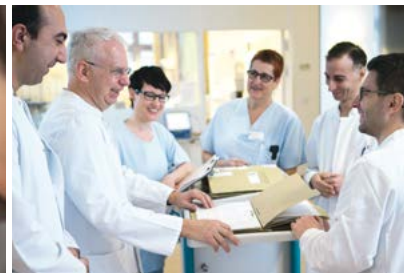


# ANNUAL REPORT

---

## 2016



**RHÖN-KLINIKUM**  
AKTIENGESELLSCHAFT

## **CONTENT**

- 1 Key Figures 2012–2016
- 1A Financial Calendar 2017
- 1B Key Figures Q1–Q4 2016

### **REPORT OF THE BOARD OF MANAGEMENT**

- 2 Letter to Shareholders
- 7 The RHÖN-KLINIKUM Share

### **CORPORATE RESPONSIBILITY**

- 14 Report of the Supervisory Board
- 25 Corporate Governance Report
- 41 Progress Report

### **COMPANY ON THE MOVE**

- 64 Focus on Medical Care
- 68 Zero Errors – Excellent Quality Management
- 72 Doc on Demand – Digital Progress in Telemedicine
- 74 Creative Mass – Scientific Know-How – RHÖN-Funding Pool

### **GROUP MANAGEMENT REPORT**

- 81 Basic Characteristics of the RHÖN-KLINIKUM Group
- 94 Economic Report
- 102 Forecast Report
- 104 Opportunities and Risk Report
- 111 Reporting pursuant to Section 315 (2) No. 5 of the German Commercial Code (Handelsgesetzbuch, HGB) on Internal Control and Risk Management Systems pertaining to the Accounting Process

### **CONSOLIDATED FINANCIAL STATEMENTS**

- 114 Consolidated Balance Sheet
- 116 Consolidated Income Statement
- 117 Consolidated Statement of Comprehensive Income
- 118 Statement of Changes in Equity
- 119 Statement of Cash Flows
- 120 Notes
- 202 Responsibility Statement

- 203 Independent Auditor's Report

### **SUMMARY REPORT FOR RHÖN-KLINIKUM AKTIENGESELLSCHAFT**

- 212 Balance Sheet and Income Statement
- 213 Proposed Appropriation of Profit

### **THE COMPANY AT A GLANCE**

- 216 Our Sites

## KEY FIGURES 2012–2016

	2012	2013	2014	2015	2016
	€ '000	€ '000	€ '000	€ '000	€ '000
Revenues	2,864,909	3,013,835	1,510,519	1,108,189	1,176,349
Materials and consumables used	753,354	791,656	425,106	321,831	329,542
Employee benefits expense	1,740,358	1,840,407	963,937	695,716	757,560
Depreciation/amortisation and impairment	141,161	119,697	82,792	61,023	59,867
Consolidated profit according to IFRS	92,401	90,027	1,227,878	87,443	58,635
– Profit share of shareholders of RHÖN-KLINIKUM AG	90,116	86,648	1,225,711	85,381	56,430
– Profit share of non-controlling interests	2,285	3,379	2,167	2,062	2,205
EBT	114,166	117,693	1,248,466	90,288	60,862
EBIT	150,813	155,747	1,330,850	93,138	96,993
EBITDA	291,974	275,444	1,413,642	154,161	156,860
Operating cash flow	232,263	211,042	1,310,278	148,181	118,442
Property, plant and equipment as well as investment property	1,924,128	715,103*	666,259	671,394	703,782
Income tax assets	9,480	6,684*	4,576	2,383	–
Other non-current assets, other non-current financial assets	13,668	375*	11,942	50,115	52,670
Equity according to IFRS	1,606,866	1,666,687	1,248,924	1,108,713	1,113,383
Return on equity in %	5.8	5.5	84.2	7.4	5.3
Balance sheet total according to IFRS	3,184,501	3,098,189	1,804,311	1,634,488	1,456,245
Investments					
– in goodwill, in other intangible assets, as well as in property, plant and equipment and in investment property	273,511	118,808	54,366	69,426	99,065
– in other non-current assets, in other non-current financial assets	765	130	11,717	8,431	17,279
Earnings per ordinary share (in €)	0.65	0.63	9.36	1.19	0.84
Number of employees (headcount)	43,059	43,363	15,602	15,654	16,486
Number of cases (patients treated)	2,555,822	2,654,249	1,222,846	765,109	813,747
Beds and places	17,089	17,113	5,227	5,218	5,348

\* Excluding assets held for sale.

## FINANCIAL CALENDAR 2017

### DATES FOR RHÖN-KLINIKUM SHAREHOLDERS AND FINANCIAL ANALYSTS

24 February 2017	Publication of Preliminary Results for financial year 2016, Conference call for analysts
7 April 2017	Publication of 2016 Annual Financial Report, Press Conference
5 May 2017	Publication of Interim Report for the quarter ending 31 March 2017, Conference call for analysts
7 June 2017	Annual General Meeting (Kultur- und Kongresszentrum der Jahrhunderthalle, Frankfurt a. M.)
3 August 2017	Publication of Half-Year Financial Report as at 30 June 2017, Conference call for analysts
10 November 2017	Publication of Interim Report for the quarter ending 30 September 2017, Conference call for analysts

## DISCLAIMER

Any market, price or performance data provided herein are for information purposes only. Nothing contained in this Report is intended as, or constitutes, an offer to buy or sell or any solicitation of an offer to buy or sell any RHÖN-KLINIKUM shares. RHÖN-KLINIKUM AG believes that the information is accurate as of the date of this Report.

However, although the information has mainly been obtained from Company sources and is deemed to be reliable, RHÖN-KLINIKUM AG does not guarantee or make any warranty regarding the accuracy, suitability or completeness of such information.

Any decision to invest in RHÖN-KLINIKUM shares should not be made solely on the basis of the information contained in this Report.

Although as a general rule we employ the masculine form for better readability when referring to persons, such references in each case shall mean both male and female persons.

Additional information is available upon request.

## KEY FIGURES Q1–Q4 2016

	Jan.–Dec. 2016	Oct.–Dec. 2016	July–Sept. 2016	April–June 2016	Jan.–March 2016
	€ '000	€ '000	€ '000	€ '000	€ '000
Revenues	1,176,349	291,045	294,714	299,072	291,518
Materials and consumables used	329,542	79,718	84,335	84,850	80,639
Employee benefits expense	757,560	192,312	187,898	189,583	187,767
Depreciation/amortisation and impairment	59,866	15,425	14,958	14,806	14,677
Consolidated profit according to IFRS	58,635	–23,737	12,816	18,902	50,654
– Profit share of shareholders of RHÖN-KLINIKUM AG	56,430	–24,029	12,340	18,197	49,922
– Profit share of non-controlling interests	2,205	292	476	705	732
Return on revenue (%)	5.0	–8.2	4.3	6.3	17.4
EBT	60,862	–25,989	13,300	21,064	52,487
EBIT	96,993	9,899	13,172	20,733	53,189
EBIT ratio (%)	8.2	3.4	4.5	6.9	18.2
EBITDA	156,860	25,325	28,130	35,539	67,866
EBITDA ratio (%)	13.3	8.7	9.5	11.9	23.3
Operating cash flow	118,442	–8,275	27,742	33,672	65,303
Property, plant and equipment as well as investment property	703,782	703,782	695,627	687,076	679,680
Income tax assets (non-current)	–	–	–	2,433	2,415
Equity according to IFRS	1,113,383	1,113,383	1,137,218	1,124,467	1,159,366
Return on equity in %	5.3	0.9	4.3	5.5	8.2
Balance sheet total according to IFRS	1,456,245	1,456,245	1,492,595	1,465,843	1,515,984
Investments					
– in goodwill, other intangible assets, as well as in property, plant and equipment and in investment property	99,065	24,800	23,950	22,110	28,205
– in other non-current assets, in other non-current financial assets	17,279	8,112	2,747	3,286	3,134
Earnings per ordinary share (in €)	0.84	–0.36	0.18	0.27	0.75
Number of employees (headcount)	16,486	16,486	16,377	16,234	16,117
Number of cases (patients treated)	813,747	198,118	201,226	208,825	205,578
Beds and places	5,348	5,348	5,367	5,367	5,451

# LETTER TO SHAREHOLDERS

---



The Board of Management of  
RHÖN-KLINIKUM AG (f. l. t. r.):  
Prof. Dr. med. Bernd Griewing,  
Stephan Holzinger,  
Dr. med. Dr. jur. Martin Siebert

»» RHÖN-KLINIKUM AG will step up its efforts to enhance profitability. At the same time, with our campus concept and the comprehensive use of cognitive assistance systems, we have our sights firmly set on the right future trends and issues to be the clear leader of innovation in the German hospital sector by 2022. They will help improve the quality of care, ensure efficient clinical processes and be indispensable to delivering outstanding patient care. ««

Dear Ladies and Gentlemen, Dear Shareholders,

RHÖN-KLINIKUM AG stands at the crossroads.

More than three years after the Fresenius transaction running into the billions, efforts will now have to be stepped up significantly to establish this traditional, privately owned Company from the German hospital field as a viable player for the future.

Performance in the operative business area has been unsatisfactory – in nearly all material parameters we have been lagging behind our competitors, in some cases significantly, and this despite the really good basis and opportunities handed down to us from the transaction. At the same time, we should not blame this on a difficult regulatory environment. Although we are undoubtedly operating in a difficult environment, so do our competitors. We thus have to observe that there have been some entrepreneurial shortcomings over the past years.

The question is how we wish to position ourselves strategically correctly on this market for the future, having since become a smaller but as a result a more nimble provider per se: in the view of the Supervisory Board, this question latterly had not been answered as clearly and consistently as it needed to be, nor addressed with the requisite determination on the part of the Board of Management. For that reason, the Supervisory Board adopted personnel measures and appointed me – by unanimous endorsement – as the new Chairman of the Board of Management on 1 February. The Supervisory Board also resolved to reduce the size of the Board of Management: I now manage the Company jointly with my two colleagues Dr. Dr. Martin Siebert and Professor Dr. Bernd Griewing.

Our task now consists in noticeably improving the operative development of the Company while at the same time pressing ahead with the strategically significant projects of the future both in content and in terms of timelines. Despite the unsatisfactory business performance, there is no reason to panic. But the phase that has continued for a number of years, in which the gradually write-back of provisions from the Fresenius transaction apparently blocked the committed efforts to resolve the important strategic tasks and issues critical for the Company's future, is now definitely over. The operative challenges now lying ahead of us include, for example, improving the cost-of-materials ratio, as well as analysing above all the administrative structures both at head office and at the individual sites, and resolving the long-standing dispute over "separate accounting" at the university hospitals in Gießen and Marburg which unfortunately escalated once again at the end of 2016. We are now steadfastly and resolutely addressing these oversights.

Let us therefore now look ahead to the future! The key strategic projects that will decide on the future viability of this Company are the "campus model" developed by us – whose construction implementation was marked in March 2017 by the celebration in the topping out ceremony for our impressive new building in Bad Neustadt – and the use of digitalisation and artificial intelligence. Both these things offer huge opportunities for our Company.

With the campus model, we are implementing an innovative and path breaking project offering the prospect of resolving one of the most urgent problems facing the healthcare system: healthcare delivery in rural regions meeting excellent quality standards, coupled with unrivalled orientation on the contemporary needs of patients. The campus model integrates the services of the hospital and local doctors so that they are performed on a cross-sector and integrated basis. This offering is rounded off by the tie-in of residential and nursing offerings meeting the needs of the elderly, by rehabilitation as well as by numerous other services. That raises the quality of care for the local population whilst bringing about noticeable efficiency gains in the provision of medical services.

We are convinced that the campus model can be implemented as a prototype for excellent rural healthcare, also in other regions that are rural in character – either on green field sites or by refurbishing or restructuring existing facilities. Specifically, we are now analysing the roughly 400 districts in Germany with the aim of identifying a dozen or so candidates offering suitable regional economic and political parameters. From our perspective, there is no credible



alternative to this new growth path, even if the planning processes associated with it and the political-administrative hurdles are challenging. That makes it all the more important for us to ensure that the current campus project in Bad Neustadt, with its showcase character for the Company, really does become a success story. Here, still further efforts are needed., even if the planning processes associated with it and the political-administrative hurdles are challenging. That makes it all the more important for us to ensure that the current campus project in Bad Neustadt, with its showcase character for the Company, really does become a success story. Here, still further efforts are needed.

Also with the targeted use of digitalisation and cognitive intelligence, we aim to retake our model role in healthcare provision. With the help of cognitive systems, we want to be in the position in future to scale a patient's anamnesis (medical history), raise diagnosis to a new level of excellence and make patient management more efficient. After successfully testing the first use of voice-controlled, cognitive computers at the Center for Unrecognised and Rare Diseases (ZusE) and in the emergency outpatient ward at Marburg University Hospital, we are further pursuing this path.

It is also indispensable for effective and efficient patient care to use the electronic patient file, which contains all medical information about a patient and can be accessed by all persons involved in the treatment – anytime, anywhere. That means that valuable information for diagnosis and therapy is always available and unnecessary redundant examinations are eliminated – saving time for the patient and money for the Company. Our web-based electronic patient file (WebEPA+) is already to some extent established in Bad Berka and Frankfurt (Oder), and is to be quickly be rolled out at all our sites. Acceptance amongst patients is overwhelming.

We are firmly convinced that as we expand the campus model to new sites and prospectively make comprehensive use of cognitive assistance systems, we are setting our sights firmly on the right future trends and issues. Our aim is to not merely to adapt the Company bit by bit to the challenges of the times and to chase after them, but instead to actively use and exploit them. And in that way to stay ahead of them. If we do not do that, we run the risk of being overrun by the upheavals.

Making the Company viable for the future with these important strategic projects will require resources and tie management capacities. We want to improve ourselves operatively and indeed will do so, but by this Letter I am also set on galvanising you in the full and unmistakable awareness that this Company is set for a phase of profound, sweeping changes.

The good news is: We are building "hospital 4.0". And are the first company from the sector to do so. That no more and no less is in keeping with the tradition and standard of this Company.

I appeal to you to embark with us on this challenging journey and to put your trust in us. We are convinced that this will also be worthwhile for you as shareholders.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephan Holzinger', written in a cursive style.

Stephan Holzinger  
Chairman of the Board of Management

Bad Neustadt a. d. Saale, April 2017



# THE RHÖN-KLINIKUM SHARE

---

2016 share price performance marked by dividend policy, demand for healthcare stocks and index adjustment of Deutsche Börse to shift in shareholder base. Board of Management and Supervisory Board propose a dividend of 0.35 euros per eligible share.

## THE STOCK MARKETS IN 2016

The trend on the international stock markets was adversely affected in the first half by weak economic data from China and the British Brexit vote. On 23 June 2016, British voters surprisingly decided to exit the European Union, and by voting to leave sent a wave of uncertainty through the financial markets: after getting off to a weak start to the first half of the year, the international stock markets in the first quarter of 2016 recovered surprisingly quickly from the Brexit shock at the end of June. The continued

expansive monetary policy of the central banks, the rise in the price of oil and the robust economy coupled with the more optimistic business outlook had a positive impact. In the fourth quarter, the financial markets were overshadowed by uncertainty over the future monetary policy of the central banks as well as the surprising outcome of the US presidential election on 8 November and the referendum in Italy at the beginning of December.



Despite the uncertainties arising from political risks and the banking crisis in Europe (Italy, Germany), the economy in Europe proved strong. In Germany, the mood in the German economy and economic growth was bolstered by strong domestic demand and the healthy labour market. The German economy made a strong finish to the year, and the ifo business climate index improved from 107.4 points in January to 111.0 points in December 2016. The outlook for the first half of 2017 was slightly more optimistic in December.

In the US, economic recovery and an improvement in the labour market continued. At its meeting on 14 December 2016, the US Federal Reserve (Fed) confirmed the trend reversal initiated at the end of 2015 and for the first time announced a further interest rate increase of 0.25 percentage points. The European Central Bank left its key rate unchanged at zero per

cent, and in December extended its bond purchase programme until the end of 2017. Starting from April 2017, the monthly purchasing volume will be reduced from 80 to 60 billion euros.

Given the various external effects, the stock markets were very volatile. Overall, the DAX® posted an increase of roughly 6.9 per cent over the year. With the sluggish start to the year, the German leading index fell to a low of 8,753 points (11 February 2016). Despite the further declines in equities in the wake of the surprising voting results (Brexit vote, US presidential election), the DAX® rallied to close the year higher at 11,481 points ("Trump" rally, more positive economic prospects, continuation of expansive monetary policy in Europe). The second-tier German index MDAX® rose in 2016 by roughly 6.8 per cent. The German indices thus outperformed the European benchmark indices. For example, the DJ EURO STOXX® gained roughly

1.5 per cent and the DJ EURO STOXX 50® increased by roughly 0.7 per cent. European healthcare stocks came under pressure in the first quarter of 2016: despite having since outperformed in the second quarter when defensive stocks paying high dividends were particularly in demand, they were significantly weaker over the year as a whole compared with German market indices, and similarly weak compared with European market indices. The DJ EURO STOXX Healthcare® rose by 0.6 per cent over the year.

### RHÖN-KLINIKUM SHARE PRICE MARKED BY DIVIDEND POLICY, DEMAND FOR HEALTHCARE STOCKS, INDEX ADJUSTMENT AND SHIFT WITHIN SHAREHOLDER BASE

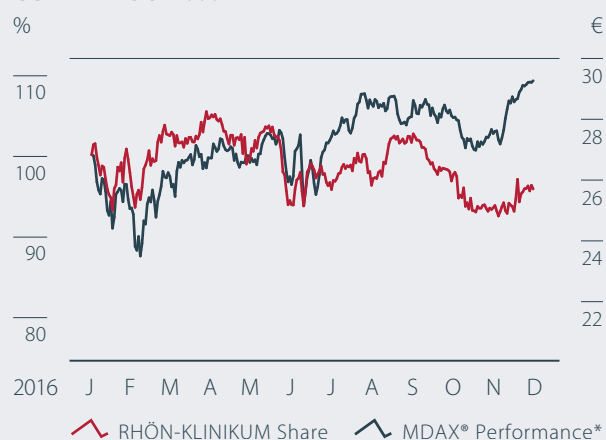
The RHÖN-KLINIKUM share ended the first half down almost 4.9 per cent and the nine-month period down only slightly by 2.2 per cent. Over the nine-month period, the RHÖN-KLINIKUM share thus performed more or less in line with the DAX®, but significantly outperformed DJ EURO STOXX® and DJ EURO STOXX 50® as well as DJ EURO STOXX Healthcare®.

Over the course of 2016, the share of RHÖN-KLINIKUM AG lost roughly 7.3 per cent and performed much weaker than the German and European market indices, and moderately weaker than DJ EURO STOXX Healthcare®. Here, the year-end rally was driven in particular by more confident economic expectations and the strong rise in technology, banking, and industrial stocks. The RHÖN-KLINIKUM share ended the year at a closing price of 25.66 euros. Including the dividend payment, share price performance over the year stood at minus 4.4 per cent.

### INDEX ADJUSTMENT OF DEUTSCHE BÖRSE

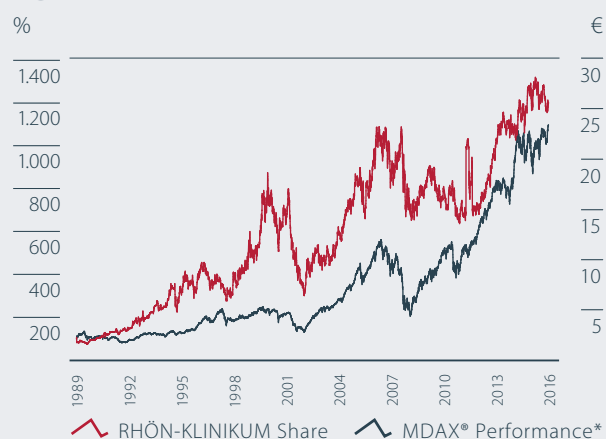
On 5 December 2016, Deutsche Börse reviewed the composition of its indices and made adjustments. Based on the selection criteria of market capitalisation and order book turnover, the listed subsidiaries of the energy utilities E.ON and RWE, Uniper SE und innogy SE, moved up into the MDAX® with effect from 19 December 2016, replacing the stocks of RHÖN-KLINIKUM AG and DMG Mori AG. As shown by the ranking of Deutsche Börse relevant for the

### RHÖN-KLINIKUM SHARE ON A SHORT-TERM COMPARISON ...



\* Change in index to SDAX® from 19 December 2016.

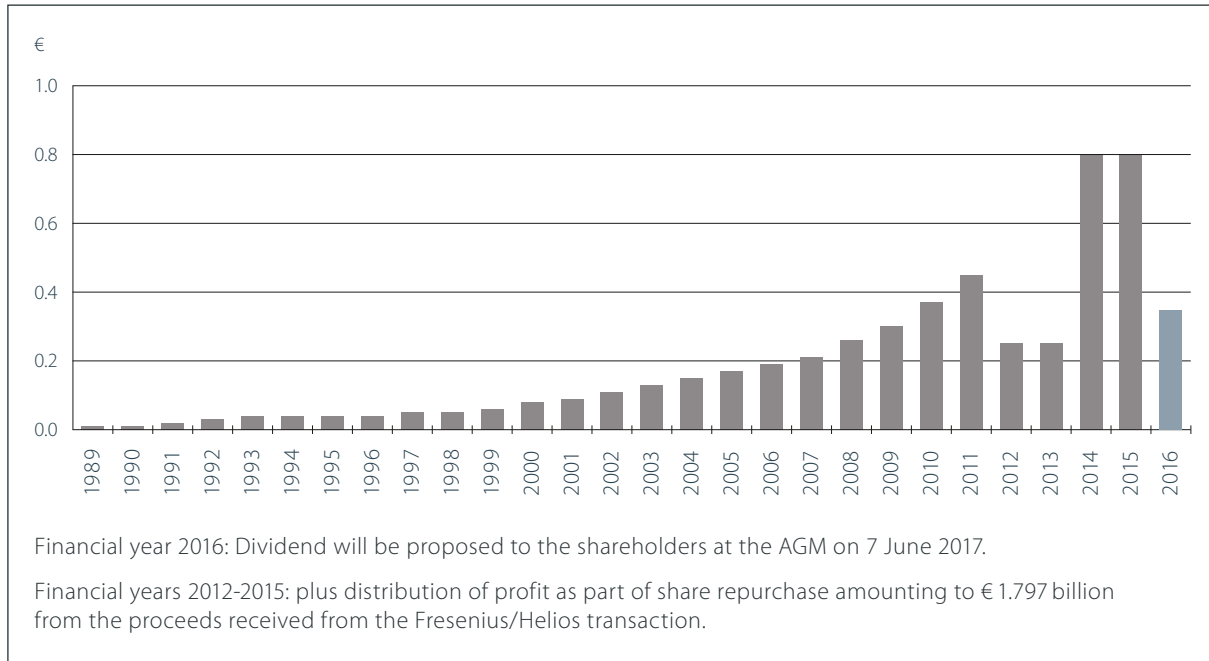
### ... AND A LONG-TERM COMPARISON WITH THE MDAX®



\* Change in index to SDAX® from 19 December 2016.

review, innogy SE immediately ranked 13th and Uniper SE 24th. With effect from 19 December 2016, the RHÖN-KLINIKUM share is listed on the SDAX®.

At year-end, the 66.96 million non-par shares in issue after the 2015 Share Repurchase had a market capitalisation of 1.7 billion euros (previous year: 1.9 billion euros). The RHÖN-KLINIKUM share thus ranked 60th (previous

**RHÖN-KLINIKUM SHARE: DIVIDEND DEVELOPMENT**

year: 55th) in the MDAX® as at 30 December 2016. The mean value of the daily average trading volume on the German stock exchanges including Xetra® trading stood at 120,095 shares in 2016.

**DIVIDEND**

In view of the unsatisfactory development of operative profitability, the high one-off effects in the past financial year 2016 and the sharp decline in consolidated profit, it is not expedient to maintain the dividend total at the level of the previous years. Notwithstanding, the Company wishes to continue giving its shareholders a reasonable share in the Company's success, of course without unduly restricting the Group's investment capacity. Against this background, the dividend rate is adjusted to roughly 40 per cent of consolidated profit.

For financial year 2016, the Board of Management and the Supervisory Board propose to the Annual General Meeting the distribution of a dividend of 0.35 euros per non-par share with dividend entitlement.

**INVESTOR RELATIONS ACTIVITIES**

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 strive to convey a realistic picture of our Company. In this way we wish to enable market participants to properly assess and value our share. We make available to investors, analysts and all other interested market participants a platform with comprehensive and timely information about the RHÖN-KLINIKUM Group. We moreover maintain a direct, continuous and personal contact with our investors and analysts, for example as part of international investor conferences or on investor roadshows. The Investor Relations & Finance division reports directly to the Chairman of the Board of Management.

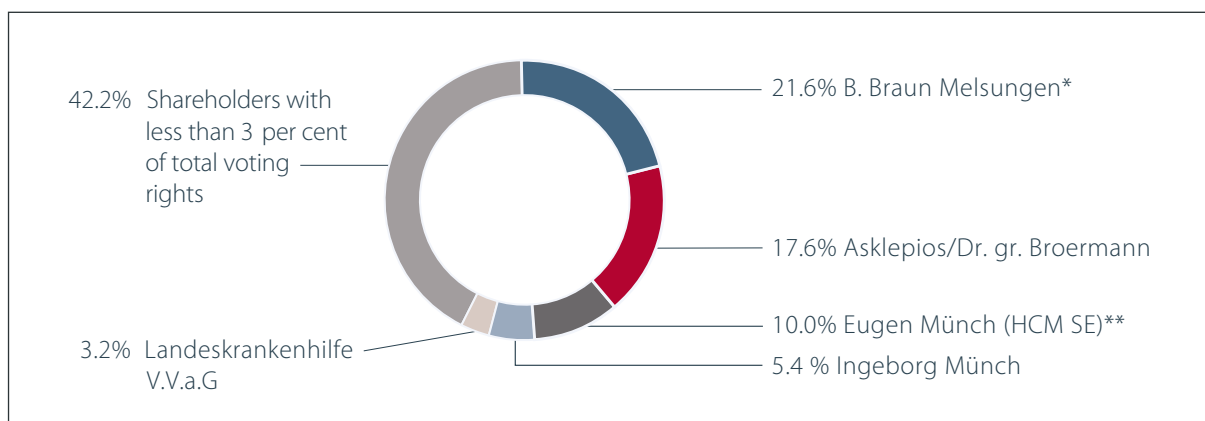
As part of our financial reporting, we report on our operating business performance each quarter. We provide investors, analysts and the media with current and share price-relevant information on our company in real time and directly, also promptly publishing the same as IR news items on our website. Further sources of information we provide our shareholders with are the regular annual events in our financial calendar, such as our annual results press conference in spring and our Annual General Meeting in the middle of the year. The next Annual General Meeting will take place on Wednesday, 7 June 2017, at 10:00 a.m. (doors open from 9:00 a.m.) at the Kultur- und Kongresszentrum of the Jahrhunderthalle in Frankfurt am Main.

## RHÖN-KLINIKUM SHARE

ISIN	DE0007042301	
Ticker symbol	RHK	
Share capital (€)	167,406,175	
Number of shares	66,962,470	
Share prices (€)	2016	2015
Year-end closing price	25.66	27.68
High	28.27	27.68
Low	24.75	22.02
Market capitalisation as of 31 December (€ m)	1,718.26	1.853.52

## SHAREHOLDER STRUCTURE OF RHÖN-KLINIKUM AG

As at: 31 December 2016 (on the basis of the most recent notification of voting rights to the Company)



\* Incl. managers' transactions notices pursuant to Article 19 MAR up to 31 December 2016.

\*\* According to notification of voting rights of 25 August 2016, HCM SE furthermore holds the option to acquire in a share futures purchase an additional 4.38% of voting rights (2,930,000 voting rights) within the next twelve months.

You will find a financial calendar containing all important financial dates for 2017 on the front part of this Annual Report as well as on our website at [en.rhoen-klinikum-ag.com](http://en.rhoen-klinikum-ag.com) in the "Investor Relations" section.





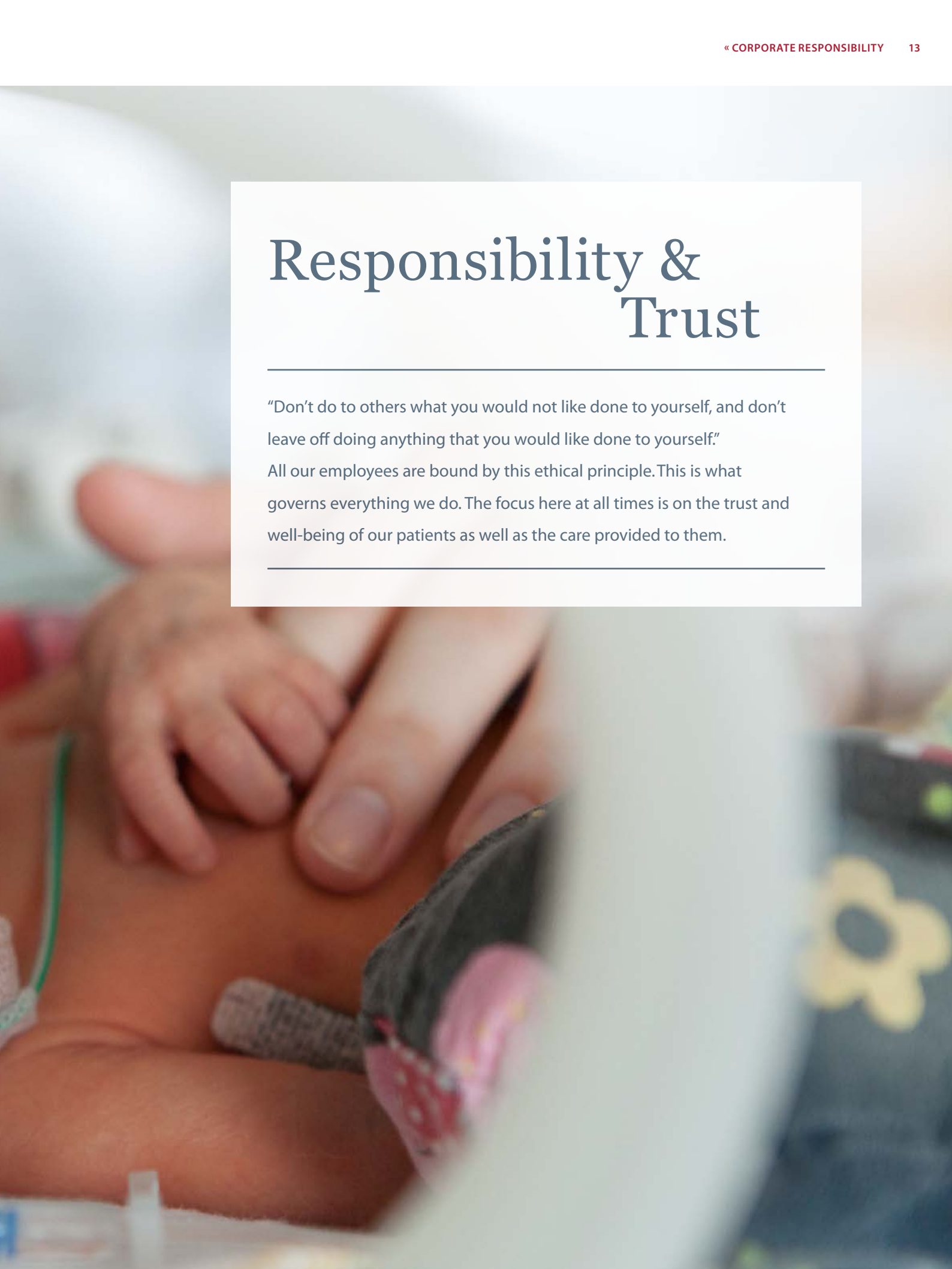
# Responsibility & Trust

---

“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.”

All our employees are bound by this ethical principle. This is what governs everything we do. The focus here at all times is on the trust and well-being of our patients as well as the care provided to them.

---



# REPORT OF THE SUPERVISORY BOARD

---

for the financial year of RHÖN-KLINIKUM AG  
from 1 January 2016 to 31 December 2016



Eugen Münch  
Chairman of the Supervisory  
Board

Dear Shareholders,  
Dear Ladies and Gentlemen,

From the very beginning, the development of RHÖN-KLINIKUM AG has been characterised by continuity and change. The Company at all times has stood for excellent, progressive and at the same time affordable healthcare delivery in the best interests of our patients. When confronted with major entrepreneurial challenges, the Company has always been able to rely on its know-how and its strength. That is something that will also stand RHÖN-KLINIKUM AG in good stead right now as it embraces the impending changes and its strategic reorientation.

Digitalisation, and with it the greater use of powerful IT systems for diagnosis and therapy, will be a key component of the strategy in future. At the same time, though, digitalisation must not be an end in itself. Like all other technological and scientific developments of the past, it must serve the benefit of patients. The Management of RHÖN-KLINIKUM AG are therefore called upon to weigh up the opportunities and challenges of digitalisation against our ethical principles in a responsible and faithful manner.

As in the past, the Supervisory Board will escort this task critically and constructively in keeping with its statutory mandate.

## **COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF MANAGEMENT**

During financial year 2016 also, the Supervisory Board examined on an ongoing basis and in detail the situation and development of the Company, duly performing the duties incumbent on it by law, the Articles of Association and the Terms of Reference: these include continuously monitoring management activity and regularly advising the Board of Management in connection with the directing of the Company. At the same time the Supervisory Board, in performing its duties, was at all times guided by the decisive principles of appropriateness, compliance with legal provisions, expediency and efficiency. Observance of these principles by the Board of Management was monitored by regularly reviewing the Company's general organisation and verifying the instruments used for internal risk control.

The Supervisory Board was involved in fundamental and important decisions taken by the Board of Management of RHÖN-KLINIKUM AG. The Board of Management as a general rule complied with its information duties, keeping us informed on a timely basis both in written form and orally, with documents and records of relevance for decisions being provided to the Supervisory Board in good time prior to the respective deliberations and formal meetings. The Supervisory Board reviewed the reporting and the information submitted by the Board of Management regarding strategic and operative business performance, compliance issues as well as risks and risk management for plausibility and comprehensibility, discussed this with the Board of Management and also scrutinised the same whenever appropriate.

The areas of focus of deliberations with the corporate bodies and with the Board of Management were the further strategic development of the Group, issues, projects and measures aimed at re-orienting business activity towards the areas of cutting-edge medicine and university medicine as well as the activity of a full-service healthcare provider. The role of escorting the Board of Management in this process of change in an ongoing advisory capacity, e. g. in the implementation of the campus projects at the Bad Neustadt and Marburg sites, in the introduction of the electronic patient file or in the use of the cognitive computer system IBM Watson for anamnesis and diagnosis were among the key tasks of the Supervisory Board during the past financial year.

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

### WORK OF THE SUPERVISORY BOARD IN COMMITTEES AND PLENARY MEETING

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 within the committees. With regard to the key strategic issues of business policy, joint meetings of the Investment, Strategy and Finance Committee and of the Medical Innovation and Quality Committee with the Board of Management were held with further senior executives from the Group and the respective specialist fields being consulted. These meetings were also attended by representatives of the local works council from the respective Group sites.

The committees 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 meetings. 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). A further three meetings (attendance rate 97 per cent) were held as joint meetings with the **Medical Innovation and Quality Committee**.

The areas focused on in the strategic discussions held at the joint meetings essentially covered the implementation of the Bad Neustadt campus project, the development of a university campus model for the Marburg site and – as already in the two previous years – the further development and implementation of network medicine using the electronic patient file and further applications from the field of IT/eHealth, such as the cognitive computer system Watson in anamnesis and diagnosis in cooperation with IBM. For the pilot project Bad Neustadt Campus the combined Committee, after careful deliberation, approved an investment framework for the construction measure of €235 million. For the Marburg university site, the Board of Management submitted a basic concept for construction of an outpatient and diagnosis centre, a centre for mental health (psychiatry and psychosomatics) and further construction measures whose conceptional and planning preparation was approved by the Committee. Investment approval and thus the project's realisation are to take place only when the business management basis has been established through a change in the procedure in the separate accounting approach resulting in appropriate cost reimbursement by the Federal State of Hesse for research and teaching.

At the ordinary meetings of the Investment, Strategy and Finance Committee, the chairman of the Board of Management reported on current developments in the industry and on the business position of the Group, as well as on the development of investments and financing in a continuously updated investment and finance plan. Specific motions for approval of investment projects and financing measures were subsequently openly discussed, critically reviewed and – after the members carefully considered and were fully convinced of the same – adopted in the Committee based on detailed written resolution proposals of the Board of Management, including market studies and investment calculations. In a regular acquisition report, the Board of Management provided an overview of the national hospital market which served as the basis of discussion for planned and ongoing acquisition projects.

The focus of interest of the supervision and deliberations at all meetings was the economic development of the subsidiary Universitätsklinikum Gießen und Marburg GmbH (UKGM), in particular the efforts and negotiations with the Federal State of Hesse to achieve an appropriate cost reimbursement of expenditure for research and teaching by improving the terms of the separate accounting approach. Measures to increase the number of patient treatments at the Marburg Particle Centre were just as much a focus of interest as the planned measures to improve the workload of staff resulting from the evaluation of an employee survey at UKGM.

The Committee approved the establishment of RHÖN-Innovations GmbH, an investment company whose objective is to fund innovative start-ups, and kept itself regularly informed about its continued development. Further issues were rationalisation measures in the area of materials management, raising the quality of medical care, and the effects that might arise from the change from the MDAX® exchange segment to the SDAX®.

During the reporting year, the **Personnel Affairs Committee** held one physical meeting and one conference call (attendance rate in each case: 100 per cent).

The group of participants of the physical meeting was enlarged in each case by a member of the shareholder and employee representatives exclusively for such meeting.

The Committee dealt with the appraisal and evaluation of the performance and development of the individual members of the Board of Management and of the Board of Management as a whole. At the same time, both the expectations of the members of the Board of Management as well as their prospects and expectations regarding the Company's development in the medium term were discussed. The Committee prepared personnel decisions of the Supervisory Board and, with a view to strengthening and reorganising the Company's management, after conscientious and careful consideration, submitted resolution proposals to the Supervisory Board on the appointment of a new chairman of the Board of Management, on amendments to the Terms of Reference of the Board of Management, and on the conclusion of a Board of Management service contract.

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

The **Audit Committee** of the Supervisory Board met five times in the year under review (attendance rate: 90 per cent). All meetings were attended by the Board of Management. Two meetings were attended by the statutory auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC). For selected agenda items, the heads of the Internal Auditing, Compliance as well as Accounting, Tax and Controlling departments were regularly consulted by the Board of Management, and were available to the Committee for additional reports and questions.

This Committee notably was responsible for reviewing and preparing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2015. 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 financial year 2016 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 meeting 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 him 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 developed and defined for the audit in 2016.

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 2016 as well as its update. The audit reports of the Internal Auditing department as well as the 2015 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 three meetings, the members of the Committee examined the current developments in legislation and accounting arising from the EU Audit Reform and the implementation of the German Act Reforming the Audit of Annual Financial Statements (Abschlussprüfungsreformgesetz, AReG). They had themselves informed by PwC on the new provisions for the Audit Committee, on the reports by the statutory auditor and on the approach and quality assurance in the context of the audit of the annual accounts and well as on the development of a list for advance approval of non-auditing services of the statutory auditor and the budget for provision of non-auditing services.

In updating the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) relating to the recommendations of the German Corporate Governance Code, the version of 5 May 2015 was reviewed as to its application and duly reflected, with a corresponding resolution proposal being submitted to the Supervisory Board as a whole.

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 2016, the Committee met five times (attendance rate: 85 per cent). The Board of Management was represented at all meetings and was assisted in the deliberations by the Central Compliance and Internal Auditing departments as well as the heads of the Group divisions of Corporate Communications and Investor Relations.

The focus of interest of the meetings was the ongoing compliance reports from headquarters and the individual sites, the design and Company-wide introduction of the eLearning programme for enhancing efficiency and quality, and the further improvement of cooperation on compliance matters between Group headquarters and the compliance officers of the individual sites. In the area of corporate communications, the Board of Management reported on the Company's communications strategy and various projects. The equity story and the perception of the Company, above all with analysts and institutional investors, as well as the causes and impact of the change in segment from the MDAX® to the SDAX®, were the key focus of the discussions on capital market issues.

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 three 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, did not have to be convened during the financial year.

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 the four ordinary meetings of the **Supervisory Board** the plenary meeting, based on detailed reports of the chairman of the Board of Management on current developments and the business position of the Group, 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 respective interim reports for the past quarters were explained by the Board of Management in detail at the plenary meeting prior to publication.

At the first meeting of the financial year on 25 February 2016, the Supervisory Board first of all examined issues of remuneration for adjusting the management profit sharing bonuses of the Board of Management for 2015 and adopted the corresponding resolution after a thoroughgoing discussion. On the recommendation of the Investment, Strategy and Finance Committee, and after intense discussion, approval was given to the establishment of the investment company RHÖN-Innovations GmbH in which a limited equity participation of the Management is permitted. To escort the Group's development concepts – Bad Neustadt and Marburg campus projects, concept for computer-assisted anamneses and diagnosis, network with medical-related content –, resolutions with a view to reorganising the committee work of the Supervisory Board were adopted to dissolve the existing Network Medicine working group and on the possibility of combined meetings of the Investment, Strategy and Finance Committee with the Medical Innovation and Quality Committee. We received the report of the Board of Management on the preliminary 2015 annual financial statements and approved the submitted drafts of the Report of the Supervisory Board and the Corporate Governance Report for financial year 2015.

At the balance sheet meeting on 14 April 2016 also attended by the statutory auditors, the plenary meeting 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 2015 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 meeting approved the annual financial statements. Also discussed at this meeting were the preparations for the Annual General Meeting on 8 June 2016, in particular the adoption of resolution recommendations of the Supervisory Board on the resolution proposals in the agenda items for the Annual General Meeting after a prior discussion of the agenda items. Further approval resolutions were adopted for the Report of the Supervisory Board, Corporate Governance Report and the Declaration on Corporate Governance pursuant to section 289a of the German Commercial Code (Handelsgesetzbuch, HGB). In exercise of the equity participation rights of RHÖN-KLINIKUM AG with regard to Universitätsklinikum Gießen und Marburg GmbH (UKGM), resolutions were adopted regarding the appointment of the Supervisory Board. Furthermore, with regard to UKGM the issues of the outpatient and diagnosis centre, separate accounting and the result of an employee survey (COPSOQ survey) on employee satisfaction were discussed.

At the meeting on 6 July 2016, the plenary meeting was thoroughly informed about the results of the consultations and the resolutions of the preceding two-day joint meeting of the Investment, Strategy and Finance Committee with the Medical Innovation and Quality Committee on the campus projects and applications from the field of IT/eHealth. Other areas of focus of the deliberations were the development of patient numbers at the Marburg Particle Therapy Centre, business performance and earnings targets for the Group's facilities as well as a progress report on the development of the investment company RHÖN-Innovations GmbH.

At the Supervisory Board Meeting on 3 November 2016, the plenary meeting first decided to consult once again an external expert to conduct an efficiency audit regarding the activity of the Supervisory Board. After a detailed discussion on the determination of the assessment basis for calculating the management profit sharing bonuses for 2016, the key elements were defined. The subject matter of extensive reporting by the Board of Management, besides the usual Management Report and Annual Report and the reports by the individual facilities, also covered the issues of internal Group communication, the development and implementation of the RKA Quality Cockpit (an internal Group medical reporting scheme) and a status report on materials management. The resolution recommendation by the Audit Committee on 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 was approved.



## **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 5 November 2015 pursuant to section 161 of the Stock Corporation Act (Aktiengesetz, AktG) was revised and, giving due regard to the Code as amended on 5 May 2015, was replaced by an updated Declaration of Compliance issued on 3 November 2016 by the Board of Management and the Supervisory Board. 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 from page 25 of this Annual Report.

