL finances its benefits through a PAYGO approach taking the form of a modified defined period-based funded approach ("Abschnittsdeckungsverfahren"). The current defined period covers 2016 to 2022. The levy rate is assessed in such a way that the contribution to be paid for the duration of the defined period together with the other income expected and the available assets suffices to settle the expenditures during the defined period and the period of six months thereafter. Since 1 January 2002, the levy rate has been 7.86% of the remuneration subject to supplementary pension payments, of which employers pay a share of 6.45% and employees a share of 1.41%. Since 1 July 2017, an additional employee contribution of 0.4% has applied.

Given insufficient information, it is not possible to make any statement on the level of participation in the pension schemes based on the contributions paid by the Group of RHÖN-KLINIKUM AG compared with the aggregate payments to the VBL and other public service pension schemes (ZVK).

In the event of a VBL participation being terminated, the legal consequences arising therefrom are defined in section 23 of the VBL Rules. Termination of a VBL participation also triggers the end of the mandatory insurance schemes. Since the VBL also continues to settle the pension claims and entitlements arising up to the end of the participation, the withdrawing party, as compensation, is required to pay an equivalent value which does not include those components financed under the funded scheme. This equivalent value comprises the full funding of existing entitlements and coverage of administrative expenses as well as future benefit claims. The supplementary pension insurance scheme ZVK also stipulates a similar provision. Since in the case of withdrawal from PAYGO financing the risks of the other participants of the system also have to be compensated pro rata, a plausible actuarial calculation can be made only by the pension fund itself.

Membership in VBL/ZVK exists only due to the acquisition of hospitals from public ownership. The hospitals in Gießen and Marburg are members of VBL, and RHÖN-Kreisklinik Bad Neustadt a. d. Saale is a member of ZVK.

2.16.2 Termination benefits

Termination benefits are provided 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 committed to terminating the employment of current employees subject to a detailed formal plan which cannot be rescinded or is committed to paying severance compensation if employees accept voluntary redundancy. Termination benefits which fall due more than twelve months after the balance sheet date are discounted to their present value.

2.16.3 Management profit sharing and employee profit sharing

Management profit sharing and employee profit sharing are recognised as liabilities using a measurement method based on the consolidated result or the results of consolidated subsidiaries. The Group recognises a liability in the cases in which a contractual obligation exists or an obligation arises from a past practice.

2.16.4 Share-based payments

Share-based payments are recognised in accordance with IFRS 2. In financial year 2014, warrants in the form of virtual shares were issued. These are accounted for as payment with cash settlement. The provision for the liability resulting from the virtual shares is formed in the amount of the expected expenditure. The fair value of the virtual shares is calculated using a binomial model. Moreover, the incumbent and former members of the Board of Management held an equity interest of 3.0% (previous year: 6.0%), and other employees an interest of 3.2% (previous year: 1.2%), in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made on founding of the company for the interests in the amount of € 0.3 million (previous year: € 0.4 million) – of which € 0.1 million (previous year: € 0.3 million) is attributable to the members of the Board of Management) – are reported under the other liabilities item as share-based remunerations as defined in IFRS 2 (cash-settled share-based payment transactions). In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. Moreover, the option of returning the interests on termination of the service relationship exists. In 2018 a now retired employee has made use of this provision. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable.

2.17 Provisions

Provisions for restructuring and legal obligations are recognised when the company has an 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 in the future, 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.

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 recognised if the probability of outflow for any one of such obligations is deemed to be small.

Provisions are measured as the present value of the payments expected to be required to settle the obligation. The discounting process uses a pre-tax interest rate which reflects the current market expectations with regard to the present value of the funds and the risk potential of the obligation. Increases in the value of provisions based on interest effects reflecting the passage of time are recognised as interest expense in the income statement.

2.18 Revenue recognition

Revenue is recognised at the fair value of the consideration received for the provision of services and for the sale of products. Revenue from intra-Group goods and services is eliminated by way of consolidation. Revenue is recognised as follows:

2.18.1 Inpatient and outpatient hospital services

Hospital services are recognised in the financial year in which the services are performed by reference to the stage of completion as a proportion of the total services to be performed. Charges agreed with the payers are essentially invoiced at fixed rates irrespective of the duration of stay. In certain segments daily hospital and nursing rates are invoiced. In the outpatient area, the individual services and medical aids are invoiced based on the schedules of benefits applicable to the respective area.

Hospital services are limited in terms of their volume as part of an agreed budget. As a result, service volumes exceeding the budget and service volumes falling short of the budget are to be mutually offset under statutory provisions. Budget-restricting provisions are also being applied in the outpatient area.

2.18.2 Interest income

Interest income is recognised on a pro rata basis using the effective interest method.

2.18.3 Income from distribution and dividends

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

2.19 Leasing

Leasing transactions as defined in IAS 17 can result from rental and lease arrangements, and are classified either as a finance lease or an operating lease.

Leasing transactions in which the Group, in its capacity as the lessee, bears all the major risks and rewards associated with ownership are normally treated as finance leases, i.e. as if the assets had actually been acquired. The assets are capitalised and depreciated over their normal useful lives or the term of the lease agreement; the future lease payments are recognised as liabilities at their present value.

Leasing transactions 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 in the income statement on a straight-line basis over the term of the lease.

2.20 Costs of borrowing

If borrowing takes place, the costs of borrowing are deducted from the corresponding items and are distributed using the effective-interest method. Moreover, the interest is then recognised as current expense. Costs of borrowing incurred in connection with the acquisition/construction of qualifying assets are capitalised during the entire production process until commissioning. Other costs of borrowing are recognised as an expense.

2.21 Dividend payments

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

2.22 Financial risk management

2.22.1 Financial risk factors

The assets, liabilities and planned transactions of RHÖN-KLINIKUM AG are exposed in particular to the following risks:

- Credit risk
- Liquidity risk
- Interest rate risk

The aim of financial risk management is to limit the above risks through ongoing operating activities as well as the use of derivative and non-derivative (e.g. fixed-interest loans) financial instruments. As a general rule, derivative financial instruments may be entered into for hedging purposes, i.e. they are not used for trading or speculative purposes.

As a rule, financial instruments for limiting the counterparty risk are taken out only with leading financial institutions with at least an investment grade rating.

Financial risk management is conducted by the Treasury department under the supervision of the CFO in line with the guidelines adopted by the Board of Management and the Supervisory Board. Risks are identified and measured by the Board of Management working together 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 rate and credit risks, the use of derivative and non-derivative financial instruments as well as the investment of liquidity surpluses.

2.22.2 Credit risk

The Group provides over 90% of its services for members of the statutory social insurance scheme, and the remainder to persons who pay medical invoices themselves and who have taken out private health insurance. There are no significant concentrations with respect to individual payers. The cost of hospital services is normally settled by payers within the legally prescribed period. With regard to the default risks in the 2018 financial year, please refer to our comments in the sections "Trade receivables", "Other financial assets" and "Other assets". The maximum risk of default is equal to the aggregate amount of the financial assets (less impairments) recognised on the balance sheet. Counterparty risks from entering into financial transactions are minimised by adherence to rules and limits.

2.22.3 Liquidity risk

Careful liquidity management includes holding a sufficient reserve of cash, 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 market environment in which the Group operates, the objective of RHÖN-KLINIKUM AG is to maintain the necessary flexibility in finance matters by having sufficient credit lines available and access to the capital markets at all times. A minimum strategic liquidity of cash and free, immediately available credit lines is held in order to ensure the Group's ability to act at all times. A liquidity report is prepared daily for monitoring liquidity risk. Short-to medium-term liquidity planning calculations are also carried out.

2.22.4 Interest rate risk

Interest rate risk results from uncertainty about future developments in the level of interest rates and affects all interest-bearing items as well as interest derivatives. RHÖN-KLINIKUM AG is therefore always exposed to interest rate risks.

As at the balance sheet date, 53.6% (previous year: 47.5%) of cash at banks was invested at a variable interest rate subject to 30 days' termination notice or callable daily, and 46.4% (previous year: 52.5%) at a fixed interest rate maximum residual term of up to 12 months (previous year: 17 months).

In October 2018, RHÖN-KLINIKUM AG successfully placed on the market a promissory note in the amount of € 100 million. The tranches exclusively bearing fixed interest with bullet maturities have terms of 5, 7 and 10 years. The funds collected are being used for general corporate finance. In 2017, a syndicated line of credit in the amount of € 100 million was taken out. As at the balance sheet date, this line had not been utilised.

As already in the previous year, no monitoring of interest rate risks was performed in the 2018 financial year by means of sensitivity analyses given the reduced risk.

2.22.5 Management of equity and debt

The aim of the Management with regard to the handling of equity and debt is to adopt a strict policy of matching maturities (horizontal balance sheet structure) of source and use of funds. Non-current assets should be funded on a long-term basis. The items of equity and non-current liabilities shown in the balance sheet are included under the source of long-term funds. This ratio should be at least 100%, and amounted to 122.7% in the year under review (previous year: 118.8%). Long-term appropriation of funds relates to financial assets and property, plant and equipment. Although given the personnel cost ratio of more than 50% the Group of RHÖN-KLINIKUM AG is frequently attributed to the services sector, our business model has a long-term focus and is for the most part investment-driven. It is to be ensured that at least 35.0% of capital expenditure is sustainably backed by equity. As at 31 December 2018, this ratio at the Group level was 72.9% (previous year: 76.5%).

Group growth is also managed by way of appropriate equity measures through resolutions on the appropriation of profits for the consolidated companies. With regard to retaining parts of the net income, the Management focuses on an equity ratio of 25%.

If debt capital is used, the Management focuses on the following management ratios for minimising risks. The aim is to limit the ratio between net financial debt (= financial liabilities less cash and cash equivalents) and EBITDA to a maximum 3.5-fold multiple.

3 | CRITICAL ESTIMATES AND ASSESSMENTS IN ACCOUNTING AND VALUATION

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

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

- 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, and
- assumptions relating to the credit risk of trade receivables.

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.

3.1 Estimated impairment of goodwill

To determine goodwill at fair value less costs to sell, the operating cash flows of the individual hospitals, with their inpatient, semi-inpatient and outpatient care structures, were discounted at the weighted average cost of capital (WACC) after tax of 5.54% (previous year: 5.67%). The carrying amounts do not exceed fair value less cost of sale. Based on this calculation, no impairment requirement was ascertained. Key assumptions having a substantial influence on fair value less costs to sell are WACC and the average EBIT margin. See our Note under 6.1 for average growth in revenues. For the cash generating units, the recoverable amount is equal to the carrying amount as of an assumed cost of capital rate of 7.2% (previous year: 7.7%).

3.2 Revenue recognition

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

In order to create planning and revenue certainty, these regulations normally provide for prospective fee agreements. In practice, however, these negotiations take place only in the course of the financial year or even thereafter, creating uncertainties as to the service volume for which consideration is received at the balance sheet date. These are reflected in the balance sheet through objective estimates of receivables or liabilities. Past experience has shown that the inaccuracies relating to the estimates represent well under 1% of the Group's revenues.

The Group generates over 90% of its revenue from the statutory health insurance funds. As a general rule, the various budgets for the individual hospitals are defined together with the statutory health insurance funds at the beginning of each year. Diagnosis related groups (DRGs) are measured nationally on a uniform basis through the DRG catalogue (output method as defined in IFRS 15). The measurement ratios are reviewed and adjusted each year by Institut für das Entgeltsystem im Krankenhaus GmbH (InEK).

If the service volume invoiced by a hospital (number, severity or type of service) at the end the financial year does not correspond to the budget negotiated for that year, this results in either revenue surpluses or shortfalls that are compensated by way of income compensation between the health insurance funds and the respective hospital. If the actual volumes exceed or fall short of the agreed total budget, only the additional variable costs are paid or saved variable costs deducted, using fixed rates. The receivables (contract assets) or liabilities (contract liabilities) arising as a result are reported in the consolidated balance sheet and revenues are corrected accordingly.

Approved fee agreements existed at all hospitals at the time the consolidated balance sheet was prepared; this meant that any compensation payments for excess revenues or shortfalls could be calculated precisely. In hospitals in which no budget agreements had yet been concluded for 2018, we adhered strictly to the legal framework in our accounting.

Moreover, pursuant to section 275 of the German Social Insurance Code V (Sozialgesetzbuch V, SGB V) as well as section 17 of the German Hospital Financing Act (Krankenhausfinanzierungsgesetz, KHG), payers as a rule have a right of review with regard to the coded income by the Medical Review Board of the Statutory Health Insurance Funds (MDK). In the assessment of trade receivables or liabilities and of revenues from hospital services rendered, estimates are made with reference to the complaint rate of MDK and, based on empirical values, corresponding corrections in revenues taken into account for this. The final results from the reviews of MDK in turn have an influence on the income compensation for the respective financial year.

3.3 Income taxes

Estimates are required for the recognition of tax provisions as well as deferred tax items.

For determining the actual value of deferred tax assets, it is essential to assess the probability of the reversal of the valuation differences and the extent to which it is possible to use 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 are reversed and tax loss carry-forwards can be utilised. Uncertainties exist with regard to the interpretation of complex tax regulations as well as the amount and timing of future taxable income that result in changes in the tax income or expense in future periods. The Group recognises 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

Consolidated companies

The ultimate parent company is RHÖN-KLINIKUM Aktiengesellschaft with its registered office in Bad Neustadt a. d. Saale. The consolidated companies are as follows:

In anticipation of the spatial amalgamation of Bad Neustädter Akutkliniken in the newly erected hospital campus at the end of 2018/ beginning of 2019, the legal amalgamation of Herz- und Gefäß-Klinik GmbH Bad Neustadt and of Neurologische Klinik GmbH Bad Neustadt/Saale (both subsidiaries are fully consolidated) was effected in the 2018 financial year with effect retroactively to 1 January 2018. The legal amalgamation was recorded in the commercial register on 2 January 2019.

Other entities are companies whose individual or overall impact on the net assets and results of operations is not material and/or for which we cannot exert any material influence over financial and business policy decisions. They are included in the consolidated financial statements at the lower of cost or fair value.

During the reporting period, our equity interest in the company Gesellschaft zur Durchführung des Schulversuchs Generalistische Pflegeausbildung mit beruflichen Schwerpunkten in Bayern UG (limited liability), Röhrmoos, in which we held an interest of 30%, was sold. The sale resulted in neither a gain nor a loss.

The management of Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung (MIT), in which RHÖN-KLINIKUM AG holds an interest of 24.9%, filed for insolvency in September 2018. In the fourth quarter, the agreement was reached with Universitätsklinikum Heidelberg, which until then had held 75.1% in MIT, on the takeover of these corporate interests as at 1 January 2019 and the appointment of the management by RHÖN-KLINIKUM AG from January 2019. Approval by the German Cartel Office was given in December 2018. As of 1 January 2019 we thus exercise control and fully consolidate MIT in the consolidated financial statements as of the aforementioned date.

