Annual Report
RHÖN-KLINIKUM AG

RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

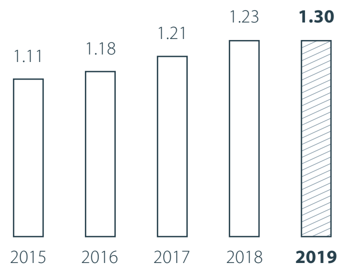
Key figures
2015–2019

in € '000	2015	2016	2017	2018	2019
Revenues	1,108,189	1,176,349	1,211,077	1,232,908	1,303,898
Consolidated profit according to IFRS	87,443	58,635	36,737	51,188	44,479
EBT	90,288	60,862	37,116	63,178	54,242
EBIT	93,138	96,993	38,697	64,943	56,804
EBIT – ratio (%)	8.4	8.2	3.2	5.3	4.4
EBITDA	154,161	156,860	97,817	125,543	125,326
EBITDA – ratio (%)	13.9	13.3	8.1	10.2	9.6
Equity according to IFRS	1,108,713	1,113,383	1,125,256	1,159,222	1,185,809
Return on equity (%)	67.8	76.5	76.5	72.9	72.7
Earnings per ordinary share (in €)	1.19	0.84	0.53	0.73	0.65
Number of employees (headcount)	15,654	16,486	16,688	16,985	17,687 [1]
Number of cases (patients treated)	765,109	813,747	836,387	850,147	860,528
Beds and places	5,218	5,348	5,370	5,369	5,312

[1] Plus 455 students of specialist health professions.

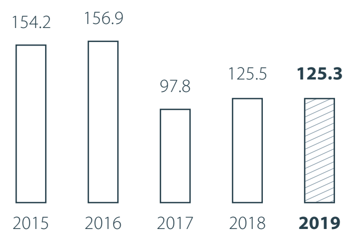
REVENUES

in € billion



EBITDA

in € million

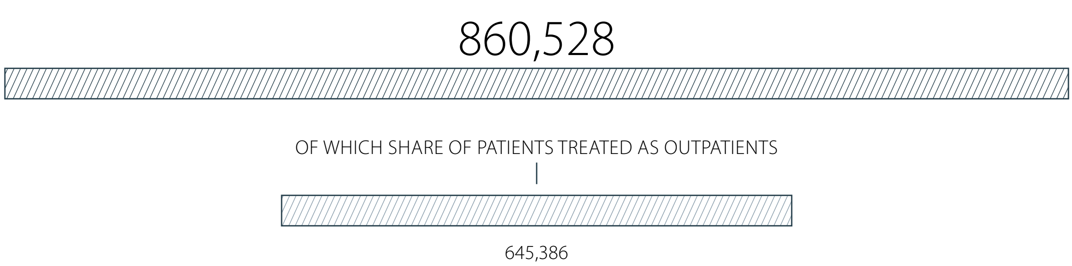


Key figures
Q1–Q4 2019

in € '000	Jan.–March 2019	April–June 2019	July–Sept. 2019	Oct.–Dec. 2019	**Jan.–Dec. 2019**
Revenues	324,211	319,967	326,634	333,086	1,303,898
Consolidated profit according to IFRS	8,940	11,603	17,239	6,697	44,479
EBT	10,696	15,163	18,172	10,211	54,242
EBIT	11,144	15,493	19,122	11,045	56,804
EBIT – ratio (%)	3.4	4.8	5.9	3.3	4.4
EBITDA	28,726	32,189	36,624	27,787	125,326
EBITDA – ratio (%)	8.9	10.1	11.2	8.3	9.6
Equity according to IFRS	1,168,220	1,161,984	1,179,316	1,185,809	1,185,809
Return on equity (%)	72.8	73.6	71.6	72.7	72.7
Earnings per ordinary share (in €)	0.12	0.18	0.25	0.10	0.65
Number of employees (headcount)[1]	17,089	17,113	17,444	17,687	17,687
Number of cases (patients treated)	218,924	213,636	214,785	213,183	860,528
Beds and places	5,312	5,312	5,312	5,312	5,312

[1] Plus 455 students of specialist health professions.

NUMBER OF PATIENTS TREATED 2019



Content

Our
Mission

As one of the leading providers of healthcare in Germany, RHÖN-KLINIKUM AG plays a trailblazing role in the healthcare industry with its campus and digitalisation strategy. Our campus approach taking a comprehensive view of patients is a viable care model of the future. We are thus setting standards for excellent medical care – not just in rural areas. In the best interests of our patients we are exploiting the opportunities of digitalisation. Our activities are underpinned by common values such as integrity, responsibility, compassion, care and respect.

Highlights
of the year

January

SHORT PATHS

New RHÖN-KLINIKUM Campus launched
The new Campus in Bad Neustadt opens its doors. For the first time, the RHÖN Campus was implemented here in its ideal form representing comprehensive healthcare delivery for patients.

February

DIGITAL TOOL BOX

Strategic equity interest in software provider Tiplu
The equity investment in the young, modern company is part of the digitalisation strategy. Tiplu is considered the market leader for software-based coding and the securing of services rendered in hospitals.

March

TUMOUR THERAPY

Research and therapy of neuroendocrinal tumours
Zentralklinik Bad Berka has one of the seven certified European excellence centres of the "European Neuroendocrine Tumor Society" (ENETS) in Germany. Patients come to Thuringia from the whole world. In March it was once again successfully certified.

April

HEALTH

New digital teaching offering for students
Digitalisation and e-Health are important for training future doctors. In cooperation with Justus-Liebig University Gießen, RHÖN-KLINIKUM AG recognised this trend early with the focus curriculum "Digital Medicine, e-Health and Telemedicine".

May

70

EMPLOYEES FROM OVER 70 COUNTRIES

Diversity in the Company
Diversity embraced is part of RHÖN-KLINIKUM AG. At the university hospital Universitätsklinikum Gießen und Marburg (UKGM), people from 70 countries work hand in hand for the well-being of patients. It thus goes without saying that we participate in the Germany-wide campaign "We are Diversity".

June

30,000 KILOMETRES FOR A GOOD CAUSE

Doing kilometres
At the beginning of June, the campaign "Mit dem Rad ins Klinikum" (Engl.: Cycling to the hospital) was launched at Klinikum Frankfurt (Oder). The employees cycled until the end of September for a good cause. More than 30,000 km logged. For every 100 kilometres covered, the hospital donated one euro to a regional children's project.

July

A first in Hesse

Doctors from Giessen University Hospital for the first time implanted the latest generation of a heart monitor enabling precise monitoring of cardiac activity and transmitting arrhythmia promptly to the doctor. With the aid of an app, patients can share possible symptoms with the doctor via smartphone and actively support their treatment.

August

MIT

Patient care secured at MIT

RHÖN-KLINIKUM AG has assumed responsibility for the technical operation of the Marburg Ion Beam Therapy Centre (MIT) and Uniklinikum Gießen und Marburg (UKGM) the clinical operations of MIT. MIT is only one of two centres in Germany that offer the possibility of performing heavy ion radiation with carbon ions in addition to proton irradiation.

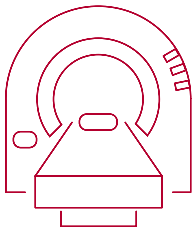
September

OR
ROBOTICS

daVinci at UKGM

At Uniklinikum Gießen operations are performed with the aid of a robot. The 2.3 million euro daVinci system ensures less invasive interventions. The doctor is still in charge. The robot remains an assistant.

October



New CPECT CT in nuclear medicine (FFO)

Klinikum Frankfurt (Oder) has one of the most modern SPECT/CT. Combining both procedures in a single device allows for a much more precise and safe diagnosis of various oncological or heart conditions.

November

3.8

MILLION EURO JFC FUNDING

Cross-sector care oriented to needs of patients

Better quality of life for patients with heart failure – thanks to greater integration of care under a corresponding remuneration model. The funded project underscores the innovative strength of the Company and rounds off the RHÖN Campus approach.

December

TELEMEDICINE

Medgate Deutschland founded

Telemedicine has the potential to develop into an additional business field of the Company alongside the core business of hospital services. By establishing Medgate Deutschland, RHÖN-KLINIKUM AG is looking to close the growing gaps in physician care, particularly in rural regions.

Our employees in numbers

1,526

apprentices
are being trained by us in our Company, of which 879 in nursing professions alone

18,142

employees
work at our five Company sites

55

per cent more apprentices compared with 2018
attributable to the newly introduced training remuneration and our attractiveness as an employer

Dear Ladies and Gentlemen, Dear Shareholders,

Chairman of the Board of Management
Stephan Holzinger

Before I talk about the challenges and successes of RHÖN-KLINIKUM AG in the 2019 financial year, I would like to take the opportunity to briefly discuss the takeover by Asklepios: the stalemate amongst the major shareholders is now over following the voting majority in RHÖN-KLINIKUM AG reached by the Asklepios-Münch joint venture. The Board of Management will carefully review the offer submitted. Following this review, we will submit a detailed statement on the takeover offer to the shareholders of RHÖN-KLINIKUM AG.

Now for a look at the past financial year: in 2019, RHÖN-KLINIKUM AG – like the entire sector – was confronted with a difficult market environment. There were a growing number of insolvencies, distressed sales as well as mergers. These were brought on by the politically motivated shake-up of the market particularly borne from often ill-informed regulation and even more red tape, as well as shortage of qualified staff. In 2019, the Company has also faced greater operative challenges at some of its sites.

With our five hospital sites of maximum and intermediate care, we already make a tremendous contribution towards the advancement of medicine and offer an excellent level of healthcare provision – not only in rural regions. Unlike many competitors, we enjoy a sound structural basis. The market shake-up, which will tend to take a greater regulatory toll on smaller and medium-sized facilities, is something we could see coming about seven years ago when we sold especially smaller and medium-sized hospitals to Fresenius/Helios in a deal worth billions. We are also the only private hospital operator that can draw on the expertise of two renowned university hospitals with our Giessen and Marburg sites. Thanks to an interdisciplinary collaboration and a strong networking with all our facilities, this benefits our patients and our employees equally.

But to be competitive in future as well, we will have to turn the focus of our activities even more towards operative efficiency at our state-of-the-art hospitals and sites. Only in that way will we be able to withstand the pressures being brought to bear by the legislature in what we regard as a misguided overregulation of the oversupply of hospitals, while at the same time, seizing new opportunities arising from a consolidation of the market in future.

Specifically, we already took a close look at the regional competitive environment of our facilities, reviewing and, where necessary, optimising the portfolio of medical services in each case. We have taken numerous organisational, technical and personnel measures with a view to further optimising processes at the hospitals, Group headquarters and between the hospitals, as well as to cut costs and raise revenues. With a special focus on efficiency reserves still to be tapped with regard to traditional hospital issues such as OR, beds, duration-of-stay and discharge management as well as optimisation of administrative structures at the sites and at Group headquarters, we have defined additional areas of focus in the continuation of our improvement scheme already launched in 2017 and are pressing ahead with their implementation. That said, in all this we are moving on a fine edge in what currently is and for many years will likely remain an employee-friendly labour market: adjustments in efficiency levels need only to be perceived as excessive for top performers to switch over to competitors along with their teams, with corresponding negative impacts on revenues and earnings.

With our five hospital sites of maximum and intermediate care, we already make a tremendous contribution towards the advancement of medicine and offer an excellent level of healthcare provision – not only in rural regions.

In 2019 we raised revenues by 5.8 per cent to 1.3 billion euros. EBITDA stayed at nearly the same level as the previous year at 125.3 million euros. The EBITDA margin was 9.6 per cent, after 10.2 per cent in the previous year. Taking account of higher depreciation/amortisation and financing costs, EBITDA resulted in a consolidated profit of 44.5 million euros after 51.2 million euros in the previous year. As expected, consolidated profit lagged behind the level of the previous year, especially due to higher depreciation/amortisation. With an equity ratio of 72.7 per cent as well as a financing strategy oriented on the long term, we enjoy a rock-solid financial basis.

> The stalemate among the major shareholders is now over following the voting majority in RHÖN-KLINIKUM AG reached by the Asklepios-Münch joint venture. After a careful review, we will submit a detailed statement on the takeover offer to the shareholders of RHÖN-KLINIKUM AG.

The development of the operating result was influenced by several factors: firstly, in the previous year we were able to realise on the balance sheet for the first time the positive results from the agreement on what is referred to as separate accounting at Universitätsklinikum Gießen und Marburg. That means that EBITDA in 2018 was positively impacted in a one-off amount of 20 million euros. As a counter-effect to the challenges faced in the industry and the operative burdens, we recorded positive effects in the 2019 financial year thanks to higher revenues from the university outpatient units in Giessen and Marburg as well as delayed effects from the earlier Fresenius/Helios transaction.

The year 2019 was also marked by the start-up effects of the new Campus Bad Neustadt. There we established our innovative campus approach for a new path-breaking, cross-sector and digitally networked form of patient care on a state-of-the art health campus for rural areas. To achieve this result, hospitals that for decades had previously operated separately had to be moved into a new, huge building complex, the existing hospitals had to be vacated, new medical and building technology as well as new software programs had to be put into service and new processes had to be adopted for all employees involved.

All that took longer than planned and had a noticeable negative impact on the trend in our operating result in 2019 – despite this innovative care approach being extremely well received by patients. The potential areas for operative improvement at the Campus Bad Neustadt have been identified, and allocations of responsibilities have been clearly communicated. We therefore expect to achieve noticeable progress with the Campus Bad Neustadt in 2020. With this approach, we already have a working, highly innovative concept, praised by many experts and market participants, by which we can actively engage in the ineluctable shake-up of the market and create an attractive offering particularly for rural regions in Germany.

Those holding the reins of political power are well aware that in Germany we still have too many hospitals that are too poorly equipped, not enough qualified staff, and too many patients being treated in the wrong places within the healthcare system – all the while accepting and condoning a policy of a shortage in hospital funding running into the billions that has been perpetuated by the respective federal states now for many years. Politicians, with their biggest and most basic concern being to get re-elected in this country, have settled for an indirect, arbitrary market shake-out currently being played out along socialist-Darwinian lines on the backs of a great number of patients, employees and, in our case, also shareholders.

My position is clear: healthcare policy will have to see a turnaround soon if there is to be a realignment in the German hospital sector, and this is something that will be driven by financial and demographic pressures. We need highly specialised medical centres in which top experts in facilities equipped with the best possible state-of-the-art medical technology can provide medical care to each individual patient. But at the same time, we of course also need care concepts for local and timely basic care. As one of the leading countries on this planet, we should not leave the decision on which facilities survive financially and which ones do not to some coincidence or chance. However, it has to be feared that the policymakers have not thought the market shake-up through to its end: existing antitrust policy in healthcare is apparently not yet ready for the phase of market consolidation soon to take place. That means that the legal restrictions now in force might hamper the reshaping of the market both medically and economically.

In 2020, we want to actively seize on the opportunities arising from the consolidation of the market, taking into account the realignment of the shareholder structure. We have only moderate debt and therefore good financial scope to make acquisitions which are sensible, i.e. in line with our strategy, as the right opportunities arise, or also to take strategic interests in innovative, young companies with which we can successfully implement and pursue our digitalisation strategy. Our large sites are, moreover, better able to respond to changes and the increasing requirements of legislation compared with the market as a whole.

The entry into the promising future market of telemedicine, the innovative RHÖN Campus approach for cross-sector healthcare delivery and the steadfast continuation of the gradual digital transformation of our Company for high-quality healthcare delivery are key elements of our corporate strategy.

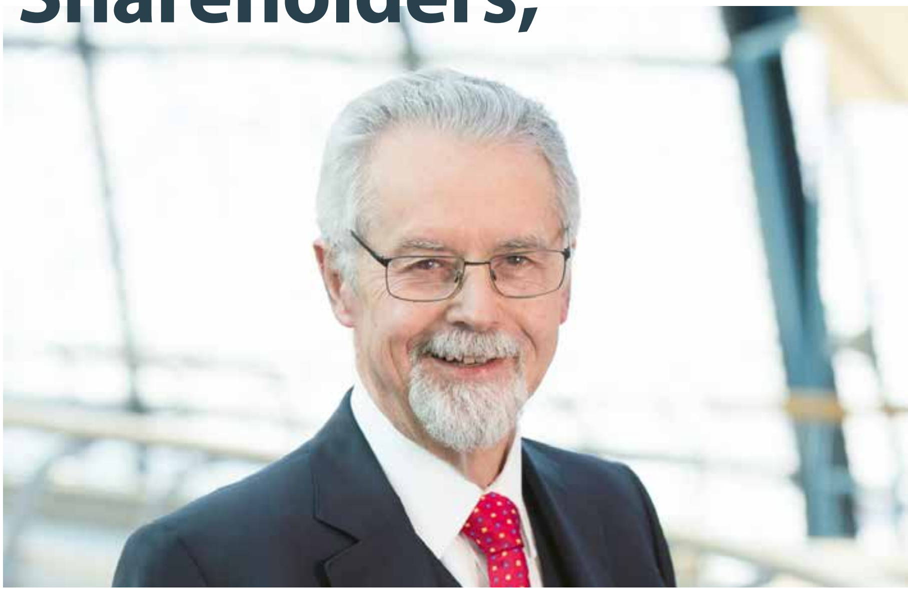
Economically, the year 2020 will prove to be a difficult one for RHÖN-KLINIKUM AG, given the huge negative impacts from the wave of regulation from legislation looming on the horizon. We are convinced that with the Group's extremely sound financing, the entry into the growth market of telemedicine, the equity interests in young growth companies and innovative care offerings such as the Campus approach, our firm focus on excellent medical quality will enable us to overcome the unfavourable market phase – irrespective of the Group's future ownership structure.

Yours sincerely,

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

Bad Neustadt a. d. Saale, March 2020

Dear Shareholders,



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 2019 financial year:

Cooperation between Supervisory Board and Board of Management

During the 2019 financial year also, the Supervisory Board examined on an ongoing basis and in detail the situation and development of the Company, fully 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 in the corporate bodies and with the Board of Management – as already in the previous years as well– were the further strategic development of the Group, with the main focus this year being on issues, projects and measures for implementing new care concepts reflecting the needs of patients. The role of escorting the Board of Management in these changes in an ongoing advisory capacity, e.g. in putting into service the pilot project RHÖN-Campus at Group headquarters in Bad Neustadt an der Saale, the implementation of the new RHÖN flow principle, the entry into telemedicine as well as the digitalisation of the business model, were among the key tasks of the Supervisory Board.

The chairman of the Supervisory Board moreover engaged in a regular exchange of information and ideas with all members 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 in 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), two of which were held as joint meetings with the Medical Innovation and Quality Committee (attendance rate: 90 per cent).

At the ordinary meetings of the Investment, Strategy and Finance Committee, the chairman of the Board of Management reported at each meeting 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. At each meeting, the members of the Board of Management reported regularly – in some cases consulting specialist employees possessing the requisite qualifications – in status reports on the development at the individual sites of the Group in accordance with their areas of responsibility. Specific motions for approval of investment projects and financing measures were 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 as well as, among other things, on market studies and investment calculations. For example, the committee gave its approval for construction measures at the sites of UKGM in Giessen (modernisation of Klinik Seltersberg and Neubau Parkhaus) and Marburg (new construction of the Clinic for Paediatric and Juvenile Psychiatry as well as modernisation and restructuring of the OR area).

To supplement the existing financing measures of the Group, the committee gave its approval by way of written procedure to the issue of a long-term registered bond for 60 million euros. With the establishment of Medgate Deutschland GmbH together with the Swiss telemedicine provider Medgate in a joint venture, we entered the area of telemedicine for generalised healthcare delivery in Germany. After extensive consultation and careful consideration at its meeting on 5 November 2019, the committee gave its consent to the establishment of the new subsidiary, approved its comprehensive financing and set out its support by the Supervisory Board in view of its special importance for the future.

At all meetings, the key focus of supervision and consultations was on the commissioning and start-up of the Bad Neustadt health campus project completed at the end of the previous financial year. Key issues in this connection were process and patient management and avoiding wasting resources as a result of misallocations. The committee also thoroughly assessed the effects of the government regulatory restrictions in the nursing area and their negative impact on the trend in service volumes. Another area of focus of the deliberations was the continued operation and development of patient numbers of the Marburg Ion Beam Therapy Centre (MIT GmbH) wholly taken over by us.

At a conference call held during the reporting year (attendance rate: 100 per cent) and in a written resolution procedure, the **Personnel Affairs Committee** prepared subjects relating to personnel matters of the Board of Management for the Supervisory Board and, to the extent required, adopted resolutions and made recommendations to the Supervisory Board on the adoption of resolutions.

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

The **Audit Committee** of the Supervisory Board met five times in the year under review (attendance rate: 90 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 committee – as proposed by the Board of Management – consulted the heads of the Internal Auditing, Compliance as well as Accounting, Tax, Controlling and Finance departments, who 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 2018. 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 2019 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 2019.

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 2019 as well as its update. The auditing plan for 2020 was approved. The audit reports of the Internal Auditing department as well as the 2018 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.

In updating, and amending during the year under way, of 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 was responsible for the preparing the tender procedure for the auditor of the accounts from 2021 and adopted the tender for the audit of the financial statements.

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 2019, 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 2019, the committee met four times (attendance rate: 100 per cent). The Board of Management was represented at all meetings by at least 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 in some instances by the heads of the Group's Investor Relations, Communications and IT divisions as well as the Group data protection officer.

In the area of corporate communications, the Board of Management informed on reporting relating to the campus in Bad Neustadt, on the establishment of the new communications strategy within the Group and on the new requirements for reporting in the Management Report. The committee was furthermore kept informed about the investor relations activities, current draft legislation (second German Act Implementing the Shareholder Rights Directive (*zweites Gesetz zur Umsetzung der Aktionärsrechterichtlinie*, ARUG II)), as well as the planned revision of the German Corporate Governance Code and the audit performed in accordance with the German IT Security Act (*IT-Sicherheitsgesetz*, IT-SiG) relating to critical infrastructure.

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. During the reporting year, the committee did not hold any separate meetings but convened exclusively in two joint meetings with the Investment, Strategy and Finance Committee (see above).

The **Nomination Committee**, which selects candidates from the shareholders' representatives for supervisory board office and proposes them to the Supervisory Board, held one conference call (attendance rate: 100 per cent). Subjects were the preparation for the Supervisory Board of a proposal to the 2019 Annual General Meeting on the succession to Professor Dr. h. c. Ludwig Georg Braun, who left the Supervisory Board upon reaching the retirement age in accordance with the Articles of Association, and perspectives for a composition of the Supervisory Board on new elections at the 2020 Annual General Meeting.

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. At all meetings, the Board of Management was supported by the head of Accounting, Tax, Controlling and Finance.

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 21 February 2019, the Supervisory Board, on the recommendation by the Nomination Committee, deliberated on the succession to the member leaving the Supervisory Board on conclusion of the 2019 Annual General Meeting upon reaching the retirement age, Prof. Dr. Braun, and on the future design and composition of the Supervisory Board for the new election by the 2020 Annual General Meeting. Mr. Jan Hacker, chairman of the board of management of Oberender AG, was nominated as successor. The Board of Management, as part of its status reports on the sites of the Group, informed chiefly on the impressions and experience gained from putting into service the newly opened campus in Bad Neustadt. We received the report of the Board of Management on planning for 2019 for the parent company (AG) and the Group and on the proposal for the appropriation of profit for 2018, and approved the submitted drafts of the Report of the Supervisory Board, the Corporate Governance Report for financial year 2018 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 2019 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 2018 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 5 June 2019, 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, among other things, the Report of the Supervisory Board, Corporate Governance Report and the Declaration on Corporate Governance pursuant to section 289f of the German Commercial Code (*Handelsgesetzbuch*, HGB). After the Supervisory Board completed its own review, the separately summarised non-financial report audited by PWC was approved for 2018.

At the meeting on 3 July 2019, the plenary session first decided once again to consult an external expert to conduct an efficiency audit regarding the activity of the Supervisory Board. At this meeting the focus of the deliberations, as a result of the reporting from the committee's work, was on subjects like optimising the care concept at our hospitals to improve economic efficiency and on the control measures required for this to ensure use of resources according to the needs of patients. When submitting the divisional and hospital results, the Board of Management reported extensively on the stage reached in the rehabilitation of the Marburg Ion Beam Therapy Centre (MIT GmbH). Another key subject was the analysis of the impending earnings development and the impact of extraordinary effects on earnings planning and annualisation for 2019.

At the Supervisory Board meeting on 6 November 2019, the Supervisory Board, in the absence of the Board of Management, first looked at Board of Management matters and issues internal to the Supervisory Board. A special focus continued to be on the impact of the tightened industry-specific regulatory framework conditions on the current and future trend in earnings and counter-measures or strategies to exploit opportunities. A resolution on a recommendation by the Audit Committee was adopted for the annually submitted Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (*Aktiengesetz*, AktG) regarding the recommendations of the German Corporate Governance Code.

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 8 November 2018 pursuant to section 161 of the AktG as amended during the year under way on 18 January 2019, was revised and, giving due regard to the Code as amended on 7 February 2017, was replaced by an updated Declaration of Compliance issued on 6 November 2019 by the Board of Management and the Supervisory Board. An addition was made by the amendment in the year under way of this Declaration of Compliance on 19 March 2020. 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 51ff. of this Annual Report.

Examination and approval of the 2019 financial statements

The Board of Management adopted the financial statements of the Company and the management report for the year ended 31 December 2019 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 2019 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 auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has 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 2019. 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 19 March 2020 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 for 2019. 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 18 March 2020 and by the Supervisory Board at its meeting on 19 March 2020. The Board of Management thoroughly explained the reports at both meetings. Representatives of the auditor attended the meeting of the Audit Committee on 18 March 2020 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".

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.

Prof. Dr. Ludwig Georg Braun left the Supervisory Board on conclusion of the 2019 Annual General Meeting upon reaching the retirement age in accordance with the Articles of Association. The 2019 Annual General Meeting elected Mr. Jan Hacker, chairman of the board of management of Oberender AG, as successor.

The personal details of the members of the Supervisory Board in 2019 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, 19 March 2020

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

(period of 1 January–31 December 2019)

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
Prof. Dr. Ludwig Georg Braun
(until 5 June 2019)
Jan Hacker (from 24 June 2019)
Stefan Härtel
Klaus Hanschur
Wolfgang Mündel
Oliver Salomon
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
(until 5 June 2019)
Jan Hacker (from 24 June 2019)
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

Medical Innovation and Quality Committee

Eugen Münch
Chairman

Prof. Dr. Ludwig Georg Braun
(until 5 June 2019)
Prof. Dr. Gerhard Ehninger
Jan Hacker (from 24 June 2019)
Klaus Hanschur
Evelin Schiebel

Nomination Committee

Eugen Münch
Chairman

Dr. Brigitte Mohn
Wolfgang Mündel

The RHÖN-KLINIKUM share

The share of RHÖN-KLINIKUM AG witnessed a positive trend in the first half of the year and on 1 July 2019 reached a high for the year of 27.20 euros. In the third and fourth quarter the RHÖN share then declined, closing the year 2019 at a price of 17.48 euros.

The Board of Management and the Supervisory Board propose a dividend of 0.25 euros (previous year: 0.29 euros) per eligible share.

Performance of stock markets

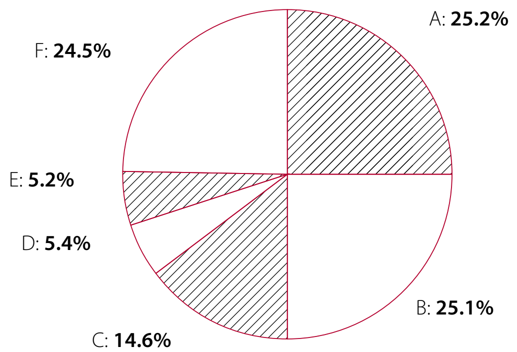
The German leading index DAX® posted a new high for the year at 13,408 points on 16 December 2019 before powering sideways to the end of the year. Overall, the DAX® gained roughly 25.5 per cent over 2019, closing the year at 13,249 points. The second-tier German index SDAX® recorded a gain of 31.6 per cent and stood at 12,512 points year-end. The European indices DJ EURO STOXX 50® and DJ EURO STOXX Healthcare® performed slightly worse, reporting a gain of 24.8 and 24.2 per cent.

Performance of RHÖN-KLINIKUM AG share

The RHÖN-KLINIKUM share witnessed a positive start to the year and gained 21.9 per cent in the first half. The share thus outperformed the German and European benchmark indices in the first six months of the year 2019. After the share reached the high for the year at 27.20 euros on 1 July 2019, it went into decline. The share of RHÖN-KLINIKUM AG recorded a decline during 2019 of 20.8 per cent and closed the stock market year at a price of 17.48 euros (28 December 2018: 22.06 euros).

SHAREHOLDER STRUCTURE

As at 31 December 2019 (on the basis of the most recent notification of voting rights to the company)



A: **B. Braun Melsungen**
B: **Asklepios/Dr. gr. Broermann**
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**

RHÖN-KLINIKUM SHARE IN COMPARISON

Source: XETRA®. indexed (2 January 2019 = 100)

The very small free float and significantly lower average trading volumes compared with previous years have made the share price more vulnerable to external market factors. In addition to geopolitical and macroeconomic factors, the performance of the RHÖN share was adversely impacted primarily by excessive regulation of the German hospital market. The share was negatively impacted to a significant extent particularly by the expected burden on earnings from nursing regulation aimed especially at private hospital operators.

The RHÖN-KLINIKUM share is listed in the Prime Standard of the Frankfurt Stock Exchange and represented on the SDAX® share index. At year-end 2019, the 66.96 million non-par shares in issue had a market capitalisation of 1.2 billion euros (previous year: 1.5 billion euros). The RHÖN-KLINIKUM share thus ranked 164th (previous year: 156th) in the index as at 30 December 2019. The mean value of the daily average trading volume on the German stock exchanges including Xetra® trading stood at 25,557 shares in 2019 (previous year: 40,040 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 financial year 2019, the Board of Management and the Supervisory Board therefore propose to the Annual General Meeting the distribution of a dividend of 0.25 euros (previous year: 0.29 euros) per non-par share with dividend entitlement.

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 high priority for us. As part of our financial market communication, we therefore again strived in 2019 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. A Capital Markets Day was moreover held at the Campus Bad Neustadt a. d. Saale in April 2019.

RHÖN-KLINIKUM SHARE

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

Share price	**1.1.–31.12.2019**	1.1.–31.12.2018
in €		
Year-end closing price	17.48	22.06
High	27.20	31.70
Low	17.48	21.18

	31 Dec. 2019	31 Dec. 2018
Market capitalisation (€ m)	1,170.50	1,477.19
Deutsche Börse Ranking (Market Capitalisation)	164	156

DATES FOR SHAREHOLDERS AND ANALYSTS 2020

21 February	Publication of Preliminary Results for the 2019 financial year
24 March	Publication of 2019 Annual Financial Report, Press Conference
7 May	Publication of Interim Report for the quarter ending 31 March 2020
3 June	Annual General Meeting
6 August	Publication of Half-Year Financial Report as of 30 June 2020
6 November	Publication of Interim Report for the quarter ending 30 September 2020

You will find a financial calendar containing all important financial dates for 2020 as well on our website at www.rhoen-klinikum-ag.com in the "Investor Relations" section.