## **EXAMINATION AND APPROVAL OF THE 2016 FINANCIAL STATEMENTS**

The Board of Management adopted the financial statements of the Company and the management report for the year ended 31 December 2016 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 2016 were adopted pursuant to section 315a of the German Commercial Code (HGB) in accordance with the principles set out in the International Financial Reporting Standards (IFRS). The auditors, PricewaterhouseCoopers Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have examined the financial statements of the Company and Management's report as well as the consolidated financial statements and Management's consolidated report for the year ended 31 December 2016. 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 6 April 2017 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.

## 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".

Prof. Dr. Bernd Griewing was appointed with effect from 1 January 2016 as member of the Board of Management for the term of five years. As chief medical officer (CMO), he assumed responsibility for the newly created corporate division Medical. The appointments of the other members of the Board of Management were in each case harmonised re-appointment as of 1 January 2016 for a further term of five years in each case.

With effect from 1 February 2017, Mr. Stephan Holzinger was appointed as a new member of the Board of Management for five years and was appointed as chairman of the Board of Management. The previous chairman of the Board of Management, Dr. Dr. Martin Siebert, assumed the office of permanent representative of the chairman of the Board of Management. At its meeting on 23 February 2017, the Supervisory Board resolved to reduce the number of the members of the Board of Management to the number provided for in the Articles of Association (three). The members of the Board of Management Martin Menger and Jens-Peter Neumann were removed at this meeting.

## 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.

No changes in personal details occurred during the year under review. Mr. Stephan Holzinger resigned his Supervisory Board mandate with effect from 31 January 2017 after being appointed as member of the Board of Management. The Nomination Committee nominated Dr. Annette Beller, member of the management board of B. Braun Melsungen AG, to succeed on the Supervisory Board. Upon announcement of the decision by the Local Court of Schweinfurt of 22 March 2017, Dr. Annette Beller was appointed as a member of the Supervisory Board until the next Annual General Meeting on 7 June 2017.

The personal details of the members of the Supervisory Board in 2016 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.

Bad Neustadt a. d. Saale, 6 April 2017

The Supervisory Board

Eugen Münch  
Chairman

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

(period of 1 January–31 December 2016)

### CHAIR OF THE SUPERVISORY BOARD

Chairman  
Eugen Münch

1st deputy Chairman  
Georg Schulze-Ziehaus

2nd deputy Chairman  
Wolfgang Mündel

### COMPOSITION OF THE COMMITTEES

#### INVESTMENT, STRATEGY AND FINANCE COMMITTEE

Eugen Münch  
*Chairman*  
Björn Borgmann  
Prof. Dr. Ludwig Georg Braun  
Stefan Härtel  
Klaus Hanschur  
Stephan Holzinger  
Wolfgang Mündel  
Georg Schulze-Ziehaus

#### PERSONNEL AFFAIRS COMMITTEE

Eugen Münch  
*Chairman*  
Stefan Härtel  
Dr. Brigitte Mohn  
Georg Schulze-Ziehaus

#### MEDIATION COMMITTEE

Eugen Münch  
*Chairman*  
Prof. Dr. Ludwig Georg Braun  
Meike Jäger  
Georg Schulze-Ziehaus

#### AUDIT COMMITTEE

Wolfgang Mündel  
*Chairman*  
Peter Berghöfer  
Stephan Holzinger  
Meike Jäger  
Christine Reißner  
Dr. Katrin Vernau

#### COMMITTEE FOR COMPLIANCE AND COMMUNICATION

Stephan Holzinger  
*Chairman*  
Bettina Böttcher  
Evelin Schiebel  
Dr. Katrin Vernau

#### MEDICAL INNOVATION AND QUALITY COMMITTEE

Eugen Münch  
*Chairman*  
Prof. Dr. Ludwig Georg Braun  
Prof. Dr. Gerhard Ehninger  
Klaus Hanschur  
Evelin Schiebel

#### NOMINATION COMMITTEE

Eugen Münch  
*Chairman*  
Dr. Brigitte Mohn  
Wolfgang Mündel



# CORPORATE GOVERNANCE REPORT

---

Joint report on corporate governance by the Board of Management and Supervisory Board of RHÖN-KLINIKUM AG

## **CORPORATE GOVERNANCE AT RHÖN-KLINIKUM GROUP**

Efficient and responsible decision-making and control processes oriented towards long-term corporate success are of central importance for our activities. The basis for the decision-making and control processes of the Supervisory Board and the Board of Management is good corporate governance. Coupled with a transparent as well as legally and ethically based corporate culture, corporate governance ensures that the trust patients, employees, shareholders and business partners place in us is preserved and strengthened. It is moreover

indispensable for sustained value enhancement in our operations.

In financial year 2016, 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.

## DECLARATION OF COMPLIANCE

The outcome of these deliberations was published on 3 November 2016, in accordance with Item 3.10 of the German Corporate Governance Code as amended on 5 May 2015, a jointly issued and updated Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) was submitted by the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG, which is accessible on our website. Here, we depart from the Code's recommendations in a total of four disclosed exceptions. We observe most of the non-mandatory suggestions of the German Corporate Governance Code:

### DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATION ACT (AKTIENGESETZ, AKTG) (as issued on 3 November 2016)

"The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG declare that the recommendations issued by the "Government Commission of the German Corporate Governance Code" as amended on 5 May 2015 and published by the Federal Ministry of Justice in the official section of the Federal Gazette on 12 June 2015 have been implemented, and will be implemented, with the following exceptions:

#### Code Item 4.2.2 (2) sentence 3 Relationship between remuneration of the Board of Management and that of senior management and staff overall

Although the Supervisory Board has taken account of the wage and salary structure within the Company when setting the remuneration of the Board of Management, the Supervisory Board has not expressly determined how the senior management and the relevant overall staff are to be differentiated. The relationship of the remuneration of the Board of Management to the remuneration of the senior management and the relevant overall staff is consequently not reflected, either, by application of such definitions in the case of the criteria specified in Code Item 4.2.2 (2) sentence 2.

In view of the current management structure and specific staffing of a hospital company, the Supervisory Board at present does not find such definitions to be objectively justified.

#### Code Item 4.2.3 (3) Pension commitments

Typical pension commitments do not exist at the Company. However, upon termination of the service contract or the decease of a member of the Board of Management the Company, subject to certain conditions, grants a "retirement benefit" explained in further detail in the Remuneration Report. It is paid as a one-time amount that is based on the number of completed years of service and additionally capped.

If the retirement benefits existing at the Company constitute provision benefits within the meaning of the recommendation pursuant to Code Item 4.2.3 (3), the "level of provision" in the view of the Supervisory Board results from the probable term of office of the respective member of the Board of Management and the formula defined in the retirement benefit. The annual as well as long-term expense for the Company is likewise derived from this.

Given the ambiguity of the recommendation pursuant to Code Item 4.2.3 (3) and the special structure of the retirement benefits existing at the Company, deviation from Code Item 4.2.3 (3) is nonetheless hereby declared as a precaution.

#### Code Item 5.4.1 (2), (3) Stating specific objectives regarding the composition of the Supervisory Board

The Supervisory Board does not state any specific objectives regarding its composition, and does not define any limits, either, in respect of age or in terms of a standard length of service within the meaning of Code Item 5.4.1 (2) sentence 1. Consequently, it is not possible to comply with the recommendations based on this pursuant to Code Item 5.4.1 (3).



In the past the Supervisory Board, when nominating candidates for membership on the Supervisory Board, has been guided solely by the qualification of such candidates and by the law. The shareholders' representatives on the Supervisory Board are convinced that this practice has proven itself.

**Code Item 7.1.2 sentence 4  
Period for making available the Consolidated  
Financial Statement**

The Company's and the Group's financial year is the calendar year. The annual financial statements of the Company and the Group are published in the month of April following the end of the financial year.

The annual financial statements of the Company and the Group are completed only at the time specified in the foregoing due to the Group's special internal quality requirements.

The Board of Management and the Supervisory Board jointly decide on application of the suggestions contained in the Code on a case-by-case basis; such suggestions may be deviated from without disclosure, as set forth in both the Code and section 161 of the AktG."

**MANAGEMENT AND SUPERVISORY STRUCTURE**

As prescribed in German stock corporation and corporate law, RHÖN-KLINIKUM AG has a dual management system, i. e. a strict separation exists at the personnel level between the Board of Management vested with powers of direction and the Supervisory Board vested with supervisory powers. 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 through 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. During the reporting period, no conflicts of interests of members of the Board of Management and the Supervisory Board subject to disclosure to the Supervisory Board occurred.

Both for members of the Supervisory Board and for members of the Board of Management, RHÖN-KLINIKUM AG has taken out indemnity insurance cover (D&O insurance) with an adequate coverage concept and in accordance with the deductible mandatory for the Board of Management pursuant to with Code Item 3.8 (2). In this connection, the insurance premium (including insurance tax) paid by the Company in financial year 2016 was euro 159 thousand.

## ANNUAL GENERAL MEETING AND RELATIONSHIPS WITH SHAREHOLDERS

Pursuant to the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), RHÖN-KLINIKUM AG reports once per quarter, in accordance with the applicable International Financial Reporting Standards (IFRS) applying section 315a of the German Commercial Code (Handelsgesetzbuch, HGB), to its shareholders and the interested public on the performance of business as well as the Group's net assets, financial position and results of operations. 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. Important company notices are published immediately as soon as they arise. All reports and notices can be accessed on our Company's website.

At the Annual General Meeting of the Company, which is normally held within the first six months of each year, the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG report to their shareholders on business performance as well as the financial position and results of operations. In this way our shareholders are provided with the information they need for their decision-making in accordance with legislation in force.

With 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.

Pursuant to the legal provisions, the Annual General Meeting is responsible for electing the auditor for the annual and half-year financial statements of our Group as well as for the annual financial statements of RHÖN-KLINIKUM AG. The Chairman of the Audit

Committee appointed PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as statutory auditor for the inspection of the half-year financial statements for 2016 as well as the audit of the annual financial statements as at 31 December 2016. Prior thereto, the Audit Committee thoroughly satisfied itself of the independence of the statutory auditor and assured itself that neither grounds for disqualification nor grounds for bias existed.

We entered into the required agreements pursuant to the German Corporate Governance Code for the performance of the audit of the annual financial statements with the statutory auditor, who shall inform the Chairman of the Audit Committee immediately of any grounds for disqualification or bias occurring during the audit, unless such grounds are eliminated. Furthermore, the auditor shall report on all facts and events of importance for the tasks of the Supervisory Board arising during the performance of the audit. If any facts are identified during the performance of the audit of the annual financial statements which show the Statement of Compliance submitted by the Board of Management and the Supervisory Board pursuant to section 161 of the AktG is not correct, the auditor shall inform the Supervisory Board of this and/or record this in the audit report.

## BOARD OF MANAGEMENT

In financial year 2016, the Board of Management of RHÖN-KLINIKUM AG was comprised of four members whose service contracts for the Board of Management were adjusted in each case to five-year contracts as of 1 January 2016. As of 1 February 2017, Mr. Stephan Holzinger was appointed as a new member to the position of Chairman of the Board of Management and replaced Dr. Dr. Martin Siebert as previous Chairman of the Board of Management who assumes the office of permanent representative of the Chairman of the Board of Management. Moreover, the Supervisory Board resolved on 23 February 2017 to reduce the size of the Board of Management from five to three members and for that purpose to remove the members of the Board of Management Martin Menger and Jens-Peter Neumann with immediate effect. The Board of Management of the Company is thus composed of Mr. Stephan Holzinger



(Chairman of the Board of Management), Dr. Dr. Martin Siebert (permanent representative of the Chairman of the Board of Management) and Prof. Dr. Bernd Griewing. The responsibilities within the Board of Management were adjusted accordingly. The expectation of the Supervisory Board from this decision is that it will give new impetus for the Company's new orientation introduced with the Fresenius transaction to be pursued with even greater determination in future so as to promote the further and ongoing development of the Company in the long term, also as regards the implementation of the campus approach and the ubiquitous advance of digitalisation. The Terms of Reference were adjusted to the respective dates.

The Board of Management is responsible for directing the Company. In accordance with the Terms of Reference, its business operations are carried out under joint responsibility. Each member of the Board of Management has his own areas of responsibility as determined by operative and/or functional competencies. The Chairman of the Board of Management is responsible for corporate policy as well as the Group's fundamental strategic orientation.

The Board of Management reports regularly, without delay and comprehensively to the Supervisory Board on all significant issues relating to the business development and position of the Group and its subsidiaries. The Board of Management furthermore coordinates with the Supervisory Board the Group's further strategic development and discusses its implementation. If any events of special significance should arise, the Chairman of the Board of Management informs the Chairman of the Supervisory Board of these without delay. Any transactions and measures which are subject to consent are presented to the Supervisory Board in due time.

Conflicts of interest are to be disclosed by the members of the Board of Management immediately. 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. In financial year 2016, no conflicts of interests of members of the Board of Management of RHÖN-KLINIKUM AG arose. For the members of the Board of Management, a fixed age limit of 65 years is enshrined in the Articles of Association.

## 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 shareholders' and employees' representatives (16 in total). In 2016 four regular meetings were held. The Supervisory Board is chaired by Mr. Eugen Münch in a full-time capacity.

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

The Supervisory Board member Stephan Holzinger resigned his Supervisory Board mandate before taking up his mandate as chairman of the Board of Management with effect from 31 January 2017. Mr. Holzinger had been on the Supervisory Board of RHÖN-KLINIKUM AG since 2013.

The Nomination Committee nominated Dr. Annette Beller, member of the management board of B. Braun Melsungen AG, to succeed on the Supervisory Board. Dr. Beller was appointed by the court and as of 23 March 2017 is a member of the Supervisory Board until the conclusion of the next Annual General Meeting. The next Annual General Meeting will be held on 7 June 2017 at which the by-election will be on the agenda.

As a result, 43.8 per cent of the Supervisory Board is comprised of women and 56.2 per cent of men. The composition of our Supervisory Board is presented in the 2016 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 2016 there were seven standing committees: the Mediation Committee, Personnel Affairs Committee, Audit Committee as well

as the Investment, Strategy and Finance Committee and the Committee for Compliance and Communication as committees with power to adopt resolutions, as defined in section 107 (3) AktG, and the Nomination Committee and Medical Innovation and Quality Committee. The respective committee chairmen report at regular intervals to the Supervisory Board on the work of the committees.

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

The **Personnel Affairs Committee** is responsible for the personnel-related matters of the Board of Management. Its tasks include reviewing candidates for service as members on the Board of Management and making proposals to the Supervisory Board regarding appoint-



ments. It is also responsible for negotiating, making preparations for entering into, amending and terminating service contracts of members of the Board of Management and other contracts. Furthermore, it evaluates the performance of the Board of Management, and at regular intervals conducts a review of whether the remuneration of the Board of Management is reasonable and customary as well as of the guidelines for the remuneration of members of the Board of Management. In this regard, it makes proposals to the full Supervisory Board for adoption of resolutions.

The **Audit Committee** prepares the resolutions of the Supervisory Board on the adoption of the annual financial statements and the approval of the consolidated financial statements. This is done by way of preparatory internal review of the annual financial statements and management reports. It reviews the resolution on the appropriation of profit and discusses the annual financial statements and audit reports with the auditor and the Board of Management. The Audit Committee is responsible for selecting and appointing the statutory auditor, including agreeing on the auditing fees, as well as for reviewing and monitoring the auditor's independence and quality as well as the services additionally provided by the auditor. Monitoring of financial reporting including the interim reports, the accounting process, the effectiveness of the internal controlling system, risk management system and the internal audit system likewise fall within the scope of duties of the Audit Committee, as does dealing with questions of fundamental importance relating to accounting and corporate governance. For all members elected to the Audit Committee, due regard is given to their independence and particular experience and knowledge with regard to the application of accounting regulations 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 two financial experts who satisfy the conditions of section 100 (5) of the AktG.

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

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

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

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

The Supervisory Board internally reviews the efficiency of its activity on an ongoing basis and at regular intervals arranges for an efficiency audit to be carried out by an external consultant. The latest external audit in 2013/2014 included questionnaires and discussions. Its results were in line with the Supervisory Board's expectations in terms of efficient performance of duties. In financial year 2016, an independent external audit was once again commissioned.

A detailed overview of the work of the individual committees and their composition in financial year 2016 is provided in the Report of the Supervisory Board of the 2016 Annual Report.

## OTHER BODIES

An Advisory Board is constituted as an additional body at RHÖN-KLINIKUM AG. The Board of Management can have recourse to its advice for any questions relating to future trends in the hospital and healthcare sector as well as medical development issues. For additional information on the Company's Advisory Board, please refer to the Notes to the consolidated financial statements.

## TRANSPARENCY

Engaging in an active and open, i. e. transparent communication with our shareholders and treating them equally are things that are self-evident to us. We use suitable communication channels such as the Internet to provide information promptly and uniformly to all market participants, and to ad hoc service providers for mandatory publications to be disseminated throughout Europe. Our financial calendar containing all important financial dates for analysts, investors, shareholder associations and media can be viewed on our website at [www.rhoen-klinikum-ag.com](http://www.rhoen-klinikum-ag.com) under the section "Investor Relations". Information relating to our share and its price trend as well as inside information directly concerning us are also publicly accessible on our website. 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.

We make timely disclosure on our website of notices pursuant to Article 19 of the Market Abuse Regulation (MAR) (Managers' Transactions) by members of the Board of Management and the Supervisory Board, as well as by parties closely associated with them, on the acquisition and sale of shares of the Company or other financial instruments relating thereto. According to these notices,

as at 31 December 2016 the members of the Supervisory Board and the Board of Management as well as their related parties (according to IAS 24) together held 37.0 per cent of the Company's registered share capital, of which 37.0 per cent of the shares in issue were attributable to the Supervisory Board and its related parties, whereas members of the Board of Management and their related parties as at 31 December 2016 did not hold any interests in the registered share capital of RHÖN-KLINIKUM AG.

Dealings of RHÖN-KLINIKUM AG and its subsidiaries with related parties of as well as companies related to such parties are disclosed in the Notes to 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.

## RISK MANAGEMENT AND PERSONAL INTEGRITY

Our handling of risks and opportunities is also consistent with the principles of responsible corporate behaviour. Consequently, a risk management system with the aim of identifying risks early was established at the level of RHÖN-KLINIKUM AG and directly applied to hospitals and investments. 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. The risk management system is reviewed by our auditors as part of the annual audit of the financial statements.

For us, compliance means upholding personal integrity in corporate governance, and that is exactly how the Board of Management understands it as an essential management duty. The Board of Management is required to comply with law, statutory regulations and Group-internal guidelines, and to implement and enforce these requirements in their dealings with employees and business partners. For RHÖN-KLINIKUM AG and all other Group companies, a compliance guideline exists which is regularly amended and adjusted. Our compliance activities are focused on combating active and passive corruption. Thus, any contraventions in the area of corruption are not tolerated and strictly sanctioned. This applies to all executive and staff levels. Each and every

employee is called upon to actively bring to light cases of corruption in their respective areas of responsibility. They can turn to a committee of the Supervisory Board in this regard which is bound by a duty of confidentiality.

## 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 are explained, the principles and amount of the remuneration of the Supervisory Board and of the Advisory Board are described and the shareholdings of the Board of Management and the Supervisory Board disclosed.

In 2016 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 at the end of this Report.

## REMUNERATION OF THE BOARD OF MANAGEMENT

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

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

As a result of the Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der

Vorstandsvergütung, VorstAG), which entered into force on 5 August 2009, the plenary meeting is responsible for defining the individual remuneration of the Board of Management after preparation by the Personnel Affairs Committee.

## ESSENTIAL PROVISIONS OF THE 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-performance-linked and a performance-linked component as well as short-term and long-term incentives. The non-performance-linked part is comprised of the basic salary and fringe benefits, and the performance-linked component covers a management profit sharing component. Provisions for a minimum remuneration and for a cap on total remuneration have been put in place to compensate for unexpected earnings developments. Moreover, there is a long-term share-based remuneration (stock options) for some members of the Board of Management that is tied to a long-term development of the RHÖN-KLINIKUM AG share. 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-performance-linked and performance-linked components of the remuneration scheme.

The basic salary as a rule is euro 192 thousand 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. The permanent representative of the Chairman of the Board of Management in turn receives a 10 per cent higher basic salary. 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 accident insurance premiums are remuneration components, each individual member of the Board of Management has to pay tax on these benefits. As a general rule, all members of the Board of Management are entitled to these in the same way, the amount of which varies depending on the member's personal situation.

The managing profit sharing element represents the performance-linked component of the remuneration. The multi-year assessment basis for its level is the development of the consolidated result over the past three financial years. The consolidated result after minority interests in accordance with the currently applicable IFRSs is used 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.

As a general rule, these guidelines apply to all service contracts of members of the Board of Management that are entered into or amended as of such date. This was done for all members of the Board of Management holding office in financial year 2016. The calculation of the management profit sharing bonuses is adjusted to the changed circumstances of the Group. The provision for the management profit sharing bonuses of the members of the Board of Management holding office in financial year 2016 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 consolidated result used as a basis is the consolidated result after minority interests in accordance with the currently applicable IFRSs. For financial year 2014, which was affected by the restructuring of the Group and thus

by extraordinary events and one-off effects, a facilitating value is applied as the calculation basis. In the event that the consolidated result has been influenced by extraordinary developments, the one-off impacts of such developments are eliminated. This provision was applied by the Supervisory Board for financial year 2016. The rate of management profit sharing is defined by the Supervisory Board individually for each member of the Board of Management on recommendation by the Personnel Affairs Committee, giving due regard to the performance, duties and number of terms of office. Normally, the Chairman of the Board of Management receives 1.5 times to twice the rate of management profit sharing. For members and in particular deputy members who have been appointed to the Board of Management for the first time, it is possible to agree on an appropriate reduction in the rates of management profit sharing. This option exists when justified by special grounds, also for the other members of the Board of Management.

As of financial year 2016, the members of the Board of Management receive a guaranteed total annual remuneration (sum of base salary and management profit sharing) of at least euro 600 thousand. The cap is set at euro 1,200 thousand. The guaranteed total remuneration for the year is paid out in advance in twelve equal monthly instalments. 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 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 members of the Board of Management will be remunerated for the virtual shares remaining at that time at the then applicable market price.

If a service contract of a member of the Board of Management ends without this being attributable to good cause in the person of such member, or in the event



of death 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 death, 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 dies – 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 died. As a rule, no old-age pension benefit is granted if a member of the Board of Manage-

ment 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 2016, the incumbent members of the enlarged Board of Management received a total of euro 4.9 million (previous year: euro 4.2 million). Of this total, euro 1.0 million (previous year: euro 0.8 million) was accounted for by components that are not performance-linked and euro 3.9 million (previous year: euro 3.4 million) by variable components. The provision for claims to post-retirement benefits by the incumbent Board of Management in accordance with IFRS amounted to euro 2.2 million (previous year: euro 1.4 million) as at 31 December 2016. Members of the Board of Management no longer holding office or their surviving dependants received no remuneration.

### REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is governed by Section 14 of the Articles of Association. The members of the Supervisory Board no longer receive any remuneration components based on the results of the Company (results-based remuneration). However, the remuneration continues to be 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 euro 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 euro 20 thousand is conditional on attendance of the plenary meetings 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 euro 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 euro 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 2016, the remuneration of the active members of the Supervisory Board was euro 2.0 million (previous year: euro 2.2 million). The total amount in 2016 was completely accounted for by fixed remuneration components.

### REMUNERATION OF THE ADVISORY BOARD

For each meeting attended in person, the members of the Advisory Board receive a fixed attendance fee of euro 1.4 thousand. In addition, the members are reimbursed all expenses incurred to them in the performance of their mandate as well as the VAT payable on the payments.

The Company does not grant any loans to the members of the Advisory Board.

In financial year 2016, the total payments of the Advisory Board (excluding VAT) amounted to euro 21 thousand (previous year: euro 20 thousand).



## REMUNERATION TABLES 2016

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

	2016	2015
	€ '000	€ '000
Remuneration of the Supervisory Board	2,023	2,215
Remuneration of the current Board of Management	4,851	4,156
Payments of former members of the Board of Management	–	–
Remuneration of the Advisory Board	21	20

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

Total payments	Fixed basic remuneration	Fixed attendance fee	Fixed total remuneration	Total 2016	Total 2015
	€ '000	€ '000	€ '000	€ '000	€ '000
Eugen Münch	120	48	197	365	390
Joachim Lüddecke (until 10 June 2015)	–	–	–	–	75
Georg Schulze-Ziehaus	80	48	35	163	140
Wolfgang Mündel	80	52	158	290	313
Peter Berghöfer	40	20	34	94	91
Bettina Böttcher	36	12	16	64	76
Björn Borgmann (since 10 June 2015)	40	24	35	99	51
Prof. Dr. h. c. Ludwig Georg Braun	40	22	31	93	76
Sylvia Bühler (until 10 June 2015)	–	–	–	–	31
Helmut Bühner (until 10 June 2015)	–	–	–	–	40
Prof. Dr. Gerhard Ehninger	36	14	14	64	68
Stefan Härtel	40	24	35	99	92
Klaus Hanschur	40	22	33	95	88
Reinhard Hartl (until 10 June 2015)	–	–	–	–	53
Stephan Holzinger (until 31 January 2017)	40	68	84	192	165
Meike Jäger (since 10 June 2015)	36	14	22	72	49
Dr. Heinz Korte (until 10 June 2015)	–	–	–	–	61
Michael Mendel (until 10 June 2015)	–	–	–	–	38
Dr. Brigitte Mohn	32	8	8	48	64
Christine Reißner (since 10 June 2015)	40	20	34	94	49
Oliver Salomon (until 10 June 2015)	–	–	–	–	53
Evelin Schiebel (since 10 June 2015)	40	24	26	90	38
Dr. Franz-Josef Schmitz (until 10 June 2015)	–	–	–	–	35
Dr. Katrin Vernau	40	24	37	101	79
	780	444	799	2,023	2,215

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

Incumbent members of the Board of Management	Prof. Dr. Bernd Griewing (member of Board of Management)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	192	0	192	192	192	0
Fringe benefits	8	0	8	8	8	0
<b>Total</b>	<b>200</b>	<b>0</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>0</b>
One-year variable remuneration						
Management profit sharing	854	0	408	1,008	854	0
<b>Total payments</b>	<b>1,054</b>	<b>0</b>	<b>608</b>	<b>1,208</b>	<b>1,054</b>	<b>0</b>
Pension expense <sup>1</sup>	127	0	127	127	127	0
<b>Total remuneration</b>	<b>1,181</b>	<b>0</b>	<b>735</b>	<b>1,335</b>	<b>1,181</b>	<b>0</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Martin Menger (member of the Board of Management until 23 February 2017)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	10	10	10	10	10	10
<b>Total</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>
One-year variable remuneration						
Management profit sharing	556	308	408	1,008	556	308
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>788</b>	<b>1,005</b>	<b>610</b>	<b>2,661</b>	<b>830</b>	<b>814</b>
Pension expense <sup>1</sup>	105	61	105	105	105	61
<b>Total remuneration</b>	<b>893</b>	<b>1,066</b>	<b>715</b>	<b>2,766</b>	<b>935</b>	<b>875</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Jens-Peter Neumann (member of the Board of Management until 23 February 2017, permanent representative of the Chairman of the Board of Management until 31 January 2017)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	211	211	211	211	211	211
Fringe benefits	10	9	10	10	10	9
<b>Total</b>	<b>221</b>	<b>220</b>	<b>221</b>	<b>221</b>	<b>221</b>	<b>220</b>
One-year variable remuneration						
Management profit sharing	1,000	739	989	2,189	1,000	739
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>1,251</b>	<b>1,454</b>	<b>1,210</b>	<b>3,861</b>	<b>1,293</b>	<b>1,263</b>
Pension expense <sup>1</sup>	111	115	111	111	111	115
<b>Total remuneration</b>	<b>1,362</b>	<b>1,569</b>	<b>1,321</b>	<b>3,972</b>	<b>1,404</b>	<b>1,378</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Dr. Dr. Martin Siebert (Chairman of the Board of Management until 31 January 2017, permanent representative of the Chairman of the Board of Management since 1 February 2017)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	384	384	384	384	384	384
Fringe benefits	10	10	10	10	10	10
<b>Total</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>
One-year variable remuneration						
Management profit sharing	1,334	808	1,116	2,616	1,334	808
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>1,758</b>	<b>1,697</b>	<b>1,510</b>	<b>4,461</b>	<b>1,800</b>	<b>1,506</b>
Pension expense <sup>1</sup>	155	144	155	155	155	144
<b>Total remuneration</b>	<b>1,913</b>	<b>1,841</b>	<b>1,665</b>	<b>4,616</b>	<b>1,955</b>	<b>1,650</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

The retirement benefits of the board of Management break down as follows:

Retirement benefits	Provision as at 31 Dec. 2015	Change in retirement benefits	Provision as at 31 Dec. 2016	Nominal amount on contract expiry <sup>1</sup>
	€ '000	€ '000	€ '000	€ '000
<b>Incumbent members of the Board of Management</b>				
Prof. Dr. Bernd Griewing	–	135	135	654
Martin Menger (until 23 February 2017)	522	42	564	935
Jens-Peter Neumann (until 23 February 2017)	351	292	643	1,237
Dr. Dr. Martin Siebert	499	406	905	1,771
<b>Total</b>	<b>1,372</b>	<b>875</b>	<b>2,247</b>	<b>4,597</b>

<sup>1</sup> Claim according to expiry of service contract (31 December 2020) based on remuneration.

Bad Neustadt a. d. Saale, 6 April 2017

The Supervisory Board

The Board of Management



# PROGRESS REPORT

---

In the interest of integrated communication, the Progress Report on corporate responsibility of RHÖN-KLINIKUM AG has been embedded in the Annual Report as of the 2016 reporting period. Apart from the advantage of having all relevant information about our Company in one publication, publishing this information early in the year also ensures that the figures are much more up-to-date.

On the following pages, we inform you on the key strategic points and the individual corporate divisions from the perspective of sustainable added value creation. We thus provide our stakeholders as well as all those taking an interest in our Company with an overview of the steps and measures taken to safeguard the future and sustainable corporate success of RHÖN-KLINIKUM AG. The reporting is structured along the lines of a classic CSR report as well as the guidelines of the German Sustainability Code.

## Medical care to the highest standards

Providing cutting-edge medical care for everyone at all times is the stated aim of RHÖN-KLINIKUM AG. To achieve this goal, we always examine and treat our patients on the basis of the latest, scientifically founded therapy procedures and using state-of-the-art medical technology. Of course, all our patients also receive the best-possible nursing and care, since sustained treatment success is not the result of apparative medical care alone.

In addition to our aim for treatment excellence, we also seek very practical ways of making advances in medical care. The latest research findings are always made accessible to patients as quickly as possible. With its research and innovation programme, RHÖN-KLINIKUM AG promotes pathbreaking medical and nursing concepts at all its sites. Within this context we conduct clinically oriented basic medical research and evaluation of innovative treatment methods, for example in the field of personalised medical care. Moreover, the programme covers organisational logistics subjects, such as better integration of inpatient treatment and after-care at home.

To implement our objectives in the professional sphere, we established our Medical Board already in 2014. Comprised of top physicians, this body has been entrusted the task of inspiring the medical strategy of the RHÖN-KLINIKUM AG, implementing specific innovation projects and synchronising medical expertise with the Company's corporate objectives. The members of the Medical Board work on an interfacility and interdisciplinary basis together with their colleagues at the hospitals to ensure that our patients specifically benefit from the medical expertise of RHÖN-KLINIKUM AG. The expert body also advises and assists the Board of Management and the managements of the hospitals in assessing medical innovations, new treatment procedures and the installation of complex medical equipment.





## **FUNDING PROGRAMMES FOR EXCELLENCE PROJECTS**

Specifically, the focus is on the conception and implementation of key medical innovations which are promoted in numerous projects in the supported fields of "research and innovation" as well as "treatment excellence and network medicine". In the first funding period (2015 to 2017), a total of 61 projects are being supported by a total volume of roughly four million euros. The programme covers projects at all of the Group's five sites and is the result of a Group-wide competition. Some projects are being pursued as a joint subject at several sites.

Of these 61 projects, currently 58 of them that were subjected to an interim evaluation last summer are still ongoing. In this context, 9 projects were rated as excellence projects. These include, among others, the "Assessment of elderly patients in the emergency ward" at the Frankfurt (Oder) site, "Patient safety at RKA" in Marburg, "Optimised coronary representation with state-of-the-art Cardio-CT" in Bad Neustadt, "Individualised spine replacement in cases of severe osteoporosis" in Bad Berka or "Methods of early detection of recurrence" in Gießen. The projects of the second funding period from 2016 to 2018, likewise supported by a volume of up to four million euros, concentrate on two main subjects: "Personalised medicine" in the area of research and innovation and "Simulation training and procedures for employees" in the area of treatment excellence.

## **IDENTIFYING NEW EXTERNAL AREAS OF POTENTIAL**

Moreover, the newly founded entity RHÖN-Innovations GmbH funds start-ups from the medtech industry to forge ahead with digitalisation in the healthcare sector.

In 2016, the ideas of a total of 150 innovative company founders were analysed, with selected developments in day-to-day clinical practice being tested and examined for investment viability. At the RHÖN Innovation Conference in November 2016, the most promising internal as well as external funding projects were presented.

## **EXPANSION OF NETWORK MEDICAL CARE**

Realising the entrepreneurial and health-policy vision of national full-service networked medical care is a further strategic objective of RHÖN-KLINIKUM AG. Rationalisation before rationing – it is under this guiding principle that each patient in future also is to receive the best possible, high-quality medical care tailored to their needs. To do so, efficiency reserves have to be reaped while preserving a level of medical care at least equivalent in quality. This is to be achieved by targeted referral of patients – also beyond regional borders – to the place and type of treatment. In this way, patient care can be optimised while at the same time preventing the waste of resources and overworking of staff.

Specifically, this means that – in different shapes and forms – we are increasingly networking specialist practices with our hospitals at the various sites. For this purpose, for example, cooperation schemes were entered into in Bad Neustadt with independent doctors, joint practices, pharmacies and other medical services for their establishment on the hospital campus so that patients from a catchment area of some 100 kilometres can be provided with care. The basis for a stronger integration of telemedicine was also improved.

## Environmental protection and quality medical care go hand in hand

For RHÖN-KLINIKUM AG, protecting the environment and healthcare are inseparably bound up with each other. It is for that reason that environmental protection has formed an integral part of our business activity already for many years. Moreover, offsetting the rising costs of healthcare policy developments and energy procurement calls for efficient energy and environmental management, since it is only in this way that our corporate objective of providing affordable and high-quality medical care for everyone can be achieved.

In keeping with our decentralised corporate structures, environmental management is firmly established Group-wide at two levels. At every hospital, implementing clinical measures is the responsibility of the respective technical control department. It not only monitors the safe operation of all technical and medical-technical equipment and systems but also construction projects, assumes the task of energy controlling as well as equipment and commissioning planning.

The Group division Construction and Technology coordinates and assists all facilities. Its tasks, in addition to Group-wide energy and emissions controlling, also include assisting the staff in charge on site in analysing and implementing optimisation measures. With innovative projects it moreover promotes the Group-wide development of new standards for energy provision in the healthcare sector.

### ENERGY SUPPLY

The issue of energy efficiency is tremendously important to RHÖN-KLINIKUM AG. As the use of large equipment units and information technology (IT) in medical care continues to increase, so too does the consumption of electricity in our hospitals. This not only builds for a bigger “environmental footprint” but also creates economic burdens.

That is why we have been pursuing efforts in generating our own energy with our cogeneration plants (CHPs) for already over 20 years. In addition to the electrical energy generated, the heat produced by our six plants is also of benefit as it is used for heating, hot water as well as cold generation. In 2016, these combined heat and power units generated a total of 38,270 megawatt hours (MWh) of electricity, thus covering roughly 40 per cent of our requirements. This is not only cost-efficient but also saves around 11,556 t in CO<sub>2</sub> emissions as compared with conventional energy supply. Electricity consumption of RHÖN-KLINIKUM AG stood at 97,470 MWh in 2016. Total heat consumption increased to 135,600 MWh.

The higher consumption of electricity resulting from the use of a greater number of medical units which are also higher-performing, such as computer and magnetic resonance imaging scanners (MIRs) or modern IT servers also requires more cooling. To cover these requirements we also use, in addition to electrically operated coolers, absorption coolers. These are operated at a high level of energy efficiency using heat from our CHPs. In the winter we use “natural cooling” for units that have to be cooled during the entire year, by which water is cooled with the help of the outside air. For air conditioning, we are increasingly using what is known as adiabatic cooling without electricity (evaporation cooling). To further reduce emissions, we will press ahead with the use of renewable energies within the Group wherever this appears sensible. At the same time, however, energy supply to clinical operations – and thus the safety of our patients – has to be ensured one hundred per cent at all times.



## EMISSIONS

At RHÖN-KLINIKUM AG, emissions are produced primarily in the form of CO<sub>2</sub> from heat and electricity generation. 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 34,200 t of CO<sub>2</sub>. Scope 2 emissions cover all indirect emissions from district heating and electricity deliveries. In 2016 they were roughly 33,700 t of CO<sub>2</sub>.

## CONSTRUCTION MEASURES

High priority is given to ensuring energy efficiency and keeping energy costs low in all new construction projects at RHÖN-KLINIKUM AG. For example, it is owing to the energy concept of the new campus in Bad Neustadt that roughly only a third of the previous total energy consumption is needed for heating generation. Further measures are thermal component activation for air conditioning, or new lighting systems using LED technology. For reasons of economic efficiency, we are no longer pursuing energy modernisation measures for old buildings.

## FRESH WATER AND WASTE WATER

In medical facilities, drinking water must be guaranteed to the highest quality at all times. We inspect water quality regularly through microbiological tests well exceeding the legal requirements. Moreover, little used lines are regularly flushed, since water may be allowed to stay in the piping for only a limited time if it is not to lose its microbiological quality. During the reporting period, water consumption rose by 1.6 per cent to 717,880 m<sup>3</sup>. About 41,475 m<sup>3</sup> of fresh water are not fed to waste water because, for example, it is evaporated in the adiabatic cooling process. Waste water is primarily polluted with contrast agents as well as excretions of pharmaceuticals. The total amount of waste water of all sites was roughly 676,405 m<sup>3</sup> in 2016.

## MATERIALS USE AND WASTE

Another important objective of our environmental management is reducing waste. That holds advantages from an ecological as well as economic perspective since costs are generated by both the use of materials in procurement and waste disposal. Each of our hospitals has its own waste officer to ensure professional waste management. We are also committed to regular training sessions for our employees. We thus promote knowledge of proper sorting and disposal of waste on the one hand, and a sparing use of consumables on the other.

In some cases, the various types of waste of our hospitals have to be disposed of by special processes. Depending on their type, they are measured by weight or volume. Despite the use of disposable materials in more and more areas required for reasons of hygiene, a slight downward trend in waste volume per patient treated can be observed.

## KEY ENVIRONMENTAL FIGURES

Energy	Unit	2016
Electricity consumption	MWh	97,470
Consumption per patient	kWh	137
Share of own generation	%	40
Heating consumption	MWh	135,600
Consumption per patient	kWh	190
<b>Emissions</b>		
Greenhouse gas emissions	t	67,930
<b>Water</b>		
Water consumption	m <sup>3</sup>	717,880
Consumption per patient	m <sup>3</sup>	1.0
<b>Waste/waste water</b>		
Waste quantity (residuals)	t	4,968
Waste quantity per patient	kg	7.0
Waste water	m <sup>3</sup>	676,400

Last updated: 31 December 2016

## Growing challenges

The healthcare sector, like so many others, is suffering from the increasing shortage of skilled staff. That has made recruiting highly qualified and motivated staff for the wide-ranging and complex requirements and duties a big challenge for all companies of the healthcare sector. Particularly in labour-intensive companies like hospitals, having dedicated and well trained employees is vital. That of course also rings true for RHÖN-KLINIKUM AG.

The well-being of our patients is always the focus of interest of the work performed by our doctors and nursing staff, therapists and medical-technical assistants (MTAs). Typical characteristics of all our hospitals are state-of-the-art medical technology, variable working time models as well as numerous offers with regard to remuneration, retirement or childcare, making us an attractive employer nationally.

All our employees benefit from the knowledge and experience of our Group with all its medical specialties and direct tie-in to cutting-edge university medical care. The exchange of knowledge and experience forms a key element of our human resources strategy. Employees can network over the Company's various locations thanks to decentralised continued training and higher qualification measures. Moreover, we are building on close integration of medical care and management.

With a total of 16,486 employees, RHÖN-KLINIKUM AG is not only one of the largest private healthcare providers in Germany but also amongst the largest employers at each of its five sites. During the reporting period, the turnover rate within the Group stood at 2.6 per cent, with the proportion of disabled employees being 7.2 per cent.

### RECRUITING

We endeavour to find exclusively sustainable solutions to meet the increasing problem of shortage of skilled staff arising, among other factors, from demographic change in Germany. Moreover, it is the stated aim of RHÖN-KLINIKUM AG to be an attractive employer on the entire labour market. We attach tremendous importance to a positive candidate experience and treat our candidates openly and respectfully. The subject of digital transformation is also very important to us. In October 2016, the Group division Human Resources of RHÖN-KLINIKUM AG launched the internship project "Raising employer attractiveness" with the University of Applied Sciences Würzburg-Schweinfurt (FHWS). Six students from the masters programme Brand and Media Management are devoting themselves to the following tasks: company and competitor analysis, applicant and employee interviews, example of a media-centred recruiting concept as well as the substantive revision of the "Career" section of the general Group and hospital website. In January 2017, the findings were presented to the University. Selected aspects were further pursued and integrated into the Company's existing career management process through specific measures.

### TRAINING

Training our own junior staff has proven an effective means of countering the shortage of skilled staff. RHÖN-KLINIKUM AG runs its own nursing schools as well as schools for therapists and medical assistance professions. To maintain our high level of nursing care, we specifically promote the specialisation as well as training and higher-qualification training of our nursing staff. We train people Group-wide in the professional groups of nursing, physiotherapy, ergotherapy, logopaedics, dietician services as well as medical assistance professions in the areas of functional diagnosis (MTAF), laboratory (MTLA) and radiology (MTRA) as well as medical documentation (MDA). But our training offering also covers business, catering and IT professions. In 2016, we trained a total of 973 young people. After conclusion of their training, 138 of them were taken over in permanent employment.

## CONTINUED AND HIGHER-QUALIFICATION TRAINING

However, RHÖN-KLINIKUM AG not only supports sound training, but also specifically promotes continued and higher-qualification training of all professional groups within the Group. That is just as true for our nursing employees, who are a vital mainstay for the successful operation of our hospitals, as it is for our doctors and therapists. That is because employees with above average qualifications are the most important assets of our Company. For example, all sites of our hospital network offer doctors the option of completing training as specialists. Moreover, doctors have the option of obtaining supplementary qualifications and qualifications in specific areas of focus.

Students of medicine can complete their practical year at any of the Group's sites. With our recognised academic teaching hospitals, we thus have a good basis for recruiting qualified young physicians. The aim of RHÖN-KLINIKUM AG is to offer staff attractive professional prospects so as to retain them for the Company in the long term. In this context, it is becoming increasingly important to look at an employee's overall situation, taking account both of his/her professional and personal needs.

To supplement hitherto exclusively classroom training programmes, an e-learning system was implemented at the end of 2016. By learning online, our employees enjoy a high level of flexibility as to where and when they receive continued training. Each employee can learn the materials at the pace that suits them. With the e-learning system, both participants and materials are managed, learning progress is documented, and of course the training sessions completed. In this way, the right information is available to the right employees at the right time. In the digital environment, learning materials can be made accessible flexibly, dynamically and in updated form. Moreover, the entire continued training offering can be organised and managed through the system. It is thus also possible for our employees to enrol in classroom training programmes and to get to know the multifaceted training offering available within this system.

The e-learning system also allows for an interfacility and schedule-free exchange of e-learning subjects between employees and specialists. Where employees have not had the opportunity to complete training sessions at their workplace, they in principle have the option of attending the training sessions at home on their computers. In this case they receive a corresponding time credit. For the courses they complete, the system issues and stores a certificate that can be printed out through the system directly.