The agreement reached and the resulting sole medical and commercial management of the company allow for new structuring options in collaboration with the university hospitals in Gießen and Marburg with a view to achieving lasting commercial success with this innovative treatment strategy. Based on the agreement, the

	31 Dec. 2017	Additions	Disposals	Reclassification	31 Dec. 2018
Fully consolidated subsidiaries	28	–	–2	–	26
Companies consolidated using the equity method	2	–	–	–	2
Other subsidiaries	9	–	–1	–	8
Consolidated companies	39	–	–3	–	36

insolvency application filed was withdrawn at the end of 2018. An impairment loss was taken on the loans extended in the third and fourth quarter of 2018 to MIT in the amount of € 1.1 million. The preliminary purchase price allocation as at 1 January 2019 has the following impact on the Group's net assets in 2019:

in € million		Fair value post acquisition
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung		
Acquired assets and liabilities		
Intangible assets	0.0	
Property, plant and equipment	5.7	
Inventories	0.3	
Trade receivables	3.0	
Cash and cash equivalents	0.5	
Other assets	2.0	
Trade payables	-2.3	
Other liabilities	-1.3	
Net assets acquired	7.9	
+ Goodwill	0.0	
Cost as defined by IFRS 3	7.9	
./. Acquired cash and cash equivalents	-0.5	
Cash outflow on transaction at date of first-time consolidation	7.4	
Payments already rendered	0.0	
Purchase price yet to be paid	7.9	

Acquisition of physicians' practices

In the 2018 financial year a total of two physicians' practices were acquired whose conditions of validity as per agreement were satisfied during the reporting period of 2018. Consolidation in the Group also took place in the 2018 financial year. No costs were incurred from the acquisition of these doctor's practices. The revenues and annual results generated since their inclusion in the consolidated statements are of minor importance for the Group of RHÖN-KLINIKUM AG. The final purchase price allocation has the following impact on the Group's net assets in 2018:

in € million		Fair value post acquisition
Purchase of physicians' practices, January to December 2018		
Acquired assets and liabilities		
Property, plant and equipment	0.0	
Net assets acquired	0.0	
+ Goodwill	0.6	
Cost	0.6	
./. Purchase price payments outstanding	0.0	
./. Acquired cash and cash equivalents	0.0	
Cash outflow on transaction	0.6	

Goodwill amounting to € 0.6 million essentially includes synergy effects expected from the expansion of medical care centres. The goodwill recognised is likely to be tax-deductible.

In the 2018 financial year three physicians' practices were acquired whose conditions of validity as per agreement will be satisfied only as of 1 January 2019. Consolidation in the Group will also take place in financial year 2019. The preliminary purchase price allocation has the following impact on the Group's net assets in 2019:

in € million		Fair value post acquisition
Purchase of physicians' practices valid as of 1 January 2019		
Acquired assets and liabilities		
Property, plant and equipment	0.0	
Other liabilities	0.1	
Net assets acquired	0.1	
+ Goodwill	0.3	
Cost	0.4	
./. Purchase price payments outstanding	-0.4	
./. Acquired cash and cash equivalents	0.0	
Cash outflow on transaction	0.0	

5 | NOTES TO THE CONSOLIDATED INCOME STATEMENT

5.1 Revenues

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

in € million		
	2018	2017
Business areas		
Acute hospitals	1,192.5	1,173.2
Medical care centres	14.9	12.2
Rehabilitation hospitals	25.5	25.7
	1,232.9	1,211.1
Regions		
Bavaria	256.5	257.9
Saxony	0.2	0.2
Thuringia	164.5	164.9
Brandenburg	136.3	136.1
Hesse	675.4	652.0
	1,232.9	1,211.1

According to IFRS 15, revenues constitute revenues generated from the provision of services and in the 2018 financial year rose by € 21.8 million or 1.8% to reach € 1,232.9 million. Of that, our acute and rehabilitation hospitals accounted for € 1,218.0 million (previous year: € 1,198.9 million) and the medical care centres for € 14.9 million (previous year: € 12.2 million).

As a result of implementation of the provisions of IFRS 15 subject to mandatory adoption as of 1 January 2018, revenues of the 2018 financial year include revenue reductions of € 11.3 million. In the previous year these revenue reductions were essentially reported under other expenses. Moreover, revenues of the 2018 financial year are helped in the amount of € 26.1 million by the invoicing of an additional remuneration component for the medicamentous treatment of SMA (spinal muscle atrophy), which is remunerated in addition to the relevant DRG and burdens by the same amount the item materials and consumables used. The drug concerned was authorised by the European Commission only at the beginning of July 2017. The drug was invoiced within the Group for the first time in the fourth quarter of 2017 as an additional remuneration component in an amount of € 7.3 million.

5.2 Other income

Other operating income comprises:

in € million		
	2018	2017
Income from services rendered	154.5	131.2
Income from grants and other allowances	13.1	11.4
Income from adjustment of receivables	–	0.7
Income from indemnification payments/ other reimbursements	0.6	0.2
Other	15.3	8.4
	183.5	151.9

Income from services rendered includes income from ancillary and incidental activities amounting to € 147.7 million (previous year: € 124.7 million) as well as income from rental and lease agreements amounting to € 6.8 million (previous year: € 6.6 million).

The Group received grants and other allowances as compensation for certain purpose-tied expenditures in connection with publicly financed measures (e.g. costs of personnel and materials for research and teaching, benefits under German legislation governing semi-retirement schemes and for other subsidised measures).

Compared with the previous year, the other income item witnessed a rise of € 31.6 million or 20.8% to € 183.5 million. The effect from the separate accounting between RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg GmbH, the Federal State of Hesse and the two Universities of Gießen and Marburg had a one-off positive impact on other income in the 2018 financial year. Since related contractual guarantee periods in some cases had expired, provisions were moreover reversed in the 2018 financial year for potential legal and fiscal guarantee risks in connection with the sale of subsidiaries to Fresenius/Helios in the amount of € 5.7 million.

5.3 Materials and consumables used

in € million		
	2018	2017
Cost of raw materials, consumables and supplies	341.3	316.5
Cost of purchased services	31.1	31.1
	372.4	347.6

In addition to the use of articles entailing higher material costs, the rise in materials cost compared with the previous year by € 24.8 million or 7.1% to € 372.4 million essentially results from the expenses in connection with SMA, which are remunerated in the same amount and reported under revenues. The materials ratio rose from 28.7% to 30.2%. Adjusted for this SMA effect, the materials ratio is at the previous year's level of 28.7%.

5.4 Employee benefits expense

in € million		
	2018	2017
Wages and salaries	669.3	661.3
Social insurance contributions	54.9	53.6
Expenditure for post-employment benefits		
Defined contribution plans	71.2	72.4
Defined benefit plans	0.7	0.6
	796.1	787.9

Expenses for defined contribution plans concern the statutory pension insurance agency, payments to the federal and state pension scheme (VBL) and to the supplementary pension schemes of the municipalities (ZVK). The defined benefit plans relate to the benefit commitments of Group companies, and comprise commitments for retirement pensions, invalidity pensions and pensions for surviving dependants as well as severance payments for members of the Board of Management after termination of the employment relationship.

In the 2018 financial year, contribution payments to the federal and state pension scheme (Versorgungsanstalt des Bundes und der Länder, VBL) were made in the amount of € 21.7 million (previous year: € 20.8 million). Payments to ZVK (supplementary pension insurance scheme of municipalities in Bavaria) amounted to € 1.0 million (previous year: € 1.0 million) in 2018. As at the reporting date of 31 December 2018, 8,269 employees (previous year: 8,115 employees) with a claim to supplementary pension benefits were registered with VBL and 430 employees (previous year: 474 employees) with ZVK.

Employee benefits expenses include a figure of € 1.2 million (previous year: € 5.2 million) for severance payments.

5.5 Depreciation/amortisation and impairment

This item includes amortisation of intangible assets and depreciation of property, plant and equipment and investment property. Compared with the same period last year, the depreciation/amortisation item increased by € 1.5 million (or 2.5%) to € 60.6 million. This is owing to our investments at the Gießen and Marburg as well as Frankfurt (Oder) sites.

5.6 Other expenses

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

in € million		
	2018	2017
Maintenance	49.6	49.3
Charges, subscriptions and consulting fees	25.3	25.1
Administrative and IT costs	11.0	10.2
Impairment on receivables	–	11.3
Insurance	11.9	11.1
Rents and leaseholds	5.4	5.8
Travelling, entertaining and representation expenses	2.6	2.1
Other personnel and continuing training costs	5.4	4.8
Losses on disposal of non-current assets	0.2	0.1
Secondary taxes	0.4	0.3
Other	10.3	9.6
	122.1	129.7

Compared with the same period last year, the other expenses item witnessed a decline by € 7.6 million or 5.9% to € 122.1 million. As a result of this, revenue reductions due to verity risks previously reported under depreciation on receivables, as of 1 January 2018 pursuant to IFRS 15, are no longer to be reported under the other expenses item but included in the realisation of revenues.

5.7 Result from impairment on financial assets

IFRS 9, which is the subject of mandatory adoption as of 1 January 2018, prescribes the revaluation of the risk of default for financial assets. In the 2018 financial year this resulted in expenses of € 0.2 million. Regarding the default risk of financial assets, we refer to the comments on the finance result.

5.8 Research costs

Research activities relate primarily to process optimisations in the area of inpatient hospital care and not to making marketable products. The research results are therefore generally produced as a result of or in objective connection with the activities of healthcare provision. For this reason, differentiating and measuring these in isolation is possible only to a very limited extent. Depending on the volume of costs to be attributed to research activities, annual research expenditure is roughly estimated to be within a range of 0.5% to 2.0% of revenues. They are primarily accounted for by personnel expenses and other expenses.

As part of the takeover of the two university and scientific sites Gießen and Marburg, we committed ourselves to provide funding to the two medical faculties in an amount of at least € 2.0 million p.a.

Furthermore, RHÖN-KLINIKUM AG – escorted by the expert advice of the Medical Board – established a multi-year innovation and funding pool to provide funding at the Bad Berka, Bad Neustadt a. d. Saale, Frankfurt (Oder) as well as Gießen and Marburg sites with a view to stepping up and implementing activities and projects in the area of “research and innovation” as well as in the area of “treatment excellence and network medicine”. The objective is to give the Company and its facilities a stronger competitive advantage in the medium term by linking clinical excellence and medical science. For these projects, € 0.7 million (previous year: € 2.5 million) were allocated in 2018.

5.9 Finance result – net

The finance result is shown as follows:

in € million		
	2018	2017
Result of investments accounted for using the equity method		
Income of investments accounted for using the equity method	0.1	–
Expense of investments accounted for using the equity method	–	1.4
	0.1	1.4
Finance income		
Bank balances	0.1	0.5
Other interest income	0.2	0.1
	0.3	0.6
Finance expenses		
Liabilities to banks	0.5	0.3
Other interest expenses	1.6	0.5
	2.1	0.8
Result of impairment on financial investments		
Expense from impairment on financial investments	0.1	0.0
	0.1	0.0
	-1.8	-1.6

The negative finance result deteriorated slightly by € 0.2 million to € 1.8 million. Whereas finance expenses rose by € 1.3 million as a result of availability fees for the promissory note issued in October 2018 as well as a derecognition of a financial investment reported under other interest expenses in the amount of € 1.1 million relating to an associate, the loss shares in companies consolidated using the equity method were reduced by € 1.5 million. Moreover, finance income declined by € 0.3 million as a result of a lower investment volume. Expenses from the impairment on financial assets resulting from IFRS 9 subject to mandatory adoption for the first time as of 1 January 2018 were recognised in the amount of € 0.1 million.

Other interest income relates essentially to interest income from tax receivables. Besides that, the items reported under other interest expenses include i.a. interest expenses from tax liabilities.

In accordance with IAS 17 (Leases), assets from finance leases are reported under property, plant and equipment, and the interest component of € 0.1 million (previous year: € 0.2 million) included in the leasing instalments is shown under other interest expenses.

The net negative interest income under IFRS 7 for financial assets and liabilities which are not included in the category “financial assets and liabilities shown at fair value in profit and loss” amounted to € 1.7 million in the 2018 financial year (previous year: € 0.0 million), and comprises income of € –0.3 million (previous year: € –0.5 million) and expenses of € 2.0 million (previous year: € 0.5 million). The higher expenses result from an impairment in connection with a loan to an associate as well as higher financing costs in connection with the syndicated loan taken out in the 4th quarter of 2017.

5.10 Income taxes

Income taxes consist of the corporate income tax including the solidarity surcharge, and to a lesser extent of trade tax. This item also includes deferred taxes resulting from differences between the IFRS and tax balance sheets as well as from consolidation adjustments and expected realisable tax loss carry-forwards which, as a rule, have no expiry date.

Income tax comprises the following:

	2018		2017	
Current income tax	5.8		3.8	
Deferred taxes	6.2		-3.4	
	12.0		0.4	

At an unchanged rate of taxation, the tax expense item rose by € 11.6 million to € 12.0 million (previous year: € 0.4 million) compared with the previous year as a result of a higher taxable result. The income tax burden stands at 19.0% (previous year: 1.1%).

The nominal tax expense for earnings before taxes is reconciled with the income tax expense as follows:

	2018		2017	
		%		%
Earnings before taxes	63.2	100.0	37.1	100.0
Nominal tax expense (tax rate 15.0%)	9.5	15.0	5.6	15.0
Solidarity surcharge (tax rate 5.5%)	0.5	0.8	0.3	0.8
Derecognition of loss carry-forward recognised/Recognition of previous loss carry-forwards and interest carry-forwards not recognised/loss carry-forwards not applied	1.6	2.5	-6.2	-16.7
Additional expense from dividend payment	0.1	0.2	0.1	0.3
Trade tax	0.4	0.6	0.6	1.6
Increase in tax liability due to non-deductible charges	0.2	0.3	0.2	0.5
Taxes, previous years	-0.3	-0.5	-0.2	-0.5
Effective income tax expense	12.0	19.0	0.4	1.1

Further details of how deferred tax has been allocated to assets and liabilities are given in the Notes to the consolidated balance sheet.

5.11 Profit to non-controlling interests

This is the share of profit attributable to minority shareholders.

5.12 Earnings per share

Earnings per share in accordance with IAS 33 is calculated using the share of consolidated profit attributable to the shareholders of RHÖN-KLINIKUM AG and the weighted average number of shares in issue during the year.

The following table sets out the development in ordinary shares outstanding:

	No. of shares on 1 Jan. 2018	No. of shares on 31 Dec. 2018
Non-par shares	66,962,470	66,962,470
Treasury shares	-24,000	-24,000
	66,938,470	66,938,470

The number of shares is unchanged. For disclosures on equity, please refer to the Note 6.12.

Earnings per share are calculated as follows:

	Ordinary shares
Share in consolidated profit (€ '000)	48,993
(previous year)	(35,150)
Weighted average number of shares outstanding, in thousands	66,938
(previous year)	(66,938)
Earnings per share in €	0.73
(previous year)	(0.53)

Diluted earnings per share are identical to undiluted earnings per share, as there were no stock options or convertible debentures outstanding at the respective balance sheet dates.

