23RD ANNUAL GENERAL MEETING

Speech by Eugen Münch, Chairman of the Supervisory Board

8 JUNE 2011, FRANKFURT AM MAIN

– Check against delivery –

Not wanting to needlessly bore you, I would first refer you to the detailed written Report of the Supervisory Board. This Report has been displayed within the premises of RHÖN-KLINIKUM AG since the convocation to this Annual General Meeting and was sent to the shareholders on request. The Report is of course also available here today.

You will also find it printed on pages 14 to 27 in the Annual Report also provided to you, and it has also been posted on the Company's homepage since convocation.

With the comprehensive and in parts thoroughgoing Report, we have tried to provide an informative insight into the work of the Supervisory Board.

The Supervisory Board performed the duties incumbent on it in accordance with the law and the Articles of Association and supervised the management of the Board of Management. It was informed by the Board of Management regularly, without delay and comprehensively. Detailed consultations were held on current events and developments of the Company. Deviations from originally planned targets were discussed and reviewed.

For each member the Supervisory Board is more than just a controlling or monitoring instrument of the Company. Hence the legal phrase:

"The Board of Management co-ordinated the strategic planning with the Supervisory Board. The Supervisory Board was involved in all decisions of fundamental importance for the Company. Where consent was required for specific transactions, the Supervisory Board granted such consent after careful review."

However, this wording does not sufficiently describe the self-perception of the Supervisory Board. I will therefore, after having made my mandatory statements, report on an issue of consultation that is very important for the future of the Company. It is only the Board of Management that can take decisions and act, but it is often in a dialogue with the Supervisory Board that initiatives and proposals are born. Unfortunately, – and that is also a fact – a lot of our time that would otherwise be put to better use is taken up with a host of requirements and specifications imposed on us by professional moralists as well as political and other pundits who wouldn't know what company management is if it were staring them in the face.

To make economical use of time, the Supervisory Board has established seven standing committees for the efficient performance of its duties. These

committees prepare issues and resolutions for the plenary meeting. Moreover, specific powers were delegated to the committees.

With us, as a Company operating exclusively in Germany in a market that is highly regulated (so much so that it sometimes makes foreigners shudder), questions of international diversity are currently not of any special importance. Nevertheless, we do have in Dr. Hamann a member of the Board of Management with a French passport.

We unanimously regard the issue of women on the Supervisory Board and in the management to be a very important issue. For the Supervisory Board and the Personnel Affairs Committee, undermining this as a permanent appointment alternative results in resources being wasted. It is therefore no coincidence that we have provided for an equal representation of two women and two men on the Personnel Affairs Committee of the Supervisory Board. This prevents any blindness to one or the other option.

We refused to define a target quota for women on the Supervisory Board and in the management out of a self-obligation because of the consensus that even without a public self-commitment we will do everything and leave off nothing to make progress. A self-commitment to a quota for women would mean prioritising an aim of society over the corporate objectives as defined in the Articles of Association. A self-commitment also gives rise to the risk of failing to fulfil such obligation for reasons beyond our control, or the risk of having such a quota only at the expense of disadvantages for the Company. We do not in any way mince our efforts in recruiting qualified women, the motive always being to improve the quality of management (and not to cater to some preferences expressed by part of the population or certain politicians).

We submitted the recommendation of the German Corporate Governance Code concerning the remuneration system for members of the Board of Management for the first time in financial year 2010.

Today, these unchanged remuneration guidelines approved by you are being put to a vote once again. In every contract amendment we used the framework conditions to adjust existing and new service contracts with members of the Board of Management to the new remuneration structure. That did not always go down well because with the Board of Management, when looking ahead to negotiations on re-appointment, the view was taken was that, although the new contractual form was accepted, related changes in earnings that would have applied under continuation of the old contract forms were to be eliminated through creatively drafted provisions.

But these guidelines are precisely designed to keep in check disproportionate trends in income in relation to the Company's growth. Another objective of the guidelines was to reflect the relationship of performance and consideration better than was possible under the old contract model.