A word with the Board of Management

From left to right

PROF. DR. BERND GRIEWING
Board Member for Medical

STEPHAN HOLZINGER
Chairman of the Board of Management

DR. GUNTHER K. WEISS
Operative Board Member

In 2020 you would like to actively seize acquisition opportunities. Where is your focus?

STEPHAN HOLZINGER

Our focus will be on operative improvement measures in our core business and on successfully continuing our campus strategy. As communicated by us already before the publication of the takeover offer by Asklepios-Kliniken and its joint venture with Eugen Münch, we are reviewing on an ongoing basis the options for acquisitions on the market, for example of specialist healthcare providers in a market niche. Since we currently have only a moderate level of debt, we also enjoy a very sound financial scope for such acquisitions.

You are also looking at equity investments in young companies from the sector?

STEPHAN HOLZINGER

Yes. We are particularly open to scenarios in which we can support the core business where possible, either medically or administratively. With our large facilities and the only two privatised university hospitals, we have an ideal ecosystem for that. That is something young companies from the sector appreciate, and the interest accordingly is considerable. But the path from a fresh idea to putting it into daily medical and economic practice is often a long one.

In 2019 you acquired an equity interest in Tiplu. How has this investment developed?

STEPHAN HOLZINGER

We are very pleased with the development of Tiplu. The software company was established in 2016 and has specialised in case-related coding and revenue-securing through the use of semantic text analyses in hospital documents, such as doctor's letters, laboratory findings or OR documentation. Tiplu now has more than 200 customers. With us as a sparring partner in the further development of its products, Tiplu is taking a very good course. Such investments are valuable because they relieve us of economic burdens now resulting from the excessive regulation of our existing business. Tiplu Momo is one of the very few products on the market in which machine learning as a form of artificial intelligence actually works and contributes added value.

» Our focus will be on operative improvement measures in our core business and on successfully continuing our campus strategy. «

STEPHAN HOLZINGER
Chairman of the Board of Management

PROF. DR. BERND GRIEWING
Board Member for Medical

A new remuneration system that seeks to sensibly reflect modern care concepts like the campus model should also reasonably take account of prevention, coordination and networking.

In 2019 you announced your entry into the growth market of telemedicine. What goals are you pursuing with Medgate in Germany?

STEPHAN HOLZINGER

Telemedicine is a market of the future. By entering this field, we are rounding off our clinical portfolio: digital before outpatient before inpatient is the formula we are relying on. In future we will offer straightforward advice and treatment, 365 days a year, for which time and location are no longer relevant. The healthcare system is set to be transformed over the coming years and demand for telemedical offerings will grow. Our existing clinical business will of course be maintained. That is because with our campus approach we provide path-breaking healthcare delivery and, with the university hospitals in Giessen and Marburg, have a very important facility in the area of research and teaching whose importance is also highlighted by Asklepios.

Telemedicine has the potential of developing into an important business field for our Company. It is only a matter of time before persons under statutory health insurance will also have access to it, as patients increasingly expect modern standards of care. The potential of telemedicine is also revealed by the example of the coronavirus. Generally speaking, its importance will grow.

With our commitment in the area of telemedicine, we are making ourselves more independent from the overregulation and arbitrary policy decisions that we experience in the existing business on a daily basis. Business operations of the new company with its registered office in Berlin are scheduled to begin in 2020.

PROF. DR. BERND GRIEWING

The healthcare system in Germany is currently faced with many different and daunting challenges, particularly in view of the steadily growing medical care gaps in rural regions. To meet these challenges, RHÖN-KLINIKUM AG has been active in the field of telemedicine for many years. Already various telemedical applications, including in the area of emergency and stroke care, are also being developed and implemented at our hospitals. With the establishment of the joint venture Medgate Deutschland, we are significantly expanding our existing commitment in the area of telemedicine. In future we want to offer patients advice and treatment for urgent or general medical questions by phone and video telephony subject to the legislation in force in Germany. We will be assisted in this by the Medgate app which, among other things, gives recommendations for telemedical advice or the search for a doctor's practice.

The campus approach as an innovative care model was implemented in Bad Neustadt at the beginning of 2019. Why was that a right and important move?

PROF. DR. BERND GRIEWING

With the implementation of the RHÖN Campus approach at the Bad Neustadt site for future viable healthcare delivery in rural areas aimed at cross-sector care and greater interdisciplinary cooperation, we created structures early which will give us innovative scope in the face of the increasing regulation of the business by the legislature and enable us to be more competitive in future.

How can healthcare delivery at the Campus be improved further?

PROF. DR. BERND GRIEWING

To further improve patient care in our campus approach, we are working together with partners, e.g. on the development of a regional care model for preventing and treating heart failure in the region of Bad Neustadt and Marburg. This also includes the development of an alternative remuneration model. We are particularly proud that the project has received funding from the Innovation Fund of the Joint Federal Committee (JFC) in the amount of 3.8 million euros. We see this as confirming our ability to rethink patient care and to implement promising and modern concepts.

Are there beyond that any ideas about new remuneration forms?

PROF. DR. BERND GRIEWING

In addition to existing systems, we very strongly favour exploring new care and remuneration schemes coupled with a competition on quality between regions. That also includes establishing a regional network with defined healthcare delivery targets. A new remuneration system that seeks to sensibly reflect modern care concepts like the campus approach should also reasonably take account of prevention, coordination and networking.

DR. GUNTHER K. WEISS
Operative Board Member

Thanks to numerous activities and initiatives, we have succeeded in increasing medical staffing over all sites in 2019.

What projects have you implemented in 2019 at the Campus Bad Neustadt?

PROF. DR. BERND GRIEWING

We have begun implementing the second construction phase. In addition to the construction of an outpatient OR centre, it also includes, among other things, expanding staff apartments and the company kindergarten. With the expansion of our Psychosomatic Clinic to include an inpatient rehabilitation department, this will enable us to meet the rising demand of patients for precisely such services. On 1 January 2020, we also broadened our medical service offering by the Clinic for Neurosurgery. Together with the Clinics for Neurology, Neurological Intensive Care, Neurological Early Rehabilitation as well as Neurological Rehabilitation, the new specialist area forms the Neurological Centre in which patients receive comprehensive treatment and rehabilitation and which benefits from the interdisciplinary collaboration of all specialist departments. With the new centre – fully consistent with our campus approach – we are making a further step towards full-coverage medical care in rural areas.

Telemedicine has the potential of developing into an important business field for our Company. It is only a matter of time before persons under statutory health insurance will also have access to it, as patients increasingly expect modern standards of care. The potential of telemedicine is also revealed by the example of the coronavirus. Generally speaking, its importance will grow.

STEPHAN HOLZINGER
Chairman of the Board of Management

On the subject of patient management: What paths have you taken here?

DR. GUNTHER K. WEISS

Throughout the Group we are striving to further improve patient management to increase comfort for patients as well as prevent misreferrals and misallocations. Here, software-based innovations are helping us to optimise operative processes in all areas of the hospitals. But we also face challenges, such as the impacts from staffing floors in nursing and staffing shortages in select areas resulting not only in rising personnel costs but also increasing bed closures.

What has changed with MIT in 2019?

DR. GUNTHER K. WEISS

On 1 August 2019, Universitätsklinikum Gießen und Marburg (UKGM) took over medical responsibility for the treatment of patients at MIT. Since then patient numbers have increased significantly. UKGM has an oncology treatment offering found nowhere else within a broad area, giving it a unique selling point. We wish to secure the future of this innovative form of treatment in the long term. With the successful relaunch of MIT under our management, we are securing care for patients with an innovative treatment method and are strengthening the healthcare sites of Marburg, UKGM and the Central Hesse region.

Everyone is talking about the shortage of qualified staff. What is your assessment?

STEPHAN HOLZINGER

There is no general lack of qualified staff in nursing. What we do have in Germany, though, is simply too many small and inefficient hospitals that are tying up personnel. But it is also clear that there is a need for more highly qualified nursing staff at specific neuralgic points. That said, the debate about nursing issues is concealing the fact that there is a shortage of qualified staff in specific medical specialist disciplines which is effectively hampering our growth opportunities. Here, we would welcome more help from politicians and the scientific community. RHÖN-KLINIKUM is a strong and attractive employer offering competitive pay and great jobs. That is something we have proven in 2019.

DR. GUNTHER K. WEISS

We are an attractive employer offering, in addition to a modern and secure workplace, also a wide range of continued and higher-qualification training opportunities as well as childcare offerings and much more. Thanks to numerous activities and initiatives, we have succeeded in increasing medical staffing over all sites in 2019. Parallel to that, we are doing a lot to improve working conditions in nursing and the healthcare professions and to make salaries even more attractive. We are also stepping up our training efforts. Given the high level of interest, we launched the first time we at the individual hospital sites a second training session in the autumn in addition to the one starting in the spring. As you can see, our commitment is varied and proving successful.

What targets have you set for yourself in 2020?

STEPHAN HOLZINGER

The year 2020 will prove a difficult one for RHÖN-KLINIKUM AG in view of the significant burdening effects of regulation and some unfinished operative business. We have a high equity ratio and net liquidity. That is why we are a very stable Company and on that basis, under the new ownership structure, want to specifically take advantage of opportunities arising from the consolidation of the market over the coming years. For the current financial year 2020, we expect revenues of 1.4 billion euros within a range of plus or minus 5 per cent. For earnings before interest, tax and depreciation/amortisation (EBITDA), we expect a level of between 72.5 million euros and 82.5 million euros.

Corporate Responsibility

We assume our medical, ecological and social responsibilities as a provider of health-care 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

As a healthcare Group, our success is inseparably bound up with medical, ecological and social responsibility. We attach special strategic importance to our patients' well-being, to network medicine as well as to ongoing and higher-qualification training.

Our sustainability management

✓ | 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. Overall responsibility for this issue is assumed by the Group Board of Management.

✓ | Ensuring integrated behaviour at all times is part of our self-perception at RHÖN-KLINIKUM AG. That is why 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. Our own contact for corruption prevention and a Group-wide whistleblowing system additionally ensure that we meet this standard.

✓ | 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. These Group-level works council agreements are regularly adapted. For example, during the reporting year the Group-level works agreement Information and Communication Technology (IaC) was jointly revised on the initiative of the Group-level works council. This was done to take account of the steadily increasing demands created by the digitalisation process and to enhance transparency in the use of IaC systems.

Our sustainability reporting

✓ | Our sustainability reporting has become a tradition. We have been publishing information on our sustainability management for five years now, and since 2016 in the form of our Corporate Social Responsibility Report (CSR Report) integrated into the Annual Report. The section also includes the separate condensed Non-Financial Report (NFR) in accordance with sections 315b, 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-RUG) in the form of the present NFR. Unless otherwise indicated, all information stated refers to the parent (AG) and the Group equally.

✓ | The paragraphs marked with a tick in the CSR Report form the NFR. 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 164ff.).

✓ | The reporting period for the NFR as well as CSR reporting going beyond that is the year 2019. 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 in the section "Basic Characteristics of the RHÖN-KLINIKUM Group" on page 57ff. and on the Internet under the link www.rhoen-klinikum-ag.com.

✓ | For detailed information on our risk management (approach) and our material risks, also in connection with non-financial aspects, please see the section "Opportunities and Risk Report" on page 78ff. of our Group Management Report.

✓ | This year also, 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. We will regularly review whether we wish to make any changes to that.

References to statements outside the Group Management Report constitute additional information and are not an integral part of the NFR.

Material subjects

✓ | To identify the issues of relevance for the CSR-RUG, we performed a materiality analysis in 2017. In this process, all relevant departments of the Company as well as the Board of Management were involved. In 2018 and 2019 the results were once again reviewed for relevance and continued to be regarded as material.

✓ | 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
- Education
- 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. We report in detail on the objectives, actions and results in the relevant sections as set out for you in the table below.

✓ | With the materiality analysis it was determined that the aspects of environmental issues, respect of human rights as well as combating corruption and bribery are not material within the meaning of the CSR-RUG. Accordingly, no concepts within the meaning of the German Commercial Code are reported with regard to these aspects. But since we regard both these issues and the subject of supplier management as forming an important part of responsible corporate governance, we report on them voluntarily.

Ensuring integrity at all times is part of our self-perception.

✓ | You can find detailed description on the materiality analysis procedure on page 41 of the Annual Report 2017 and in the Annual Report 2018 on pages 56/57.

✓ | NFR REFERENCING

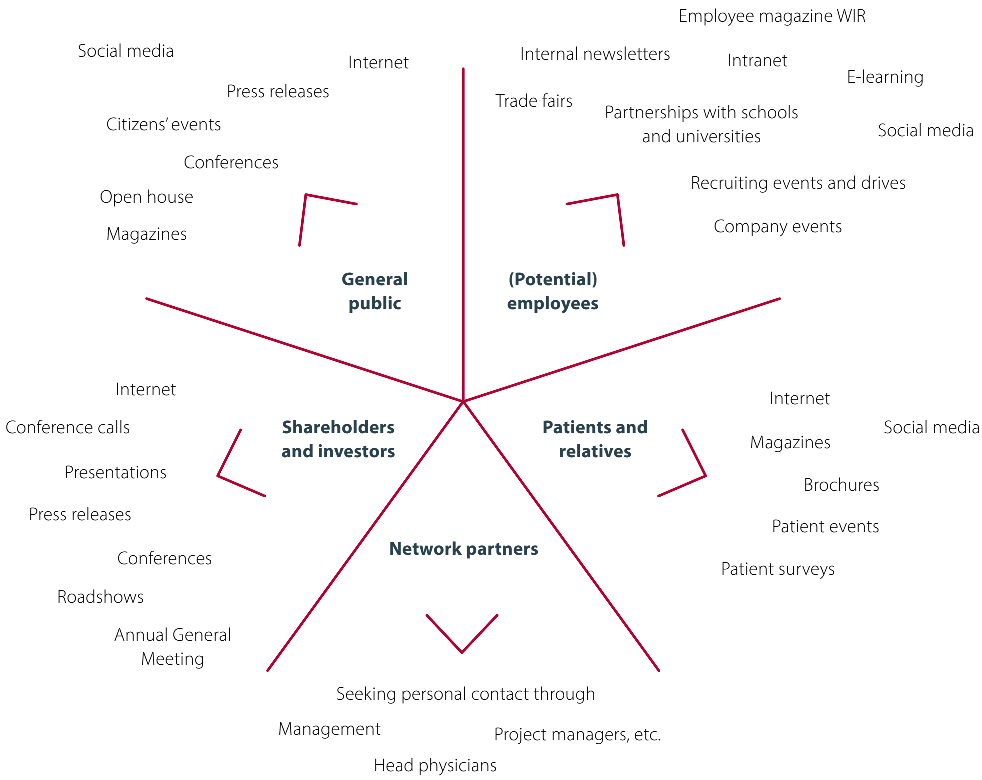
Aspect acc. to section 289 (2) HGB	RHÖN-KLINIKUM AG matter	Reporting in section
Social matters	Patient well-being Network medicine	Medical excellence
Employee matters	Ongoing, continued and higher-qualification training	Employees
Environmental matters	Subjects not material as defined in law	Voluntary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

Our stakeholders

✓ | Interacting constructively and openly with our stakeholders is important to us. In this way we receive valuable insights into how we can organise our Group even better. 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 all the different stakeholder interests as it may very well be the case that these interests conflict. The first and foremost concern for us is always our patients and their well-being. Accordingly, the feedback from our patients is especially important to us. Sensible suggestions and improvement proposals are promptly implemented and carried through by our quality management department.

WE TAKE THE FEEDBACK OF OUR PATIENTS SERIOUSLY, WE IMPLEMENT SUGGESTIONS FOR IMPROVEMENTS

✓ | FORMS OF DIALOGUE WITHIN STAKEHOLDER ENVIRONMENT



MEDICAL EXCELLENCE

One of our most important management tasks is to continually improve our medical excellence. We have created interfacility structures to press ahead with network medicine, to introduce innovations and innovative processes and to define and achieve quality at all levels.

Control and organisation

✓ | Medical excellence is something controllable and predictable. That is why we control and monitor systematically improvements in our medical quality under the management of the head of the Medical division of our Board of Management. These include the areas of

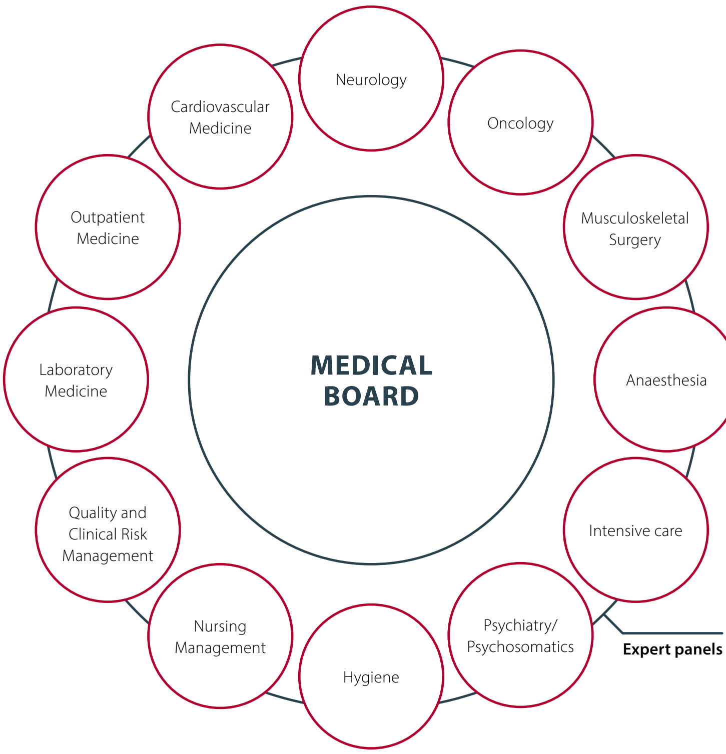
- network medicine and innovation,
- medical process management,
- patient safety, quality management and hygiene.

✓ | He also escorts the hospital sites strategically and promotes their interdisciplinary medical exchange. Given that medical excellence is present everywhere in the Group and at all levels, many medical and management staff assist him in his decisions. They are organised in the Medical Board and the expert panels, with medical exchange also taking place at summit meetings and in dialogues between the medical and commercial decision-makers (e.g. MVZ dialogues).

Expertise through Medical Board and expert panels

✓ | The Medical Board is our standing advisory body which is made up of top-ranking physicians and whose task is to advise the Board of Management and management bodies of the hospitals. Within the Medical Board we prepare for decisions relating to medical-strategic issues and the further development of care quality. The members of the Medical Board work together with their colleagues at the

✓ | MEDICAL BOARD – ADVISORY BODY MADE UP OF TOP-RANKING PHYSICIANS



individual hospitals on an interfacility and interdisciplinary basis, and assess medical and technological innovations as well as the latest therapy procedures. The Medical Board met five times during the reporting year.

✓ | Our twelve medical expert panels bring together in particular physicians and nursing staff from the respective specialist areas from different sites. Here, non-medical issues from the areas of materials management, IT and human resources are also discussed. Thanks to such networked, interfacility exchange, the results benefit patients from all Group hospitals. Each expert panel meets twice a year, with its respective results being presented to the Medical Board and transferred to all hospital sites.

Exchange in dialogues and summit meetings

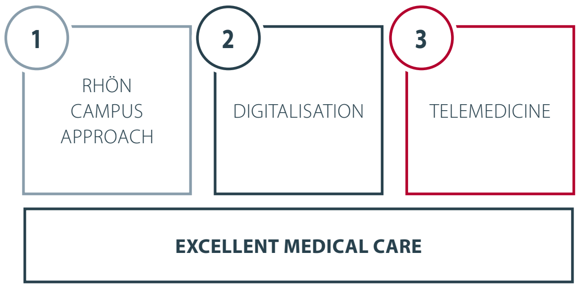
✓ | The purpose of our MVZ dialogues is also to facilitate interfacility and regular exchange of know-how with the aim of jointly developing best-practice approaches. At least twice a year, experts from the medical care centres belonging to the Company as well as representatives from the Group meet and tackle issues such as patient and employee satisfaction, quality management, knowledge and document management, contract management, employee and patient satisfaction, IT, invoicing and MVZ reporting.

✓ | In 2019, it was agreed at the discharge management summit to further implement the nationally valid framework agreement on discharge management. This is aimed at further enhancing the quality of care for our patients. The requirements defined in the framework agreement and their binding implementation are to ensure a seamless follow-up of patients after their discharge.

Medical strategy and objectives

✓ | As the basis for our activity, we seek to ensure excellent medical care for everyone and at all times. For us, that means examining and treating our patients with the latest, scientifically sound therapy procedures using state-of-the-art medical technology. To achieve this, we offer the best possible treatment and care so as to ensure sustainable treatment success. The three care elements for us are the RHÖN Campus approach, digital transformation and sensible use of telemedicine.

✓ | OUR THREE CORE ELEMENTS OF MEDICAL EXCELLENCE

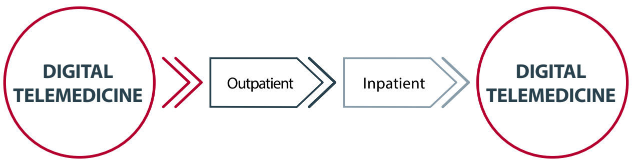


It is also important to drive medical excellence through innovation and research.

To clearly define the overarching objective, RHÖN-KLINIKUM AG has set itself qualitative objectives for the two subjects of key importance defined in the CSR-RUG, network medicine and patient well-being. In 2019 we further pursued the objectives defined in the previous year, with expansion of network medicine becoming increasingly important. Network medicine describes today's need for professional healthcare service providers to engage in broad and far-reaching cooperation. The objective is to achieve regional andintegrated full-coverage care for our patients at one point of contact. The building blocks enabling such network medicine to be implemented are being continuously expanded. The RHÖN Campus approach and our activities in the area of telemedicine describe this central networking concept.

We have set ourselves the following objectives for the key subjects of network medicine and patient well-being:

✓ | Objective for network medicine



– Continuous expansion of network medical care. Long-term objective: digital before outpatient before inpatient

✓ | Objectives for patient well-being

- Continuous improvement in medical quality
- Further enhancement of patient safety through expansion of hygiene management and clinical risk management
- Improvement in patient communication and patient services
- Analysis and description of patient-relevant core medical processes

Numerous measures taken in reporting year 2019 are helping to achieve these objectives. We describe these in detail in the following sections.

Network medicine

Successful first year of RHÖN Campus Bad Neustadt

✓ | The RHÖN-KLINIKUM Campus Bad Neustadt is pursuing the approach of full-coverage, one-stop care delivery in rural regions. Since the individual clinics moved into the new premises at the beginning of January 2019, patients from a core catchment area of roughly 100 kilometres around the Campus have been provided with comprehensive care at one location. At the RHÖN Campus, they find integrated outpatient and inpatient offerings as well as numerous medical services and care offerings. Specialist doctor's practices and other medical service providers have set up their offices on site and can now be found in the Centre for Outpatient Medicine.

✓ | We will use our experience from commissioning the Campus in future to roll out the campus approach at other suitable sites.

Founding of Medgate Deutschland

✓ | To expand our offering in the area of digital health and telemedicine, we established Medgate Deutschland GmbH in December 2019 together with the company Medgate, a globally operating Swiss provider of telemedicine. Business operations are slated to begin in 2020. Patients can obtain medical advice by phone or by video using a smartphone app. This is particularly attractive for patients in rural areas or for those with limited mobility, since it no longer matters how far they are from the doctor. The offering supports our objective of "digital before outpatient before inpatient".

For regulatory reasons in particular, the offering is being addressed initially to private health insurance companies and self-payers. There are also plans to work together with statutory health insurance funds as well as to expand the offering.

Expanding intermediate medical care centres

✓ | At intermediate care centres at all our sites, our patients find pooled expertise for certain medical fields. In Frankfurt (Oder) it is e.g. geriatrics and in Giessen the oncology centre, the certified emergency ward with supraregional trauma centre as well as the old-age trauma centre which was certified by the German Association of Trauma Surgery e. V. (DGU).

During the reporting year, we pressed ahead with expanding our centres. For example, Bad Neustadt a. d. Saale was given a Centre for Musculo-Skeletal Surgery and Frankfurt (Oder) a Centre for Vascular Medicine. In Bad Berka we reoriented the Centre for Cardiology through new appointments from the cardiology field.

In 2020 we will expand the Outpatient Centre and the Neuromedical Centre in Bad Neustadt by implementing neurosurgery.

Improving outpatient treatment

✓ | More and more inpatient hospital stays are currently being scrutinised by the health insurance funds where such cases might have been handled on an outpatient basis. The inpatient sector has to prepare for this development just as much as the outpatient area. For that purpose, we have expanded our reporting internally and established the Expert Panel on Outpatient Medicine made up of members from all hospital sites. Generally, we take the view that we have developed a functioning, long-term solution with the RHÖN Campus approach.

✓ | Moreover, we offer two new outpatient services in the financial year:

- Outpatient Operation Centre (OOC) at the Campus in Bad Neustadt a. d. Saale (separate new head physician department)

  In the OOC, surgical procedures are carried out that can be performed on an outpatient basis without difficulty. Patients are thus spared the planning and stress associated with a hospital stay lasting several days and can be sent right back home afterwards.

– Centre for Rare Diseases in Children in Giessen

The Centre for Rare Diseases in Children in Giessen pools experience and knowledge related to rare diseases in children. This makes it possible to offer better expertise than a hospital treating only a few patients each year. Each of the young patients is treated in a long-term interdisciplinary process in which experienced paediatricians, neurologists, psychologists, physiotherapists, speech therapists, social workers and pedagogues work together. Psychosocial support to the families is also offered.

Forging ahead with telemedicine

✓ | One measure being pursued to expand network medicine is the project for televisits with the Mother-Child Centre in Bad Königshofen. We promote this project, which is sponsored by the Bavarian Health Ministry, with the Campus in Bad Neustadt a. d. Saale. By networking the facility telemedically with the Campus or other cooperating facilities, GPs and paediatricians can be joined by televisit in cases of non-urgent complaints. The first results of the project are promising, the process is working well and patients are pleased.

✓ | Video communication in the form of teleconsultations is to help to improve medical care in remote regions. Such consultations are to enable doctors to access the expertise of other colleagues. These exist for example for teledermatology, cardiology, neuropsychology, neurology and for emergency medicine.

✓ | Since November 2019, dermatological video consultation has networked doctors of the Clinic for Dermatology and Allergology of Marburg University Hospital with colleagues at the RHÖN-KLINIKUM Campus Bad Neustadt. A telemedical consultation takes place twice a week in which, by means of a live video transmission, images and data for example are exchanged and discussed amongst the doctors directly at the patient's bedside.

VIDEO COMMUNICATION
TO HELP TO IMPROVE
MEDICAL CARE
IN REMOTE REGIONS.

Innovation and innovative processes

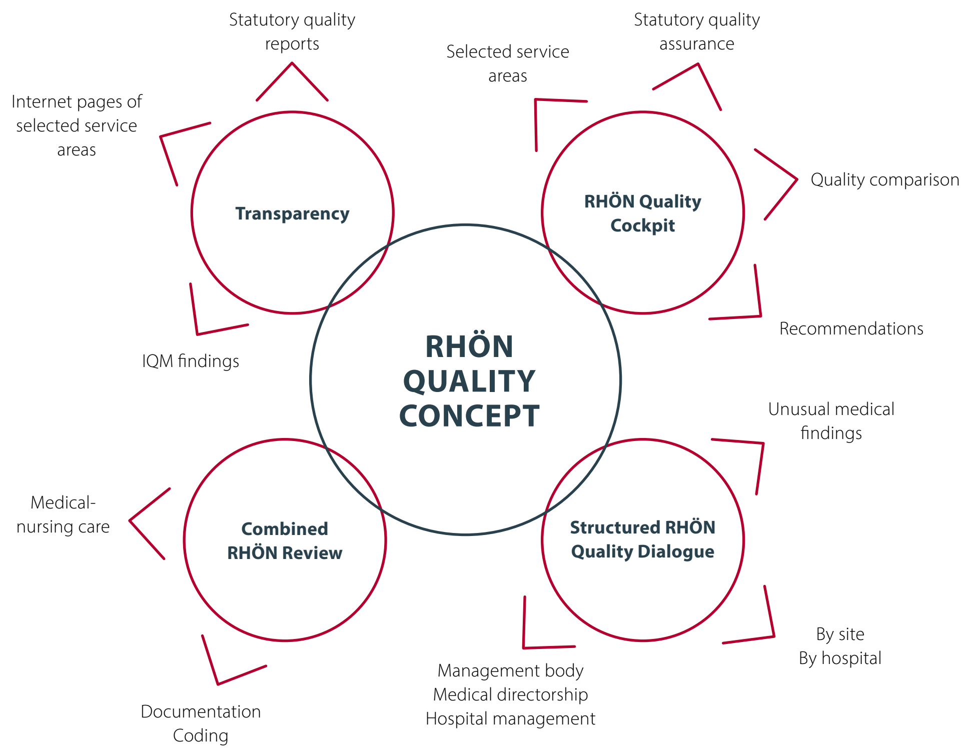
✓ | Innovations and innovative processes are measures by which we steadfastly pursue our goal of improving medical quality. In 2019 we began or continued several pilot projects.

✓ | For example, we took the pilot project "Structured Digital Medicine" already launched in 2018 to a new level with the move into the Campus Bad Neustadt. In the heart catheter laboratory of the cardiovascular hospital Herz- und Gefäßklinik in Bad Neustadt a. d. Saale, we specially adapted and introduced a software program that works like a navigation system and is the first of its kind in the world to enable the standardisation and digitalisation of the medical processes in a heart catheter laboratory. It represents the performance of a catheter operation in many small sub-steps on video screens distributed in the OR. This enables everyone in the team to know at all times what work step is being performed and what step is next. In this way everyone in the team can work according to a jointly defined schedule and quality standard. The program is also to be used in other areas of the Group.

✓ | During the reporting year, a consortium led by the Medical division of the Board of Management moreover developed a successful project application for funding from the Innovation Fund of the Federal Joint Committee (FJC). A project for cross-sector regional care and management of patients with left ventricular failure geared to the individual needs of patients is thus to be funded from the middle of 2020. The aim of the project is to lower the mortality rate for patients as well as the need for repeated hospital visits – thus enhancing their quality of life. This is to be achieved by its optimum adjustment with the help of network medicine. Parallel to that, today's remuneration systems for healthcare services are being scrutinised and an adequate alternative regional remuneration concept is being developed and tested for scalability.

✓ | A third project was an interfacility analysis of a core process from which process improvement measures are to be implemented in the coming year. To determine the optimum procedure for minimal-invasive replacement of an aortic valve, we have analysed the operation processes in all our hospitals and created detailed protocols, results reports and recommendations. For heart patients, replacing an aortic valve is an important and common operation.