6 | NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 Goodwill and other intangible assets

in € million			
	Goodwill	Other intangible assets	Total
Cost			
1 Jan. 2018	163.3	39.8	203.1
Additions due to changes in consolidated companies	0.6	0.0	0.6
Additions	0.0	4.8	4.8
Disposals	0.0	0.7	0.7
Transfers	0.0	0.0	0.0
31 Dec. 2018	163.9	43.9	207.8
Cumulative depreciation and impairment			
1 Jan. 2018	0.0	28.6	28.6
Depreciation	0.0	3.2	3.2
Disposals	0.0	0.7	0.7
31 Dec. 2018	0.0	31.1	31.1
Balance sheet value as at 31 Dec. 2018	163.9	12.8	176.7

in € million

	Goodwill	Other intangible assets	Total
Cost			
1 Jan. 2017	162.4	37.1	199.5
Additions due to changes in consolidated companies	0.9	0.0	0.9
Additions	0.0	2.7	2.7
Disposals	0.0	0.0	0.0
Transfers	0.0	0.0	0.0
31 Dec. 2017	163.3	39.8	203.1
Cumulative depreciation and impairment			
1 Jan. 2017	0.0	26.4	26.4
Depreciation	0.0	2.2	2.2
Disposals	0.0	0.0	0.0
31 Dec. 2017	0.0	28.6	28.6
Balance sheet value as at 31 Dec. 2017	163.3	11.2	174.5

The item other intangible assets primarily includes software. There are no restrictions on title and/or other rights related to the assets.

Goodwill is subjected to an annual impairment test for its respective cash generating unit (each hospital with its inpatient, semi-inpatient and outpatient care structures, unless the related goodwill of co-operating units is monitored at a higher level). This impairment test is performed on 1 October of each year. The carrying amount of the cash generating unit is compared with the recoverable amount for the unit which was determined at the fair value less costs to sell of the unit. The fair value is calculated on the basis of a discounted cash flow method (DCF method). In this regard, a corresponding present value is projected with assumptions on long-term growth rates on the basis of an operative detailed five-year plan – which also includes expectations on future market development in the healthcare system – and calculated with subsequent recognition of a perpetual annuity. The calculated cash flows are discounted at the WACC to calculate the present value of the perpetual annuity. In view of unforeseeable measures by the legislature, a discount of 0.5% (previous year: 0.5%) was included in the discounting factor of the perpetual annuity. This forms an integral part of the Company's planning and is

accordingly based on the management's actual expectations for the respective unit as well as on the statutory framework in the healthcare system. 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, a review was carried out to establish whether the economic situation continues to support the results of the impairment test in the same way as before. This was the case on 31 December 2018.

Goodwill of the acquired entities was tested for impairment as at 31 December 2018 based on data from the companies' current planning. This did not reveal any indications that the goodwill had changed negatively between the contract date and the balance sheet date.

The weighted cost of capital of a potential investor from the healthcare sector is used as the discount rate at the time of measurement, taking into account the tax shield arising from theoretical debt financing. This discount rate was defined at 5.54% for 2018 (previous year: 5.67%). Significant goodwill relates to the following cash generating units:

in € million		
	31 Dec. 2018	31 Dec. 2017
Company		
Universitätsklinikum Gießen und Marburg	137.5	137.5
Zentralklinik Bad Berka	16.3	15.7
RHÖN-KLINIKUM Campus Bad Neustadt	5.9	5.9
Other goodwill of less than € 5.0 million	4.2	4.2
Balance sheet value	163.9	163.3

For the calculation of fair value, less cost of sale, of the business generating units, cash flows were forecast on the basis of past experience, current operating results and best-possible estimates of future management performance as well as market assumptions. The values in use could not be taken as a basis because these are exceeded by fair values less cost of sale. The calculated fair value for the business generating units was attributed to level 3 of the hierarchy levels of fair values. Fair value less cost of sale is primarily defined by the terminal value (present value or perpetual annuity) which is particularly sensitive to changes in assumptions on the long-term growth rate of revenues and on the discount rate. Whereas the discount rate was defined uniformly for all business generating units, the growth rate is defined individually

per entity. The discount rate reflects the current market assessment of the entities' specific risks. The growth rates take account of external macro-economic data and sector-specific trends. For planning purposes, the units accounting for the main portion of goodwill are assumed to have a homogenous structure.

The table below shows the assumptions of long-term growth rates for revenues for the perpetual annuity which were used in the impairment test of the business generating units to which material goodwill was attributed to determine fair value less cost of sale:

	2018		2017	
	Long-term growth rate perpetual annuity	WACC	Long-term growth rate perpetual annuity	WACC
Universitätsklinikum Gießen und Marburg	3.00	5.54	3.00	5.67
Zentralklinik Bad Berka	3.00	5.54	3.00	5.67
RHÖN-KLINIKUM Campus Bad Neustadt	3.00	5.54	3.00	5.67

The values of revenues in the ten-year planning period of the groups of cash generating units to which material goodwill was attributed are based on average organic growth rates of between 2.7% and 3.3% (previous year: 2.5% and 3.2%) .

In connection with the impairment test, a sensitivity analysis was also performed. Within the test the following assumptions were used:

- EBIT declines by 10%
- Increase in WACC by 0.5%

As a result of the sensitivity analysis it was determined that a decline in EBIT by 10% does not result in any impairment requirement (previous year: no impairment requirement). An increase in WACC by 0.5% likewise does not give rise to an impairment requirement (previous year: no impairment requirement).

6.2 Property, plant and equipment

in € million

	Land and buildings	Technical plant and equipment	Operating and office equipment	Plant under construction	Total
Cost					
1 Jan. 2018	958.0	50.0	301.3	114.3	1,423.6
Additions due to changes in consolidated companies	0.0	0.0	0.0	0.0	0.0
Additions	88.7	6.5	56.6	12.6	164.4
Disposals	1.1	0.2	15.3	0.1	16.7
Transfers	104.6	0.1	2.9	-107.6	0.0
31 Dec. 2018	1,150.2	56.4	345.5	19.2	1,571.3
Cumulative depreciation and impairment					
1 Jan. 2018	416.7	32.9	226.9	0.0	676.5
Depreciation	30.4	3.5	23.4	0.0	57.3
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	1.1	0.2	13.3	0.0	14.6
31 Dec. 2018	446.0	36.2	237.0	0.0	719.2
Balance sheet value as at 31 Dec. 2018	704.2	20.2	108.5	19.2	852.1

in € million

	Land and buildings	Technical plant and equipment	Operating and office equipment	Plant under construction	Total
Cost					
1 Jan. 2017	955.8	46.6	292.0	50.9	1,345.3
Additions due to changes in consolidated companies	0.2	0.0	0.1	0.0	0.3
Additions	9.6	2.0	20.7	70.7	103.0
Disposals	12.9	0.0	12.1	0.0	25.0
Transfers	5.3	1.4	0.6	-7.3	0.0
31 Dec. 2017	958.0	50.0	301.3	114.3	1,423.6
Cumulative depreciation and impairment					
1 Jan. 2017	398.8	29.6	215.9	0.0	644.3
Depreciation	30.6	3.3	22.9	0.0	56.8
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	12.7	0.0	11.9	0.0	24.6
31 Dec. 2017	416.7	32.9	226.9	0.0	676.5
Balance sheet value as at 31 Dec. 2017	541.3	17.1	74.4	114.3	747.1

During the financial year, as in the previous year, no costs of borrowing were incurred that were related to financing the acquisition/production of qualifying assets and would have to be recognised in additions to property, plant and equipment.

Similar to the previous year, the Group has no registered charges on real property as collateral for bank loans.

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 (Krankenhausfinanzierungsgesetz, KHG) and which was invested in line with the applicable conditions totals € 161.2 million (previous year: € 166.5 million). To secure conditionally repayable single grants under KHG (e.g. for the construction of new hospitals or major extensions) totalling € 2.3 million (previous year: 2.5 million), the Group holds registered charges on real property in the amount of € 4.1 million (previous year: € 4.1 million). There are no reasons to assume that these grants will have to be repaid.

Buildings, technical equipment and machinery include the following amounts for which the Group is the lessee under a finance lease:

in € million		
	31 Dec. 2018	31 Dec. 2017
Cost of assets of capitalised lease properties under finance leases	7.6	6.3
Changes in consolidated companies	0.0	0.0
Additions	4.8	1.3
Disposals	5.7	0.0
Accumulated amortisation and impairment	1.1	3.8
Net carrying amount	5.6	3.8

6.3 Deferred tax assets

Deferred tax assets and liabilities are netted if there is an enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes exist against the same tax authority. The following amounts were netted:

in € million				
	31 Dec. 2018		31 Dec. 2017	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	2.1	0.0	9.1	0.0
Property, plant and equipment/ Intangible assets	0.0	6.2	0.0	6.9
Interest bearing liabilities	0.0	0.2	0.0	0.1
Valuation differences at subsidiaries	0.0	0.9	0.0	1.0
Other assets and liabilities	9.5	1.1	9.3	1.3
Total	11.6	8.4	18.4	9.3
Balance sheet value	3.2		9.1	

Deferred tax assets for tax loss carry-forwards are recognised in the amount of the associated tax benefits that can probably be realised as a result of future taxable profits. Tax loss carry-forwards in connection with previous hospital acquisitions are included in the tax base for recognising deferred tax assets if they are sufficiently determinable for tax purposes. In a tax-detrimental sale of shares in companies, any existing deferred tax is transferred to loss carry-forwards. Deferred tax assets from tax loss carry-forwards are recognised on the basis of tax planning calculations for a period of five years. The tax base used for deferred taxes is € 12.9 million (previous year: € 57.4 million). On the balance sheet date, tax losses carried forward which have so far not been utilised amounted to € 23.5 million (previous year: € 64.8 million); no deferred tax assets were recognised in relation to € 10.6 million (previous year: € 7.4 million) of this figure. In Germany, tax loss carry-forwards can reduce the taxable result for an unlimited term. The annual taxable result can reduce tax loss carry-forwards fully up to an amount of € 1.0 million and beyond that only at the rate of 60.0% of the remaining current taxable result.

Deferred taxes from property, plant and equipment result from the difference between their useful lives defined in tax law and the economic depreciation periods in accordance with IFRSs. In addition, accelerated tax depreciation and write-downs were corrected in IFRS.

Deferred tax liabilities for non-distributed profits of subsidiaries totalling € 120.0 million (previous year: € 120.0 million), which lead to non-tax-deductible expenses of 5.0% of the total dividend for the parent company, were included in the consolidated financial statements.

Changes in deferred taxes are shown as follows:

in € million		
	31 Dec. 2018	31 Dec. 2017
Deferred tax assets at beginning of year	9.1	5.7
Recognition of deferred taxes directly in equity in connection with changes in the fair value of investments recognised directly in equity	0.1	0.0
Recognition of deferred taxes directly in equity in connection with the initial adoption of IFRS 9	0.2	0.0
Recognition of deferred taxes directly in equity in connection with revaluation of defined benefit pension plans recognised in equity	-0.1	0.0
Expense/income from current netting in the income statement	-6.1	3.4
Deferred tax assets at end of year	3.2	9.1

6.4 Financial investments accounted for using the equity method

Information on changes in the composition of consolidated companies of RHÖN-KLINIKUM AG are presented in section 4 "Company acquisitions" and in section 8 "Shareholdings".

6.4.1 Investments accounted for using the equity method

One associate (previous year: one) and one joint venture (previous year: one) were measured in the consolidated financial statements using the equity method.

Associated companies and joint ventures accounted for using the equity method

Name of company	Registered office	Capital share (%)
Associated companies		
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	Heidelberg	24.9
Joint ventures		
Energiezentrale Universitätsklinikum Gießen GmbH	Gießen	50.0

6.4.2 Associated companies

The object of enterprise of Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung is patient operations of the particle therapy facility at the Marburg site. In addition to RHÖN-KLINIKUM AG with an interest of 24.9%, the University Hospital of Heidelberg holds an interest of 75.1%. Whereas roughly 280 patients were treated in 2017, that figure had fallen to around 254 patients in 2018. With the acquisition of the interests of Universitätsklinikum Heidelberg by RHÖN-KLINIKUM AG as at 1 January 2019 and the better integration with the university hospitals in Marburg and Gießen, we expect patient numbers to rise steadily.

At the end of 2017, shareholding relationships in the Wir für Gesundheit GmbH (WfG) reported under this item in the previous year were reorganised. Asklepios and Helios acquired the interest of RHÖN-KLINIKUM AG. The table below shows the effects in the comparison figures of 2017 from the sale of the interest of roughly € 0.6 million and the pro rated current loss for the year in 2017.

The table below provides a summary of the aggregated results data and aggregated carrying amounts of the associates accounted for using the equity method:

in € million		
	2018	2017
Results data and carrying amounts of associates accounted for using the equity method		
Revenues	9.0	6.0
Earnings after taxes	-34.7	-7.7
Pro rata earnings after taxes	0.0	-1.5
Pro rata total comprehensive income after taxes	0.0	-1.5
Carrying amount of associates accounted for using the equity method	0.0	0.0

As at the balance sheet date, the company shows assets of € 5.9 million and negative equity of € 40.7 million.

6.4.3 Joint ventures

The object of enterprise of the joint venture is to carry on, together with Stadtwerke Gießen, the supply of energy to the University Hospital Gießen. In addition to RHÖN-KLINIKUM AG with an interest of 50%, Stadtwerke Gießen AG holds an interest of 50% in the joint venture. The table below provides a summary of the aggregated results data and aggregated carrying amounts of the joint venture accounted for using the equity method:

in € million		
	2018	2017
Results data and carrying amounts of joint venture accounted for using the equity method		
Revenues	0.4	0.4
Earnings after taxes	0.2	0.2
Pro rata earnings after taxes	0.1	0.1
Pro rata total comprehensive income after taxes	0.1	0.1
Carrying amount of joint venture accounted for using the equity method	0.4	0.4

As at the balance sheet date, the joint venture reports assets of € 1.5 million (previous year € 1.2 million) as well as equity of € 0.8 million (previous year: € 0.8 million).

6.5 Other financial assets (non-current)

Of other financial assets (non-current), € 4.7 million (previous year: € 5.2 million) is attributable to equity investments. These relate to equity investments of the company RHÖN-Innovations GmbH in the companies Inovytec Medical Solutions Ltd., Telesofia Medical Ltd. and CLEW Medical Inc. The interests are measured at fair value in accordance with IFRS 9. The investments are measured at fair value directly in equity (fair value through other comprehensive income, without recycling). The carrying amount of € 4.7 million corresponds to the maximum default risk.

Moreover, € 0.0 million (previous year: € 0.0 million) relates to equity interests whose market value cannot be calculated due to the absence of an active market. These are measured at cost. In the previous year, fixed deposit investments with a remaining term of > 1 year were moreover reported under this item in the amount of € 30.0 million which expired in the 2018 financial year.