The income consequence entailed by a performance appraisal in some cases may result in such appraisal not being shared by both sides. In such cases the result is that re-appointment (or new appointment) will fail. It is possible that, considering the overall reduction in the service times of board members apparent in Germany, some people writing the Code are underestimating the impact of regulation.

With reference to the proposal for today's resolution on an age limit, there were discussions in two meetings in which different views were held, with two opposite approaches being discussed:

One position favoured leaving the age limit unchanged and the possibility of opening it up if specifically required in the individual case. The counterposition, which I took, would do away with the regular retirement age altogether, or possibly to restrict it to 75 years.

In the end, the Board of Management drafted the resolution proposal and the majority of the Supervisory Board complied with this. We recommend you to adopt the resolution and to raise the age limit.

My personal remark in this regard is that I also favour raising the age limit because in 2014 Mr. Pföhler and in 2015 Mr. Mündel, Mr. Klimpe and myself would have to retire in accordance with the Articles of Association. However, I presume that, particularly at the present time, there are fundamental developments to be shaped for which it might be wise to keep an option open for re-appointing aforementioned persons. It is better to clarify now, sufficiently in advance, whether you hold this position than to find ourselves faced with a general change later on.

Today, then, you are deciding – because that is the next practical amendment of the Articles – whether or not, if required, you see the aforementioned persons (individually or collectively) once again as candidates. – It is your decision. 10 per cent nay votes means that the resolution is rejected.

As Mr. Pföhler reported, demographic trends and advances in medicine even now are having a very considerable operative impact within the Company. Together with the Board of Management, the Supervisory Board has explored the horizon extensively at two meetings.

These meetings were concerned with the question of whether the healthcare system in Germany has a future as a growing healthcare industry with RHÖN-KLINIKUM AG as a full-service provider of healthcare services, or as a rationed, regulated healthcare system with healthcare funds acting as the providers and RHÖN-KLINIKUM as supplier.

The members of the Supervisory Board take very different initial positions, which is why we did not try to develop any consensus position from this discussion.

The issue is a complex one which I will try to outline from my perspective.

Throughout the world, healthcare systems are seen as an economically unproductive social burden. This "way of thinking and understanding" is particularly pronounced in Germany. Originally, our healthcare system was designed to provide assistance on a solidarity basis to helpless patients of early capitalism industrial society.

This principle, whereby the young pay for the old and the healthy for the sick, works if the ratio of those providing for care and those being cared for were, e.g. 10 to 1.

That used to be the case. It was possible to finance the few sick, elderly and unemployed people back then solely from growth.

Question: Are there any over-60s here today who seriously saw social contributions as unbearable 20 or 30 years ago?

Today the situation is completely different.

Already now, the majority is being supported by the minority.

The healthcare sector – and I would for now leave aside the unemployed and pensioners – is being driven by the demographic trend and advances in medicine. The latter would not be any problem if for any new developments we could give up the old ones.

Demographic facts are hard facts. There is nothing more stable in the way of statistical forecasts than demographic forecasts, and no more reliable estimate than an estimate as to what tasks we will consequently face and have to resolve in the next 20 to 40 years.
We know exactly what is happening, what benefits the health insurance funds would have to pay so that everyone gets what they need (or out of habit believe

they need). Have you ever counted how many times you saw the doctor or were in hospital or at the pharmacy? Just think about last year. In Germany, a doctor with above-average income makes his living off of 160 to 350 people, depending on the area, and for the most part works for the elderly.

We are all voters. And those who want to continue doing things as they always have into old age are the active ones at the ballot box where they are already in the majority.

Today's politician makes his living from and is often dependent on politics. For those with no alternative, their fate, as it were, is in the hands of those who elect them. To be elected or not to be elected is thus a to-be-or-not-to-be decision of those concerned.

Voters do not like to hear unpleasant tidings, and that is why politicians do not bear them. Since bad news makes people very angry, who wants to come under the wrath of others?

