



RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

30TH ANNUAL GENERAL MEETING

Report of the Supervisory Board

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Chairman of the Supervisory Board

RHÖN-KLINIKUM Aktiengesellschaft

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Note:

Check against delivery

Dear Shareholders and Shareholders Representatives,
Dear Guests, Ladies and Gentlemen,

have you already noticed that our sector is increasingly becoming the focus of interest in the media? All of a sudden people now know that the healthcare industry is a commercial sector and not some supported association. We are now being ascribed 12% of economic output. This healthcare industry with its huge service component is in for some big changes. It lags far behind in the area of digitalisation, but in the sector and amongst investors impending changes such as digitalisation, telemedicine, artificial intelligence and much more are increasingly being seen as an opportunity. In the second part of my report I will take a closer look at this subject based developments which, not by coincidence, will become tangible at the Company's headquarters.

Before I get to the prospective subjects, please let me first cover the obligatory points and formalities.

To avoid repetitions in reporting on the work of the Supervisory Board for financial year 2017, I would first of all refer you to the detailed written Report of the Supervisory Board in the current Annual Report. This Report has been displayed within the premises of RHÖN-KLINIKUM AG since the convocation to this Annual General Meeting, has been sent to the Shareholders on request and was accessible online on the Company's website. And of course, the Report is also available here today. You will find the Report of the Supervisory Board printed on pages 6 to 13.

In this comprehensive and at times in-depth written Report, we have tried to provide you with an informative insight into the work of the Supervisory Board last year.

This Supervisory Board has established and appointed seven standing committees for the efficient performance of its duties. These committees deal with the specialist subjects and prepare resolutions for the plenary meeting as required. Moreover, specific powers to adopt resolutions were delegated to the committees under the Terms of Reference. We review the efficiency of the work in the committees on a continuous basis and make changes to structures and processes without delay by taking appropriate measures whenever we identify the need to do so or any weaknesses. As a rule, the committees meet separately, i.e. each on its own. During the past financial year, for the purpose of escorting the Management in advisory and supervisory capacity on current areas of focus – such as the implementation of the Campus projects, the development of individual sites in terms of their medical concept and measures to reduce avoidable losses from audits by the MdK (Medical Review Board of the Statutory Health Insurance Funds) –, we made use of the expertise available within the Supervisory Board to help closely accompany this development process through joint meetings of the Investment, Strategy and Finance Committee held with the Medical Innovation and Quality Committee.

We are of course closely watching the further development of the provisions of the German Corporate Governance Code, and after thoroughgoing consultation respond to the same with corresponding measures to implement recommendations or refuse such recommendations giving reasoned arguments for non-adoption. We report jointly with the Board of Management on corporate governance at the Company; you will find the written report in this regard in the Annual Report on pages 60 to 71.

My very personal view is that moral platitudes are now being bureaucratised under corporate governance that obviously are no longer present in the minds of the authors and the advisory guild, or which are quite deliberately meant to represent for those in touch with reality the potential for being held back or for employment.

Maybe we will soon be called on to pay performance bonuses for compliance with the simplest of rules for our common existence. To identify the limits, we have adopted in our Company the principle which is also cited in the service contracts of executive employees: **“Don’t do to others what you would not like, and don’t leave off doing anything that you would like done to yourself.”** If we were able to take proper disciplinary measures under employment law against contraventions of this rule, all compliance rules would be obsolete. I just had to say that, to give my frustrated soul some relief.

Let me first add a few more chords on the change of the Board of Management by way of leading into the second part of my Report.

The development of the Company, as with many companies, took place in waves or decades. It began with a failed foundation in 1970, a fresh start in 1974 with a first phase of growth, then a second phase of growth that stalled, and then from 2012 with the reorientation. It might be described as a change “from battleship to speedboat”, and one that was handled by the last Board of Management with flying colours.

(a decision which today is also having repercussions on companies like Siemens).

‘From large and powerful to quick and nimble’ was always the primary objective. Over many stony paths, the team led by Dr. Siebert sold, downsized and concentrated the Company from approximately 40,000 to 15,000 employees. For 60% of the old Company, a value was realised that was similar in the first attempt at 100%. The shareholders were repaid far more than 50% of the value. Today, more employees are working at Helios and with us at the former workplaces than back then, and that with a significantly increased level of efficiency. From there to now has certainly been a success story that scarcely any other cash cow has ever pulled off.

But that meant that only half the journey was covered, since now it was necessary to make the transition to and begin a new concept. This new business model, as seen from the perspective of patients, offers full-coverage care with the know-how of a totally vertical hospital chain. We cover all forms of medical care, from outpatient care, general basic care and even university hospitals, all rounded off with speciality facilities and the rehab area.