RHÖN QUALITY CONCEPT



The RHÖN quality concept

✓ | Our RHÖN quality concept is a comprehensive approach towards steadily improving our medical quality. Its most important elements are the RHÖN Quality Cockpit, "structured RHÖN quality dialogues" and "combined RHÖN reviews". A regular exchange between related disciplines, management bodies, medical directors and the quality management of the sites takes place in structured dialogues and what are referred to as "combined RHÖN reviews". The results are regularly presented to the Medical division of the Board of Management and in some cases also discussed in the Medical Board.

Further development of RHÖN Quality Cockpit

✓ | The purpose of the RHÖN Quality Cockpit is to manage our medical quality. We measure and continually assess defined quality indicators and derive improvement measures from them. In 2019 we particularly emphasised statutorily relevant indicators; these were planning-relevant quality indicators and what are referred to as minimum volumes. The purpose of the statutorily relevant indicators is to help 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" of Bertelsmann Stiftung – 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 addition to the quantitative management, we have 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. The experiences gained from this format are included in the work of the Medical Board and the expert panels.

✓ | In 2018 we introduced the combined RHÖN reviews (and incidentally were the only hospital group to do so) and continued them in 2019 as well. In this regard, different areas are looked at together and proposals are made for improvement wherever potential is identified: medical and nursing care, documentation and coding as well as structures and processes. In these rounds, medical and nursing peers as well as peers from the area of medical controlling and the Group areas of patient safety, quality management and hygiene contribute their ideas. It has become clear that the results of quality assurance have improved in those areas where a combined RHÖN review has been performed.

✓ | One focus of our work in 2019 was on improving the transparency of medical quality on the Internet. As a result of that we have updated all Internet pages of the hospitals in the area of cardiovascular medicine. In the third quarter we published the quality results of the musculoskeletal service area.

New projects for hospital hygiene

✓ | Hospital hygiene is a permanent and integral part of the concept of RHÖN-KLINIKUM AG for the highest possible patient safety. To safeguard our patients and employees from the risks of infection, we are continuously expanding our existing Group-wide hygiene management scheme. One of our key tasks in this area is to record and systematically monitor on a permanent basis nosocomial infections – i.e. infections from pathogens acquired during treatment at the hospital. This is done using a software program for hygiene surveillance used Group-wide. We compare the hygiene-relevant data recorded in the hospitals with national reference data, for example on consumption of hand disinfectants, so that on that basis we can take improvement measures. In response to increasing antibiotics resistance, we have introduced an Antibiotic Stewardship Programme (ABS) at all hospital sites. The programme describes strategies and measures for the most effective and least drastic ways for treating patients with infections. At all site, ABS experts are represented in ABS teams, and it is also planned to train further experts in this area. For 2020, we are also planning to extend our software for hygiene surveillance which will allow for controlling of antibiotics consumption and antibiotics resistance.

✓ | In the expert panel for hygiene, we have standardised the use of water filters for legionella prevention in cooperation with the Group division of Materials Management. The positive result achieved is that the risk of legionella infestation can be reduced and thus the safety of patients improved. At the same time we lower costs through standardisation.

Clinical risk management expanded

✓ | With the aim of continuously enhancing patient safety, we employ throughout the Group, among others, 35 clinical risk managers from different areas and professional groups. They exchange their insights in an interfacility expert group. During the reporting year the decision was taken to purchase a software program for an internal error reporting system that also takes account of risk management, and to implement it in steps from 2020 onwards. In this way we aim to identify relevant risks as well as establish and introduce risk reduction measures. We examined whether the software is also suitable as an internal error reporting system outside of clinical risk management and therefore postponed implementation to 2020.

Patient communication

✓ | Medical quality is not the only thing that is decisive for the quality of a hospital. Our communication with patients and the service offering also play a role. We make further improvements to both through very different measures.

- On the Group website as well as the websites of the different sites, an interactive body compass has been available since the middle of the year. Here, users can inform themselves using a representation of the body at what facility what areas of focus for treatment exist and how the quality of treatment in this regard compares with the particular German federal state or nationally.

- The RHÖN Expert Directory contains specialists from all five sites and specialty fields, including their specialisations, clinical focuses, continued training programmes and contact data. The Expert Directory is reviewed and updated on a quarterly basis.

- During the reporting year, we established and expanded a patient service centre. In the medium term it is to be available for patients as well as referrers digitally, by phone and locally as the central point of contact at the Campus Bad Neustadt a. d. Saale and help guide very patient to the right place. We want to expand this service to form an overarching control centre.

- To show patients the complexity of our campus approach, we have introduced into patient communication a play-based dialogue image with a wide range of media and platforms. In it we explain the various sectors and areas in a visualised, simplified tour based on the model of the RHÖN Campus Bad Neustadt. We received three independent industry awards for this in 2019.

- During the reporting year we opened the digital theme park Digitale Erlebniswelt. Tomorrow's healthcare is based on a comprehensive understanding of medical care and patient empowerment. To explain this transformation, visitors to the digital theme park are introduced to new roles, processes and technologies. This is done by presenting them with a realistic and interactive view of the digital tools used daily in practice and by providing them with comprehensive information. In the second half of 2019 the active world of Digitale Erlebniswelt was initially opened for a limited time to visitors, patients and employees. In the form of planned tours, we will evaluate the acceptance and user-friendliness as well as further develop the theme park Digitale Erlebniswelt.

- In the healthcare magazines of our hospitals, we are communicating our approach towards comprehensive healthcare with readable reports, interviews, info charts and articles on health-related topics, sports or also nutrition. With the magazines we also present ourselves as an attractive employer.

- In one pilot project we are exploring digital anamnesis. In neurology at the Bad Neustadt a. d. Saale site and at the centralised emergency ward in Frankfurt (Oder), patients in the waiting room fill out medical and administrative questionnaires on a tablet. The data are then transferred directly to their electronic patient file. In Frankfurt (Oder), a comprehensive evaluation is to be performed in 2020. We are also planning to design further medical questionnaires. Based on the results, the possibility of rolling these out over all hospital sites is being reviewed.

- With our online appointment management system we can be reached around the clock. In Bad Neustadt, patients can make their appointments for specific consultations online. We expanded this service in 2019.

- Furthermore, we are organising a RHÖN health blog addressed to patients, employees and anyone interested in health issues and covering current medical subjects and new topics of relevance for patients.

- The quality of a hospital's communication also includes how it manages complaints. If patients have experienced a situation they are not happy about or want to complain, they can contact our complaints management department directly. This may be done by phone, e-mail, normal post or also through a personal meeting with one of the employees of the quality management department.

  If a complaint has been received, the patient receives a corresponding confirmation of receipt directly. The team from the complaints management department document the objection and look into it immediately. Together with the contact persons of the respective specialist department, the case is analysed and a position is stated. In this way patients can be provided as soon as possible with feedback on their particular concern. We also take each complaint as an opportunity to develop improvement measures by performing an extended analysis across all facilities. Complaints relating to suspected medical malpractice are processed with us directly by the senior management concerned. The chairman of the Board of Management is informed of these complaints.

Good communication with our patients is part of our quality.

EMPLOYEES

Highly trained and satisfied employees are our most valuable asset. Our human resources management is tremendously important when it comes to providing excellent medical care, also in future.

✓| With our 18,142 employees, we are one of the biggest healthcare groups in Germany. In view of the industry-wide shortage of specialist staff, we initiated and implemented already in financial year 2019 a wide range of measures for recruiting committed and qualified staff, promoting the further development of our employees and retaining them in the long term. That is because we want to continue to ensure an attractive environment for the people working at our Group – whilst always taking account of the increasing extent of policy regulation within the healthcare system.

Human resources management

✓| With professional human resources management we are meting the challenges from the general shortage of specialised staff. Each of our hospitals has its own human resources department that reports to the respective hospital management body. Since the Board of Management decides on the management of the subsidiaries, it acts jointly and regularly liaises with the Group Human Resources division on its strategic human resources policy. Organised at the Group-level are collective agreement law, fundamental issues of personnel law, works council constitution law as well as co-determination within the Group, in addition to the issues of the human resources policy orientation of the Group and the hospitals belonging to it as well as the establishment and further development of a Group-wide employer branding. During the past year, the Group-wide focus in the area of human resources management was on specific measures to retain and recruit specialist staff with particular emphasis on collective bargaining, increasing the number of training places, expanding the International Scholarship Programme and preliminary planning efforts for interfacility employer branding campaign.

✓| We are already now well positioned as the RHÖN employer brand. We are committed to excellent medical care by tradition, to competence and knowledge, to being close to our patients with humanity. We are innovative and digital, responsible and highly efficient. And we are known for the good personal development opportunities we offer at the sites and within the Group. Our Group hospitals are attractive as large intermediate- and maximum-care facilities with access to university medicine, making them a unique selling point. With a new Group-wide image campaign we hope to create an even closer relationship of our sites to the Company.

✓| In August 2019, we put into service our new applicant management system and since then have published job offers through an external job portal. With the related applicant management system we are able, in a first step, to process applications in the area of Group headquarters quickly and efficiently. In 2020 UKGM and Zentralklinik Bad Berka will first follow, with Campus Bad Neustadt and Frankfurt (Oder) slated to join towards the end of 2020.

✓| EMPLOYEES

	2019		2018	
	Total	Proportion of part-time employees (%)	Total	Proportion of part-time employees (%)
Employees (headcount)	18,142	44.45	16,985	44.75
Employees (full-time positions)	14,541	31.73	13,529	32.36
Female Employees (headcount)	13,037	51.92	12,282	52.87
Male Employees (headcount)	5,105	25.39	4,703	23.56

Our objectives employee area

✓ | We approach our key subjects in the employee area strategically. We have set ourselves the following qualitative objectives:

Objectives for continued and higher-qualification training

- Qualitative expansion of continued and higher-qualification training programmes at the sites
- Expansion of continued training of teaching staff

Objectives for training

- Qualitative enhancement of training
- Continued positioning as attractive employer on employment/training market

During the reporting year, we have enhanced our position in these areas through numerous measures.

Continued and higher-qualification training

✓ | RHÖN-KLINIKUM AG invests in the development of its employees and promotes all professional groups represented within the Group with numerous continued and higher-qualification training. That is just as true for our nursing employees as it is for our doctors and therapists. Physicians, for example, have the option of obtaining supplementary qualifications and of being trained as specialists at all the Company's sites.

✓ | Each hospital organises its further training itself – with its own budget. In this way, we can continue to rely on our time-proven approach of regional training, continued training and higher-qualification training. In particular, though, this enables us to specifically take account of the qualification needs of the individual site, thus including the continued training requests and suggestions of employees in the planning.

✓ | In 2019, in the context of continued and higher-qualification training at the Group level, an executive staff conference dealing with the subjects of management, communication and conflict management was held, and was a resounding success. The positive experiences we were able to gather from such events in previous years were confirmed. The Board of Management invited medical directors, managing directors, Group managers, nursing directors and human resources directors to attend. Moreover, following on from and building on the nursing summit from 2018, there was a valuable exchange between the site human resources directors and the nursing service directors in preparation for the continuation and further development of the nursing summit. This format is being continued already at the beginning of 2020. Expenditure on continuous, higher-qualification and further training totalled roughly 4 million euros in 2019 – after 3.5 million euros in the previous year.

The best of two worlds

✓ | In 2018 we implemented a learning management system (LMS) that is accessible to every employee. In addition to web-based online training courses it also covers organisation and management of attendance training courses. As the digitalisation of the Company advances, we want to further expand the share of E-learning In the medium term, in parallel to our attendance training courses. In this way we can ideally exploit the advantages of both system under a blended-learning approach with the aim of providing all employees with theoretical knowledge and practical know-how.

✓ | Our online offerings are varied. We offer mandatory employment law training courses on the subjects of hygiene, brand and occupational protection, compliance and data privacy. We also convey theoretical knowledge for nursing. Voluntary general course material includes burnout and violence prevention in the healthcare system. In addition to that, there are also course materials which the hospitals have created for their needs. For example, the Bad Neustadt site has its voluntary training course on process management and the possibility of registering via the portal for a attendance training course on addiction prevention. Zentralklink Bad Berka has published numerous handbooks in the library. At the Group level, we inform ourselves regularly on further development opportunities in the areas of soft skills and audio learning with a view to expanding the training offering (on a voluntary basis).

✓ | The development of discipline-specific and teaching-pedagogical content for e-learning is done in the schools by specialist groups led by a specialist pedagogical coordinator.

Teaching staff training courses with a focus on digitalisation

✓ | We regularly provide our instructors with continued training didactically and methodologically – in external and internal training courses. In 2019 the focus was on digitalisation to enable our instructors to familiarise themselves and become proficient in the use of digital media and devices. From a didactic-methodological viewpoint, the focus was on use of digital concepts in courses. In this regard, each instructor follows a continued training schedule created specifically for them through the LMS.

IN 2019 WE SPENT ROUGHLY 4 MILLION EUROS ON CONTINUED, HIGHER-QUALIFICATION AND FURTHER TRAINING.

Cooperation with universities

✓ | To enable in-service further training and dual studies, we have entered into a cooperation scheme at the Giessen/Marburg site with the Technische Hochschule in Mittelhessen (THM). The areas of focus here are on the areas of business administration, hospital management, medical technology and IT. During the past year, two colleagues from human resources management and one colleague from patient management successfully completed the dual curriculum. The course is currently being completed by four other employees.

The different curricula offer us the possibility of promoting and retaining young talent and of creating a permanent integration of theory and practice. The students also commit to use for a few years in the form of an undertaking.

Digital medicine is playing an increasingly important role in our continued and higher-qualification training. For that reason we entered into a cooperation scheme with Justus-Liebig-Universität Gießen (JLU) in 2019 to offer the specific curriculum "Digital Medicine, eHealth and Telemedicine".

Training

✓ | Anyone performing training at a high level and is considered an attractive employer has good prospects of subsequently taking over qualified and motivated employees and in that way to tackle the shortage of specialist staff. During the reporting year, 1,526 young persons were in training with us, of whom 879 in nursing professions, 33 in commercial professions and 614 in other areas. Of the apprentices having completed their training in 2019, most of them were taken over into an employee relationship. Given the positive experiences gained, we also hired three trainees during the reporting year who provided valuable support to colleagues in the respective departments and became very well integrated.

Increase in the number of applicants and apprentices

✓ | This significant increase over the previous year (984 trainees) is the result of the newly introduced training allowance and our employer attractiveness.

✓ | Other reasons for the higher number of apprentices relate to remuneration. For example, in Hesse all professions without exception are included in the collective agreement scheme of UKGM, so that non-nursing professions also receive a collective scheme remuneration comparable to that of the nursing professions. In Bavaria, the training costs of therapy students have been eliminated since the start of the 2018/2019 school year. At Campus Bad Neustadt we also waive the administrative fees charged by the other schools, which can be as high as 75 euros.

✓ | For example, we participated in all relevant training fairs and info events within the catchment area of our hospitals. We cooperate with schools and, working together with the career advisors of the employment agency, inform on medical professions and training opportunities in our Company. Our poster and image campaigns "Nüscht für Luschen – reloaded" (Eng.: "Not for weaklings – reloaded") or "Diversity" at UKGM drew in applicants. We will expand our social media recruiting in 2020.

Well prepared for generalist nursing training

✓ | With the Care Professions Reform Act (Pflegeberufereformgesetz, PflBRefG) having entered into force in 2020, geriatric, patient and paediatric nursing training programmes are unified into a single generalist nursing care training scheme. Our preparations for that were concluded and the preliminary contracts with our cooperation partners drawn up. In this case too, we pursued the networking concept and helped shape the new training approach. We played a decisive role in the establishment of a regional training network within the region around Campus Bad Neustadt a. d. Saale and were also involved in the coordination of the schools among one another. The institutions involved in the nursing care training scheme meet at the major information event "Countdown to Generalist Nursing Care Training". We are also working together in the context of a network on a Bavarian training concept with our own curriculum, as required by the federal state.

Expanded capacity and digitalisation of our schools

✓ | As a healthcare Group, we operate numerous schools of our own to train qualified staff: schools for patient nursing, physiotherapy, ergotherapy, speech therapy, dietician services, for medical assistance professions in the areas of functional diagnosis (MTAF), laboratory (MTLA), radiology (MTRA) and medical documentation (MDA). We are moreover involved in training in business, gastronomic and IT fields.

✓ | Given the higher numbers of apprentices, we have expanded our nursing school in Bad Neustadt into a dual system offering double training sessions. In 2019 we thus offered two new courses for the first time – one in April, the second in October.

✓ | In the medium term, we will also increase the number of students in the professional schools for ergotherapy and physiotherapy in Bad Neustadt by increasingly promoting tuition-free training – particularly in Bavaria where it was introduced with effect retroactive to February 2019.

✓ | One measure for raising the quality of training is our digitalisation strategy by which we are digitalising the learning environment of our schools. For this purpose we established a "Team Digital" in 2019 which has already created a medial paedagogical concept for digitalisation and submitted the same to the Bavarian Ministry of Education. Course subjects are equipment planning, interdisciplinary medial instruction concepts and a higher-qualification training concept. The first decisions on the grant of funding from the Federal Government and the Federal State of Bavaria have been obtained.

In the "Team Digital" we have developed a medial paedagogical concept for digitalisation.

"Experts learning from beginners" very well received

✓ | In 2018 we had introduced the teaching project "Experts learning from beginners" to continuously raise the quality of training. 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. It was carried out in practical training for patient nursing at the Bad Neustadt a. d. Saale site and very well received by all those involved. We therefore continued it in 2019 as well.

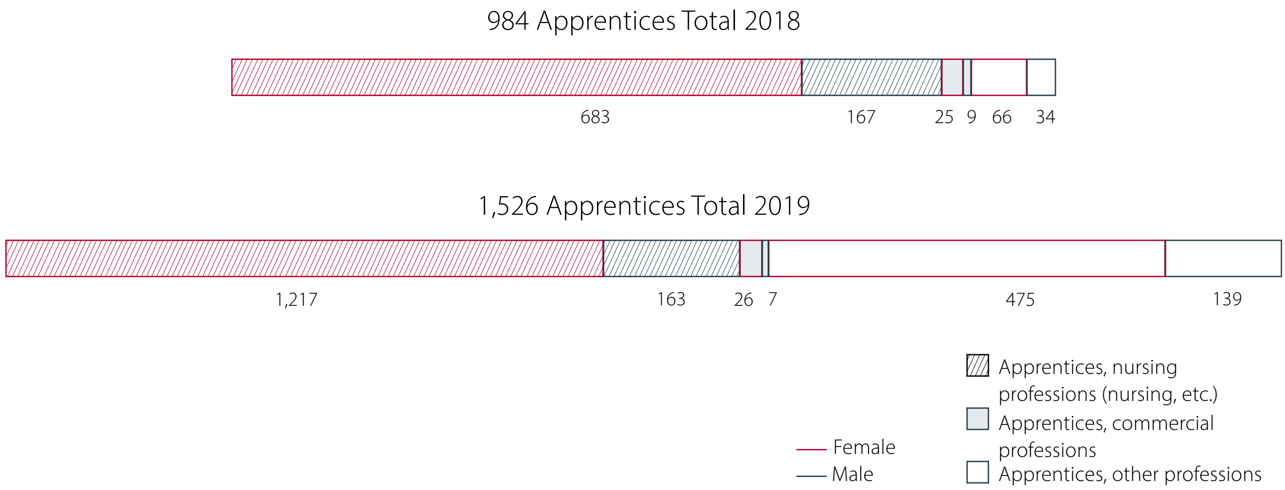
RHÖN-KLINIKUM promotes MINT formation

✓ | Arousing interest in medical technology and information technology already among pupils through practice-based approaches is the aim of a cooperation project launched in February 2019. It is aimed at boosting 11th graders' technical skills in natural sciences and getting them enthusiastic about careers in the medical and health professions. It was designed together with the young researchers' initiative Initiative Junge Forscherinnen und Forscher e.V. (IJF) in cooperation with the technical and vocational college Staatliche Fachoberschule und Berufsoberschule Bad Neustadt a. d. Saale.

The project enables the young persons to establish a transfer between theory and practical application in daily clinical practice and to become familiar with specific professional profiles in the healthcare system. During the three-year project period, young scientists of the IJF carry out practice-based experiments at the school. Excursions to the campus in Bad Neustadt a. d. Saale are part of the project.

APPRENTICES M/F BY TRAINING PROFESSION ON TWO-YEAR COMPARISON

Headcount



✓ | APPRENTICES M/F TAKEN OVER AFTER COMPLETION OF TRAINING ON TWO-YEAR COMPARISON

Headcount

	2019			2018		
	Total	Female	Male	Total	Female	Male
Number of apprentices taken on after training	204	163	41	183	138	45
Number of apprentices taken on after training, nursing professions (nursing, etc.)	177	148	29	172	133	39
Number of apprentices taken on after training, commercial professions	4	2	2	3	3	0
Number of apprentices taken on after training, other professions	23	13	10	8	2	6

Attractive employer

Committed to diversity

During the past financial year we participated in the Initiative of University Hospitals in Germany created on the occasion of the Diversity Day. The motto is: We are diversity. That also holds true for us. Employees from 70 nations – of different ages and genders, varying qualifications and interests – work as a team with us. The respectful and fair collaboration is part of our everyday clinical reality. We are committed to diversity and oppose discrimination and harassment in any form. We safeguard the principle of equal opportunities by filling positions exclusively on the basis of qualification. The share of female executives at the three management levels below the Board of Management stands at 30 per cent.

Since 2015, our nursing integration programmes in Bad Neustadt a. d. Saale and Giessen open up new professional opportunities for refugees. Nurses forced to flee from their home countries are hired as nursing assistants at the hospital for an initial period of twelve months. They acquire the necessary language skills in the accompanying German language courses. We then work to have their professional training recognised so that we can employ them in the long term after they complete the programme. Since the beginning of the first nursing integration programme, we have succeeded in recruiting more than 90 employees with professional and social skills for the two sites.

AGE STRUCTURE M/F ON TWO-YEAR COMPARISON

Headcount

	2019			2018		
	Total	Female	Male	Total	Female	Male
Number of employees	18,142	13,037	5,105	16,985	12,282	4,703
of which under 30 years	4,426	3,330	1,096	3,858	2,896	962
of which over 30 to 50 years	8,084	5,618	2,466	7,752	5,445	2,307
of which over 50 years	5,632	4,089	1,543	5,375	3,941	1,434

EXECUTIVE EMPLOYEES BY MANAGEMENT LEVEL M/F

Headcount

	Total	Female	Male
Management level 1	45	13	32
Management level 2	221	51	170
Management level 3	1,008	439	569
Total	1,274	503	771

Harmonising work and family important to us

At the hospitals, shift work defines the lives of many of our employees. We provide for the necessary work-life balance by making working hours as flexible as possible. For example, our employees work under trust-based, flextime or part-time schemes. In 2019, 8,065 employees (45 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. In addition to that are clear staff back-up rules, preferred working hours, call service, relief employee pools, and for some activities the possibility of working in a home office.

Work-life balance means that an employee's professional and family life can be combined in a good balance. We are committed to that. Our employees and their families benefit from the extensive offering. For example, we run our own kindergartens or cooperate with local institutions, and in the case of external continued training or a mandatory event provide for individual care options. We also help relatives providing nursing care to harmonise work and the nursing of their relatives. In 2014, Universitätsklinikum Gießen und Marburg (UKGM) signed the charter "Career and Nursing" – an initiative of the Hesse Ministry of Social Affairs and Integration and the Hesse Hospital Association. It has been certified as a family-friendly employer already since 2009, and during the reporting year was once again recertified on a non-forfeitable basis for three years.

We provide for occupational safety and health protection

The health of our employees is important to us, which is why we engage in company health management at all hospital sites. Within this framework we offer, among other things, preventive offerings on sports and nutrition. To cope with crisis situations, we keep mediation or supervision offerings available. Moreover, at UKGM all executives take part in the programme "Gesund managen" (Engl.: Managing your health) so that they can pass on this attitude and standard to the employees.

We furthermore deal intensively with the subject of occupational safety, analyse systematically the workplace design and working situation of our employees and organise Health Week conferences. Through constructional measures, we create good working conditions. For example, most of our operating theatres and staff rooms have natural daylight.

We are planning to increase the level of safety in our hospitals through de-escalation training. Particularly in the emergency ward, our colleagues and also patients are occasionally exposed to a sharp tone which has to be handled in a professional manner.

Fair remuneration thanks to in-house collective agreement and special benefits

Job satisfaction is also influenced by fair salary structures. In this regard, our employees benefit from our in-house collective agreements 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, which were just raised by 10% in Frankfurt (Oder), as well as a collective child allowance. 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 even all our employees a share in the result.

With these collective remuneration components, our employees receive non-cash benefits such as public transport passes, employee discounts, gifts or bonuses for events such as weddings, births or Company anniversaries. We pay an allowance for child care and enable employees in Bad Neustadt a. d. Saale e.g. to use night buses free of charge. Offers of our corporate health management are also attractive benefits that are much in demand.

45%

WE ENABLE PART-TIME EMPLOYMENT FOR 45% OF OUR EMPLOYEES.

COMPLIANCE

Our compliance organisation provides for fair dealings within the Company and with our external stakeholders. Our employees receive regular training for that purpose. Compliance breaches can be reported anonymously.

Our compliance management system

The central importance of the subject of compliance is reflected in our compliance organisation. Its purpose is to establish principles and rules of fair dealings with one another as well as for responsible corporate governance. That is because these rules and principles define the relationship to our patients, customers, suppliers, shareholders and the general public as well as the conduct of employees amongst one another.

The structure and functioning of the compliance management system (CMS) are defined in the 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 quarterly 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. We thus reinstated the category "not-yet cases" during the reporting year. These are inquiries that do not yet represent compliance cases but nonetheless are reviewed and researched and then properly documented.

In addition, 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 working together with industry and reviewing sponsoring and research agreements. In 2019, on the proposal by the Supervisory Board, a Group-wide guideline on dealing with anaesthetics was introduced. In general, we have stepped up cooperation with the hospitals during the reporting year. The possibility of conducting what are referred to as non-discussions – i.e. discussions of which no official mention is made afterwards –, or of briefly discussing matters over the phone, is increasingly being used.

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 at least once quarterly and deals with compliance cases and their risk assessment.

For our CMS to be successfully implemented in practice, we have developed a code of conduct binding on all employees and a recommended procedure for dealing with potentially critical contracts. In addition, our employees are given an awareness of compliance issues thanks to regular training sessions. Every employee must complete a corresponding classroom or online training session at least every two years. In this context, we further develop the training concept on a regular basis and endeavour to adapt it to the needs of the employees in the best way possible. The training levels of the employees are moreover maintained with a learning management system.

The following issues were the focus of training programmes also in 2019:

- Basic training in compliance focusing on the duty of confidentiality and relations with investigation authorities
- Purchasing
- Optional services for private patients

The safety cards published internally by Compliance serve to additionally assist and protect employees.

In addition implementing the 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. Adaptations may be occasioned by both internal incidents and information on compliance breaches at similar companies.

Each hospital has its own compliance officer who reports to the Central Compliance department.

How we handle compliance reports

Through our whistleblower 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. The Central Compliance department and the compliance officer then jointly review whether a compliance event exists. 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 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. According to the provisions in the Rules of Procedure for Compliance, anyone suspecting a compliance breach may report the same either to the compliance officer of his or her site or directly to the Central Compliance department.

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. In this context, the Board of Management of RHÖN-KLINIKUM AG adopted a data protection guideline which is adapted to the rules and regulations and 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 and target group-based classroom training sessions.

ENVIRONMENTAL PROTECTION

For us as a modern hospital Group with innovative technology and the highest standards of patient well-being, company environment protection plays a significant role. The special focus of these efforts is making responsible use of energy and water resources.

Environmental protection as a management task

As a healthcare group, having an intact and viable environment in addition to the well-being of patients is tremendously important. Our environmental management is enshrined by our decentralised corporate structure at two levels: each hospital is responsible for its own measures; the competent body for that is the technical control department. It ensures the safe operation of the hospital, monitors all technical and medical-technical equipment and systems as well as construction projects, and assumes the task of energy controlling as well as modernisation and optimisation planning. In all measures it is assisted as required by the Group division Construction and Technology.

The Group division Construction and Technology is responsible for Group-wide energy and emissions controlling. It promotes on an interfacility basis the development of new standards for energy supply and optimisation. It implements more extensive investment measures at the hospital sites in a lead capacity. The members of the Group's Board of Management are involved in all relevant decisions through their function of being responsible for the sites.

Since the end of 2016, we have pooled procurement of energy Group-wide in the company "RHÖN Energie für Gesundheit GmbH". This enables us to obtain more attractive purchasing prices for electricity and gas and gives us a centralised overview of the energy consumed and monthly controlling.

Energy consumption

Our patients and employees rely on rooms kept at the right temperature. We moreover have thousands of modern technical devices which – directly or indirectly – must be operated to treat and care for our patients. Modern, state-of-the-art hospital operations require a lot of energy, and demand is set to rise even further as digitalisation gathers pace and technical equipment is expanded. To meet this trend, we rely on efficient equipment and use of energy from highly efficient cogeneration plants.

To ensure energy-optimised operations, we invest in sustainable energy-saving technology at all our sites. State-of-the-art metering and control technology and numerous metering points for higher-level evaluation enable us to monitor, control and reduce energy consumption. In this way we can, for example at the Campus Bad Neustadt, adjust consumption in the individual rooms or zones at all times to the user-specific requirements.

New concept for temperature control of patient rooms

When putting into service the Campus in Bad Neustadt, we installed for the first time in all patient rooms a particularly energy-efficient process for room cooling resulting in significantly greater comfort for patients. During the summer, the rooms are cooled by water lines set in the concrete slabs. The water is cooled down by a central cooling unit and additionally by lower outdoor temperatures, with the concrete of the floor slabs serving as a storage medium. It absorbs the cold at night and then releases it slowly to the surroundings over the day. During the winter, the system can be used in turn to heat the rooms by using heated water. If the process proves itself in permanent use, we want to install the system in other new buildings.

Switch to lighting based on LED technology
At our sites we are gradually switching over to lighting based on modern, dimmable LED technology, for example for outdoor lighting, in multi-storey car parks or on pathways.

At the Campus in Bad Neustadt, we have also installed a centralised lighting control system in the ward corridors and public corridors. This system makes it possible control the illumination level depending on the time of day, and thus also energy consumption, in accordance with energy requirements.

We generate electricity with our own cogeneration plants
We not only save electricity but also generate it. For over 20 years, we have been pursuing efforts in generating our own energy using our highly efficient cogeneration plants (CHPs) that supply electrical energy and heat by burning natural gas. With this energy, we reduce our CO_2 footprint. Parallel to that, we use this heat to generate the required cooling energy with absorption coolers. We thus save electrical energy that would otherwise be needed for cold generation. in 2019, combined heat and power units generated a total of 39.523 megawatt hours (MWh) of electricity, thus covering roughly 41 per cent of our requirements – at the Bad Berka site the figure was even 59 per cent. This is cost-efficient and saves around 1,390 t in CO_2 emissions each year as compared with conventional energy supply. Compared with the previous year, electricity consumption at RHÖN-KLINIKUM AG in 2019 increased by approximately 3 per cent to 96,194 MWh. Roughly 56 per cent of the electricity purchased comes from renewable energies. Heat consumption decreased by approximately 7 per cent to 136,752 MWh due to weather conditions.