The development of the impairments recognised under this item is shown in the table below:

in € million	
	Other financial assets non-current
Impairment	
As at 1 Jan. 2018 pursuant to IAS 39	-
Adjustments IFRS 9	0.2
As at 1 Jan. 2018 pursuant to IFRS 9	0.2
Changes in consolidated companies	-
Allocation	-
Utilisation	-
Write-back	0.2
Currency translation difference	-
As at 31 Dec. 2018 pursuant to IFRS 9	-

The write-back of the impairment results from long-term fixed deposit investments which expired in the 2018 financial year.

6.6 Inventories

Inventories in the amount of € 25.9 million (previous year: € 25.0 million) are attributable to raw materials, consumables and supplies and mainly consist of medical supplies. Impairments of € 2.9 million (previous year: € 2.8 million) were effected. All inventories are owned by RHÖN-KLINIKUM AG and the companies affiliated with RHÖN-KLINIKUM AG. There are no assignments or pledges of inventories.

6.7 Trade receivables

As at the balance sheet date of 31 December 2018, we report trade receivables in the amount of € 212.4 million (previous year: € 204.0 million). The fair values of trade receivables essentially correspond to their carrying amounts since they are primarily short-term in character. Trade receivables as well as impairments as at the balance sheet date of 31 December 2018 in connection with IFRS 9 subject to first-time mandatory adoption as of 1 January 2018 show the following maturity structure:

in € million		
	Gross carrying amount	Loan default rate
Impairment matrix		
Not overdue	177.8	0.3
Between 0 and 30 days overdue	12.6	0.1
Between 31 and 90 days overdue	8.5	0.2
Between 91 and 180 days overdue	5.8	0.1
More than 180 days overdue	8.6	0.2
Total	213.3	0.9

In the 2018 financial year, impairments on trade receivable were effected in the amount of € 0.9 million. The development of the impairments is shown in the table below:

in € million	
	Trade receivables
Impairment	
As at 1 Jan. 2018 pursuant to IAS 39	-
Adjustments IFRS 9	0.6
As at 1 Jan. 2018 pursuant to IFRS 9	0.6
Changes in consolidated companies	-
Allocation	0.3
Utilisation	-
Write-back	-
Currency translation difference	-
As at 31 Dec. 2018 pursuant to IFRS 9	0.9

With regard to the impairments on trade receivables, reference is made to the further Notes in the section Accounting policies.

Trade receivables were derecognised in the income statement in the amount of € 2.5 million in the 2018 financial year (previous year: € 1.7 million). Settlement mechanisms in accordance with the Hospital Remuneration Act (KHEntgG) partially compensated for these defaults. Inflows of € 0.1 million (previous year: € 0.1 million) were recognised in the income statement in relation to previously derecognised trade receivables.

The item trade receivables includes unfinished services from the treatment of patients in the amount of € 23.2 million (previous year: € 25.2 million). The amount of the variable consideration is calculated using the expected value method as defined in IFRS 15.

6.8 Other financial assets (current)

in € million		
	31 Dec. 2018	31 Dec. 2017
	< 1 year	< 1 year
Time deposit < 1 year	114.4	105.1
Receivables under Hospital Financing Act	39.3	27.8
Remaining other financial assets	15.6	7.1
	169.3	140.0

Owing to the low interest rate environment for overnight and short-term deposits, fixed deposit investments with a remaining term of < 1 year were made in the amount of € 114.4 million (previous year: € 105.1 million).

Receivables under the Hospital Financing Act (Krankenhausfinanzierungsgesetz, KHG) mainly relate to compensation claims for services rendered under federal hospital compensation legislation (Hospital Remuneration Act (Krankenhausentgeltgesetz, KHEntgG)) and the Federal Hospital Nursing Rate Ordinance (Bundespflugesatzverordnung, BPfV). Receivables under hospital financing legislation include no impairments.

The remaining other financial assets relate, among other things, to receivables from separate accounting (€ 9.7 million, previous year: € 0.0 million), receivables from services rendered which are not primarily related to patient treatments at hospitals (€ 4.8 million, previous year: € 5.3 million), receivables due from employees in particular from invoices as part of the liquidation right of head physicians (€ 1.5 million, previous year: € 1.6 million), as well as trade receivables (€ 0.4 million, previous year: € 0.7 million). The remaining other financial assets (current) include impairments amounting to € 1.2 million (previous year: € 0.9 million). No reversals of impairment losses were made.

Other financial assets (current) attributable to fixed deposits, as well as corresponding impairments in connection with IFRS 9 subject to first-time mandatory adoption as of 1 January 2018 are divided into the following rating classes:

in € million		
	Gross carrying amount	Loan default rate
Impairment matrix according to S&P rating classes		
A	70.0	0.2
BBB	45.0	0.4
Total	115.0	0.6

The remaining other financial assets (current) as well as the corresponding impairments in connection with IFRS 9 subject to first-time mandatory adoption as of 1 January 2018 show the following maturity structure:

in € million		
	Gross carrying amount	Loan default rate
Impairment matrix		
Not overdue	53.6	0.1
Between 0 and 30 days overdue	1.2	0.1
Between 31 and 90 days overdue	0.1	0.0
Between 91 and 180 days overdue	0.0	0.0
More than 180 days overdue	0.2	0.0
Total	55.1	0.2

In the 2018 financial year, impairments on other financial assets were made in the amount of € 0.8 million. The development of the impairments is shown in the table below:

in € million	
Other financial assets current	
Impairment	
As at 1 Jan. 2018 pursuant to IAS 39	-
Adjustments IFRS 9	0.6
As at 1 Jan. 2018 pursuant to IFRS 9	0.6
Changes in consolidated companies	-
Allocation	0.2
Utilisation	-
Write-back	-
Currency translation difference	-
As at 31 Dec. 2018 pursuant to IFRS 9	0.8

Of the impairments as at the balance sheet date in the amount of € 0.8 million, € 0.6 million is attributable to fixed deposits. The € 0.2 million increase is essentially attributable to the higher volume of fixed deposits.

Within the Group, settlement receivables due from and settlement liabilities to the payers under fee/budget agreements of the current year and the previous years are stated on a netted basis. A similar approach is taken towards claims under government grants for investments and grants not yet used for their intended purpose. On a gross basis, the statement is as follows:

in € million		
	31 Dec. 2018	31 Dec. 2017
Receivables according to KHG/KHEntgG (gross)	59.3	31.0
Liabilities according to KHG/KHEntgG (gross)	-20.0	-3.2
Balance sheet value	39.3	27.8

Regarding the statement on a gross basis of the corresponding liabilities in accordance with KHG/KHEntgG, please refer to the section other financial liabilities.

6.9 Other assets (current)

Of other current assets in the amount of € 7.8 million (previous year: € 9.4 million), essentially € 5.5 million (previous year: € 6.5 million) is attributable to prepaid expenses, mainly insurance expenses, and € 2.2 million (previous year: € 2.6 million) is attributable to reimbursement claims against insurers under liability claims.

6.10 Current income tax assets

Current income tax assets essentially include claims against tax authorities for reimbursement of corporate income tax.

6.11 Cash and cash equivalents

in € million		
	31 Dec. 2018	31 Dec. 2017
Cash with banks and cash on hand	122.3	112.5
Short-term bank deposits	10.0	10.0
	132.3	122.5

The rise in cash with banks and cash on hand compared with the previous year is attributable to the environment of low interest rates for time deposits relative to overnight money investments. Moreover, this increases flexibility in controlling cash outflows in connection with extensive construction measures. As far as possible, freely disposable funds were reallocated at matching maturities into fixed deposit investments with a remaining term of < 1 year (> 3 months) and > 1 year and reported under the item other financial assets (current) and other financial assets (non-current), respectively. As at the balance sheet date, the effective interest rate for bank balances with an initial term < 3 months was 0.05% (previous year: 0.05%). The average remaining term of these deposits was 30 days (previous year: 30 days).

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

in € million		
	31 Dec. 2018	31 Dec. 2017
Cash and cash equivalents	132.3	122.5
Bank overdrafts	–	–
Cash position	132.3	122.5

6.12 Equity

The registered share capital of RHÖN-KLINIKUM AG was € 167,406,175 (previous year: € 167,406,175). It is divided into 66,962,470 (previous year: 66,962,470) non-par value bearer shares each with a notional value in the registered share capital of € 2.50 per share.

	Number	Arithmetic share in registered share capital €
Ordinary shares as at 1 Jan. 2018	66,962,470	167,406,175
Changes in 2018	–	–
Ordinary shares as at 31 Dec. 2018	66,962,470	167,406,175

The premium from the capital increase in the amount of € 396.0 million (previous year: € 396.0 million) as well as the amounts of € 178.2 million (previous year: € 178.2 million) attributable to the shares redeemed in the previous years are reported in the capital reserve.

Other reserves at the balance sheet date amounting to € 393.8 million (previous year: € 360.8 million) comprise earnings generated in prior years of companies included in the consolidated annual report amounting (to the extent not paid out to shareholders) in the amount of € 393.8 million (previous year: € 360.8 million) as well as effects of consolidation adjustments.

The total result (sum of consolidated profit and other earnings) for the 2018 financial year stands at € 51.1 million (previous year: € 36.8 million). This includes gains from the revaluation of defined benefit pension plans amounting to € 0.3 million after tax (previous year: gain of € 0.0 million) as well as first-time expenses from changes in the fair value of equity investments in the amount of € 0.4 million (previous year –).

Treasury shares are valued at € 0.1 million (previous year: € 0.1 million) and deducted from equity. The level of treasury shares developed as follows during the financial year:

	Number
Treasury shares as at 1 Jan. 2018	24,000
Changes in 2018	–
Treasury shares as at 31 Dec. 2018	24,000

In accordance with the provisions of the German Stock Corporation Act (Aktengesetz, AktG), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of RHÖN-KLINIKUM AG which are prepared in accordance with the German Commercial Code (HGB). During the last Annual General Meeting, the shareholders approved the proposal of the Board of Management and of the Supervisory Board so that an actual dividend payment of 22 cents (previous year: 35 cents) was made in the 2018 financial year.

Non-controlling interests in equity of € 23.9 million (previous year: € 22.9 million) relate to interests held by non-Group third parties in the following consolidated subsidiaries:

	Non-controlling interests	
	31 Dec. 2018	31 Dec. 2017
Hospital companies		
Universitätsklinikum Gießen und Marburg GmbH, Gießen	5.0	5.0
Zentralklinik Bad Berka GmbH, Bad Berka	12.5	12.5
Medical care centre companies		
MVZ UKGM GmbH, Marburg	5.0	5.0
MVZ Zentralklinik GmbH, Bad Berka	12.5	12.5
Service companies		
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	49.0	49.0

6.13 Financial liabilities

in € million

	31 Dec. 2018		31 Dec. 2017	
	Remain- ing term > 1 year	Remain- ing term < 1 year	Remain- ing term > 1 year	Remain- ing term < 1 year
Non-current financial liabilities				
Liabilities to banks	99.5	–	–	–
Total non-current financial liabilities	99.5	–	–	–
Current financial liabilities				
Liabilities to banks	–	0.3	–	–
Total current financial liabilities	–	0.3	–	–
Total financial liabilities	99.5	0.3	–	–

In October 2018, RHÖN-KLINIKUM AG successfully placed on the market a promissory note in the amount of € 100.0 million. The tranches exclusively bearing fixed interest with bullet maturities have terms of 5, 7 and 10 years. The funds collected are used for general corporate finance to ensure sufficient funds for investments planned in the medium-to-short term.

In the fourth quarter of 2017, a syndicated line of credit in the amount of € 100.0 million was taken out. As at the balance sheet date, this line had not been utilised. The syndicated loan is subject to a financial covenant. This financial ratio limits net financial debt to a maximum of 3.5 times EBITDA. The financial ratio was complied with by RHÖN-KLINIKUM AG in the 2018 financial year.

The contractual interest adjustment dates relating to the interest-bearing liabilities are as follows:

in € million						
	31 Dec. 2018			31 Dec. 2017		
Fixed interest period ends	Interest rate ¹ in %	Original value	Carrying amount of loans	Interest rate ¹ in %	Original value	Carrying amount of loans
Liabilities to banks						
2019–2022	–	–	–	–	–	–
2023	0.90	7.5	7.5	–	–	–
2024	–	–	–	–	–	–
> 2024	1.65	92.5	92.0	–	–	–
Interest on loans	–	–	0.3	–	–	–
		100.0	99.8		–	–

¹Weighted interest rate.

The effective interest rates at balance sheet date are:

in %		
	31 Dec. 2018	31 Dec. 2017
Liabilities to banks	1.60	–

The remaining terms of the financial liabilities are:

in € million		
	31 Dec. 2018	31 Dec. 2017
Up to 1 year	0.3	–
Between 1 and 5 years	7.5	–
More than 5 years	92.0	–
Total	99.8	–

As in the previous year, the financial liabilities stated are not secured by registered charges on real property.

6.14 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 recognising provisions. Amounts relating to defined contribution plans are recognised immediately in profit or loss.

Members of the Board of Management are covered by a plan providing for post-retirement benefits. In addition to their regular remuneration the members of the Board of Management, on termination of their employment as Board members, receive a post-retirement benefit 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. In this connection there are risks associated with changes in the assessment basis. These essentially relate to the dependence on the last salary and last variable remuneration components. If the development of this assessment basis turns out to be different from what is assumed in the provision calculations, this might give rise to a subsequent financing requirement.

The provision volume on the balance sheet relates only to one-off payments:

in € million		
	31 Dec. 2018	31 Dec. 2017
Commitment for one-off payments	2.2	2.3
Provision for pensions (defined benefit liability)	2.2	2.3

The calculation of pension provisions is based on the following assumptions:

in %		
	31 Dec. 2018	31 Dec. 2017
Rate of interest	1.85	1.75
Projected increase in wages and salaries	2.50	2.50
Projected increase in pensions	2.00	2.00

We used Prof. Dr. Klaus Heubeck's 2018G Tables (previous year: Prof. Dr. Klaus Heubeck's 2005G Tables) as actuarial tables. The changes resulting from the actuarial tables have no material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG.

All pension costs are reported under the pension costs item.

The development of the defined benefit obligation in the 2018 financial year compared with the previous year is shown in the following:

in € million		
	2018	2017
As at 1 Jan.	2.3	2.2
Service time cost	0.6	0.6
Interest expense	0.1	0.1
Losses from plan changes	0.0	0.0
Pension payments	0.0	0.0
Actuarial gains/losses from changes in financial assumptions	0.0	0.0
Experience-based adjustments	0.3	0.0
Payments rendered	-1.1	-0.6
As at 31 Dec.	2.2	2.3

The commitments have a term of > 1 year. There are no reimbursement claims resulting from pension liability insurance policies entered into by reason of pension commitments to employees.

The weighted average duration of the pension liabilities is seven years (previous year: five years). The sensitivity of the pension obligations in terms of fluctuation range due to changes in the various actuarial valuation assumptions is shown in the table below:

	Change in assumption in percentage points	Increase in assumption	Reduction in assumption
Impact on the commitment (%) as at 31 Dec. 2018			
Interest rate	0.2	-1.4	1.4
Remuneration trend	0.2	1.4	-1.4
Mortality	+/- 1 year	0.1	-0.1
Impact on the commitment (%) as at 31 Dec. 2017			
Interest rate	0.2	-1.0	1.0
Remuneration trend	0.2	1.0	-1.0
Mortality	+/- 1 year	0.1	-0.1

The effects of the sensitivity were calculated using the same method as the obligations at the end of the year. In this regard, effects of a simultaneous change in several assumptions were not examined. Since the commitments remaining at the end of the financial year are capital commitments, no or no material changes result from the change in the pension trend; consequently, no disclosure of sensitivity in this regard was made.