The system was designed in such a way as to safeguard employee rights. The framework for this is provided by a Group-level works agreement concluded jointly between RHÖN-KLINIKUM AG and the Group works council.

Expenditure for all training, continued training and higher-qualification training measures stood at roughly 3.8 million euros in 2016, or 260 euros per employee in our hospital and medical care centre subsidiaries. Since many of the continued and higher-qualification training measures take place during working hours, it is not possible to calculate the number of hours spent on this.

### **EMPLOYEES FROM ABROAD**

To counter the shortage of specialist staff nationally, we established already in 2011 our Scholarship Programme for physicians from abroad. Participants work in residency at the Bad Neustadt Campus. With language courses, the scholarship guest residence and joint projects, physicians are helped to integrate into their new working and living environment. Since 2014 there has also been a special nursing integration programme for foreign nursing staff. The initially one-year placement as nursing assistant is accompanied by an intensive language course and rounded off by a social framework programme.

### **ATTRACTIVE EMPLOYER**

To be an attractive employer, it is necessary to have a flexible working time scheme. RHÖN-KLINIKUM AG has entered into individual site-specific agreements to take account of employees' personal priorities to a greater extent. For example, our personnel work under trust-based, flexible or part-time working time schemes. 6,857 employees (41.59 per cent) were employed part-time during the reporting period, with the proportion of women being around 47.80 per cent. A total of 552 employees were on parental leave.

Of course, we are also actively engaged in the area of preventive healthcare. For example, during the reporting period our hospital in Bad Berka renewed the cooperation agreement on occupational healthcare management

with AOK PLUS. Over the past years, nearly 30 preventive care courses covering areas such as sports and nutrition were offered. Occupational healthcare management also includes analyses relating to workplace design and working situation, continued and higher-qualification training as well as the Health Week conferences. To enable a better balance between professional and family life, we have in-house kindergartens at most of our sites. Some hospitals have entered into cooperation schemes with local day-care centres. New employees also receive assistance when looking for an apartment or can rent the hospital-owned apartments at a reasonable cost during the initial phase. For family-friendly corporate governance, the Group-level works agreement "Career and Family" was concluded. A family-oriented personnel policy is also an important basis for achieving equal opportunities.

### **REMUNERATION AND COMPANY RETIREMENT PENSION SCHEME**

Performance-oriented remuneration and various incentive schemes giving our staff a stake in the Company's success also help make us an attractive employer. With state-of-the-art medical technology, we offer doctors first-class working conditions. For its hospitals, RHÖN-KLINIKUM AG has negotiated in-house collective agreements with the trade union ver.di and Marburger Bund. Compared with the collective agreement scheme seen in the public sector, the employees of our facilities enjoy financial advantages under tax and social insurance legislation, such as high night-shift premiums exempt of tax and of social insurance contributions.

Our in-house wage scale also reflects the Group's philosophy of giving all employees a stake in the Company's result. Here, the entire result is the sum of the individual performance items. This "we component" is a sensible management and motivation instrument and has the advantage of ensuring that every individual benefits from it when the Company fares well. We offer our executive employees a remuneration scheme that is made up of a fixed salary and variable salary components and whose purpose is to involve them to a greater extent in the pursuit of our corporate goals.

<b>2016</b>		<b>Total employees (headcount)</b>	<b>Of which total female employees (headcount)</b>	<b>Of which total male employees (headcount)</b>
Age structure of workforce	Number of employees	16,486	11,994	4,492
	Number of employees up to 30 years of age	3,678	2,709	969
	Number of employees over 30 up to 40 years of age	3,919	2,771	1,148
	Number of employees over 40 up to 50 years of age	3,840	2,825	1,015
	Number of employees over 50 years of age	5,049	3,689	1,360

As at: 31 December 2016

<b>2016</b>		<b>Total employees (headcount)</b>	<b>Of which total female employees (headcount)</b>	<b>Of which total male employees (headcount)</b>
Apprentices, total	Number of apprentices	973	798	175
	Number of apprentices, nursing professions (nursing, etc.)	842	705	137
	Number of apprentices, commercial professions	29	24	5
	Number of apprentices, other professions	102	69	33
Apprentices taken over after training	Number of apprentices taken over after training	138	115	23
	Number of apprentices taken over after training, nursing professions (nursing, etc.)	122	104	18
	Number of apprentices taken over after training, commercial professions	11	9	2
	Number of apprentices taken over after training, other professions	5	2	3

As at: 31 December 2016

<b>2016</b>	<b>Total:</b>	<b>Of which part-time employees</b>	<b>Proportion of part-timers in total number</b>
Number of employees (headcount)	16,486	6,857	41.59%
Number of employees (full-time positions)	13,248	4,059	30.64%
Female employees (headcount)	11,994	5,733	47.80%
Male employees (headcount)	4,492	1,124	25.02%

As at: 31 December 2016

## More stringent anti-corruption measures

Compliance still has room for improvement in many areas of healthcare. Every tenth hospital has already encountered negative experiences in this regard, and most of those have already suffered financial losses as a result. It cannot even be said that all hospitals in Germany have in place a generalised compliance management system providing for a specific management of compliance matters: according to the study “Compliance im Krankenhaus” (Compliance in the hospital), roughly 33 per cent of small and over nine per cent of large hospitals do not have any compliance management system (CMS).<sup>1</sup> Nonetheless, there are many things making the case for compliance in the hospital.

For RHÖN-KLINIKUM AG, the focus of interest is primarily on the trust our patients put in us. It has long been a well known fact that unlawful and unethical conduct not only causes economic damage but in particular destroys trust. Nevertheless, there are time and again reports in the media about cases in which physicians give preference to prescriptions of certain pharmaceuticals or to use of certain medical devices in return for more or less hidden kick-backs. Every patient, though, must be able to have absolute trust in a physician's individual treatment decision and in such decision being based solely on medical criteria. For that reason, bribery and corruption in the healthcare system have been punishable since 2016 by imprisonment and fines pursuant to sections 299a and 299b of the German Criminal Code (Strafgesetzbuch, StGB).



<sup>1</sup> Gehring et.al., *Compliance im Krankenhaus*, 2017.



What is also new this year is that members of the Association of Voluntary Self-Control of the Pharmaceutical Industry (Verein Freiwillige Selbstkontrolle für die Arzneimittelindustrie, FSA) for the first time have published continuing training services and benefits to doctors, other healthcare professionals as well as medical organisations and facilities in its transparency code. In this way the public can see how doctors and the drug industry cooperate.

RHÖN-KLINIKUM AG examines all contracts of its doctors for compliance with the new legislation. In the event of any suspicions that legislation is being violated, the doctors concerned, for example, are not permitted to participate in the continued training events paid by the industry. The basis for participating in events is rules – rules that with us have already been in place for years and jointly adopted as a Group-level employment agreement.

### **COMPLIANCE PROTECTS BOTH COMPANY AND ITS EMPLOYEES**

Compliance has enjoyed a key status at RHÖN-KLINIKUM AG already since 2008. Our Group-wide compliance management system (CMS) is pursuing the aim of ensuring that statutory requirements and ethical codes of conduct are observed over all hierarchical levels. Compliance protects employees as well as persons holding organisational responsibilities from civil and criminal legal action and contributes to a release from liability. Furthermore, it safeguards efficiency since punitive payments and litigation costs are prevented and pecuniary losses from white-collar crimes are counteracted. Compliance thus also protects against negative media coverage. Compliant organisational structures enable employees to better identify themselves with the Company and further improve corporate culture when employees know that they are protected against compliance breaches and that the compliance officers will be there to support them in critical situations. The positive effect of a duly compliant company also reflects well on the employees.

The Group-wide Rules of Procedure for Compliance, which are binding on each and every employee, governs the establishment and functioning of our compliance management system. Primary responsibility for compliance is held by the Chairman of the Board of Management of RHÖN-KLINIKUM AG. He reports to the committee of the Supervisory Board. Given the key importance of this subject, this Supervisory Board committee, the Committee for Compliance and Communication, meets at least once per quarter. Within the scope of their compliance-related duties, the individual subsidiaries are assisted by the Group's central compliance organisation. On site, it is the compliance officers who report to the central compliance organisation and act as contacts on site. To ensure an ongoing exchange between Risk Management, Internal Auditing and Compliance departments, there is also a Compliance Committee that meets on a regular basis.

### **ENSURING AWARENESS AS KEY MEASURE**

We conduct a regular review based on internal and external events of how effective and up-to-date the CMS is, continuously adjusting our rules as required. Compliance breaches are to be prevented from the outset, i. e. by identifying and averting risks in time. Key measures consist in reviewing workflows that ensure legally compliant work activity (audits) and adjusting them as required, as well as informing employees of rules to be complied with. In addition to a guide to the most important questions on the subject of compliance, we have developed a recommended procedure for dealing with potentially critical contracts.

#### **CURRENT KEY COMPLIANCE SUBJECTS**

- Sections 299a and 299b (Bribery and corruption in healthcare)
- Transparency code of the FSA
- Personal authorisation
- Optional benefits



For us, information policy enjoys very high priority, whether as part of internal continued training measures or work on corporate bodies. In this way critical situations are to be prevented proactively and training measures to deal with them introduced. Also in future, the subject of keeping our staff informed and clarified will be given very strong emphasis at RHÖN-KLINIKUM AG. During the reporting period, training courses for medical doctors and nursing staff were held at all hospitals individually as required. The training courses covered the compliance risks typical for these areas and were oriented in their subject matter to the group of participants. Further subjects were optional benefits (of privately insured patients) and what is referred to as personal authorisation (entitlement to invoice treatments of patients under statutory insurance with the associations of accredited physicians (Kassenärztliche Vereinigungen). For the e-learning sessions planned in 2017, content was developed with a contracted training service provider.



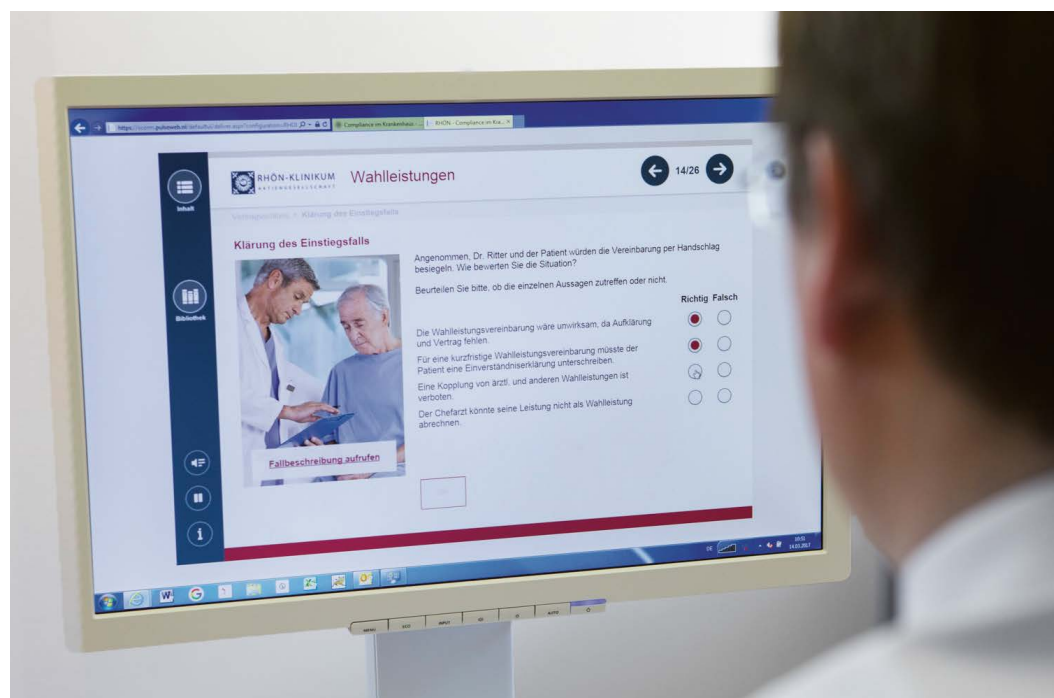
RHÖN-KLINIKUM AG's corporate principle "Don't do to others what you would not like done to yourself, and don't leave off doing anything that you would like done to yourself" is a commitment we honour in all our decision making processes. Acting for the well-being of our patients is oriented on this guiding principle in the interest of compliance. In addition to the statutory regulations, we also adhere to our own internal requirements which are based on even more stringent ethical standards. These are expressed as Group work agreements, the Rules of Procedure for Compliance as well as guidelines and recommendations (e.g. code of conduct) so that every employee is enabled to pursue our corporate objectives in accordance with our values.

## COMPLIANCE CASE DURING THE PERIOD UNDER REVIEW

During the period under review, RHÖN-KLINIKUM AG had one compliance case of media relevance. A nurse at Gießen-Marburg University is accused of having administered to two newborn infants medication without a doctor's authorisation. One of the children presumably died from this. The case was reported immediately and completely clarified in keeping with compliance guidelines. We of course assisted with the investigations by the Public Prosecutor's Office with all resources available to us. This cooperativeness on our part was explicitly emphasised in the report by the Public Prosecutor's Office.

## COMPLIANCE TOOLS

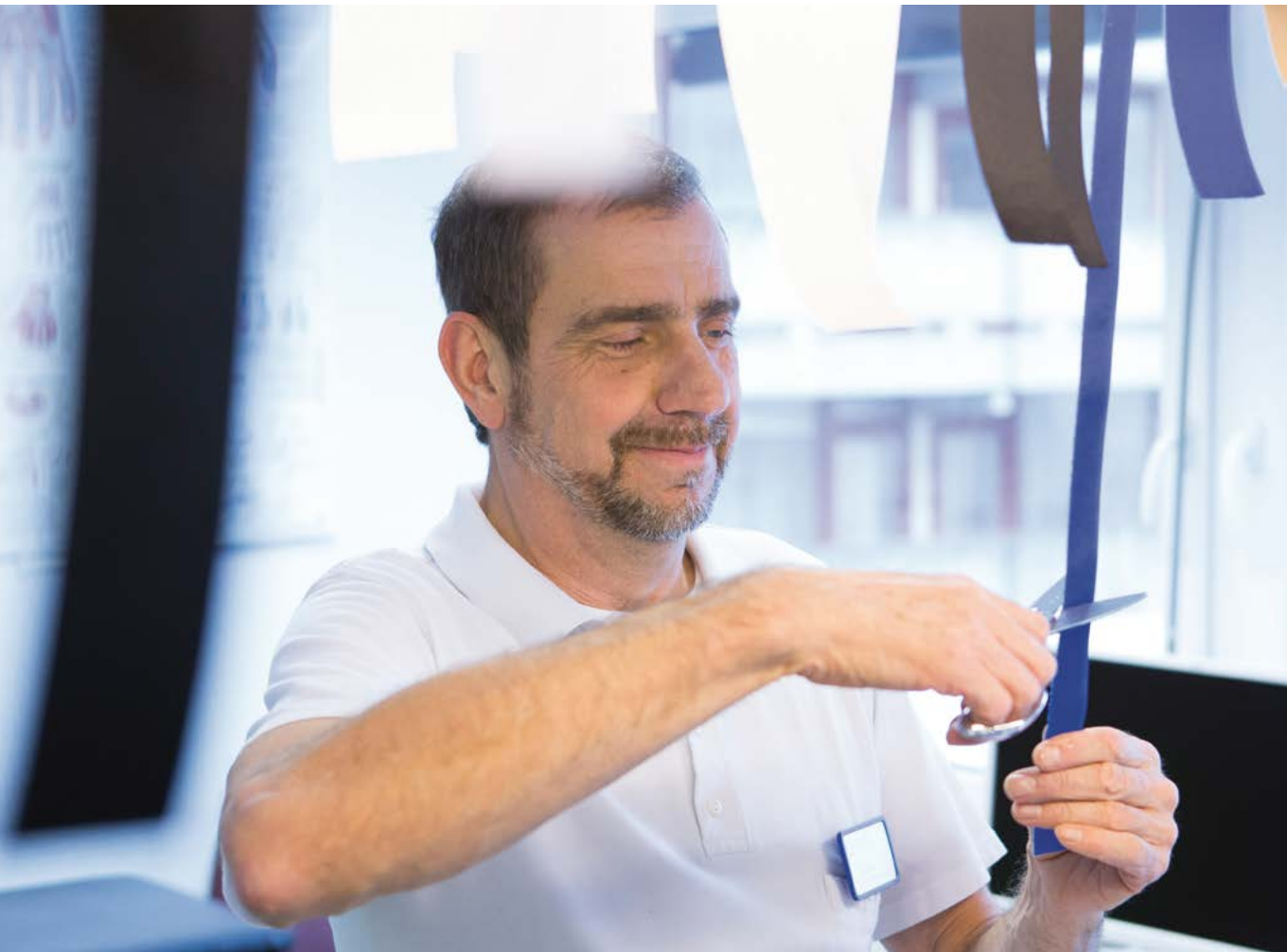
- Events and training measures
- E-learning offerings
- Compliance audits
- Case studies
- Advisory and standardisation



## Supplier management

RHÖN-KLINIKUM AG's management of suppliers is defined by three factors: quality, supply reliability and efficiency. Since we procure material for our medical equipment and medical supplies almost exclusively through external suppliers, there are always certain risks for clinical operations, for example those arising from supply shortages or problems with quality. Through ongoing market and product monitoring we limit our reliance on sole suppliers or on single products and service providers. Moreover, we minimise the probability of failure since in principle we work together with at least two suppliers for each product group.

Generally, supplier management is centralised. The only exception is products and services that are needed at only one site. As a rule, the respective hospital procures these itself. Group product and supplier responsibility for certain product groups such as knee and hip prostheses, heart valves, defibrillators or cardiac pacemakers as a general rule is assumed by two materials management heads from different hospitals.





One of the biggest logistical challenges facing the medical facilities of RHÖN-KLINIKUM AG is ensuring continuous availability of medical devices and pharmaceuticals. For example, it is frequently the case after company mergers or takeovers that certain products are no longer available for reasons relating to margins or competition. In such situation, we have to act quickly to find a replacement to ensure that our treatment quality can still be maintained. In the interest of efficiency, we also repeatedly have recourse to alternatives and competitors whenever follow-on products become dear.

All product logistics at RHÖN-KLINIKUM AG is carried out by lorry, rail, air and ship. Although we do not have any influence on transport emissions since the deliveries of materials are performed by forwarding agents, certified environmental management systems are decisive when it comes to the choice of service providers. Traffic emissions from business trips or commutes by employees are not recorded given the disproportionately high cost this would entail.

## Medical quality: Something controllable and predictable

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

### ENHANCED QUALITY THROUGH EXCHANGE OF INFORMATION

To ensure that all patients benefit from the collective know-how of our facilities, we are making improvements to the exchange of information needed for this throughout the Group. In this context, various networks are used: in addition to the Medical Board, there are thirteen specialist bodies which consistently implement networking. Top physicians and specialists of all sites meet regularly for a thoroughgoing exchange regarding the further development of their specialist fields. With these expert panels, the flow of ideas is by no means a one-way street. Proposals are made by both the experts and the Medical Board or the Board of Management. This reciprocal exchange ensures on the one hand that there is a direct flow of information between clinical practice and the management level, and on the other that strategic decisions can be made more specifically and quickly. Together, they endeavour to find solutions leading to a further improvement in treatment quality and thus patient care. Moreover, the network of hospitals is to be prepared through cooperation on strategically important issues of the future such as the greying of patients or digitalisation in everyday clinical practice.

### 1. CLINICAL RISK AND QUALITY MANAGEMENT

In future, the quality of inpatient medical services is to be rewarded to a greater extent – through measures enshrined in law – and poor quality is to be penalised. For that purpose, the Institute for Quality and Efficiency in the Healthcare System (Institut für Qualitätssicherung und Transparenz im Gesundheitswesen – IQTIG) has been mandated to develop binding quality indicators so that the services of German hospitals can be measured and represented. For example, components of remuneration are to be based on the quality delivered (pay-for-performance method). Also, hospital planning (for example



licensing) in future is to be dependent on the level of quality in the services they provide. Hospitals are preparing themselves for these new framework conditions that are to be implemented over the next few years.

RHÖN-KLINIKUM AG has met this development through, among other things, its hospitals having joined the Initiative Quality Medicine (IQ<sup>M</sup>). IQ<sup>M</sup> and the Internet portal Qualitätskliniken.de, whose founding shareholders include our Company, represent two major quality initiatives by German hospitals. We are one of the first hospital groups to actively participate in both initiatives. Between them they represent some 500 German hospitals. As a joint association under the name Stiftung Initiative Qualitätskliniken (SiQ!), they have committed themselves to contributing their efforts to the work of the IQTIG .

### QUALITY INDICATORS IN SOME CASES BASED ON ROUTINE DATA

The further development of quality management within the Group division of Patient Safety, Quality Management and Hygiene is given the utmost priority. Within the framework of an expert panel, the quality management officers from the Group division as well as from the Group's facilities meet semi-annually with the heads of the respective medical controlling departments. This interdisciplinary cooperation is especially important since some quality indicators are increasingly being prepared on the basis of routine data, meaning that the content of the coding is becoming very important also in terms of quality aspects.

The results of the quality initiatives IQ<sup>M</sup> and Qualitätskliniken.de as well as of the quality assurance and the quality survey conducted by the statutory health insurance fund AOK were the focus of interest of the centralised quality management department of the Group division Patient Safety, Quality Management and Hygiene. These were communicated within the corporate bodies of RHÖN-KLINIKUM AG. The RHÖN Quality Cockpit for regular Group-wide reporting on quality was further enhanced in 2016.

### OBJECTIVE DATA AND SUBJECTIVE ANALYSIS

With a view to ensuring the best possible clinical processes at our hospitals, we continuously evaluate the respective hospital- and department-specific results. Apart from the 46 "soft" core indicators from G-IQI (German Inpatient Quality Indicators, an excerpt from the indicators of IQ<sup>M</sup>) that are largely derived from the number of deaths, numerous other indicators such as length of procedure or complication rates are also taken from statutory quality assurance to improve clinical processes. In this way treatments can be identified whose processes can presumably be further improved and which therefore should be looked at more closely. In future, what is referred to as risk adjustment will additionally be used. This takes into account a patient's individual medical history, given that patients differ in terms of the extent of their condition and consequently their medical history may have an effect on the success of the treatment.





However, it is not only the objectively measured quality of diagnosis and treatment but also the subjective perception of the patient that is important. The more satisfied patients are, the more willing they are to establish a relationship of trust with their treating doctors, something that can be crucial to the success of the treatment. Since objective medical results quality does not always translate into subjective patient satisfaction, we put measurement of patient satisfaction on an equal footing with classic results measurement. In this way, the opinion of our patients can contribute directly to the evaluation and improvement of internal processes and service quality.

#### **RISK MANAGERS FOR MORE PATIENT SAFETY**

The most important driver of treatment excellence is the issue of patient safety. Supported by the innovation pool of RHÖN-KLINIKUM AG, a risk audit was carried out at each of four clinics at Marburg University Hospital with the involvement of the risk consultancy firm Gesellschaft für Risikoberatung from Detmold. In the audits, all areas of patient safety were reviewed over a period of several days.

Specific proposals for improvements in patient safety were already developed. In June 2017, a final evaluation of the measures implemented will be performed by Gesellschaft für Risikoberatung. Already before the final evaluation, the project was able to show not only that the initiatives taken are having a positive impact on patient safety but also that all employees and the entire organisation benefit from the project.

#### **2. MEDICAL CONTROLLING**

The economic counterpart to quality management is medical controlling. Medical controllers internally advise both physicians and the administration. In operative medical controlling, what are known as coding specialists identify and document services performed for each individual patient, while others in turn have the task of checking the documentation. They thus create the basis of correct accounting of services and a sound information basis for budget negotiations with payers (i.e. the health insurance funds).

Given the increase in individual case reviews by payers, the “MDK-View” has been further developed. This allows for areas of focus for controlling and the causes of controlling losses to be identified in an even more differentiated approach and for measures to improve process and documentation quality to be established and implemented more precisely.

Areas of focus of decentralised organisation are the recording and systematic, continuous monitoring of the sources of problems as well as comparing them with national reference data (surveillance), the evaluation of the consumption of hand disinfectants and antibiotics as well as further hygiene-relevant data. These data are compiled centrally in the Expert Panel on Hygiene where they are used, among other things, as a basis for developing improvement measures.

Another component of medical controlling is documenting and recording highly complex nursing services (nursing complex procedure score, PKMS) in patient care. The regular PKMS report makes it possible to increasingly stabilise documentation while identifying scope for improvement. The accounting-relevant requirements for nursing documentation were fulfilled without time-consuming multiple recording of data in the hospitals.

The basis for the switch to the system of flat-rate remuneration for psychiatric and psychosomatic facilities (FRPP) at psychiatric and psychosomatic acute hospitals has been created by the German legislature. At the psychiatric and psychosomatic acute hospitals, preparations have been made for the switch to the FRPP mandatory as of 2017.

### 3. HYGIENE MANAGEMENT

Hospital hygiene is a hallmark of quality for medical practice and a permanent and integral part of the quality concept at RHÖN-KLINIKUM AG. Given the rising incidence of infections worldwide, protecting patients and employees effectively against infections is crucially important for any hospital operator. The Group-wide hygiene management department is a mix of decentralised and centralised organisation. Areas of focus of decentralised organisation are the recording and systematic, continuous monitoring of the sources of problems as well as comparing them with national reference data (surveillance), the evaluation of the consumption of hand disinfectants and antibiotics as well as further hygiene-relevant data. These data are compiled centrally in the Expert Panel on Hygiene where they are used, among other things, as a basis for developing improvement measures.

In 2016, the structure was adapted to the changed legal requirements in the relevant subject areas of hospital hygiene. Specifically, this relates to issues such as the personnel concept for specialist hygiene staff, surface disinfection, preparation of medical devices, screening, outbreak management and antibiotics stewardship. In a meeting of the Expert Panel on Hygiene, experiences from the hospitals were compiled and harmonised as far as possible. For example, admissions screening of patients is to be performed in accordance with the risk classifications of the Robert Koch Institute (RKI). Despite the different requirements existing in the individual federal states, this also made it possible to harmonise participation in the surveillance of hospital infections (hospital infection surveillance system (KISS)).

## Social commitment

Good health is the highest human good, and that means our healthcare task is closely bound up with our fundamental understanding of social responsibility and access by everyone to the best possible medical care.

Since 2015, RHÖN-KLINIKUM AG has been operating in Gießen an “intercultural medical outpatient service” unique in Germany, oriented towards the special needs of patients with a migrant background. The aim is to achieve intercultural opening by providing reasonable medical care giving particular consideration to special cultural aspects. The model project is funded by the Hessian Ministry of Social Affairs and Integration.

In view of rising refugee numbers in Germany, we have created, together with the cooperation partner Zentrum für Telemedizin Bad Kissingen, a basis for the telemedical network “TeleView” for providing medical care to refugees. Doctors with a migrant background are used to provide telemedical care since they possess the necessary medical and linguistic knowledge. The project provides for solutions for initial registration facilities, collective living quarters and hospitals as well as for direct contact with refugees, and was awarded the “Karl Storz Telemedicine Prize” in Berlin. At the “dfg Award 2016”, one of the most important awards in the industry, “TeleView” ranked among the top 5 in the category “Outstanding innovation in patient care” and was named the most outstanding project.





Numerous employees of RHÖN-KLINIKUM AG throughout the world have committed themselves to making a voluntary social contribution to aid projects such as Doctors Without Borders. Last year, that was the case e. g. in Afghanistan and Chad. This is valued and encouraged by the Company.

And that also includes the work of volunteers within the context of our hospital visiting service. These individuals see to the needs of patients who are rarely visited, either because their relatives live too far away or because they have none. The volunteers give of their time and attention depending on the situation and needs of the individual patient.

Company-external institutions or persons are neither supported nor sponsored by RHÖN-KLINIKUM AG. Funds are preferably channelled to research and medical care in our own facilities.







# Quality & Hygiene

---

Hospital hygiene is a hallmark of quality for medical practice and a permanent and integral part of the quality concept at RHÖN-KLINIKUM AG. Given the rising incidence of infections worldwide, protecting patients and employees effectively against infections is crucial – every day, 24/7 and in all clinical areas.

---

## FOCUS ON MEDICAL CARE

Demographic change, digitalisation, quality and hygiene, uncertain healthcare coverage in rural areas – the current challenges facing healthcare are huge. RHÖN-KLINIKUM AG accepts them all.

The most recent confirmation came just before Christmas in 2016. The first Endoprosthesis Centre in central Thuringia was once again issued the certificate of the renowned Institut ClarCert. The Centre at the Clinic for Orthopaedics and Trauma Surgery of Zentralklinik Bad Berka was thus certified as meeting the high requirements for process, treatment and results quality. At Zentralklinik Bad Berka, knee and/or hip prostheses are inserted in some 500 patients each year. To receive the certification, very experienced surgeons having completed at least a hundred endoprosthetic procedures must be used, known as senior primary surgeons. "I am glad that our hospital, with its terrific team spirit, has once again succeeded in demonstrating cutting-edge medical care and treatment excellence in our specialty field", said head physician of the Clinic for Orthopaedics and Trauma Surgery, Professor Olaf Kilian.

Cutting-edge medical care and treatment excellence – since the "new beginning" of RHÖN-KLINIKUM AG in 2014, these have been the Group's guiding principles as reflected in numerous activities. That medical care and economic efficiency are set on an equal footing in this context is something underscored by the creation of the **Medical Board of Management division** headed by Professor Bernd Griewing. The establishment of this area of responsibility at the beginning of 2016 following the establishment of the Medical Board was the next important step towards creating optimum framework conditions for developing innovative solutions in patient care not only enabling but also promoting innovation.

Already for two years, the **Medical Board** has been bringing together top physicians from all sites of the Company, linking up university medical care to non-university medical care. It has since been advising and assisting the Board of Management and the hospital managements in evaluating and specifically implementing medical innovations, new treatment procedures and the installation of complex medical equipment. Led by the Medical Board, RHÖN-KLINIKUM AG is seeking a targeted expansion of its competitive position in the area of treatment innovations and cutting-edge medical care with the sharp increase in its research budget. Through a **funding pool**, more than 80 projects focusing primarily on the subjects of "research and innovation" as well as "treatment excellence and network medicine" are currently being supported. This research and innovation programme covers projects at all the Company's sites and which are the result of a Group-wide competition (for project examples, see page 76).

At the initiative of the Medical Board, a directory of all the Group's medical experts (including head physicians and hospital directors) was also created in 2016. The **"RHÖN Expert Directory"** lists some 140 specialists from all five sites and specialty fields, including their specialisations, clinical focuses, continued training programmes and contact data. This makes it easier for patients to look for the right expert offering the right range of services.





### DIGITALISATION AND NETWORK MEDICINE

Through targeted investments, the Company is also seeking to consolidate and further expand its leading position in future in maximum care facilities with a tie-in to university medical care. The focus here will particularly be on the key issues of the future, digitalisation and networked medical care. All initiatives related to that including the **campus concept** have the objective of systematically creating stimulus for promising and viable, patient-oriented healthcare delivery of the future. Specifically, the campus concept is currently being realised at the Company's headquarters in Bad Neustadt a. d. Saale where RHÖN-KLINIKUM AG is building its model, pathbreaking response to the present challenges. The new campus building is to provide the basis for healthcare delivery to the highest standards secured in

the long term. Professor Bernd Griewing, Management Board member responsible for the Medical division: "For this purpose we want to establish a network over the next few years initially of regional character, and in the long term with supraregional appeal in rural areas, closely integrating outpatient and inpatient care offerings and further expanding telemedical offerings, among others."

Especially in the area of network medicine, RHÖN-KLINIKUM AG has been setting standards in 2016. The basic firm belief in all efforts is that each patient deserves to be provided with state-of-the-art and high-quality medical care tailored to their needs – in keeping with the leading principle: rationalisation before rationing! The conceptual idea behind this is to reap efficiency reserves while preserving a level of medical care at least



equivalent in quality. This is to be achieved by efficient referral of patients to the place and type of treatment. Once step in this direction is the **web-based electronic patient file** – known as WebEPA+ in short – allowing for the GP, specialist and hospital physicians to be interconnected, thus ensuring that patients receive the best care possible. Zentralklinik Bad Berka as well as Klinikum Frankfurt (Oder) were the first hospitals to be connected to this network in 2016.

Looking to the future, this is pointing ahead to the cognitive assistance system that RHÖN-KLINIKUM AG has been testing in a pilot project at the “Centre for Unrecognised and Rare Diseases” (ZusE) of Marburg University Hospital. The system is to assist doctors and specialists in making a diagnosis, thus shortening the treatment time of hundreds of patients each year.

To make sure such innovations do not remain one-offs but are the result of coordinated future efforts, the company **RHÖN Innovations GmbH** was founded. Its task: to identify and specifically promote innovative ideas. The fully fledged subsidiary of RHÖN-KLINIKUM AG will take an equity interest in promising start-ups in the medical and medtech field. The focus of interest will be primarily on innovations supporting the establishment of outpatient-inpatient structures for healthcare delivery in rural areas. Particular emphasis in this context has to be placed on the IT structures the Company will need to press ahead with network medicine. Already in the year it was founded, in 2016, RHÖN Innovations GmbH took its first equity interest: with a single-digit million amount, the Company invested in the Israeli start-up Inovytec, which primarily manufactures products for non-clinical cardiological emergencies as well as non-invasive aids for obstructed airways. For example, one product is used to connect the first responder to the emergency doctor within seconds to ensure the patient receives optimum follow-on care. Inovytec products were thoroughly tested in two facilities of RHÖN-KLINIKUM AG – Marburg University Hospital and Klinikum Frankfurt (Oder) – in addition to other facilities.

For RHÖN-KLINIKUM AG, however, “Focus on medical care” first and foremost does not mean performing future work but day-to-day work for its patients. The motto is: every patient deserves to be provided with optimum medical care. Every day – around the clock. That is the central guiding principle of medical **quality management** at RHÖN-KLINIKUM AG (see page 68). To put it into daily clinical practice, the Company not only draws on classic quality assurance but also takes a comprehensive approach that also includes medical controlling, hospital hygiene as well as knowledge and information networks. The ongoing exchange between these related disciplines results in a stable and viable system throughout the Company, and one that goes far beyond the statutory requirements for quality and hygiene.

## ZERO ERRORS – EXCELLENT QUALITY MANAGEMENT

High medical quality is not something to be left to chance. RHÖN-KLINIKUM AG understands quality management as a permanent, ongoing task and is establishing a sophisticated system well exceeding the legal requirements for quality, hygiene and patient safety.

“Quality manager” doesn’t quite hit the meaning. The abstract, albeit common title is only inadequate when it comes to describing what Harald Auner’s job at RHÖN-KLINIKUM AG is. Another job description that would be more fitting for the head of the Group division of Patient Safety, Quality Management and Hygiene: cause researcher. Because that is exactly what Auner and all quality managers within the Group are concerned with: finding the causes of errors and initiating preventive measures to ensure that errors are prevented as far as possible in future and medical quality continuously rises.

Anyone dealing with the details of quality in the health-care system knows what a daunting task Auner and his team have undertaken. External quality assurance alone, which since 2015 has been performed by the Institute for Quality and Efficiency in the Healthcare System (Institut für Qualität und Transparenz im Gesundheitswesen, IQTIG), knows some 279 quality indicators for hospitals based on what are referred to as routine data. For each of these indicators, the hospitals of RHÖN-KLINIKUM AG, like all hospitals in Germany, submit a report annually and publish the results in quality reports. However, these indicators alone do not satisfy the requirements for quality and transparency. For that reason, additional standards have been established over the years, such as the association Initiative Qualitätsmedizin (IQ<sup>M</sup>) which 380 hospitals have meanwhile joined. 4QD – Qualitätskliniken.de is another example. Almost everything – it seems – is measured. Number of cases, number of deaths in operations, any complications arising, cure rates.

“You have to take a very close look when dealing with the quality indicators”, Auner admonishes. Example: post-operative deaths. Some statistics do not allow any conclusion to be made about whether a patient’s death is attributable to the operation or whether another cause is responsible. It merely records the death and the relevant department. Auner: “That is of course fatal for evaluating the quality report and for developing improvement measures.”

That is not the only reason why the doctors and quality managers at RHÖN-KLINIKUM AG apply their own yardsticks for quality: “We are concerned with living up to our own claims”, Auner explains. “We act to deliver cutting-edge medical care. In our facilities, but also within our network with partners. That is why we ourselves have to establish the criteria for that. It is not enough for us to simply orient ourselves on market standards.” The most pressing task of Harald Auner and his colleagues is to work together with the doctors to define the same indicators for all the Company’s hospitals. In this context, existing standards such as those of IQ<sup>M</sup> or 4QD are taken as a basis, but others are also included. “Why do secondary haemorrhages occur? How often do wound infections occur in certain operations? What is the cardiac output before and after a bypass is set?”

The RHÖN Quality Cockpit resulting from these indicator sets has been in use since the beginning of 2016. On a regular basis, the head physicians at the sites of RHÖN-KLINIKUM AG get mail from Harald Auner in the form of quality reports. The learning system provides for a critical





### **“NOBODY WANTS AN ERROR TO HAPPEN TWICE”**

Harald Auner, head of Group division Patient Safety, Quality Management and Hygiene, on the attitude of doctors to far-reaching quality management.

*Mr. Auner, you and your team place the doctors under close scrutiny. Surely you don't just make friends as a result?*

We work in the interest of doctors and that is also the way we are seen by our colleagues. Moreover, the doctors help identify the quality indicators. They assist us in establishing a system in which fewer and fewer errors happen. Quality management can only work if everyone does their part.

*What was the feedback you got from the first quality reports?*

Anyone reading such a report immediately recognises the opportunity to learn something from it. With every doctor and every medical team there is the need not to make the same mistake twice. This was

the attitude our colleagues met us with from day one. They value the depth of information and transparency of the process.

*But what happens when one aspect of quality really raises hackles? Are doctors always so open-minded in such cases?*

We already had a case like this. The colleagues immediately dealt with it in a very constructive manner. Everyone is perfectly aware that it is not about who may have made a mistake, but about why a mistake could happen. Even if an error might be attributable to a particular colleague, that does not mean that it is also that colleague's fault. There may be many reasons why errors happen. Our job is to make sure that they become fewer and fewer.



review of cases involving a conspicuous change in an indicator from one quarter to the next. This is done in a peer review procedure intended to identify sources of error. Auner: "Here it is not about who it was but how it was able to happen. It's no good pointing fingers at people" (see interview).

In addition to the routine data, the RHÖN Quality Cockpit is being gradually refined. After process and performance data (such as durations of stay of patients and case mix index) were included already in the second quarter of 2016, indicators for patient safety as well as ethics and values were developed in accordance with the 4QD indicators. In 2017 a concept is to be prepared on how to also gather key figures on the quality of outpatient care and the networking of outpatient and inpatient treatment. Auner: "It is becoming important for us to know how good we are at working together with medical care centres and what supportive role telemedical offerings play in influencing quality. That is something we will also measure." And the satisfaction of referrers and patients was also a quality criterion: "With all these data we will go far beyond what is common market practice today and in that way will have a good overview of quality development."

True to the motto "Do good things and talk about it", patients are also to learn where the Company's hospitals stand in the area of quality. "Already today, more and more patients are informing themselves about hospitals' medical quality", Auner reports. [Qualitätskliniken.de](http://Qualitätskliniken.de) is one of the portals serving this need for transparency. "But that is something that can be done better, too", Auner finds. I.e. simpler and more comprehensibly: "We have to deliver good quality. And we have to talk about our work in a way that people also understand us."



### 30 RISK MANAGERS

The objective of the Group division of Patient Safety, Quality Management and Hygiene is to further develop and harmonise clinical risk management in the hospitals of RHÖN-KLINIKUM AG. By mid-2018, up to 30 employees from clinical functions of all sites will be trained as risk managers whose tasks will include performing the audits to identify and evaluate clinical risks under the new structure. The training will take place in one of the Group's 84 funding pool projects aimed at supporting the further development of risk management throughout the Company. Under the project, the requirements to be met by an expansion of the risk management software will also be defined, which will take account of both clinical and commercial and technical aspects.

These measures are not only intended to meet the legal requirements, but also represent an important contribution towards ensuring even greater safety for patients and employees.

## DOC ON DEMAND – DIGITAL PROGRESS IN TELEMEDICINE

In ten years, telemedicine will be something commonplace, predicts the industry association BITKOM. At RHÖN-KLINIKUM AG, it is already part of the daily routine.

Sometimes, the greatest inventions come from the most unlikely sources: the short, multicoloured cell phone cable with four electrodes that Professor Dr. Thomas Deneke holds in his hand is such an innovation. Simply plug it into your smartphone, place the electrodes on your chest and start the relevant app CardioSecur – and voilà, you have your own mobile ECG. It is used in particular by patients with cardiac arrhythmia after catheter procedures needing frequent check-ups. “The mobile ECG enables our patients to check regularly on how successful the procedure has been without having to make additional hospital visits”, explains head physician of Cardiology II in Bad Neustadt.

Once activated, the app allows for a high-resolution diagnosis to be performed within 30 seconds and makes recommendations. “If the readings worsen, patients can immediately contact the treating doctors using the CardioManager”, says Dr. Asarnusch Rashid, managing director of Telemedical Centre of Bad Kissingen, who supports the telemedicine project with his medical expertise.

### 91 PER CENT ACCEPTANCE

Just how well the telemedical offering of RHÖN-KLINIKUM AG is being received by patients can also be seen most recently from the introduction of the electronic patient file WebEPA+. Since being introduced in October 2016 at RHÖN-KLINIKUM AG’s facilities in Frankfurt (Oder) and Bad Berka, 91 per cent of all patients agreed to make available their doctor’s letters, findings, diagnoses and therapies in a secure communication platform. This platform gives doctor’s practices, medical care centres and hospitals a simple and easy way to exchange all important treatment data with one another – easier than a fax, more secure than e-mail, CDs or USB sticks. “With WebEPA+ we are taking the next step towards a more efficient and secure exchange between doctors”, remarks Julian Laufer, head of Business Management Procedures and Research Projects. After being launched in Bad Berka and Frankfurt (Oder), it is to be rolled out at further sites of RHÖN-KLINIKUM AG in 2017.



## CREATIVE MASS – SCIENTIFIC KNOW-HOW

From an emergency ward for elderly persons to printed implants – the best ideas often come from a company's own employees. Through a funding pool, RHÖN-KLINIKUM AG currently supports 84 projects focusing on treatment excellence and network medicine and research and innovation.