Emissions
At RHÖN-KLINIKUM AG, emissions are produced primarily in the form of CO_2 from heat generation or electricity purchases. Such emissions can be counteracted by modernisation measures, energy efficiency improvements and by increasing the use of renewable energies. For example, the electricity purchased by us is produced with a significantly higher share of renewable energies compared than the national average. Moreover, for Zentralklinik Bad Berka we are currently developing a future-viable energy concept that will further optimise existing capacities.

To further lower the emissions of our hospitals, we are modernising our cooling and heating systems. For example, cooling in Bad Berka in 2019 was brought in line with the latest standards with installation of highly efficient re-cooling units, thus reducing energy and water consumption. The modernisation of the heat supply unit at Marburg University Hospital, Ortenberg site, as well as the installation of a centralised steam generation unit at Giessen University Hospital are planned.

The trend towards higher energy requirements of our hospitals is being accompanied in turn by higher CO_2 emissions. 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 37,278 t of CO_2. Scope 2 emissions cover all indirect emissions from district heating and electricity deliveries. In 2019 they were roughly 26,572 t of CO_2. Scope 3 emissions, i.e. emissions produced by suppliers, service providers or by employees during their daily commute to work will not be calculated by us in future either because the effort and cost involved are too high compared with the insight gained. Nonetheless, we are endeavouring to lower them. For example, in Bad Berka we are financing the expansion of bus frequency of the bus line between the federal state capital of Erfurt and Zentralklinik, thus making local public transport significantly more attractive. This reduces not only individual journeys made for patient visits but also the individual journeys of our commuting employees. Each day, that translates into 50 km of journeying route less per vehicle.

Waste
For reasons of hygiene, single-use products need to be used at the hospitals in many areas, thus contributing to an increase in waste volumes. We counteract this by a consistent waste management approach: each of our hospitals has its own waste officer. We also regularly train our staff in the proper sorting as well as disposal of waste and the sparing use of consumables.

We ensure the highest quality of our drinking water through strict compliance with our own guideline.

Specific environmental protection projects

Throughout our Group, we are pursuing both small- and large-scale approaches to preserve our environment. As representative for the Group, we can name a few examples from the University Hospital of Giessen / Marburg:

– For the first time we have maintained fields within our green spaces as "flowering fields", thus creating habitat for native insects. The project will be pursued and continued by our landscape gardeners once again in 2020.
– Food left over from 6,000 meals daily is disposed of in a biogas plant of a farmer based in the region where it is converted into electricity, heat and fertiliser.
– Currently, raw materials such as bagasse, palm leaves, bamboo or corn starch are being tested as a substitute for plastic in plastic cutlery, plastic lids, swizzle sticks and drinking straws.
– To reduce paper consumption in clinical operations, we connect our blood pressure monitors to the (digital) patient data management system, use digital patient documentation and have also introduced digital ward trolleys. Overall, our efforts are geared towards a paperless office and a digital fax.
– Our new materials management software will enable us to dispense with paper for all items regularly ordered within the system. The project on launching this will be completed in the course of 2020.

Water and waste water

For a healthcare group, having the highest quality of drinking water is a must. That is why we drew up our own "Water Use Guideline" already many years ago. Strict compliance with the requirements of the Guideline is to ensure the high quality of drinking water from the point of delivery from the public water mains to the final point of use. We moreover conduct regular water quality inspections through microbiological tests that exceed the legal requirements.

During the reporting period, water consumption increased by approximately 3.5 per cent to 707,097 m^3. The total amount of waste water of all sites was roughly 676.217 m^3 in 2019. Contaminants of waste water result from excretions of contrast agents or medications as well as from treatment of medical instruments. Waste water containing grease resulting from the preparation of foods as a rule is passed through grease separators and only then discharged to the public sewerage system

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SUPPLIER MANAGEMENT

We have centralised our supplier management activities for the entire Group and work closely with our decentralised purchasing managers of the hospitals. Thanks to this pooling of the purchasing process implemented already from 2018, we have made a positive impact on quality and prices.

We value long-term partnerships. This approach has further strengthened the relationship of trust between our suppliers and ourselves over the past years – with the result that quality, supplier reliability and efficiency meet our requirements. This is also helped by the annual evaluation of our main suppliers.

Thanks to the long-term partnership and the resulting reliability of our suppliers, we reduce the risk of supply shortages. Of course, we cannot eliminate that risk completely since we procure material for our medical equipment and medical supplies almost exclusively from external sources. As a rule, however, we can overcome such shortages when they do occur thanks to our special inventories and market alternatives (generics). We moreover work together with at least two suppliers for each product group.

Standardisation and harmonisation for reliable availability

Standardisation and harmonising of products is a subject of intensive discussion in the Group within the expert panels with the doctors. The primary objective is to use only those products which on the one hand have proven themselves from a medical standpoint and are characterised by outstanding quality and excellent long-term results, and on the other are economically feasible. As the open discussion amongst the materials management heads and in the medical expert panels has revealed, such standardisation does not lend itself to all products.

We use the advantages of standardisation i.a. in the following medical areas:

- Endoprosthetics (hips, knees, kyphoplasty)
- Cardiology (pacemakers, defibrillators, heart valves, stents)
- Anaesthetics (tubing, syringes and sensors)
- Laboratory medicine (urine diagnostics, blood gas analysis, i. a.)
- Nursing area (urine measurement systems, OR drapes, suctioning, dressing materials, infusion solutions, sanitary products, i. a.)
- Hygiene products (water filters, disinfectants, i. a.)

In the non-medical area, we are pursuing for example the standardisation of office items or paper, harmonisation of service providers in the technical area as well as changing over our goods management systems to one uniform system for all sites.

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
- endoprosthetics
- nursing items

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 financial year 2019, 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 (*Aktiengesetz*, AktG) – were submitted in financial year 2019 in accordance with Item 3.10 of the German Corporate Governance Code as amended on 7 February 2017: on 18 January 2019 an updated declaration of the version of 8 November 2018, and on 6 November 2019. On 19 March 2020 an amendment in the year under way was additionally made to the Declaration of Compliance of 6 November 2019. According to that, derogations from the following recommendations are declared:

- 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)
- Code Item 5.3.2 (3) sentence 2: Independence of the chairman of the Audit Committee
- Code Item 5.4.2 last sentence: Directorships of supervisory board members with major competitors

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 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 the important financial dates for analysts, investors, shareholder associations and media can also 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 in 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, 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 the Annual 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 the 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 the 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.

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 among 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. The initiation and implementation of measures is event-driven. RHÖN-KLINIKUM AG moreover maintains a whistle-blowing 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 in accordance with Code Item 3.8 (2) and (3) GCGC. In this connection, the insurance premium (including insurance tax) paid by the Company in financial year 2019 was € 151 thousand.

Management Board

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 their 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 on 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.

The Board of Management is 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 2019 four regular 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, 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 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 on 3 June 2020 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.

At the Annual General Meeting on 5 June 2019, Mr. Jan Hacker was elected as a new member to the Supervisory Board. The appointment of Mr. Jan Hacker was made for the term of office until the conclusion of the Annual General Meeting resolving on formal approval of actions for financial year 2019. The new election was necessary by reason of the departure of Prof. Dr. h. c. Ludwig Georg Braun for reasons of age as required by the Articles of Association.

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 2019 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 2019, 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 chairpersons 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 a 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.

The 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) 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) 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 Compliance and Communication Committee 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 Compliance and Communication Committee 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 with consultation by an external consultant. In 2019/2020, an independent external audit, which included questionnaires and interviews, was once again carried out. Its results were in line with the Supervisory Board's expectations in terms of the efficient performance of duties.

A detailed overview of the work of the individual committees and their composition in financial year 2019 is provided in the Report of the Supervisory Board in the 2019 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, 19 March 2020

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

Group Management Report

In financial year 2019, our patient numbers at our hospitals and medical care centres (MVZs) increased by 1.2%. The trend in revenues and EBITDA was in line with the forecast.

The operating result is significantly influenced by increasing regulatory intervention, a highly competitive environment and difficult conditions for recruiting qualified staff.

Financial year 2019 was also marked by the start-up effects of the new Campus Bad Neustadt. The move of four clinics into the new building complex as well as the related decline in patient numbers adversely affected the trend in operating earnings.

In July 2019, a registered bond with a total nominal value of € 60.0 million and a term of 20 years was issued as part of our long-term financing strategy taking advantage of the favourable trend in interest rates.

1 | BASIC CHARACTERISTICS OF THE RHÖN-KLINIKUM GROUP

1.1 Overview

Within the Group of RHÖN-KLINIKUM AG, essentially cross-sector (i. e. inpatient and outpatient) healthcare services are provided. With few exceptions, the Group has a single-tier structure. With the exception of Campus Bad Neustadt, 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). The ultimate Group parent company has its registered office in Bad Neustadt a. d. Saale, Federal Republic of Germany.

With our eight hospitals and 5,312 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 860,528 patients (previous year: 850,147) were treated in our facilities in financial year 2019. With revenues of € 1,303.9 million (previous year: € 1,232.9 million), we generated EBITDA amounting to € 125.3 million (previous year: € 125.5 million). As at the balance sheet date, the Group employed 17,687 (31 December 2018: 16,985) persons and in addition 455 students of the specialist healthcare professions at Giessen and Marburg University Hospital.

1.2 Future of the Group

In financial year 2019, RHÖN-KLINIKUM AG – like the entire sector – was confronted with a difficult market environment. Particularly the increasing regulation and red tapism imposed by the legislature on the hospital sector and the shortage of skilled labour in the nursing area and with doctors were big challenges. In 2019 we nonetheless succeeded in hiring renowned head physicians to fill positions in important specialist disciplines and in implementing measures to establish highly efficient medical centres as planned.

We proactively meet the challenges of the healthcare industry in general and those of our individual sites in particular. We exploit the opportunities to develop new growth fields. Our entry into the promising future market of telemedicine, our RHÖN Campus approach for cross-sector healthcare delivery and our steadfast continuation of the gradual digital transformation of our Company are key elements of our corporate strategy.

Entry to growth market of telemedicine – establishment of Medgate Deutschland

In the area of telemedicine, RHÖN-KLINIKUM AG is working together with the Swiss telemedicine pioneer Medgate on establishing a telemedical and digital service offering in Germany. In December 2019, the new company Medgate Deutschland GmbH was founded. RHÖN-KLINIKUM AG holds the majority stake in the company with an interest of 51.0%, whereas Medgate holds an interest of 49.0%. Business operations of the new company at the planned offices in Berlin are slated to begin in financial year 2020.

Telemedicine is a growth market: RHÖN-KLINIKUM AG and Medgate are convinced that, as the medical profession begins to open up for tele-treatment of patients, demand for telemedical offerings will witness a significant increase, also in Germany. In May 2018, the German Medical Assembly (Deutscher Ärztetag) had approved an amendment to the (Sample) Code of Conduct for physicians practising in Germany and relaxed the hitherto applicable professional prohibition on treating patients on an exclusively telemedical basis.

Together with Medgate we have been making extensive preparations. The service offering and the structures needed for it will be oriented on the Swiss business model, giving due regard to the legislative framework in Germany. The future services of Medgate Deutschland include, among others, telemedical consultation and treatment as well as, where required, further-reaching guidance of patients to outpatient and inpatient care offerings.

RHÖN Campus approach – the future of healthcare delivery

With the campus approach, RHÖN-KLINIKUM AG is taking account of the growing trend towards outpatient care in medicine whilst offering excellent medical care in rural regions. Prevention, outpatient and inpatient medical treatment, rehabilitation, and promoting health and telemedical offerings are the key elements of this innovative, path breaking and patient-oriented approach. Interdisciplinary cooperation with short paths of communication and the supporting and workload-reducing use of digital applications are simplifying and speeding up the treatment process for patients.

The campus approach was first implemented at the Bad Neustadt site. After a construction period of three years, RHÖN-KLINIKUM Campus Bad Neustadt was put into service at the turn of the year 2018/2019 on completion of the first construction phase.

As the Campus Bad Neustadt was further developed, the second construction phase was started at the end of 2019. It comprises the expansion of the outpatient OR centre with the establishment of a day-care clinic. In addition, the Psychosomatic Clinic was expanded to include an inpatient rehabilitation department. RHÖN-KLINIKUM AG is thus taking account of the rising demand for such services. On 1 January 2020 we broadened our service offering in Bad Neustadt by the Clinic for Neurosurgery. Together with the Clinics for Neurology and Neurological Intensive Care, Neurological Early Rehabilitation as well as Neurological Rehabilitation, the new specialist area forms the Neurological Centre in which patients receive comprehensive treatment and rehabilitation and benefit from the interdisciplinary collaboration of all specialist departments. With the Neurological Centre and the integration of the Neurological Specialist Department, we are making a further step towards full-coverage medical care in rural areas. In financial year 2019, the effects of putting into service the new facilities initially burdened our result. In financial year 2020, operating processes will be further optimised based on the insights gained.

Marburg Ion Beam Therapy Centre (MIT)
With effect from 1 January 2019, we assumed financial responsibility for the Marburg Ion Beam Therapy Centre from Universitätsklinikum Heidelberg. Since 1 August 2019, the patients can be treated at MIT under the sole responsibility of Giessen and Marburg University Hospital.

We have thus made our contribution towards ensuring high-quality oncological care where a public university hospital had deliberately retreated. Despite a one-year transition period, the number of patients in whom treatment at the ion beam therapy facility was begun was increased to 291 patients.

Separate accounting
The basis is the agreement reached in 2017 between RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg GmbH (UKGM), the Federal State of Hesse and the two Universities of Giessen and Marburg providing for a new remuneration scheme for research and teaching at our university hospitals. The agreement concluded now sets out an adequate cost-covering 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.

UKGM is the third-largest and the only privatised university hospital in Germany. Since 2006, it has been 95.0% owned by RHÖN-KLINIKUM AG also fulfils public statutory tasks in the area of research and teaching. The agreement paved the way for a comprehensive and sustainable investment programme to the tune of € 100.0 million for both university hospitals that will benefit patients, employees and the region of Central Hesse. In financial year 2019, the new construction for the paediatric and juvenile psychiatry facility was commenced i.a. in Marburg. 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. In financial year 2019, the Board of Management began negotiations on a new agreement.

Digitalisation
RHÖN-KLINIKUM AG has pressed ahead further 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.

In financial year 2019 we announced the stake we were taking in Tiplu GmbH. Here we are pursuing the goal of securing revenues by improving processes in case coding. We use the coding software Tiplu Momo for complete and performance-based invoicing, revenue securing and duration-of-stay control.

The digital applications already in use at our individual sites include digital self-anamnesis, online appointment management as well as the Medical Cockpit used at the Campus Bad Neustadt. This search engine 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 the hospital configuration system and accesses a universal archive.

Action plan for improving earnings
The earnings improvement programme launched in 2017 was readjusted in financial year 2019. Moreover, implementation of the second stage of the optimisation programme with the focus on medical and administrative processes was adopted. Here we are first of all looking to better assess our potential in what are referred to as open-ended feasibility studies. Building on these, the aim is then to establish and implement measures to improve earnings.

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." This is the ethical principle that guides everything we do.

This corporate model defines the overall body of rules and guidelines and 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
As a provider of healthcare services, an employer and a company, we wholly embrace sustainable commitment. Our success is inseparably bound up with medical, ecological and social responsibility.

Sustainability forms an integral part of our corporate strategy. We report on this in our Corporate Social Responsibility Report (CSR Report). The CSR Report also includes the separate condensed Non-Financial Report (NFR) in accordance with sections 315c in conjunction with sections 289c to 289e of the German Commercial Code (Handelsgesetzbuch, HGB). RHÖN-KLINIKUM AG thus fulfils its reporting requirements at the Company level and the Group level pursuant to the German CSR Directive Implementing Act (Richtlinie-Umsetzungsgesetz, CSR-RLUG).

a) Improving the quality of life
The well-being of our patients is our top priority. Ethical behaviour, providing excellent medical and therapeutic care and nursing are part of the corporate philosophy at RHÖN-KLINIKUM AG.

We examine and treat our patients based on the latest, scientifically founded therapy procedures assisted by state-of-the-art medical technology. Our hospitals participate in research projects with external research and development partners that help to drive medical innovations and find cutting-edge solutions for the well-being of our patients. To this end, we rely on a mutual exchange between the individual competence centres.

b) Protecting the environment
For us as a modern hospital Group committed to innovative technologies and medical technologies as well as the highest standards of patient well-being, having an intact environment worth living in is of vital importance. For us, protecting the environment and being a conscientious steward of energy and water resources is inseparably bound up with responsible corporate governance. We attach great importance to making sparing use of resources not only at our hospitals but also with our Annual Report which since the current edition will be available exclusively in digital form.

c) Promoting and retaining employees
Highly trained and satisfied employees are our most valuable asset. With our 18,142 employees (including 455 students from the specialist healthcare professions), we are one of the biggest healthcare groups in Germany. It is their expertise, experience and commitment that make it possible to provide our patients with excellent medical care.

The task of our human resources management is to recruit committed and qualified employees, to promote the further development of our employees and to retain them in our Company over the long term. Our aim is to be an attractive employer for all professional groups. All our hospitals offer modern workplaces and equipment meeting state-of-the-art standards of medical technology. A wide array of human resources development and promotion measures as well as numerous offerings for balancing working and family life make us an attractive employer and trainer, also nationally.

For further information on the item Corporate Social Responsibility, reference is made to the condensed separate non-financial report in accordance with section 315c in conjunction with sections 289c to 289e of the HGB in the Annual Report published on our website www.rhoen-klinikum-ag.com/annual-report.

1.3 Objectives and strategies
RHÖN-KLINIKUM AG continues to pursue new paths to uphold the standard of offering patients the best medical care. Here, we can better respond to the changes and increasing requirements as compared with the market as a whole thanks to our large sites with highly specialised centres. In future, too, we will vigorously and undauntedly pursue the necessary task of restructuring the healthcare system and implementing our corporate goals. As nursing legislation is further tightened, the year 2020 will mark a new level of excessive state regulation which will also impact RHÖN-KLINIKUM AG in the low double-digit million euro range.

To continue improving patient care along the lines of our campus approach with a view to ensuring cross-sector and future-viable healthcare provision in Germany, we are currently looking at innovative remuneration and care models. The project idea initiated by us entitled "Transectoral requirements-oriented care of patients with cardiac insufficiency and development of an alternative remuneration model (sekTOR-HF)" received a funding commitment for the project consortium in the amount of € 3.8 million in financial year 2019 from the Innovation Committee of the Federal Joint Committee (FJC).

The implications of floors for nursing staff and staffing shortages will result not only in rising personnel costs but also increasing bed closures. Already over one year ago, we took a close look at the respective regional competitive environment and the respective portfolio of medical services. From this analysis we established numerous packages of specific organisational, technical and personnel measures which continue to be consistently implemented but which of course also require a certain lead time. The first successes in this regard area are making themselves felt at individual sites. In a further step, we will review the efficiency reserves in OR, bed, duration-of-stay and discharge management as well as within administration.

Throughout the Group we are also striving to further improve patient management to increase comfort for patients as well as prevent misreferrals and misallocations. Here, software-based innovations are helping us to optimise operative processes in all areas of the hospitals. In connection with digitalisation, whose applications include the digital self-anamnesis, the Medical Cockpit or online appointment management, one of our objectives is to make the work of doctors and nursing staff easier and care for patients even safer and better. In future also, we will make acquisitions in line with our strategy as the right market opportunities arise and/or take out strategic stakes in companies with which we can further implement and pursue our digitalisation strategy.

In the face of the growing shortage in skilled staff in nursing as well as with doctors and e. g. IT, we will continue our successful recruiting drives and the wide-ranging measures to hire new employees. The numerous personnel measures also include our International Scholarship Programme that has been successfully based at RHÖN-KLINIKUM Campus Bad Neustadt for many years. Given the positive experience in this area – both in the integration of foreign doctors and in nursing – we are planning to soon roll out this programme to the other sites of the Group. Our objective is to counter staffing shortages with the structured and systematic recruiting of qualified physician and nursing employees from abroad and to supplement local staffing measures by the programme.

In the growth market of telemedicine, we will establish and further expand the telemedical service offering. This is aimed at supplementing and relieving stresses in existing care structures through upstream telemedical offerings, i. e. providing patients with prompt care by phone and video whenever it is medically appropriate and expedient to do so.

1.4 Controlling system

The RHÖN-KLINIKUM AG Group is controlled giving due regard to strategic and financial targets. Our target system 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, DRG). 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 controlling-relevant total revenues is increasingly rising, inpatient revenues still represent the most important 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 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

Medical excellence for the well-being of patients is our primary objective – every day, and around the clock. That is why we control and monitor systematically the improvement in our medical quality and strictly follow a comprehensive approach, with clinical risk management, hospital hygiene and medical controlling representing the most important elements in this scheme.

Transparency is ensured by our quality reports. The 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 our hospitals.

For further information, reference is made to the condensed separate non-financial report in accordance with section 315c in conjunction with sections 289c to 289e of the HGB in the Annual Report published on our website.

1.6 Medical research and its transfer into practice

Excellent healthcare provision at RHÖN-KLINIKUM AG relies on continuously transferring knowledge from research into daily clinical practice. Our hospitals work together in research associations and projects and benefit from the close networking with the Company's university hospitals in Giessen and Marburg. Thanks to the this direct link to university maximum care and the direct access to university research findings, we can translate state-of-the-art scientific findings quickly and precisely into hospital care and competently deliver the same to the regions.

Our hospital sites maintain an open scientific dialogue – whether as organisers of medical conferences, as partners in long-term clinical studies and international research projects, as university teaching institutions or as providers of continued training measures for doctors.

For further information, reference is made to the condensed separate non-financial report in accordance with section 315c in conjunction with sections 289c to 289e of the 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 vital importance to us as a provider of healthcare services. With our compliance organisation, we attach great importance to this subject. Principles and rules of fair dealings with one another as well as responsible corporate governance are defined here:

They define the relationship to our patients, customers, suppliers, shareholders and the general public as well as the conduct of employees amongst one another.

In addition to the statutory regulations, we also adhere to further internally defined 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). They enable every employee 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. 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 condensed separate non-financial report in accordance with section 315c in conjunction with sections 289c to 289e of the 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 of the WpHG in terms of shareholder structure emerges as at the relevant key date of 31 December 2019:

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:
B. Braun Melsungen Aktiengesellschaft	11 March 2019		25.23	25.23	12 December 2018	>25 %	attributed (section 34 WpHG): B. Braun Melsungen Aktiengesellschaft
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
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 of the 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 in 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 of the 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) and the Articles of Association, the Supervisory Board of RHÖN-KLINIKUM AG comprises an equal number of employee and shareholder representatives (16) and held five meetings in 2019 (2018: five 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. Prof. Dr. h. c. Ludwig Georg Braun left the Supervisory Board on conclusion of the Annual General Meeting on 5 June 2019. Mr. Jan Hacker has been a new member on the Supervisory Board since conclusion of the Annual General Meeting on 5 June 2019. 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 2019 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) of the 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. The Board of Management of RHÖN-KLINIKUM AG is 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 2019 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, additional benefits (non-cash benefits) and a contingent retirement benefit. For some former members of the Board of Management, there was also a long-term share-based remuneration component in some cases.

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 meeting 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) of the 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 was a long-term share-based remuneration (virtual stock options) for some former members of the Board of Management which was tied to a long-term development of the RHÖN-KLINIKUM AG share and is disclosed in the Group Management Report. These virtual shares were paid out to the former members of the Board of Management as agreed in financial year 2019. The virtual stock scheme has thus been ended. 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 in 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 accidence 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 financial year 2019 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 a total annual remuneration (sum of base salary and management profit sharing) of at least € 600,000. The caps are each represented individually and in the Group Management Report. 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 had received vested virtual shares participating in all capital-adjustment measures and dividends. After five years (as calculated from 2014), the respective (former) members of the Board of Management were remunerated for the remaining virtual shares – as mentioned – as at 13 June 2019 at the average market prices of the previous three months.

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 been received an offer for a renewal.

If a member of the Board of Management having terminated his 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 financial year 2019, the payments of the incumbent members of the Board of Management totalled € 4.0 million (previous year: € 3.9 million). Of this total, € 2.2 million (previous year: € 2.2 million) was accounted for by components that are not results-based and € 1.8 million (previous year: € 1.7 million) by variable components. The provision for claims to post-retirement benefits by the incumbent Board of Management in accordance with IFRS amounted to € 1.6 million (previous year: € 1.0 million) as at 31 December 2019. 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 € 1.1 million in financial year 2019 (previous year: € 3.7 million). Payouts to former members of the Board of Management in connection with virtual stock options stood at € 7.1 million in 2019.

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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	1,800	1,800	1,800	1,800	1,800	1,800
Fringe benefits	16	16	16	16	16	16
Total	**1,816**	**1,816**	**1,816**	**1,816**	**1,816**	**1,816**
One-year variable remuneration						
Management profit sharing	79	216	0	1,000	216	0
Total payments	**1,895**	**2,032**	**1,816**	**2,816**	**2,032**	**1,816**
Pension expense [1]	249	239	249	249	249	239
Total remuneration	**2,144**	**2,271**	**2,065**	**3,065**	**2,281**	**2,055**

[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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	12	12	12	12	12	12
Total	**204**	**204**	**204**	**204**	**204**	**204**
One-year variable remuneration						
Management profit sharing	1,008	1,008	1,008	1,308	1,008	1,008
Total payments	**1,212**	**1,212**	**1,212**	**1,512**	**1,212**	**1,212**
Pension expense [1]	157	158	157	157	157	158
Total remuneration	**1,369**	**1,370**	**1,369**	**1,669**	**1,369**	**1,370**

[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 from 1 May 2018)					
	Inducements granted				Inflow	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	192	128	192	192	192	128
Fringe benefits	13	8	13	13	13	8
Total	**205**	**136**	**205**	**205**	**205**	**136**
One-year variable remuneration						
Management profit sharing	708	472	708	1,308	708	472
Total payments	**913**	**608**	**913**	**1,513**	**913**	**608**
Pension expense [1]	121	79	121	121	121	79
Total remuneration	**1,034**	**687**	**1,034**	**1,634**	**1,034**	**687**

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

in € ’000

Former member of Board of Management	Dr. Dr. Martin Siebert (permanent representative of the Board of Management until 28 March 2018)					
	Inducements granted				Inflow	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	0	96	0	0	0	96
Fringe benefits	0	5	0	0	0	5
Total	**0**	**101**	**0**	**0**	**0**	**101**
One-year variable remuneration						
Management profit sharing	0	279	0	0	0	279
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	20
Total payments	**355**	**380**	**0**	**1,702**	**2,353**	**400**
Pension expense [1]	0	48	0	0	0	48
Total remuneration	**355**	**428**	**0**	**1,702**	**2,353**	**448**

[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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	0	0	0	0	0	0
Fringe benefits	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
One-year variable remuneration						
Management profit sharing	0	0	0	0	0	0
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	20
Total payments	**355**	**0**	**0**	**1,702**	**2,353**	**20**
Pension expense [1]	0	0	0	0	0	0
Severance payments	0	0	0	0	0	0
Total remuneration	**355**	**0**	**0**	**1,702**	**2,353**	**20**

[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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	0	0	0	0	0	0
Basic salary (arrears payment for the previous year)	0	901	0	0	0	901
Fringe benefits	0	0	0	0	0	0
Total	**0**	**901**	**0**	**0**	**0**	**901**
One-year variable remuneration						
Management profit sharing	0	0	0	0	0	0
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	52
Total payments	**355**	**901**	**0**	**1,702**	**2,353**	**953**
Pension expense [1]	0	0	0	0	0	1,050
Severance payments	0	2,400	0	0	0	2,400
Total remuneration	**355**	**3,301**	**0**	**1,702**	**2,353**	**4,403**

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

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

Retirement benefits	Provision as at 31 Dec. 2018	Change in retirement benefits	**Provision as at 31 Dec. 2019**	Nominal amount on contract expiry [1]
Incumbent members of the Board of Management				
Stephan Holzinger	470	292	762	1,125
Prof. Dr. Bernd Griewing	469	196	665	750
Dr. Gunther K. Weiß	79	136	215	413
Total	**1,018**	**624**	**1,642**	**2,288**

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

in € '000

Retirement benefits	Provision as at 31 Dec. 2018	Change in retirement benefits	**Provision as at 31 Dec. 2019**
Former members of the Board of Management			
Dr. Dr. Martin Siebert (until 28 March 2018)	1,181	–1,181	0
Total	**1,181**	**–1,181**	**0**

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 chairman of the Supervisory Board and the deputy chairmen of the Supervisory Board shall receive double the amount of the fixed attendance fee. Chairmen 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 financial year 2019, the remuneration of the active members of the Supervisory Board was € 1.9 million (previous year: € 2.0 million). The total amount in 2019 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 2019**	Total 2018
Eugen Münch	120	32	200	352	357
Georg Schulze-Ziehaus	80	32	26	138	138
Wolfgang Mündel	80	44	172	296	301
Dr. Annette Beller	36	52	73	161	172
Peter Berghöfer	40	20	40	100	100
Björn Borgmann (until 28 February 2018)	0	0	0	0	17
Prof. Dr. h. c. Ludwig Georg Braun (until 5 June 2019)	14	8	11	33	73
Prof. Dr. Gerhard Ehninger	36	10	13	59	54
Jan Hacker (from 5 June 2019)	26	8	15	49	0
Stefan Härtel	40	16	26	82	82
Klaus Hanschur	40	16	26	82	82
Meike Jäger	40	20	40	100	91
Dr. Brigitte Mohn	36	8	10	54	56
Christine Reißner	40	20	40	100	100
Oliver Salomon (from 1 March 2018)	40	16	26	82	59
Evelin Schiebel	40	22	26	88	80
Dr. Katrin Vernau	36	22	34	92	112
Natascha Weihs	40	18	22	80	80
	784	**364**	**800**	**1,948**	**1,954**

Shareholdings of members of corporate bodies

As at 31 December 2019, 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), 20% of the Company's registered share capital, of which the Supervisory Board and its related parties account for 20% 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.

Other contracts containing a change-of-control clause

The company purchase agreements of the hospitals acquired by us contained 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 rang true in particular for Universitätsklinikum Gießen und Marburg GmbH up to the end of financial year 2019. Likewise, various contracts relating to financial instruments exist in which the lenders may demand immediate re-payment in the event of a change of control. In this regard a change of control is defined as the takeover of more than 50% of the interests in RHÖN-KLINIKUM AG. For the anchor shareholders B. Braun Melsungen AG/Asklepios Kliniken GmbH & Co. KGaA/Mr. Münch (HCM SE) and Ms. Münch, exceptions exist in the promissory note loan agreement from financial year 2018 and the registered bond from financial year 2019. According to the contract documentation, no change of control exists if one or more of the anchor shareholders acquire(s) more than 50%, but no more than 70.1% maximum (promissory note loan agreement 2018) or 70.3% (registered bond 2019) of the voting shares in RHÖN-KLINIKUM AG within the group of anchor shareholders.