6.15 Other provisions

Other provisions developed as follows in the financial year:

in € million

	1 Jan. 2018	Consumption	Writeback	Allocation	31 Dec. 2018	of which < 1 year	of which > 1 year
Liability risks	9.5	0.8	0.4	0.1	8.4	8.4	0.0
Other provisions	83.2	23.5	5.7	0.0	54.0	54.0	0.0
	92.7	24.3	6.1	0.1	62.4	62.4	0.0

The provisions for liability risks relate to claims for damages by third parties. These compare with repayment claims from insurers in the amount of € 2.2 million (previous year: € 2.6 million) against insurers; these are shown under other assets (current). In the assessment of the Board of Management, the settlement of these liability events using the provisions will not entail any significant additional expenses. The timing of cash outflows from liability risks, which generally may occur in the short term, essentially depends on the course and outcome of specific liability cases.

Other provisions relate to provisioning for legal and fiscal risks in connection with the sale of subsidiaries and the tax risks triggered thereby (tax types such as trade tax, value-added tax, corporation tax with the solidarity surcharge, as well as land transfer tax).

Compared with the previous year, their maturities are as follows:

in € million

	31 Dec. 2018	of which < 1 year	of which > 1 year	31 Dec. 2017	of which < 1 year	of which > 1 year
Liability risks	8.4	8.4	0.0	9.5	9.5	0.0
Other provisions	54.0	54.0	0.0	83.2	83.2	0.0
	62.4	62.4	0.0	92.7	92.7	0.0

The Group of RHÖN-KLINIKUM AG has contingent liabilities of up to € 0.1 million (previous year: € 0.6 million). These constitute liabilities as part of the performance process. At the present time RHÖN-KLINIKUM AG does not expect any significant usage in future.

6.16 Trade payables

in € million

	31 Dec. 2018		31 Dec. 2017	
	< 1 year	> 1 year	< 1 year	> 1 year
Trade payables	115.9	0.0	108.2	0.0

Trade payables exist with regard to third parties. The total amount of € 115.9 million (previous year: € 108.2 million) is due within one year. The rise result in particular from construction invoices for the hospital new build in Bad Neustadt still outstanding at the end of the year.

6.17 Other financial liabilities

in € million

	31 Dec. 2018		31 Dec. 2017	
	< 1 year	> 1 year	< 1 year	> 1 year
Liabilities under KHG/ KHEntgG	13.5	–	9.7	–
Purchase prices	0.7	–	1.7	0.0
Leasing	1.0	4.7	1.0	2.9
Other financial liabilities	8.4	10.5	7.5	12.1
Other financial liabilities (financial instruments)	23.6	15.2	19.9	15.0

The liabilities under KHG/KHEntgG relate to public grants not yet used in accordance with the conditions for their use granted under state legislation as well as repayment obligations under the federal hospital compensatory schemes – the Hospital Remuneration Act (KHEntgG) and the Federal Hospital Nursing Rate Ordinance (BPfIV).

The purchase prices relate to contractually stipulated obligations.

The carrying amounts of the current monetary liabilities recognised under this item correspond to their fair values. The other non-current liabilities have been discounted using the effective interest method on the basis of historical market rates.

Of the figure stated for remaining non-current financial liabilities with remaining maturities of more than five years in the amount of € 3.2 million (previous year: € 4.6 million), € 3.2 million (previous year: € 4.6 million) is attributable to obligations arising from research grants owed to the Universities in Gießen and Marburg.

Within the Group, settlement receivables due from and settlement liabilities to payers under fee/budget agreements of the current year and the previous years are stated on a netted basis. A similar approach is taken towards claims under government grants for investments and grants not yet used for their intended purpose. On a gross basis, the statement is as follows:

in € million				
	31 Dec. 2018		31 Dec. 2017	
Liabilities according to the KHG/KHEntgG (gross)		33.5		12.9
Receivables according to the KHG/KHEntgG (gross)		-20.0		-3.2
Balance sheet value		13.5		9.7

Regarding the statement on a gross basis of receivables in accordance with KHG/KHEntgG on the assets side, please refer to the section "Other financial assets (current)".

6.18 Other liabilities

in € million				
	31 Dec. 2018		31 Dec. 2017	
	< 1 year	> 1 year	< 1 year	> 1 year
Personnel liabilities	73.9	0.0	66.6	8.0
Deferred income	10.7	0.0	9.9	0.0
Operating taxes and social insurance	13.3	0.0	11.0	0.0
Prepayments	0.3	0.0	1.5	0.0
Other liabilities	8.9	0.0	9.8	0.0
Other liabilities (non-financial instruments)	107.1	0.0	98.8	8.0

Personnel liabilities relate to performance-linked remuneration, obligations arising from still outstanding holiday leave entitlement as well as overtime obligations and on-call services. Moreover, severance payment obligations are recognised under this item.

The remaining liabilities essentially include third-party funds from, among other things, ongoing studies not yet appropriated.

6.19 Current income tax liabilities

Current income tax liabilities in the amount of € 3.8 million (previous year: € 1.3 million) comprise corporate income tax, solidarity surcharge and trade tax not yet assessed for the past financial year and previous years.

6.20 Derivative financial instruments

As at the previous year's balance sheet date, no derivative financial instruments exist.

6.21 Additional disclosures regarding financial instruments

6.21.1 Carrying amounts, recognised figures and fair values according to measurement categories

The standard IFRS 9 "Financial Instruments" was published in July 2014 and replaces the standard IAS 39 "Financial Instruments". The standard IFRS 9, which is the subject of mandatory adoption as of 1 January 2018,

resulted in the thorough revision of the provisions on classification and measurement of financial instruments.

The table below presents the transition effects in connection with the classification and measurement for each category of financial instruments according to IAS 39 and IFRS 9 from 31 December 2017 to 1 January 2018:

in € million

		Measurement category according to IFRS 9	1 Jan. 2018
ASSETS			
Non-current assets			
Other financial assets			35.2
of which investments	Measured at fair value directly in equity (fair value through other comprehensive income; without recycling)		5.2
of which investments	Measured at fair value through profit or loss		0.0
of which other	Measured at amortised cost		30.0
Current assets			
Trade receivables and other financial assets	Measured at amortised cost		342.6
Cash and cash equivalents	Measured at amortised cost		122.5
EQUITY AND LIABILITIES			
Non-current liabilities			
Financial liabilities	Financial liabilities measured at amortised cost		–
Other financial liabilities			15.0
of which other financial liabilities	Financial liabilities measured at amortised cost		12.1
of which under finance leases	n. a.		2.9
Current liabilities			
Trade payables	Financial liabilities measured at amortised cost		108.2
Financial liabilities	Financial liabilities measured at amortised cost		–
Other financial liabilities			19.9
of which other financial liabilities	Financial liabilities measured at amortised cost		18.9
of which under finance leases	n. a.		1.0
Aggregated according to measurement categories, the above figures are as follows:			
	Financial assets measured at amortised cost		
	Financial assets measured at fair value directly in equity (fair value through other comprehensive income; without recycling)		
	Financial assets measured at fair value through profit or loss		
	Financial liabilities measured at amortised cost		

of which Financial Instruments	Measurement category according to IAS 39	31 Dec. 2017	of which Financial Instruments
Carrying amount			Carrying amount
35.2		35.2	35.2
5.2	Available-for-sale financial assets	5.2	5.2
0.0			
30.0	Loans and receivables	30.0	30.0
342.6	Loans and receivables	344.0	344.0
122.5	Loans and receivables	122.5	122.5
–	Financial liabilities measured at amortised cost	–	–
15.0		15.0	15.0
12.1	Financial liabilities measured at amortised cost	12.1	12.1
2.9	n.a.	2.9	2.9
108.2	Financial liabilities measured at amortised cost	108.2	108.2
–		–	–
19.9		19.9	19.9
18.9	Financial liabilities measured at amortised cost	18.9	18.9
1.0	n.a.	1.0	1.0
495.1	Loans and receivables		496.5
5.2	Available-for-sale financial assets		5.2
0.0			
139.2	Financial liabilities measured at amortised cost		139.2

With regard to impairment of financial assets or the amended impairment model within the meaning of IFRS 9, a decline in financial assets measured at amortised cost without effect on the income statement in the amount of € 1.4 million, and in equity in the amount of € 1.2 million (after tax), takes place as of the initial adoption date. The decline in financial assets as of the initial adoption date in the amount of € 1.4 million is accounted for by non-current other financial assets (€ 0.2 million) as well as by current trade receivables and current other financial assets (€ 1.2 million). In the 2018 financial year, adjustments

of the impairments on financial assets within the meaning of IFRS 9 resulted in a burdening effect on earnings (after tax) of € 0.3 million.

The table below presents the carrying amounts and fair values of the individual financial assets and liabilities for each individual category of financial instruments according to IFRS 9 as at 31 December 2018 and according to the now replaced IAS 39 as at 31 December 2017 and transfers these to the corresponding balance sheet item:

in € million

Measurement category according to IFRS 9		31 Dec. 2018	
ASSETS			
Non-current assets			
Other financial assets		4.7	
of which investments	Measured at fair value directly in equity (fair value through other comprehensive income; without recycling)	4.7	
of which investments	Measured at fair value through profit or loss	0.0	
of which other	Measured at amortised cost	0.0	
Current assets			
Trade receivables and other financial assets	Measured at amortised cost	381.7	
Cash and cash equivalents	Measured at amortised cost	132.3	
EQUITY AND LIABILITIES			
Non-current liabilities			
Financial liabilities	Financial liabilities measured at amortised cost	99.5	
Other financial liabilities		15.2	
of which other financial liabilities	Financial liabilities measured at amortised cost	10.5	
of which under finance leases	n. a.	4.7	
Current liabilities			
Trade payables	Financial liabilities measured at amortised cost	115.9	
Financial liabilities	Financial liabilities measured at amortised cost	0.3	
Other financial liabilities		23.6	
of which other financial liabilities	Financial liabilities measured at amortised cost	22.6	
of which under finance leases	n. a.	1.0	
Aggregated according to measurement categories, the above figures are as follows:			
	Financial assets measured at amortised cost		
	Financial assets measured at fair value directly in equity (fair value through other comprehensive income; without recycling)		
	Financial assets measured at fair value through profit or loss		
	Financial liabilities measured at amortised cost		

of which Financial Instruments		Measurement category according to IAS 39	31 Dec. 2017	of which Financial Instruments	
Carrying amount	Fair value			Carrying amount	Fair value
4.7	4.7		35.2	35.2	35.2
4.7	4.7	Available-for-sale financial assets	5.2	5.2	5.2
0.0	0.0				
0.0	0.0	Loans and receivables	30.0	30.0	30.0
381.7	381.7	Loans and receivables	344.0	344.0	344.0
132.3	132.3	Loans and receivables	122.5	122.5	122.5
99.5	88.1	Financial liabilities measured at amortised cost	–	–	–
15.2	16.5		15.0	15.0	16.3
10.5	11.8	Financial liabilities measured at amortised cost	12.1	12.1	13.4
4.7	4.7	n.a.	2.9	2.9	2.9
115.9	115.9	Financial liabilities measured at amortised cost	108.2	108.2	108.2
0.3	0.3		–	–	–
23.6	23.6		19.9	19.9	19.9
22.6	22.6	Financial liabilities measured at amortised cost	18.9	18.9	18.9
1.0	1.0	n.a.	1.0	1.0	1.0
514.0	514.0	Loans and receivables		496.5	496.5
4.7	4.7	Available-for-sale financial assets		5.2	5.2
0.0	0.0				
248.8	238.7	Financial liabilities measured at amortised cost		139.2	140.5

The fair values of financial assets and liabilities accounted for as defined in IFRS 9 as at 31 December 2018 are classified as follows to the three levels of the fair value hierarchy:

in € million				
	Level 1	Level 2	Level 3	Total 31 Dec. 2018
Other non-current financial assets (investments)	–	4.7	–	4.7
Other non-current financial assets (remaining)	–	0.0	–	0.0
Trade receivables, other current financial assets	–	381.7	–	381.7
Non-current financial liabilities	–	88.1	–	88.1
Other non-current financial liabilities	–	16.5	–	16.5
Current trade liabilities	–	115.9	–	115.9
Current other financial liabilities	–	23.6	–	23.6

The fair values of financial assets and liabilities accounted for as defined in IAS 39 as at 31 December 2017 are classified as follows to the three levels of the fair value hierarchy:

in € million				
	Level 1	Level 2	Level 3	Total 31 Dec. 2017
Other non-current financial assets (investments)	–	5.2	–	5.2
Other non-current financial assets (remaining)	–	30.0	–	30.0
Trade receivables, other current financial assets	–	344.0	–	344.0
Non-current financial liabilities	–	–	–	–
Other non-current financial liabilities	–	16.3	–	16.3
Current trade liabilities	–	108.2	–	108.2
Current other financial liabilities	–	19.9	–	19.9

The levels of the fair value hierarchy and their application to assets and liabilities are described below:

- Level 1: Listed market prices for identical assets or liabilities on active markets
- Level 2: Other information in the form of listed market prices which are directly (e.g. prices) or indirectly (e.g. derived from prices) observable
- Level 3: Information on assets and liabilities not based on observable market data

The principal part of financial assets is measured at RHÖN-KLINIKUM AG, pursuant to IFRS 9, at amortised cost. Trade receivables, other financial assets as well as cash and cash equivalents covered by this in general have short remaining maturities. Their carrying amounts as at the reporting date therefore correspond to their fair values.

As of the initial adoption date of IFRS 9, investments in the amount of € 4.7 million are measured at fair value directly in equity (fair value through other comprehensive income, without recycling). These investments relate to start-up equity interests whose market value was calculated based on current equity transactions between market participants in the context of additional financing rounds or applying the DCF method. Moreover, additional immaterial investments amounting to € 0.0 million are measured at fair value (fair value through profit or loss). Changes in the market valuation of investments, which are measured at fair value directly in equity (fair value through other comprehensive income, without recycling), resulted in total in losses in the amount of € 0.4 million (after tax), which are recognised directly in equity under other comprehensive income (OCI).

The fair value of non-current other financial liabilities of RHÖN-KLINIKUM AG is calculated on the basis of the discounted cash flow. A risk- and maturity-related rate appropriate for RHÖN-KLINIKUM AG has been used for discounting purposes. For trade payables, other financial obligations and financial liabilities with short remaining maturities, the carrying amounts correspond to their fair values on the reporting date. The fair value of liabilities under finance leases was calculated using a market interest curve as at the balance sheet date and corresponds to their carrying amount.