The campus concept combines the medical, organisational and Internet capabilities of a vertical group at one single site. It is to find the patient and take him virtually by the hand while he is still at the stage of the occupant in search of information. But this vehicle, which escorts the patient much like an electronic process pacemaker without interfaces and hurdles over all levels into the real system, is not a medical standard in Germany. This model elevates the patient to a genuine pace-setter of the processes. To prevent this model from reverting to the old pattern, this reversal from a **“doctor-steered”** to a **“patient-indicated and doctor-escorted”** approach needs a completely new service culture that has to be developed, learned and maintained.

Half a year following the installation of the old Board of Management with a new contract and the belief that it has the ability and desire to support the changed mandate, the first fissures became visible. The Supervisory Board tried to make it work by lending strong support to the cause – hence the efforts to step up activity in the committees seen already in 2016. The erosion of the Board of Management performance increased, cooperation within the Board of Management inadequate, and the Supervisory Board had to and did act.

The new Board of Management has the objective and, I think, also the mental strength with the basis mapped out, to reorient and tackle the thinking of employees and the system. The decision to put the organisation of the campus (including the restoration of the relationship to the Federal State of

Hesse and the university) in new hands was made at the beginning of last year and the personnel reorientation concluded with the instalment of Dr. Weiß last month.

Today, WE and YOU, together with Mr. Holzinger, have what I call a **entrepreneur-based** Board and with Prof. Griewing and Dr. Weiß two seasoned experts with top management experience and the willingness to employ their combined forces for the huge change that is required, and to definitively open the gate to the future. I am convinced that the Board of Management together will initiate the leap innovation that already today is having an impact on the sector. **With the new leadership we will push ahead into a new performance dimension in which we will achieve commercial success primarily through innovations and less through concentration of services with simple human resources.**

All resolutions that the Supervisory Board has adopted on questions of human resources – and incidentally, almost without exception unanimously – are not always infallible but highly competent and almost dispassionately objective.

Since this is where I conclude my Report on the activity of the Supervisory Board, I would like first to extend my thanks to the Board of Management and my colleagues on the Supervisory Board for the work together with them and their commitment over the past year. It was not always easy to find a consensus given the complexity of the issues. Despite that it is always possible, with the efforts of all, to find lasting common ground for the future.

My special thanks goes to those employees who, in their commitment to the interests of patients, have once again shown themselves to be supporting pillar and without whom the Company would be nothing. My thanks also goes to the members of the Supervisory Board whose duties are not always easy in the context of co-determination.

Dear Ladies and Gentlemen,

The reason that the personnel changes ranging from the giant tanker ship Rhön-Klinikum AG with over 40,000 employees to the preparations for the launch of the campus project are so moving is that they relate to some of the most profound transformations of the healthcare industry and that we, as the spearhead of such developments, are the first ones to be exposed to all adversities. The centre of development for this new dimension lies in Bad Neustadt.

It is here that the blueprint and the model segment – our new business model – is being created. With this I can imagine the trend pursued by that, by which we are at the gateway to a future that can be shaped.

To recognise the logic behind the concept, we have to transfer the behaviour patterns of society in general to the conditions of the healthcare industry in order to thereby derive future forecasts that will propel us to the leading edge of the movement. That is where we want to get: Rhön-Klinikum AG was always a so-called entrepreneur; the old group in its final phase with 40,000 employees as such was the adipose form of a top athlete.

Right now the old consumer society company is changing into a society in which a lot of what we had to have and bent over backwards to get is now taken care of by a click on the i-Pad.

Even such important things like having our own car, the essence of a person's ego and the freedom to display themselves, is culminating in car sharing.

People who deliberately moved to the big city because there are so many there they believed they would be able to meet are not meeting them any more, even though they live one street away; they click over selfies to one another.

How long will these people be willing to live in apartments which hardly meet the standards of animal protection regulations in terms of their size or take up 50% of their income?

More recent studies show that younger people (already in the measurable range) stay longer in their apartments than the generation before them. It would be interesting to know how much time spent on shopping and strolling is being given up because of the possibilities provided by purchasing over the Internet. On an abstract view, the unfulfilled and therefore substituted desires are often precisely the reason why people yearn for the large centres. That raises the question of whether the behaviour and the attraction to big cities will continue or disappear completely or in part.

If those are the people we meet in our healthcare industry, for whom we want to become so important that they do not want to and cannot do without us, we will no longer manage with the solution on tap today. Despite that, the transitions will be fluent and the new and the old must co-exist in parallel.

What kind of offering do we have to provide that accommodates those of yesterday and speaks to those of the future?

How must employees be who can and do manage this balancing act?

For the older users of our offerings today and in future, the standard statement will be: **“Being in good health is the most important thing”**. Almost a confession of faith. A confession that has almost a threatening effect in the singles society. For their successors from the singles society, health will be even more important in a very real sense – they are really alone.

Today, by contrast, visits to the doctor and personal contact with the priest of your faith were for many almost like life’s weekly elixir. Allegedly, the 80 million Germans look their doctor right in the eye 1.2 billion times a year. Since the desired visual contact with the doctor of their desires on average lasts for only 6 minutes and requires weeks of waiting time, things will not stay that way. The promise by politicians to change this is rubbish. Perhaps wait 14 days for a kind of medical peep show???