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 of the 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 www.rhoen-klinikum-ag.com where the Declaration on Corporate Governance is made accessible to the public under the Corporate Governance section.

2 | ECONOMIC REPORT

2.1 Macroeconomic conditions

The German economy witnessed a positive trend also in 2019. According to initial calculations of the Federal Statistical Office (Destatis), price-adjusted gross domestic product (GDP) was up 0.6% in 2019 over the previous year.

Economic output grew primarily in the service sectors and construction – in industry, by contrast, it recorded a significant decline. The decline was attributable particularly to weak production in the biggest industrial segment, the automotive industry. However, performance in the areas of information and communication as well as financial and insurance service providers was disproportionately strong, at +2.9% each, followed by trade, transportation and hotels at +2.4%. The area of public service providers, education and health recorded growth of 1.6%.

The German labour market proved robust in 2019. Economic output was produced on average for the first time by more than 45 million gainfully employed persons having their place of work in Germany. At the same time, numerous jobs remained vacant on the German labour market. Although the number of vacant positions declined by 3.0%, in some regions and professions labour shortages continued to worsen, for example in the healthcare and nursing professions.

For the eighth time in a row, public budgets closed the year 2019 with a surplus of 49.8 billion euros, according to preliminary calculations. As measured by GDP in respective prices this translates into a surplus ratio for the State of 1.5% in 2019.

2.2 Sector-specific conditions

According to the 2019 Hospital Barometer of the German Hospital Institute (DKI), the financial situation of the hospitals has worsened noticeably. In 2018, 40% of the hospitals posted losses (2017: 30%). In 2019 only every fifth hospital assessed its financial situation as good. At the same time, expectations for 2020 were on the negative side: according to the DKI, only about one sixth of the facilities (17%) expected an improvement in their financial situation, with 44% of the hospitals expecting it to worsen.

RWI – Leibnitz-Institut für Wirtschaftsforschung e. V. (RWI) cites in its Hospital Rating Report 2019 among other things the decline in inpatient cases in 2017 by 0.5% as one of the key reasons for the declining financial situation. The reasons given for this were, for example, the increasing trend toward outpatient care, staffing shortages, an already saturation rate with cardiological and orthopaedic services as well as more stringent audits by the Medical Review Board of the Statutory Health Insurance Funds (MDK).

The tightened regulatory regime for the industry and plans for legislation such as the Regulation on Nursing Staff Floors (Pflegepersonaluntergrenzen-Verordnung, PpUGV), the Nursing Staff Strengthening Act (Pflegepersonalstärkungsgesetz, PpSG) and minimum volume requirements mark a new level of excessive state regulation. This will result in a market consolidation which in the end will likely see fewer hospitals in Germany. This is being predicted by studies of RWI and the foundation Bertelsmann-Stiftung. Digitalisation, investment financing as well as the spin-off of nursing costs from the DRGs are confronting hospitals with big challenges.

The shortage in skilled staff, particularly in the nursing area and with doctors, will become further exacerbated, making it increasingly difficult to cover the related staffing requirements. According to the DKI, at the end of 2019 three quarters of the hospitals were having problems filling vacancies in intensive care or on general wards. At the national level, some 17,000 nursing positions are vacant – since 2016 an increase of 50% in intensive care and more than 200% on general wards.

We assume that the additional burden to be placed on our Group by the tightening of nursing legislation will be in the low double-digit million euro range in financial year 2020. Moreover, the significantly intensifying vying for specialist medical staff on the labour market means that we will have to expect higher collective wage deals compared than in the past.

2.3 Business performance

2.3.1 Overall statement on economic position

With revenues up by € 71.0 million (5.8%), we record a slight decline in EBITDA by € 0.2 million or 0.2% to € 125.3 million, a decline in EBIT by € 8.1 million or 12.5% to € 56.8 million, as well as a decline in consolidated profit by € 6.7 million or 13.1% to € 44.5 million in financial year 2019 compared with the same period last year.

In this regard it has to be kept in mind that in financial year 2019 provisions for legal and tax risks were reversed in the amount of € 39.2 million based on new information (previous year: € 5.7 million). Moreover, financial year 2018 was influenced by a one-off positive EBITDA contribution from the agreement reached on separate accounting at Universitätsklinikum Gießen und Marburg to the tune of € 20.0 million.

As a counter-effect to the challenges faced in the industry and the operative burdens, such as the implications of nursing staff floors and staffing shortages – which in addition to rising personnel costs are giving rise to increasing bed closures –, we record in financial year 2019 higher revenues from our university outpatient units as well as positive delayed effects from the Fresenius/Helios transaction. Consolidated profit was also adversely affected by a provision for fiscal risk in connection with a ruling by the Federal Fiscal Court (Bundesfinanzhof).

Financial year 2019 was also marked by the start-up effects of the new Campus Bad Neustadt. The move of four clinics into the new building complex as well as the related initial decline in patient numbers had an adverse effect on the trend in operating earnings.

2.3.2 Trend in service volumes

	Hospitals	Beds
As at 31 December 2018	**11**	**5,369**
Amalgamation of subsidiaries	–3	–57
Change in capacities	–	–
As at 31 December 2019	**8**	**5,312**

The change in capacities compared with 31 December 2018 is accounted for entirely by our inpatient capacities:

	Approved beds/ places		Change	
	31 Dec. 2019	31 Dec. 2018	absolute	%
Inpatient capacities				
Acute hospitals	4,617	4,637	–20	–0.4
Rehabilitation hospitals and other inpatient facilities	500	537	–37	–6.9
	5,117	**5,174**	**–57**	**–1.1**
Semi-inpatient and day-clinical capacities	195	195	0	0.0
Total	**5,312**	**5,369**	**–57**	**–1.1**

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 5,312 beds/places.

As at 31 December 2019, we operate seven medical care centres with a total of 47.50 specialist practices:

	Medical care centres	Specialist practices
As at 31 December 2018	**7**	**42.00**
Opened/acquired		
MVZ Bad Neustadt a. d. Saale	–	4.00
MVZ Frankfurt (Oder)	–	1.50
MVZ Marburg	–	0.25
Disposals		
MVZ Marburg	–	–0.25
As at 31 December 2019	**7**	**47.50**

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

January to December	2019	2018	Change absolute	Change %
Inpatient and semi-inpatient treatments at our				
Acute hospitals	210,075	209,802	273	0.1
Rehabilitation hospitals and other facilities	5,067	4,900	167	3.4
	215,142	**214,702**	**440**	**0.2**
Outpatient attendances at our				
Acute hospitals	464,000	460,117	3,883	0.8
Medical care centres	181,386	175,328	6,058	3.5
	645,386	**635,445**	**9,941**	**1.6**
Total	**860,528**	**850,147**	**10,381**	**1.2**

The general trend towards increasing outpatient medical care is still continuing. Whereas the number of patients treated on an outpatient basis rose by 9,941 patients or 1.6%, case numbers of patients treated on an inpatient and semi-inpatient basis rose only marginally by +440 patients or +0.2%.

2.3.3 Results of operations

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

Consolidated performance figures developed as shown below:

in € million

January to December	2019	2018	Change	Change %
Income				
Revenues	1,303.9	1,232.9	71.0	5.8
Other income	229.9	183.4	46.5	25.4
Total	**1,533.8**	**1,416.3**	**117.5**	**8.3**
Expenditure				
Materials and consumables used	407.9	372.4	35.5	9.5
Employee benefits expense	867.0	796.1	70.9	8.9
Other expenditure	133.4	122.1	11.3	9.3
Result of impairment on financial assets	0.2	0.2	0.0	0.0
Total	**1,408.5**	**1,290.8**	**117.7**	**9.1**
EBITDA	**125.3**	**125.5**	**–0.2**	**–0.2**
Depreciation/amortisation and impairment	68.5	60.6	7.9	13.0
EBIT	**56.8**	**64.9**	**–8.1**	**–12.5**
Finance result	–2.6	–1.7	–0.9	–52.9
EBT	**54.2**	**63.2**	**–9.0**	**–14.2**
Income taxes	9.7	12.0	–2.3	–19.2
Consolidated profit	**44.5**	**51.2**	**–6.7**	**–13.1**

Compared with financial year 2018, revenues witnessed a rise of € 71.0 million or 5.8%. As in the same period of the previous year, revenue figures include income from the invoicing of an additional remuneration component for the medicamentous treatment of spinal muscle atrophy as well as income from the invoicing of an additional remuneration component for the treatment of multiple sclerosis applied for the first time in the second quarter of 2018. The aforementioned supplementary fees are remuneration along with the pure DRGs (diagnosis related groups) and negatively impacts the materials and consumables used item by nearly the same amount. For the first time as of financial year 2019, revenues include applied cost reimbursements for cancer immunotherapies that negatively impact the materials and consumables used item by the same amount. Moreover, in financial year 2019 we were helped by higher revenues from our university outpatient units.

In financial year 2019 provisions for legal and tax risks were reversed in the amount of € 39.2 million based on new information (previous year: € 5.7 million). The income was recognised under the other income item. The rise in other income is also accounted for, among other things, by increased sales of pharmaceuticals (including income from the invoicing of a drug for treating MS (multiple sclerosis) that negatively impacts materials and consumables used by the same amount) and cytostatics as well as personnel costs for students of healthcare professions refinanced for the first time. Here it has to be taken into account that in the previous year one-off income of € 12.8 million from the agreement of separate accounting was recognised under this item as well as a further € 7.2 million under the employee benefits expense item:

in %	**2019**	2018
Materials ratio	31.3	30.2
Personnel ratio	66.5	64.6
Other cost ratio	10.2	9.9
Depreciation and amortisation ratio	5.2	4.9
Finance result ratio	–0.2	–0.2
Effective tax ratio	0.8	0.9

Compared with the same period last year, materials and consumables used witnessed a rise in financial year 2019, disproportionate to the rise in revenues, by € 35.5 million or 9.5%. The cost-of-materials ratio climbed from 30.2% to 31.3%. Materials and consumables used includes expenditures for the medicamentous treatment of spinal muscle atrophy, multiple sclerosis, and for the first time from financial year 2019 expenses for cancer immunotherapies (e. g. of CAR T-cell therapy) which are remunerated in nearly the same amount and reported under revenues or other income. Adjusted for this effect, the cost-of-materials ratio increased from 28.5% to 29.5% resulting from the use of material cost-intensive services. As a result of mandatory adoption of the new standard IFRS 16 "Leases" for the first time as of financial year 2019, expenses previously recorded under materials and consumables used amounting to € 0.7 million are no longer reported under materials and consumables used. The rights of use in the lease properties are amortised over the term of the respective lease contract, with the lease liabilities being charged interest using the effective interest method and recognised at € 0.7 million under depreciation/amortisation and impairments or the finance result.

In addition to a rise in the number of employees, general wage increases as well as share-based remuneration of former members of the Board of Management in the form of virtual shares had an expenditure-increasing effect compared with financial year 2018. Moreover, personnel expenses for students of healthcare professions were included in financial year 2019 for the first time, which compared with reimbursement payments in the same amount in the Other income item. The personnel expense ratio rose from 64.6% to 66.5%.

The other expenditure ratio rose slightly from 9.9% to 10.2%. As a result of the initial adoption of IFRS 16 "Leases" as of financial year 2019, expenses of financial year 2019 amounting to € 1.6 million previously recorded under the other expenses item are no longer reported under other expenses. The rights of use in the lease properties are amortised over the term of the respective lease contract, with the lease liabilities being charged interest using the effective interest method and recognised at € 1.6 million under depreciation/amortisation and impairments or the finance result.

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.

The depreciation and impairment item rose compared with the same period of the previous year by € 7.9 million or 13.0% to € 68.5 million. This is attributable among other things to the Campus Bad Neustadt being put into service at the turn of the year 2018/2019. The depreciation/amortisation ratio rose from 4.9% to 5.2%. The initial adoption of IFRS 16 "Leases" as of financial year 2019 results in a total increase of € 2.2 million.

The negative finance result deteriorated in financial year 2019 by € 0.9 million to € 2.6 million. This was essentially attributable to finance expenses in connection with the registered bond issued in July 2019 as well as the promissory note issued in October 2018. In connection with the initial adoption of IFRS 16 "Leases" as of financial year 2019, interest expenses amounting to € 0.1 million are recognised under the finance result.

The income tax expense item declined by € 2.3 million compared with the same period last year. The decline is the result of a lower tax assessment basis. A ruling by the German Federal Fiscal Court and the related risk provisioning had an expenditure-increasing effect.

Net consolidated profit declined by € 6.7 million or 13.1% to € 44.5 million (previous year: € 51.2 million). Non-controlling interests in profit declined compared with the same period last year by € 1.0 million or 45.5% to € 1.2 million (previous year: € 2.2 million).

With revenues of € 1.30 billion, we met our forecast for revenues for 2019 made in the 2018 Group Management Report for € 1.30 billion within a range of plus or minus 5%. We also met the forecast for EBITDA made in the 2018 Group Management Report for financial year 2019 of between € 117.5 million and € 127.5 million with the actual figure of € 125.3 million.

The interest of RHÖN-KLINIKUM AG shareholders in profit for financial year 2019 declined by 11.6% to € 43.3 million (previous year: € 49.0 million) compared with the previous year. This translates into earnings per share of € 0.65 (previous year: € 0.73) in accordance with IAS 33.

The total result (sum of consolidated profit and other earnings) for financial year 2019 stands at € 46.8 million (previous year: € 51.1 million). In this connection, profits from changes in fair value through other comprehensive income (FVOCI) in the amount of € 2.2 million (previous year: losses amounting to € 0.4 million) as well as gains from the revaluation of defined benefit pension plans amounting to € 0.2 million (previous year: € 0.3 million) had to be recognised directly at equity.

2.3.4 Net assets and financial position

in € million

	31 Dec. 2019		31 Dec. 2018	
		%		%
ASSETS				
Non-current assets	1,068.9	65.5	1,039.6	65.4
Current assets	563.0	34.5	549.7	34.6
	1,631.9	**100.0**	**1,589.3**	**100.0**
LIABILITIES				
Shareholders' equity	1,185.8	72.7	1,159.2	72.9
Long-term loan capital	183.8	11.3	116.9	7.4
Short-term loan capital	262.3	16.0	313.2	19.7
	1,631.9	**100.0**	**1,589.3**	**100.0**

Compared with the balance sheet date of 31 December 2018, the balance sheet total rose by € 42.6 million or 2.7% to € 1,631.9 million (previous year: € 1,589.3 million). This is attributable among other things to the issue of a registered bond in July 2019 in a total nominal value of € 60.0 million.

The equity capital ratio saw a slight decline compared with the last reporting date, from 72.9% to 72.7%, and remains at a very high level. Equity now stands at € 1,185.8 million (previous year: € 1,159.2 million). The increase in equity capital compared with the reporting date of 31 December 2018 by € 26.6 million results from consolidated profit of financial year 2019 (€ 44.5 million), gains from the change in the fair value through other comprehensive income (FVOCI) (€ 2.2 million), gains from the revaluation of defined benefit pension plans (€ 0.2 million), and changes in consolidated companies (€ 0.1 million), on the one hand, and the equity-decreasing effects from dividend payments to shareholders and non-controlling interests (€ 20.4 million), on the other.

128.1% (previous year: 122.7%) of non-current assets is nominally covered by equity and non-current liabilities at fully matching maturities. As at 31 December 2019, we report net liquidity of € 65.4 million (31 December 2018: € 141.2 million). Net liquidity is calculated as follows:

in € million

	31 Dec. 2019	31 Dec. 2018
Current cash	128.0	132.3
Current fixed term deposits	89.8	114.4
Non-current fixed term deposits	19.8	0.0
Cash, fixed term deposits	**237.6**	**246.7**
Current financial liabilities	0.9	0.3
Non-current financial liabilities	158.3	99.5
Liabilities under leases	13.0	5.7
Financial liabilities	**172.2**	**105.5**
Net liquidity	**65.4**	**141.2**

Including assets and liabilities held for sale.

Liabilities under leases as at 31 December 2019 include obligations resulting from the initial mandatory adoption of the Standard IFRS 16 as of financial year 2019 in the amount of € 8.3 million.

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

in € million January to December	2019	2018
Cash generated from (+) /cash used in (-) operating activities	47.3	49.5
Cash generated from (+)/cash used in (-) investing activities	–86.7	–125.0
Cash generated from (+) /cash used in (-) financing activities	35.1	85.3
Change in cash and cash equivalents	**–4.3**	**9.8**
Cash and cash equivalents at 1 January	132.3	122.5
Cash and cash equivalents as at 31 December	**128.0**	**132.3**
of which held-for-sale cash and cash equivalents as at 31 December	0.3	–
of which cash and cash equivalents not held for sale as at 31 December	**127.7**	**132.3**

Cash and cash equivalents decreased in financial year 2019 by € 4.3 million (increase in financial year 2018 by € 9.8 million).

In this context, a positive operating cash flow was achieved in the amount of € 47.3 million (previous year: € 49.5 million).

The change in cash and cash equivalents compared with the same period of the previous year was on the one hand attributable to the decline of € 38.3 million in cash used in investment activities. Whereas in financial year 2019 investment payments in property, plant and equipment as well as in intangible assets were made in the amount of € 87.0 million, the figure for this item in financial year 2018 was € 146.0 million as a result of the campus new build in Bad Neustadt a. d. Saale. On the other hand, cash generated from financing activities decreased by € 50.2 million. Whereas in financial year 2019 a registered bond with a total nominal value of € 60.0 million was issued, financial year 2018 saw the successful issuing of a promissory note with a total nominal value of € 100.0 million.

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 € 346.1 million.

2.3.5 Investments

Aggregate investments of € 103.8 million (previous year: € 187.2 million) in financial year 2019 are shown in the following table:

in € million	Use of grants	Use of own funds	Total
Current investments	27.5	69.4	96.9
Takeovers	–	6.9	6.9
Total	**27.5**	**76.3**	**103.8**

During financial year 2019, we invested a total of € 103.8 million (previous year: € 187.2 million) in intangible assets, in property, plant and equipment as well as in investment property. Of this total, € 27.5 million (previous year: € 17.4 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 € 76.3 million (previous year: € 169.8 million). Current capital expenditure accounted for € 69.4 million (previous year: € 169.2 million) and assets and specialist practices acquired on takeovers for € 6.9 million (previous year: € 0.6 million) of total net investments during the year under review. Current investments financed from Company funds of the previous year were dominated by our campus new build in Bad Neustadt a. d. Saale.

An analysis of investments financed from company funds by site in financial year 2019 is given below:

in € million	
Gießen, Marburg	32.6
Bad Neustadt a. d. Saale	25.6
Bad Berka	11.3
Frankfurt (Oder)	6.8
Total	**76.3**

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 amount of € 100.0 million until 2021. As at the balance sheet date of 31 December 2019, there were still investment obligations remaining from this totalling € 5.9 million. There are also further obligations relating to building modernisation and extension measures at the Giessen and Marburg sites.

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 2019, the Group employed 17,687 persons (31 December 2018: 16,985):

Number	
As at 31 December 2018	**16,985**
Change in employees at hospital companies	492
Change in employees at medical care centre companies	52
Change in employees at service companies	158
As at 31 December 2019	**17,687**

A training remuneration payment is moreover made for 455 students of the healthcare professions at the University Hospital of Giessen and Marburg based on an agreement reached with the trade union ver.di in 2019.

Doctors accounted for 15.5% (previous year: 15.3%) of the total headcount on the reporting date, while nursing and medical-technical staff accounted for 54.8% (previous year: 55.7%). On average over the year, we recorded a rise of 2.75% in full-time staff. The share of women is around 72% (previous year: roughly 73%).

3 | FORECAST REPORT

3.1 Strategic objectives

The entry into the market of telemedicine, the innovative RHÖN Campus approach and the steadfast continuation of the digital transformation of our Company are key elements of our corporate strategy.

RHÖN-KLINIKUM AG is pursuing the objective of achieving the best medical care for our patients, diagnosing and treating them with the latest, scientifically sound therapy procedures with state-of-the-art medical technology. Thanks to the interdisciplinary collaboration and a strong networking with all our facilities, this equally benefits our patients and employees.

In order to stay competitive in future, also in the face of increasing regulation from legislation which we believe will lead to a market consolidation, we will have to focus attention in our activities to an even greater extent on our state-of-the-art hospitals and sites. We already took a close look at the regional competitive environment of our facilities and adjusted and optimised the portfolio of medical services. To continue the improvement programme initiated already in 2017, we will in a further step review the efficiency reserves in OR, bed, duration-of-stay and discharge management as well as within our administrative structures at the sites and at Group headquarters to then generate earnings improvements from optimised process and structures.

We will seize the opportunities arising from a market shake-up to make acquisitions in line with our strategy as the right market opportunities arise and take out strategic stakes in innovative, young companies with which we can further implement and pursue our digitalisation strategy.

For further information, please also refer to chapter 1.3 Objectives and strategies in this Group Management Report.

3.2 Economic and legal environment

The forecasts of leading research institutes as well as the German government for economic performance in Germany are predicting weak growth for 2020. According to the Annual Economic Report of the German government for 2020, economic momentum from the beginning of 2020 was still subdued, but the economy is likely to gather pace slightly in the further course. The business climate index of the ifo Institute declined from 96.3 points in December 2019 to 95.9 points in January 2020, The indicator for the current situation, by contrast, rose from 98.8 points in December 2018 to 99.1 points in January 2020.

For the year 2020, the German government moreover expects a rise in price-adjusted gross domestic product by 1.1% – and thus more than double the 0.5% figure seen in financial year 2019. In this context, the financial policy of the German government is driving the economy with cuts in taxes and in social insurance contributions, an expansion in state transfers and an increase in spending on public consumption and investment.

Leading economic institutes current see the biggest risk to the economy in a renewed escalation of the trade conflicts between the USA and China or the European Union as well as the structural transformation in the car industry that might come at the expense of well-paid jobs and drive more companies out of the market than previously thought.

The jobless rate, according to the German government, will remain stable at roughly 5.0%. The increase in the workforce will continue – albeit at a slower pace.

The tightened regulatory regime for hospitals and plans for legislation such as the Regulation on Nursing Staff Floors (Pflegepersonaluntergrenzen-Verordnung, PpUGV), the Nursing Staff Strengthening Act (Pflegepersonalstärkungsgesetz, PpSG) and minimum volume requirements will result in a market consolidation which in the end will likely see fewer hospitals in Germany. This is the conclusion reached by studies conducted by RWI – Leibnitz-Institut für Wirtschaftsforschung e. V. as well as the Bertelsmann Foundation. Digitalisation, investment financing as well as the spin-off of nursing costs from the DRGs confront hospitals with big challenges.

The shortage in skilled staff, particularly in the nursing area and with doctors, will become further exacerbated, making it increasingly difficult to cover the related staffing requirements. According to the DKI, at the end of 2019 three quarters of the hospitals were having problems filling vacancies in intensive care or on general wards. At the national level, some 17,000 nursing positions are vacant – since 2016 an increase of 50% in intensive care and more than 200% on general wards.

Technical innovations – innovations from the areas of digitalisation, telemedicine, artificial intelligence, 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 5,300 beds and nearly 17,700 employees. That ranks us amongst the large hospital operators in Germany.

For the current financial year 2020, we expect revenues of € 1.4 billion within a range of plus or minus 5%. For earnings before interest, tax and depreciation/amortisation (EBITDA), we expect a level of between € 72.5 million and € 82.5 million.

This forecast reflects the further heightened regulatory interference by the German legislature compared with 2019, such as the Regulation on Nursing Staff Floors (Pflegepersonaluntergrenzen-Verordnung, PpUGV), the Nursing Staff Strengthening Act (Pflegepersonalstärkungsgesetz, PpSG) and minimum volume requirements, which will put an additional burden on our Group in financial year 2020 in the low double-digit million euro range. Our outlook is of course subject to any regulatory measures impacting our remuneration structure in 2020.

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 and to identify new opportunities whilst safeguarding the interests of our shareholders and other capital market participants.

Our corporate activity is inseparably bound up with risks and opportunities. As a service 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. This involves continuously weighing up opportunities against the risks. As a provider of healthcare services, we always regard the risk posed to the life and health of our patients and our employees as the greatest risk. 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 is in line with the requirements of section 91 (2) of the 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 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. The Internal Auditing department is entrusted by the Board of Management with the process-related review of matters as required in specific cases. In this connection, it also monitors the operability and correct application of the corresponding requirements in sub-divisions 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 covers the systematic and structured documentation of all relevant risks within 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.

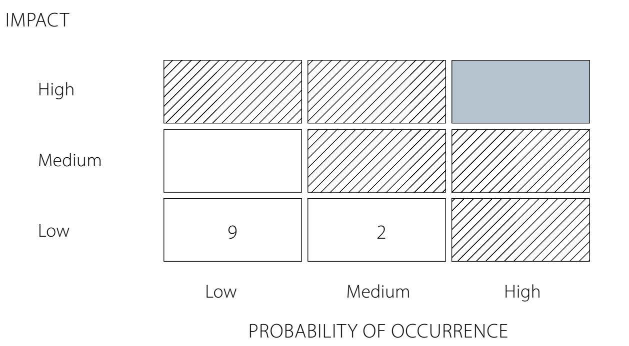
The analysis and evaluation of the relevant risks is the task of the respective persons entrusted with such responsibility. In the case of risk analysis and evaluation, their probability of occurrence and potential monetary impact (amount of damage) are derived with an explanation being given on the 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 and for the risk period.

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, whilst 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, 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.



Throughout the Group, eleven 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 € 1.0 million. Given the developments in service volumes as well as further cost-cutting potential, these risks should not have any material impact on planning for 2020.

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 on 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 currently marked by heightened influences from healthcare policy regulation. At the beginning of the year 2019, new regulatory requirements gradually entered into force. In particular the new rules on nursing floors (PpUGV) and the changes brought in in 2020 by the Nursing Staff Strengthening Act (Pflegepersonalstärkungsgesetz, PpSG) create new levels of bureaucracy, and instead of making the medical and nursing professions more attractive will continue to put a drag on earnings. 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.

Two other developments still continue to influence our sector decisively. Demand for medical services, in particular also cutting-edge medical services, continues to rise. By contrast, the remuneration of the services provided is not being adjusted adequately and there is an increasing shift of previously inpatient services to the outpatient care sector.

The above developments 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 new legislation 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 that 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, which will be continued. Here we have launched numerous measures. In addition to the review of maintenance and servicing contracts, we have tackled the industry-wide issue of avoidable losses from audits of the Medical Review Board of the Statutory Health Insurance Funds (MDK). Given the significantly higher audit rates by the MDK, we have been stepping up the use of semantic coding assistance for invoicing by our acquisition in this area of a minority interest in the software provider Tiplu GmbH in February 2019 so as to work towards achieving full coverage of the services provided. Likewise, we have also been turning our attention increasingly to training courses and the establishment of Group-internal databases. After the progress achieved in the area of avoiding MDK losses, the focus of interest is now being turned to administrative structures at the Group and at our individual sites. For this purpose, an analysis and feasibility study was commissioned to show already in the first half of 2020 how an earnings contribution can be generated from more efficient administrative structures so as to counter the high financial burdens of regulation in the nursing area.

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 and also for digital 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 fire risks and IT equipment. According to the new General Data Protection Regulation (GDPR), 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

As for the entire industry as well, rising demand for specialists and the related shortage of qualified staff are of course issues of key importance for us. 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 are academic teaching hospitals are committed to training medical students to the highest standards. Furthermore, thanks to our cooperation with other 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. At the same time we have gradually expanded our internal training capacities and i.a. have partnered to help design a new specific curriculum "Digital Medicine, eHealth and Telemedicine" for young doctors at the University of Giessen. We also want to gradually introduce the international scholarship scheme of Campus Bad Neustadt at our other sites to better integrate foreign nursing staff. Given 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 see opportunities to efficiently counteract the current shortage of personnel and currently still 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 euro 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 € 100.0 million. In July 2019 we expanded our strategic financing by the long-term component of a registered bond with a total nominal value of € 60.0 million. We see both issues as a sensible complement to our syndicated line of credit taken out already in October 2017 as 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 eith.

Overall assessment

RHÖN-KLINIKUM AG has implemented risk reduction measures. In the context of the risk evaluation for financial year 2019 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. Neither were any risks posing a threat to the Company's existence reported. The principles of the statutorily prescribed system of early identification of risks jeopardising the Company's 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 financial year 2019, 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.

Steadily increasing regulation from new legislation, especially in the field of nursing financing, is putting the hospital sector before tremendous challenges which foreseeably will lead to a fundamental changes in the hospital sector. RHÖN-KLINIKUM AG wants to seize the opportunities that such market shake-up will entail. We see ourselves in a very good position, also given how our portfolio of hospitals has been adjusted. Our Company has a moderate level of debt and therefore good financial scope to make sensible acquisitions when the right market opportunities arise. With our 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 and the related expertise and will know how to realise our opportunities with the roll-out of the RHÖN Campus approach.

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. We use the coding software Tiplu Momo for complete and performance-based invoicing, revenue securing and duration-of-stay control. Another important digital project 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 whilst at the same time making the treatment process faster and safer for patients. With the launch of the Campus, the Medical Cockpit is being 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.

In our view, the healthcare system is set to be transformed over the coming years and demand for telemedical offerings to grow. Under the company Medgate Deutschland GmbH newly founded in December 2019 together with the Swiss telemedicine provider Medgate, we offer telemedical and digital-medical services in Germany on the promising future market of telemedicine. The entry into this market of the future for us is a good strategic fit for our activities. This is aimed at supplementing and relieving stresses in existing care structures through upstream telemedical offerings, i.e. providing patients with prompt care by phone and video whenever it is medically appropriate and expedient to do so.

In addition to the advance in digitalisation, the conceptual and constructional modernisation of our sites continues to be a major issue. Our extensive investments at almost all sites of the Group will result in positive impacts on medical care for patients.

As a strategic advisory function for the Board of Management and management bodies of the hospitals, the Medical Board was implemented. In its function, 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 2019 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.