Allergologisches Referenzzentrum der Kliniken des Konzerns • „Arthro-Trainer“ – Arthroskopie-Simulator Orthopädie • Assessment des älteren Patienten in der Notaufnahme • Aufbau eines standortübergreifenden klinischen Risikomanagements – Stufe 2: Ausbildung von Risikoauditoren • Behandlungsexzellenz durch Blut- und Gewebegruppenbestimmung mittels „Next-Generation Sequencing“ • Das PUR-Projekt – ein Simulationstraining für Chirurgie und Viszeralmedizin • Einführung des Systems HyHelp zur Verbesserung der Compliance der Händehygiene auf einer hämatologischen und einer nephrologischen Station sowie auf einer neonatologischen Intensivstation • Entwicklung eines 3D-Simulationstools für die dreidimensionale Mitralklappenchirurgie und Gründung eines 3D-Simulationszentrums in der Klinik für Kardiochirurgie Bad Neustadt • Entwicklung eines Softwareprogramms zur Datenverwaltung von zahlreichen Patientenfragen sowie zur Unterstützung bei der Diagnosefindung am Zentrum für unerkannte und seltene Krankheiten (ZusE) • Etablierung eines standortübergreifenden DIN ISO 17020 akkreditierten Qualitätsmanagements in der Pathologie • Evaluierung der diagnostischen Sicherheit, Ablaufprozesse und interdisziplinäre Vernetzung einer Synkopen-Kollaps-Unit als symptomorientierte Diagnoseeinheit im Hinblick auf Effektivität im stationären Bereich • Evaluation der pharmazeutischen Betreuung im Krankenhaus: In welchem Umfang lassen sich die ambulante und stationäre Patienten-Arzneimittelversorgung und die Arzneimitteltherapiesicherheit verbessern? • Evaluation und Weiterentwicklung der Epilepsieberatung und der interdisziplinären Epilepsiebehandlung in Hessen und Unterfranken • Health-related Quality of Life, outcome und Management von Patientinnen mit Brustläsionen unklaren biologischen Verhaltens (B3) • Hochenergetische Stoßwellentherapie (ESWT) bei komplexen Finger-Verletzungen • IMR – Infektionsmanagement mit Routinedaten • Individualisierter Wirbelsatz bei schwerer Osteoporose. Bietet 3D-Druck (zusätzliche) Therapieoptionen durch an deformierte Geometrie der Endplatten adaptierte Lastübertragung? • Karyotypisierung akuter myeloischer Leukämien mittels Next-Generation Sequencing (NGS) • Konzernweites PCI.de-Register • Marburger chirurgisches Weiterbildungsprogramm für junge Chirurgeninnen und Chirurgen (MCW) • Netzwerk Durchflusszytometrie – Exzellenz in der hämatologischen Spezialdiagnostik • Neuroonkologie RHÖN – Next Generation (NeuRHÖN-NG) • Patientensicherheit in der RHÖN-KLINIKUM AG – Pilotierung einer Sicherheits- und Risikoanalyse mit Umsetzungsmodul und Evaluation • Perioperative Koronarstent-Verschlüsse bei Patienten nach chirurgischer Myokard-Revaskularisation • Qualitätsmanagement in der Versorgung therapieresistenter und chronischer depressiver Störungen • Qualität, Sicherheit und Behandlungsexzellenz in der Anästhesie • Referenzdatenbank Notaufnahme • RHÖN connect: Steigerung der Zuweiser-Bindung und der Behandlungseffizienz durch effektive Vernetzung von hausärztlicher/präklinischer Versorgung • Standortübergreifender Aufbau eines Simulationszentrums für die Echokardiografie für sicheren, exzellenten Echokardiografieausbildung in Anästhesie und Intensivmedizin • Stroke Manager Programm – Case Management für Stroke-Unit-Patienten als Prozessbegleitung im stationären und nachstationären Setting • Systematisches hygienisch-infektiologisches MRSA-Screening – Studie zur Kosten-Nutzen-Analyse möglicher Strategien und Verfahren • Team-Simulatortraining in Anästhesie und Intensivmedizin • Telemedizinisch basiertes Eigentrainingsprogramm am Beispiel Schlaganfall • Telemedizinische Überwachung und Nachsorge von Patienten mit implantierten Kardioverter-Defibrillatoren (ICD) • Telemetrisches Antikoagulations-Monitoring von Patienten mit Assist-Devices • TeleNeuroIntensiv – Etablierung eines spezialisierten neurologisch-intensivmedizinischen Telekonferenznetzes im RHÖN-KLINIKUM Verbund • Tele-Stroke Ambulance • Toward the State-of-the-Art Operations in Interdisciplinary Emergency Department (ED) – a Holistic System Design • Virtual Reality Lab (VRL) mit integrativem Curriculum in das Marburger Chirurgische Weiterbildungsprogramm für junge Chirurgeninnen und Chirurgen (MCW)

## TREATMENT EXCELLENCE

## « NETWORK MEDICINE

# » RHÖN FUNDING POOL

## SCIENTIFIC RESEARCH » INNOVATION

5-Jahres-Follow-up GOPCABE Studie • Analyse der Primärstabilität einer Revisions-Schulterendoprothese • Analyse der Propionibacterium-acnes-(P. acnes)-Subtypen aus intraoperativ entnommenen Proben bei schulterchirurgischen Eingriffen • Betrachtung der inflammatorischen Reaktion und der intra-vaskulären Gerinnung bei Blutleere im Zusammenhang von arthroskopischen Knie-Operationen – Eine prospektive klinische Studie • Charakterisierung und Therapie der frontalen Dysfunktion bei Patienten mit Juveniler Myoklonischer Epilepsie (JME) • Charakteristika und klinischer Verlauf von dysfunktionalen respiratorischen Symptomen bei Kindern und Jugendlichen • Class II HDACs in Idiopathic Pulmonary Fibrosis – new targets for anti-fibrotic therapy • CRISPR/Cas9 and novel inhibitor targeting of PDE5A and PDE10A enhances the Paclitaxel-induced cytotoxicity in lung cancer • Developing p53 mutations into a diagnostic tool for predicting metastatic spread in cancer patients • Entwicklung innovativer

Biomarker für eine individualisierte Therapie des allergischen Asthma bronchiale im Kindesalter • Etablierung einer neuen Technologie-Plattform für die personalisierte Medizin bei aggressiven Lymphomen • Epidemiologische Untersuchungen zum Auftreten gramnegativer Erreger nosokomialer Pneumonien auf Intensivstationen • Evaluation der Prävalenz des postoperativen transienten Hypoparathyreoidismus nach totaler Thyreoidektomie im Vergleich zur „Near-Total-Resektion“ in der chirurgischen Therapie der Autoimmunthyreopathie Typ Basedow – eine prospektive, randomisierte, kontrollierte multizentrische klinische Studie • Evaluierung des Primär- und Langzeiterfolgs der kathetergestützten Therapie von Aortenvitien (transapikale oder transfemorale Klappenimplantation) im Hinblick auf geriatrisches Assessment und den Einfluss einer Langzeitbetreuung mittels „TAVI-Nurse“ • Genom-Editierung als Werkzeug für die Exploration von genetischen Einflussfaktoren in der personalisierten Tumortherapie • Hoch-energetische Stoßwellentherapie zur Verbesserung der Knochenheilung operativ versorgter Kahnbeinpseudarthrosen • Imaging chemokine receptor (CCL2-CCR2) signaling to improve lung cancer diagnosis and therapy • Impact of changes in global methylation patterns and DNA methylation enzymes in diagnosis and treatment of Pulmonary Hypertension • Intraoperative CT-Bildgebung zur nicht linearen Registrierung multimodaler Daten • Kinematik und Kontaktmechanik von „mobile-bearing“-Schlittenprothesen • Kongenitale Form der bikuspiden Aortopathie • Konsequenzen der therapeutischen Applikation von induzierten regulatorischen T-Lymphozyten in Modellen für Autoimmunität, Infektion und Krebs • Module des Transkriptionsfaktors IRF4 in der Genese von B-Zell-Lymphomen • Molecular characterization of the tumor microenvironment in human lung cancer • Mortalität schwer herz-insuffizienter Patienten im Langzeitverlauf nach Etablierung einer Herzinsuffizienz-Station des Fachbereichs Kardiologie • Neurobiologische Mechanismen der antidepressiven Wirksamkeit der repetitiven Transkraniellen Magnetstimulation (rTMS) • Next-generation pathology – Histomorphologischer Einzelnachweis von Therapie- und Prognose-relevanten genetischen Aberrationen und aktivierten onkogenen Signalwegen in nicht-kleinzelligen Lungenkarzinomen (NSCLC) • Optimierte Koronararteriographie vor interventioneller Pulmonalvenenisolation mittels modernster Cardio-CT (Revolution CT der Firma GE Healthcare): verbesserte Koronararteriographie bei Patienten mit Arrhythmien und Tachykardien • Prädiktive Biomarker für eine personalisierte Therapie bei fortgeschrittenen pankreatischen neuroendokrinen Tumoren • Prädiktoren des Erfolgs der Operation lumbaler Bandscheibenverfälle bei nur relativer Indikation • Potenziell kurative thermische Ablation nicht resektabler unilokulärer Tumore der Lunge durch Goldnanopartikel-tragende mesenchymale Stromazellen und Nah-Infrarot-Laserbestrahlung • Randomisierter Vergleich der Effektivität der Ablation von persistierendem Vorhofflimmern zwischen Pulmonalvenenisolation plus Rotor-Ablation – Kooperation der Elektrophysiologie der Herz- und Gefäß-Klinik und der Zentralklinik Bad Berka • RASSF1A – A novel regulator of HIF signaling and metabolic phenotype of Pulmonary Hypertension • Rekonstruktion der Aortenklappenstenose unter Verwendung des autologen Perikards. Eine Propensity-Score-Vergleichsstudie mit Aortenklappenersatz • Role of fibroblast lineages and associated growth factors in pulmonary fibrosis • Selumetinib zur Redifferenzierung bei fortgeschrittenem, metastasiertem radiojod-refraktärem Schilddrüsenkarzinom • Systematische Analyse der Genexpressionssignaturen von Radio- und Chemoresistenzen als Ansatz zu einer personalisierten Therapie von Glioblastomen • Targeted Next-Generation Sequencing (tNGS) & Liquid biopsy – Methoden zur Früherkennung von Tumorrezidiven und molekularen Prädiktoren für das Therapieansprechen HPV-assoziierter Oropharynxkarzinome (OSCC) • Toleranzinduktion bei Bienen- und Wespengift-Anaphylaxie • Transarterielle Chemoembolisation mit Gemcitabine und Cisplatin in Kombination mit abbaubaren Stärkemikrosphären (DSM, EmboCept® S) bei Patienten mit inoperablem Cholangiokarzinom: Phase-I-Studie zur Dosisermittlung von Cisplatin • Transforming growth factor (TGF)-β and acute respiratory distress syndrome: clinical correlates and pathomechanistic studies in an experimental animal model • Untersuchung neuraler Korrelate von Autismus-Spektrum-Störungen (ASS) zur Entwicklung individualisierter Therapieprogramme • Untersuchung störungsspezifischer Unterschiede in den neuralen Korrelaten natürlicher sozial kommunikativer Wahrnehmungsprozesse bei Patienten mit Schizophrenie, Depression und bipolarer Störung • Überprüfung der Wirksamkeit des Elterntrainings „Stepping Stones“ in der Behandlung von Kindern mit Autismus-Spektrum-Störungen (ASS) • Zellbiologische und molekulargenetische Längsschnittuntersuchungen des myelodysplastischen Syndroms



### Assessment of elderly patient in emergency ward | Frankfurt (Oder)

In 2060, there will be almost twice as many 70-year-olds as newborns. Demographic change is making itself felt particularly in rural regions like eastern Brandenburg. “Every day we treat more and more elderly and very old patients”, explains Dr. Petra Wilke, head physician of the central emergency ward at Klinikum Frankfurt (Oder). “They frequently have numerous conditions and complaints. For us doctors it is therefore important to be able to perform a full examination of elderly persons without being rushed.” That is why the Frankfurt emergency ward was expanded in 2015 as part of a funding pool project to include what is referred to as a seniors unit in which emergency patients are treated away from a hospital’s hustle and bustle. Markings on the walls giving directions to specific groups or large clocks make it easy for patients to orient themselves. “We thus create an atmosphere of trust and the basis on which the treatment can be performed smoothly”, Wilke explains.

### Patient safety at RHÖN-KLINIKUM AG – piloting a safety and risk analysis with implementation module and evaluation | Marburg

Since 2014, hospitals have been required by legislation to establish and maintain a risk management and patient rights system providing, among other things, for measures of risk management. RHÖN-KLINIKUM AG took that as an opportunity to introduce at all sites a high-quality concept of clinical risk analysis and error prevention evaluated and implemented uniformly throughout the Group. “We want to do more than just meet the legal requirements. We want to be able to offer excellent medical care through outstanding quality control and outstanding safety for our patients”, explains

Dr. Sylvia Heinis, administrative director at Marburg University Hospital. Under the funding pool project “Patient safety at RHÖN-KLINIKUM AG – piloting a safety and risk analysis with implementation module and evaluation”, the first employees were trained as risk auditors in 2016.

### Individualised spine replacement for severe osteoporosis. Does 3D printing offer (additional) therapy options? | Bad Berka

It is fairly well known that osteoporosis patients struggle with brittle bones. What only few people are aware of, though, is that the condition can also lead to paraplegia: that happens when the vertebral bones collapse and the bone fragments crush the spinal marrow. “The bone stability needed for a successful operation is often just not there”, explains Dr. Karl Heinrich Böhm, head physician for spinal surgery at Zentralklinik Bad Berka. Under the funding pool project “Individualised spine replacement for serious osteoporosis”, Böhm is doing research on the extent to which spine replacement pieces made from 3D printers might be useful in therapy. “In the automotive industry, this manufacturing method is already being used for moulded parts and can be readily adapted to reconstructive spinal column therapy”, Böhm believes.

### Tolerance induction for bee and wasp venom anaphylaxis | Marburg

One, two, three, four, five, six, seven, eight. With a ball-point pen, Professor Dr. Wolfgang Pfützner neatly inscribes eight numbers on his patient’s lower arm. Right after that the managing senior physician from the Clinic for Dermatology and Allergology at Marburg University Hospital





sprinkles the marked areas with insect venom. Seconds later, a red wheal forms next to the number. “You’re allergic to wasp venom”, Pfützner concludes. Not good news, as a bee and wasp venom allergy is one of the most serious allergies you can have, and can even lead to cardiovascular failure. Thanks to allergen-specific immune therapy (ASIT), a form of treatment exists whereby around 95 per cent of the patients affected can become tolerant to the venoms. “That said, the underlying immunological mechanisms remain largely unknown”, explains Pfützner, who has set himself the task of shedding light on what is a largely uncharted area of research. Under the funding pool project “Tolerance induction for bee and wasp venom anaphylaxis”, he is therefore identifying allergen-specific antibodies and their kinetics for all those who are allergic to bee and wasp venoms and currently undergoing an ASIT, and those already having completed an ASIT.

**Targeted next-generation sequencing (tNGS) & liquid biopsy – methods of early detection of tumour recurrence and molecular predictors for therapy response of HPV-associated oropharyngeal carcinoma (OSCC) | Gießen**

It has still not been completely clarified why more and more people are contracting the human papilloma virus (HPV). And for many patients the prospects of being cured are still low. Professor Dr. Jens Klußmann, director of the Clinic for Oto-Rhino-Laryngology, Head and Neck Surgery and Plastic Operations at Gießen University Hospital, has therefore taken on the task of helping patients with HPV. “For this, my team and I are looking for new tumour markers so as to better determine the response to therapy and improve after-care”, Klußmann states. Modern techniques such as targeted next-generation sequencing (tNGS) can detect the presence

of HPV DNA in cell-free plasma. “We believe that the relative frequency of the marker changes over time and depending on the treatment success.” In addition, his team is examining subsequently archived tumour samples for further specific tumour markers that may bring improvements in the molecular classification of patient samples in future.

**Optimised coronary representation before interventional pulmonary vein isolation with state-of-the-art cardio-CT (Revolution CT from the company GE Healthcare) | Bad Neustadt**

“The patient has arrhythmia? Then we cannot perform any examination in the computer tomograph (CT)” – was often the conclusion made at the Clinic for Radiology at the Campus Bad Neustadt. To get one good image of the heart, eight images had to be made with the old CT. “Image distortions resulting from atrial fibrillation meant that until recently a sensible reconstruction of the coronary arteries was not possible”, explains Professor Dr. Rainer Schmitt, head physician of the Clinic for Radiology at the Campus Bad Neustadt. Thanks to the new purchase of state-of-the-art technology, he and his team are now able to perform a cardio-CT examination for patients with atrial fibrillation. The funding pool project is now investigating whether it is possible to also obtain good images of the coronary arteries using the latest ultra high-end computer tomography from an ECG-synchronised 4D data set.





# Campus Concept

---

Our RHÖN campus concept is a viable model of the future for medical care in rural regions. We enhance the treatment quality of our patients by having outpatient and inpatient offerings on a single hospital site, networking doctors and healthcare providers within the region as well as using intelligent IT solutions.

---

- The result of the Group of RHÖN-KLINIKUM AG was positively impacted in 2016 as well as in 2015 by one-off factors, in particular by the delayed effects from the transaction with Fresenius/Helios. Excluding the delayed effects from the transaction, EBITDA is € 114.9 million for financial year 2016. The figure for the previous year was € 123.5 million.
- In financial year 2016 we treated 813,747 patients in our hospitals and medical care centres, generating revenues of € 1,176.4 million as well as consolidated profit of € 58.6 million.
- With growth rates in financial year 2016 that were stable compared with the previous year (patient treatments + 6.4%; revenues + 6.2%), we reached our stated goals for 2016. We also met our forecast for EBITDA influenced by the delayed effects from the transaction.
- In 2016, RHÖN-Innovations GmbH was founded. The core task of this company is to promote start-ups with unconventional approaches while at the same time participating in the equity of the respective business. The first specific equity interests were entered into with the Israeli companies Inovytec Medical Solutions Ltd. and Telesofia Medical Ltd.
- The hospital Kreisklinik Bad Neustadt has been part of our Group since the start of the year. Thanks to its broad medical orientation and complementary service offering, it rounds off the existing medical fields of focus at the Bad Neustadt a. d. Saale site.
- Along with the planned organic development of our hospitals, we are further pressing ahead with our new construction and modernisation projects as well as the digitalisation of patient care.

## 1 BASIC CHARACTERISTICS OF THE RHÖN-KLINIKUM GROUP

### 1.1 OVERVIEW

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

	2016	2015	Change
	€ m	€ m	
Revenues	1,176.4	1,108.2	6.2%
EBITDA	156.9	154.2	1.8%
EBIT	97.0	93.1	4.2%
EBT	60.9	90.3	-32.6%
Operating cash flow	118.4	148.2	-20.1%
Consolidated profit	58.6	87.4	-33.0%
Balance sheet total	1,456.2	1,634.5	-10.9%
Investments	115.9	87.0	33.2%
Equity	1,113.4	1,108.7	0.4%
Net liquidity	302.0	356.1	-15.2%

By purchase agreement dated 31 July 2015, RHÖN-Kreisklinik Bad Neustadt GmbH, in an asset deal, acquired Kreisklinik Bad Neustadt. Kreisklinik has been included in the consolidated financial statements since 1 January 2016 since it was at that time that the conditions precedent and thus the requirements for consolidation were met.

Compared with the previous year, we record a rise in revenues by € 68.2 million to € 1,176.4 million (previous year: € 1,108.2 million), a rise in EBITDA by € 2.7 million to € 156.9 million (previous year: € 154.2 million) as well as a rise in EBIT by € 3.9 million to € 97.0 million (previous year: € 93.1 million). Consolidated profit declined compared with the previous year by € 28.8 million to € 58.6 million (previous year: € 87.4 million). This is attributable to an impairment on lendings in the amount of € 35.5 million recorded in the finance result in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, since on a present-day view its recoverability is not certain. The medical potential of the facility for RHÖN-KLINIKUM AG continues to be promising and uniquely rounds off the cancer therapy service offering at the Marburg site.

As at 31 December 2016, our consolidated financial statements included eleven hospitals with 5,348 beds/ places at a total of five sites in four federal states. A total of 813,747 (previous year: 765,109) patients were treated at our hospitals in financial year 2016. Of this rise, patients treated on an inpatient and semi-inpatient basis account for roughly 19.1% and outpatient treatments account for 80.9%. As at the balance sheet date, the Group employed 16,486 persons (31 December 2015: 15,654), with the share of women continuing to be nearly roughly 75%. Total investments stood at € 115.9 million (previous year: € 87.0 million).

As at 31 December 2016, equity stands at € 1,113.4 million (31 December 2015: € 1,108.7 million). The increase in equity capital compared with the reporting date of 31 December 2015 by € 4.7 million results from consolidated profit for financial year 2016 (€ 58.6 million), on the one hand, and from distributions to shareholders and non-controlling interests (€ 53.7 million) and from losses from the revaluation of defined benefit pension plans (€ 0.2 million), on the other. The equity ratio rose compared with the last reporting date from 67.8% to 76.5%. 121.7% (31 December 2015: 128.2%) of non-current assets is nominally covered by equity and non-current liabilities at fully matching maturities. As at 31 December 2016, net financial debt – including liabilities under finance leases – was € 0.0 million (31 December 2015: € 0.0 million). As at 31 December 2016, we report net liquidity of € 302.0 million (31 December 2015: € 356.1 million).

## 1.2 FUTURE OF THE GROUP

In financial year 2016, RHÖN-KLINIKUM AG was able to further consolidate and expand its position in the German healthcare industry. We further pressed ahead with major innovation projects, our new construction and modernisation projects as well as our activities in digitalisation.

Digitalisation is currently the subject of key interest – also in medical care. It is vital to cutting-edge medical care and innovations in the healthcare of tomorrow. In this field also, RHÖN-KLINIKUM AG is once again serving as a model and setting the trend – whether in the form of the pilot project at the university hospital in Marburg in cooperation with IBM Watson in which the use of a cognitive computer assistant is being tested for diagnosing, or with the establishment of the subsidiary RHÖN-Innovations GmbH through which RHÖN-KLINIKUM AG is taking an equity interest in promising start-ups from the medtec sector.

It is still the case that many innovations are born outside the established structures. New ideas and young companies (start-ups) are having an increasingly significant impact on the pace of development. It is important to identify and evaluate innovative potential of relevance for the medical field and to render it applicable in practice. That is why RHÖN-Innovations GmbH was founded early in 2016. Its objective is to promote innovative start-ups by analysing nascent medical developments and – on their overall positive assessment – to take out an equity interest in such companies. By doing so, we want to steadily strengthen and expand our role as a key mover and driver in the medical technology field.

The first specific equity interests were concluded with the Israeli companies Inovytec Medical Solutions Ltd. and Telesofia Medical Ltd. Inovytec Medical Solutions Ltd. develops and produces e. g. products for non-clinical cardiological emergencies as well as non-invasive aids for obstructed airways. For example, one product is used to connect the first responder to the emergency doctor within seconds to ensure the patient receives optimum follow-on care. Inovytec products were thoroughly tested in two facilities of RHÖN-KLINIKUM AG – Marburg University Hospital and Klinikum Frankfurt (Oder) – in addition to other facilities. Telesofia Medical Ltd. develops

platforms making it possible to create individualised videos within a few seconds so as to explain to the patient the related medical information. Here, the patient is addressed by name and informed about his or her current situation. The products are currently being used in a pilot project at the Neurological Clinic – Campus Bad Neustadt – to inform patients about an impending lumbar puncture (spinal tap).

A further milestone is the web-based electronic patient file, or WebEPA+ for short. Since October 2016, the Company has been using it at Zentralklinik Bad Berka as well as at Klinikum Frankfurt (Oder). It is intended to allow for an interconnecting of the GP, specialist and hospital physicians, thus ensuring that patients receive the best care possible. For 2017, its use nationally in all hospitals and medical care centres of RHÖN-KLINIKUM AG as well as their cooperation facilities is planned.

The hospital Kreisklinik Bad Neustadt has been part of the Group since the start of the year. Thanks to its broad medical orientation and largely complementary service offering, it rounds off the existing medical fields of focus at the Bad Neustadt a. d. Saale site. After completion of our new construction project “Campus Bad Neustadt”, all departments will be structurally and functionally integrated there in financial year 2018.

To further press ahead with the general strategic issues of treatment excellence, innovation and network medicine, the Board of Management division Medical – headed by Prof. Dr. Bernd Griewing – was established at the beginning of 2016. Following the establishment of the Medical Board, the establishment of this area of responsibility was the next important step towards creating optimum framework conditions for developing innovative solutions in patient care not only enabling but also promoting innovation. The main tasks also include further promoting the issues of quality, hygiene and patient safety as well as medical process management.

## 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.” All our employees are bound by this ethical principle. It has applied from the very beginning for RHÖN-KLINIKUM AG – both in patient care and in the administration and management areas. This is the guiding principle for everything we do. It is obligatory at each and every phase of our decision-making processes. The focus here at all times is on the trust and well-being of our patients as well as the care provided to them. They are the basis for our success as a healthcare services provider and we gear our care delivery completely to them.

The corporate model of RHÖN-KLINIKUM AG is defined by the idea of responsible and sustainable corporate governance. The Company has been listed on the stock market since 1989. Access to the capital markets makes it possible for us to quickly finance investments in the future of our hospitals and medical care centres – in the best interests of patients and our employees.

A high level of innovative potential and the courage to take new paths – also in cooperation with external research and development partners – is what characterises us: they are absolutely imperative for the steady further development of our Company and for advances in medicine. Our patients are thus to benefit from the successes of modern medical research as early as possible so that they have even better treatment options and healing prospects. Moreover, our employees, doctors and nurses enjoy a modern work environment promoting team-oriented development potential.

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

## Corporate social responsibility

We assume responsibility – for our patients, for our employees, for the quality of our healthcare provision and for the effects of our business activity on society and the environment.

For us, the success of RHÖN-KLINIKUM AG is inseparably bound up with medical, ecological and social responsibility: a healthcare system oriented toward long-term success, in addition to quality medical care, also calls for a sound working and living environment.

Given the trust that our patients, employees and investors have placed in us, we have committed ourselves to practising what we preach in the long term. The key issues arising from our corporate and sustainable development are therefore to further the well-being of the Company, protect and take responsibility for the environment as well as promote and retain our employees.

## Improving the quality of life

Good health is the highest human good, having a decisive influence on quality of life. And that means our healthcare task is closely bound up with our fundamental understanding of social responsibility and access by everyone to the best possible medical care. That is why we are committed to ensuring affordable medical care by which, as a provider of maximum care, we reach broad sections of the population.

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

Our Company is part of society. With the economic success of RHÖN-KLINIKUM AG, we also make a contribution to the future viability of the regions in which we operate. It forms the basis for secure jobs and employment, for the necessary investments in building and equipment infrastructure as well as for sustained business relations with local partners.

### **Protecting the environment**

For RHÖN-KLINIKUM AG, protecting the environment and healthcare provision within the context of responsible corporate governance are inseparably bound up with each other. It is for that reason that environmental protection has formed an integral part of our business activity already for many years. We are committed to making sparing use of natural resources and to protecting the environment: good environmental conditions are the basic condition for human well-being and health. Moreover, offsetting the rising costs of healthcare policy developments and energy procurement calls for efficient energy and environmental management, since it is only in this way that our corporate objective of providing affordable and high-quality medical care for everyone can be achieved.

Of central importance for us is sustainable energy management. The issue of energy efficiency is tremendously important to RHÖN-KLINIKUM AG. As the use of large equipment units and information technology (IT) in medical care continues to increase, so too does the consumption of electricity in our hospitals. This not only makes for a bigger “environmental footprint” but also creates economic burdens.

High priority is given to ensuring energy efficiency and keeping energy costs low in all new construction projects at RHÖN-KLINIKUM AG. For example, it is owing to the energy concept of the new campus in Bad Neustadt that only a third of the previous energy consumption will be needed for heating generation. Further measures are thermal component activation for air conditioning, or new lighting systems using LED technology.

### **Promoting and retaining employees**

With roughly 16,500 employees, RHÖN-KLINIKUM AG is one of the largest private healthcare providers in Germany. The Company’s success is to a decisive extent built on the commitment and expertise of our employees. The aim pursued with our long-term human resources strategy is to recruit the best employees for our team, to promote them and to keep them loyal to our Company.

The well-being of our patients is always the focus of interest of the work performed by our doctors and nursing staff, therapists and medical-technical assistants (MTAs). Typical characteristics of all our hospitals are state-of-the-art medical technology, variable working time models as well as numerous offers with regard to remuneration, retirement or childcare, making us an attractive employer nationally.

All our employees benefit from the knowledge and experience of our Group with all its medical specialties and direct tie-in to cutting-edge university medical care. Exchange of knowledge and experience thus forms a key element of our human resources strategy. Employees can network over the Company’s various locations thanks to decentralised continued training and higher qualification measures. Moreover, we are building on close integration of medical care and management.

Of central importance – particularly in view of the shortage of skilled staff – is training our own young talents. RHÖN-KLINIKUM AG runs its own nursing schools as well as schools for therapists and medical assistance professions. Our training offering also includes the business, catering and IT professions.



### 1.3 OBJECTIVES AND STRATEGIES

The corporate activities of RHÖN-KLINIKUM AG are essentially aimed at keeping the Company lean and agile, promoting exchange of knowledge and experience and offering market-oriented services at a high quality level. In this connection, our investments provide the basis for sustainable, efficient, and thus also affordable hospital cutting-edge medical care. In future, too, our goal is to 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 oriented towards maximum care. At the forefront of this strategy is further strengthening treatment excellence and patient care by focusing on digitalisation and network medicine as well as steadily implementing the campus strategy.

Given the current revision of the Group's individual strategies and the related earnings effects during the current financial year which cannot be conclusively quantified at this point in time, we cannot make any specific earnings forecast at this juncture for 2017. Nonetheless, it may be assumed that earnings before interest, tax and depreciation (EBITDA) in 2017 will be burdened structurally and by one-off effects and, compared with the previous year when EBITDA excluding the delayed effects from the transaction amounted to € 114.9 million, will likely be significantly lower.

In addition to the ongoing conceptual and constructional modernisation of our sites, digitalisation will become an increasingly important issue. We will continue to press ahead with our efforts in the area of digitalisation. In this regard, digitalisation not only means collecting, evaluating and interpreting large amounts of data. Rather, it provides the basis for significantly optimised patient management, integration and harmonisation of outpatient and inpatient care, and the interlinking of related services as well as numerous applications in the area of telemedicine. In this field also, we are once more taking a lead role e. g. in the form of our pilot project at the "Centre for Unrecognised and Rare Diseases" (ZusE) of Marburg University Hospital in cooperation with IBM Watson in which we are testing the world's first cognitive computer assistant for diagnosis. The aim of this and similar technologies is to structure

clinical pictures based on logarithmic processes within the foreseeable future, and by networking with global databases to achieve successes in diagnosis and therapy hitherto not possible.

By founding the company RHÖN-Innovations GmbH through which we invest in promising start-ups from the medtec sector, we want to identify, evaluate and develop practical applications for new developments in medical technology with innovative potential. Here the focus is particularly on medical innovations falling within the core business activity of RHÖN-KLINIKUM AG. The overall aim is always to make real improvements to our medical services and to thus bring about noticeable benefits for our patients.

Since October 2016 we have been using the web-based electronic patient file WebEPA<sup>+</sup> at Zentralklinik Bad Berka as well as at Klinikum Frankfurt (Oder). WebEPA<sup>+</sup> is an electronic file that can store for each patient all medically relevant information, such as image data, diagnoses or medications. All information is stored in encrypted form and its disclosure always subject to the patient's express consent. Such data can be individually accessed by the various doctors involved in the treatment process. The electronic patient file makes it possible to interconnect the GP, specialist and hospital physicians, thus ensuring that patients receive the best care possible. Our aim is to roll out the use of the electronic patient file in 2017 nationally in all hospitals and medical care centres of RHÖN-KLINIKUM AG as well as their cooperation facilities.

We will continue to forge ahead with our objective of achieving generalised, full-service medical and nursing care in rural regions with our campus approach. Rural regions are especially hard hit by the greying of the population and the accompanying rise in morbidity and treatment cases and increasing shortage of doctors. Specifically, our campus approach is concerned with the logistical and spatial integration of outpatient and inpatient services in conjunction with the offer to community-based doctors to work together closely with the respective hospital. The campus approach combines numerous differentiated care offerings and services of different partners. Particularly inpatient and outpatient services are structurally, spatially and logistically integrated with one another on the premises of a high-performance hospital. By staking out a position in the

premium medical care segment, we are creating the basis for helping our patients have access to unrestricted cutting-edge medical services also in future. Underlying all our activity in this context is the well-being of our patients who entrust themselves to our staff at our hospitals and facilities and who are always the focus of our efforts. This future model is currently being implemented at our Bad Neustadt site as part of a major new construction project scheduled to celebrate its topping out ceremony in the spring of 2017. We believe this model, giving due regard of course to individual regional structures, can be implemented not only at other existing sites of our hospitals but also in facilities of other operators.

In keeping with provision of the best possible nursing and care, our objective is to diagnose and treat our patients on the basis of the latest, scientifically founded therapy procedures with state-of-the-art medical technology. To further press ahead with the general strategic issues of treatment excellence, innovation and network medicine, the Board of Management division Medical was established at the beginning of 2016. Following the establishment of the Medical Board – an expert body of top physicians from all sites of our Group having the aim of combining university with non-university medical care –, the establishment of this area of responsibility was the next important step towards creating optimum framework conditions for developing innovative solutions in patient care not only enabling but also promoting innovation.

The well-being of the patient – which is the ethical basis of our activity and at the same time of our economic success – will continue to be our standard also in future. All patients coming to us can be assured that they will receive the best treatment at all times.

#### 1.4 CONTROL SYSTEM

For our Company, we have developed a target system which we believe allows us to consistently outperform the market and our competitors. The 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.

In our view, profitable growth in our service volumes, number of cases or our valuation ratios as well as our revenues is an important factor 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 patient cases (diagnosis related groups, DRGs), the valuation ratio is obtained in combination with the case-mix index (variable indicating average case severity). The valuation ratio is thus a measure of how severe a medical case is. If the valuation ratio is multiplied by the base rate, the amount that a payer (health insurance fund) has to pay to a hospital for a treatment case is obtained. For us, this performance indicator is important for showing both the number of cases and for assessing quality.

We calculate our growth in revenues as the rate of growth of the revenues stated in our consolidated financial statements. For the purposes of measuring and controlling, revenues as a general rule are adjusted for consolidation effects so as to determine organic growth.

EBITDA describes our operative performance efficiency before depreciation/amortisation and represents an important control-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.

Moreover, 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 debt capital, which may be used in principle, we focus on the following management ratios for minimising risks: the aim is to limit the ratio between net financial debt (which equals financial liabilities less cash and cash equivalents) and EBITDA to a maximum 3.5-fold multiple and the ratio of EBITDA to net finance result to a minimum 5.0-fold multiple.

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

In addition to the non-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

High medical quality is not something to be left to chance. Every patient is entitled to the best possible medical care – every day, and around the clock. That is the key guiding principle of our medical quality management whose ongoing further development within the Group division of Patient Safety, Quality Management and Hygiene is given the utmost priority.

In this context, we strictly adhere to a comprehensive approach, with clinical risk management, hospital hygiene and medical controlling representing the most important elements in this scheme. Regular exchange between disciplines covering similar medical subjects and “classic” quality management gives rise to a stable and viable system – the quality concept of RHÖN-KLINIKUM AG.

In future, the quality of inpatient medical services is to be rewarded to a greater extent – through measures enshrined in law – and poor quality is to be penalised. For that purpose, the Institute for Quality and Efficiency in the Healthcare System (Institut für Qualitätssicherung und Transparenz im Gesundheitswesen) (IQTIG) has been mandated to develop binding quality indicators so that the services of German hospitals can be measured and represented. For example, components of remuneration are to be based on the quality delivered (pay-for-performance method). Also, hospital planning (for example licensing) in future is to be dependent on the level of quality in the services provided. Hospitals are preparing themselves for these new framework conditions that are to be implemented over the next few years.

RHÖN-KLINIKUM AG has met this development through, among other things, its hospitals having joined the Initiative Quality Medicine (IQ<sup>M</sup>). IQ<sup>M</sup> and the Internet portal Qualitätskliniken.de, whose founding shareholders include our Company, represent two major quality initiatives by German hospitals. We are one of the first hospital groups to actively participate in both initiatives. Together they represent some 500 German hospitals. As a joint association under the name Stiftung Initiative Qualitätskliniken (SIQI), they have committed themselves to contributing their efforts to the work of the IQTIG.

The most important driver of treatment excellence is the issue of patient safety. Supported by the innovation pool of RHÖN-KLINIKUM AG, a risk audit with the involvement of the risk consultancy firm Gesellschaft für Risikoberatung from Detmold was carried out at Marburg University Hospital in four clinics. In the audits, all areas of patient safety were reviewed over a period of several days. Specific proposals for improvements in patient safety were already developed. In June 2017, a final evaluation of the measures implemented will be performed by Gesellschaft für Risikoberatung. Already before the final evaluation, the project was able to show not only that the initiatives taken are having a positive impact on patient safety but also that all employees and the entire organisation benefit from the project.

As the economic counterpart to quality management, medical controlling has developed into an independent field of activity and has increasingly grown in terms of its significance. Medical controllers internally advise both physicians and the administration. In operative medical controlling, what are known as coding specialists identify and document services performed for each individual patient, while others in turn have the task of checking the documentation. They thus create the basis of correct accounting of services and a sound information basis for budget negotiations with payers (i. e. the health insurance funds).

With the aid of what are referred to as MDK tools, reporting has been improved. The areas of focus of the Medical Review Board of the Statutory Health Insurance Funds (MDK) for controlling and the causes of controlling losses can be identified in a differentiated approach so as to develop measures to improve process and documentation quality. This analysis tool was enhanced and validated in 2016. It is intended to reduce the number of reviews in the long term and support the decision making process for initiating social court proceedings.

Another component of medical controlling is documenting and recording highly complex nursing services (nursing complex procedure score, PKMS) in patient care. The regular PKMS report makes it possible to increasingly stabilise documentation while identifying scope for improvement. The accounting-relevant requirements for nursing documentation were fulfilled without time-consuming multiple recording of data in the hospitals.

Hospital hygiene is a hallmark of quality for medical practice and a permanent and integral part of the quality concept at RHÖN-KLINIKUM AG. Given the rising incidence of infections worldwide, protecting patients and employees effectively against infections is crucially important for any hospital operator. The Group-wide hygiene management department is a mix of centralised and decentralised organisation. Areas of focus of the central organisation are the recording and systematic, continuous monitoring of the sources of problems as well as comparing them with data within our hospitals and with national reference data (surveillance). We systematically record data on things like infections or the use of antibiotics. Added to these are relevant quality data from the areas of sterilisation and preparation of instruments.

Moreover, the specialist hygiene staff at the hospitals are subject to centralised monitoring.

## 1.6 MEDICAL RESEARCH AND ITS TRANSFER INTO PRACTICE

Providing cutting-edge medical care for everyone at all times – that is the stated aim of RHÖN-KLINIKUM AG. To achieve this goal, we always examine and treat our patients on the basis of the latest, scientifically founded therapy procedures and using state-of-the-art medical technology. Of course, all our patients also receive the best-possible nursing and care, since sustained treatment success is not the result of apparatusive medical care alone.

In addition to our aim for treatment excellence, we also seek very practical ways of making advances in medical care. The latest research findings are always made accessible to patients as quickly as possible. With its research and innovation programme, RHÖN-KLINIKUM AG promotes pathbreaking medical and nursing concepts at all its sites. Within this context we conduct clinically oriented basic medical research and evaluation of innovative treatment methods, e. g. in the field of personalised medical care. Moreover, the programme covers organisational logistics subjects, such as better integration of inpatient treatment and after-care at home.

Led by the Medical Board – an expert body of top physicians from all sites of our Group combining university with non-university medical care –, RHÖN-KLINIKUM AG is seeking a targeted expansion of its competitive position in the area of treatment innovations and cutting-edge medical care with a research budget. Through a funding pool, more than 60 projects focusing primarily on the subjects of “research and innovation” as well as “treatment excellence and network medicine” are currently being supported. This research and innovation programme covers projects at all the Company’s sites which are the result of a Group-wide competition.

## 1.7 COMPLIANCE

RHÖN-KLINIKUM AG's corporate principle "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" is a commitment we honour in all our decision making processes.

Acting for the well-being of our patients is oriented on this guiding principle in the interest of compliance. For RHÖN-KLINIKUM AG, the focus of interest is primarily on the trust our patients put in us. It has long been a well known fact that unlawful and unethical conduct not only causes economic damage but in particular destroys trust. Every patient must be able to have absolute trust in a doctor's individual treatment decision and in such decision being based solely on medical criteria. For that reason, bribery and corruption in the healthcare system will be punishable by imprisonment and fines pursuant to sections 299a and 299b of the German Criminal Code (Strafgesetzbuch, StGB).

In addition to the statutory regulations, we also adhere to our own internal requirements which are based on even more stringent ethical standards. These are expressed as Group works agreements, the Rules of Procedure for Compliance as well as guidelines and recommendations (e. g. code of conduct) so that every employee is enabled to pursue our corporate objectives in accordance with our values.

The Group-wide Rules of Procedure for Compliance, which are binding on each and every employee, governs the establishment and functioning of our compliance management system. Primary responsibility for compliance is held by the Chairman of the Board of Management of RHÖN-KLINIKUM AG. He reports to the committee of the Supervisory Board. Given the key importance of this subject, this Supervisory Board committee, the Committee for Compliance and Communication, meets at least once per quarter. Within the scope of their compliance-related duties, the individual subsidiaries are assisted by the Group's central compliance organisation. On site, it is the compliance officers who report to the central compliance organisation and act as contacts on site. To ensure an ongoing exchange between Risk Management, Internal Auditing and Compliance departments, there is also a Compliance Committee that meets on a regular basis.

Compliance has enjoyed a key status at RHÖN-KLINIKUM AG already since 2008. Our Group-wide compliance management system (CMS) is pursuing the aim of ensuring that statutory requirements and ethical codes of conduct are observed over all hierarchical levels. Compliance protects employees as well as persons holding organisational responsibilities from civil and criminal legal action and contributes to a release from liability. Furthermore, it safeguards efficiency since punitive payments and litigation costs are prevented and pecuniary losses from white-collar crimes are counteracted. Compliance thus also protects against negative media coverage. Compliant organisational structures enable employees to better identify themselves with the Company and further improve corporate culture when employees know that they are protected against compliance breaches and that the compliance officers will be there to support them in critical situations. The positive effect of a duly compliant company also reflects well on the employees.

We conduct a regular review based on internal and external events of how effective and up-to-date the CMS is, continuously adjusting our rules as required. Compliance breaches are to be prevented from the outset, i. e. by identifying and averting risks in time. Key measures consist in reviewing workflows that ensure legally compliant work activity (audits) and adjusting them as required, as well as informing employees of rules to be complied with. In addition to a guide to the most important questions on the subject of compliance, we have developed a recommended procedure for dealing with potentially critical contracts.

For us, information policy enjoys very high priority, whether as part of internal continued training measures or work on corporate bodies. In this way critical situations are to be prevented proactively and training measures to deal with them introduced.

What is also new this year is that members of the Association of Voluntary Self-Control of the Pharmaceutical Industry (Verein Freiwillige Selbstkontrolle für die Arzneimittelindustrie, FSA) for the first time have published continuing training services and benefits to physicians, other healthcare professionals as well as medical organisations and facilities in its transparency code. In this way the public can see how doctors and the drug industry cooperate. RHÖN-KLINIKUM AG examines all contracts of its doctors for compliance with the new legislation. In the event of any suspicions that legislation is being violated, the doctors concerned, for example, are not permitted to participate in the continued training events paid by the industry. The basis for participating in events is rules – rules that with us have already been in place for years and jointly adopted as a Group-level works agreement.

## 1.8 CORPORATE GOVERNANCE

### Subscribed 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. In our Notes we have disclosed in detail the direct and indirect interests in capital pursuant to section 21 et seq. of the German Securities Trading Act (Wertpapierhandelsgesetz, 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 315a of the German Commercial Code (Handelsgesetzbuch, 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 April 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. Numerous analyst meetings and investor contact meetings are held. We report on business performance four times a year at analyst conference calls. With our financial calendar published in the Annual Report and in the Internet on our website, 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 (Aktengesetz, 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), the Supervisory Board of RHÖN-KLINIKUM AG comprises an equal number of employees' and shareholders' representatives (currently 16) and held four ordinary meetings in 2016 (2015: four ordinary meetings as well as one constituting meeting). The last election of the shareholders' representatives to the Supervisory Board took place as scheduled at the Annual General Meeting on 10 June 2015. The Supervisory Board member Stephan Holzinger resigned his Supervisory Board mandate before taking up his mandate as Chairman of the Board of Management on 31 January 2017. Mr. Holzinger had been on the Supervisory Board of RHÖN-KLINIKUM AG since 2013. The Nomination Committee nominated Dr. Annette Beller, tax advisor, auditor and member of the management board of B. Braun Melsungen AG, to succeed on the Supervisory Board. The still outstanding court appointment of Dr. Beller would end with a new election at the Annual General Meeting on 7 June 2017. As a result, 43.8% of the Supervisory Board would be comprised of women and 56.2% of men. Members of the Supervisory Board are elected for a term of five years. The age limit is 75 years. The Supervisory Board regularly takes its decisions in plenary sessions, or in the competent specialised committees with the power to adopt resolutions; only in isolated cases are decisions made by circulation. The Supervisory Board constituted a total of seven committees. The Mediation Committee, the Personnel Affairs Committee, the Audit Committee, the Investment, Strategy and Finance Committee and the Committee for Compliance

and Communication exist as committees with the power to adopt resolutions. Committees having powers to advise, supervise and make proposals are the Nomination Committee for the election by the Annual General Meeting of Supervisory Board members from the shareholders' representatives on the Supervisory Board and the Medical Innovation and Quality Committee to further develop and secure medical quality.