I think that we settle our questions virtually and then go to doctor when the virtual comes to an end.

If, of the 1.2 billion, 400 million genuine contacts and presumably in addition 1 billion video contacts have become the system, everyone who becomes a real patient will already have a real address at the end of the virtual foreplay. The question is whether it will come from **us, Amazon, Apple, Google or Facebook**. We would be able to clearly settle the point as required if the mandate comes from Amazon. Amazon would then send us the rating.

The Rhön-Klinikum Campus is the hardware that everyone, even those from the virtual world, will always need in the end. We can already now, and are doing that, take over patients as outpatients, semi-inpatients, rehab patients, and care for them comprehensively to the highest standards using our network.

The technology that we need to have first virtually and in the internal structure is emerging.

However, we should recognise that our employees – including our executives –, if they place orders with Amazon privately and use and expect their service culture, have to be familiarised in this area accordingly for such a service culture to also be established with us, and that such service culture must be maintained. In the medical field, that is a 180 degree turn. Everyone talks about the patient as the focal point, but that doesn't exist.

This profound cultural change whereby the Company must exemplify in its dealings with its employees is imperative. That simply also means that e.g. the performance of an internal service personnel department must approach the quality of an Amazon order and order execution. Executives will not be able to fall back on their rank, because if patients rate employees, as is customary in package service, the employees will also do the same with their bosses. If we put to use what we have always had to be able to give, i.e. closeness, protection and care, also for employees to make them ambassadors of the requisite corporate spirit, we have shown the way to the leading edge of the new movement. If we succeed in this, the gaps between private existence and necessary professional existence will be fuelled less from a schizophrenic attitude and create a new quality.

I am convinced that we can recruit enough employees and the right ones. For example, it might be decisive for a doctor or nurse for their work and the esteem and appreciation associated with it to be raised because, with the system emerging in the campus the most important things are separated from the things that are unimportant and their work is more highly valued if the really significant cases are separated from those not-so-important cases.

The new co-existence of life, work and living will satisfy the visibly changing situation of life of many if they find with us the solutions to their issues. Single parents need day-care centres and everyone needs a sufficiently large apartment they can afford; then the charm and allure of the city with all its constraints will fade. We can meet promises that the city cannot keep, at the centres and generally, and gain loyal employees.

With what is emerging right now, we are creating for the credo "Good health is the highest good" a place that cannot denied the impression and charm of a cathedral.

We distinguish ourselves from the Church because we of course have to fulfil for our patients their hopes already in the present world.

With the campus we offer today's people who might become patients the ground of hope of being there for them if needed, and are creating the most state-of-the-art access solution without the constraints of the antiquated system of sectors which to overcome is swallowing up more resources while diminishing the benefit of medical care for those concerned. The later generations that will no longer be a selling point because they will no longer know any sectoral boundaries, just as today we are no longer able to judge the effect of a guild from the Middle Ages.

For the population living on a Rhön-Klinikum campus like here, we offer an infrastructure that they do not have in reality even in the middle of a large city.

Even if the created place can become perfect, it must still be possible to reach each person virtually within the catchment area; that is the thrust and main part of the future, everything else merely tackles the mistakes of the past.

My advice to politicians and public authorities is therefore to stop investing in industrial parks, paved access roads – and what not – and to connect every household to high-speed fibre networks. I know how the argument goes – that you can't dig that quickly – and I hope that those in charge will soon ask the decisive question:

Why dig?

Maybe a massive requirement for the building authorities should give everyone a right to simply have their connection to their house, for all I care also above ground – like telephone lines in the past – suspended on poles. They could still be buried once the final stage of the technology has been reached. That would make it possible to realise the new technology in months and not only in years.

There was a time when a telephone isolator on a house was a status symbol for the house owner.

If the infrastructure is right and the Rhön-Klinikum Campus model achieves its effect with people for whom health is the most important thing, it might turn out to be a business in its own right and a regional commercial model. In this regard, a little calculation:

If 20,000 people from the age of 60 decide to live close to a Rhön-Klinikum campus because they are particularly sensitive to health issues and they each bring with them a purchasing power of € 1,000 per month, that would draw a purchasing power of € 240 million (20,000 x € 1,000 per month x 12 months) to the region. The share that Rhön-Klinikum AG with its partners could realise with their services would be about half, leaving a significant share for general business and change.

If I have succeeded in getting some of you to reflect on your own lives, that would indeed be a strong indication that the new business model which was launched here and is transferable to the Group exudes the spirit of a start-up.

By the way: the new inaugural class of the vocational school for healthcare professions in Bad Neustadt, Fachoberschule für Gesundheitsberufe, has begun the school year with an extraordinarily high number of students – young people obviously have a good sense of where the future is happening.

Thank you for your attention