For many years it has been an established fact that pay-as-you-go systems do not work if paid for by a minority and used by a majority.

What, then, is being done?

Many years ago, Mr. Seehofer discovered that the health insurance funds would be the right ones to assume responsibility for healthcare provision. This approach was explicable after politicians, in the interests of winning voters, had used up all possibilities of doling out campaign goodies to the detriment of the social security systems. As I have already observed: those in need of help already outnumbered the helpers. The capacity to bring in contributions, as that of tax financing, has reached the breaking point. In its wake comes tax evasion and social fraud.

It was now no longer politically lucrative to bear the consequences of the wasteful policies, the party was over. For him (Horst Seehofer), this was a lead-in for giving priority to self-governing healthcare bodies. That sounds good: all of a sudden, semi-state institutions were vying for their right to exist. That was and is certainly something that is necessary for optimising the use of resources: in the end, 800 out of 1000 health insurance funds disappeared. In the beginning it was possible to cover everything – pensions, no dismissals, etc. Now emergency collective agreements are on the agenda. It is normal for these organisations and their employees and leaders to try to redeem themselves in the struggle of suppliers for survival so as to at least keep their head above water.

What else should a health insurance fund do but save on suppliers and refuse its members benefits? Since members can go away, it is not wise to tell them that they have to save. Instead, suppliers (e.g. us) are provided a budget, and when that is gone it will have to teach members that the pot is empty and that the modern treatment has not yet been approved.

The fight for survival is also leading to situations like the insolvency of the health insurance fund City BKK. – By the way, that sounds like a privatised health insurance fund, but it is only a statutory health insurance fund of a few cities like Berlin which are now behaving as if they were not concerned by all that.

When such a health insurance fund goes bust, there is still solidarity amongst the funds for its employees, but not for the members. After all, who wants to catch the virus of bankruptcy? There then happens to be no admission form but instead the recommendation to try the next health insurance fund. That is not o.k., but nevertheless human and foreseeable. It has little to do, though, with the aura of a self-sacrificing society of helpers. That is not a criticism on my part, just the observation of a normalcy that has to be expected.

With my dramatic description I only want to counter the myth that discussions about demographic consequences are nothing but scaremongering. I am convinced that the fight for handouts has already begun and that it is time to act.

Such a confrontation will even result in resources being destroyed as opponents find themselves in an inescapable spiral of escalation that ultimately benefits no one but instead only does harm.

The health insurance funds are making sweeping allegations against the hospitals claiming that wrong invoices are causing damage running into the billions. In response to that – it will never be possible to tell who started – the hospitals and also doctors are hiring invoicing specialists, and the health insurance funds are following suit. Everyone is rightly girding themselves, giving rise to a new stalemate with more bureaucracy.

The legislator has allowed the health insurance funds to purchase services through what are referred to as selective contracts. For example, a health insurance fund and we ourselves will enter into a contract containing precise provisions on the price and benefits for diabetes treatment. Any patient from that health insurance fund can then join this contract and either use the benefits or not use them (making provision of this care cheaper for the health insurance fund). In principle this model is good, but only up to a point. It is a model that merely treats the symptoms without making any contribution beyond a temporary cost-cutting effect. It does not give the patient any independence and

an accompanying greater self-reliance, and does not lead to any resources that might offset the consequences of demography.

Things will become particularly dramatic given that this extreme spiral of needless performance pressures threatening their very existence (if it is continued by the health insurance funds in the struggle of annihilation, and given the different skills of hospitals and doctors) will change from a healthy pressure to make improvements to a pressure that begins to crush service structures at their weakest points. When that happens, personally threatened managing directors, doctors and nurses will then see their personal existence as being threatened. As in a stampede, the weakest will be the first to be trampled and to abandon their principles, and will make real mistakes, harm others, lie and cheat. The system will answer with patient and compliance officers – and who knows what else – and will then say that everything is alright and that the problem was due to the mistakes of a few individuals. Those individuals will then be arrested and will do time. Such a person of course is not innocent and should have resisted, but there is a small sense of that person having acted under orders.