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

In financial year 2016, the Board of Management of RHÖN-KLINIKUM AG was headed by one chairman and in his absence by the chairman's permanent representative. In financial year 2016, the Board of Management of RHÖN-KLINIKUM AG was comprised of four members whose service contracts for the Board of Management were adjusted in each case to five-year contracts as of 1 January 2016. On 1 February 2017, Mr. Stephan Holzinger was appointed as a new member to the position of Chairman of the Board of Management and replaced Dr. Dr. Martin Siebert as previous Chairman of the Board of Management who assumed the office of permanent representative of the Chairman of the Board of Management. With regard to the composition of the Board of Management, please refer to the Notes to the consolidated financial statements. The Board of Management directs the Company and manages its business under joint responsibility subject to the Terms of Reference. The areas of responsibility of the individual members of the Board of Management are determined by operative and/or functional responsibilities. The Chairman of the Board of Management is responsible for corporate policy as well as the Group's fundamental strategic orientation. An age limit of 65 years has been adopted for the Board of Management.

### Remuneration of corporate bodies

The remuneration of the members of the Supervisory Board and the Board of Management is defined in the Company's Articles of Association and by resolutions adopted by the Supervisory Board after being prepared by the Personnel Affairs Committee. For the Board of Management, the remuneration for financial year 2016 consists of fixed and variable components, and for the Supervisory Board only of performance-linked remuneration components. The remuneration of the Supervisory Board is performance-linked and related to the amount of time worked, the duties and functional responsibilities assumed by the members of the Supervisory Board. The variable remuneration components of financial year 2016 for the Board of Management are based on assessment criteria derived from consolidated profit. In variable remuneration in 2016, one-off effects were stripped out of the underlying assessment basis based on a Supervisory Board resolution. Moreover, members of the Board of Management receive non-cash benefits (e. g. company car, insurance) and a contingent retirement benefit of up to 1.5 annual salaries. The remuneration for the members of the Board of Management includes both short-term and long-term incentive effects. During financial year 2014, the active members of the Board of Management during that financial year were granted a long-term share-based remuneration (stock options) which is tied to a long-term development of the RHÖN-KLINIKUM AG share. If a member of the Board of Management receives severance compensation because that member's work for the Board of Management has been terminated without good cause, 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. The remuneration schemes provided for the Board of Management and the Supervisory Board define the amount and structure of the respective incomes.

Since financial year 2016, the members of the Board of Management are guaranteed a total annual remuneration (sum of base salary and management profit sharing) of at least €600 thousand. The cap for annual remuneration is set at €1,200 thousand, but can be fixed at 2.5 times this amount for the Chairman of the Board of Management and twice these amounts for his permanent representative and the chief financial officer (CFO).

The total remuneration (excluding benefit expense) of the members of the enlarged Board of Management holding office in financial year 2016 amounted to €4.9 million (previous year: €4.2 million). Of this total, €1.0 million (previous year: €0.8 million) was accounted for by components that are not performance-linked and €3.9 million (previous year: €3.4 million) was accounted for by variable components. The provision for claims to retirement benefits by the members of the Board of Management amounts to €2.2 million (previous year: €1.4 million). In financial year 2016, members of the Board of Management or their surviving dependants received no remuneration.

The remuneration of the active members of the Supervisory Board amounted to €2.0 million (previous year: €2.2 million). The total amount in 2016 was completely accounted for by fixed remuneration components.

For further details, in particular with regard to the individualised remunerations for the Supervisory Board and the Board of Management, please see the remuneration report forming part of the Corporate Governance Report and the Notes to the consolidated financial statements.

### Shareholdings of members of corporate bodies

As at 31 December 2016, the members of the Supervisory Board and the Board of Management and their related parties, pursuant to section 15a of the WpHG, and Article 19 of the Market Abuse Regulation (MAR) which has been in force in Germany since 3 July 2016, together held roughly 37% of the Company's registered share capital, of which the Supervisory Board and its related parties account for roughly 37% 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 section 15 a of the WpHG and Article 19 of the MAR.



### Contracts containing a change-of-control clause

The company purchase agreements of the hospitals acquired by us as well as various contracts relating to financial instruments contain provisions according to which, subject to the condition of a change of control as a result of a takeover bid, e.g. a re-transfer of the company shares, the loan creditors may demand immediate repayment. Beyond that there are no agreements from which the Board of Management or employees may establish claims to compensation in the event of a company takeover.

## 1.9 CORPORATE GOVERNANCE DECLARATION AND DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

### Declaration on Corporate Governance

The Declaration on Corporate Governance (section 289 a German Commercial Code (Handelsgesetzbuch, HGB)), 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 established committees are also described. Moreover, the Declaration on Corporate Governance contains disclosures on whether the Company has complied with the minimum proportions of men and women in the composition of the Supervisory Board, and if not, disclosures on the reasons for this.

For further details please visit our website where the Declaration on Corporate Governance is made available to the public at [en.rhoen-klinikum-ag.com](http://en.rhoen-klinikum-ag.com).

### Declaration of Compliance with the German Corporate Governance Code

Efficient and responsible decision-making and control processes oriented towards long-term corporate success are of central importance for our activities. Good corporate governance is the basis of the decision-making and control processes of the Supervisory Board and the Board of Management. Together with a transparent as well as legally and ethically based corporate culture, corporate governance is the prerequisite for preserving

and strengthening the trust that patients, employees, shareholders and business partners place in us, and for securing and enhancing the added value of our enterprises on a sustainable basis.

In financial year 2016, the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG conducted a thorough regular examination and detailed discussion of the German Corporate Governance Code, its development and its amendments as well as its compliance at RHÖN-KLINIKUM AG and its subsidiaries. As a result of these deliberations, a jointly issued and updated Declaration of Compliance pursuant to section 161 of the AktG was submitted by the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG on 3 November 2016 in accordance with Item 3.10 of the German Corporate Governance Code as amended on 5 May 2015, which is published on our website. According to this, the German Corporate Governance Code is complied with fully with apart from the four following exceptions:

- Item 4.2.2 (Relationship between remuneration of the board of management and that of senior management and staff overall)
- Item 4.2.3 (Pension commitments)
- Item 5.4.1 (Stating specific objectives regarding the composition of the supervisory board)
- Item 7.1.2 (Deadline for making available the consolidated financial statements)

We observe most of the non-mandatory recommendations of the German Corporate Governance Code.

## 2 ECONOMIC REPORT

### 2.1 MACROECONOMIC CONDITIONS

Also in 2016, the German economy was characterised by robust and steady growth. According to calculations of the Federal Statistical Office, gross domestic product (GDP) witnessed an increase on average over the year 2016 of 1.9% (or + 1.8% on a calendar-adjusted basis) compared with the previous year. In both of the previous years, GDP growth was in a similar range: 1.7% in 2015 and 1.6% in 2014. A longer-term view shows that economic growth in 2016 was half a percentage point above the average of the past ten years of + 1.4%.

Economic output in Germany was produced on average in 2016 by nearly 43.5 million gainfully employed persons having their place of work in Germany. That is the highest level seen since German Reunification. According to the first preliminary calculations, there were roughly 429,000 persons in employment in 2016, or 1.0% more than a year ago. That continues the trend that has been persisting for over ten years. The rise in 2016 was again somewhat stronger than in the previous years (+ 0.9% in 2015 and + 0.8% in 2014). A higher share of persons in employment within the domestic population as well as the emigration of workers from abroad compensated for demographic effects.

On the output side of gross domestic product, all sectors of the economy contributed to the economic upturn in 2016. Domestic demand was key to the positive performance of the German economy: spending by private consumers on a price-adjusted basis was 2.0% higher than in the previous year. The rise in government consumer spending was even much stronger, at + 4.2%. This smart increase is attributable among other things to the high emigration of asylum seekers and the resulting costs. Overall, consumer spending witnessed a rise of 2.5% and also in 2016 was the biggest, but not the only driver of German economic growth.

For 2017, the Annual Economic Report of the German government is forecasting robust economic performance. The German economy, according to the report, is in very good shape. For the current year, the German government expects an increase in price-adjusted gross domestic product by 1.4% and thus a continuation in the growth trend.

Investment activity of companies in Germany is expected to see an overall increase in 2017, but to remain at a modest level: the risks, in particular from the external economic environment, continue to be considerable. World trade might be hampered by protectionist currents. This is dampening prospects for exports and thus also the inclination of companies to invest in equipment and infrastructure.

### 2.2 SECTOR-SPECIFIC CONDITIONS

According to the Federal Statistical Office (Destatis), 19.2 million patients were treated in hospitals on an inpatient basis in 2015, which is 90,948 treatment cases more than in the year before that. In 1,956 (2014: 1,980; 2000: 2,242) hospitals a total of 499,351 (2014: 500,680) beds were available for provision of inpatient care to the population. Whereas the number of facilities declined by 1.2%, the supply of beds was nearly unchanged compared with the previous year (– 0.3%).

The share of hospitals under private ownership, which still stood at 14.8% when the uniform national hospital statistic was introduced in 1991, has been steadily rising for years. In 2015, already every third hospital (35.8%) was privately owned. The share in public hospitals decreased during the same period from 46.0% to 29.5%. By contrast, the share of other non-profit hospitals has been little changed at 34.7% (1991: 39.1%).

Total costs of hospitals stood at € 97.3 billion in 2015 and rose by 3.8% compared with the previous year. The costs of inpatient hospital care stood at € 84.2 billion, 3.8% more than in 2014 (€ 81.2 billion).

The financial situation of hospitals in Germany continues to be difficult. For financial year 2016, many hospitals expect their financial situation to deteriorate significantly. In the medium term, even more than 70% of them expected a deterioration of general economic conditions. That is the conclusion reached by the "Krankenhausstudie 2016" (Hospital study 2016) for which the corporate consultancy Roland Berger conducted a survey of directors and managers of the 400 biggest German hospitals. For example, economic pressures weighing on the hospitals, despite the most recent hospital reform, were expected to persist over the coming years and the path to economic recovery was often very long despite restructuring measures started in many places. The tight economic situation and stagnating public funding moreover were resulting in the investment capacity of many hospitals being restricted: that was why for about half of all hospitals the investments being made were insufficient.

The hospital sector is in the focus of numerous reforms of legislation. As of 1 January 2016, the Act Reforming the Structures of Hospital Care Delivery (Krankenhausstrukturgesetz, KHSG) entered into force. By it, the quality of hospital care delivery is to be strengthened and the number of beside nursing employees increased.

In the wake of the KHSG, the discount on surplus service volumes is being replaced as of 2017 by a fixed cost degression discount. In future, hospitals and health insurance funds at the federal state level are to estimate how high the share of fixed costs in a flat case rate case is on average, i. e. for example what the costs of technical equipment, such as computer tomographs, are in a flat case rate. For all hospitals having provided more services than previously agreed, this share is to be deducted in all invoice surplus service volumes. Unlike the discounts on surplus service volumes that have applied hitherto, however, it is to be applied only in facilities that have provided the services and will no longer lower the federal state case value.

Economic and legal framework conditions of inpatient healthcare are presenting hospitals with big challenges when it comes to their market positioning and future planning. 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 medicine as well as digitalisation. The latter is providing medicine the opportunity to diagnose and treat patients in future more individually and with greater precision.

## 2.3 BUSINESS PERFORMANCE

### 2.3.1 Overall statement on economic position

Compared with the previous year, and including the hospital Kreisklinik Bad Neustadt consolidated since 1 January 2016, we record a rise in revenues by € 68.2 million to € 1,176.4 million (previous year: € 1,108.2 million), a rise in EBITDA by € 2.7 million to € 156.9 million (previous year: € 154.2 million) as well as a rise in EBIT by € 3.9 million to € 97.0 million (previous year: € 93.1 million). EBITDA was positively impacted in 2016 as well as in 2015 by one-off factors, in particular by the delayed effects from the transaction with Fresenius/Helios. Excluding the delayed effects from the transaction, EBITDA is € 114.9 million for financial year 2016. This figure was € 123.5 million for the previous year.

Consolidated profit declined compared with the previous year by € 28.8 million to € 58.6 million (previous year: € 87.4 million). This is attributable to an impairment on lendings in the amount of € 35.5 million recorded in the finance result in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, since on a present-day view its recoverability is not certain. The medical potential of the facility for RHÖN-KLINIKUM AG continues to be promising and uniquely rounds off the cancer therapy service offering at the Marburg site.

Compared with the previous year, financial year 2016 was characterised by rising service volumes. However, regulatory restrictions continue to hold back our organic development. Although demand for medical services continues to rise, the hospital sector is generally characterised by its regulated remuneration system with regard to the trend in prices. For several years, this is what has been giving rise to the widening gap between revenues and costs that has been affecting the operating side and is exerting higher external economic pressures on all market participants. For expansions in service volumes – irrespective of whether or not these have been agreed – drastic price discounts have to be accepted under the statutory provisions. Also in financial year 2016, hospitals have to accept the discount on surplus service volumes services agreed with the health insurance funds. At the same time, costs in the area of personnel as well as materials continue to rise. This cost trend outstrips the trend in remuneration noticeably. In this regard the Act Removing Excessive Social Burdens in Contribution Liabilities in Health Insurance (Gesetz zur Beseitigung sozialer Überforderung bei Beitragsschulden in der Krankenversicherung, KVBeitrSchG) does not change anything from a structural standpoint. Models currently being discussed among experts might lead to a slight rebalancing of the overall national hospital budget in favour of smaller and medium-sized general hospitals. Moreover, adjustments in remuneration are being designed for the catalogue of flat case rates (DRGs) that might be to the detriment of materials cost-intensive DRGs or services. Such changes would then affect above all cutting-edge medical care, e.g. in cardiology, or special services in orthopaedics.

It has been a core element of our Company for many years to anticipate the general market trend consistently and resolutely with our activities and to develop solutions that are viable for the future. We continue to concentrate at five sites on maximum-care cutting-edge medicine with a direct link to universities and research facilities. By staking out a position in the premium medical care segment, we are creating the basis for helping our patients have access to unrestricted cutting-edge medical services also in future. At the same time we are striving to continue our role as a key mover and driver of innovative concepts within the German healthcare industry.

### 2.3.2 Trend in service volumes

The following changes in bed capacities have occurred compared with the previous year:

	Hospitals	Beds
As at 1 January 2016	10	5,218
Kreisklinik Bad Neustadt	1	233
Other change in capacities	–	– 103
<b>As at 31 December 2016</b>	<b>11</b>	<b>5,348</b>

By purchase agreement dated 31 July 2015, RHÖN-Kreisklinik Bad Neustadt GmbH, in an asset deal, acquired Kreisklinik Bad Neustadt with 233 beds. Kreisklinik has been included in the consolidated financial statements since 1 January 2016 since it was at that time that the conditions precedent and thus the requirements for consolidation were met.

As at 31 December 2016, our consolidated financial statements included eleven hospitals with 5,348 beds/ places at a total of five sites in four federal states. Since 31 December 2015, we witnessed a moderate net change in the number of approved beds/ places (103) in line with the requirement budgets in the individual federal states.

Of the change in capacities compared with 31 December 2015, + 102 beds/ places or + 2.0% is accounted for by our inpatient capacities and 28 beds/ places or + 19.3% by our semi-inpatient and day-clinical capacities:

	Approved beds/ places		Change	
	31/12/16	31/12/15	Absolute	%
Inpatient capacities				
Acute hospitals	4,638	4,432	206	4.6
Rehabilitation hospitals and other inpatient facilities	537	641	– 104	– 16.2
	<b>5,175</b>	<b>5,073</b>	<b>102</b>	<b>2.0</b>
Semi-inpatient and day-clinical capacities	173	145	28	19.3
<b>Total</b>	<b>5,348</b>	<b>5,218</b>	<b>130</b>	<b>2.5</b>

As at 31 December 2016, we operate seven medical care centres with a total of 35.75 specialist practices:

	Medical care centres	Specialist practices
As at 31 December 2015	7	36.75
<b>Opened/acquired</b>		
MVZ Bad Berka	–	1.00
<b>Disposals</b>		
MVZ Gießen	–	– 1.00
MVZ Marburg	–	– 1.00
<b>As at 31 December 2016</b>	<b>7</b>	<b>35.75</b>

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

January to December	2016	2015	Change	
			Absolute	%
Inpatient and semi-inpatient treatments				
Acute hospitals	213,488	203,548	9,940	4.9
Rehabilitation hospitals and other facilities	5,147	5,812	– 665	– 11.4
	<b>218,635</b>	<b>209,360</b>	<b>9,275</b>	<b>4.4</b>
Outpatient attendances				
at our acute hospitals	468,901	445,509	23,392	5.3
at our medical care centres	126,211	110,240	15,971	14.5
<b>Total</b>	<b>813,747</b>	<b>765,109</b>	<b>48,638</b>	<b>6.4</b>

A total of 813,747 (previous year: 765,109) patients were treated at our hospitals and medical care centres in financial year 2016. Of this rise by 48,638 patients, or 6.4%, patients treated on an inpatient and semi-inpatient basis account for roughly 19.1% and outpatient treatments for 80.9%.

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

January to December	2016	2015
Per-case revenue		
inpatient (€)	4,964	4,887
outpatient (€)	153	153

In financial year 2016, per-case revenue in the inpatient area recorded a moderate rise by 1.6%. Adjusting for one-off effects recognised during the same period of the previous year, per-case revenues in the outpatient area during financial year 2016 rose by 2.2% compared with the previous year.

### 2.3.3 Results of operations

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

As a result of demographic change, demand for hospital services recorded a further rise in financial year 2016. However, regulatory restrictions continue to hold back our organic development, also in financial year 2016. This applies in particular with regard to the pronounced three-year discount on surplus revenues. Since such additional service volumes at the same time entail additional costs, an expansion in service volumes is thus having dilutive effects on margins and earnings. Moreover, the disproportionately moderate trend in state base rates compared with hospital-specific costs as well as the rise in the audit rate of the MDK are putting a further drag on the operating result. Our many years of experience in dealing with regulatory measures, our high organic flexibility, our excellent regional market position as well as our trailblazing role in innovation and digitalisation are the best means of effectively countering the regulatory and market challenges in the healthcare system.

Consolidated performance figures developed as shown below:

January to December	2016	2015	Change	
	€ m	€ m	€ m	%
<b>Income</b>				
Revenues	1,176.4	1,108.2	68.2	6.2
Other income	186.4	179.8	6.6	3.7
<b>Total</b>	<b>1,362.8</b>	<b>1,288.0</b>	<b>74.8</b>	<b>5.8</b>
<b>Expenditure</b>				
Materials and consumables used	329.5	321.8	7.7	2.4
Employee benefits expense	757.6	695.7	61.9	8.9
Other expenditure	118.8	116.3	2.5	2.1
<b>Total</b>	<b>1,205.9</b>	<b>1,133.8</b>	<b>72.1</b>	<b>6.4</b>
<b>EBITDA</b>	<b>156.9</b>	<b>154.2</b>	<b>2.7</b>	<b>1.8</b>
Depreciation/ amortisation and impairment	59.9	61.1	-1.2	-2.0
<b>EBIT</b>	<b>97.0</b>	<b>93.1</b>	<b>3.9</b>	<b>4.2</b>
Finance result	36.1	2.8	33.3	n.a.
<b>EBT</b>	<b>60.9</b>	<b>90.3</b>	<b>-29.4</b>	<b>-32.6</b>
Income taxes	2.3	2.9	-0.6	-20.7
<b>Consolidated profit</b>	<b>58.6</b>	<b>87.4</b>	<b>-28.8</b>	<b>-33.0</b>

Compared with the previous year, we recorded in financial year 2016 a rise in EBITDA by €2.7 million or 1.8% to €156.9 million, a rise in EBIT by €3.9 million or 4.2% to €97.0 million and a decline in consolidated profit by €28.8 million or 33.0% to €58.6 million due to an impairment relating to an equity investment. Kreisklinik Bad Neustadt has been included in our consolidated financial statements since 1 January 2016 and thus in our finance and performance figures for the first time in financial year 2016.

	2016	2015
	%	%
EBITDA margin	13.3	13.9
EBIT margin	8.2	8.4
EBT margin	5.2	8.1
Return on revenues	5.0	7.9
Return on equity (after taxes)	5.3	7.4

In 2016, the delayed effects from the transaction with Fresenius/Helios in the amount of €42.0 million set it. Without these delayed effects from the transaction, the EBITDA margin is 9.8% for 2016.

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

	2016	2015
	%	%
Materials ratio	28.0	29.0
Personnel ratio	64.4	62.8
Other cost ratio	10.1	10.5
Depreciation and amortisation ratio	5.1	5.5
Finance result ratio	3.0	0.3
Effective tax ratio	0.2	0.2

The rise in revenues by €68.2 million or 6.2% to €1,176.4 million – adjusting for changes in consolidated companies (first-time consolidation of Kreisklinik Bad Neustadt as of 1 January 2016) in the amount of €32.8 million – is accounted for in the amount of €35.4 million or 3.2% by organic growth. In this regard it has to be considered that personnel and material expenses are only partly refinanced by revenues due to statutory discounts on surplus service volumes.

During financial year 2016, provisions were reversed for potential legal and fiscal guarantee risks in connection with the sale of subsidiaries to Fresenius/Helios in the amount of € 42.0 million, since contractual guarantee periods defined in this regard in some cases had expired. The income was recognised under the other income item. During the previous year, € 19.7 million in income from the reversal of provisions that were formed in connection with potential additional claims for social insurance contributions of the German pension insurance agency (Deutsche Rentenversicherung) resulting from investigations of the cleaning companies carried out in 2011 were recognised under this item. Moreover, during the previous year provisions that had been formed for legal and fiscal risks in connection with the sale of entities were reversed with effect on the income statement under the other income item in the amount of € 11.0 million, and income from the sale of a real estate company was recognised under the other income statement in the amount of € 8.3 million.

Whereas the materials ratio declined from 29.0% to 28.0%, materials and consumables used rose compared with the previous year by € 7.7 million or 2.4% to € 329.5 million (previous year € 321.8 million) disproportionately to revenues.

The employee benefits expense and other expenses rose compared with the previous year. Whilst the employee benefits expense rose by € 61.9 million or 8.9%, the other expenses item increased by € 2.5 million or 2.1%. The personnel ratio rose from 62.8% to 64.4% and the other expense ratio declined from 10.5% to 10.1%. Statutory social security contributions and retirement expenses as a percentage of the wage bill amounted to 19.0% (previous year: 17.6%). Statutory social security contributions and retirement expenses of the previous year include refunds of the federal and state pension scheme (VBL) for previous years.

The depreciation and impairment item declined slightly compared with the same period of the previous year by € 1.2 million or 2.0% to € 59.9 million.

The negative finance result deteriorated by € 33.3 million to € 36.1 million. This is attributable essentially to an impairment in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebsgesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung in the amount of € 35.5 million since on a present-day view its recoverability is not certain. One counter-effect stemmed from declining finance expenses following the repayment of our bond in the first quarter of 2016. The negative finance result includes losses resulting from financial investments accounted for using the equity method in the amount of € 0.4 million (previous year: profits of € 0.0 million).

At an unchanged rate of taxation, the income tax expense item declined by € 0.6 million to € 2.3 million (previous year: € 2.9 million) compared with the same period of the previous year, attributable among other things to the one-off earnings increasing tax effect from the conclusion of a profit-and-loss transfer agreement between RHÖN-KLINIKUM AG with Klinikum Frankfurt (Oder) GmbH.

Consolidated profit declined by € 28.8 million to € 58.6 million (previous year: € 87.4 million). Non-controlling interests in profit increased compared with the same period last year by € 0.1 million to € 2.2 million.

We met the forecast for revenues stated in the Group Management Report for the year 2016 in the range between € 1.17 billion and € 1.20 billion with our actual figure of € 1.18 billion. We also met the forecast for EBITDA made in the 2015 Group Management Report for financial year 2016 of between € 155 million and € 165 million with the actual figure of € 156.9 million.

The interest of RHÖN-KLINIKUM AG shareholders in profit for financial year 2016 declined to € 56.4 million (previous year: € 85.4 million) compared with the previous year. This translates into earnings per share of € 0.84 (previous year: € 1.19) in accordance with IAS 33.

The total comprehensive income (sum of consolidated profit and other comprehensive income) for financial year 2016 stands at €58.3 million (previous year: €87.3 million). In this connection, losses from the revaluation of defined benefit pension plans amounting to €0.3 million after tax (previous year: €0.2 million after tax) had to be recognised directly at equity.

#### 2.3.4 Net assets and financial position

	31 Dec. 2016		31 Dec. 2015	
	€ m	%	€ m	%
<b>ASSETS</b>				
Non-current assets	936.1	64.3	893.2	54.6
Current assets	520.1	35.7	741.3	45.4
	<b>1,456.2</b>	<b>100.0</b>	<b>1,634.5</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>				
Equity	1,113.4	76.5	1,108.7	67.8
Long-term loan capital	25.4	1.7	36.5	2.2
Short-term loan capital	317.4	21.8	489.3	29.9
	<b>1,456.2</b>	<b>100.0</b>	<b>1,634.5</b>	<b>100.0</b>

Compared with the balance sheet date of 31 December 2015, the balance sheet total declined by €178.3 million or 10.9% to €1,456.2 million (previous year: €1,634.5 million). This decline results essentially from the repayment of RHÖN-KLINIKUM AG's bond in the first quarter of 2016 as well as from the distribution of the dividend to shareholders and non-controlling interests in the second quarter of 2016.

The equity ratio rose compared with the last reporting date from 67.8% to 76.5%. This is essentially attributable to the repayment of a bond in the first quarter of 2016 and the resulting change in the balance sheet total. Equity now stands at €1,113.4 million (previous year: €1,108.7 million). The increase in equity capital compared with the reporting date of 31 December 2015 by €4.7 million results from consolidated profit for financial year 2016 (€58.6 million), on the one hand, and from distributions to shareholders and non-controlling interests (€53.7 million) and from losses from the revaluation of defined Benefit pension plans (€0.2 million), on the other.

121.7% (previous year: 128.2%) of non-current assets is nominally covered by equity and non-current liabilities at fully matching maturities. As at 31 December 2016, net financial debt – including liabilities under finance leases – stood at €0.0 million (31 December 2015: €0.0 million). As at 31 December 2016, we report net liquidity of €302.0 million (31 December 2015: €356.1 million). Net liquidity is calculated as follows:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Current cash	80.8	143.3
Current fixed term deposits	185.1	345.0
Non-current fixed term deposits	50.1	30.0
<b>Cash, fixed term deposits</b>	<b>316.0</b>	<b>518.3</b>
Current financial liabilities	10.0	147.6
Non-current financial liabilities	–	10.0
Finance lease liabilities	4.0	4.6
<b>Financial liabilities</b>	<b>14.0</b>	<b>162.2</b>
<b>Net liquidity</b>	<b>302.0</b>	<b>356.1</b>



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

	2016	2015
January to December	€ m	€ m
Cash generated from (+)/ cash used in (-) operating activities	109.1	67.4
Cash generated from (+)/ cash used in (-) investing activities	25.9	-394.7
Cash generated from (+)/ cash used in (-) financing activities	-197.5	-224.7
<b>Change in cash and cash equivalents</b>	<b>-62.5</b>	<b>-552.0</b>
Cash and cash equivalents as at 1 January	143.3	695.3
<b>Cash and cash equivalents as at 31 December</b>	<b>80.8</b>	<b>143.3</b>

The change in cash and cash equivalents was essentially influenced in the investment area by the cash generated from/cash used in terminations of or investments in fixed deposits. Whereas during the previous year cash amounting to € 375.0 million was used in fixed deposits, cash of € 139.8 million was generated in financial year 2016 from terminations of fixed deposits.

Moreover, in the first quarter of 2016 the exchange-listed bond of RHÖN-KLINIKUM AG was repaid in the amount of € 143.2 million and in the second quarter of 2016 the dividend was distributed to shareholders and non-controlling interests in the amount of € 53.7 million, which resulted in cash used in financing activities amounting to € 196.9 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 € 294.5 million.

### 2.3.5 Investments

Aggregate investments of € 115.9 million (previous year: € 87.0 million) in financial year 2016 are shown in the following table:

	Use of grants	Use of own funds	Total
	€ m	€ m	€ m
Current investments	15.7	92.9	108.6
Takeovers	1.2	6.1	7.3
<b>Total</b>	<b>16.9</b>	<b>99.0</b>	<b>115.9</b>

During financial year 2016, we invested a total of € 115.9 million (previous year: € 87.0 million) in intangible assets, in property, plant and equipment as well as in investment property. Of this total, € 16.9 million (previous year: € 17.6 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 € 99.0 million (previous year: € 69.4 million). Current capital expenditure accounted for € 92.9 million (previous year: € 68.0 million) and assets and specialist practices acquired on takeovers for € 6.1 million (previous year: € 1.4 million) of total net investments during the year under review.

An analysis of current investments financed from company funds by site in financial year 2016 is given below:

	€ m
Bad Neustadt a. d. Saale	49.9
Gießen, Marburg	26.6
Bad Berka	7.4
Frankfurt (Oder)	9.0
<b>Total</b>	<b>92.9</b>

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 2016, the Group employed 16,486 persons (31 December 2015: 15,654):

	Number
<b>As at 31 December 2015</b>	<b>15,654</b>
Change in employees at hospital companies	777
Change in employees at medical care centre companies	10
Change in employees at service companies	45
<b>As at 31 December 2016</b>	<b>16,486</b>

This rise of 832 employees compared with the reporting date of 31 December 2015 included 541 employees as a result of staff taken over from Kreisklinik Bad Neustadt as at 1 January 2016, 236 additional employees as a result of staff increases at our long-standing hospitals, 10 employees added as a result of staff changes at our medical care centre companies, and 45 employees added as a result of staff increases at our service companies.

Doctors accounted for 15.5% (previous year: 15.8%) of the total headcount on the reporting date, while nursing and medical-technical staff accounted for 55.6% (previous year: 55.6%). On average over the year, we recorded a rise of 3.8% in full-time staff. As in the previous year, the share of women remains at around nearly 75%.

## 3 FORECAST REPORT

### 3.1 STRATEGIC OBJECTIVES

The corporate activities of RHÖN-KLINIKUM AG are essentially aimed at keeping the Company lean and agile, promoting exchange of knowledge and experience and offering market-oriented services at a high quality level. In this connection, our investments provide the basis for sustainable, efficient, and thus also affordable hospital cutting-edge medical care. In future, too, our goal is to 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 oriented towards maximum care. At the forefront of this strategy is further strengthening treatment excellence and patient care by focusing on digitalisation and network medicine as well as steadily implementing the campus strategy.

In addition to the ongoing conceptional and constructional modernisation of our sites, digitalisation will become an increasingly important issue. We will continue to press ahead with our efforts in the area of digitalisation.

By founding the company RHÖN-Innovations GmbH through which we invest in promising start-ups from the medtec sector, we want to identify, evaluate and develop practical applications for new developments in medical technology with innovative potential. Here the focus is particularly on medical innovations falling within the core business activity of RHÖN-KLINIKUM AG. The overall aim is always to make real improvements to our medical services and to thus bring about noticeable benefits for our patients.

Since October 2016 we have been using the web-based electronic patient file WebEPA<sup>+</sup> at Zentralklinik Bad Berka as well as at Klinikum Frankfurt (Oder). WebEPA<sup>+</sup> is an electronic file that can store for each patient all medically relevant information such as image data, diagnoses or medications. All information is stored in encrypted form and its disclosure is always subject to the patient's express consent. Such data can be individually accessed by the various doctors involved in the treatment process. The electronic patient file makes it possible to interconnect the GP, specialist and hospital physicians, thus

ensuring that patients receive the best care possible. Our aim is to roll out the use of the electronic patient file in 2017 nationally in all hospitals and medical care centres of RHÖN-KLINIKUM AG as well as their cooperation facilities.

Also in financial year 2017, we will continue to forge ahead with our objective of achieving generalised, full-service medical and nursing care in rural regions with our campus approach. Rural regions are especially hard hit by the greying of the population and the accompanying rise in morbidity and treatment cases and increasing shortage of doctors. Specifically, our campus approach is concerned with the logistical and spatial integration of outpatient and inpatient services in conjunction with the offer to community-based doctors to work together closely with the respective hospital. The campus approach combines numerous differentiated care offerings and services of different partners. Particularly inpatient and outpatient services are structurally, spatially and logistically integrated with one another on the premises of a high-performance hospital. By staking out a position in the premium medical care segment, we are creating the basis for helping our patients have access to unrestricted cutting-edge medical services also in future. Underlying all our activity in this context is the well-being of our patients who entrust themselves to our staff at our hospitals and facilities and who are always the focus of our efforts.

In keeping with provision of the best possible nursing and care, it continues to be our objective to diagnose and treat our patients on the basis of the latest, scientifically founded therapy procedures with state-of-the-art medical technology. The well-being of the patient – which is the ethical basis of our activity and at the same time of our economic success – will continue to be our standard also in future. All patients coming to us can be assured that they will receive the best treatment at all times.

### 3.2 ECONOMIC AND LEGAL ENVIRONMENT

For 2017, the Annual Economic Report of the German government is forecasting robust economic performance. The German economy, according to the Report, is in very good shape. For the current year, the German government expects an increase in price-adjusted gross domestic product by 1.4% and thus a continuation in the growth trend.

Investment activity of companies in Germany is expected to see an overall increase in 2017, but to remain at a modest level: the risks, in particular from the external economic environment, continue to be considerable. World trade might be hampered by protectionist currents. This is dampening prospects for exports and thus also the inclination of companies to invest in equipment and construction.

The hospital sector continues to be in the focus of numerous reforms of legislation. As of 1 January 2016, the Act Reforming the Structures of Hospital Care Delivery (Krankenhausstrukturgesetz, KHSG) entered into force. By it, the quality of hospital care delivery is to be strengthened and the number of beside nursing employees increased. The discount on surplus service volumes has been replaced since 2017 following the KHSG by a fixed cost degression discount. In future, hospitals and health insurance funds at the federal state level are required to estimate how high the share of fixed costs in a flat case rate case is on average, i. e. for example what the costs of technical equipment such as computer tomographs are in a flat case rate. For all hospitals having provided more services than previously agreed, this share will be deducted in all invoice surplus service volumes. Unlike the discounts on surplus service volumes that have applied hitherto, however, it will be applied only in facilities that have provided the services and no longer lower the federal state case value.

Economic and legal framework conditions of inpatient healthcare are presenting hospitals with big challenges in terms of market positioning and future planning. 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 medicine as well as digitalisation. The latter is providing medicine the opportunity to diagnose and treat patients in future more individually and with greater precision.

### 3.3 FORECAST

Also in the coming year, the economic basis of the RHÖN-KLINIKUM Group will be provided by its five large sites in four federal states counting some 5,400 beds and over 16,000 employees. That makes us one of the largest hospital operators in Germany. For 2017, taking into account the more difficult regulatory environment, we are targeting moderate organic growth and expect consolidated revenues of between € 1.20 billion and € 1.23 billion.

Given the current revision of the Group's individual strategies and the related earnings effects during the current financial year which cannot be conclusively quantified at this point in time, we cannot make any specific earnings forecast at this juncture for 2017.

Nonetheless, it may be assumed that earnings before interest, tax and depreciation (EBITDA) in 2017 will be burdened structurally and by one-off effects, and compared with the previous year when EBITDA excluding the delayed effects from the transaction amounted to € 114.9 million, will likely be significantly lower.

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

## 4 OPPORTUNITIES AND RISK REPORT

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. In this context, a decisive element of a value-oriented and sustainable corporate governance is a company's wholehearted embracement of risk and opportunity management. Within the Group of RHÖN-KLINIKUM AG, we 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. Factors such as the regulatory and legislative environment, continually mounting cost, competitive and consolidation pressures within the sector, the rising demands of patients in terms of the quality of inpatient healthcare delivery and patient care not only open up opportunities but also involve risks. As a provider of healthcare services, we always regard the risk posed to the life and health of our patients as the greatest risk. This involves continuously weighing up opportunities against the risks. We give utmost priority to measures that avoid even the smallest errors in the medical and nursing area, since any error is one too many.

## 4.1 RISK REPORT

### 4.1.1 Risk management system

To detect imminent risks early on and to specifically counter them in a systematic process, the Board of Management of RHÖN-KLINIKUM AG has implemented a Group-wide risk management system. Our risk management system not only fully complies with the statutory requirements for early detection of risks posing a threat to the Company's existence, but also exceeds 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 the principles of risk management, as well as describing the requirements for the risk management process uniformly binding on the Group as a whole including the related duties and responsibilities. The actual risk management process is documented in a risk management software program. Thanks to an open risk culture, regular training sessions and feedback rounds, we ensure acceptance of risk management within the Company. 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 subdivisions or companies of RHÖN-KLINIKUM AG.

#### Definition

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

#### Principles of our risk management:

- Everyone is responsible

Every employee has a personal duty to actively prevent harm or damage to our patients, our business partners and the Company.

- Not all risks can be prevented, but every risk can be managed

Risks cannot always be prevented, but can be managed all the better the earlier they are identified. Means of risk management are risk prevention, risk reduction, risk transfer and risk acceptance. Risks are systematically assessed and documented so as to ensure efficient risk management and enable conclusions to be drawn for the overall risk position.

- Risk management – we want to get better and better

Preventatively defined procedures, clearly defined structures and a sense of responsibility of each individual form the basis of our risk management. To optimise processes on a regular basis and to monitor compliance with the requirements, each company within the Group must review and assess its risks on an ongoing basis, adjusting to changing conditions. Any acute risks that might pose a risk to the Company's existence are reported directly and as quickly as possible to the Chairman of the Board of Management.

#### 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 risks are 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. That is because risks posed to the life and health of our patients have always been regarded by us as a high risk, as well as our greatest risk, and any medical intervention will expose patients to a risk – but also holds out for that patient the opportunity of being cured.

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 that is most realistic is to be evaluated. The potential amount of damage in this regard is calculated as the impact on earnings before tax with future reference to the financial year.

In risk control and management, it is analysed by what measures risks can be controlled. For this, suitable measures for each identified risk are to be recorded with the expected effect of the measures. The primary objective of risk management is to minimise, and where possible, prevent risks, 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.

Impact	Probability of occurrence		
	low	medium	high
high			
medium			
low	7	2	

Throughout the Group, nine relevant risks were identified, of which seven are classified as having a low probability of occurrence and two with a medium probability of occurrence and low impact. The risks are primarily to be found categorised in the risks fields as described below. The total risk expectation value is roughly € 1.5 million. This amount compares with developments in service volumes and cost-cutting potential, which means that these risks can be treated as neutral in terms of results and will have no material impact on the targets issued for 2017.

RHÖN-KLINIKUM AG, like any other company, is exposed to uncertainty factors from various risk sources. The following risk fields were categorised and 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.

Since 19 December 2016, as expected, we have no longer been listed in the exchange segment MDAX® but in the SDAX®. The reasons for this include, among others, changes in our shareholder structure that have resulted in the number of freely available shares being reduced. As we are backed by our major shareholders, we do not see this as constituting any further risk potential.

For any future potential company transactions, we continue to follow our dual strategy of “competence and reliability” as well as “quality before quantity”. Any legal risks arising on takeovers, in particular in the area of antitrust law, are reviewed, monitored and evaluated by us as required. Risks that might arise from existing company purchase agreements are regularly reviewed.

For sector-specific tax risks that may arise for trade tax and value-added tax e.g. as a result of changes in decisions by the highest court instances or changes in the views held by the financial administrative authorities, we have made corresponding provision on the balance sheet as soon as these became known to us.

As a healthcare service provider, our Company operated under the already known framework conditions over the past financial year as well. These are marked by strong influences from healthcare policy regulations. Already in 2016, regulatory obstacles negatively impacted our organic growth. Also in financial year 2017, these will put a moderate drag on organic growth. The provisions on the three-year discount on surplus revenues, which will be replaced as of 2017 following the KHSG by a fixed cost degression discount, resulted in burdens on earnings from subsequent arithmetic corrections. Moreover, burdens on earnings in the medium to low double-digit range are expected as a result of the separate accounting for financing research and teaching at the university hospitals in Gießen and Marburg. Efforts are being made to reach an agreement with the Federal State of Hesse.

Furthermore, two other developments continue to influence our sector decisively. Demand for medical services, in particular also cutting-edge medical services, continues to rise. By contrast, remuneration of the services provided is not being adequately adjusted.

The negative developments in the burden on earnings have already been taken into account in our targets. Looking to the future, we will counter these through suitable activities and measures. Further regulatory and industry risks relating to us are classified as very low.

### Risks to service volumes

In Germany, hospitals approved under state hospital planning enjoy de facto state regulated protection in their respective catchment area. Traditional market and revenue risks exist only where site closures are ordered or a hospital's quality is assessed by referring physicians or by patients as significantly worse than for 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. We are closely watching the delayed remuneration of services caused by this and are countering these with further optimised process optimisations.

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, as well as pricing regulation 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.

### 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, co-operation is needed not only at the hospital but also between outpatient and inpatient care. Whenever these processes are disrupted, this carries risks for both patients and the hospital. We attach utmost importance to minimising such risks by ensuring the quality of treatment with qualified and trained staff through guideline-oriented procedures in safe and hygienic hospital buildings. Permanent monitoring of all procedures and processes involved in the treatment of patients as well as the consistent orientation of all efforts to the needs of our patients create a high level of treatment quality and limit existing operating risks.

In addition to the typical clinical risk fields in the area of patient safety (hygiene, nursing and medical care), potential risks are also seen, as in the previous years, in the use of medical equipment, in IT equipment and in fire prevention. These risks continue to be assessed as low, particularly given the existing measures in place. For risks that cannot be fully averted, the Group has adequate insurance coverage which is regularly reviewed and updated.

### Personnel risks

To achieve sustained success as a diversified healthcare group with leading expertise, we need committed and highly qualified employees and executive staff. Hospitals on average have personnel cost ratios of between 50% and 70%, making them particularly dependent on developments in wages. A shortage of specialist employees is a key issue also in the healthcare sector. 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. In this context, regional differences at the individual facilities have to be recognised which we address by individual measures.



For this reason, recruiting and retaining qualified staff at our Company is of key importance to us. For example, thanks to our cooperation with specialised universities, we make contact at an early stage with qualified students so that we can recruit the necessary young talent for our staff. On account of the establishment and expansion of structured recruiting and qualification concepts for doctors, nursing and healthcare professions as well as for our executive talent, however, we currently still see opportunities to efficiently counteract the current shortage of personnel and 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 procurement of alternative drugs are consumption-intensive specialist departments such as neurology and oncology. By ongoing market and product monitoring we ensure that dependency on sole suppliers, on single products and service providers is kept to a bare minimum and classify risks from this area also as low.

#### Financial risks

Since we operate exclusively in Germany, we are not subject to any transaction and currency risks. As at 31 December 2016, the Group had financial liabilities totalling € 10.0 million. We currently see no financing and liquidity risks.

No securities (except for 24,000 treasury shares) are held within the Group of RHÖN-KLINIKUM AG. Likewise, there are no corresponding credit rating and share price risks either.

#### Overall assessment

In our risk evaluation for financial year 2016, no risks jeopardising our corporate existence were reported to us. The principles of the statutorily prescribed system of early identification of risks jeopardising corporate existence were continued in the reporting year as in the previous years.

As an overall assessment based on our analysis of the risk position within the Group and at its subsidiaries for financial year 2016, 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 of the individual companies as well as the Group-wide overall risk position continue to be rated as low.

#### 4.2 REPORT ON OPPORTUNITIES

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. 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 continued our activities in financial year 2016 to optimise our sites by reviewing their service portfolios and identifying performance potential. The process and communication paths involved are analogous to risk management.

Since 2014, the first operator-open network partnership of RHÖN-KLINIKUM AG has been in place under the brand "Wir für Gesundheit". Together with our partners, we offer under this framework to all insured patients under an employer-financed supplementary insurance scheme a guaranteed quality level as well as additional outpatient and inpatient healthcare services at the facilities of the partner network.