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 Group of RHÖN-KLINIKUM AG, 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 the 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, 14 February 2020

The Board of Management

Prof. Dr. Bernd Griewing | Stephan Holzinger | Dr. Gunther K. Weiß

Consolidated financial statements

Consolidated balance sheet

31 DECEMBER 2019

ASSETS

in € '000	Notes	31 Dec. 2019	31 Dec. 2018
Non-current assets			
Goodwill and other intangible assets	6.1	178,128	176,707
Property, plant and equipment	6.2	858,151	852,100
Investment property	9.3.3	2,349	2,490
Investments accounted for using the equity method	6.4	388	390
Deferred tax assets	6.3	626	3,178
Other financial assets	6.5	29,290	4,682
		1,068,932	**1,039,547**
Current assets			
Inventories	6.6	28,437	25,939
Trade receivables	6.7	226,606	212,376
Other financial assets	6.8	167,928	169,276
Other assets	6.9	10,479	7,820
Current income tax assets	6.10	1,482	2,047
Cash and cash equivalents	6.11	127,694	132,283
Held-for-sale assets	4	361	–
		562,987	**549,741**
		1,631,919	**1,589,288**

EQUITY AND LIABILITIES

in € '000	Notes	31 Dec. 2019	31 Dec. 2018
Shareholders' equity			
Issued share capital	6.12	167,406	167,406
Capital reserve		574,168	574,168
Other reserves		420,006	393,821
Treasury shares		–76	–76
Equity attributable to shareholders of RHÖN-KLINIKUM AG		1,161,504	1,135,319
Non-controlling interests in equity		24,305	23,903
		1,185,809	**1,159,222**
Non-current liabilities			
Financial liabilities	6.13	158,315	99,525
Provisions for post-employment benefits	6.14	1,642	2,199
Other financial liabilities	6.17	23,807	15,170
		183,764	**116,894**
Current liabilities			
Financial liabilities	6.13	943	303
Trade payables	6.16	84,451	115,883
Current income tax liabilities	6.19	16,417	3,847
Other provisions	6.15	14,029	62,436
Other financial liabilities	6.17	35,087	23,557
Other liabilities	6.18	111,328	107,146
Held-for-sale liabilities	4	91	–
		262,346	**313,172**
		1,631,919	**1,589,288**

Consolidated income statement

1 JANUARY TO 31 DECEMBER 2019

in € '000	Notes	**2019**	2018
Revenues	5.1	1,303,898	1,232,908
Other income	5.2	229,938	183,469
		1,533,836	**1,416,377**
Materials and consumables used	5.3	407,923	372,440
Employee benefits expense	5.4	866,975	796,136
Depreciation/amortisation and impairment	5.5	68,522	60,600
Other expenses	5.6	133,460	122,080
Result of impairment on financial assets	5.7	152	178
		1,477,032	**1,351,434**
Operating result		**56,804**	**64,943**
Result of investments accounted for using the equity method	5.9	80	83
Finance income	5.9	194	342
Finance expenses	5.9	–2,976	–2,046
Result of impairment on financial investments	5.9	140	–144
Finance result (net)	5.9	**–2,562**	**–1,765**
Earnings before taxes		**54,242**	**63,178**
Income taxes	5.10	9,763	11,990
Consolidated profit		**44,479**	**51,188**
of which			
non-controlling interests	5.11	1,202	2,195
shareholders of RHÖN-KLINIKUM AG		43,277	48,993
Earnings per share in €			
undiluted	5.12	0.65	0.73
diluted	5.12	0.65	0.73

Consolidated statement of comprehensive income

1 JANUARY TO 31 DECEMBER 2019

in € '000	**2019**	2018
Consolidated profit	**44,479**	**51,188**
of which		
non-controlling interests	1,202	2,195
shareholders of RHÖN-KLINIKUM AG	43,277	48,993
Changes in fair value through other comprehensive income (FVOCI)	2,560	–471
Income taxes	–405	75
Other comprehensive income (changes in fair value through other comprehensive income) not subsequently reclassified to income statement	**2,155**	**–396**
Revaluation of defined benefit pension plans	196	322
Income taxes	–31	–51
Other comprehensive income (revaluation of pension plans) not subsequently reclassified to income statement	**165**	**271**
Other comprehensive income[1]	**2,320**	**–125**
of which		
non-controlling interests	–	–
shareholders of RHÖN-KLINIKUM AG	2,320	–125
Total comprehensive income	**46,799**	**51,063**
of which		
non-controlling interests	1,202	2,195
shareholders of RHÖN-KLINIKUM AG	45,597	48,868

[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. 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**
As at 31 Dec. 2018/1 Jan. 2019	**167,406**	**574,168**	**393,821**	**–76**	**1,135,319**	**23,903**	**1,159,222**
Equity transactions with owners							
Dividend payments	–	–	–19,412	–	–19,412	–947	–20,359
Consolidated profit	–	–	43,277	–	43,277	1,202	44,479
Other comprehensive income	–	–	2,320	–	2,320	–	2,320
Other changes							
Changes in consolidated companies	–	–	–	–	–	147	147
As at 31 Dec. 2019	**167,406**	**574,168**	**420,006**	**–76**	**1,161,504**	**24,305**	**1,185,809**

[1] Including other comprehensive income (OCI).

Statement of cash flows

in € million	Notes	2019	2018
Earnings before taxes		54.2	63.2
Finance result (net)	5.9	2.7	1.8
Depreciation/amortisation and impairment and gains/losses on disposal of assets	5.5	68.1	60.6
		125.0	**125.6**
Change in net current assets			
Change in inventories	6.6	–2.2	–0.9
Change in trade receivables	6.7	–11.2	–9.0
Change in other financial assets and other assets	6.8 et seq.	–24.2	–18.7
Change in trade payables	6.16	–5.7	–15.7
Change in other net liabilities/other non-cash transactions	6.17 et seq.	11.8	2.5
Change in provisions	6.14 et seq.	–41.2	–30.0
Income taxes paid	5.10	–3.1	–3.6
Interest paid		–1.9	–0.7
Cash generated from operating activities		**47.3**	**49.5**
Investments in property, plant and equipment and in intangible assets	6.1 et seq.	–114.5	–163.4
Government grants received to finance investments in property, plant and equipment and in intangible assets		27.5	17.4
Change in investments in fixed term deposits	6.5/6.8	5.0	20.1
Investments in financial assets	6.5	–2.2	–1.0
Acquisition of subsidiaries, net of cash acquired	4	–3.4	–0.6
Sale proceeds from disposal of assets		0.7	2.2
Interest received		0.2	0.3
Cash used in investing activities		**–86.7**	**–125.0**
Payments on contracting of financial liabilities	6.13	59.0	99.7
Payments of financial dept	6.13	–0.3	–0.2
Payments for leases	9.3	–3.4	1.7
Dividend payments to shareholders of RHÖN-KLINIKUM AG	6.12	–19.4	–14.7
Payments to non-controlling interests in equity	6.12	–0.8	–1.2
Cash generated from financing activities		**35.1**	**85.3**
Change in cash and cash equivalents	6.11	–4.3	9.8
Cash and cash equivalents at 1 January		132.3	122.5
Cash and cash equivalents as at 31 December		**128.0**	**132.3**
of which held-for-sale cash and cash equivalents as at 31 December	4	0.3	–
of which cash and cash equivalents not held-for-sale as at 31 December	6.11	**127.7**	**132.3**

Notes

CONTENTS

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, outpatient structures in the form of medical care centres are also being expanded. Currently, preparations are under way for entry into the area of telemedicine. 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 ended 31 December 2019 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 financial year 2019. No early adoption of new Standards is planned at this time.

a) New accounting rules from financial year 2019

The following new or revised standards and interpretations – to the extent adopted by the European Union – are to be applied as of financial year 2019. As far as can be seen at present, they have a material impact on, no material impact on or are of no practical relevance for the consolidated financial statements of RHÖN-KLINIKUM AG as of financial year 2019 as well as subsequent years:

Standard/Interpretation			Mandatory adoption date	Endorsement [1]	Impact
New	IFRS 16	Leases	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 19	Employee Benefits	1 Jan. 2019	Yes	No material impact
Amendments	IAS 28	Investments in Associates	1 Jan. 2019	Yes	No material impact
Amendments	Annual improvements to IFRS: 2015–2017 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2019	Yes	No practical relevance

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

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

IFRS 16 "Leases"

The new Standard IFRS 16 published in January 2016 and the subject of mandatory adoption for financial years commencing on or after 1 January 2019 defines a lease as a contract which conveys the right to use an asset for a period of time in exchange for consideration. The previous classification as finance and operating leases will no longer apply for lessees as of the initial adoption date. For lessees, the new Standard requires a totally new approach towards accounting for lease contracts. Thus, from the initial adoption date every lease as a rule has to be recognised with the lessee on the balance sheet in the form of a right of use and a lease liability. The lease liability is measured in accordance with the lease payments outstanding discounted with the incremental borrowing rate if it is not possible to calculate the interest rate implicit in the lease. The right of use as a general rule is measured at the amount of the lease liability plus any initial direct cost. During the lease term, the right of use is to be depreciated and the lease liability updated using the effective interest method and taking into account the lease payments. For lessors, the accounting rules remain largely unchanged.

Within the Group of RHÖN-KLINIKUM AG, the new Standard will be adopted as of 1 January 2019 with application in modified form retroactively. For leases with a term of twelve months maximum as of 1 January 2019 as well as leases relating to low-value assets, no right of use and no lease liability will be applied in the balance sheet and the lease payments will continue to be recognised as an expense as thus with a negative effect on EBITDA in the income statement. The Group adopts 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 was thus an increase in assets and liabilities within the balance sheet (balance sheet extension) by € 8.2 million. The rights of use in the amount of € 8.2 million applied for the first time on the assets side on the initial adoption date were reported under those items of the balance sheet in which the assets underlying the lease would have been reported if they were owned by the Company. The rights of use were therefore be reported in non-current assets under the intangible assets item. The lease liabilities applied for the first time on the liabilities side as at the initial adoption date in the amount of € 8.2 million, of which € 6.1 million is reported under non-current liabilities and € 2.1 million under current liabilities, were measured at their present value of the lease payments outstanding. The present value calculation was based on the incremental borrowing rates of 1 January 2019. The weighted incremental borrowing rate as at 1 January 2019 was 1.1%. As at the initial adoption date, the increase in non-current and current liabilities resulting from the change in accounting standards had a negative impact on net liquidity in the amount of € 8.2 million. In equity, no effects resulted from the initial adoption of IFRS 16. As at 1 January 2019, the equity ratio decreased by roughly 0.4% as a result of the first-time recognition of lease liabilities. Unlike the past approach under which expenses for operating leases have a negative impact on the EBITDA, adoption of the new Standard IFRS 16 has a beneficial effect on EBITDA and results in an increase in depreciation/amortisation. The adoption of IFRS 16 will benefit EBITDA of financial year 2019 by € 2.3 million, which in turn will result in an increase in depreciation/amortisation of financial year 2019 by € 2.2 million. As a result of the mark-up on lease liabilities, the finance result of financial year 2019 is burdened by € 0.1 million higher interest expenses. The difference between the payments for operating leases discounted as at 31 December 2018 in accordance with IFRS 16 in the amount of € 8.2 million and the lease liabilities recognised in the balance sheet as at 1 January 2019 in the amount of € 13.9 million results from the inclusion of already existing finance leases according to IAS 17. A review and re-assessment of the already existing finance leases according to IAS 17 did not reveal any change within the meaning of IFRS 16. 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 therefore are not exclusively 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 IFRIC 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 to the extent 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.

Amendments to IAS 19 "Employee Benefits"

On 7 February 2018, the IASB published amendments to IAS 19 which relate to accounting of plan amendment, curtailment or settlement. The amendments prescribe on what basis the current service time cost and net interest expenditure or net interest income are to be calculated for the period between the change and the end of the reporting period. In the case of a plan amendment, curtailment or settlement during the year under review, the service time cost and the current net interest expenditure (or net interest income) after the change are to be determined using the actuarial assumptions and the net liability (or net asset) at the time of the change (IAS 19.122 A et seq.). The amendments to the Standard are to be applied to financial years beginning on or after 1 January 2019. The amendments to this Standard have no material impact for RHÖN-KLINIKUM AG.

Amendments to IAS 28 "Interests in Associates"

The amendments to IAS 28 published by the IASB clarify that interests which, in substance, form part of the net investment of a company accounted for using the equity method are to be recognised and measured in accordance with IFRS 9 in relation to the determination of any impairments. However, the provision of IAS 28.38 whereby such interests are also to be taken into account in the loss allocation when applying the equity method to the value of equity investments continues to apply. Here, losses are to be allocated first to the equity carrying amount and only subordinately to the other long-term interest. The amendments to the Standard are to be applied to financial years beginning on or after 1 January 2019. The amendments to this Standard have no material impact for RHÖN-KLINIKUM AG.

Annual improvements to IFRS: "2015–2017 Cycle"

The "Annual improvements to IFRS: 2015–2017 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 2019, relate to the following Standards and/or clarifications:

– Amendments to IFRS 3: "Business Combinations"
  If by acquiring further interests a company obtains control within the meaning of IFRS 10 over a previously joint activity, the provisions of IFRS 3 on a business combination achieved in stages are to be applied and thus a revaluation of the previously held interest to be performed in accordance with IFRS 3.42. The IASB also clarifies that the entire previously held interest in the joint activity is to be measured anew and not by the assets and liabilities previously recognised on a pro rata basis. The amendments are of no practical relevance for RHÖN-KLINIKUM AG.

– Amendments to IAS 12: "Income Taxes"
  The consequences of dividend payments for income tax are to be treated, based on the general basic rule, in accordance with the treatment of the transactions that gave rise to the tax effect. In this regard, the IASB considers that the income tax consequences of dividend payments are more directly linked to past transactions or events from which dividend eligible profits were generated than to the distributions to owners. The decisive causal transaction is therefore not to be regarded as the dividend in the sense of an equity transaction but the business events resulting in the profit to be distributed. The income tax consequences thus as a general rule are to be recognised directly through profit and loss unless the underlying transactions were not recognised in the income statement. The provision applies retroactively only to those income tax consequences resulting from dividend payments made on or after commencement of the earliest comparative period shown in the financial statements. The amendments are of no practical relevance for RHÖN-KLINIKUM AG.

– Amendments to IAS 23: "Borrowing Costs"
  The amendments clarify that funds which were originally borrowed to obtain a specified qualified asset and which have not yet been repaid are also to be included in the determination of the general rate of borrowing costs for other qualified assets for which no specific funds were borrowed from the time when such qualified asset has essentially been completed for its intended use or sale. The amendments are of no practical relevance for RHÖN-KLINIKUM AG.

b) New accounting rules from financial year 2020 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 2020/subsequent years and have no material impact on/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
Amendments	IAS 1, IAS 8	Presentation of Financial Statements, Accounting Policies	1 Jan. 2019	Yes	No practical relevance
Amendments	IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform	1 Jan. 2019	Yes	No practical relevance
Amendments	Miscellaneous	Conceptual Framework for IFRS Standards	1 Jan. 2019	Yes	Subject to a review by the Management
Amendments	IFRS 3	Business Combinations	1 Jan. 2019	No	No practical relevance
New	IFRS 17	Insurance Contracts	1 Jan. 2019	No	No practical relevance

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

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

Amendments to IAS 1, IAS 8: "Presentation of Financial Statements, Accounting Policies"

The amendments harmonise the definition of materiality in all IFRS and in the Framework Concept of the IFRS. It is clarified that the question of whether information is material depends on the nature of the information and/or the extent to which it influences the underlying item. In this context, the concept of the obscuring of information is newly introduced with the amended definition of materiality. A case of obscuring exists if the effects resulting from obscuring information are similar to those resulting from such information being omitted or misrepresented. This is e.g. the case if the language used to describe items is vague or unclear, coherent information regarding an item is disaggregated or scattered in different places in the financial statements, or dissimilar items are inappropriately aggregated. Lastly, material information can also be obscured by being hidden by immaterial information. The amendments to IAS 1, IAS 8 are to be applied to financial years beginning on or after 1 January 2020 and are of no practical relevance for RHÖN-KLINIKUM AG.

Amendments to IFRS 9, IAS 39, IFRS 7: "Interest Rate Benchmark Reform"

The amendments to the Standards provide for particular facilitations in connection with the IBOR reform. The facilitations relate to hedge accounting result in the IBOR reform not generally leading to the termination of the hedge accounting relationship. However, any ineffectiveness is to continue to be recognised in the income statement. The amendments are to be applied to financial years beginning on or after 1 January 2020. They are of no practical relevance for RHÖN-KLINIKUM AG.

Various amendments: "Conceptual Framework for IFRS Standards"

The IASB has revised its Framework Concept for Financial Reporting. This will unlikely result in any immediate amendments to the IFRS, but the IASB and the IFRS IC will use the Framework Concept as the basis for preparing future Standards. The amendments to the Framework Concept are to be applied to financial years beginning on or after 1 January 2020. The effects of the amendments are currently the subject of detailed review by the Management of 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 19 March 2020.

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.

2.3 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.

2.3.1 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.

2.3.2 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.

2.3.3 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).

2.3.4 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-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 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 pursuant to IAS 38.

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	5–15 years
Other plant and equipment	3–12 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.

These financial assets are principally divided into the following categories as defined in IFRS 9:

- Measured at fair value through profit or 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)

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. Initial recognition of all financial assets takes place at fair value.

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.

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). These are strategic investments and the Group considers this classification to be more meaningful. 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 to trade receivables, 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, rates of insolvency as well as future-oriented information on credit default swaps (CDS).

2.8.1 Assets measured at fair value through profit or 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. 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 € 9.5 million (previous year: € 4.7 million) 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 as well as cash and cash equivalents 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 likewise 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 collectively 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 (BVK Zusatzversorgung – Bayerische Versorgungskammer, BVK) 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/BVK 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 the VBL/BVK 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. Since 2016, the recapitalisation charge to 31 December 2022 has been roughly 0.14% of the insured remuneration.

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. The contribution rate in the BVK, depending on the year of the employee's entry, is between 4.8% and 7.75%.

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 (BVK).

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 ZKV 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/BVK exists only due to the acquisition of hospitals from public ownership. The hospitals in Gießen and Marburg are members of the VBL, and RHÖN-Kreisklinik Bad Neustadt a. d. Saale is a member of the BVK.

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 was formed in the amount of the expected expenditure. The fair value of the virtual shares was calculated using a binomial model. The obligations under virtual stock options were fully settled by way of payment in June 2019. Moreover, the incumbent and former members of the Board of Management held an equity interest of 3.0% (previous year: 3.0%), and other employees an interest of 3.0% (previous year: 3.2%), 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 total amount of € 0.3 million (previous year: € 0.3 million) – of which € 0.1 million (previous year: € 0.1 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. In 2019 a now retired employee has made use of this provision. The interests were 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 Leases

The new Standard IFRS 16, which has applied since 1 January 2019, defines a lease as a contract which conveys the right to use an asset for a period of time in exchange for consideration. The previous classification as finance and operating leases as defined in IAS 17 will no longer apply for lessees as of the initial adoption date. For detailed information, we refer to chapter 2.1 "Principles applied to the preparation of the financial statements".

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 entered into 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 financial year 2019, 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, 53.8% (previous year: 53.6%) of cash at banks was invested at a variable interest rate subject to 30 days' termination notice or callable daily, and 46.2% (previous year: 46.4%) at a fixed or variable interest rate with a maximum residual term of up to 15 months (previous year: 12 months).

In July 2019, RHÖN-KLINIKUM AG placed a registered bond in the amount of € 60.0 million with a term of 20 years. In October 2018 a promissory note in the amount of € 100.0 million was issued. The tranches exclusively bearing fixed interest with bullet maturities have terms of five, seven and ten years. The funds collected from both transactions are being used for general corporate finance. In 2017, a syndicated line of credit in the amount of € 100 million was issued. 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 financial year 2019 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 128.1% in the year under review (previous year: 122.7%). 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 2019, this ratio at the Group level was 72.7% (previous year: 72.9%).

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 5.27% (previous year: 5.54%). 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 6.2% (previous year: 7.2%).

3.2 Revenue recognition

The hospitals of RHÖN-KLINIKUM AG, like all other hospitals in Germany, are subject to the statutory regulations on fees.

Revenue recognition is essentially based on a comparison of performance and consideration under a contract: a service performed gives rise to an asset, the consideration received to an obligation. This time or period does not have to, but can coincide with transfer of opportunities and risks. Treatment contracts between hospitals and patients or their health insurance funds correspond to contracts for services pursuant to section 630a et seq. BGB. Irrespective of who performs the payment in future, it is normally the case that the patient will likely be regarded as the customer. The scope of the performance obligations in the context of hospital treatment is essentially governed by statutory provisions. The prices charged to the payers are stipulated by numerous laws and regulations. The patient receives and consumes the benefit simultaneous with performance of the service. Control is thus transferred and also revenue recognised for a specified period. Revenues are recognised in accordance with progress of service performance over the service performance period.

In order to create planning and revenue certainty, the remuneration 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, reliable estimates of receivables or liabilities based on empirical values. Past experience has shown that the inaccuracies relating to the estimates are negligible for the Group's financial position and results of operations.

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 some of the 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 fee agreements had yet been concluded for 2019 or for previous years, we adhered strictly to the legal framework in our accounting. We assume that the agreements for 2019 will not have any negative impact on the result in 2020.

Moreover, pursuant to section 275 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 the MDK and, based on empirical values, corresponding corrections in revenues taken into account for this. The final results from the reviews of the 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:

	31 Dec. 2018	Additions	Disposals	Reclassification	**31 Dec. 2019**
Fully consolidated subsidiaries	26	1	–1	1	27
Companies consolidated using the equity method	2	–	–	–1	1
Other subsidiaries	8	2	–	–	10
Consolidated companies	**36**	**3**	**–1**	**–**	**38**

In the fourth quarter of 2019 we founded Medgate Deutschland GmbH. RHÖN-KLINIKUM AG holds 51.0% of the interests, with Medgate International AG from Switzerland holding the remaining 49.0%. With Medgate Deutschland GmbH we want to enter the promising future market of telemedicine.

After completion of liquidation, RK-Reinigungsgesellschaft Süd GmbH i. L. was deleted from the commercial register in the second quarter of 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 second quarter, a minority interest of 5.0% in the Hamburg-based software provider Tiplu GmbH in the context of a strategic partnership as well as an interest of € 1.00 in Siebensachen GmbH, the parent company of Tiplu GmbH, which confers special rights, were acquired. Established in 2016, Tiplu has specialised in case-related coding and revenue-securing through the use of semantic text analyses in hospital documents, such as doctor's letters, laboratory findings or OR documentation. RHÖN-KLINIKUM AG uses the coding software Tiplu Momo for complete and performance-based invoicing, revenue securing and duration-of-stay control.

The management of Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, in which RHÖN-KLINIKUM AG initially held an interest of 24.9%, filed for insolvency in September 2018. In the fourth quarter of 2018, the agreement was reached with Universitätsklinikum Heidelberg, which until then had held 75.1% in the company, 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 consolidate the company operating under the name Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft mit beschränkter Haftung (MIT) fully in the consolidated financial statements as of the aforementioned date. The purchase price allocation as at 1 January 2019 has the following impact on the Group's net assets in 2019:

in € million

Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft mbH	Fair value after acquisition
Acquired assets and liabilities	
Intangible assets	0.0
Property, plant and equipment	6.6
Inventories	0.2
Trade receivables	3.1
Cash and cash equivalents	0.5
Other assets	2.0
Trade payables	–2.4
Deferred tax	–1.0
Other liabilities	–1.1
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	3.8
Purchase price yet to be paid	**4.1**

Using protons and heavy ions to achieve pinpoint precision, the Ion Beam Therapy Center offers a highly effective way of treating tumour disease whilst minimising the impact on high-risk organs such as the heart, lungs, liver and kidneys. During the reporting period, MIT's contributions to revenues is € 8.7 million and to consolidated profit € –1.5 million. Thanks to the greater integration of MIT with the university hospitals in Giessen and Marburg, RHÖN-KLINIKUM AG is looking to secure continued ongoing care to patients with an innovative treatment therapy. In the context of the acquisition, consultancy fees were incurred in financial year 2018 in the amount of roughly € 0.2 million. No further significant consulting fees were incurred in financial year 2019. Trade receivables are due in the short term and were not impaired.

Acquisition of physicians' practices

In financial year 2019 a total of three physicians' practices were acquired whose conditions of validity as per agreement were satisfied during the reporting period of 2019. Consolidation in the Group also took place in financial year 2019. No costs were incurred from the acquisition of these physicians' 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 2019:

in € million

Purchase of physicians' practices, January to December 2019	Fair value post acquisition
Acquired assets and liabilities	
Property, plant and equipment	0.0
Net assets acquired	**0.0**
+ Goodwill	0.3
Cost	**0.3**
./. Purchase price payments outstanding	–0.1
./. Acquired cash and cash equivalents	0.0
Cash outflow on transaction	**0.2**

Goodwill amounting to € 0.3 million essentially includes synergy effects expected from the expansion of medical care centres. The goodwill recognised is likely to be tax-deductible.

Furthermore, 2.75 physicians' practices were transferred during the reporting period from the physician associations (Kassenärztliche Vereinigungen) to the MVZ subsidiaries at the Frankfurt (Oder), Bad Neustadt a. d. Saale and Marburg sites without consideration as well as 0.25 physicians' practices returned.

In financial year 2019 three physicians' practices were acquired whose conditions of validity as per agreement will be satisfied only as of 1 January 2020 and 1 April 2010. Consolidation in the Group will also take place in financial year 2020. The preliminary purchase price allocation has the following impact on the Group's net assets in 2020:

in € million

Purchase of physicians' practices valid as of 1 January 2020 and 1 April 2020	Fair value post acquisition
Acquired assets and liabilities	
Property, plant and equipment	0.0
Net assets acquired	**0.0**
+ Goodwill	0.5
Cost	**0.5**
./. Purchase price payments outstanding	–0.5
./. Acquired cash and cash equivalents	0.0
Cash outflow on transaction	**0.0**

Held-for-sale assets and liabilities

The company GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH Leipzig, which operates its business activity in Leipzig, was sold with effect from 1 January 2020. With the sale of the hospitals at the Leipzig site in 2014, the companies did not have any affiliation to the remaining hospitals of the Group. As part of the adjustment to IFRS 5, the assets and liabilities held for sale relating to the company intended to be sold were reclassified in the balance sheet accordingly. Depreciation on these items was not necessary. The breakdown of the original balance sheet items is shown below.

in € million

Held-for-sale assets as at 31 December 2019	
Non-current assets	
Property, plant and equipment	0.1
	0.1
Current assets	
Trade receivables	0.0
Other financial assets	0.0
Cash and cash equivalents	0.3
	0.3
Total of held-for-sale assets	**0.4**

in € million

Held-for-sale liabilities as at 31 December 2019	
Non-current liabilities	
Other financial liabilities	0.0
	0.0
Current liabilities	
Trade payables	0.0
Current income tax liabilities	0.0
Other financial liabilities	0.1
	0.1
Total of held-for-sale liabilities	**0.1**

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	2019	2018
Business areas		
Acute hospitals	1,261.8	1,192.5
Medical care centres	16.1	14.9
Rehabilitation hospitals	26.0	25.5
	1,303.9	**1,232.9**
Regions		
Bavaria	265.8	256.5
Saxony	0.2	0.2
Thuringia	170.7	164.5
Brandenburg	146.6	136.3
Hesse	720.6	675.4
	1,303.9	**1,232.9**

According to IFRS 15, revenues constitute revenues generated from the provision of services and in financial year 2019 rose by € 71.0 million or 5.8% to reach € 1,303.9 million. Of that, our acute and rehabilitation hospitals accounted for € 1,287.8 million (previous year: € 1,218.0 million) and the medical care centres for € 16.1 million (previous year: € 14.9 million).

As in the previous year, revenue figures include income from the invoicing of an additional remuneration component for the medicamentous treatment of spinal muscle atrophy as well as income from the invoicing of an additional remuneration component for the treatment of multiple sclerosis applied for the first time in the second quarter of 2018. These supplementary fees are remunerated along with the pure DRGs (diagnosis related groups) and negatively impact the materials and consumables used item by nearly the same amount. Furthermore, revenues for the first time as of financial year 2019 are influenced by cost reimbursements for cancer immunotherapies that negatively impact the materials and consumables used item by the same amount. We were also helped in financial year 2019 by higher revenues from our university outpatient units.

5.2 Other income

Other operating income comprises:

in € million	2019	2018
Income from services rendered	163.3	154.5
Income from grants and other allowances	13.7	13.1
Income from indemnification payments/ other reimbursements	2.1	0.6
Other	50.8	15.2
	229.9	**183.4**

Income from services rendered includes income from ancillary and incidental activities amounting to € 155.6 million (previous year: € 147.7 million) as well as income from rental and lease agreements amounting to € 7.7 million (previous year: € 6.8 million).

The Group received grants and other allowances as compensation for certain purpose-tied expenses 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 € 46.5 million or 25.4% to € 229.9 million. In this regard, provisions for legal and tax risks were reversed in financial year 2019 in the amount of € 39.2 million based on new information (previous year: € 5.7 million). The income was recognised under the other remaining income item. The rise in other income is also accounted for, among other things, by increased sales of pharmaceuticals (including income from the invoicing of a drug for treating MS (multiple sclerosis) that negatively impacts materials and consumables used by the same amount) and cytostatics as well as personnel costs for students of healthcare professions refinanced for the first time. It furthermore has to be taken into account that in the previous year an amount of € 12.8 million was recognised under this item as one-off income of from the agreement of separate accounting as well as a further € 7.2 million under the employee benefits expense item.

5.3 Materials and consumables used

in € million	2019	2018
Cost of raw materials, consumables and supplies	369.9	341.3
Cost of purchased services	38.0	31.1
	407.9	**372.4**

Compared with the previous year, materials and consumables used witnessed a rise in financial year 2019, disproportionate to the rise in revenues, by € 35.5 million or 9.5%. The cost-of-materials ratio also climbed from 30.2% to 31.3%. Materials and consumables used includes expenditures for the medicamentous treatment of spinal muscle atrophy, multiple sclerosis, and for the first time from financial year 2019 expenses for cancer immunotherapies which are remunerated in nearly the same amount and reported under revenues or other income. Adjusted for this effect, the materials ratio increased from 28.5% to 29.5%. As a result of mandatory adoption of the new standard IFRS 16 "Leases" for the first time as of financial year 2019, expenses previously recorded under materials and consumables used amounting to € 0.7 million are no longer reported under this item. The rights of use in the lease properties are amortised over the term of the respective lease contract, with the lease liabilities being charged interest using the effective interest method and recognised at € 0.7 million under depreciation/amortisation and impairments or the finance result.

5.4 Employee benefits expense

in € million

	2019	2018
Wages and salaries	726.7	669.3
Social insurance contributions	60.3	54.9
Expenditure for post-employment benefits		
Defined contribution plans	79.1	71.2
Defined benefit plans	0.9	0.7
	867.0	**796.1**

Expenses for defined contribution plans concern the statutory pension insurance agency, payments to the federal and state pension scheme (VBL) and to Bayerische Versorgungskammer-Zusatzversorgung (BVK). 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 financial year 2019, contribution payments to the federal and state pension scheme (Versorgungsanstalt des Bundes und der Länder, VBL) were made in the amount of € 23.2 million (previous year: € 21.7 million). Payments to the BVK (Bayerische Versorgungskammer-Zusatzversorgung) amounted to € 0.9 million (previous year: € 1.0 million) in 2019. As at the reporting date of 31 December 2019, 8,950 employees (previous year: 8,269 employees) with a claim to supplementary pension benefits were registered with VBL and 397 employees (previous year: 430 employees) with the BVK.