6.21.2 Net gains or losses by measurement category

The net result by measurement category according to IFRS 9 for the 2018 financial year is as follows:

in € million	From subsequent measurement				Net result
	From share price gains	At fair value	Impairment	From disposal	2018
Measured at amortised cost	–	–	0.3	3.6	3.9
Measured at fair value through profit or loss (FV P&L)	–	–	–	–	–
Measured at fair value directly in equity (FVOCI without recycling)	–	–	–	–	–
Financial liabilities measured at amortised cost	–	–	–	–	–
Total	0.0	0.0	0.3	3.6	3.9

+ = cost, – = income

The net result by measurement category according to IAS 39 for financial year 2017 is as follows:

in € million	From subsequent measurement				Net result
	From share price gains	At fair value	Impairment	From disposal	2017
Loans and receivables	–	–	9.1	1.3	10.4
Available-for-sale financial assets	–	0.0	–	–	0.0
Financial liabilities measured at amortised cost	–	–	–	–	–
Total	–	–	9.1	1.3	10.4

+ = cost, – = income

6.21.3 Financial liabilities (maturity analysis)

The following table sets out the contractually agreed (undiscounted) interest payments and redemption payments of the original financial liabilities, including the financial liabilities stated under liabilities held for sale:

	Cash outflows		
	2019	2020–2025	> 2025
Financial liabilities	-1.6	-47.9	-64.8
Trade payables	-115.9	-	-
Other financial liabilities	-25.4	-12.2	-
Liabilities under finance leases	-1.1	-4.9	-
	-144.0	-65.0	-64.8

The following table shows the maturity analysis of the previous year:

	Cash outflows		
	2018	2019–2024	> 2024
Financial liabilities	-	-	-
Trade payables	-108.2	0.0	0.0
Other financial liabilities	-18.9	-12.3	-2.0
Liabilities under finance leases	-1.1	-3.1	0.0
	-128.2	-15.4	-2.0

The above table includes all financial liabilities held as at the balance sheet date and for which payments had been contractually agreed. Planned payments for new liabilities in the future have not been included in the calculations. Interest payments were included in the future cash flows under agreements in effect as at the balance sheet date. Current liabilities and liabilities which can be terminated at any time are shown under the shortest time horizon.

7 | STATEMENT OF CASH FLOWS

The statement of cash flows shows how the item cash and cash equivalents of RHÖN-KLINIKUM Group has changed in the year under review as a result of cash inflows and outflows. The impact of acquisitions, divestments and other changes in consolidated companies has been eliminated. In accordance with IAS 7 (Statement of Cash Flows), a distinction is made between cash flows from operating activities, investing activities as well as financing activities. The liquidity shown in the statement of changes in financial position includes cash on hand, cheques as well as cash with banks. For the purposes of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents. As at 31 December 2018 there were no bank overdrafts.

The change in cash used in operating activities compared with the same period of the previous year results, on the one hand, from the increase in earnings before taxes in connection with the agreement on separate accounting. Associated with that is the outflow of recognised trade liabilities towards the universities. Moreover, the invoices existing at the end of 2017 in connection with the additional SMA remuneration component resulted in a corresponding payment outflow in 2018 on account of long payment terms. Moreover, as of the second quarter of 2018 the reimbursements of the regular costs for our services in research and teaching at the Universities of Gießen and Marburg no longer take place monthly but quarterly in arrears in the subsequent quarter, thus increasing other financial assets. Furthermore, the provision for legal and fiscal risks from the sale of subsidiaries was partially utilised with effect in cash.

Significant changes compared with the previous year resulted in particular with investment and finance activities. Compared with the previous year, investments in property, plant and equipment as well as in intangible assets increased, which is primarily attributable to the new construction measures in Bad Neustadt a. d. Saale. In addition, terminations of fixed deposits in the amount of € 20.1 million (previous year: terminations of fixed deposits amounting to € 100.1 million) are reported under cash flow used in investment activities.

€ 1.0 million (previous year: € 3.0 million) was invested in associated companies. During the reporting period of the previous year, an amount of € 2.5 million was invested in two relevant companies in keeping with the objective of taking equity interests in highly innovative start-up companies from the medical field. During the year, no further investments were made in this area. € 0.6 million (previous year: € 1.2 million) was used in the acquisition of doctor's practices.

In October 2018, RHÖN-KLINIKUM AG successfully placed on the market a promissory note in the amount of € 100.0 million. The tranches exclusively bearing fixed interest with bullet maturities have

terms of 5, 7 and 10 years. The funds collected are being used for general corporate finance. In 2017, a syndicated line of credit in the amount of € 100 million was taken out. As at the balance sheet date, this line had not been utilised. In 2017 a fixed interest rate bullet loan in the amount of € 10.0 million was repaid in the third quarter. The expenses in connection with the issue amounted to € 0.5 million (previous year: € 0.8 million). After the Annual General Meeting in June 2018, € 14.7 million (previous year: € 23.4 million) was paid to the shareholders of RHÖN-KLINIKUM AG. Dividends paid to non-controlling interests in 2018 amounted to € 1.2 million (previous year: € 1.5 million).

The cash flow statement included a total of € 37.7 million (previous year: € 14.3 million) in outstanding construction invoices.

The statement of cash flows sets out the change in cash and cash equivalents between two balance sheet dates. In the RHÖN-KLINIKUM Group, this item exclusively comprises cash and cash equivalents attributable to continuing operations because no operations were discontinued.

Financial liabilities changed as follows:

in € million	31 Dec. 2017	Cash changes	Non-cash changes	31 Dec. 2018
Lease obligations	4.0	1.7	–	5.7
Current financial liabilities	0.0	–	0.3	0.3
Non-current financial liabilities	0.0	99.7	–	99.7
Proceeds from issuing of financial liabilities	–0.8	–0.2	0.2	–0.8
Total liabilities from finance activities	3.2	101.2	0.5	104.9

The promissory notes taken out with banks in October 2018 resulted after the deduction of banking fees in a cash inflow of € 99.7 million. The cash outflow of € 0.2 million relates to further advisory costs in connection with the loan taken out.

8 | SHAREHOLDINGS

8.1 Companies included in the consolidated annual report

in € '000			
	Interest held in %	Equity	Result for the year
Hospital companies			
Haus Saaletal GmbH, Bad Neustadt a. d. Saale ¹	100.0	1,516	0
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) ¹	100.0	73,677	0
RHÖN-Kreisklinik Bad Neustadt GmbH, Bad Neustadt a. d. Saale	100.0	910	560
Universitätsklinikum Gießen und Marburg GmbH, Gießen	95.0	121,770	28,448
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	128,452	7,574

¹The company claims the exemption from the disclosure obligation pursuant to section 264 (3) HGB.

in € '000			
	Interest held in %	Equity	Result for the year
Medical care centre companies			
MVZ Bad Neustadt/Saale GmbH, Bad Neustadt a. d. Saale	100.0	369	0
MVZ des Klinikums Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	231	3
MVZ UKGM GmbH, Marburg	95.0	352	97
MVZ Zentralklinik GmbH, Bad Berka	87.5	1,997	3

in € '000			
	Interest held in %	Equity	Result for the year

Research and education companies

ESB – Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt a. d. Saale	100.0	1,444	39
gemeinnützige Gesellschaft zur Förderung der klinischen Forschung auf dem Gebiet der Humanmedizin und zur Betreuung von Patienten an den Universitäten Gießen und Marburg mbH, Marburg	100.0	35	0

in € '000			
	Interest held in %	Equity	Result for the year

Property companies

BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt a. d. Saale	100.0	30,916	1,533
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH Leipzig, Leipzig	100.0	280	20

in € '000			
	Interest held in %	Equity	Result for the year

Service companies

RHÖN-Cateringgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	156	80
RHÖN-Reinigungsgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	2,811	222
RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale	100.0	216	-7
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	51.0	51	0
UKGM Service GmbH, Bad Neustadt a. d. Saale	100.0	69	0

in € '000

	Interest held in %	Equity	Result for the year
Shelf companies/other companies			
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	50.0	781	167
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	168	20
KLINIK "HAUS FRANKEN" GMBH Bad Neustadt/ Saale, Bad Neustadt a. d. Saale	100.0	701	49
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, Heidelberg	24.9	-40,713	-2,658
Psychosomatische Klinik GmbH Bad Neustadt/ Saale, Bad Neustadt a. d. Saale	100.0	2	-7
PTZ GmbH, Marburg	100.0	357	-20
RHÖN Energie für Gesundheit GmbH, Bad Neustadt a. d. Saale	100.0	1,586	84
RHÖN-Innovations GmbH, Bad Neustadt a. d. Saale	100.0	7,758	-1,887
RK Klinik Betriebs GmbH Nr. 35, Bad Neustadt a. d. Saale	100.0	127	-6
Wolfgang Schaffer GmbH, Bad Neustadt a. d. Saale	100.0	574	-6

8.2 Other companies according to section 313 (2) No. 2 et seq. HGB

in € '000

	Interest held in %	Equity	Result for the year
4QD – Qualitätskliniken.de GmbH, Berlin ¹	20.0	1,120	167
Bäderland Bayerische Rhön GmbH & Co. KG, Bad Kissingen ¹	0.1	8	1
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar ¹	15.9	501	20
Inovytec Medical Solutions Ltd., Hod Hasharon (Israel) ²	11.8	1,353	-1,700
CLEW Medical Inc., Delaware (USA) ²	14.8	4,928	-2,019
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale ¹	25.0	1,049	127
Soemmerring GmbH privates Institut für Bewegungsstörungen und Verhaltensneurologie i. L., Bad Nauheim ³	31.7	22	-1
Telesofia Medical Ltd., Tel Aviv (Israel) ²	12.3	945	-559

¹ Figures according to annual financial statements of 31 December 2017.

² Figures according to annual financial statements of 31 December 2017, converted at closing/ average exchange rate 31 December 2018.

³ Figures according to annual financial statements of 31 December 2016.

9 | OTHER DISCLOSURES

9.1 Average annual number of employees

	2018	2017		Change	
	Number ¹	Number ¹	Number ¹		%
Medical doctors	1,000	1,014	-14	-1.4	
Nursing services	4,591	4,568	23	0.5	
Medical-technical services	2,560	2,487	73	2.9	
Functional	1,693	1,636	57	3.5	
Supply and misc. services	1,889	1,856	33	1.8	
Technical	254	250	4	1.6	
Administrative	1,068	1,040	28	2.7	
Other personnel	269	275	-6	-2.2	
	13,324	13,126	198	1.5	

¹ Headcount, excluding board members, managing directors, apprentices, trainees and those in alternative national service.

9.2 Other financial obligations

in € million

	31 Dec. 2018	31 Dec. 2017
Order commitments	30.5	88.7
Operating leases		
Due in subsequent year	1.3	1.6
Due in 2 to 5 years	0.4	0.7
Due in 5 years	0.0	0.1
Total operating leases	1.7	2.4
Other		
Due in subsequent year	32.8	28.9
Due in 2 to 5 years	25.4	28.4
Due in 5 years	1.5	1.1
Total other	59.7	58.4

Of the figure for order commitments, € 2.6 million (previous year: € 2.2 million) is attributable to intangible assets, and € 25.0 million (previous year: € 81.7 million) to property, plant and equipment. Of the order commitments for property, plant and equipment, € 15.3 million (previous year: € 77.9 million) is attributable to plant under construction. The decline results in particular from the completion of the construction measure at Campus Bad Neustadt a. d. Saale.

The remaining other financial obligations are mainly attributable to service agreements (maintenance agreements, agreements concerning the sourcing of products, agreements relating to laundry services, etc.).

As at the reporting date, obligations under loan commitments to one associate additionally results in the amount of € 2.5 million (previous year: € 3.0 million). Investment commitments also exist in connection with the agreement on separate accounting in the amount of € 100 million at the Gießen and Marburg sites.

In addition, absolute bank guarantee undertakings not limited by contract exist for claims of the associations of accredited physicians (Kassenärztliche Vereinigungen) and health insurance funds against medical care centre subsidiaries from their accredited physician activities, and with a medical care centre subsidiary a contract performance guarantee amounting to € 0.2 million (previous year: € 0.2 million) as security for advance payments of the association of accredited physicians.

As part of the construction of the new hospital in Bad Neustadt a. d. Saale, a bank guarantee in the amount of € 0.1 million (previous year: € 0.1 million) was granted to secure the reforestation agreement with the Free State of Bavaria.

Moreover, two aval guarantees (Aval-Bürgschaftserklärungen) in the amount of € 9.1 million (previous year: € 5.6 million) exist for claims to government grants of the Free State of Bavaria. One aval guarantee in the amount of € 5.6 million will be withdrawn in the first quarter of 2019.

It is no longer expected that any claims will be made under the guarantees.

9.3 Leases within the Group

Leasing transactions are classified as finance leases or operating leases. Leasing transactions in which the Group acts as the lessee and bears all the major risks and rewards associated with ownership are generally treated as finance leases. As at the balance sheet date of 31 December 2018, this relates to Zentralklinik Bad Berka GmbH, Universitätsklinikum Gießen und Marburg GmbH, Klinikum Frankfurt (Oder) GmbH, RHÖN-Kreislinik Bad Neustadt GmbH, RHÖN-Reinigungsgesellschaft mbH, MVZ Zentralklinik GmbH as well as RHÖN-KLINIKUM AG. Accordingly, the Group capitalised the assets at the present value of the minimum leasing payments of € 6.7 million (previous year: € 7.6 million), and subsequently depreciates the assets over the estimated economic useful life or the shorter term of the contract. At the same time, a corresponding liability is recognised, which is paid down using the effective interest method. All other leases in which the Group acts as the lessee are treated as operating leases. In this case, the payments are recognised as expense on a straight-line basis.

9.3.1 Obligations as lessee of operating leases

The Group rents medical equipment as well as residential and office space; these are classified as cancellable operating leases. The leases generally have a term of up to five years. Under these lease agreements, the Group has a maximum termination notice of twelve months for the end of the term. The minimum lease payments to be made in future (up to one year) are € 1.3 million (previous year: € 1.6 million). The minimum lease payments for the period of up to five years are stated at € 0.4 million (previous year: € 0.7 million). The corresponding figure for the period in excess of five years is € 0.0 million (previous year: € 0.1 million).

9.3.2 Obligations as lessee of finance leases

Under finance leases, the Group mainly rents copier and printer systems as well as laboratory equipment. In the Group, there is a principle of always acquiring ownership of operating assets.

in € million		
Liabilities from finance leases – minimum payments	2018	2017
Due in subsequent year	1.1	1.1
Due in 2 to 5 years	3.8	3.0
Due in 5 years	1.1	0.1
	6.0	4.2
Future financing costs under finance leases	-0.3	-0.3
Present value of liabilities under finance leases	5.7	3.9

in € million		
Present value of liabilities under finance leases	2018	2017
Due in subsequent year	1.0	1.0
Due in 2 to 5 years	3.6	2.8
Due in 5 years	1.1	0.1
	5.7	3.9

Liabilities under finance leases increased as a result of the purchase of various laboratory equipment items. The leases within the Group in some cases contain purchase and extension options that can be exercised after expiry of the minimum contractual term.