As already in 2015, we have supported various projects through our funding pool also in 2016. The initiative benefits our patients as it results in perceptible advances in medical care and nursing. Moreover, it has an inter-facility design, which means that know-how transfer is improved throughout the Company. For example, in 2015 the project on developing a concept for clinical risk analysis and error prevention was promoted from the innovation pool at a pilot site. Building on that, efforts are currently being focused in stage 2 to train interfacility risk auditors with a view to making information and improvement potential identified from this accessible to all sites as part of Group-wide clinical risk management.

We will continue to forge ahead with our objective of achieving generalised, full-service medical and nursing care in rural regions with our campus approach. Rural regions are especially hard hit by the greying of the population and the accompanying rise in their morbidity and treatment cases and increasing shortage of doctors. The campus approach combines numerous differentiated care offerings and services of different partners. Particularly inpatient and outpatient services are structurally, spatially and logistically integrated with one another on the premises of a high-performance hospital. We thus take on the growing requirements for healthcare delivery which also reflects the needs of the elderly as a challenge, but also as an opportunity.

In addition to the ongoing conceptual and constructional modernisation of our sites, digitalisation will become an increasingly important issue. Our various projects in the area of digitalisation and network medical care open up new opportunities and possibilities for us in medical care: new IT-based approaches in diagnosis and therapy (cognitive computing), the overcoming of formal sectoral boundaries between outpatient and inpatient care as well as the electronic patient file WebEPA<sup>+</sup>. Our web-based electronic patient file for cross-sector integration in healthcare networks for the first time makes it possible to form virtual interfacility service alliances for the well-being of patients. WebEPA<sup>+</sup> thus creates a network that can speed up and simplify the treatment of patients. It makes all important health data available to the doctors in updated and comprehensible form. Our knowledge and our efficiency in this sector are imperative if we are to succeed in implementing the integration of outpatient and inpatient services related to the campus approach for the well-being of our patients.

Overall, we see our Group as being very well positioned with revenues of roughly € 1.18 billion that we are targeting with over 16,000 employees in eleven hospitals at five sites. Also in future, we will continue to be amongst the major hospital operators in Germany as an efficient, homogenous Group with a consistent orientation and focus on cutting-edge medicine geared towards maximum care, further strengthening of treatment excellence and patient care through our focus on digitalisation and network medical care as well as the steady implementation of the campus approach. To this end we avail ourselves of all opportunities presented to us and thus counteract the potential risks with a practised and functioning risk management system at our hospitals, medical care centres and service companies.

## **5 REPORTING PURSUANT TO SECTION 315 (2) NO. 5 OF THE GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH, HGB) ON INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE ACCOUNTING PROCESS**

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

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

The Group's accounting process is organised in such a way that for each of the subsidiaries on each reporting date – i.e. monthly, quarterly and annually – a financial statement according to 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 International Financial Reporting Standards (IFRS). 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 inter-company 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 stringently 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, 20 February 2017

The Board of Management

Prof. Dr. Bernd Griewing    Stephan Holzinger    Martin Menger    Jens-Peter Neumann    Dr. Dr. Martin Siebert



# Digitalisation & Networking

The path to Hospital 4.0: innovative IT solutions and the use of cognitive assistance systems make us the innovation leader in the German hospital sector. Telemedical offerings such as the electronic patient file WebEPA<sup>+</sup>, or the use of cognitive systems raise anamnesis, diagnosis and also therapy to a new level of excellence – all in the best interests of patients.

## CONSOLIDATED BALANCE SHEET

31 DECEMBER 2016

ASSETS	Notes	31 Dec. 2016	31 Dec. 2015
		€ '000	€ '000
<b>Non-current assets</b>			
Goodwill and other intangible assets	7.1	173,119	166,478
Property, plant and equipment	7.2	701,010	668,481
Investment property	10.3.3	2,772	2,913
Investments accounted for using the equity method	7.5.1	864	307
Income tax assets	7.3	–	2,383
Deferred tax assets	7.4	5,700	2,484
Other financial assets	7.6	52,670	50,115
Other assets	7.7	–	–
		<b>936,135</b>	<b>893,161</b>
<b>Current assets</b>			
Inventories	7.8	24,816	23,080
Trade receivables	7.9	190,855	175,655
Other financial assets	7.10	210,041	372,844
Other assets	7.11	8,482	21,051
Current income tax assets	7.12	5,102	5,377
Cash and cash equivalents	7.13	80,814	143,320
		<b>520,110</b>	<b>741,327</b>
		<b>1,456,245</b>	<b>1,634,488</b>

EQUITY AND LIABILITIES		31 Dec. 2016	31 Dec. 2015
		€ '000	€ '000
	Notes		
<b>Equity</b>			
Issued share capital	7.14	167,406	167,406
Capital reserve		574,168	574,168
Other reserves		349,057	346,466
Treasury shares		- 76	- 76
Equity attributable to shareholders of RHÖN-KLINIKUM AG		1,090,555	1,087,964
Non-controlling interests in equity		22,828	20,749
		<b>1,113,383</b>	<b>1,108,713</b>
<b>Non-current liabilities</b>			
Financial liabilities	7.15	-	10,000
Provisions for post-employment benefits	7.16	2,247	1,372
Other financial liabilities	7.19	16,310	18,262
Other liabilities	7.20	6,903	6,815
		<b>25,460</b>	<b>36,449</b>
<b>Current liabilities</b>			
Financial liabilities	7.15	10,000	147,630
Trade payables	7.18	94,830	95,301
Current income tax liabilities	7.21	1,715	1,263
Other provisions	7.17	95,831	143,040
Other financial liabilities	7.19	19,223	21,921
Other liabilities	7.20	95,803	80,171
		<b>317,402</b>	<b>489,326</b>
		<b>1,456,245</b>	<b>1,634,488</b>

## CONSOLIDATED INCOME STATEMENT

1 JANUARY TO 31 DECEMBER 2016

		2016	2015
	Notes	€ '000	€ '000
Revenues	6.1	1,176,349	1,108,189
Other income	6.2	186,408	179,781
		<b>1,362,757</b>	<b>1,287,970</b>
Materials and consumables used	6.3	329,542	321,831
Employee benefits expense	6.4	757,560	695,716
Depreciation/amortisation and impairment	6.5	59,867	61,023
Other expenses	6.6	118,795	116,262
		<b>1,265,764</b>	<b>1,194,832</b>
<b>Operating result</b>		<b>96,993</b>	<b>93,138</b>
Result of investments accounted for using the equity method	6.8	-423	49
Finance income	6.8	1,370	4,010
Finance expenses	6.8	37,078	6,909
<b>Finance result (net)</b>	6.8	<b>36,131</b>	<b>2,850</b>
<b>Earnings before taxes</b>		<b>60,862</b>	<b>90,288</b>
Income taxes	6.9	2,227	2,845
<b>Consolidated profit</b>		<b>58,635</b>	<b>87,443</b>
of which			
non-controlling interests	6.10	2,205	2,062
shareholders of RHÖN-KLINIKUM AG		56,430	85,381
<b>Earnings per share in €</b>			
Undiluted	6.11	0.84	1.19
Diluted	6.11	0.84	1.19



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY TO 31 DECEMBER 2016

	2016	2015
	€ '000	€ '000
<b>Consolidated profit</b>	58,635	87,443
of which		
non-controlling interests	2,205	2,062
shareholders of RHÖN-KLINIKUM AG	56,430	85,381
Revaluation of defined benefit pension plans	– 343	– 219
Income taxes	54	35
<b>Other comprehensive income (revaluation of pension plans) not subsequently reclassified to income statement</b>	– 289	– 184
<b>Other comprehensive income *</b>	– 289	– 184
of which		
non-controlling interests	–	–
shareholders of RHÖN-KLINIKUM AG	– 289	– 184
<b>Other comprehensive income *</b>	58,346	87,259
of which		
non-controlling interests	2,205	2,062
shareholders of RHÖN-KLINIKUM AG	56,141	85,197

\* Sum of value changes recognised in the equity.

## STATEMENT OF CHANGES IN EQUITY

	Issued share capital	Capital reserve	Retained earnings	Treasury shares	Equity attributable to shareholders of RHÖN-KLINIKUM AG	Non- controlling interests in equity <sup>1</sup>	Equity
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
As at 31 Dec. 2014/ 1 Jan. 2015	183,705	557,869	487,045	-76	1,228,543	20,381	1,248,924
Equity transactions with owners							
Share repurchase and capital reduction	-16,299	16,299	-167,010	-	-167,010	-	-167,010
Dividend payments	-	-	-58,766	-	-58,766	-1,694	-60,460
Consolidated profit	-	-	85,381	-	85,381	2,062	87,443
Other comprehensive income	-	-	-184	-	-184	-	-184
Other changes							
Changes in consolidated companies	-	-	-	-	-	-	-
As at 31 Dec. 2015	167,406	574,168	346,466	-76	1,087,964	20,749	1,108,713
As at 31 Dec. 2015/ 1 Jan. 2016	167,406	574,168	346,466	-76	1,087,964	20,749	1,108,713
Equity transactions with owners							
Dividend payments	-	-	-53,550	-	-53,550	-126	-53,676
Consolidated profit	-	-	56,430	-	56,430	2,205	58,635
Other comprehensive income	-	-	-289	-	-289	-	-289
Other changes							
Changes in consolidated companies	-	-	-	-	-	-	-
As at 31 Dec. 2016	167,406	574,168	349,057	-76	1,090,555	22,828	1,113,383

<sup>1</sup> Including other comprehensive income (OCI).

## STATEMENT OF CASH FLOWS

	Notes	2016	2015
		€ m	€ m
Earnings before taxes		60.9	90.3
Finance result (net)	6.8	36.1	2.9
Depreciation/amortisation and impairment and gains/losses on disposal of assets	6.5	59.8	52.4
		<b>156.8</b>	<b>145.6</b>
<b>Change in net current assets</b>			
Change in inventories	7.8	-1.3	-1.3
Change in trade receivables	7.9	-12.6	-6.0
Change in other financial assets and other assets	7.10 seq.	16.2	-20.6
Change in trade payables	7.18	2.2	-2.1
Change in other net liabilities/Other non-cash transactions	7.19 seq.	3.0	-3.6
Change in provisions	7.16 seq.	-46.7	-33.2
Income taxes paid	6.9	-1.8	-4.7
Interest paid		-6.7	-6.7
<b>Cash generated from operating activities</b>		<b>109.1</b>	<b>67.4</b>
Investments in property, plant and equipment and in intangible assets	7.1/7.2	-113.5	-76.4
Government grants received to finance investments in property, plant and equipment and in intangible assets		15.7	17.6
Change in investments in fixed term deposits	7.6/7.10	139.8	-375.0
Investments in financial assets	7.6	-18.7	-10.1
Acquisition of subsidiaries, net of cash acquired	4	0.6	-6.9
Sale of subsidiaries, net of cash disposed	4	-	49.5
Sale proceeds from disposal of assets		0.2	0.8
Interest received		1.8	5.8
<b>Cash generated from/Cash used in investing activities</b>		<b>25.9</b>	<b>-394.7</b>
Repayment of financial liabilities	7.15	-143.2	-
Payments from finance leases	10.3	-0.6	2.8
Dividend payments to shareholders of RHÖN-KLINIKUM AG	7.14	-53.6	-58.8
Payments for share repurchase	7.14	-	-167.0
Payments to non-controlling interests in equity	7.14	-0.1	-1.7
<b>Cash used in financing activities</b>		<b>-197.5</b>	<b>-224.7</b>
Change in cash and cash equivalents	7.13	-62.5	-552.0
Cash and cash equivalents as at 1 January		143.3	695.3
<b>Cash and cash equivalents as at 31 December</b>	7.13	<b>80.8</b>	<b>143.3</b>

## TABLE OF CONTENTS

1	GENERAL INFORMATION	123
2	ACCOUNTING POLICIES	123
2.1	Principles applied to the preparation of the financial statements	123
2.2	Consolidation	132
2.2.1	Subsidiaries	132
2.2.2	Transactions with non-controlling interests	133
2.2.3	Associated companies and joint ventures	133
2.2.4	Sale of subsidiaries	134
2.3	Segment reporting	134
2.4	Goodwill and other intangible assets	135
2.4.1	Goodwill	135
2.4.2	Computer software	135
2.4.3	Other intangible assets	136
2.4.4	Research and development expenses	136
2.4.5	Government grants	136
2.5	Property, plant and equipment	136
2.6	Impairment of property, plant and equipment and intangible assets (excluding goodwill)	137
2.7	Financial assets	137
2.7.1	Assets at fair value through profit or loss	138
2.7.2	Loans and receivables, held-to-maturity investments	138
2.7.3	Financial assets available for sale	139
2.8	Investment property	139
2.9	Inventories	139
2.10	Trade receivables	139
2.11	Cash and cash equivalents	139
2.12	Equity	139
2.13	Financial liabilities	140
2.14	Current and deferred taxes	140
2.15	Employee benefits	141
2.15.1	Pension obligations and other long-term benefits due to employees	141
2.15.2	Termination benefits	143
2.15.3	Management profit sharing and employee profit sharing	143
2.15.4	Share-based payments	143
2.16	Provisions	143
2.17	Revenue recognition	144
2.17.1	Inpatient and outpatient hospital services	144
2.17.2	Interest income	144
2.17.3	Income from distribution and dividends	144
2.18	Leasing	144
2.19	Costs of borrowing	145
2.20	Dividend payments	145
2.21	Financial risk management	145
2.21.1	Financial risk factors	145
2.21.2	Credit risk	145

2.21.3	Liquidity risk	146
2.21.4	Interest rate risk	146
2.21.5	Management of equity and debt	146
<b>3</b>	<b>CRITICAL ESTIMATES AND ASSESSMENTS IN ACCOUNTING AND VALUATION</b>	<b>147</b>
3.1	Estimated impairment of goodwill	147
3.2	Revenue recognition	147
3.3	Income taxes	148
<b>4</b>	<b>COMPANY ACQUISITIONS</b>	<b>149</b>
<b>5</b>	<b>SEGMENT REPORTING</b>	<b>152</b>
<b>6</b>	<b>NOTES TO THE CONSOLIDATED INCOME STATEMENT</b>	<b>153</b>
6.1	Revenues	153
6.2	Other income	153
6.3	Materials and consumables used	154
6.4	Employee benefits expense	154
6.5	Depreciation/amortisation and impairment	155
6.6	Other expenses	155
6.7	Research costs	156
6.8	Finance result – net	156
6.9	Income taxes	157
6.10	Profit to non-controlling interests	158
6.11	Earnings per share	158
<b>7</b>	<b>NOTES TO THE CONSOLIDATED BALANCE SHEET</b>	<b>159</b>
7.1	Goodwill and other intangible assets	159
7.2	Property, plant and equipment	162
7.3	Income tax assets	164
7.4	Deferred tax assets	164
7.5	Interests in other entities	165
7.5.1	Investments accounted for using the equity method	166
7.5.2	Associated companies	166
7.5.3	Joint ventures	167
7.6	Other financial assets (non-current)	167
7.7	Other assets (non-current)	167
7.8	Inventories	167
7.9	Trade receivables	168
7.10	Other financial assets (current)	169
7.11	Other assets (current)	170
7.12	Current income tax assets	170
7.13	Cash and cash equivalents	171
7.14	Equity	171
7.15	Financial liabilities	173
7.16	Provisions for post-employment benefits	174
7.17	Other provisions	176
7.18	Trade payables	177

7.19	Other financial liabilities	177
7.20	Other liabilities	178
7.21	Current income tax liabilities	178
7.22	Derivative financial instruments	179
7.23	Additional disclosures regarding financial instruments	179
7.23.1	Carrying amounts, recognised figures and fair values according to measurement categories	179
7.23.2	Net gains or losses by measurement category	181
7.23.3	Financial liabilities (maturity analysis)	181
<b>8</b>	<b>STATEMENT OF CASH FLOWS</b>	<b>182</b>
<b>9</b>	<b>SHAREHOLDINGS</b>	<b>183</b>
9.1	Companies included in the consolidated annual report	183
9.2	Other companies according to section 313 (2) No. 2 et seq. HGB	185
<b>10</b>	<b>OTHER DISCLOSURES</b>	<b>186</b>
10.1	Average annual number of employees	186
10.2	Other financial obligations	186
10.3	Leases within the Group	187
10.3.1	Obligations as lessee of operating leases	187
10.3.2	Obligations as lessee of finance leases	188
10.3.3	Investment property	188
10.4	Related parties	189
10.5	Total payments of Supervisory Board, the Board of Management and the Advisory Board	192
10.6	Declaration of Compliance with Corporate Governance Code	198
10.7	Disclosure of the fees recognised as expenses (including reimbursement of outlays and excluding VAT) for the statutory auditors	198
10.8	Events after the reporting date	198
<b>11</b>	<b>CORPORATE BODIES AND ADVISORY BOARD OF RHÖN-KLINIKUM AG</b>	<b>200</b>

## 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. 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 2016 have been prepared applying section 315a 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 2016. No early adoption of new Standards is planned at this time.

## a) New accounting rules from financial year 2016

As far as can be seen at present, the following revised Standards and Interpretations which were already adopted by the European Union have no impact or are of no practical relevance/have no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG as of financial year 2016 as well as subsequent years:

Standard/Interpretation			Mandatory adoption date	Endorsement <sup>1)</sup>	Impact
Amendments	IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 Jan. 2016	Yes	No material impact
Amendments	IAS 19	Employee Benefits - Employee Contributions	1 Jan. 2015	Yes	No material impact
Amendments	IAS 16, 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan. 2016	Yes	No impact
Amendments	IAS 16, 41	Bearer Plants	1 Jan. 2016	Yes	No practical relevance
Amendments	Annual improvements to IFRS: 2010-2012 cycle	Collective Standard for amendments to various IFRS	1 Feb. 2015	Yes	No practical relevance / No material impact
Amendments	Annual improvements to IFRS: 2012-2014 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2016	Yes	No practical relevance / No material impact
Amendments	IAS 1	Disclosure Initiative	1 Jan. 2016	Yes	No material impact
Amendments	IAS 27	Application of Equity Method in Separate Financial Statements	1 Jan. 2016	Yes	No impact
Amendments	IFRS 10, 12, IAS 28	Investment Entities: Applying the Consolidation Exception	1 Jan. 2016	Yes	No practical relevance

<sup>1)</sup> Adoption of IFRS Standards and/or Interpretations by the European Union.

■ Amendments to IFRS 11: "Accounting for Acquisitions of Interests in Joint Operations"

The amendments to IFRS 11 clarify that acquisitions and additional acquisitions of interests in joint operations constituting a business as defined in IFRS 3 "Business Combinations" are required to be accounted in accordance with the principles on business combinations accounting in IFRS 3 and other applicable IFRS with the exception of those principles that conflict with the provisions of IFRS 11. The result of this is that, in the amount of the acquired interest in a joint operation, as a general rule:

- the acquired identifiable assets and liabilities are measured at fair value at the transaction date, it being further clarified that, where additional acquisitions of interests are made subject to joint control being maintained, the hitherto held interests are not re-measured,
- any goodwill and any deferred taxes arising from the first-time recognition of assets and liabilities are to be recognised,
- the cash generating unit to which goodwill has been allocated must be subjected to an impairment test as defined in IAS 36 "Impairment of Assets" at least once a year and where indications of impairment exist,



- transaction costs are to be recognised as an expenditure, and
- the disclosures required in IFRS 3 and other Standards in connection with business combinations are to be made.

The amendments do not apply if the reporting entity and the parties involved in it are under the common control of the same ultimate controlling entity. The revised provisions apply prospectively to acquisitions of interests taking place in reporting periods beginning on or after 1 January 2016. The amendments to this Standard will have no material effect on the net assets, financial position and results of operations of the Group.

■ Amendments to IAS 19 “Employee Benefits – Employee Contributions”

The amendments insert into the Standard an option relating to the accounting of defined benefit pension commitments in which employees (or third parties) participate through mandatory contributions. The Standard provides that employee contributions set out in the formal terms of a defined benefit plan and are linked to service should be attributed to periods of service as negative benefits. This requirement in principle follows the projected unit credit method, i.e. projecting negative benefits and their attribution to the periods in which the benefit is earned (project and prorate). Subject to the published amendments it is permitted to continue recognising employee contributions linked to service which are not linked to the number of service years in the period in which the related service is rendered without following the described calculation and distribution method subject to application of the “projected unit credit method”. This particularly includes:

- contributions equal to a fixed percentage of the salary of the current year,
- fixed amounts during the employee’s entire length of service, and
- contributions whose amount depends solely on the employee’s age.

If the employee contributions vary depending on the number of years of service, application of the described calculation and distribution method subject to use of the projected unit credit method is mandatory, however. The amendments to IAS 19 are to be applied to financial years beginning on or after 1 February 2015. They will have no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

■ Amendment to IAS 16, 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”

The aim of the amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” is to clarify which methods of depreciation are appropriate in respect of property, plant and equipment and of intangible assets. In principle, the depreciation of property, plant and equipment must be performed in such a way as to reflect the expected consumption of the asset’s future economic benefits. In this regard, the IASB has now clarified that a depreciation of property, plant and equipment based on revenue from the goods produced by them does not reflect this approach and is thus not appropriate because revenues are dependent not only on the consumption of the asset but also on additional factors such as selling volume, price or inflation. As a rule, this clarification was also incorporated in IAS 38 for the amortisation of intangible assets of limited useful life. In this respect, however, the IASB additionally introduced a rebuttable presumption according to which a revenue-based amortisation of intangible assets of limited useful life is permissible if the value of the asset can be directly expressed as a measure of the revenue generated or it can be demonstrated that the revenue generated and the consumption of economic benefits of the intangible asset are highly correlated. For both property, plant and equipment and for intangible assets it is further clarified that a decline in selling prices of the goods and services produced by them is indicative of their rate of consumption and thus an indication of the decline in the potential economic benefit of the assets necessary for the manufacture. The

amendments to IAS 16 and IAS 38 are to be applied to financial years beginning on or after 1 January 2016. The amendments to these Standards will have no material effect on the net assets, financial position and results of operations of the Group.

■ Amendments to IAS 16 and IAS 41 “Bearer Plants”

The term “bearer plants” denotes plants used in the production of agricultural produce whose useful life extends over more than one period and which have a remote likelihood of being sold as a live plant or consumed as agricultural produce. The published amendments clarify that such plants, up to the time of their production maturity – similar to self-constructed property, plant and equipment – are to be accounted for at acquisition or production cost and thereafter, in accordance with the provisions of IAS 16, either using the acquisition-cost or revaluation model. In future, accounting in accordance with the provisions of IAS 41 is no longer permitted. The revised provisions of IAS 16 and IAS 41 are to be applied to financial years commencing on or after 1 January 2016. The amendments of this Standard are of no practical relevance for RHÖN-KLINIKUM AG.

■ Annual improvement to IFRS: 2010-2012 Cycle

The “Annual improvements to IFRS: 2010-2012 Cycle” published as part of its process for making minor improvements to Standards and Interpretations (Annual Improvements Process), which are applicable for the first time for financial years beginning on or after 1 February 2015, relate to the following Standards:

– IFRS 2 “Share-based Payment”

The amendment includes a clarification of vesting conditions by incorporating separate definitions for performance conditions and service conditions in the Standard. The amendment applies prospectively for share-based payments whose grant date is on or after 1 July 2014. The amendment of this Standard is of no practical relevance for RHÖN-KLINIKUM AG.

– IFRS 3 “Business Combinations”

Following the amendment of this Standard, the wording of IFRS 3.40 was amended such that reference is made only to contingent consideration incurring in a business combination and satisfying the definition of a financial instrument, and moreover the reference to “other applicable IFRS” is deleted. Moreover, the provision of IFRS 3.58 relating to the subsequent measurement of consideration was ambiguous since it prescribes a measurement at fair value for consideration that is not classified as equity, but then at the same time refers to IFRS 9 or IAS 39, IAS 37 or other IFRS in which fair value is not necessarily the subsequent measurement basis. The amendment of this Standard and related consequential amendments to IFRS 9, IAS 39 and IAS 37 now require subsequent measurement at fair value for all consideration not classified as equity, with all resulting effects being recognised in profit and loss. The amendment is to be applied prospectively to all business combinations for which the acquisition date is on or after 1 July 2014. The amendment of this Standard has no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

– IFRS 8 “Operating Segments”

The amendment of this Standard contains clarifications. The amendment requires that the judgments made by management when operating segments have been aggregated to reportable segments in identifying the reportable segments must be disclosed and that a reconciliation of the total reportable segments assets to the entities assets is only required to be disclosed if disclosures on segment assets are part of the financial information regularly reported to the chief operating decision maker. Since RHÖN-KLINIKUM AG only has one reportable segment, the amendment of this Standard is of no practical relevance.

– IFRS 13 “Fair Value Measurement”

The amendment clarifies that the IASB, by the amendments to IFRS 9 and IAS 39 resulting from IFRS 13, did not intend to remove the possibility of measuring short-term receivables and payables without discounting where the effect of discounting is immaterial. The clarification has no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

– IAS 16 “Property, Plant and Equipment”, IAS 38 “Intangible Assets”

The amendment clarifies the computation of accumulated depreciation at the time of measurement when the revaluation method according to IAS 16.35 or IAS 38.80 is used. The clarification has no impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

– IAS 24 “Related Party Disclosures”

The amendment of this Standard extends the definition of “related parties” to include entities which either themselves or through one of their group entities provide key management services for the reporting entity which is not otherwise a related party within the meaning of IAS 24 (referred to as “management entities”). According to a newly inserted paragraph 18 A, the amendment requires separate disclosure of amounts recognised at the reporting entity as an expense for services provided by the management entity. By contrast, it is not necessary for the reporting entity to make disclosures pursuant to IAS 24.17 for compensation paid by the management entity to its employees performing management duties at the reporting entity. The amendment of the Standard is of no practical relevance for the consolidated financial statements of RHÖN-KLINIKUM AG.

■ Annual improvement to IFRS: 2012-2014 Cycle

The “Annual improvements to IFRS: 2012-2014 Cycle”, to be applied for the first time for financial years beginning on or after 1 January 2016, relate to the following Standards:

– IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendment to the Standard relates to the removal of temporary exemptions for first-time adopters. The amendment is of no practical relevance for the Group of RHÖN-KLINIKUM AG.

- IFRS 5 “Non-current assets held for sale and discontinued operations”

The amendment clarifies that a direct reclassification from “held for sale” to “held for distribution to owners” does not result in an end to the related classification, presentation and measurement provisions of IFRS 5. The amendment is of no practical relevance for the Group of RHÖN-KLINIKUM AG.

- IFRS 7 “Financial Instruments: Disclosures”

The IASB clarifies that servicing agreements, in which the disposing entity still retains an interest in the risks or rewards from the performance of the receivables sold, establish a continuing involvement as defined in IFRS 7. This is particularly the case if the servicing fee depends on the amount of the payments collected or on the date of payment receipt. Likewise, a fixed servicing fee which does not have to be paid in full by reason of payment disruptions in the financial assets transferred results in a continuing involvement being assumed for the purposes of the disclosure provision. A further clarification relates to the adoption of the amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities. It is clarified that the amendments to IFRS 7 do not result in any explicit disclosure duties for interim reports. However, disclosures must be made in condensed interim reports according to IAS 34 if this is required by IAS 34. The amendments are of no practical relevance for the Group of RHÖN-KLINIKUM AG.

- IAS 19 “Employee Benefits”

Pursuant to IAS 19 R. 83, the discount rate for defined benefit pension commitments is to be determined on the basis of yields generated on the market for high quality corporate bonds at the reporting date. In countries where there is no liquid market for such corporate bonds, the market yields on government bonds applicable at the reporting date are to be used instead. By the amendment of this Standard, the IASB clarifies that the assessment of whether there is a deep market for high quality corporate bonds is to be made at “currency zone level”, meaning, e. g., that in the eurozone corporate bonds from the entire eurozone are to be included. In the event that a company should assess that no liquid market exists for high quality corporate bonds at currency zone level, the determination is to be made on the basis of government bonds. In this connection also, the respective currency zone is to be used. The amendments are of no practical relevance for the Group of RHÖN-KLINIKUM AG.

- IAS 34 “Interim Financial Reporting”

IAS 34.16 A requires entities to make certain disclosures in notes to the interim report unless already “made elsewhere in the interim report”. The IASB now clarifies that information provided “elsewhere in the interim report” may be information found either elsewhere in the interim report itself or in other documents to which cross-reference is made in the interim report. However, the prerequisite for the latter is that the other documents are accessible to the addressees of the interim report on the same terms and at the same time as the interim report itself. The amendment has no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

■ Amendments to IAS 1 “Disclosure Initiative”

By the amendment Standard published on 18 December 2014, the first proposals for amending IAS 1 “Presentation of Financial Statements” capable of being implemented in the short term are implemented. The amendments relate to the materiality and the summary of items, subtotals in the balance sheet and statement of comprehensive income, the structure of the notes, disclosures on accounting methods as well as the equity method. The amendments to the Standard are to be applied to financial years beginning on or after 1 January 2016. They will have no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

■ Amendments to IAS 27 “Adoption of the Equity Method in Separate Financial Statements”

As a result of the amendments, investments in subsidiaries, joint ventures and associated companies may be accounted for in separate financial statements also using the equity method. The amendments to IAS 27 are to be applied to financial years beginning on or after 1 January 2016. They will have no impact on the net assets, financial position and results of operations of the Group.

■ Amendments to IFRS 10, IFRS 12, IAS 28 “Investment Entities: Applying the Consolidation Exception”

By the adopted amendments to the Standard, the IASB clarifies that the exemption from the obligation to prepare consolidated financial statements pursuant to IFRS 10.4 (a) also applies to parent entities which are themselves subsidiaries of an investment entity. It is further clarified that an investment entity must measure all of its subsidiaries which themselves meet the definition criteria of an investment entity at fair value. It is furthermore clarified that when consolidating an associate or a joint venture in the consolidated financial statement according to the equity method, a non-investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. The amendments are to be applied to financial years beginning on or after 1 January 2016. They are of no practical relevance for the Group of RHÖN-KLINIKUM AG.

## b) New accounting rules from financial year 2017 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 2017/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 <sup>1)</sup>	Impact
New	IFRS 15	Revenue from Contracts with Customers incl. Change in Initial Adoption Date	1 Jan. 2018	Yes	Subject to a review by the Management
New	IFRS 9	Financial Instruments	1 Jan. 2018	Yes	Subject to a review by the Management
Amendments	IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan. 2017	No	Subject to a review by the Management
Amendments	IAS 7	Disclosure Initiative	1 Jan. 2017	No	Subject to a review by the Management
Amendments	IFRS 2	Classification and Measurement of Share-Based Payment Transactions	1 Jan. 2018	No	Subject to a review by the Management
Amendments	IAS 28, IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed to a date yet to be determined by the IASB	No	No material impact
Amendments	IFRS 4	Application of IFRS 9 with IFRS 4	1 Jan. 2018	No	No practical relevance
Clarifications	IFRS 15	Revenue from Contracts with Customers	1 Jan. 2018	No	Subject to a review by the Management
Amendments	Annual improvements to IFRS: 2014-2016 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2017/ 1 Jan. 2018	No	No practical relevance
Clarifications	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	No	No practical relevance
Amendments	IAS 40	Transfers of Investment Property	1 Jan. 2018	No	No practical relevance
New	IFRS 16	Leasing	1 Jan. 2019	No	Subject to a review by the Management

<sup>1)</sup> 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 15 “Revenues from Contracts with Customers including Change in Initial Adoption Date”

The IASB published IFRS 15 in September 2015. According to IFRS 15, revenues are realised when the customer obtains control over the agreed goods and services and can derive the benefits from the same. The transfer of material risks and rewards is no longer decisive as under the old provisions of IAS 18 “Revenues”. The new Standard provides, for determining the realisation of revenues, a five stage scheme whereby the customer contract and the separate performance obligations contained therein are first to be identified. The transaction price of the customer contract is then to be determined and allocated to the individual performance obligations. After that, under the new model, revenue is to be realised for each performance obligation in the amount of the allocated pro rated transaction price as soon as the agreed performance was rendered or the customer has obtained control over the same. In this context, a distinction is to be made between date related and period related performance. The Standard is to be applied to financial years beginning on or after 1 January 2018. RHÖN-KLINIKUM AG is currently reviewing the precise impact.

■ IFRS 9 “Financial Instruments”

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

– Classification and measurement of financial instruments

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

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

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

– Accounting for impairments of financial assets

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

– Hedge accounting

With IFRS 9, the accounting of hedging relationships (hedge accounting) was revised. As previously, entities are required at the beginning of a hedging relationship to document the respective risk management strategy along with the risk management objectives. In future, however, the ratio between the hedged item and hedging instrument (hedge ratio) underlying the hedge accounting as a rule must correspond to the ratio actually used for risk management purposes. If the hedge ratio changes during a hedging relationship, but not the risk management objective, the volumes of the underlying transaction and of the hedging instrument included in the hedging relationship must be adjusted without any entitlement to terminate the hedging relationship (rebalancing).

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

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 6 April 2017.

## 2.2 CONSOLIDATION

The annual financial statements of the companies included in the consolidated annual report have been prepared in accordance with uniform accounting and valuation principles in relation to the same date as the consolidated financial statements.

### 2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) which the Group has the possibility of controlling pursuant to IFRS 10. When assessing whether control exist, it is examined whether the parent has power over the subsidiary, obtains positive or negative variable returns and from it can influence the amount of such returns through exercising its power. The Group examines whether control is exercised also when the parent company holds less than 50.0% 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-controllable interests in the acquired company are recognised at fair value or based on the proportionate share in the net assets of the acquired company. Costs relating to the acquisition are expensed as incurred.

In the event of a successive business combination, the previously acquired equity capital share of the company is redefined at its fair value applicable at the acquisition date. The resulting profit or loss is recognised in the income statement.

The value resulting from any excess in the cost of the acquisition, the amount of the non-controlling interests in the acquired company as well as the fair value of any previously held equity interests at the acquisition date over the Group's interest in the fair value of the net assets is recognised as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the consolidated income statement. Group-internal transactions and balances as well as unrealised gains and losses from transactions between Group companies are eliminated. To the extent necessary, the accounting policies of subsidiaries are adjusted to ensure application of uniform accounting principles within the Group.

### 2.2.2 Transactions with non-controlling interests

Transactions with non-controlling interests are treated like transactions with equity investors. Any difference arising on acquisition of a non-controlling interest between the consideration paid and the relevant share in the carrying amount of the subsidiary's net assets is recognised in equity. Positive or negative effects arising on disposal of non-controlling interests are likewise recognised in equity. This applies only to the extent the disposal does not give rise to any loss of control.

### 2.2.3 Associated companies and joint ventures

Associated companies are those companies over which the Group has a substantial influence, but without having control because the voting interest 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 were not to be considered. If the Group's share in the loss of an associated company 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 associated company or jointly controlled entity or has made payments for it.

Unrealised intercompany profits or losses from transactions between Group companies and associated companies or jointly controlled entities 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 and/or in which we cannot exert any material influence over financial and business policy decisions are not accounted for using the equity method. They are included in the consolidated financial statements at fair value. Immaterial equity interests whose market value cannot be calculated due to the absence of an active market are measured at cost.

#### 2.2.4 Sale of subsidiaries

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. pensions).

### 2.3 SEGMENT REPORTING

Segment reporting is performed in accordance with IFRS 8 on the basis of the management approach, i.e. from the perspective of management. External reporting is based on internally applied control and reporting variables as well as reporting structures that are available to and used by the decision-makers.

A company component is regarded as an operating segment when it carries out business activities from which revenue is earned and for which expenses may be incurred whose operating results are regularly reviewed by the company's chief decision maker to make decisions about resources to be allocated to this segment and assess its importance, and for which relevant financial information is available.

The operating segments determined are reduced to reportable segments. This is essentially done by grouping uniformly operating segments if these exhibit similar economic characteristics. The reporting obligation usually arises when segment-specific material thresholds are exceeded. IFRS 8 specifies the following three segment-specific material thresholds:

- The segment's revenue is 10% or more of the combined (internal and external) revenues of all segments,
- the segment profit or loss is 10% or more of the greater of the combined reported profit or loss of all segments, or
- the segment's assets are 10% or more of the combined assets of all segments.

Pursuant to the required segmentation of revenues, reportable segments have to be formed until the revenues of the identified reportable segments constitute 75% of total external revenues. The other non-reportable segments are to be shown as "All other segments" and the source of these revenues is to be described.

For the purpose of explaining the segmentation, basic information must be provided in the Notes on the calculation and identification of reportable segments. This includes specifying the factors used to define segment reporting and the disclosure of the products and services with which the individual segments generate their revenues.

In addition, detailed disclosures must be made on segment profit or loss as well as assets and liabilities. Moreover, information must be provided on products and services, territorial activities and the company's key customers. IFRS 8 also requires additional disclosures on the methods applied internally for the treatment of transactions between reportable segments as well as on differences between internally applied accounting methods and the methods applied in the financial statements. In addition to the verbal disclosures, a reconciliation of the following segment data to the corresponding line items in the financial statements must be prepared: total revenues of all reportable segments, total segment profit or loss before tax and the discontinuation of operations, total segment assets, total segment liabilities as well as total segment amounts of any other material item reported separately.

## 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 with its inpatient, semi-inpatient and outpatient care structures) 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 loss is recognised. Here, the recoverable amount is the higher of the two fair value amounts less costs to sell the asset and its value in use.

### 2.4.2 Computer software

Purchased computer software licences are recognised at cost plus the cost of bringing them to their working condition. These costs are amortised over the estimated useful life (three to seven years, straight-line method), and are shown under "depreciation/amortisation and impairment" in the income statement.

Costs relating to the development of websites or maintenance of computer software are expensed as incurred if the conditions for capitalisation are not satisfied.

### 2.4.3 Other intangible assets

Other intangible assets are stated at historic cost and – to the extent depletable – amortised over their respective useful lives (three to five years) using the straight-line method, and are shown under “depreciation/amortisation and impairment” in the income statement.

### 2.4.4 Research and development expenses

Research costs are recognised as current expenditure in accordance with IAS 38. Development costs are capitalised if all the criteria of IAS 38 are satisfied. There are no development costs that meet the criteria for capitalisation.

### 2.4.5 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 received within the framework of investment finance legislation for hospitals. Grants not yet used for their intended purpose are recognised under “Other financial liabilities” at the balance sheet date.

## 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 $\frac{1}{3}$ years
Machinery and equipment	5 to 15 years
Other plant and equipment	3 to 12 years

The net book values and useful economic lives are reviewed at each balance sheet date and adjusted where applicable. Gains and losses on the disposal of assets are measured as the difference between the disposal proceeds and the carrying amount and recognised through profit or loss.

## 2.6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

On every balance sheet date, the Group assesses 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.

## 2.7 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:

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Financial assets available for sale

The classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of financial assets when they are recognised initially, reviewing this classification thereafter at each balance sheet date.

All purchases and sales of financial assets are recognised at the settlement date, i. e. the date when the purchase or the sale is transacted. Derivative financial instruments are recognised on the trading date.

Financial assets not classified as at fair value through profit or loss are initially measured at fair value plus transaction costs.

Financial assets measured at fair value through profit or loss are recognised at fair value at the date of acquisition. Transaction costs are recognised as expenditure.

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. After initial recognition, financial assets available for sale and assets measured at fair value through profit or loss are measured at their fair values. Loans and receivables as well as held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from fluctuations in the fair value of financial assets classified as at fair value through profit or loss, including dividends and interest payments, are reported in the income statement under finance cost and income in the period in which they arise.

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. At each balance sheet date an assessment is performed in order to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

### 2.7.1 Assets at fair value through profit or loss

This category is divided into two sub-categories: financial assets which either have been classified as “held-for-trading” (including derivatives) from the outset, and financial assets which have been classified as “measured at fair value through profit or loss” as a result of using the fair-value option if the appropriate criteria are satisfied. A financial asset is assigned to this category if it was acquired principally for the purpose of selling it in the near term, or has been designated as such by management. The category “held-for-trading” financial instruments under IAS 39 is also applicable for certain hedging instruments which may be used for interest rate hedging in the RHÖN-KLINIKUM Group in principle in accordance with management criteria, but for which hedge accounting is not applied under IAS 39.

For this, derivative financial instruments such as interest rate swaps and options are used in principle. Assets in this category are shown as current assets if they mature within the next twelve months.

### 2.7.2 Loans and receivables, held-to-maturity investments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are deemed to be current assets provided their maturity does not exceed twelve months from the balance sheet date. Assets whose maturity exceeds twelve months after the balance sheet date are recognised as non-current assets. Trade receivables and other financial assets are assigned to this category. As at the balance sheet date there were no held-to-maturity investments.

### 2.7.3 Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either explicitly assigned to this category or could not be assigned to any of the other categories described. They are assigned to non-current assets provided that the Management does not have the intention of selling them within twelve months from the balance sheet date. If the market value cannot be reliably measured, financial assets available for sale are measured at cost.

## 2.8 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.

If RHÖN-KLINIKUM AG or its subsidiary retains beneficial ownership in leased assets as lessor (operating lease), these assets 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.

## 2.9 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.

## 2.10 TRADE RECEIVABLES

Trade receivables are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost less impairments. An impairment of trade receivables is recognised when there are objective indications that the receivable amounts owed are not fully recoverable. The amount of the impairment is recognised on the corresponding allowance account in profit or loss under the item "Other expenses". Major financial difficulties at a debtor and an increased probability of a debtor becoming insolvent may be indications of an impairment of trade receivables. The amount of any impairment is determined on the basis of the difference between the current carrying amount of a receivable and the expected cash flows which are expected from the receivable.

## 2.11 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".

## 2.12 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.

### 2.13 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. The original financial liabilities are measured at amortised cost and the derivative financial instruments at fair value. For current financial liabilities this means that they are recognised at their repayment or settlement amount.

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. 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.

### 2.14 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.



## 2.15 EMPLOYEE BENEFITS

### 2.15.1 Pension obligations and other long-term benefits due to employees

Various pension plans exist within the Group. These plans are financed by payments to insurance companies or pension funds or by recognising provisions (direct commitments) whose amount is based on actuarial calculations. The Group has both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (insurance company or pension fund). The possibility of claims being asserted against the Group for payment of additional contributions exists only within the scope of subsidiary liability. Since RHÖN-KLINIKUM AG regards the risk of default of an insurance company or pension fund as extremely low, such commitments are accounted for as defined contribution plans.

For defined contribution plans the Group pays contributions to state or private pension insurance plans based on statutory or contractual obligations. The Group has no further payment obligations other than the payment of the contributions. The contributions are recognised in personnel expenses when due.

A defined benefit plan is a pension plan that does not fall under the definition of a defined contribution plan. It typically stipulates the amount of pension benefits that an employee will receive on retirement which is usually dependent on one or several factors such as age, length of service and salary.

The provision stated in the balance sheet for defined benefit plans is equal to the present value of the defined benefit obligation (DBO) at the balance sheet date. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is calculated by discounting the expected future cash outflows with the interest rate of high quality corporate bonds issued in the currency in which the benefits are paid and whose terms are consistent with those of the pension obligation.

Actuarial gains and losses resulting from changes in actuarial assumptions and/or from discrepancies between earlier actuarial assumptions and the actual development are recognised directly at equity in the period in which they occur giving due regard to deferred tax. In this way the balance sheet – after deduction of any existing plan assets – shows the full scope of the obligations avoiding fluctuations in expenses that may arise in particular in the case of changes in the calculation parameters. The actuarial gains and losses recognised in the respective reporting period are shown separately as “revaluations of defined benefit pension plans” in the statement of comprehensive income.

Pursuant to IAS 19, past service cost, i. e. all changes in benefits diminishing the defined benefit obligation, are fully recognised in the income statement at the time of the plan modification.

#### Multi-employer plans

On the basis of collective agreements, the Group pays contributions to the Federal and State Pension Scheme (VBL) and other public service pension schemes (Supplementary Insurance Scheme for Municipalities, ZVK) for a certain number of employees. The supplementary pension schemes are public-law corporations or institutions. The contributions are paid on a pay-as-you-go (PAYGO) basis. This financing structure carries the risk of rising contributions through the levy of reform imposts that may be charged unilaterally or disproportionately to employers.