Employee benefits expenses include a figure of € 1.9 million (previous year: € 1.2 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 € 7.9 million (or 13.0%) to € 68.5 million. This is attributable essentially to the Campus Bad Neustadt being put into service at the turn of the year 2018/2019. The initial adoption of IFRS 16 "Leases" as of financial year 2019 results in a total increase of € 2.2 million.

5.6 Other expenses

Other operating expenses break down as shown in the following table:

in € million

	2019	2018
Maintenance	56.2	49.6
Charges, subscriptions and consulting fees	29.1	25.3
Insurance	12.5	11.9
Administrative and IT costs	11.7	11.0
Other personnel and continuing training costs	6.1	5.4
Rents and leaseholds	4.2	5.4
Travelling, entertaining and representation expenses	2.6	2.6
Secondary taxes	0.8	0.4
Losses on disposal of non-current assets	0.1	0.2
Other	10.2	10.3
	133.5	**122.1**

The other expenditure ratio increased slightly from 9.9% to 10.2%. As a result of the initial adoption of IFRS 16 "Leases" as of financial year 2019, expenses of financial year 2019 amounting to € 1.6 million previously recorded under the other expenses item are no longer reported under this item. The rights of use in the lease properties are amortised over the term of the respective lease contract, with the lease liabilities being charged interest using the effective interest method and recognised at € 1.6 million under depreciation/amortisation and impairments or the finance result.

5.7 Result from impairment on financial assets

The negative result from the impairment on financial assets in the amount of € 0.2 million (previous year: € 0.2 million) results from the adoption of IFRS 9, which among other things governs the future expected losses of financial assets. 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.

5.9 Finance result – net

The finance result is shown as follows:

in € million	2019	2018
Result of investments accounted for using the equity method		
Income of investments accounted for using the equity method	0.1	0.1
Expense of investments accounted for using the equity method	–	–
	0.1	**0.1**
Finance income		
Bank balances	0.1	0.1
Other interest income	0.1	0.2
	0.2	**0.3**
Finance expenses		
Liabilities to banks	–2.4	–0.5
Other interest expenses	–0.6	–1.6
	–3.0	**–2.1**
Result of impairment on financial investments		
Income from impairment on financial investments	0.1	–
Expense from impairment on financial investments	–	–0.1
	0.1	**–0.1**
	–2.6	**–1.8**

The negative finance result increased in financial year 2019 slightly by € 0.8 million to € 2.6 million. This was essentially attributable to the rise in finance expenses for bank liabilities in the amount of € 1.9 million relating in particular to the registered bond issued in July 2019 and the promissory note issued in October 2018. An opposite effect came from the decline in other interest expenses by € 1.0 million due to a derecognition of a financial investment recognised in the previous year. Furthermore, the items reported under other interest expenses include i.a. interest expenses from tax liabilities.

Moreover, finance income declined by € 0.1 million as a result of a moderate decline in other interest income essentially including interest income from tax assets.

In addition, income from the impairment on financial assets under IFRS 9 were recognised in the amount of € 0.1 million (previous year: expense of € 0.1 million).

An amount of € 0.1 million for interest expenses relating to the application of IFRS 16 "Leases" as of 1 January 2019 was recognised for the first time under the other interest expenses item.

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 € 2.5 million in financial year 2019 (previous year: € 1.7 million), and comprises income of € 0.3 million (previous year: € 0.3 million) and expenses of € 2.8 million (previous year: € 2.0 million). The higher expenses result from higher financing costs in connection with the promissory note issued in 2018 as well as the registered bond issued in 2019.

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:

in € million	2019	2018
Current income tax	8.7	5.8
Deferred taxes	1.1	6.2
	9.8	**12.0**

At an unchanged rate of taxation, the tax expense item declined by € 2.2 million to € 9.8 million (previous year: € 12.0 million) compared with the previous year as a result of a lower taxable result. Income tax expense of financial year 2019 also includes the risk provision relating to a ruling by the Federal Fiscal Court (Bundesfinanzhof) in the amount of € 3.1 million. The income tax burden stands at 18.1% (previous year: 19.0%).

The nominal tax expense for earnings before taxes is reconciled with the income tax expense as follows:

in € million

	2019		2018	
		%		%
Earnings before taxes	**54.2**	**100.0**	**63.2**	**100.0**
Nominal tax expense (tax rate 15.0%)	8.1	15.0	9.5	15.0
Solidarity surcharge (tax rate 5.5%)	0.4	0.8	0.5	0.8
Risk provision for Federal Fiscal Court Ruling	3.1	5.7	0.0	0.0
Derecognition of loss carry-forward recognised/Recognition of previous loss carry-forwards and interest carry-forwards not recognised/ loss carry-forwards not applied	2.6	4.8	1.6	2.5
Trade tax	0.8	1.5	0.4	0.6
Increase in tax liability due to non-deductible charges	0.2	0.4	0.2	0.3
Taxes, previous years	0.2	0.4	–0.3	–0.5
Additional expense from dividend payment	0.1	0.2	0.1	0.2
Elimination of items not relevant for taxation	–5.8	–10.6	0.0	0.0
Effective income tax expense	**9.8**	**18.1**	**12.0**	**19.0**

Items of no relevance for taxation include amounts not classified as taxable in the calculation of taxable income. 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. 2019	**No. of shares on 31 Dec. 2019**
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)	43,277
(previous year)	(48,993)
Weighted average number of shares outstanding, in thousands	66,938
(previous year)	(66,938)
Earnings per share in €	0.65
(previous year)	(0.73)

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

	Goodwil	Other intangible assets	Total
Cost			
1 Jan. 2019	**163.9**	**43.9**	**207.8**
Additions due to changes in consolidated companies	0.3	0.0	0.3
Additions	0.0	4.5	4.5
Disposals	0.0	0.1	0.1
Transfers	0.0	0.2	0.2
31 Dec. 2019	**164.2**	**48.5**	**212.7**
Cumulative depreciation and impairment			
1 Jan. 2019	**0.0**	**31.1**	**31.1**
Depreciation	0.0	3.5	3.5
Disposals	0.0	0.1	0.1
Transfers	0.0	0.1	0.1
31 Dec. 2019	**0.0**	**34.6**	**34.6**
Balance sheet value as at 31 Dec. 2019	**164.2**	**13.9**	**178.1**

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**

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 2019.

Goodwill of the acquired entities was tested for impairment as at 31 December 2019 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 5.27% for 2019 (previous year: 5.54%). Significant goodwill relates to the following cash generating units:

in € million

	31 Dec. 2019	31 Dec. 2018
Units		
Universitätsklinikum Gießen und Marburg	137.5	137.5
Zentralklinik Bad Berka	16.3	16.3
RHÖN-KLINIKUM Campus Bad Neustadt	6.2	5.9
Other goodwill of less than € 5.0 million	4.2	4.2
Balance sheet value	**164.2**	**163.9**

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:

in %

	2019		2018	
	Long-term growth rate perpetual annuity	WACC	Long-term growth rate perpetual annuity	WACC
Universitäts-klinikum Gießen und Marburg	3.00	5.27	3.00	5.54
Zentralklinik Bad Berka	3.00	5.27	3.00	5.54
RHÖN-KLINIKUM Campus Bad Neustadt	3.00	5.27	3.00	5.54

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 3.1% and 3.4% (previous year: 2.7% and 3.3%).

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. 2019	**1,150.2**	**56.4**	**345.5**	**19.2**	**1,571.3**
Additions due to changes in consolidated companies	0.0	0.0	6.6	0.0	6.6
Additions	19.9	1.6	23.4	20.0	64.9
Disposals	1.0	1.1	11.7	0.0	13.8
Transfers	–1.2	1.0	5.0	–5.0	–0.2
31 Dec. 2019	**1,167.9**	**57.9**	**368.8**	**34.2**	**1,628.8**
Cumulative depreciation and impairment					
1 Jan. 2019	**446.0**	**36.2**	**237.0**	**0.0**	**719.2**
Depreciation	30.9	4.0	30.0	0.0	64.9
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	0.9	1.1	11.4	0.0	13.4
Transfers	0.0	0.0	–0.1	0.0	–0.1
31 Dec. 2019	**476.0**	**39.1**	**255.5**	**0.0**	**770.6**
Balance sheet value as at 31 Dec. 2019	**691.9**	**18.8**	**113.3**	**34.2**	**858.2**
Held-for-sale assets	0.0	0.0	0.0	0.0	0.0
Balance sheet value as at 31 Dec. 2019	**691.9**	**18.8**	**113.3**	**34.2**	**858.2**

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**

During the financial year, borrowing costs of € 0.1 million (previous year: € 0.0 million) were related to financing the acquisition and/or production of qualifying assets and were 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 € 163.3 million (previous year: € 161.2 million). To secure conditionally repayable single grants under the KHG (e.g. for the construction of new hospitals or major extensions) totalling € 2.1 million (previous year: € 2.3 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 included as at 31 December 2018 amounts for which the Group was the lessee under a finance lease. As a result of the first-time adoption of IFRS 16, any leases as a general rule are now to be recognised as rights of use:

in € million

	Land and buildings	Operating and office equipment	Total
Cost			
1 Jan. 2019	**0.0**	**6.7**	**6.7**
Initial adoption IFRS 16	2.3	5.9	8.2
1 Jan. 2019 according to IFRS 16	**2.3**	**12.6**	**14.9**
Additions	1.4	0.9	2.3
Disposals	0.0	0.1	0.1
31 Dec. 2019	**3.7**	**13.4**	**17.1**
Cumulative depreciation and impairment			
1 Jan 2019	**0.0**	**1.1**	**1.1**
Depreciation	0.6	2.6	3.2
Impairment	0.0	0.0	0.0
Disposals	0.0	0.1	0.1
31 Dec. 2019	**0.6**	**3.6**	**4.2**
Balance sheet value as at 31 Dec. 2019	**3.1**	**9.8**	**12.9**
Held-for-sale assets	0.0	0.0	0.0
Balance sheet value as at 31 Dec. 2019	**3.1**	**9.8**	**12.9**

in € million

	Land and buildings	Operating and office equipment	Total
Cost			
1 Jan. 2018	**0.0**	**7.6**	**7.6**
Additions	0.0	4.8	4.8
Disposals	0.0	5.7	5.7
31 Dec. 2018	**0.0**	**6.7**	**6.7**
Cumulative depreciation and impairment			
1 Jan. 2018	**0.0**	**3.8**	**3.8**
Depreciation	0.0	1.2	1.2
Impairment	0.0	0.0	0.0
Disposals	0.0	3.9	3.9
31 Dec. 2018	**0.0**	**1.1**	**1.1**
Balance sheet value as at 31 Dec. 2018	**0.0**	**5.6**	**5.6**

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. 2019		31 Dec. 2018	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	0.4	0.0	2.1	0.0
Property, plant and equipment/ Intangible assets	0.0	7.1	0.0	6.2
Interest bearing liabilities	0.0	0.3	0.0	0.2
Valuation differences at subsidiaries	0.0	0.9	0.0	0.9
Other assets and liabilities	9.6	1.1	9.5	1.1
Total	**10.0**	**9.4**	**11.6**	**8.4**
Balance sheet value	**0.6**		**3.2**	

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 € 2.5 million (previous year: € 12.9 million). On the balance sheet date, tax losses carried forward which have so far not been utilised amounted to € 26.4 million (previous year: € 23.5 million); no deferred tax assets were recognised in relation to € 23.9 million (previous year: € 10.6 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 € 122.3 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. 2019**	31 Dec. 2018
Deferred tax assets at beginning of year	**3.2**	**9.1**
Recognition of deferred taxes directly in equity in connection with changes in the fair value of investments recognised directly in equity	–0.4	0.1
Recognition of deferred taxes directly in equity in connection with the initial adoption of IFRS 9	–	0.2
Recognition of deferred taxes directly in equity in connection with revaluation of defined benefit pension plans recognised in equity	0.0	–0.1
Recognition of deferred taxes directly in equity in connection with company acquisitions	–1.1	–
Expense/income from current netting in the income statement	–1.1	–6.1
Deferred tax assets at end of year	**0.6**	**3.2**

6.4 Financial investments accounted for using the equity method

6.4.1 Investments accounted for using the equity method

No associates (previous year: one) and one joint venture (previous year: one) were measured in the consolidated financial statements using the equity method.

Joint ventures accounted for using the equity method 2019

Name of company	Registered office	Capital share %
Joint ventures		
Energiezentrale Universitätsklinikum Gießen GmbH	Gießen	50.0

Associates and joint ventures accounted for using the equity method 2018

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 company Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft mbH des Universitätsklinikums Heidelberg mit beschränkter Haftung reported under this item in the previous year, in which RHÖN-KLINIKUM AG initially held an interest of 24.9%, was fully consolidated in the consolidated financial statements as of 1 January 2019 by reason of the acquisition of an additional 75.1% interest. For further details, reference is made to chapter 4 "Company acquisitions".

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 in 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	**2019**	2018
Results data and carrying amounts of joint venture accounted for using the equity method		
Revenues	0.4	0.4
Earnings after tax	0.2	0.2
Pro rata earnings after tax	**0.1**	**0.1**
Pro rata total comprehensive income after tax	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 € 0.9 million (previous year € 1.5 million) as well as equity of € 0.8 million (previous year: € 0.8 million).

6.5 Other financial assets (non-current)

Other non-current financial assets break down as follows:

in € million	**31 Dec. 2019**	31 Dec. 2018
Participating interests	9.5	4.7
Time deposits	19.8	–
	29.3	**4.7**

The equity interests relate to interests held by the company RHÖN-Innovations GmbH in the companies Inovytec Medical Solutions Ltd., Telesofia Medical Ltd. and CLEW Medical Inc. In 2019, RHÖN-KLINIKUM AG acquired interests in Tiplu GmbH and Siebensachen GmbH. 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 € 9.5 million (€ 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.

The fixed deposits within the meaning of IFRS 9 are fully accounted for by the rating class BBB. The expected credit loss of the fixed deposits amounts to € 0.2 million.

The development of the impairments recognised under the item of other financial assets (non-current) pursuant to IFRS 9 is shown in the table below:

in € million	**2019**	2018
Impairment		
As at 1 Jan. pursuant to IFRS 9	**–**	**0.2**
Changes in consolidated companies	–	–
Allocation	0.2	–
Utilisation	–	–
Write-back	–	0.2
Currency translation difference	–	–
As at 31 Dec. pursuant to IFRS 9	**0.2**	**–**

The € 0.2 million increase in impairments at the balance sheet date is essentially attributable to the higher volume of fixed deposits.

6.6 Inventories

Inventories in the amount of € 28.4 million (previous year: € 25.9 million) are attributable to raw materials, consumables and supplies and mainly consist of medical supplies. Impairments of € 3.1 million (previous year: € 2.9 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 2019, we report trade receivables in the amount of € 226.6 million (previous year: € 212.4 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 within the meaning of IFRS 9 show the following maturity structure as at the balance sheet date of 31 December 2019:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix 31 Dec. 2019		
Not overdue	192.3	0.3
Between 0 and 30 days overdue	11.5	0.1
Between 31 and 90 days overdue	6.8	0.1
Between 91 and 180 days overdue	7.3	0.2
More than 180 days overdue	9.6	0.2
Total	**227.5**	**0.9**

Trade receivables as well as impairments within the meaning of IFRS 9 had the following maturity structure as at the balance sheet date of 31 December 2018:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix 31 Dec. 2018		
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**

The development of impairments pursuant to IFRS 9 recognised under the item of trade receivables is shown in the table below:

in € million

	2019	2018
Impairment		
As at 1 Jan. pursuant to IFRS 9	**0.9**	**0.6**
Changes in consolidated companies	–	–
Allocation	0.9	0.9
Utilisation	–	–
Write-back	0.9	0.6
Currency translation difference	–	–
As at 31 Dec. pursuant to IFRS 9	**0.9**	**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 financial year 2019 (previous year: € 2.5 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 € 21.8 million (previous year: € 23.2 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. 2019	31 Dec. 2018
	< 1 year	< 1 year
Time deposit < 1 year	89.8	114.4
Receivables under Hospital Financing Act	59.9	39.3
Remaining other financial assets	18.2	15.6
	167.9	**169.3**

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 € 89.8 million (previous year: € 114.4 million).

Receivables under the Hospital Financing Act (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 (Bundespflegesatzverordnung, BPflV). Receivables under hospital financing legislation include no impairments.

Remaining other financial assets relate among other things to receivables from separate accounting (€ 9.9 million, previous year: € 9.7 million), receivables from services rendered which are not primarily related to patient treatments at hospitals (€ 6.8 million, previous year: € 4.8 million), receivables due from employees in particular from invoices as part of the liquidation right of head physicians (€ 1.8 million, previous year: € 1.5 million), as well as trade receivables (€ 0.8 million, previous year: € 0.4 million). The remaining other financial assets include impairments amounting to € 1.3 million (previous year: € 1.2 million). No reversals of impairment losses were made.

Other financial assets (current) attributable to fixed deposits, as well as corresponding impairments within the meaning of IFRS 9 are divided into the following rating classes as at 31 December 2019:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix according to S&P rating classes 31 Dec. 2019		
A	35.0	0.0
AA	30.0	0.1
BBB	25.0	0.1
Total	**90.0**	**0.2**

Other financial assets (current) attributable to fixed deposits, as well as corresponding impairments within the meaning of IFRS 9 were divided into the following rating classes as at 31 December 2018:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix according to S&P rating classes 31 Dec. 2018		
A	70.0	0.2
BBB	45.0	0.4
Total	**115.0**	**0.6**

The remaining other financial assets (current, not including fixed deposits) as well as the corresponding impairments within the meaning of IFRS 9 show the following maturity structure as at the balance sheet date of 31 December 2019:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix 31 Dec. 2019		
Not overdue	76.7	0.1
Between 0 and 30 days overdue	1.2	0.1
Between 31 and 90 days overdue	0.2	0.1
Between 91 and 180 days overdue	0.1	0.0
More than 180 days overdue	0.3	0.1
Total	**78.5**	**0.4**

The remaining other financial assets (current, not including fixed deposits) as well as the impairments within the meaning of IFRS 9 had the following maturity structure as at the balance sheet date of 31 December 2018:

in € million

	Gross carrying amount	Expected credit loss
Impairment matrix 31 Dec. 2018		
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**

The development of the impairments recognised under the item of other financial assets (current) pursuant to IFRS 9 is shown in the table below:

in € million

	2019	2018
Impairment		
As at 1 Jan. pursuant to IFRS 9	**0.8**	**0.6**
Changes in consolidated companies	–	–
Allocation	0.6	0.8
Utilisation	–	–
Write-back	0.8	0.6
Currency translation difference	–	–
As at 31 Dec. pursuant to IFRS 9	**0.6**	**0.8**

Of the impairments as at the balance sheet date in the amount of € 0.6 million (previous year: € 0.8 million), € 0.3 million (previous year: € 0.6 million) is attributable to fixed deposits. The € 0.3 million decrease is essentially attributable to the lower 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. 2019	31 Dec. 2018
Receivables according to the KHG/KHEntgG (gross)	68.6	59.3
Liabilities according to the KHG/KHEntgG (gross)	–8.7	–20.0
Balance sheet value	**59.9**	**39.3**

Regarding the statement on a gross basis of the corresponding liabilities in accordance with the KHG/KHEntgG, please refer to the section "Other financial liabilities".

6.9 Other assets (current)

Of other current assets in the amount of € 10.5 million (previous year: € 7.8 million), essentially € 8.4 million (previous year: € 5.5 million) is attributable to prepaid expenses, mainly insurance expenses, and € 1.9 million (previous year: € 2.2 million) is attributable to reimbursement claims against insurers under liability claims. Of this rise, € 2.4 million is essentially attributable to Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft fully consolidated for the first time as of 1 January 2019.

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. 2019	31 Dec. 2018
Cash with banks and cash on hand	117.7	122.3
Short-term bank deposits	10.0	10.0
	127.7	**132.3**

The decline in cash with banks and cash on hand is attributable to the environment of low interest rates for time deposits relative to overnight money investments. The high level of cash with banks and cash on hand increases flexibility in controlling cash outflows in connection with extensive construction measures. As far as possible, freely disposable funds were re-allocated 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 0.03% (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. 2019	31 Dec. 2018
Cash and cash equivalents	127.7	132.3
Bank overdrafts	0.0	–
Cash position	**127.7**	**132.3**

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) fully paid-up 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 in €
Ordinary shares as at 1 Jan. 2019	**66,962,470**	**167,406,175**
Changes in 2019	–	–
Ordinary shares as at 31 Dec. 2019	**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 € 420.0 million (previous year: € 393.8 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 € 420.0 million (previous year: € 393.8 million) as well as effects of consolidation adjustments.

The total comprehensive income (sum of consolidated profit and other comprehensive income) for financial year 2019 stands at € 46.8 million (previous year: € 51.1 million). This includes gains from the revaluation of defined benefit pension plans amounting to € 0.2 million after tax (previous year: € 0.3 million) as well as income from changes in the fair value of equity investments in the amount of € 2.1 million (previous year: expenses of € 0.4 million).

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. 2019	**24,000**
Changes in 2019	–
Treasury shares as at 31 Dec. 2019	**24,000**

In accordance with the provisions of the German Stock Corporation Act (Aktiengesetz, AktG), the amount of dividends distributable to shareholders is based on the net distributable profit shown in the annual financial statements of RHÖNKLINIKUM 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 29 cents (previous year: 22 cents) was made in financial year 2019.

Non-controlling interests in equity of € 24.3 million (previous year: € 23.9 million) relate to interests held by non-Group third parties in the following consolidated subsidiaries:

in %

	Non-controlling interests	
	31 Dec. 2019	31 Dec. 2018
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
Other subsidiaries		
Medgate Deutschland GmbH, Bad Neustadt a. d. Saale	49.0	–

6.13 Financial liabilities

in € million

	31 Dec. 2019		31 Dec. 2018	
	Remaining term > 1 year	Remaining term < 1 year	Remaining term > 1 year	Remaining term < 1 year
Non-current financial liabilities				
Liabilities to banks	158.3	–	99.5	–
Total non-current financial liabilities	**158.3**	**–**	**99.5**	**–**
Current financial liabilities				
Liabilities to banks	–	0.9	–	0.3
Total current financial liabilities	**–**	**0.9**	**–**	**0.3**
Total financial liabilities	**158.3**	**0.9**	**99.5**	**0.3**

In the fourth quarter of 2017, a syndicated line of credit in the amount of € 100.0 million was taken out. For this line of credit a change-of-control clause is stipulated providing, in the event of a change of control when the line of credit has been utilised, for early repayment and for the right of the lenders to exclude new lendings. 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 financial year 2019.

In October 2018, RHÖN-KLINIKUM AG placed a promissory note in the amount of € 100.0 million. The tranches exclusively bearing fixed interest with bullet maturities have terms of five, seven and ten years. For the promissory note a change-of-control clause is stipulated providing for early repayment in the event of a change of control. Under the contract, no change of control exists if one or more of the anchor shareholders (B. Braun Melsungen AG, Asklepios Kliniken GmbH & Co. KGaA, Mr. Münch (HCM SE) and Mrs. Münch) acquire(s) more than 50%, but no more than 70.1% maximum, of the voting shares in RHÖN-KLINIKUM AG within the group of anchor shareholders.

In July 2019, RHÖN-KLINIKUM AG placed a registered bond in the amount of € 60.0 million with a term of 20 years. For the registered bond a change-of-control clause is stipulated providing for early repayment in the event of a change of control. Under the contract, no change of control exists if one or more of the anchor shareholders (B. Braun Melsungen AG, Asklepios Kliniken GmbH & Co. KGaA, Mr. Münch (HCM SE) and Mrs. Münch) acquire(s) more than 50%, but no more than 70.3% maximum, of the voting shares in RHÖN-KLINIKUM AG within the group of anchor shareholders.

The funds collected are used for general corporate finance to ensure sufficient funds for investments planned in the medium-to-short term.

The contractual interest adjustment dates relating to the interest-bearing liabilities are as follows:

in € million

	31 Dec. 2019			31 Dec. 2018		
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						
2020–2023	0.90	7.5	7.5	0.90	7.5	7.5
2024	–	–	–	–	–	–
2025	1.33	31.0	30.9	1.33	31.0	30.8
> 2025	2.00	121.5	119.9	1.65	61.5	61.2
Interest on loans	–	–	0.9	–	–	0.3
		160.0	**159.2**		**100.0**	**99.8**

[1] Weighted interest rate.

The effective interest rates at balance sheet date are:

in %

	31 Dec. 2019	31 Dec. 2018
Liabilities to banks	1.86	1.60

The remaining terms of the financial liabilities are:

in € million

	31 Dec. 2019	31 Dec. 2018
Up to 1 year	0.9	0.3
Between 1 and 5 years	7.5	7.5
More than 5 years	150.8	92.0
Total	**159.2**	**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. 2019	31 Dec. 2018
Commitment for one-off payments	1.6	2.2
Provision for pensions (defined benefit liability)	**1.6**	**2.2**

The calculation of pension provisions is based on the following assumptions:

in %	31 Dec. 2019	31 Dec. 2018
Rate of interest	0.98	1.85
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 2018G Tables) as actuarial tables. All pension costs are reported under the pension costs item.

The development of the defined benefit obligation in financial year 2019 compared with the previous year is shown in the following:

in € million	2019	2018
As at 1 January	**2.2**	**2.3**
Service time cost	0.7	0.6
Interest expense	0.0	0.1
Losses from plan changes	0.0	0.0
Pension payments	0.0	0.0
Actuarial gains/losses from changes in financial assumptions	0.1	0.0
Experience-based adjustments	–0.5	0.3
Payments rendered	–0.9	–1.1
As at 31 December	**1.6**	**2.2**

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 eight years (previous year: seven 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 (in %) as at 31 Dec. 2019			
Interest rate	0.2	–1.6	1.7
Remuneration trend	0.2	1.6	–1.6
Mortality	+/– 1 year	0.1	–0.2

	Change in assumption in percentage points	Increase in assumption	Reduction in assumption
Impact on the commitment (in %) 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

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. 2019	Consumption	Write-back	Allocation	31 Dec. 2019	of which < 1 year	of which > 1 year
Liability risks	8.4	0.6	0.7	0.2	7.3	7.3	0.0
Other provisions	54.0	8.1	39.2	0.0	6.7	6.7	0.0
	62.4	**8.7**	**39.9**	**0.2**	**14.0**	**14.0**	**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 € 1.9 million (previous year: € 2.2 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 solidarity surcharge, as well as land transfer tax). These provisions largely materialised during the current financial year. They are shown for the first time as at the balance sheet date of 31 December 2019 at € 7.6 million under current income tax liabilities and at € 6.7 million under other provisions. Consumption includes the aforementioned amount of € 7.6 million.

Compared with the previous year, their maturities are as follows:

in € million

	31 Dec. 2019	of which < 1 year	of which > 1 year	31 Dec. 2018	of which < 1 year	of which > 1 year
Liability risks	7.3	7.3	0.0	8.4	8.4	0.0
Other provisions	6.7	6.7	0.0	54.0	54.0	0.0
	14.0	**14.0**	**0.0**	**62.4**	**62.4**	**0.0**

The Group of RHÖN-KLINIKUM AG has contingent liabilities of up to € 0.1 million (previous year: € 0.1 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. 2019		31 Dec. 2018	
	< 1 year	> 1 year	< 1 year	> 1 year
Trade payables	84.5	0.0	115.9	0.0

Trade payables exist with regard to third parties. The total amount of € 84.5 million (previous year: € 115.9 million) is due within one year.

6.17 Other financial liabilities

in € million

	31 Dec. 2019		31 Dec. 2018	
	< 1 year	> 1 year	< 1 year	> 1 year
Liabilities under KHG/KHEntgG	22.0	–	13.5	–
Purchase prices	0.7	4.2	0.7	–
Leases	3.2	9.8	1.0	4.7
Other financial liabilities	9.2	9.8	8.4	10.5
Other financial liabilities (financial instruments)	**35.1**	**23.8**	**23.6**	**15.2**

The liabilities under the KHG/KEntgG 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 (BPflV).

The purchase prices from company purchases relate to contractually stipulated obligations.

The carrying amounts of the current financial liabilities recognised under this item correspond to their fair values. The carrying amounts of 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 € 1.6 million (previous year: € 3.2 million), € 1.6 million (previous year: € 3.2 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. 2019	31 Dec. 2018
Liabilities according to the KHG/KHEntgG (gross)	30.7	33.5
Receivables according to the KHG/KHEntgG (gross)	–8.7	–20.0
Balance sheet value	**22.0**	**13.5**

Regarding the statement on a gross basis of receivables in accordance with the KHG/KHEntgG on the assets side, please refer to the section "Other financial assets (current)".

6.18 Other liabilities

in € million

	31 Dec. 2019		31 Dec. 2018	
	< 1 year	> 1 year	< 1 year	> 1 year
Personnel liabilities	76.9	0.0	73.9	0.0
Deferred income	10.9	0.0	10.7	0.0
Operating taxes and social insurance	13.0	0.0	13.3	0.0
Prepayments	1.0	0.0	0.3	0.0
Other liabilities	9.5	0.0	8.9	0.0
Other liabilities (non-financial instruments)	**111.3**	**0.0**	**107.1**	**0.0**

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 € 16.4 million (previous year: € 3.8 million) comprise corporate income tax, solidarity surcharge and trade tax not yet assessed for the past financial year and previous years. Provisions for legal and fiscal risks in connection with the sale of subsidiaries and the tax risks triggered thereby largely materialised during the current financial year. They are shown for the first time as at the balance sheet date of 31 December 2019 at € 7.6 million under current income tax liabilities and at € 6.7 million under other provisions. Moreover, risk provision relating to a ruling by the Federal Fiscal Court (Bundesfinanzhof) was included for the first time under current income tax liabilities in the amount of € 3.1 million.

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 table below presents the carrying amounts and fair values of the individual financial assets and liabilities for each individual category of financial instruments pursuant to IFRS 9 as at 31 December 2019:

in € million	Measurement category according to IFRS 9
ASSETS	
Non-current assets	
Other financial assets	
of which investments	Measured at fair value directly in equity (fair value through other comprehensive income, without recycling)
of which investments	Measured at fair value through profit or loss
of which other	Measured at amortised cost
Current assets	
Trade receivables and other financial assets	Measured at amortised cost
Cash and cash equivalents	Measured at amortised cost
LIABILITIES	
Non-current liabilities	
Financial liabilities	Financial liabilities measured at amortised cost
Other financial liabilities	
of which other financial liabilities	Financial liabilities measured at amortised cost
of which leases	n.a.
Current liabilities	
Trade payables	Financial liabilities measured at amortised cost
Financial liabilities	Financial liabilities measured at amortised cost
Other financial liabilities	
of which other financial liabilities	Financial liabilities measured at amortised cost
of which leases	n.a.
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

	31 Dec. 2019	of which Financial Instruments		31 Dec. 2018	of which Financial Instruments	
		Carrying amount	Fair value		Carrying amount	Fair value
	29.3	29.3	29.3	4.7	4.7	4.7
	9.5	9.5	9.5	4.7	4.7	4.7
	0.0	0.0	0.0	0.0	0.0	0.0
	19.8	19.8	19.8	0.0	0.0	0.0
	394.5	394.5	394.5	381.7	381.7	381.7
	127.7	127.7	127.7	132.3	132.3	132.3
	158.3	158.3	172.6	99.5	99.5	101.7
	23.8	23.8	15.1	15.2	15.2	16.5
	14.0	14.0	15.1	10.5	10.5	11.8
	9.8	9.8	–	4.7	4.7	4.7
	84.5	84.5	84.5	115.9	115.9	115.9
	0.9	0.9	0.9	0.3	0.3	0.3
	35.1	35.1	31.9	23.6	23.6	23.6
	31.9	31.9	31.9	22.6	22.6	22.6
	3.2	3.2	–	1.0	1.0	1.0
		542.0	542.0		514.0	514.0
		9.5	9.5		4.7	4.7
		0.0	0.0		0.0	0.0
		289.6	305.0		248.8	252.3

Furthermore, € 0.3 million of cash and cash equivalents relate to assets held for sale. In this regard we refer to chapter 4 "Company acquisitions".