9.3.3 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 cooperating 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 property to a nursing home operator. Based on the provisions of IFRS 13.97, fair value is calculated for the assets to be stated according to IAS 40. The fair value determined in this regard cannot be observed on an active market nor can be derived from a quoted market price and is thus classified to Level 3 of the fair value hierarchy of IFRS 13. The fair value is determined using a capitalised value approach in which the corresponding components of the income cost approach such as

gross profit, expected return on land value and standard land value are used as input factors. On the basis of the capitalised value of potential earnings, no material differences between the fair value of the properties and their carrying amounts shown below are seen. For this reason, no external fair-value expertise was obtained.

Depreciation is recognised on a straight-line basis over a useful life of 33 1/3 years. Rental income of € 0.4 million (previous year: € 0.4 million) was received in 2018. The operating costs for the investment properties amounted to € 0.2 million in the financial year (previous year: € 0.2 million). These are accounted for entirely by properties with which rental income was generated.

in € million		
	2018	2017
	Total	Total
Cost		
1 Jan.	5.0	5.0
Additions	0.0	0.0
Disposals	0.0	0.0
31 Dec.	5.0	5.0
Cumulative depreciation		
1 Jan.	2.4	2.2
Depreciation	0.1	0.2
Disposals	0.0	0.0
31 Dec.	2.5	2.4
Balance sheet value as at 31 Dec.	2.5	2.6

There is also income from non-terminable leases. The minimum lease payments to be received in future (up to one year) are € 0.1 million. The minimum lease payments for the period of up to five years are € 0.0 million. The corresponding figure for the period in excess of five years is € 0.0 million.

9.4 Related parties

According to the definition of IAS 24.9, related parties are those related to the reporting entity. Such parties are in particular natural persons who control the reporting entity or are involved in its joint management, exercise a material influence or hold a key position in the corporate management of the reporting entity. The same is true of close relatives of such persons. Also included are companies of the same corporate group and companies subject to or exercising a material influence.

Companies in the RHÖN-KLINIKUM Group enter into transactions with related parties in certain cases. These in particular include lettings of buildings as well as services related to nursing as well as supply of staff. Such service or lease relations are arranged at arm's length terms.

Related companies are accordingly defined as all companies in which we own an interest of 20.0% and 50.0% or which were not included in the consolidated financial statements on the grounds of materiality (for the companies of the Group, please refer to the list of shareholdings in these Notes). Jointly managed joint ventures are also deemed to be related companies. From the point of view of the Group, the volume of transactions with related companies in the 2018 financial year was as follows:

in € '000

	Expenses 2018	Income 2018	Receivables 31 Dec. 2018	Liabilities 31 Dec. 2018
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale	–	419	14	–
4QD – Qualitätskliniken.de GmbH, Berlin	33	–	–	–
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar	3	–	–	–
	36	419	14	–

From the point of view of the Group, the volume of transactions with companies consolidated using the equity method in financial year 2018 was as follows:

in € '000

	Expenses 2018	Income 2018	Receivables 31 Dec. 2018	Liabilities 31 Dec. 2018
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	649	–	–	86
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	251	141	13	–
	900	141	13	86

The receivables and liabilities result from supply and service relationships.

Related persons are defined as the members of management in key positions as well as their first degree relations and their spouses in accordance with section 1589 of the German Civil Code (Bürgerliches Gesetzbuch, BGB). The Board of Management of RHÖN-KLINIKUM AG as well as the members of the Supervisory Board were included among the members of management in key positions.

In financial year 2017, a provision was formed for a former member of the Board of Management for the termination of his service contract in the amount of € 3.6 million, which was used up in 2018.

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

in € '000

Related party	Companies as defined by IAS 24	Nature of services	Expenses	
			2018	2017
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	14	13
		Supervisory board activity at an affiliated company	1	4
Prof. Dr. h. c. Ludwig Georg Braun	B. Braun Konzern (mainly B. Braun Melsungen AG und Aesculap AG)	Purchase of medical products	12,544	10,173
Peter Berghöfer		Supervisory board activity at an affiliated company	4	4
Bettina Böttcher		Supervisory board activity at an affiliated company	–	4
Klaus Hanschur		Supervisory board activity at an affiliated company	3	4
Dr. Katrin Vernau		Supervisory board activity at an affiliated company	3	4

The expenses were recognised in the income statement under the materials and consumables item as well as the other expenses item (as in previous year). No impairments were to be recognised in the 2018 financial year (as in previous year).

The following services were recognised in the income statement under other income:

in € '000

Related party	Companies as defined by IAS 24	Nature of services	Income	
			2018	2017
Eugen Münch		Telephone expenses, books, insurance fees	9	1

As at the balance sheet date of 31 December 2018, the following trade receivables/trade liabilities existed:

in € '000

Related party	Liabilities		Receivables	
	2018	2017	2018	2017
Prof. Dr. h. c. Ludwig Georg Braun	1,264	365	–	–

The employee representatives on the Supervisory Board employed at RHÖN-KLINIKUM AG or its subsidiaries received the following remuneration within the scope of their employment contracts in the past financial year:

in € '000

	Fixed	Profit-linked	Total 2018	Total 2017
Peter Berghöfer	150	42	192	170
Björn Borgmann (until 28 February 2018)	7	0	7	42
Stefan Härtel	51	1	52	49
Klaus Hanschur	38	0	38	37
Oliver Salomon (since 1 March 2018)	39	1	40	–
Evelin Schiebel	42	1	43	43
Natascha Weihs (since 1 January 2018)	47	3	50	–
	374	48	422	341

The above costs are shown under employee benefit expenses in the income statement.

9.5 Total payments of the Supervisory Board, the Board of Management and the Advisory Board

in € '000

	2018	2017
Remuneration of the Supervisory Board	1,954	1,967
Remuneration of the incumbent Board of Management	3,852	4,760
Remuneration of former members of the Board of Management	1,281	1,066
Remuneration of the Advisory Board	–	9

No loans were granted to members of the Supervisory Board, the Board of Management and the Advisory Board dissolved as of 31 December 2017. The members of the Supervisory Board and their related parties together have a shareholding interest in RHÖN-KLINIKUM Aktiengesellschaft of 45.2% (previous year: 45.2%) of total equity capital. As at 31 December 2018, the members of the Board of Management do not hold any shares of RHÖN-KLINIKUM Aktiengesellschaft.

Regarding details on payments of the Supervisory Board and the incumbent Board of Management and the former Board of Management, reference is made to the 2018 Group Management Report.

During the 2018 reporting period, RHÖN-KLINIKUM AG received no notifications on transactions for own account by persons discharging managerial responsibilities pursuant to Article 19 of the Market Abuse Regulation (EU) No 596/2014.

In financial year 2014, RHÖN-KLINIKUM AG, by agreements entered into in May 2014, granted the three members of the Board of Management who were active members in financial year 2014 warrants in the form of virtual shares. The virtual shares are vested. The commitments have a term running until June 2019. Payment of the virtual shares granted shall be made at the average price of the previous three months before the end of the term, with the payment per virtual share being limited to € 40. According to IFRS 2, this plan is to be treated as a cash-settled plan and thus accounted for as a payment with cash settlement. The provision for the liability resulting from the virtual shares was formed in the amount of the expected expenditure. The fair value of the virtual shares in the amount of € 6.0 million is calculated with the aid of a binomial model.

An equity interest of 3.0% (previous year: 6.0%) was held by the incumbent members of the Board of Management and former members of the Board of Management, and an interest of 3.2% (previous year: 1.2%) by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made for the interests in the amount of € 0.3 million (previous year: € 0.4 million) – of which € 0.1 million (previous year: € 0.3 million) is attributable to the members of the Board of Management) – are reported under the other liabilities item as share-based remuneration as defined in IFRS 2 (cash-settled share-based payment transactions). The result for the period of the reporting year does not contain any income or expenses in this connection. In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. Moreover, the option of returning the interests on termination of the service relationship exists. In 2018, one employee made use of this provision. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable. No expenses as part of this remuneration were incurred during the reporting period.

9.6 Declaration of Compliance with the German Corporate Governance Code

By joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG of 8 November 2018, the Company made the required declaration pursuant to section 161 of the German Stock Corporation Act (AktG) regarding the application of the German Corporate Governance Code in the 2018 financial year. These have been published on the website of RHÖN-KLINIKUM AG and thus made available to the general public.

9.7 Disclosure of the fees recognised as expenses (including reimbursement of outlays and excluding VAT) for the statutory auditors

In the 2018 financial year, expenses resulting from fees for statutory auditors amounting to € 1.4 million (previous year: € 1.5 million) were incurred Group-wide. A breakdown of these fees (including outlays and excluding VAT) by service rendered is provided below:

in € '000

	2018	2017
Fees for auditing financial statements	933	885
Fees for other statutory auditing services	115	115
Fees for tax advice	266	349
Fees for other services	67	167
	1,381	1,516

The fees for the other statutory auditing services essentially cover certificates for hospital legislation purposes as well as for review of the separate non-financial report. The tax advisory services include in particular fees for preparing tax declarations as well as support services in the context of company tax audits. Other services primarily relate to fees for project-related advisory services.

Of the total fee (excluding VAT), no fees are attributable to other statutory auditors who are not auditors of the consolidated financial statements.

9.8 Events after the reporting date

On 10 January 2019 we signed a declaration of intent to establish a joint company with the Swiss telemedicine pioneer Medgate. We are thus forging ahead with the entry into the future market of telemedicine planned in 2019, i.e. the treatment of patients by phone, video and standard forms. According to the declaration of intent, RHÖN-KLINIKUM AG is to hold an interest of 51.0% in the newly founded company based in Germany. With Medgate Germany, RHÖN-KLINIKUM AG is looking to be the market leader in the field of telemedical and digital-medical services in Germany. In February 2019 we announced the minority interest we were taking in Tiplu GmbH. Here we are pursuing the goal of securing revenues by improving processes in case coding.

Apart from that, no particularly significant events have occurred since 31 December 2018 that are expected to have a material influence on the net assets, financial position and results of operations of the Group of RHÖN-KLINIKUM AG.

10 | CORPORATE BODIES OF RHÖN-KLINIKUM AG

The Supervisory Board of RHÖN-KLINIKUM AG comprises the following persons:

Eugen Münch

Bad Neustadt a. d. Saale, Chairman of the Supervisory Board

Other mandates:

- HCM SE, Bad Neustadt a. d. Saale (Chairman of the Board of Directors and Managing Director)
- Stiftung Münch, München (Board of Trustees)

Georg Schulze-Ziehaus

Frankfurt am Main, 1st Deputy Chairman,
Regional Director of ver.di, region of Hesse

Wolfgang Mündel

Kehl, 2nd Deputy Chairman, Auditor
and Tax Consultant in own practice

Other mandates:

- Jean d'Arce Cosmétique GmbH & Co. KG, Kehl (Chairman of the Advisory Board)
- HCM SE, Bad Neustadt a. d. Saale (Deputy Chairman of the Board of Directors)

Dr. Annette Beller

Kassel, member of the Board of Management
of B. Braun Melsungen AG

Other mandates:

- Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main (member of the Board of Directors)

Peter Berghöfer

Münchhausen, Head of Finance, Universitätsklinikum
Gießen und Marburg GmbH, Gießen

Also a member of the Supervisory Board of:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen

Björn Borgmann

(until 28 February 2018)
Marburg, Male Nurse

Prof. Dr. h. c. Ludwig Georg Braun

Melsungen, Entrepreneur

Also a member of the Supervisory Board of:

- Aesculap AG, Tuttlingen (Chairman of the Supervisory Board) (until 10 July 2018)
- B. Braun Melsungen AG, Melsungen (Chairman of the Supervisory Board)
- Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
- Stihl AG, Waiblingen (until June 2018)
- WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg

Other mandates:

- B. Braun Medical AG, Luzern, Switzerland (Vice-President of the Board of Directors)
- Stihl Holding AG & Co. KG, Waiblingen (member of the Advisory Board)

Prof. Dr. Gerhard Ehninger

Dresden, Medical Doctor

Also a member of the Supervisory Board of:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen

Stefan Härtel

Müllrose, Male Nurse, Klinikum Frankfurt (Oder) GmbH,
Frankfurt (Oder)

Other mandates:

- Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) (member of the Advisory Board)

Klaus Hanschur

Marburg, Masseur and med. Spa Therapist

Also a member of the Supervisory Board of:

- Marburger Spar- und Bauverein eG, Marburg
- Universitätsklinikum Gießen und Marburg GmbH, Gießen

Meike Jäger

Berlin, Regional Director and Secretary of ver.di

Also a member of the Supervisory Board of:

- Vivantes – Netzwerk für Gesundheit GmbH, Berlin
(Deputy Chairman of the Supervisory Board)

Dr. Brigitte Mohn

Gütersloh, member of the Board of Management of Bertelsmann Stiftung

Also a member of the Supervisory Board of:

- Bertelsmann SE & Co. KGaA, Gütersloh
- Bertelsmann Management SE, Gütersloh
- PHINEO gAG, Berlin (Chairman of the Supervisory Board)

Other mandates:

- Agentur Nordpol, Hamburg (member of the Advisory Board)
- Clue by Biowink GmbH, Berlin (member of the Advisory Board)
- Dachstiftung Diakonie, Kästorf (member of the Board of Trustees)
(until 29 June 2018)
- Flytxt B.V., Netherlands (Non-Executive Director)
(until 24 October 2018)
- State Government of North Rhine-Westphalia, Düsseldorf
(member of the Advisory Council for Participation and
Integration) (since 17 September 2018)
- Member of Bertelsmann Verwaltungsgesellschaft mbH,
Gütersloh
- Peres Center for Peace and Innovation, Israel (member on the
International Board of Governors) (since 1 July 2018)
- Reinhard-Mohn-Institut für Unternehmensführung, Witten
(member of the Board of Trustees)
- Regine Sixt Kinderhilfe Stiftung, Pullach (member of the
Advisory Board)
- Stiftung Michael Skopp, Bielefeld (member of the
Board of Trustees)
- Stiftung Deutsche Schlaganfall-Hilfe, Gütersloh (Chairman of the
Board of Trustees)
- Sunrise Capital GmbH, Leopoldshöhe (Managing Shareholder)
- Volunteer Directly Ltd., GivingWay, Israel (member of the
Advisory Board)

Christine Reißner

Sülzfeld, Merchant

Oliver Salomon

Bad Berka, Male Nurse (since 1 March 2018)

Evelin Schiebel

Görsbach, Nurse

Dr. Katrin Vernau

Hamburg, Administrative Director of WDR Westdeutscher Rundfunk, Cologne

Also a member of the Supervisory Board of:

- Baden-Badener Pensionskasse VVaG, Baden-Baden
(Chairman of Supervisory Board)
- Bavaria Film GmbH, Geiseltal
- Duale Hochschule Baden-Wuerttemberg, Stuttgart
(until February 2018)
- Universitätsklinikum Gießen und Marburg GmbH, Gießen
- WDR mediagroup GmbH, Cologne