The present plans are multi-employer plans (IAS 19.8) since the participating companies share both the risk of the capital investment and the actuarial risk. In principle, the VBL/ZVK benefit plan is to be classified as a defined benefit plan (IAS 19.38), but the information needed for an objectively correct representation of the Group's share of the future payment is not available due to the existing PAYGO financing regime. Because of such PAYGO financing approach in which the levy rate is calculated for a certain coverage layer on the basis of the aggregate insurance portfolio and not on the basis of the individual risk of insureds, 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/ZVK were reflected in the employee benefits item as pension expenses/post-employment benefits for the respective years.

In addition to the levy, the VBL also levies reform imposts from the participating employers with compulsory insureds in the separately organised and managed settlement class Abrechnungsverband West. The flat-rate monies cover the additional financing requirement necessary until the comprehensive healthcare system is switched over to the points model. The share in the reform impost that the individual employers have to pay depends on which residual liabilities and insured remunerations they cover. Up to 2015, the reform impost amounted to roughly 2% of the remunerations on average. Since in particular the insurance portfolio developed more favourably than had originally been assumed, cash assets of VBL have risen significantly. As things now stand, no recapitalisation charge would have been required for the period 2013-2015. At its meeting on 12 November 2015, the Administrative Board of the VBL therefore decided to refund the recapitalisation charges paid for those years, including the net return. Since 2016, the recapitalisation charge to 31 December 2022 has been 0.14%.

In the settlement class Abrechnungsverband West, the VBL finances its benefits through a PAYGO approach taking the form of a modified defined period-based funded approach (Abschnittsdeckungsverfahren). The current defined period covers 2016 to 2022. The levy rate is assessed in such a way that the contribution to be paid for the duration of the defined period together with the other income expected and the available assets suffices to settle the expenditures during the defined period and the period of six months thereafter. Since 1 January 2002, the levy rate has been 7.86% of the remuneration subject to supplementary pension payments, of which employers pay a share of 6.45% and employees a share of 1.41%. Since 1 July 2015, an additional employee contribution of 0.2% has applied. This additional employee contribution will rise on 1 July in each of the next two years by 0.1%.

Given the absence of sufficient information, it is not possible to make any statement on the level of participation in the pension schemes based on the contributions paid by the Group of RHÖN-KLINIKUM AG compared with the aggregate payments to the VBL and other public service pension schemes (ZVK).

In the event of a VBL participation being terminated, the legal consequences arising therefrom are defined in section 23 of the VBL Rules. Termination of a VBL participation also triggers the end of the mandatory insurance schemes. Since the VBL also continues to settle the pension claims and entitlements arising up to the end of the participation, the withdrawing party, as compensation, is required to pay an equivalent value which does not include those components financed under the funded scheme. This equivalent value comprises the full funding of existing entitlements and coverage of administrative expenses as well as future benefit claims. The supplementary pension insurance scheme 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/ZVK exists only due to the acquisition of hospitals from public ownership. After conclusion of the transaction with Fresenius/Helios, only the hospitals in Gießen and Marburg had membership in the VBL since financial year 2015. The hospital Kreisklinik Bad Neustadt a. d. Saale consolidated for the first time since 1 January 2016 is a member of the ZVK.

#### 2.15.2 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 demonstrably committed to terminating the employment of current employees subject to a detailed formal plan which cannot be rescinded or is demonstrably 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.

#### 2.15.3 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.

#### 2.15.4 Share-based payments

Share-based payments are recognised in accordance with IFRS 2. In financial year 2014, warrants in the form of virtual shares were issued. These are accounted for as payment with cash settlement. The provision for the liability resulting from the virtual shares is formed in the amount of the expected expenditure. The fair value of the virtual shares is calculated using a binomial model. Moreover, an equity interest of 9.0% was held by the members of the Board of Management, and an interest of 1.18% by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made for the interests in the amount of €0.5 million (of which €0.4 million are attributable to the members of the Board of Management) are reported under the other liabilities item as cash-settled share-based payment transactions as defined in IFRS 2. 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. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable.

### 2.16 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, 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. In particular, no provisions are recognised for future operating losses.

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.

## 2.17 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:

### 2.17.1 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.

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.

### 2.17.2 Interest income

Interest income is recognised on a pro rata basis using the effective interest method.

### 2.17.3 Income from distribution and dividends

Dividend income is recognised when the right to receive payment is established.

## 2.18 LEASING

Leasing transactions as defined in IAS 17 can result from rental and lease arrangements, and are classified either as a finance lease or an operating lease.

Leasing transactions in which the Group, in its capacity as the lessee, bears all the major risks and rewards associated with ownership are normally treated as finance leases, i. e. as if the assets had actually been acquired. The assets are capitalised and depreciated over their normal useful lives or term of the lease agreement; the future lease payments are recognised as liabilities at their present value.

Leasing transactions are classified as operating leases if substantially all the risks and rewards incidental to ownership remain with the lessor. Payments made in connection with an operating lease are recognised in the income statement on a straight-line basis over the term of the lease.

## 2.19 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.

## 2.20 DIVIDEND PAYMENTS

Shareholders' claims to dividend payments are recognised as a liability in the period in which the corresponding resolution is adopted.

## 2.21 FINANCIAL RISK MANAGEMENT

### 2.21.1 Financial risk factors

The assets, liabilities and planned transactions of RHÖN-KLINIKUM AG are exposed in particular to the following risks:

- Credit risk
- Liquidity risk
- Interest rate risk

The aim of financial risk management is to limit the above risks through ongoing operating activities as well as the use of derivative and non-derivative (e. g. fixed-interest loans) financial instruments. As a general rule, derivative financial instruments may be entered into for hedging purposes, i. e. they are not used for trading or speculative purposes.

As a rule, financial instruments for limiting the counterparty risk are taken out only with leading financial institutions.

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.

### 2.21.2 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 2016, please refer to our comments under Note 7.9 et seq. "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.

### 2.21.3 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.

### 2.21.4 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.

In financial year 2014, RHÖN-KLINIKUM AG redeemed all non-current financial liabilities to banks with the exception of one bilateral bullet bank loan. In March 2016, the fixed interest rate bond with an outstanding nominal value of € 143.2 million was further repaid. As at the balance sheet date, there is still a fixed interest rate bullet loan in the amount of € 10.0 million maturing in 2017. As at the balance sheet date, 25.7% of cash at banks was invested at a variable interest rate subject to 30 days' termination notice or callable daily, and 74.3% at a fixed interest rate with a term of up to 18 months.

As at the balance sheet date, there were thus exclusively fixed interest rate liabilities as well as cash with banks with a term of up to 18 months. All derivative financial instruments were terminated in financial year 2014. As already in the previous year, no monitoring of interest rate risks was performed in financial year 2016 by means of sensitivity analyses given the reduced risk.

### 2.21.5 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 121.7% in the year under review (previous year: 128.2%). 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 initially investment-driven. It is to be ensured that at least 35.0% of capital expenditure is sustainably backed by equity. As at 31 December 2016, this ratio at the Group level was 76.5% (previous year: 67.8%).

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.

From a risk viewpoint, an assessment of the presented debt capital ratios (covenants) is obsolete as a result of the redemption of financial assets in financial year 2014.

### 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 4.75% (previous year: 5.32%). The values in use 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 7.1 for average growth in revenues and average EBIT margin. For the cash generating units, the recoverable amount is equal to the carrying amount as of an assumed cost of capital rate of 9.8% (previous year: 8.4%).

#### 3.2 REVENUE RECOGNITION

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

In order to create planning and revenue certainty, these regulations normally provide for prospective fee agreements. In practice, however, these negotiations take place only in the course of the financial year or even thereafter, creating uncertainties as to the service volume for which consideration is received at the balance sheet date. These are reflected in the balance sheet through objective estimates of receivables or liabilities. Past experience has shown that the inaccuracies relating to the estimates represent well under 1% of the Group's revenues.

The Group generates over 90% of its revenue from the statutory health insurance funds. As a general rule, the various budgets for the individual hospitals are defined together with the statutory health insurance funds at the beginning of each year. Diagnosis related groups (DRGs) are measured nationally on a uniform basis through the DRG catalogue. 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 or liabilities arising as a result are reported in the consolidated balance sheet and revenues are corrected accordingly.

Approved fee agreements existed at all hospitals at the time the consolidated balance sheet was prepared; this meant that any compensation payments for excess revenues or shortfalls could be calculated precisely.

Moreover, pursuant to section 275 German Social Insurance Code V (Sozialgesetzbuch V, SGB V) as well as section 17 of the 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 and 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. 2015	Additions	Disposals	Reclassification	31 Dec. 2016
Fully consolidated subsidiaries	27	1	–	–	28
Companies consolidated using the equity method	2	–	–	1	3
Other subsidiaries	7	2	–	–1	8
<b>Consolidated companies</b>	<b>36</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>39</b>

The added entity (fully consolidated subsidiaries) is RHÖN-Innovations GmbH having its registered office in Bad Neustadt a. d. Saale. The objective of this company is to make equity investments in start-ups in the medical field through a targeted investment and risk strategy. The company's core task is to promote innovative start-ups while at the same time participating in the equity of the respective business. The focus in this regard is essentially on medical innovations, the core business of the hospitals of the Group of RHÖN-KLINIKUM AG, as well as on strengthening outpatient-inpatient healthcare delivery structures in rural areas.

The added entities (Other subsidiaries) relate to the acquisition of one share each in Inovytec Medical Solution Ltd. and Telesofia Medical Ltd.. Both companies are highly innovative start-ups in the medical field and have their registered office in Israel. Inovytec Medical Solutions Ltd. develops and produces in particular products for non-clinical cardiological emergencies as well as non-invasive aids for obstructed airways. In the area of airway management, the LUBO cervical collar is already on the market. The current top product, the intelligent AED SALI (automated oxy-defibrillator), is now in the CE-certification process. With intelligent software and direct networking with medical experts, AED SALI is to enable non-medics to provide better first aid. Medical information is often complicated and incomprehensible for patients. Telesofia Medical Ltd. has developed a platform making it possible to create individualised videos within a few seconds so as to explain to the patient the related medical information. The patient is addressed by name and informed about his or her current situation. For this, Telesofia Medical Ltd. resorts to a proprietary and steadily growing database of video material. The platform is marketed as a "software as a service" (SaaS) solution to pharmaceutical companies and hospitals.

The reclassification relates to the equity interest in the company "Wir für Gesundheit GmbH".

### Acquisition of hospitals

By purchase agreement dated 31 July 2015, RHÖN-Kreisklinik Bad Neustadt GmbH, in an asset deal, acquired Kreisklinik Bad Neustadt a. d. Saale with effect from 1 January 2016 subject to conditions precedent. Kreisklinik Bad Neustadt a. d. Saale is a basic and standard care hospital with a total of 225 beds and 8 palliative places as well as a school for nurses. The Kreisklinik facility has the medical specialties of surgery, internal medicine, gynaecology and obstetrics, oto-rhino-laryngology (ENT) as well as haemodialysis and employs some 420 full-time staff. The acquisition serves to broaden the regional care structures at the Bad Neustadt a. d. Saale site. The conditions precedent have been met, with the result that the Kreisklinik facility was included in the consolidated financial statements for the first time as of 1 January 2016. Under the campus approach of the hospitals at the Bad Neustadt a. d. Saale site, the acquired hospital will be integrated into the campus area following completion of the new construction measure in 2018. Costs relating to the acquisition in the amount of €0.4 million were incurred in financial year 2015 and were recognised in the income statement of 2015 under the other expenses item.

Purchase price allocation is performed on the basis of the values of the 2015 annual financial statements. The final purchase price allocation has the following impact on the Group's net assets in 2016:

Kreisklinik Bad Neustadt a. d. Saale	€ m
<b>Acquired assets and liabilities</b>	
Intangible assets	0.1
Property, plant and equipment	0.8
Trade receivables	3.0
Cash and cash equivalents	2.0
Other assets	0.9
Trade payables	-0.9
Other liabilities	-3.1
<b>Net assets acquired</b>	<b>2.8</b>
Goodwill	5.1
<b>Cost as defined by IFRS 3</b>	<b>7.9</b>
- Acquired cash and cash equivalents	-2.0
<b>Cash outflow on transaction at date of first-time consolidation</b>	<b>5.9</b>
Payments already rendered	6.9
<b>Purchase price yet to be paid</b>	<b>1.0</b>

If the acquisition of the Kreisklinik Bad Neustadt a. d. Saale had already taken place with effect from 1 January 2015, consolidated revenues of financial year 2015 would have amounted to € 1,141.8 million and consolidated profit would have been € 88.2 million. In financial year 2016, Kreisklinik was included in the consolidated financial statements with revenues of € 32.8 million and a net loss for the year of € 0.2 million. The disclosures are made in accordance with IFRS 3.59 et seq. The goodwill arising by reason of the first-time acquisition reflects the expectations that the Group, with the acquisition of Kreisklinik at the Bad Neustadt a. d. Saale site, can implement full-service inpatient care delivery rurally. As a basic and standard care hospital, Kreisklinik complements the offering of specialty facilities already found at the Bad Neustadt a. d. Saale site. With an offering at the level of cutting-edge medical care, we want to have a stronger presence on the market and in that way address patients across districts. With the plans to bring together all facilities on the healthcare campus in Bad Neustadt a. d. Saale currently under construction, we also expect to achieve cost savings on the back of synergy effects. The further expansion of outpatient structures within the vicinity of the hospitals and their close integration into inpatient structures will enhance the attractiveness of the Bad Neustadt a. d. Saale site for patients from the district and beyond. We assume that the goodwill arising from the first-time consolidation is tax-deductible.

The fair value of trade receivables is made up of an amount of € 3.1 million less specific valuation allowances of € 0.1 million.

#### Acquisition of doctor's practices

In financial year 2016, one clinical doctor's practice was acquired whose conditions of validity as per agreement were satisfied during the reporting period of 2016. Consolidation in the Group also took place in financial year 2016. No costs were incurred from the acquisition of this clinical doctor's practice. 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 2016:

	Fair value post acquisition
<b>Purchase of doctor's practices, January to December 2016</b>	<b>€ m</b>
<b>Acquired assets and liabilities</b>	
Property, plant and equipment	0.0
<b>Net assets acquired</b>	<b>0.0</b>
+ Goodwill	0.1
<b>Cost</b>	<b>0.1</b>
– Purchase price payments outstanding	0.0
– Acquired cash and cash equivalents	0.0
<b>Cash outflow on transaction</b>	<b>0.1</b>

Goodwill amounting to € 0.1 million essentially includes synergy effects expected from the expansion of medical care centres. The goodwill recognised is likely to be tax-deductible.

In financial year 2016 a total of two clinical doctor's practices were acquired whose conditions of validity as per agreement will be satisfied only during the reporting period of 2017. Consolidation in the Group will also take place in financial year 2017. The preliminary purchase price allocation has the following impact on the Group's net assets in 2017:

	Fair value post acquisition
Purchase of doctor's practices valid as of 1 January 2017 and 1 April 2017	€ m
<b>Acquired assets and liabilities</b>	
Property, plant and equipment	0.1
<b>Net assets acquired</b>	<b>0.1</b>
+ Goodwill	0.6
<b>Cost</b>	<b>0.7</b>
– Purchase price payments outstanding	–0.7
– Acquired cash and cash equivalents	0.0
<b>Cash outflow on transaction</b>	<b>0.0</b>

In financial year 2016, two clinical doctor's practices were sold as a result of difficulties with refilling vacancies. The sale proceeds are of minor significance for the consolidated result.

## 5 SEGMENT REPORTING

Within the Group of RHÖN-KLINIKUM AG, cross-sector healthcare services are provided in the inpatient, semi-inpatient and outpatient area. The Group's clinics are operated in the legal form of independent subsidiaries which carry on their business activities in their respective regional markets in line with the guidelines and specifications of the parent company. For further information, please refer to section 6.1, Revenues. There are no dependent hospital operations or branches within RHÖN-KLINIKUM Group.

According to IFRS 8 "Operating Segments", segment information is to be presented in accordance with the internal reporting to the chief operating decision maker (management approach).

The chief operating decision maker of RHÖN-KLINIKUM AG is the Board of Management as a whole which makes the strategic decisions for the Group and which is reported to based on the figures of the individual hospitals and subsidiaries. Accordingly, RHÖN-KLINIKUM AG with its acute hospitals and other facilities also continues to have only one reportable segment since the other units such as rehabilitation facilities, medical care centres and service companies, whether on a stand-alone basis or in the aggregate, do not exceed the quantitative thresholds of IFRS 8.

## 6 NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 6.1 REVENUES

The development of revenues by business areas and geographical regions was as follows:

	2016	2015
	€ m	€ m
<b>Business areas</b>		
Acute hospitals	1,139.4	1,070.7
Medical care centres	10.8	8.9
Rehabilitation hospitals	26.2	28.6
	<b>1,176.4</b>	<b>1,108.2</b>
<b>Regions</b>		
Bavaria	249.9	216.2
Saxony	0.2	0.3
Thuringia	170.8	169.8
Brandenburg	135.2	130.5
Hesse	620.3	591.4
	<b>1,176.4</b>	<b>1,108.2</b>

According to IAS 18, revenues constitute revenues generated from the provision of services and in financial year 2016 rose by €68.2 million or 6.2% to reach €1,176.4 million, Adjusting for the changes in the scope of consolidation (first-time consolidation of Kreisklinik Bad Neustadt a. d. Saale as of 1 January 2016) to the tune of €32.8 million, this translates into organic growth of €35.4 million or 3.2%. Of that, our acute and rehabilitation hospitals accounted for €1,165.6 million (previous year: €1,099.3 million) and the medical care centres for €10.8 million (previous year: €8.9 million).

### 6.2 OTHER INCOME

Other operating income comprises:

	2016	2015
	€ m	€ m
Income from services rendered	123.5	120.8
Income from grants and other allowances	11.9	10.8
Income from adjustment of receivables	0.3	0.4
Income from indemnification payments/Other reimbursements	1.1	1.8
Other	49.6	46.0
	<b>186.4</b>	<b>179.8</b>

Income from services rendered includes income from ancillary and incidental activities amounting to € 117.4 million (previous year: € 114.6 million) as well as income from rental and lease agreements amounting to € 6.1 million (previous year: € 6.2 million).

The Group received grants and other allowances as compensation for certain purpose-tied expenditures in connection with publicly financed measures (e.g. costs of personnel and materials for research and teaching, benefits under German legislation governing semi-retirement schemes).

During financial year 2016, provisions were reversed for potential legal and fiscal guarantee risks in connection with the sale of subsidiaries to Fresenius/Helios in the amount of € 42.0 million, since related contractual guarantee periods in some cases had expired. During the same period last year, € 19.7 million in income from the reversal of provisions that were formed in connection with potential additional claims for social insurance contributions of the German pension insurance agency (Deutsche Rentenversicherung) resulting from investigations of the cleaning companies carried out in 2011 were recognised under this item. Moreover, during the previous year provisions that had been formed for legal and fiscal risks in connection with the sale of entities were reversed with effect on the income statement under the other income item in the amount of € 11.0 million, and income from the sale of a real estate company was recognised likewise under the other income item in the amount of € 8.3 million.

### 6.3 MATERIALS AND CONSUMABLES USED

	2016	2015
	€ m	€ m
Cost of raw materials, consumables and supplies	299.1	294.6
Cost of purchased services	30.4	27.2
	329.5	321.8

Whereas the materials ratio declined from 29.0% to 28.0%, materials and consumables used rose compared with the previous year by € 7.7 million or 2.4% to € 329.5 million. Kreisklinik Bad Neustadt a. d. Saale (first-time consolidation as of 1 January 2016) accounts for expenditures of € 7.7 million.

### 6.4 EMPLOYEE BENEFITS EXPENSE

	2016	2015
	€ m	€ m
Wages and salaries	636.8	591.7
Social insurance contributions	52.8	48.3
Expenditure for post-employment benefits		
Defined contribution plans	67.4	55.4
Defined benefit plans	0.6	0.3
	757.6	695.7

Expenses for defined contribution plans concern payments to the federal and state pension scheme (VBL) and to the supplementary pension schemes of the municipalities (ZVK). The defined benefit plans relate to the benefit commitments of Group companies, and comprise commitments for retirement pensions, invalidity pensions and pensions for surviving dependants as well as severance payments for members of the Board of Management after termination of the employment relationship.

Employee benefits expenses include a figure of € 1.3 million (previous year: € 0.0 million) for severance payments.

Moreover, expenditure for post-employment benefits in financial year 2015 includes refunds for previous years.

## 6.5 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 declined by € 1.2 million (or 2.0%) to € 59.9 million. This is essentially attributable to the staggered expiry of depreciation on buildings at the campus in Bad Neustadt a. d. Saale as well as the commissioning of the first newly erected or completely refurbished buildings.

## 6.6 OTHER EXPENSES

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

	2016	2015
	€ m	€ m
Maintenance	45.7	43.3
Charges, subscriptions and consulting fees	23.7	24.2
Administrative and IT costs	10.7	7.6
Impairment on receivables	9.6	7.9
Insurance	8.9	7.9
Rents and leaseholds	6.3	4.7
Travelling, entertaining and representation expenses	2.2	1.6
Other personnel and continuing training costs	4.9	4.5
Losses on disposal of non-current assets	0.1	0.2
Secondary taxes	0.5	0.5
Other	6.2	13.9
	<b>118.8</b>	<b>116.3</b>

Compared with the same period last year, the other expenses item witnessed an increase by € 2.5 million or 2.1% to € 118.8 million. The rise includes expenses relating to the first-time consolidation of Kreisklinik Bad Neustadt a. d. Saale.

## 6.7 RESEARCH COSTS

Research activities relate primarily to process optimisations in the area of inpatient hospital care and not to making marketable products. The research results are therefore generally produced as a result of or in objective connection with the activities of healthcare provision. For this reason, differentiating and measuring these in isolation is possible only to a very limited extent. Depending on the volume of costs to be attributed to research activities, annual research expenditure is roughly estimated to be within a range of 0.5% to 2.0% of revenues. They are primarily accounted for by personnel expenses and other expenses. As part of the takeover of the two university and scientific sites Gießen and Marburg, we committed ourselves to provide funding to the two medical faculties in an amount of at least € 2.0 million p. a.

Furthermore, RHÖN-KLINIKUM AG – escorted by the expert advice of the Medical Board – established a multi-year innovation and funding pool to provide funding at the Bad Berka, Bad Neustadt a. d. Saale, Frankfurt (Oder) as well as Gießen and Marburg sites with a view to stepping up and implementing activities and projects in the area of “research and innovation” as well as in the area of “treatment excellence and network medicine”. The objective is to give the Company and its facilities a stronger competitive advantage in the medium term by linking clinical excellence and medical science. For these projects, € 2.2 million (previous year: € 2.0 million) were allocated in 2016.

## 6.8 FINANCE RESULT – NET

The finance result is shown as follows:

	2016	2015
	€ m	€ m
Result of investments accounted for using the equity method		
Income of investments accounted for using the equity method	–	0,1
Expense of investments accounted for using the equity method	0.4	–
	0.4	0.1
Finance income		
Bank balances	1.1	2.6
Other interest income	0.3	1.4
	1.4	4.0
Finance expenses		
Bond	1.1	5.8
Liabilities to banks	0.5	0.5
Other interest expenses	35.5	0.6
	37.1	6.9
	–36.1	–2.8



In financial year 2016, the negative finance result rose by €33.3 million to €36.1 million compared with the same period of the previous year. The rise is essentially attributable to an impairment on loans in the amount of €35.5 million granted in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, since on a present-day view its recoverability is not certain. The medical potential of the facility for RHÖN-KLINIKUM AG continues to be promising and uniquely rounds off the cancer therapy service offering at the Marburg site.

As a result of the repayment of the bond in the first quarter of 2016, financial expenses decreased accordingly. Moreover, finance income declined as a result of a lower investment volume and lower interest rates.

The negative finance result includes shares in losses in companies accounted for using the equity method in the amount of €0.4 million (previous year: shares in profits of €0.1 million).

Other interest income relates essentially to interest income from tax receivables.

In accordance with IAS 17 (Leases), assets from finance leases are reported under property, plant and equipment, and the interest component of €0.2 million (previous year: €0.1 million) included in the leasing instalments is shown under other interest expenses.

The net negative interest income under IFRS 7 for financial assets and liabilities which are not included in the category “financial assets and liabilities shown at fair value in profit and loss” amounted to €35.7 million in financial year 2016 (previous year: €3.3 million), and comprises income of €1.2 million (previous year: €3.4 million) and expenses of €36.8 million (previous year: €6.7 million). The lower income and expenses result from the cash outflow in connection with the share repurchase in the previous year as well as the repayment of the bond in the first quarter of 2016. Moreover, an impairment of €35.5 million was made in connection with a loan.

## 6.9 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:

	2016	2015
	€ m	€ m
Current income tax	5.4	6.1
Deferred taxes	-3.2	-3.3
	2.2	2.8

At an unchanged rate of taxation, the income tax expense item declined by €0.6 million to €2.2 million (previous year: €2.8 million) compared with the same period of the previous year, attributable among other things to the one-off earnings increasing tax effect from the conclusion of a profit-and-loss transfer agreement between RHÖN-KLINIKUM AG with Klinikum Frankfurt (Oder) GmbH. The income tax burden stands at 3.6% (previous year: 3.1%).

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

	2016		2015	
	€ m	%	€ m	%
<b>Earnings before taxes</b>	<b>60.9</b>	<b>100.0</b>	<b>90.3</b>	<b>100.0</b>
Nominal tax expense (tax rate 15.0%)	9.1	14.9	13.5	15.0
Solidarity surcharge (tax rate 5.5%)	0.5	0.8	0.7	0.8
Recognition of previous loss carry-forwards and interest carry-forwards not recognised/Derecognition of loss carry-forward recognised/of loss carry-forwards not applied	-6.7	-11.0	-2.2	-2.4
Additional expense from dividend payment	0.1	0.2	0.1	0.1
Trade tax	0.3	0.5	0.4	0.4
Increase in tax liability due to non-deductible charges	6.0	9.9	0.2	0.2
Taxes, previous years	0.2	0.3	-0.1	-0.1
Effects from disposal of companies/Other	-7.3	-12.0	-9.9	-11.0
<b>Effective income tax expense</b>	<b>2.2</b>	<b>3.6</b>	<b>2.8</b>	<b>3.1</b>

Further details of how deferred tax has been allocated to assets and liabilities are given in the Notes to the consolidated balance sheet.

#### 6.10 PROFIT TO NON-CONTROLLING INTERESTS

This is the share of profit attributable to minority shareholders.

#### 6.11 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. 2016	No. of shares on 31 Dec. 2016
Non-par shares	66,962,470	66,962,470
Treasury shares	-24,000	-24,000
	<b>66,938,470</b>	<b>66,938,470</b>

The number of shares is unchanged. For disclosures on equity, please refer to the Note 7.14.

Earnings per share are calculated as follows:

	Ordinary shares
Share in consolidated profit (€ '000)	56,430
(previous year)	(85,381)
Weighted average number of shares outstanding, in thousands	66,938
(previous year)	(72,047)
Earnings per share in €	0.84
(previous year)	(1.19)

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.

## 7 NOTES TO THE CONSOLIDATED BALANCE SHEET

### 7.1 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other intangible assets	Total
	€ m	€ m	€ m
<b>Cost</b>			
1 January 2016	157.2	33.7	190.9
Additions due to changes in consolidated companies	5.2	0.1	5.3
Additions	0.0	3.3	3.3
Disposals	0.0	0.1	0.1
Transfers	0.0	0.1	0.1
31 December 2016	162.4	37.1	199.5
<b>Cumulative depreciation and impairment</b>			
1 January 2016	0.0	24.4	24.4
Depreciation	0.0	2.1	2.1
Disposals	0.0	0.1	0.1
31 December 2016	0.0	26.4	26.4
Balance sheet value as at 31 December 2016	162.4	10.7	173.1

	Goodwill	Other intangible assets	Total
	€ m	€ m	€ m
<b>Cost</b>			
1 January 2015	156.0	31.4	187.4
Additions due to changes in consolidated companies	1.2	0.0	1.2
Additions	0.0	3.7	3.7
Disposals	0.0	1.5	1.5
Transfers	0.0	0.1	0.1
<b>31 December 2015</b>	<b>157.2</b>	<b>33.7</b>	<b>190.9</b>
<b>Cumulative depreciation and impairment</b>			
1 January 2015	0.0	23.7	23.7
Depreciation	0.0	2.1	2.1
Disposals	0.0	1.4	1.4
<b>31 December 2015</b>	<b>0.0</b>	<b>24.4</b>	<b>24.4</b>
<b>Balance sheet value as at 31 December 2015</b>	<b>157.2</b>	<b>9.3</b>	<b>166.5</b>

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. A growth discount of –0.5% (previous year: –0.5%) has been used for calculating the present value 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 2016.

Goodwill of the acquired companies was tested for impairment as at 31 December 2016 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 4.75% for 2016 (previous year: 5.32%). Significant goodwill relates to the following cash generating units:

Company	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Universitätsklinikum Gießen und Marburg GmbH	137.5	137.5
Zentralklinik Bad Berka GmbH	13.8	13.8
RHÖN-Kreisklinik Bad Neustadt GmbH	5.1	–
Other goodwill of less than € 5.0 million	6.0	5.9
<b>Balance sheet value</b>	<b>162.4</b>	<b>157.2</b>

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 companies accounting for the main portion of goodwill are assumed to have a homogenous structure.

The table below shows the assumption of growth rates for revenues 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:

	2016		2015	
	Long-term growth rate	WACC	Long-term growth rate	WACC
Universitätsklinikum Gießen und Marburg GmbH	3.00%	4.75%	3.00%	5.32%
Zentralklinik Bad Berka GmbH	3.00%	4.75%	3.00%	5.32%
RHÖN-Kreisklinik Bad Neustadt GmbH	3.00%	4.75%	–	–

The values of revenues in the ten-year planning period of the groups of cash generating units to which material goodwill was attributed are based on average organic growth rates of between 2.5% and 3.3% (previous year: 2.5% and 3.0%).

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).

## 7.2 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Technical plant and equipment	Operational and office equipment	Plant under construction	Total
	€ m	€ m	€ m	€ m	€ m
<b>Cost</b>					
1 January 2016	893.8	43.4	272.8	57.0	1,267.0
Additions due to changes in consolidated companies	0.0	0.0	0.8	0.0	0.8
Additions	25.2	1.9	22.8	39.7	89.6
Disposals	0.0	0.0	12.0	0.0	12.0
Transfers	36.8	1.3	7.6	-45.8	-0.1
31 December 2016	955.8	46.6	292.0	50.9	1,345.3
<b>Cumulative depreciation and impairment</b>					
1 January 2016	368.0	26.6	203.9	0.0	598.5
Depreciation	30.8	3.0	23.8	0.0	57.6
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	11.8	0.0	11.8
31 December 2016	398.8	29.6	215.9	0.0	644.3
Balance sheet value as at 31 December 2016	557.0	17.0	76.1	50.9	701.0

	Land and buildings	Technical plant and equipment	Operational and office equipment	Plant under construction	Total
	€ m	€ m	€ m	€ m	€ m
<b>1 January 2015</b>	<b>887.9</b>	<b>42.7</b>	<b>264.6</b>	<b>21.2</b>	<b>1,216.4</b>
Additions due to changes in consolidated companies	0.0	0.0	0.2	0.0	0.2
Additions	4.9	0.5	19.7	39.2	64.3
Disposals	0.0	0.0	13.7	0.1	13.8
Transfers	1.0	0.2	2.0	-3.3	-0.1
<b>31 December 2015</b>	<b>893.8</b>	<b>43.4</b>	<b>272.8</b>	<b>57.0</b>	<b>1,267.0</b>
<b>Cumulative depreciation and impairment</b>					
<b>1 January 2015</b>	<b>335.4</b>	<b>23.6</b>	<b>194.2</b>	<b>0.0</b>	<b>553.2</b>
Depreciation	32.6	3.0	23.2	0.0	58.8
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	13.5	0.0	13.5
<b>31 December 2015</b>	<b>368.0</b>	<b>26.6</b>	<b>203.9</b>	<b>0.0</b>	<b>598.5</b>
<b>Balance sheet value as at 31 December 2015</b>	<b>525.8</b>	<b>16.8</b>	<b>68.9</b>	<b>57.0</b>	<b>668.5</b>

During the financial year, as in the previous year, no costs of borrowing were incurred that were related to financing the acquisition/production of qualifying assets and would have to be recognised in additions to property, plant and equipment.

Similar to the previous year, the Group has no registered charges on real property as collateral for bank loans.

Public grants related to assets are deducted from the cost of the asset for which they are given, reducing the depreciation over the period. The deducted amortised amount of assistance granted under the Hospital Financing Act (Krankenhausfinanzierungsgesetz, KHG) and which was invested in line with the applicable conditions totals € 182.9 million (previous year: € 198.6 million). To secure conditionally repayable single grants under the KHG (e. g. for the construction of new hospitals or major extensions) totalling € 2.7 million (previous year: € 2.9 million), the Group holds registered charges on real property in the amount of € 4.1 million (previous year: € 4.1 million). There are no reasons to assume that these grants will have to be repaid.

Buildings, technical equipment and machinery include the following amounts for which the Group is the lessee under a finance lease:

	31 Dec. 2016		31 Dec. 2015	
	€ m		€ m	
Cost of assets capitalised under finance leases	5.9		2.4	
Changes in consolidated companies	0.1		0.0	
Additions	0.3		3.5	
Accumulated amortisation and impairment	2.4		1.3	
Net carrying amount	3.9		4.6	

### 7.3 INCOME TAX ASSETS

The corporate income tax netting credits shown under this item comprise claims in accordance with section 37 Corporate Income Tax Act (Körperschaftsteuergesetz, KStG) which will be paid out in equal annual instalments by September 2017. During the previous year, these were shown at their present value of €2.4 million, and are measured on the basis of a historical interest rate of 4.0% which is commensurate with the term. The last tranche from the corporate income tax netting credits will be refunded in September 2017 and is shown under current income tax assets in the amount of €2.3 million.

### 7.4 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:

	31 Dec. 2016		31 Dec. 2015	
	Assets	Liabilities	Assets	Liabilities
	€ m	€ m	€ m	€ m
Tax loss carry-forwards	7.5	0.0	6.6	0.0
Property, plant and equipment/Intangible assets	0.0	8.0	0.0	8.8
Interest bearing liabilities	0.0	0.0	0.0	0.0
Valuation differences at subsidiaries	0.0	0.8	0.0	0.8
Other assets and liabilities	8.1	1.1	6.6	1.1
<b>Total</b>	<b>15.6</b>	<b>9.9</b>	<b>13.2</b>	<b>10.7</b>
<b>Balance sheet value</b>	<b>5.7</b>		<b>2.5</b>	



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 €47.4 million (previous year: €41.2 million). On the balance sheet date, tax losses carried forward which have so far not been utilised amounted to €54.6 million (previous year: €63.4 million); no deferred tax assets were recognised in relation to €7.3 million (previous year: €22.2 million) of this figure. In Germany, tax loss carry-forwards can be used in full to reduce the current taxable profit by up to €1.0 million for an indefinite period. However, above this amount, only 60.0% of the remaining taxable profit can be offset against tax loss carry-forwards.

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 €105.4 million (previous year: €105.4 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:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
<b>Deferred tax assets at beginning of year</b>	2.5	-0.8
Recognition directly in equity of deferred taxes in connection with financial derivatives recognised in equity	0.0	0.0
Recognition directly in equity of deferred taxes in connection with revaluation of defined benefit pension plans recognised in equity	0.0	0.0
Income/expense from current netting in the income statement	3.2	3.3
<b>Deferred tax assets/liabilities at end of year</b>	<b>5.7</b>	<b>2.5</b>

## 7.5 INTERESTS IN OTHER ENTITIES

Information on changes in the composition of consolidated companies of RHÖN-KLINIKUM AG are presented in section 4 "Company acquisitions" and in section 9 "Shareholdings".

### 7.5.1 Investments accounted for using the equity method

Two associates (previous year: one) and one joint venture (previous year: one) were measured in the consolidated financial statements using the equity method.

Name of company	Registered office	Capital share (%)
<b>Associated companies</b>		
Wir für Gesundheit GmbH	Berlin	33.3
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	Heidelberg	24.9
<b>Joint ventures</b>		
Energiezentrale Universitätsklinikum Gießen GmbH	Gießen	50.0

### 7.5.2 Associated companies

The object of enterprise of Wir für Gesundheit GmbH (WfG) is the distribution of a company supplementary health insurance scheme in collaboration with Debeka. In addition to RHÖN-KLINIKUM AG, Helios and Asklepios also hold an interest in WfG.

The object of enterprise of Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung is patient operations of the particle therapy facility at the Marburg site. In addition to RHÖN-KLINIKUM AG with an interest of 24.9%, the University Hospital of Heidelberg holds an interest of 75.1%. The table below provides a summary of the aggregated results data and aggregated carrying amounts of the associates accounted for using the equity method:

	2016	2015
Results data and carrying amounts of associates accounted for using the equity method	€ m	€ m
Revenues	0.1	0.1
Earnings after taxes	– 13.0	– 8.1
<b>Pro rata earnings after taxes</b>	<b>– 0.5</b>	<b>0.0</b>
Pro rata total comprehensive income after taxes	– 0.5	0.0
<b>Carrying amount of associates accounted for using the equity method</b>	<b>0.4</b>	<b>0.0</b>

### 7.5.3 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:

Results data and carrying amounts of joint ventures accounted for using the equity method	2016	2015
	€ m	€ m
Revenues	0.9	0.9
Earnings after taxes	0.3	0.1
<b>Pro rata earnings after taxes</b>	<b>0.1</b>	<b>0.0</b>
Pro rata total comprehensive income after taxes	0.1	0.0
<b>Carrying amount of joint ventures accounted for using the equity method</b>	<b>0.5</b>	<b>0.3</b>

### 7.6 OTHER FINANCIAL ASSETS (NON-CURRENT)

Of other financial assets (non-current), € 50.1 million (previous year: € 30.0 million) is attributable to fixed deposit investments having a residual term of > 1 year and € 2.6 million (previous year: € 0.0 million) to equity investments recognised under this item. These relate to equity investments of the company founded in early 2016, RHÖN-Innovations GmbH, in the companies Inovytec Medical Solutions Ltd. and Telesofia Medical Ltd.. The interests are measured at fair value in accordance with IAS 39. Moreover, € 0.0 million (previous year: € 0.0 million) relate to equity interests whose market value cannot be calculated due to the absence of an active market. These are measured at cost.

On the loans granted in the amount of € 20.1 million shown under this item together with the loans additionally extended in the amount of € 14.7 million, an impairment was made in the current financial year as at the end of the year. The impairment in the amount of € 34.8 million is attributable to loans in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, since on a present-day view its recoverability is not certain.

### 7.7 OTHER ASSETS (NON-CURRENT)

Interests in companies accounted for using the equity method were reported as at 31 December 2015 in the amount of € 0.3 million under other assets (non-current) item on the grounds of materiality. As at 31 December 2016, reporting will take place under the separate item "Investments accounted for using the equity method" in the amount of € 0.9 million. Reporting of the previous year's figure was adjusted accordingly.

### 7.8 INVENTORIES

Raw materials, consumables and supplies of € 24.8 million (previous year: € 23.1 million) mainly consist of medical supplies. Impairment losses of € 2.5 million (previous year: € 2.3 million) were made. All inventories are owned by RHÖN-KLINIKUM AG and the companies affiliated with RHÖN-KLINIKUM AG. There are no assignments or pledges of inventories.

## 7.9 TRADE RECEIVABLES

	31 Dec. 2016	31 Dec. 2015
	< 1 year	< 1 year
	€ m	€ m
Trade receivables (gross)	218.1	194.6
Impairments on trade receivables	– 27.2	– 18.9
<b>Trade receivables (net)</b>	<b>190.9</b>	<b>175.7</b>

Allowances recognised on trade receivables (net) totalling € 190.9 million (previous year: € 175.7 million) duly reflect identifiable single risks from impairments, which are recorded on a separate allowance account; the allowances are determined based on the probability of a default. Additions to allowances are shown under other operating expenses in the income statement, and reversals of impairments are shown under other operating income. The development of impairments on the trade receivable is shown in the table below.

	2016	2015
	€ m	€ m
<b>Impairment as at 1 January</b>	<b>18.9</b>	<b>13.0</b>
Assets held for sale	–	–
Impairments during reporting period	– 1.3	– 1.8
Reversional of impairment/utilisation	9.6	7.7
<b>Impairment as at 31 December</b>	<b>27.2</b>	<b>18.9</b>

There are no concentrations of credit risks in relation to trade receivables because virtually all amounts are receivables from public payers. In principle, it is possible for an individual public payer to become insolvent, but given the joint and several liability of the payers the risk of default is assessed as low.

The fair values of trade receivables and other receivables essentially correspond to their carrying amounts since they are primarily short-term in character.

The maturity structure of the trade receivables is shown in the following.

	Carrying amount (gross)	Of which neither impaired nor due on reporting date	Of which not impaired on the reporting date and due within the following periods			Of which impaired
			0–30 days	31–90 days	91–180 days	
			€ m	€ m	€ m	
<b>31 Dec. 2016</b>	€ m	€ m	€ m	€ m	€ m	€ m
Trade receivables	218.1	150.2	13.2	6.0	17.3	31.4
<b>31 Dec. 2015</b>						
Trade receivables	194.6	143.5	10.9	6.4	12.1	21.7

With regard to the trade receivables in the amount of € 150.2 million (previous year: € 143.5 million) which are neither impaired nor overdue, there are no indications as at the reporting date that the debtors will not meet their payment obligations.

The Group uses aged debtor lists and past experience as the basis for estimating the percentage of irrecoverable trade receivables as at the balance sheet date in relation to the period of time overdue. In addition, the Group recognises specific valuation allowances if, as a result of particular circumstances, it is not likely that trade receivables will be recoverable. Impairments relating to accounts receivable amounted to € 27.2 million in the financial year (previous year: € 18.9 million).

Trade receivables were derecognised in the income statement in the amount of € 1.3 million in financial year 2016 (previous year: € 1.8 million). Settlement mechanisms in accordance with the Hospital Remuneration Act (KHEntgG) partially compensated for these defaults. Inflows of € 0.0 million (previous year: € 0.0 million) were recognised in the income statement in relation to previously derecognised accounts receivable.

#### 7.10 OTHER FINANCIAL ASSETS (CURRENT)

	31 Dec. 2016	31 Dec. 2015
	< 1 year	< 1 year
	€ m	€ m
Time deposit < 1 year	185.1	345.0
Receivables under Hospital Financing Act	16.8	13.8
Remaining other financial assets	8.1	14.0
	210.0	372.8

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 € 185.1 million (previous year: € 345.0 million). Moreover, the decline results from the repayment of the bond in March 2016.

Receivables under the Hospital Financing Act (KHG) mainly relate to compensation claims for services rendered under Hospital Remuneration Act (Krankenhausentgeltgesetz, KHEntgG) and the Federal Hospital Nursing Rate Ordinance (Bundespfllegesatzverordnung, BPfIV). Receivables under hospital financing legislation include no impairments.

Remaining other financial assets relate to receivables from services rendered which are not primarily related to patient treatments at hospitals € 6.6 million (previous year: € 6.4 million), receivables due from employees in particular from invoices as part of the liquidation right of head physicians € 1.2 million (previous year: € 1.2 million), as well as trade receivables € 0.9 million (previous year: € 0.6 million). The remaining other financial assets (current) include impairments amounting to € 1.3 million (previous year: € 1.2 million). No reversals of impairment losses were made. Moreover, this item included advance payments of € 5.5 million paid on the purchase price in connection with the acquisition of Kreisklinik Bad Neustadt a. d. Saale, which in financial year 2016 were replaced by the acquired assets and liabilities.