The fair values of financial assets and liabilities accounted for as defined in IFRS 9 as at 31 December 2019 are classified as follows to the three levels of the fair value hierarchy:

in € million	Level 1	Level 2	Level 3	Total 31 Dec. 2019	Total 31 Dec. 2018
Other non-current financial assets (investments)	–	9.5	–	9.5	4.7
Other non-current financial assets (remaining)	–	19.8	–	19.8	–
Trade receivables, other current financial assets	–	394.5	–	394.5	381.7
Non-current financial liabilities	–	172.6	–	172.6	101.7
Other non-current financial liabilities	–	24.9	–	24.9	16.5
Current trade liabilities	–	84.5	–	84.5	115.9
Current financial liabilities	–	0.9	–	0.9	0.3
Current other financial liabilities	–	35.1	–	35.1	23.6

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. The fair values of other non-current financial assets were calculated on the basis of the current level of interest rates.

Investments in the amount of € 9.5 million (previous year: € 4.7 million) are measured as of acquisition pursuant to IFRS 9 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 gains in the amount of € 2.2 million (previous year: loss 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 obligations and non-current 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 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 financial year 2019 is as follows:

in € million	From share price gains	From subsequent measurement: At fair value	From subsequent measurement: impairment	From disposal	Net result 2019
Measured at amortised cost	–	–	0.0	2.4	2.4
Total	**–**	**–**	**0.0**	**2.4**	**2.4**

+ = cost, – = income

The net result by measurement category according to IAS 39 for financial year 2018 is as follows:

in € million	From share price gains	From subsequent measurement: At fair value	From subsequent measurement: impairment	From disposal	Net result 2018
Measured at amortised cost	–	–	0.3	3.6	3.9
Total	**–**	**–**	**0.3**	**3.6**	**3.9**

+ = 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:

in € million	Cash outflows 2020	Cash outflows 2021–2026	Cash outflows > 2026
Financial liabilities	–2.9	–55.6	–141.3
Trade payables	–84.5	0.0	0.0
Other financial liabilities	–31.9	–14.5	0.0
Liabilities under leases	–3.4	–10.1	0.0
	–122.7	**–80.2**	**–141.3**

The following table shows the maturity analysis of the previous year:

in € million	Cash outflows 2019	Cash outflows 2020–2025	Cash outflows > 2025
Financial liabilities	–1.6	–47.9	–64.8
Trade payables	–115.9	–	–
Other financial liabilities	–25.4	–12.2	–
Liabilities under leases	–1.1	–4.9	–
	–144.0	**–65.0**	**–64.8**

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 2019, as in the previous year, there were no bank overdrafts.

Operating cash flow decreased slightly from € 49.5 million in the previous year to € 47.3 million in financial year 2019. The decline is essentially attributable to the one-off effects of the previous year in connection with the entry into effect of separate accounting at Universitätsklinikum Gießen und Marburg and back-payments for previous years relating to that. A counter-effect to this was the change in other working capital due, among other things, to a higher one-off effect from the reversal of provision for guarantees.

Cash used in investment activities improved from € –125.0 million in the previous year to € 86.7 million in financial year 2019. This development was attributable to lower investments in property, plant and equipment as well as intangible assets, higher inflows from government grants and lower inflows from reversal of fixed deposits.

Changes in cash generated from financing activities essentially result from the issue of a registered bond in the net amount of € 59.0 million (previous year: issue of a promissory note in the net amount of € 99.7 million). In this connection, costs in the amount of € 0.3 million (previous year: € 0.2 million) were incurred. After the Annual General Meeting in June 2019, € 19.4 million (previous year: € 14.7 million) was paid to the shareholders of RHÖN-KLINIKUM AG. Dividend payments made to non-controlling interests in 2019 amounted to € 1.0 million (previous year: € 1.2 million).

The cash flow statement included a total of € 9.6 million (previous year: € 37.7 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. 2018	Cash changes	Non-cash changes	**31 Dec. 2019**
Lease obligations	5.7	–3.4	10.7	13.0
Current financial liabilities	0.3	–	0.6	0.9
Non-current financial liabilities	99.5	59.0	0.1	158.6
Non-current financial liabilities/other payments	–	–0.3	–	–0.3
Proceeds from issuing of financial liabilities	–0.6	–	0.2	–0.4
Total liabilities from finance activities	**104.9**	**55.3**	**11.6**	**171.8**

The registered bond issued in July 2019 in the amount of € 60.0 million resulted after deduction of banking fees in a cash inflow of € 59.0 million. The cash outflow of € 0.3 million relates to further advisory costs in connection with the registered bond.

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	374	24
Universitätsklinikum Gießen und Marburg GmbH, Gießen	95.0	136,109	14,339
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	126,883	6,005

[1] The 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	370	1
MVZ des Klinikums Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	247	16
MVZ UKGM GmbH, Marburg	95.0	462	110
MVZ Zentralklinik GmbH, Bad Berka	87.5	1,994	–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	1,626	182
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	32,340	1,424
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH Leipzig, Leipzig	100.0	265	70

in € '000

	Interest held in %	Equity	Result for the year
Service companies			
RHÖN-Cateringgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	58	–18
RHÖN-Reinigungsgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	2,688	–124
RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale	100.0	211	–5
UKGM Service GmbH, Bad Neustadt a. d. Saale	100.0	69	0

in € '000

	Interest held in %	Equity	Result for the year
Other companies/shelf companies			
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	50.0	775	160
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	180	11
KLINIK "HAUS FRANKEN" GMBH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	702	1
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft mbH, Bad Neustadt a. d. Saale (vormals: Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitäts-klinikums Heidelberg mit beschränkter Haftung, Heidelberg)	100.0	–40,961	–249
Medgate Deutschland GmbH, Bad Neustadt a. d. Saale	51.0	316	–34
Psychosomatische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	15	–7
PTZ GmbH, Marburg	100.0	346	–11
RHÖN-KLINIKUM Energie für Gesundheit GmbH, Bad Neustadt a. d. Saale (vormals: RHÖN Energie für Gesundheit GmbH, Bad Neustadt a. d. Saale)	100.0	1,564	63
RHÖN-Innovations GmbH, Bad Neustadt a. d. Saale	100.0	6,848	–910
RK Klinik Betriebs GmbH Nr. 35, Bad Neustadt a. d. Saale	100.0	122	–6
Wolfgang Schaffer GmbH, Bad Neustadt a. d. Saale	100.0	569	–5

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	989	–131
Bäderland Bayerische Rhön GmbH & Co. KG, Bad Kissingen [1]	0.1	8	0
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar [1]	15.9	504	3
Inovytec Medical Solutions Ltd., Hod Hasharon (Israel) [2]	10.2	1,937	–1,924
CLEW Medical Inc., Delaware (USA) [2]	12.1	1,418	–3,840
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale [1]	25.0	1,335	286
Soemmerring GmbH privates Institut für Bewegungsstörungen und Verhaltensneurologie i. L., Bad Nauheim [3]	31.7	22	–1
Telesofia Medical Ltd., Tel Aviv (Israel) [2]	12.2	471	–501
Tiplu GmbH, Hamburg	5.0	2,352	1,636
Siebensachen GmbH, Hamburg	0.004	2	–22

[1] Figures according to annual financial statements of 31 December 2018.
[2] Figures according to annual financial statements of 31 December 2018, converted at closing/average exchange rate 31 December 2019.
[3] Figures according to annual financial statements of 31 December 2016.

9 | OTHER DISCLOSURES

9.1 Average annual number of employees

	2019	2018	Change	
	Number [1]	Number [1]	Number [1]	in %
Medical doctors	1,050	1,000	50	5.0
Nursing services	4,727	4,591	136	3.0
Medical-technical services	2,652	2,560	92	3.6
Functional	1,674	1,693	–19	–1.1
Supply and misc. services	2,016	1,889	127	6.7
Technical	273	254	19	7.5
Administrative	1,127	1,068	59	5.5
Other personnel	291	269	22	8.2
	13,810	**13,324**	**486**	**3.6**

[1] Headcount, excluding board members, managing directors, apprentices, trainees and those in alternative national service.

9.2 Other financial obligations

in € million

	31 Dec. 2019	31 Dec. 2018
Order commitments	**28.4**	**30.5**
Operating leases		
Due in subsequent year	–	1.3
Due in 2 to 5 years	–	0.4
Due in 5 years	–	0.0
Total operationg leases	**–**	**1.7**
Other		
Due in subsequent year	34.5	32.8
Due in 2 to 5 years	22.0	25.4
Due in 5 years	2.3	1.5
Total other	**58.8**	**59.7**

Of the figure for order commitments, € 2.3 million (previous year: € 2.6 million) is attributable to intangible assets, and € 22.1 million (previous year: € 25.0 million) is attributable to property, plant and equipment.

As a result of the first-time adoption of IFRS 16 "Leases", the operating leases reported in the previous year under other financial obligations were recognised as of the initial adoption date of 1 January 2019 in the balance sheet in the form of a right of use and at the same time a lease liability.

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 balance sheet date, there are no obligations under loan commitments to an associate (previous year: € 2.5 million). The agreement from 2018 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 amount of € 100.0 million until the end of 2021. As at the balance sheet date, already € 94.1 million of that has been fulfilled. Moreover, the following investments are to be performed: at the Marburg site, the modernisation of its clinic for psychiatry, the overhaul of the centralised operating theatre and IC units, as well as the new build of the clinic for paediatric and juvenile psychiatry are planned. At the Giessen site, the Paediatric Heart Centre will be expanded and an extension added to the University Hospital. For these measures, € 10.7 million has already been invested. Our hospitals at the Giessen and Marburg sites continue to be committed to foregoing redundancies until the end of financial year 2021 and to take over trainees into permanent employment if they possess the right qualifications for the respective positions.

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 center 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, one aval guarantee (Aval-Bürgschaftserklärung) in the amount of € 3.5 million (previous year: € 9.1 million) exists for claims to government grants of the Free State of Bavaria. One aval guarantee in the amount of € 5.6 million was withdrawn in the first quarter of 2019. Furthermore, an absolute guarantee (selbstschuldnerische Bürgschaft) exists for claims to government grants of the Free State of Bavaria in the amount of € 0.2 million which was granted in 2019. There is also a litigation guarantee in connection with a lawsuit amounting to € 1.9 million and a rental guarantee amounting to € 0.0 million.

It is no longer expected that any claims will be made under the guarantees.

9.3 Leases within the Group

The new Standard IFRS 16 is subject to mandatory adoption within the Group as of 1 January 2019. It defines a lease as a contract which conveys the right to use an asset for a period of time in exchange for consideration. Within the Group, the modified retroactive approach was applied. Numerous property leases contain renewal options. Further details on the change as of 1 January 2019 are presented in chapter 2.1 "Principles applied to the preparation of the financial statements".

9.3.1 Exceptions and transfer of operating leases

For leases with a term of twelve months maximum amounting to € 0.3 million as well as for leases relating to low-value assets in the amount of € 0.1 million, no rights of use and no lease liabilities are recognised within the Group of RHÖN-KLINIKUM AG. The lease rates are recognised as before within the income statement.

The table below shows the development of operating leases stated as at 31 December 2018 in relation to the recognised lease liabilities as at 1 January 2019:

in € million	
Obligations under operating leases stated as at 31 December 2018	1.7
Discounted at the incremental borrowing rate at the time of first-time adoption of IFRS 16	6.5
Lease liabilities according to IFRS 16 as at 1 January 2019	**8.2**
Liabilities under finance leases recognised as at 31 December 2018	5.7
Total lease liabilities as at 1 January 2019	**13.9**
of which current lease liabilities	3.1
of which non-current lease liabilities	10.8

Details on recognised rights of use are set out in chapter 6.2 "Property, plant and equipment".

9.3.2 Obligations of lessees

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 leases – minimum lease payments	2019	2018
Due in subsequent year	3.3	1.1
Due in two to five years	8.3	3.8
Due in five years	2.0	1.1
	13.6	**6.0**
Future financing costs under leases	**-0.6**	**-0.3**
Present value of liabilities under leases	**13.0**	**5.7**

in € million

Present value of liabilities under leases	2019	2018
Due in subsequent year	3.2	1.0
Due in two to five years	9.3	3.6
Due in five years	0.5	1.1
	13.0	**5.7**

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 co-operating 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 are 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 33⅓ years. Rental income of € 0.4 million (previous year: € 0.4 million) was received in 2019. 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

	2019	2018
	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.	**2.5**	**2.4**
Depreciation	0.1	0.1
Disposals	0.0	0.0
31 Dec.	**2.6**	**2.5**
Balance sheet value as at 31 Dec.	**2.4**	**2.5**

There is also income from non-terminable leases. The minimum lease payments to be received in future (up to one year) are € 0.7 million (previous year: € 0.1 million). The minimum lease payments for the period of up to five years are stated at € 1.5 million (previous year: € 0.0 million). The corresponding figure for the period in excess of five years is € 0.2 million (previous year: € 0.0 million). In connection with the occupation of the new clinical building in Bad Neustadt a. d. Saale during the reporting year, new lease agreements were entered into on a large scale.

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 between 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 financial year 2019 was as follows:

in € '000

	Expenses 2019	Income 2019	Receivables 31 Dec. 2019	Liabilities 31 Dec. 2019
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale	4	417	12	-
4QD – Qualitätskliniken.de GmbH, Berlin	5	–	–	–
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar	23	–	–	–
	32	**417**	**12**	**–**

From the point of view of the Group, the volume of transactions with companies consolidated using the equity method in financial year 2019 was as follows:

in € '000

	Expenses 2019	Income 2019	Receivables 31 Dec. 2019	Liabilities 31 Dec. 2019
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	692	–	–	98
	692	**–**	**–**	**98**

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 the year under review, members of the Supervisory Board of RHÖN-KLINIKUM AG, or companies and entities related with these as well as companies within the meaning of IAS 24, rendered the following services at arm's length terms:

in € '000

Related party	Companies as defined by IAS 24	Nature of services	Expenses 2019	Expenses 2018
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	22	14
		Supervisory board activity at an affiliated company	1	1
	B. Braun Konzern (primarily B. Braun Melsungen AG and Aesculap AG)	Purchase of medical products	10,900	12,544
Peter Berghöfer		Supervisory board activity at an affiliated company	3	4
Klaus Hanschur		Supervisory board activity at an affiliated company	3	3
Dr. Katrin Vernau		Supervisory board activity at an affiliated company	1	3

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 financial year 2019 (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	Expenses 2019	Expenses 2018
Eugen Münch		Telephone expenses, insurance fees, other services	11	9
Stephan Holzinger		Other services	1	–

As at the balance sheet date of 31 December 2019, the following trade receivables/trade liabilities existed:

in € '000

Companies as defined by IAS 24	Liabilities 2019	Liabilities 2018	Receivables 2019	Receivables 2018
B. Braun Konzern (primarily B. Braun Melsungen AG and Aesculap AG)	413	1,264	–	–

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 2019**	Total 2018
Peter Berghöfer	154	40	194	192
Stefan Härtel	49	1	50	52
Klaus Hanschur	37	0	37	38
Oliver Salomon (since 1 March 2018)	49	1	50	40
Evelin Schiebel	44	1	45	43
Natascha Weihs	48	3	51	50
	381	**46**	**427**	**415**

The above costs are shown under employee benefit expenses in the income statement.

9.5 Total payments of Supervisory Board, the Board of Management and the Advisory Board

in € ’000

	2019	2018
Remuneration of the Supervisory Board	1,948	1,954
Remuneration of the incumbent Board of Management	4,020	3,852
Remuneration of former members of the Board of Management	1,065	1,281

No loans were granted to members of the Supervisory Board and the Board of Management. The members of the Supervisory Board and their related parties together have a shareholding interest in RHÖN-KLINIKUM Aktiengesellschaft of 20.0% (previous year: 45.2%) of total equity capital. As at 31 December 2019, the members of the Board of Management do not hold any shares of RHÖN-KLINIKUM Aktiengesellschaft.

During the 2019 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.

The total expenditures (excluding VAT) for members of the Supervisory Board are broken down below:

in € ’000

	Fixed basic remuneration	Fixed attendance fee	Fixed total remuneration	**Total 2019**	Total 2018
Eugen Münch	120	32	200	352	357
Georg Schulze-Ziehaus	80	32	26	138	138
Wolfgang Mündel	80	44	172	296	301
Dr. Annette Beller	36	52	73	161	172
Peter Berghöfer	40	20	40	100	100
Björn Borgmann (until 28 February 2018)	0	0	0	0	17
Prof. Dr. h. c. Ludwig Georg Braun (until 5 June 2019)	14	8	11	33	73
Prof. Dr. Gerhard Ehninger	36	10	13	59	54
Jan Hacker (from 5 June 2019)	26	8	15	49	0
Stefan Härtel	40	16	26	82	82
Klaus Hanschur	40	16	26	82	82
Meike Jäger	40	20	40	100	91
Dr. Brigitte Mohn	36	8	10	54	56
Christine Reißner	40	20	40	100	100
Oliver Salomon (from 1 March 2018)	40	16	26	82	59
Evelin Schiebel	40	22	26	88	80
Dr. Katrin Vernau	36	22	34	92	112
Natascha Weihs	40	18	22	80	80
	784	**364**	**800**	**1,948**	**1,954**

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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	1,800	1,800	1,800	1,800	1,800	1,800
Fringe benefits	16	16	16	16	16	16
Total	**1,816**	**1,816**	**1,816**	**1,816**	**1,816**	**1,816**
One-year variable remuneration						
Management profit sharing	79	216	0	1,000	216	0
Total payments	**1,895**	**2,032**	**1,816**	**2,816**	**2,032**	**1,816**
Pension expense [1]	249	239	249	249	249	239
Total remuneration	**2,144**	**2,271**	**2,065**	**3,065**	**2,281**	**2,055**

[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	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	12	12	12	12	12	12
Total	**204**	**204**	**204**	**204**	**204**	**204**
One-year variable remuneration						
Management profit sharing	1,008	1,008	1,008	1,308	1,008	1,008
Total payments	**1,212**	**1,212**	**1,212**	**1,512**	**1,212**	**1,212**
Pension expense [1]	157	158	157	157	157	158
Total remuneration	**1,369**	**1,370**	**1,369**	**1,669**	**1,369**	**1,370**

[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 from 1 May 2018)					
	Inducements granted				Inflow	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	192	128	192	192	192	128
Fringe benefits	13	8	13	13	13	8
Total	**205**	**136**	**205**	**205**	**205**	**136**
One-year variable remuneration						
Management profit sharing	708	472	708	1,308	708	472
Total payments	**913**	**608**	**913**	**1,513**	**913**	**608**
Pension expense [1]	121	79	121	121	121	79
Total remuneration	**1,034**	**687**	**1,034**	**1,634**	**1,034**	**687**

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

in € '000

Former member of Board of Management	Dr. Dr. Martin Siebert (permanent representative of the Board of Management until 28 March 2018)					
	Inducements granted				Inflow	
	2019	2018	**2019 (min.)**	**2019 (max.)**	**2019**	2018
Base salary (fixed remuneration)	0	96	0	0	0	96
Fringe benefits	0	5	0	0	0	5
Total	**0**	**101**	**0**	**0**	**0**	**101**
One-year variable remuneration						
Management profit sharing	0	279	0	0	0	279
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	20
Total payments	**355**	**380**	**0**	**1,702**	**2,353**	**400**
Pension expense [1]	0	48	0	0	0	48
Total remuneration	**355**	**428**	**0**	**1,702**	**2,353**	**448**

[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	
	2019	2018	2019 (min.)	2019 (max.)	2019	2018
Base salary (fixed remuneration)	0	0	0	0	0	0
Fringe benefits	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
One-year variable remuneration						
Management profit sharing	0	0	0	0	0	0
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	20
Total payments	**355**	**0**	**0**	**1,702**	**2,353**	**20**
Pension expense [1]	0	0	0	0	0	0
Severance payments	0	0	0	0	0	0
Total remuneration	**355**	**0**	**0**	**1,702**	**2,353**	**20**

[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	
	2019	2018	2019 (min.)	2019 (max.)	2019	2018
Base salary (fixed remuneration)	0	0	0	0	0	0
Basic salary (arrears payment for the previous year)	0	901	0	0	0	901
Fringe benefits	0	0	0	0	0	0
Total	**0**	**901**	**0**	**0**	**0**	**901**
One-year variable remuneration						
Management profit sharing	0	0	0	0	0	0
Multi-year variable remuneration						
Virtual share options	355	0	0	1,702	2,353	52
Total payments	**355**	**901**	**0**	**1,702**	**2,353**	**953**
Pension expense [1]	0	0	0	0	0	1,050
Severance payments	0	2,400	0	0	0	2,400
Total remuneration	**355**	**3,301**	**0**	**1,702**	**2,353**	**4,403**

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

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

Retirement benefits	Provision as at 31 Dec. 2018	Change in retirement benefits	**Provision as at 31 Dec. 2019**	Nominal amount on contract expiry [1]
Incumbent members of the Board of Management				
Stephan Holzinger	470	292	762	1,125
Prof. Dr. Bernd Griewing	469	196	665	750
Dr. Gunther K. Weiß	79	136	215	413
Total	**1,018**	**624**	**1,642**	**2,288**

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

in € '000

Retirement benefits	Provision as at 31 Dec. 2018	Change in retirement benefits	**Provision as at 31 Dec. 2019**
Former member of the Board of Management			
Dr. Dr. Martin Siebert (until 28 March 2018)	1,181	–1,181	0
Total	**1,181**	**–1,181**	**0**

In financial year 2014, RHÖN-KLINIKUM AG, by agreement 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 were vested. The commitments had a term running until June 2019. Payment of the virtual shares granted to former members of the Board of Management was made in June 2019 at the average price of the previous three months before the end of the term. According to IFRS 2, this plan was treated as a cash-settled plan and thus accounted for as a payment with cash settlement.

An equity interest of 3.0% (previous year: 3.0%) was held by the incumbent members of the Board of Management and former members of the Board of Management, and an interest of 3.0% (previous year: 3.2%) by other former 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: € 0.3 million) – of which € 0.1 million (previous year: € 0.1 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 includes expenses of € 0.0 million (previous year: no 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 2019, 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.

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 6 November 2019, 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 financial year 2019. 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 financial year 2019, expenses resulting from fees for statutory auditors amounting to € 1.4 million (previous year: € 1.4 million) were incurred Group-wide. A breakdown of these fees (including outlays and excluding VAT) by service rendered is provided below:

in € '000	**2019**	2018
Fees for auditing financial statements	942	933
Fees for other statutory auditing services	91	115
Fees for tax advice	249	266
Fees for other services	73	67
	1,355	**1,381**

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 includes 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

No particularly significant events have occurred since 31 December 2019 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 Management)

Georg Schulze-Ziehaus
Frankfurt am Main, 1st Deputy Chairman,
Regional Director of ver.di, region of Hesse

Wolfgang Mündel
Kehl, 2nd Deputy Chairman, Wirtschaftsprüfer (German public auditor) and tax consultant in own practice

Other mandates:
- Jean d'Arcel Cosmétique GmbH & Co. KG, Kehl (Chairman of the Advisory Board) (until 24 January 2020)
- HCM SE, Bad Neustadt a. d. Saale (Deputy Chairman of the Board of Directors)

Dr. Annette Beller
Kassel, member of the Management Board 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

Prof. Dr. h. c. Ludwig Georg Braun
(until 5 June 2019)
Melsungen, entrepreneur

Also a member of the Supervisory Board of:
- B. Braun SE, Melsungen (Chairman of the Supervisory Board)
- B. Braun Melsungen AG, Melsungen (Chairman of the Supervisory Board)
- Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main (until shareholders' meeting 2019)
- WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg

Other mandates:
- B. Braun Medical AG, Luzern, Schweiz (Vice-President of the Board of Directors)

Prof. Dr. Gerhard Ehninger
Dresden, Medical Doctor
- Cellex Gesellschaft für Zellgewinnung mbH, Dresden (Managing Director)
- GEMoaB Monoclonals GmbH, Dresden (Managing Director)

Also a member of the Supervisory Board of:
- Universitätsklinikum Gießen und Marburg GmbH, Gießen
- Universitätsklinikum Schleswig-Holstein, Kiel

Dipl.-Kfm. Jan Hacker
(from 5 June 2019)
Corporate consultant, Bayreuth

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)

Other mandates:
- Rosa-Luxemburg-Stiftung Gesellschaftsanalyse und politische Bildung e. V., Berlin (member of the Board of Management) (since December 2019)

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)
- State Government of North Rhine-Westphalia, Düsseldorf (member on the Advisory Council for Participation and Integration)
- Member of Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh
- Peres Center for Peace and Innovation, Israel (member on the International Board of Governors)
- 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)
- RTL-Stiftung „Wir helfen Kindern“, Cologne (member of the Board of Trustees) (from 15 March 2019)

Christine Reißner
Sülzfeld, Merchant

Oliver Salomon
Bad Berka, Male Nurse

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) (until September 2019)
- Bavaria Film GmbH, Geiselgasteig
- 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
Bad Neustadt a. d. Saale, Physiotherapist

The Board of Management of RHÖN-KLINIKUM AG comprises the following persons:

Stephan Holzinger
Business address 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)
- Medgate Deutschland GmbH, Bad Neustadt a. d. Saale (Chairman of the Supervisory Board) (from 20 December 2019)

Other mandates:
- Stiftung Münch, Munich (Chairman of the Board of Directors) (until 30 September 2019)

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) (until 31 December 2019)
- Stiftung Deutsche Sporthilfe, Frankfurt am Main (member of the Board of Trustees)

Dr. med. Gunther Karl Weiß, M.Sc.
Business address Bad Neustadt a. d. Saale,
Operative Member of the Board of Management

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)
- Mittelhessische Medizin-Stiftung am Universitätsklinikum Gießen und Marburg, Giessen (member of the Board of Directors)

Bad Neustadt a. d. Saale, 14 February 2020

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, 14 February 2020

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 2019, 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 31 2019, 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 2019. In accordance with the German legal requirements, 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 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 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, 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 2019. 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 (Erlösausgleiche)***

❷ ***Recoverability of goodwill***

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ ***Recognition of revenue generated from hospital services provided and revenue settlement (Erlösausgleiche)***

① The revenue amounting to EUR 1,303.9 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.

❷ ***Recoverability of goodwill***

① In the Company's consolidated financial statements goodwill of EUR 164.2 million (10.1 % 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.

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 5 June 2019. We were engaged by the supervisory board on 13 November 2019. 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, 14 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Balance sheet and income statement

BALANCE SHEET

in € million

	31 Dec. 2019	31 Dec. 2018
Assets		
Intangible assets	8.1	3.5
Property, plant and equipment	277.6	267.5
Financial assets	654.9	666.1
Fixed assets	**940.6**	**937.1**
Inventories	7.3	5.4
Receivables and other assets	96.0	90.8
Securities, cash and cash equivalents	212.1	212.3
Current assets	**315.4**	**308.5**
Prepaid expenses	**2.8**	**1.5**
Deferred tax assets	**7.2**	**9.0**
	1,266.0	**1,256.1**

in € million

	31 Dec. 2019	31 Dec. 2018
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	203.5	189.1
Shareholders' equity	**960.0**	**945.6**
Contributions to finance fixed assets	**13.0**	**7.3**
Provisions	**45.1**	**114.4**
Liabilities	**247.9**	**188.8**
	1,266.0	**1,256.1**

INCOME STATEMENT

in € million

	2019	2018
Revenues	258.9	218.6
Changes in services in progress	1.3	–1.0
Other operating income	45.3	22.6
Materials and consumables used	94.4	57.0
Employee benefits expense	139.9	124.2
Depreciation	21.5	15.5
Other operating expenses	33.1	31.4
Operating result	**16.6**	**12.1**
Investment result	13.2	12.7
Finance result	8.9	11.1
Taxes	4.9	4.2
Net profit for the year	**33.8**	**31.7**
Profit carried forward from previous year	169.7	157.4
Net distributable profit	**203.5**	**189.1**

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 2019, 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 € 203,529,952.42.

The Board of Management and the Supervisory Board propose appropriating an amount of € 16,734,617.50 to distribute a dividend of € 0.25 per no-par value share with dividend entitlement (DE0007042301), and carrying forward to new account the remaining amount of € 186,795,334.92.

Bad Neustadt a. d. Saale, 19 March 2020

RHÖN-KLINIKUM Aktiengesellschaft

The Supervisory Board

The Board of Management

Independent Practitioner's Report

ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING[1]

To RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale,

We have performed a limited assurance engagement on the combined separate non-financial re-port pursuant to §§ 289b Abs. 3 und 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commer-cial Code") of RHÖN-KLINIKUM AG, Bad Neustadt a. d. Saale, (hereinafter the "Company") for the period from January 1, to December 31, 2019 (hereinafter the "non-financial report"). The non-financial report comprises the sections marked with a check mark in the Corporate Social Re-sponsibilitiy Report of the company for the financial year 2019.

Responsibilities of the Executive Directors

The Management Board of the Company is responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of ap-propriate 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 neces-sary 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 Quali-tätssicherungsstandard 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 in-formation 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 As-surance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Re-views 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 re-port for the period from January 1, to December 31, 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasona-ble 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 as-surance 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 disclo-sures 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, 2019 has not been prepared, in all material aspects, in ac-cordance with §§ 315c in conjunction with 289c 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 en-gagement 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 in-tended 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, 14 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke Wirtschaftsprüfer	ppa. Barbara Wieler Wirtschaftsprüfer

FINANCIAL CALENDAR

DATES FOR SHAREHOLDERS AND ANALYSTS

21 February	Publication of Preliminary Results for the 2019 financial year
24 March	Publication of 2019 Annual Financial Report, Press Conference
7 May	Publication of Interim Report for the quarter ending 31 March 2020
3 June	Annual General Meeting
6 August	Publication of Half-Year Financial Report as of 30 June 2020
6 November	Publication of Interim Report for the quarter ending 30 September 2020

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This Annual Report is also available in German.

Annual Report on the Internet
en.rhoen-klinikum-ag.com/annual-report

DISCLAIMER

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