Being well aware of the forces at work, I am absolutely certain that this analysis will be shared by many and confirmed by almost nobody. The reason is that in actual fact no solution can be initiated politically – unless the politicians want to commit hara-kiri – in which their own clientele is affected. In the end, this paralyses everything. The chosen victims are those who cannot defend themselves and who (or whose resources) are used to advance to the next round.

Now, a financial transaction pool has been discovered that would be capable of delaying large-scale changes in the system for a few years.

I mean *private patients*.

Private health insurance relies on being able to use the existing infrastructure created for everyone (including community-based doctors, hospitals, their specialised facilities that they would not be able to create and maintain themselves), to give their customers (through better – significantly better – remuneration of doctors) a special status and special benefits with exceptional service and availability. It is a little like seeing all the traffic lights turn green whenever you approach them with a Mercedes.

Nobody takes exception to this as long as there is enough of everything to go around. It is no disadvantage for normal patients if private patients sit in a nicer waiting room or are given a single room in a hospital.

However, when price pressures in the social sector call for rising performance, tensions rise and a vying for benefits begins. Contrary to all claims, a market will also work in the healthcare system: as goods become scarce, it will tend to be the case that one who pays more for them will get them.

Specialist doctors are reducing their opening hours for the general public so that they can be open for private patients, that's the way things are. – Of course, not everyone is doing that, but more and more are. Some claim that the opening hours are sometimes down to 26 hours a week. Where that is the case, those who come at the expense of a statutory health insurance fund and who get an appointment only after weeks then realise that they are queuing.

What is the lesson from that? A queue only realises that it is a queue when it is overtaken by individual persons.

The problem with this is that the economy of scarce resources is made visible and politically explosive only by those private patients passing through – like those fleeing the construction of the Berlin Wall in the GDR.

If the socially minded at the same time hear that funded private health insurance funds control reserves to the tune of € 140 bn to € 150 bn which their insured members have formed with their unused contributions, they start getting creative. If for seven years € 20 bn (in funds) were to be withdrawn each year, that would solve a political problem during that time: no private patients, no trouble and no deficits.

However, just because problems are postponed does not mean they have been solved. Seven years later, performance pressures are all the more dramatic and more difficult to handle by those involved.

The analysis does not show any sustainable solution in sight. Neither do the parties have any solution of their own, and simply acquiesce in the view that it is not about a fundamental solution but about different viewpoints.

What could RHÖN-KLINIKUM AG do to take back the initiative? The development approaches shown in my analysis do not lead to any real benefit for the persons concerned, i.e. the insured members; instead they lead to a delay in possible solutions because we go from one victory to the next at an increasingly rapid pace, but in the interest of the overall system are marking time and are slipping back economically.

The fact is:

People want more healthcare services than may judiciously be offered today given the way things are developing in today's pay-as-you-go system. And as surveys have shown, they are even prepared to pay for this to a reasonable extent – the problem being, however, that nobody has the courage to attempt the change in system.

The questions are thus the following:

Is it possible, under the lead of RHÖN-KLINIKUM AG, for a generalised offering to be created to complement statutory health insurance by which its increasing performance deficits can be compensated? Can this service package be offered in the form of affordable insurance coverage and be created as the third financing mainstay of the German healthcare system (with a small deductible as a competitive check)?

Unlike model of abolishing private health insurance which serves only a few, the opposite might be done. It would have to be a new supplementing insurance cover, so efficient and affordable as to be desirable for the majority of people based on their personal purchasing power. Its performance has to overcome the increasing shortages in healthcare provision, waiting times and obstacles of modernity.

The right approach to take does not use walls and limits but an opening-up and competitive performance. Incidentally, this would give rise to the broadly based, funded third financial pillar (after pay-as-you-go contributions and taxes). Such a system, launched by RHÖN-KLINIKUM AG and using the rationality of a cross-sector network as a cost and quality advantage, can succeed.