Other mandates:

- Fee service of ARD, ZDF and Deutschlandradio, Cologne
(Chairman of the Administrative Board)
- Gothaer Versicherungsbank (member of the Members'
Representatives)
- IVZ Informationsverarbeitungszentrum, Cologne (member
of the Board of Directors)
- Köln Musik GmbH, Cologne (Representative of the shareholder
WDR)
- Rheinische Friedrich-Wilhelms-Universität Bonn, Bonn
(member and Deputy Chairman of the University Council)

Natascha Weihs

(since 1 January 2018), Bad Neustadt a. d. Saale, Physiotherapist

The Board of Management of RHÖN-KLINIKUM AG comprises the following persons:

Stephan Holzinger

Business address at Bad Neustadt a. d. Saale,
Chairman of the Board of Management

Member of the Supervisory Board of:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen
(Chairman of the Supervisory Board)

Other mandates:

- HCM SE, Bad Neustadt a. d. Saale (Board of Directors)
(until 23 March 2018)
- Stiftung Münch, Munich (Chairman of the Trustees)

Prof. Dr. med. Bernd Griewing

Business address Bad Neustadt a. d. Saale,
Board of Management Medicine

Member of the Supervisory Board of:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen

Other mandates:

- Stiftung Münch, Munich (Board of Trustees)
- Zentrum für Telemedizin e. V., Bad Kissingen
(Board of Management)

Dr. med. M.Sc. Gunther Karl Weiß

Business address Bad Neustadt a. d. Saale,
Operative Member of the Board of Management (since 1 May 2018)

Member of the Supervisory Board of:

- P.E.G. Einkaufs- und Betriebsgenossenschaft eG, Munich

Other mandates:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen
(Chairman of the Board)

Dr. med. Dr. jur. Martin Siebert

Business address Bad Neustadt a. d. Saale,
Permanent Representative of the Chairman of the Board of
Management (until 28 March 2018)

Also a member of the supervisory board of:

- Universitätsklinikum Gießen und Marburg GmbH, Gießen
(until 30 June 2018)
- P.E.G. Einkaufs- und Betriebsgenossenschaft eG, Munich
(until 1 April 2018)

Other mandates:

- Willy Pitzer Beteiligungsgesellschaft mbH, Bad Nauheim
(member of the Advisory Board)
- Bundesverband Deutscher Privatkliniken e.V., Berlin
(Board of Management)
- Verband der Privatkliniken in Sachsen und Sachsen-Anhalt e.V.
(Managing Director)
- Kliniken Schmieder (member of the Advisory Board)
(since 4 October 2018)

Bad Neustadt a. d. Saale, 15 February 2019

The Board of Management

Prof. Dr. Bernd Griewing

Stephan Holzinger

Dr. Gunther K. Weiß

Responsibility Statement

We assure to the best of our knowledge that based on the accounting principles to be applied to the Consolidated Financial Statement of RHÖN-KLINIKUM AG a true and fair view of the asset, financial and earnings position of the Group is given therein and that the Consolidated Report of the Management presents the business performance

including the situation of the Group in such a way as to give a true and fair view of the same as well as a description of the material risks and opportunities involved in the probable development of the Group of RHÖN-KLINIKUM AG.

Bad Neustadt a. d. Saale, 15 February 2019

The Board of Management

Prof. Dr. Bernd Griewing

Stephan Holzinger

Dr. Gunther K. Weiß

Independent auditor's report

To RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of RHÖN-KLINIKUM Aktiengesellschaft for the financial year from 1 January to 31 December 2018. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ❶ **Recognition of revenue generated from hospital services provided and revenue settlement (Erlösausgleich)**
- ❷ **Recoverability of goodwill**
- ❸ **Provisions for legal and tax risks in connection with the sale of companies**
- ❹ **Accounting treatment of deferred taxes**

Our presentation of these key audit matters has been structured in each case as follows:

- ❶ Matter and issue
- ❷ Audit approach and findings
- ❸ Reference to further information

Hereinafter we present the key audit matters:

❶ **Recognition of revenue generated from hospital services provided and revenue settlement (Erlösausgleich)**

- ❶ The revenue amounting to EUR 1,232.9 million recognized in the Company's consolidated financial statements relates primarily to hospital services and is therefore largely subject to the statutory fee regulations for the healthcare sector. For the purposes of settling the services that hospitals provide, the health insurance funds, in their capacity as the payer, and the respective hospital annually negotiate and agree revenue budgets, diagnosis-related groups (DRGs) and measurement ratios. The basis for this is the measurement of the general hospital services within the health care mandate of the respective hospital. The DRGs used to measure hospital services are set out in the standardized DRG catalogue for Germany. If, at the end of the financial year, the quantity (in terms of number, severity or type) of the services invoiced are not in line with the budget negotiated for this year, the resulting excess or shortfall in revenue is settled between the health insurance funds in their capacity as the payer and the respective hospital. Since the budgets are negotiated primarily during the course of the financial year or not until after the end of the financial year, the executive directors of the company estimate the service quantities to be remunerated as of the balance sheet date. The revenue is adjusted accordingly.

Furthermore, in accordance with § 275 SGB V [Sozialgesetzbuch V: Book V of the German Social Code] and § 17 KHG [Krankenhausfinanzierungsgesetz: German Hospital Financing Act], the health insurance funds generally have the right to have the coded revenue (calculation of service quantities) reviewed by Medizinischer Dienst der Krankenversicherung (MDK), an external medical consulting firm for the German healthcare sector. The revenue from the hospital services provided is adjusted by the executive directors of the company on the basis of estimates in relation to the MDK's objection rate, and on the basis of experience. In turn, the final findings of MDK's verifications influence the revenue settlement for the respective financial year.

The revenue adjustments are based to a large degree on the executive directors' estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement on which this material item was based, this matter was of particular significance for our audit.

- ② As part of our audit, we, among other things, used the contractual documents and other correspondence provided to us to gain an overview of the budget arrangements between the health insurance funds and the respective hospitals of the RHÖN-KLINIKUM Group as well as the respective remunerated service quantities. With the knowledge that estimated values result in an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on consolidated profit, we assessed the appropriateness of the budget estimates, the revenue settlements and the revenue adjustments performed on basis of the MDK's verifications. In order to assess the appropriateness of the revenue recognized as of the balance sheet date, we assessed the Company's processes for recognizing and adjusting revenue from provided hospital services and we examined the method the executive directors use for performing revenue adjustments. Furthermore, we also evaluated the executive directors' related assumptions relating to the remunerated service quantities as of the balance date on the basis of the detailed information provided to us. We compared the revenue adjustments with the minutes and records provided to us of the respective negotiations with the health insurance funds as well as the outcomes of negotiations in previous years. For the revenue settlements, we also evaluated the process for determining the revenue settlements in addition to validating the revenue figures using the respective information on hospital services provided by the patient management system and the underlying agreements. With respect to any corrections by the MDK, we assessed the processes for determining the service quantities (coding) and

for determining the corresponding corrections. We also analyzed and assessed the development of MDK's verification and objection rates as well as its audit focal points. In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors concerning the recognition and measurement of revenue from hospital services provided were sufficiently documented and that the estimates applied and the assumptions made by the executive directors were consistently derived.

- ③ The Company's disclosures relating to revenue recognition are contained in sections 3.2 and 5.1 of the notes to the consolidated financial statements.

② **Recoverability of goodwill**

- ① In the Company's consolidated financial statements goodwill of EUR 163.9 million (10.3% of consolidated total assets) is reported under the "Goodwill and other intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The Company allocates goodwill to the respective cash-generating units. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of fair value less costs of disposal. Goodwill is generally measured as the present value of the future cash flows of the respective cash-generating unit. The relevant present value is calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions

about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted cost of capital for the relevant cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

- ② As part of our audit, we assessed the methodological procedure adopted for the purpose of the impairment tests and evaluated the calculation of the weighted cost of capital, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We also assessed the appropriate consideration of the costs of Group functions. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the goodwill calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and assessed the calculation method. Furthermore, in order to take into account existing uncertainties inherent in the forecasts and projections, in addition to the sensitivity analyses carried out by the Company we performed our own sensitivity analyses and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.
- ③ The Company's disclosures pertaining to goodwill are contained in sections 2.4.1, 3.1 and 6.1 of the notes to the consolidated financial statements.
- ④ **Provisions for legal and tax risks in connection with the sale of companies**
- ① In the Company's consolidated financial statements other provisions amounting to EUR 62.4 million (3.9 % of consolidated total assets) are reported. Of this amount, EUR 54.0 million relates to provisions for potential legal and tax risks in connection with the sale of clinics to Fresenius/Helios. The requisite risk assessment and determining on the basis of that assessment whether or not a provision should be recognized to cover the risk, and if so, in what amount, is shaped to a high degree by assessments and assumptions on the part of the executive directors. The warranty obligations from the underlying share purchase agreement form the basis for recognizing these provisions. To measure these provisions, the Company calculated the expected future cash outflows relating to the underlying obligations. Against this background and due to the materiality of these provisions as well as the executive directors' underlying assumptions and judgment, this matter was of particular importance for our audit.
- ② With the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on consolidated profit, we evaluated the appropriateness of the carrying amounts as a part of our audit. We assessed the recognition and measurement of the uncertain obligations inter alia by comparing these amounts with historical data, evaluating the consistently used calculation methodology and by referring to the contractual documents provided to us. We also examined the calculation of the provisions. In doing so, we also assessed whether the estimates applied and the assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the material provisions. We were able to follow the measurement assumptions applied by the executive directors, and deem the assessments arrived at by the executive directors as well as the measurement of these material provisions as justifiable.

③ The Company's disclosures pertaining to provisions for legal and tax risks in connection with the sale of companies are contained in section 6.15 of the notes to the consolidated financial statements.

④ Accounting treatment of deferred taxes

① Deferred tax assets (net of set-offs and impairment losses) of EUR 3.2 million are reported in the Company's consolidated financial statements. Deferred tax assets amounting to EUR 11.6 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan. Deferred taxes are measured using future tax rates, to the extent they have already been enacted or substantively enacted. Of the RHÖN-KLINIKUM Group's deferred tax assets totaling EUR 11.6 million prior to set-offs against deferred tax liabilities, EUR 2.1 million is attributable to loss carryforwards. In total, EUR 1.7 million in deferred tax assets in respect of unutilized tax loss carryforwards were not recognized since it was not probable that setting these off against taxable profit would yield any tax advantages. From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we added internal tax accounting specialists to our audit team to help us assess the recoverability of tax positions. With their assistance, we assessed, among other things, the established processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions. In addition, we verified the reconciliation to the tax expense. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and adequately documented.

③ The Company's disclosures relating to deferred taxes are contained in sections 5.10 and 6.3 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior to the date of our auditor's report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 1.9 of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (with the exception of the remuneration report)
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The annual report is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 6 June 2018. We were engaged by the supervisory board on 9 November 2018. We have been the group auditor of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, without interruption since the financial year 1988.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Michael Conrad.

Frankfurt am Main, 15 February 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad
Wirtschaftsprüfer
(German Public Auditor)

ppa. Stefan Sigmann
Wirtschaftsprüfer
(German Public Auditor)

Balance sheet and income statement

BALANCE SHEET

in € million		
	31 Dec. 2018	31 Dec. 2017
Assets		
Intangible assets	3.5	2.3
Property, plant and equipment	267.5	132.4
Financial assets	666.1	679.0
Fixed assets	937.1	813.7
Inventories	5.4	4.5
Receivables and other assets	90.8	87.8
Securities, cash and cash equivalents	212.3	230.7
Current assets	308.5	323.0
Prepaid expenses	1.5	1.3
Deferred tax assets	9.0	12.5
	1,256.1	1,150.5

in € million		
	31 Dec. 2018	31 Dec. 2017
Shareholders' Equity and Liabilities		
Subscribed capital/issued capital	167.4	167.4
Capital reserve	589.0	589.0
Retained earnings	0.1	0.1
Net distributable profit	189.1	172.1
Shareholders' equity	945.6	928.6
Contributions to finance fixed assets	7.3	1.6
Provisions	114.4	124.8
Liabilities	188.8	95.5
	1,256.1	1,150.5

INCOME STATEMENT

in € million		
	2018	2017
Revenues	218.6	193.2
Changes in services in progress	-1.0	0.1
Other operating income	22.6	2.2
Materials and consumables used	57.0	53.0
Employee benefits expense	124.2	99.4
Depreciation	15.5	9.2
Other operating expenses	31.4	34.8
Operating result	12.1	-0.9
Investment result	12.7	13.4
Finance result	11.1	10.2
Taxes	4.2	-4.5
Net profit for the year	31.7	27.2
Profit carried forward from previous year	157.4	144.9
Net distributable profit	189.1	172.1

The annual financial statements of RHÖN-KLINIKUM Aktiengesellschaft, which have been audited and certified by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, will be published in the Federal Gazette (Bundesanzeiger) and deposited with the Commercial Register.

The report can be obtained from the Company on request.

Proposed Appropriation of Profit

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2018, 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 € 189,110,739.48.

The Board of Management and the Supervisory Board propose appropriating an amount of € 19,412,156.30 to distribute a dividend of € 0.29 per no-par value share with dividend entitlement (DE0007042301), and carrying forward to new account the remaining amount of € 169,698,583.18.

Bad Neustadt a. d. Saale, 28 March 2019

RHÖN-KLINIKUM Aktiengesellschaft

The Supervisory Board

The Board of Management

Independent Practitioner's Report

ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING¹

To RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to § 289b Abs. 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of RHÖN-KLINIKUM AG, Bad Neustadt a. d. Saale, (hereinafter the "Company") for the period from January 1, to December 31, 2018 (hereinafter the "non-financial report"). The non-financial report comprises the sections marked with a check mark in the Corporate Social Responsibility Report of the company for the financial year 2018.

Responsibilities of the Executive Directors

The Management Board of the Company is responsible for the preparation of the non-financial report in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB. This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the non-financial report.

¹ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's non-financial report for the period from January 1, to December 31, 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the non-financial report regarding the preparation process, the internal control system relating to this process and selected disclosures in the non-financial report
- Identification of the likely risks of material misstatement of the non-financial report
- Analytical evaluation of selected disclosures in the non-financial report
- Comparison of selected disclosures with corresponding data in the financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's non-financial report for the period from January 1, to December 31, 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt a. Main, 15 February 2019
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
Wirtschaftsprüfer
(German Public Auditor)

ppa. Barbara Wieler
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR

DATES FOR SHAREHOLDERS AND ANALYSTS 2019

22 February	Publication of Preliminary Results for the 2018 financial year
29 March	Publication of 2018 Annual Financial Report, Press Conference
3 May	Publication of Interim Report for the quarter ending 31 March 2019
5 June	Annual General Meeting (Stadthalle, Bad Neustadt a. d. Saale)
1 August	Publication of Half-Year Financial Report as of 30 June 2019
8 November	Publication of Interim Report for the quarter ending 30 September 2019

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This Annual Report is also available in German.

Annual Report on the Internet

en.rhoen-klinikum-ag.com/annual-report

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