The imitators who are certain to quickly follow would spur us on and would popularise the system as a new market concept with social benefits.

Private insurance (whatever roles or partnerships might arise with it) would be called upon to realise the actuarial part of the concept.

If it teamed up with us to take on this challenge and managed to find a solution, it would make itself useful for the majority of people and not for a minority. That would be a position that would carry enormous weight in the political debate.

A new insurance concept offering benefits on a truly mass scale might gain acceptance even without the need for teaser incentives for pusher groups.

If private insurance fails to recognise this, there will certainly be one or more statutory health insurance funds that might implement the model as a kind of upper house in combination with individual private insurers.

For statutory health insurance funds this “upper house model”, whether organised directly or together with a private health insurance fund association, would be a funded extension of medical quantity and quality. At the same time this new way of financing demographic consequences would also strengthen their autonomy in terms of true self-governance and give their members an autonomy that also strengthens the health insurance fund.

Mr. Pföhler has reported to you how far the models for medical networks have advanced. I am sure you listened very attentively and after that were convinced – as I was – that whenever this Company takes upon itself the task of developing a performance concept that is worth its money it will also be capable carrying though with it, and the performance concept will close the gap emerging in the system.

There will be no break with today’s system: we will continue as a provider, but for our market share will fill all gaps arising for demographic and medical reasons. What patients stand to gain from this network is great quality with no waiting times – and we avoid misallocated resources while ensuring a greater benefit.

The concept is geared towards offering everything (but at an optimal location), and doing what is necessary and useful and avoiding wastefulness.

The question as to why what is being discussed in theory has not yet happened is a good one.

The answer is:
Offering a service that everyone can afford must also be accessible to everyone.

To achieve generalised coverage quickly enough (i.e. before the universal state insurance fund or something similar starts prescribing their own medicine), strong, natural growth alone is not enough.

<u>What options are open?</u>

Co-operation schemes are possible, and the Internet portal “Qualitätskliniken.de” initiated and co-founded by us is the beginning of a defined product and service description. The Internet portal could become the basis of an offering. A smart improvement in generalised coverage and

comparatively small integration differences might be brought about with links to other private chains of healthcare facilities. I therefore advise the Board of Management to look at all options for partnerships of all kinds, with a no-bars, no-taboos approach. That means that anyone in a position to provide and supplement the required service is a potential partner in negotiations. In this regard it would be preferable to clarify the positions of the "big FOUR". Enlightened public-law or church operations could also be partners.

Time is getting short! Pressure on the health insurance funds is mounting continuously, and for them it will be a question of survival to raise pressure on providers. We have thought about the creative path towards true growth and the development of a real healthcare industry. Systemically, it makes little sense to just keep "running in the hamster wheel" if a partnership of equals with the health insurance funds presents itself as a real alternative.

The health insurance funds are the financial industry of the healthcare system, which makes us its real economy. The consequences of a dominating financial system have just been experienced by everyone, which is why we are not making the same mistake. The solution is actually obvious: parts of the real economy team up and create the new healthcare brand which, closely integrated with basic statutory care – which is the way it is –, will close the gap between what they want and what is realistic for as many people as possible.

Since I regard the development outlined as an extremely important decision for the future, I am willing – not only as chairman of the Supervisory Board but also as a shareholder – to support the Company by whatever means needed (both morally and materially) on the path towards producing the market strength needed to create the benchmark in the healthcare industry, and to throw all resources behind this.

I thus hope, dear Ladies and Gentlemen, that I have not stretched your patience too far.

In closing I would like to thank all employees, executive staff and employee representatives, the Board of Management and my colleagues on the Supervisory Board for the work performed and their commitment within the Company. I believe we are at the vanguard of a development that will call for a high level of commitment and responsibility. I believe this is not a burden but instead a privilege that everyone should live up to in their own place as they are able.