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:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Receivables according to the KHG/KHEntgG (gross)	23.0	19.6
Liabilities according to the KHG/KHEntgG (gross)	-6.2	-5.8
<b>Balance sheet value</b>	<b>16.8</b>	<b>13.8</b>

The statement on a gross basis on the liabilities side is provided in the Notes under section 7.19 "Other financial liabilities".

#### 7.11 OTHER ASSETS (CURRENT)

Of other current assets in the amount of € 8.5 million (previous year: € 21.1 million), essentially € 4.6 million (previous year: € 4.3 million) is attributable to prepaid expenses, mainly insurance expenses and € 3.5 million (previous year: € 3.7 million) is attributable to reimbursement claims against insurers under liability claims. Moreover, in the previous year this item included € 12.7 million in refunds of pay-as-you-go-financed retirement benefits of VBL.

#### 7.12 CURRENT INCOME TAX ASSETS

Current income tax assets essentially include claims against tax authorities for reimbursement of corporate income tax.

## 7.13 CASH AND CASH EQUIVALENTS

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Cash with banks and cash on hand	70.8	103.3
Short-term bank deposits	10.0	40.0
	<b>80.8</b>	<b>143.3</b>

The decline in cash with banks and cash on hand compared with the previous year is attributable to the repayment of the exchange listed bond in March 2016. The decline in short-term bank balances results from the low level of interest rates for overnight and short-term deposits. 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 thus stated 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 0.10% (previous year: 0.24%). The average remaining term of these deposits was 30 days (previous year: 69 days).

Cash and bank overdrafts are aggregated as follows for the purpose of the statement of cash flows:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Cash and cash equivalents	80.8	143.3
Bank overdrafts	0.0	–
<b>Cash position</b>	<b>80.8</b>	<b>143.3</b>

## 7.14 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 non-par value bearer shares (previous year: 66,962,470 non-par value shares) each with a notional value in the registered share capital of € 2.50 per share.

	Number	Arithmetic share in registered share capital €
Ordinary shares as at 1 Jan. 2016	66,962,470	167,406,175
Changes in 2016	–	–
Ordinary shares as at 31 Dec. 2016	66,962,470	167,406,175

The premium from the capital increase in the amount of € 396.0 million as well as the amounts of € 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 €349.1 million (previous year: €346.5 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 €349.1 million (previous year: €346.5 million) as well as effects of consolidation adjustments.

The total result (sum of consolidated profit and other comprehensive income) for financial year 2016 stands at €58.3 million (previous year: €87.3 million). This includes losses from the revaluation of defined benefit pension plans amounting to €0.3 million after taxes (previous year: €0.2 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 January 2016	24,000
Changes in 2016	–
Treasury shares as at 31 December 2016	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 RHÖN-KLINIKUM AG which are prepared in accordance with the German Commercial Code (HGB). During the last Annual General Meeting, the shareholders approved the proposal of the Board of Management and of the Supervisory Board so that an actual dividend payment of 80 cents (previous year: 80 cents) was made in financial year 2016.

Non-controlling interests in equity of €22.8 million (previous year: €20.7 million) relate to interests held by non-Group third parties in the following consolidated subsidiaries:

	Non-controlling interests	
	31 Dec. 2016	31 Dec. 2015
	%	%
<b>Hospital companies</b>		
Universitätsklinikum Gießen und Marburg GmbH, Gießen	5.0	5.0
Zentralklinik Bad Berka GmbH, Bad Berka	12.5	12.5
<b>Medical care centre companies</b>		
MVZ UKGM GmbH, Marburg	5.0	5.0
MVZ Zentralklinik GmbH, Bad Berka	12.5	12.5
<b>Service companies</b>		
RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale	49.0	49.0
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	49.0	49.0



## 7.15 FINANCIAL LIABILITIES

	31 Dec. 2016		31 Dec. 2015	
	Remaining term > 1 year	Remaining term < 1 year	Remaining term > 1 year	Remaining term < 1 year
	€ m	€ m	€ m	€ m
Non-current financial liabilities, bond	0.0	0.0	0.0	147.6
Liabilities to banks	0.0	10.0	10.0	0.0
<b>Total non-current financial liabilities</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>147.6</b>
Current financial liabilities				
Liabilities to banks	0.0	0.0	0.0	0.0
<b>Total current financial liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total financial liabilities</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>147.6</b>

In financial year 2014, RHÖN-KLINIKUM AG redeemed all non-current financial liabilities to banks with the exception of one bullet bank loan. In March 2016 the bond outstanding was fully repaid. As at the balance sheet date, there is thus still a fixed interest rate bullet loan in the amount of € 10.0 million maturing in August 2017.

The institution rating of RHÖN-KLINIKUM AG by the rating agency Moody's with the credit opinion Baa3 (negative outlook) of 3 December 2012 was withdrawn as at 2 May 2014 in the context of the very successful bond repurchase. The cost-benefit aspects in the wake of the transaction with Fresenius/Helios were decisive for this decision. On the basis of the changed financial profile, the stable business model as well as the excellent reputation on the banking and capital markets, RHÖN-KLINIKUM AG sees itself in a very good position to successfully implement any future financings on attractive terms, even without a public rating.

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

Fixed interest period ends	31 Dec. 2016			31 Dec. 2015		
	Interest rate <sup>1</sup>	Original value	Carrying amount of loans	Interest rate <sup>1</sup>	Original value	Carrying amount of loans
	%	€ m	€ m	%	€ m	€ m
Bond	–	–	–	4.06	143.2	143.1
Interest on bond	–	–	–	–	–	4.5
	–	–	–		143.2	147.6
Liabilities to banks						
2017	5.10	10.0	10.0	5.10	10.0	10.0
		10.0	10.0		10.0	10.0
		10.0	10.0		153.2	157.6

<sup>1</sup> Weighted interest rate.

The effective interest rates at balance sheet date are:

	31 Dec. 2016	31 Dec. 2015
	%	%
Bond	–	4.06
Liabilities to banks	5.10	5.10

The remaining terms of the financial liabilities are:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Up to 1 year	10.0	147.6
Between 1 and 5 years	–	10.0
More than 5 years	–	–
<b>Total</b>	<b>10.0</b>	<b>157.6</b>

As in the previous year, the financial liabilities stated are not secured by registered charges on real property.

#### 7.16 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:

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Commitment for one-off payments	2.2	1.4
<b>Provision for pensions (defined benefit liability)</b>	<b>2.2</b>	<b>1.4</b>

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

	31 Dec. 2016	31 Dec. 2015
	%	%
Rate of interest	1.70	2.35
Projected increase in wages and salaries	2.50	2.50
Projected increase in pensions	2.00	2.00

The 2005 G mortality tables of Professor Dr. Klaus Heubeck were again used as the basis for actuarial calculations (unchanged compared with the previous year). All pension costs are reported under the pension costs item.

The development of the defined benefit obligation in financial year 2016 compared with the previous year is shown in the following:

	2016	2015
	€ m	€ m
<b>As at 1 January</b>	<b>1.4</b>	<b>0.8</b>
Service time cost	0.5	0.3
Interest expense	0.0	0.0
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	0.2	0.3
<b>As at 31 December</b>	<b>2.2</b>	<b>1.4</b>

There are no reimbursement claims consisting of pension liability insurance policies entered into by reason of pension commitments to employees.

The weighted average duration of the pension liabilities is seven years (previous year: 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:

Impact on the commitment (%) as at 31 December 2016	Change in assumption in percentage points	Increase in assumption	Reduction in assumption
Interest rate	0.2	-1.4	1.4
Remuneration trend	0.2	1.3	-1.3
Mortality	+/- 1 year	0.1	-0.1

Impact on the commitment (%) as at 31 December 2015	Change in assumption in percentage points	Increase in assumption	Reduction in assumption
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.

In financial year 2016, contribution payments to the federal and state pension scheme (Versorgungsanstalt des Bundes und der Länder, VBL) were made in the amount of € 19.3 million (previous year: € 10.7 million). The amount of the previous year includes refunds for previous years. In 2016, as a result of the takeover of Kreisklinik Bad Neustadt a. d. Saale, payments were made for the first time to ZVK (supplementary pension insurance scheme of municipalities in Bavaria) in the amount of € 1.1 million.

As at the reporting date of 31 December 2016, 8,019 employees (previous year: 8,027 employees) with a claim to supplementary pension benefits were registered with VBL and 496 employees (previous year: 0 employees) with ZVK.

## 7.17 OTHER PROVISIONS

Other provisions developed as follows in the financial year:

	1 Jan. 2016	Changes in consolidated companies	Consumption	Write-back	Allocation	31 Dec. 2016	Of which < 1 year	Of which > 1 year
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Liability risks	16.8	0.0	0.8	4.7	0.3	11.6	11.6	0.0
Other provisions	126.2	0.0	0.0	42.0	0.0	84.2	84.2	0.0
	143.0	0.0	0.8	46.7	0.3	95.8	95.8	0.0

The provisions for liability risks relate to claims for damages by third parties. These compare with repayment claims of € 3.5 million (previous year: € 3.7 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). Of this, provisions were reversed in the amount of € 42.0 million in financial year 2016 since defined contractual guarantee periods had expired.

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

	31 Dec. 2016	Of which < 1 year	Of which > 1 year	31 Dec. 2015	Of which < 1 year	Of which > 1 year
	€ m	€ m	€ m	€ m	€ m	€ m
Liability risks	11.6	11.6	0.0	16.8	16.8	0.0
Other provisions	84.2	84.2	0.0	126.2	126.2	0.0
	95.8	95.8	0.0	143.0	143.0	0.0

The Group of RHÖN-KLINIKUM AG has contingent liabilities of up to €0.5 million (previous year: €0.5 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.

#### 7.18 TRADE PAYABLES

	31 Dec. 2016		31 Dec. 2015	
	< 1 year	> 1 year	< 1 year	> 1 year
	€ m	€ m	€ m	€ m
Trade payables	94.8	0.0	95.3	0.0

Trade payables exist with regard to third parties. The total amount of €94.8 million (previous year: €95.3 million) is due within one year.

#### 7.19 OTHER FINANCIAL LIABILITIES

	31 Dec. 2016		31 Dec. 2015	
	< 1 year	> 1 year	< 1 year	> 1 year
	€ m	€ m	€ m	€ m
Liabilities under KHG	8.5	0.0	8.1	0.0
Purchase prices	1.0	0.0	0.0	0.0
Leasing	1.0	2.9	1.0	3.6
Other financial liabilities	8.7	13.4	12.8	14.7
<b>Other financial liabilities (financial instruments)</b>	<b>19.2</b>	<b>16.3</b>	<b>21.9</b>	<b>18.3</b>

The liabilities under the KHG relate to public grants not yet used in accordance with the conditions for their use granted under state legislation as well as repayment obligations under the federal hospital compensatory schemes – the Hospital Remuneration Act (KHEntgG) and the Federal Hospital Nursing Rate Ordinance (BPfIV).

The purchase prices relate to contractually stipulated obligations.

The carrying amounts of the current monetary liabilities recognised under this item correspond to their fair values. The other non-current liabilities have been discounted using the effective interest method on the basis of historical market rates.

Of the figure stated for remaining non-current financial liabilities with remaining maturities of more than five years in the amount of €6.0 million (previous year: €7.4 million), €6.0 million (previous year: €7.4 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:

	31 Dec. 2016		31 Dec. 2015	
	€ m		€ m	
Liabilities according to the KHG/KHEntgG (gross)	14.7		13.9	
Receivables according to the KHG/KHEntgG (gross)	-6.2		-5.8	
<b>Balance sheet value</b>	<b>8.5</b>		<b>8.1</b>	

The statement on a gross basis on the assets side is provided in the Notes under section 7.10 "Other financial assets (current)".

## 7.20 OTHER LIABILITIES

	31 Dec. 2016		31 Dec. 2015	
	< 1 year	> 1 year	< 1 year	> 1 year
	€ m	€ m	€ m	€ m
Personnel liabilities	63.3	6.9	55.2	6.8
Deferred income	9.2	0.0	7.5	0.0
Operating taxes and social security contributions	11.7	0.0	9.9	0.0
Pre-payments	0.4	0.0	0.4	0.0
Other liabilities	11.2	0.0	7.2	0.0
<b>Other liabilities (non-financial instruments)</b>	<b>95.8</b>	<b>6.9</b>	<b>80.2</b>	<b>6.8</b>

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.

## 7.21 CURRENT INCOME TAX LIABILITIES

Current income tax liabilities in the amount of €1.7 million (previous year: €1.3 million) comprise corporate income tax, solidarity surcharge and trade tax not yet assessed for the past financial year and previous years.

## 7.22 DERIVATIVE FINANCIAL INSTRUMENTS

As at the previous year's balance sheet date, no derivative financial instruments exist.

## 7.23 ADDITIONAL DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

### 7.23.1 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 and transfers these to the corresponding balance sheet item:

	Measurement category according to IAS 39	Of which financial instruments		Of which financial instruments			
		31 Dec. 2016	Carrying amount	Fair value	31 Dec. 2015	Carrying amount	Fair value
		€ m	€ m	€ m	€ m	€ m	€ m
<b>ASSETS</b>							
<b>Non-current assets</b>							
Other financial assets		52.7	52.7	52.7	50.1	50.1	49.9
of which investments	Available-for-sale financial assets	2.6	2.6	2.6	0.0	0.0	0.0
of which other	Loans and receivables	50.1	50.1	50.1	50.1	50.1	49.9
<b>Current assets</b>							
Trade receivables and other financial assets		400.9	400.9	400.9	548.5	548.5	548.5
of which trade receivables and other financial assets	Loans and receivables	400.9	400.9	400.9	548.5	548.5	548.5
Cash and cash equivalents	Loans and receivables	80.8	80.8	80.8	143.3	143.3	143.3
<b>EQUITY AND LIABILITIES</b>							
<b>Non-current liabilities</b>							
Financial liabilities		0.0	0.0	0.0	10.0	10.0	9.8
of which financial liabilities	Financial liabilities measured at amortised cost	0.0	0.0	0.0	10.0	10.0	9.8
Other financial liabilities		16.3	16.3	18.4	18.3	18.3	20.5
of which other financial liabilities	Financial liabilities measured at amortised cost	13.4	13.4	15.5	14.7	14.7	16.9
of which under finance leases	n. a.	2.9	2.9	2.9	3.6	3.6	3.6
<b>Current liabilities</b>							
Trade payables	Financial liabilities measured at amortised cost	94.8	94.8	94.8	95.3	95.3	95.3
Financial liabilities		10.0	10.0	10.0	147.6	147.6	147.6
of which financial liabilities	Financial liabilities measured at amortised cost	10.0	10.0	10.0	147.6	147.6	147.6
Other financial liabilities		19.2	19.2	19.2	21.9	21.9	21.9
of which other financial liabilities	Financial liabilities measured at amortised cost	18.1	18.1	18.1	20.9	20.9	20.9
of which under finance leases	n. a.	1.1	1.1	1.1	1.0	1.0	1.0
Aggregated according to measurement categories, the above figures are as follows:							
	Loans and receivables		531.8	531.8		741.9	741.7
	Available-for-sale financial assets		2.6	2.6		0.0	0.0
	Financial liabilities measured at amortised cost		136.3	138.4		288.5	290.5

The fair values of financial assets and liabilities accounted for are classified as follows to the three levels of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total	Previous year
	€ m	€ m	€ m	€ m	€ m
Non-current assets available for sale	–	2.6	–	2.6	–
Non-current assets from loans and receivables	–	50.1	–	50.1	49.9
Current assets from loans and receivables	–	400.9	–	400.9	548.5
Non-current financial liabilities	–	–	–	0.0	9.8
Non-current liabilities from other financial liabilities	–	18.4	–	18.4	20.5
Current liabilities from trade payables	–	94.8	–	94.8	95.3
Current financial liabilities	–	10.0	–	10.0	147.6
Current liabilities from other financial liabilities	–	19.2	–	19.2	21.9

The levels of the fair value hierarchy and their application to assets and liabilities are described below:

- Level 1: Listed market prices for identical assets or liabilities on active markets
- Level 2: Other information in the form of listed market prices which are directly (e. g. prices) or indirectly (e. g. derived from prices) observable
- Level 3: Information on assets and liabilities not based on observable market data.

The fair values of the assets and liabilities to be classified to Level 2 are determined on the basis of input factors derivable directly on the market, such as interest. They result from the discounting of future cash flows using the corresponding input factors giving due regard to the credit risk.

Of the other financial assets (non-current), € 2.6 million (previous year: € 0.0 million) are attributable to the newly acquired start-up equity interests whose market value was calculated in accordance with IFRS 13. Moreover, € 0.0 million (previous year: € 0.0 million) relate to equity interests whose market value cannot be calculated due to the absence of an active market. They are measured at cost.

Trade receivables, other financial assets as well as cash and cash equivalents in general have short remaining maturities. Their carrying amounts as at the reporting date therefore correspond to their fair values. The change compared with 31 December 2015 essentially results from the statement of fixed deposit investments in the amount of € 185.1 million (previous year: € 345.0 million) under the other financial assets (current) item. The change in other financial assets (non-current) was largely caused by the investment in fixed deposits of € 50.1 million (previous year: € 30.0 million).

Non-current financial liabilities as at 31 December 2015 included a loan from a bank. The fair value of the loan from this bank and the fair value of other non-current financial liabilities are 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. The fair values of the liabilities are to be classified to Level 2 of the fair value hierarchy on the basis of the input factors.



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 the bond in the previous year is calculated as the nominal value multiplied by the price of the final trading day of the year under review and was thus classified to Level 1 of the fair value hierarchy.

The fair value of liabilities under finance leases was calculated using a market interest curve as at the balance sheet date and corresponds to their carrying amount.

### 7.23.2 Net gains or losses by measurement category

	From share price gains	From subsequent measurement		From disposal	Net result	
		At fair value	Impairment		2016	2015
		€ m	€ m		€ m	€ m
Loans and receivables	–	–	8.3	1.0	9.3	7.4
Financial liabilities measured at amortised cost	–	–	–	–	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>8.3</b>	<b>1.0</b>	<b>9.3</b>	<b>7.4</b>

+ = cost – = income

The net gain or loss from the subsequent measurement of loans and receivables is calculated on the basis of the income and expenses relating to impairments of trade receivables. Disposals includes receivables derecognised as irrecoverable netted with income from payments received in relation to receivables on which impairment losses were recognised in the past.

During the financial year, no expenditures and income resulted from liabilities at amortised cost.

### 7.23.3 Financial liabilities (maturity analysis)

The following table sets out the contractually agreed (undiscounted) interest payments and redemption payments of the original financial liabilities and of the derivative financial instruments, including the financial liabilities stated under liabilities held for sale:

	Cash outflows		
	2017	2018–2023	> 2023
	€ m	€ m	€ m
Financial liabilities	– 10.3	0.0	0.0
Trade payables	– 94.8	0.0	0.0
Other financial liabilities	– 18.1	– 12.2	– 4.0
Liabilities under finance leases	– 1.2	– 3.5	0.0
	<b>– 124.4</b>	<b>– 15.7</b>	<b>– 4.0</b>

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

	Cash outflows		
	2016	2017–2022	> 2022
	€ m	€ m	€ m
Financial liabilities	– 149.2	– 10.3	0.0
Trade payables	– 95.3	0.0	0.0
Other financial liabilities	– 20.9	– 12.1	– 6.0
Liabilities under finance leases	– 1.2	– 3.9	0.0
	– 266.6	– 26.3	– 6.0

The above table includes all financial liabilities held as at the balance sheet date and for which payments had been contractually agreed. Planned payments for new liabilities in the future have not been included in the calculations. Interest payments were included in the future cash flows under agreements in effect as at the balance sheet date. Current liabilities and liabilities which can be terminated at any time are shown under the shortest time horizon.

## 8 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. Reconciliation is provided in the Notes on cash and cash equivalents.

Significant changes compared with the previous year resulted in particular with investment and finance activities. The significantly higher investments in property, plant and equipment as well as in intangible assets compared with the previous year are primarily attributable to the new construction measures in Bad Neustadt a. d. Saale. Also shown under investments are terminations of fixed deposits amounting to € 139.8 million (previous year: fixed deposit investments amounting to € 375.0 million) which, together with the reduction in cash and cash equivalents, were used to finance the repayment of the exchange-listed bond of RHÖN-KLINIKUM AG in March 2016.

Moreover, € 18.7 million (previous year: € 10.1 million) was provided to the associated companies. This is essentially an increase in a loan by € 15.2 million (previous year: € 10.1 million). Furthermore, an amount of € 2.5 million was invested in two Israeli companies in keeping with the object of taking equity interests in highly innovative start-up companies from the medical field. In the context of a capital increase in the amount of € 1.0 million, further funds were invested in Wir für Gesundheit GmbH (WfG) for establishing the distribution structures of a company supplementary health insurance scheme in collaboration with Debeka. WfG is operated jointly by Helios and Asklepios.

In 2015, a final payment totalling € 49.5 million was made under the sale of subsidiaries.

During the reporting year, €0.1 million (previous year: €1.4 million) was used for the acquisition of doctor's practices. Furthermore, as part of the acquisition of Kreisklinik Bad Neustadt a positive cash flow amounting to €0.7 million (previous year: negative cash flow of €5.5 million) was generated as the result of the purchase price payment net of cash acquired. The share repurchase in 2015 resulted in a cash outflow of €167.0 million. The repayment of the bond in 2016 resulted in a cash outflow of €143.2 million.

A total of €8.8 million (previous year: €13.7 million) in construction outstanding invoices were reflected in the statement of cash flows. Dividends paid to non-controlling interests amounted to €0.1 million (previous year: €1.7 million).

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.

## 9 SHAREHOLDINGS

### 9.1 COMPANIES INCLUDED IN THE CONSOLIDATED ANNUAL REPORT

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Hospital companies</b>			
Haus Saaletal GmbH, Bad Neustadt a. d. Saale	100.0	1,601	85
Herz- und Gefäß-Klinik GmbH Bad Neustadt, Bad Neustadt a. d. Saale <sup>1</sup>	100.0	12,158	0
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) <sup>1</sup>	100.0	73,677	0
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	9,169	2,743
RHÖN-Kreisklinik Bad Neustadt GmbH, Bad Neustadt a. d. Saale	100.0	117	–171
Universitätsklinikum Gießen und Marburg GmbH, Gießen	95.0	84,545	9,807
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	132,077	15,113

<sup>1</sup> The company claims the exemption from the disclosure obligation pursuant to section 264 (3) HGB.

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Medical care centre companies</b>			
MVZ Bad Neustadt/Saale GmbH, Bad Neustadt a. d. Saale	100.0	369	0
MVZ des Klinikums Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	199	–22
MVZ UKGM GmbH, Marburg	95.0	196	142
MVZ Zentralklinik GmbH, Bad Berka	87.5	777	180

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Research and education companies</b>			
ESB – Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt a. d. Saale	100.0	1,361	– 118
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

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Property companies</b>			
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt a. d. Saale	100.0	28,123	1,179
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH Leipzig, Leipzig	100.0	278	18

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Service companies</b>			
RHÖN-Cateringgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	204	139
RHÖN-Reinigungsgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	2,424	662
RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale	51.0	230	– 23
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	51.0	171	– 7
UKGM Service GmbH, Bad Neustadt a. d. Saale	100.0	76	– 1

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
<b>Shelf companies/other companies</b>			
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	50.0	882	267
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	138	18
KLINIK "HAUS FRANKEN" GMBH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	657	- 14
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, Heidelberg	24.9	- 623	- 11,274
Psychosomatische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	15	- 7
PTZ GmbH, Marburg	100.0	488	- 7
RHÖN Energie für Gesundheit GmbH, Bad Neustadt a. d. Saale	100.0	1,471	- 29
RHÖN-Innovations GmbH, Bad Neustadt a. d. Saale	100.0	9,774	- 226
RK Klinik Betriebs GmbH Nr. 35, Bad Neustadt a. d. Saale	100.0	139	- 8
Wolfgang Schaffer GmbH, Bad Neustadt a. d. Saale	100.0	586	- 7

## 9.2 OTHER COMPANIES ACCORDING TO SECTION 313 (2) NO. 2 ET SEQ. HGB

	Interest held	Equity	Result for the year
	%	€ '000	€ '000
4QD – Qualitätskliniken.de GmbH, Berlin <sup>1</sup>	20.0	888	- 121
Bäderland Bayerische Rhön GmbH & Co. KG, Bad Kissingen <sup>1</sup>	0.1	13	- 16
Gesellschaft zur Durchführung des Schulversuchs Generalistische Pflegeausbildung mit beruflichen Schwerpunkten in Bayern UG (haftungsbeschränkt), Röhrmoos <sup>1</sup>	30.0	1	0
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar <sup>1</sup>	15.9	480	0
Inovytec Medical Solutions Ltd., Hod Hasharon (Israel) <sup>2</sup>	7.4	253	- 904
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale <sup>1</sup>	25.0	738	146
Soemmerring GmbH privates Institut für Bewegungsstörungen und Verhaltensneurologie i. L., Bad Nauheim <sup>1</sup>	31.7	23	0
Telesofia Medical Ltd., Tel Aviv (Israel) <sup>2</sup>	12.3	84	- 470
Wir für Gesundheit GmbH, Berlin	33.3	299	- 1,939

<sup>1</sup> Figures according to annual financial statements of 31 December 2015.

<sup>2</sup> Figures according to annual financial statements of 31 December 2015, converted at closing/average exchange rate.

## 10 OTHER DISCLOSURES

### 10.1 AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2016	2015	Change	
	Number <sup>1</sup>	Number <sup>1</sup>	Number <sup>1</sup>	%
Medical doctors	974	905	69	7.6
Nursing services	4,512	4,273	239	5.6
Medical-technical services	2,445	2,382	63	2.6
Functional	1,620	1,521	99	6.5
Supply and misc. services	1,817	1,780	37	2.1
Technical	243	232	11	4.7
Administrative	1,010	927	83	9.0
Other personnel	268	262	6	2.3
	<b>12,889</b>	<b>12,282</b>	<b>607</b>	<b>4.9</b>

<sup>1</sup> Headcount, excluding board members, managing directors, apprentices, trainees and those in alternative national service.

### 10.2 OTHER FINANCIAL OBLIGATIONS

	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
<b>Order commitments</b>	<b>78.4</b>	<b>12.7</b>
<b>Operating leases</b>		
Due in subsequent year	1.4	0.7
Due in 2 to 5 years	0.8	1.0
Due in 5 years	0.1	0.2
<b>Total operating leases</b>	<b>2.3</b>	<b>1.9</b>
<b>Other</b>		
Due in subsequent year	29.4	41.6
Due in 2 to 5 years	14.4	21.3
Due in 5 years	2.1	5.1
<b>Total other</b>	<b>45.9</b>	<b>68.0</b>

Of the figure for order commitments, € 1.2 million (previous year: € 0.9 million) is attributable to intangible assets, and € 73.6 million (previous year: € 6.3 million) to property, plant and equipment. Of the order commitments for property, plant and equipment, € 64.9 million (previous year: € 0.5 million) is attributable to plant under construction, with the rise resulting in particular from the construction measure at the Bad Neustadt a. d. Saale Campus from extensive awards in the areas of building piping and building interior fit-out in the fourth quarter of 2016.

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.). During the previous year, obligations from loans reported under this item no longer existed at the balance sheet date.

Moreover, in connection with the development and establishment of a medical network, RHÖN-KLINIKUM AG has committed itself to investments of € 10.0 million over five years starting from 2015. As at the reporting date, obligations totalling €9.0 million still exist.

As at the balance sheet date, we do not have any investment obligations under company acquisition agreements entered into. As at the reporting date, an obligation in the amount of €0.7 million exists for the purchase of further shares in the equity investment Inovytec Medical Solutions Ltd..

In addition, absolute bank guarantee undertakings of unlimited amount 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 as security for advance payments of the association of accredited physicians.

As part of the construction of the new hospital in Bad Neustadt, a bank guarantee in the amount of €0.1 million was granted to secure the reforestation agreement with the Free State of Bavaria.

There is also an aval guarantee declaration (Aval-Bürgschaftserklärung) for claims to government grants from the Free State of Bavaria in the amount of €5.6 million as well as two absolute guarantee declarations (selbstschuldnerische Bürgschaftserklärungen) in connection with practice takeover agreements in the amount of €0.7 million.

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

### 10.3 LEASES WITHIN THE GROUP

Leasing transactions are classified as finance leases or operating leases. Leasing transactions in which the Group acts as the lessee and bears all the major risks and rewards associated with ownership are generally treated as finance leases. As at the balance sheet date of 31 December 2016, this relates to Zentralklinik Bad Berka GmbH, Universitätsklinikum Gießen und Marburg GmbH, Klinikum Frankfurt (Oder) GmbH, RHÖN-Kreisklinik Bad Neustadt GmbH, RHÖN-Reinigungsgesellschaft mbH as well as RHÖN-KLINIKUM AG. Accordingly, the Group capitalised the assets at the present value of the minimum leasing payments of €6.3 million (previous year: €5.9 million), and subsequently depreciates the assets over the estimated economic useful life or the shorter term of the contract. At the same time, a corresponding liability is recognised, which is paid down using the effective interest method. All other leases in which the Group acts as the lessee are treated as operating leases. In this case, the payments are recognised as expense on a straight-line basis.

#### 10.3.1 Obligations as lessee of operating leases

The Group rents medical equipment as well as residential and office space; these are classified as cancellable operating leases. The leases generally have a term of up to five years. Under these lease agreements, the Group has a maximum termination notice of twelve months for the end of the term. The minimum lease payments to be made in future (up to one year) are €1.4 million (previous year: €0.7 million). The minimum lease payments for the period of up to five years are stated at €0.8 million (previous year: €1.0 million). The corresponding figure for the period in excess of five years is €0.1 million (previous year: €0.2 million).

### 10.3.2 Obligations as lessee of finance leases

Under finance leases, the Group mainly rents copier and printer systems as well as laboratory equipment. In the Group, there is a principle of always acquiring ownership of operating assets.

Liabilities from finance leases – minimum payments	2016	2015
	€ m	€ m
Due in subsequent year	1.2	1.2
Due in two to five years	2.8	3.1
Due in five years	0.3	0.8
	<b>4.3</b>	<b>5.1</b>
<b>Future financing costs under finance leases</b>	– 0.3	– 0.5
<b>Present value of liabilities under finance leases</b>	<b>4.0</b>	<b>4.6</b>

Present value of liabilities under finance leases	2016	2015
	€ m	€ m
Due in subsequent year	1.1	1.0
Due in two to five years	2.6	2.8
Due in five years	0.3	0.8
	<b>4.0</b>	<b>4.6</b>

The decline in liabilities under finance leases results from repayments for various copier and printer systems as well as the leased laboratory equipment items. The leases in some cases contain purchase and extension options that can be exercised after expiry of the minimum contractual term.

### 10.3.3 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 33 1/3 years. Rental income of €0.4 million (previous year: €0.4 million) was received in 2016. 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.

	2016	2015
	Total	Total
	€ m	€ m
<b>Cost</b>		
<b>1 January</b>	5.0	5.0
Additions	0.0	0.0
Disposals	0.0	0.0
<b>31 December</b>	5.0	5.0
<b>Cumulative depreciation</b>		
<b>1 January</b>	2.1	1.9
Depreciation	0.1	0.2
Disposals	0.0	0.0
<b>31 December</b>	2.2	2.1
<b>Balance sheet value as at 31 December</b>	<b>2.8</b>	<b>2.9</b>

There is also income from non-terminable leases. The minimum lease payments to be received in future (up to one year) are €0.1 million. The minimum lease payments for the period of up to five years are €0.0 million. The corresponding figure for the period in excess of five years is €0.0 million.

#### 10.4 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% and 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 2016 was as follows:

	Expenses 2016	Income 2016	Receivables 31 December 2016	Liabilities 31 December 2016
	€ '000	€ '000	€ '000	€ '000
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale	–	370	6	–
4QD – Qualitätskliniken.de GmbH, Berlin	61	–	–	–
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar	31	–	–	–
	92	370	6	–

From the point of view of the Group, the volume of transactions with companies consolidated using the equity method in financial year 2016 was as follows:

	Expenses 2016	Income 2016	Receivables 31 December 2016	Liabilities 31 December 2016
	€ '000	€ '000	€ '000	€ '000
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	1,071	–	–	89
Marburger Ionenstrahl-Therapie Betriebs- Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	219	1,171	0	–
	1,290	1,171	0	89

The 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 (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, rendered the following services at arm's length terms:

Related party	Companies as defined by IAS	Nature of services	€ '000 2016	€ '000 2015
			Expenses	
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	8	13
		Supervisory board activity at an affiliated company	3	2
Prof. Dr. h. c. Ludwig Georg Braun	B. Braun Konzern (primarily B. Braun Melsungen AG and Aesculap AG)	Purchase of medical products	10,091	7,889
Peter Berghöfer		Supervisory board activity at an affiliated company	3	1
Bettina Böttcher		Supervisory board activity at an affiliated company	1	–
Klaus Handschur		Supervisory board activity at an affiliated company	4	3
Dr. Katrin Vernau		Supervisory board activity at an affiliated company	3	2
Dr. Heinz Korte		Supervisory board activity at an affiliated company	–	3
Stephan Holzinger		Supervisory board activity at an affiliated company	2	1

The expenses were recognised in the income statement under the materials and consumables item as well as the other expenses item. No impairments were to be recognised in financial year 2016.

The following services were recognised in the income statement under other income:

Related party	Companies as defined by IAS	Nature of services	€ '000 2016	€ '000 2015
			Income	
Eugen Münch		Telephone expenses and insurance fees	3	1

As at the balance sheet date of 31 December 2016, the following trade receivables/trade liabilities existed:

Related party	€ '000 2016	€ '000 2015	€ '000 2016	€ '000 2015
	Liabilities		Receivables	
Prof. Dr. Gerhard Ehninger	–	–	–	–
Prof. Dr. h. c. Ludwig Georg Braun	308	316	–	–
Eugen Münch	–	–	–	0

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:

	Fixed	Profit-linked	Total 2016	Total 2015
	€ '000	€ '000	€ '000	€ '000
Peter Berghöfer	126	40	166	164
Björn Borgmann (since 10 June 2015)	40	–	40	24
Bettina Böttcher	30	–	30	30
Helmut Bühner (until 10 June 2015)	–	–	–	23
Klaus Hanschur	36	–	36	37
Stefan Härtel	49	1	50	49
Oliver Salomon (from 9 April 2014 until 10 June 2015)	–	–	–	25
Evelin Schiebel (since 10 June 2015)	41	1	42	22
Dr. Franz-Josef Schmitz (from 1 May 2014 until 10 June 2015)	–	–	–	53
	322	42	364	427

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

#### 10.5 TOTAL PAYMENTS OF SUPERVISORY BOARD, THE BOARD OF MANAGEMENT AND THE ADVISORY BOARD

	2016	2015
	€ '000	€ '000
Remuneration of the Supervisory Board	2,023	2,215
Remuneration of the incumbent Board of Management	4,851	4,156
Remuneration of the Advisory Board	21	20

No loans were granted to members of the Supervisory Board, the Board of Management or the Advisory Board. The members of the Supervisory Board together have a shareholding interest in RHÖN-KLINIKUM Aktiengesellschaft of 37.1% (previous year: 32.2%) of total equity capital. The family of the Chairman of the Supervisory Board, Mr. Eugen Münch, holds 15.5% (previous year: 12.4%) of the shares of RHÖN-KLINIKUM AG. Of that, 10.0% (previous year: 6.9%) is attributable to Eugen Münch and 5.5% (previous year: 5.5%) to Ingeborg Münch. Prof. Dr. h. c. Ludwig Georg Braun indirectly holds 21.6% (previous year: 19.8%) of the registered share capital. As at 31 December 2016, the members of the Board of Management do not hold any shares of RHÖN-KLINIKUM Aktiengesellschaft.

Transactions with shares of RHÖN-KLINIKUM Aktiengesellschaft performed in 2016 by members of the Supervisory Board and of the Board of Management as well as by their spouses and/or first-degree relatives were published pursuant to section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) and Article 19 of the MAR, the Market Abuse Regulation (EU) No 596/2014 which has been valid in Germany since 3 July 2016.

During the reporting period, RHÖN-KLINIKUM Aktiengesellschaft was notified of the following transactions pursuant to section 15a of the WpHG of members of the Supervisory Board or of the Board of Management (directors' dealings).

Date of transaction	First and last name	Position/status	Financial instrument and ISIN	Nature and place of transaction	Quantity	Price	Trading volume
13 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase via XETRA	40,000	€ 26.85	€ 1,074,024.00
17 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase via XETRA	60,000	€ 27.00	€ 1,619,964.00
18 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase via XETRA	30,000	€ 27.14	€ 814,065.00
19 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Call options on the RHÖN-KLINIKUM share ISIN DE0007042301	Sale via EUREX	10	€ 91.00	€ 910.00
19 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase via XETRA	28,171	€ 27.23	€ 767,056.89
19 May 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Put options on the RHÖN-KLINIKUM share ISIN DE0007042301	Purchase via EUREX	10	€ 10.00	€ 100.00

Moreover, RHÖN-KLINIKUM AG received the following notifications on transactions for own account by persons discharging managerial responsibilities pursuant to Article 19 MAR:

Date of transaction	First and last name	Position/status	Financial instrument and ISIN	Nature and place of transaction	Quantity	Price	Trading volume
23 August 2016	Eugen Münch	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	2,070,000	not quantifiable	not quantifiable
23 August 2016	Eugen Münch	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	2,930,000	not quantifiable	not quantifiable
15 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	390,000	€ 25.17	€ 9,815,910.00
16 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	343,988	€ 25.76	€ 8,862,506.83
19 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	198,012	€ 25.19	€ 4,988,120.29
20 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	62,639	€ 25.37	€ 1,589,401.99
21 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	12,567	€ 25.46	€ 319,968.39
22 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	15,000	€ 25.51	€ 382,680.00
23 December 2016	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	19,794	€ 25.66	€ 507,874.45

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

Total payments	Fixed basic remuneration	Fixed attendance fee	Fixed total remuneration	Total 2016	Total 2015
	€ '000	€ '000	€ '000	€ '000	€ '000
Eugen Münch	120	48	197	365	390
Joachim Lüddecke (until 10 June 2015)	–	–	–	–	75
Georg Schulze-Ziehaus	80	48	35	163	140
Wolfgang Mündel	80	52	158	290	313
Peter Berghöfer	40	20	34	94	91
Bettina Böttcher	36	12	16	64	76
Björn Borgmann (since 10 June 2015)	40	24	35	99	51
Prof. Dr. h. c. Ludwig Georg Braun	40	22	31	93	76
Sylvia Bühler (until 10 June 2015)	–	–	–	–	31
Helmut Bühner (until 10 June 2015)	–	–	–	–	40
Prof. Dr. Gerhard Ehninger	36	14	14	64	68
Stefan Härtel	40	24	35	99	92
Klaus Hanschur	40	22	33	95	88
Reinhard Hartl (until 10 June 2015)	–	–	–	–	53
Stephan Holzinger (until 31 January 2017)	40	68	84	192	165
Meike Jäger (since 10 June 2015)	36	14	22	72	49
Dr. Heinz Korte (until 10 June 2015)	–	–	–	–	61
Michael Mendel (until 10 June 2015)	–	–	–	–	38
Dr. Brigitte Mohn	32	8	8	48	64
Christine Reißner (since 10 June 2015)	40	20	34	94	49
Oliver Salomon (until 10 June 2015)	–	–	–	–	53
Evelin Schiebel (since 10 June 2015)	40	24	26	90	38
Dr. Franz-Josef Schmitz (until 10 June 2015)	–	–	–	–	35
Dr. Katrin Vernau	40	24	37	101	79
	780	444	799	2,023	2,215

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

Incumbent members of the Board of Management	Prof. Dr. Bernd Griewing (member of Board of Management)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	192	0	192	192	192	0
Fringe benefits	8	0	8	8	8	0
<b>Total</b>	<b>200</b>	<b>0</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>0</b>
One-year variable remuneration						
Management profit sharing	854	0	408	1,008	854	0
<b>Total payments</b>	<b>1,054</b>	<b>0</b>	<b>608</b>	<b>1,208</b>	<b>1,054</b>	<b>0</b>
Pension expense <sup>1</sup>	127	0	127	127	127	0
<b>Total remuneration</b>	<b>1,181</b>	<b>0</b>	<b>735</b>	<b>1,335</b>	<b>1,181</b>	<b>0</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Martin Menger (member of the Board of Management)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	10	10	10	10	10	10
<b>Total</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>	<b>202</b>
One-year variable remuneration						
Management profit sharing	556	308	408	1,008	556	308
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>788</b>	<b>1,005</b>	<b>610</b>	<b>2,661</b>	<b>830</b>	<b>814</b>
Pension expense <sup>1</sup>	105	61	105	105	105	61
<b>Total remuneration</b>	<b>893</b>	<b>1,066</b>	<b>715</b>	<b>2,766</b>	<b>935</b>	<b>875</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Jens-Peter Neumann (permanent representative of the Chairman of the Board of Management)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	211	211	211	211	211	211
Fringe benefits	10	9	10	10	10	9
<b>Total</b>	<b>221</b>	<b>220</b>	<b>221</b>	<b>221</b>	<b>221</b>	<b>220</b>
One-year variable remuneration						
Management profit sharing	1,000	739	989	2,189	1,000	739
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>1,251</b>	<b>1,454</b>	<b>1,210</b>	<b>3,861</b>	<b>1,293</b>	<b>1,263</b>
Pension expense <sup>1</sup>	111	115	111	111	111	115
<b>Total remuneration</b>	<b>1,362</b>	<b>1,569</b>	<b>1,321</b>	<b>3,972</b>	<b>1,404</b>	<b>1,378</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.

Incumbent members of the Board of Management	Dr. Dr. Martin Siebert (Chairman of the Board of Management)					
	Inducements granted				Inflow	
	2016	2015	2016 (min.)	2016 (max.)	2016	2015
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Base salary (fixed remuneration)	384	384	384	384	384	384
Fringe benefits	10	10	10	10	10	10
<b>Total</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>	<b>394</b>
One-year variable remuneration						
Management profit sharing	1,334	808	1,116	2,616	1,334	808
Multi-year variable remuneration						
Virtual share options	30	495	0	1,451	72	304
<b>Total payments</b>	<b>1,758</b>	<b>1,697</b>	<b>1,510</b>	<b>4,461</b>	<b>1,800</b>	<b>1,506</b>
Pension expense <sup>1</sup>	155	144	155	155	155	144
<b>Total remuneration</b>	<b>1,913</b>	<b>1,841</b>	<b>1,665</b>	<b>4,616</b>	<b>1,955</b>	<b>1,650</b>

<sup>1</sup> Pension expenditure includes past service cost according to IAS 19.



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

An interest of 9.0% was held by the members of the Board of Management, and an interest of 1.18% by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made for the interests in the amount of €0.5 million (of which €0.4 million are attributable to the members of the Board of Management) are reported under the other liabilities item as cash-settled share-based payment transactions as defined by IFRS 2. The result for the period of the reporting year does not contain any income or expenses in this connection. In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable. No expenses as part of this remuneration were incurred during the reporting period.

On termination of their service contracts, the board members receive a post-retirement benefit when certain conditions are met. This compensation amounts to 12.5% of the annual remuneration owed on the date of termination of the service contract for each full year (twelve full calendar months) of service as member of the Board of Management, but not exceeding 1.5 times such latter remuneration. For such post-termination entitlements of the members of the Board of Management, the following provisions have been formed for post-employment benefits:

Retirement benefits	Provision as at 31 Dec. 2015	Change in retirement benefits	Provision as at 31 Dec. 2016	Nominal amount on contract expiry <sup>1</sup>
	€ '000	€ '000	€ '000	€ '000
<b>Incumbent members of the Board of Management</b>				
Prof. Dr. Bernd Griewing	–	135	135	654
Martin Menger	522	42	564	935
Jens-Peter Neumann	351	292	643	1,237
Dr. Dr. Martin Siebert	499	406	905	1,771
<b>Total</b>	<b>1,372</b>	<b>875</b>	<b>2,247</b>	<b>4,597</b>

<sup>1</sup> Claim according to expiry of service contract (31 December 2020) based on remuneration.

## 10.6 DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE CODE

By joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG of 3 November 2016, 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 2016. These have been published on the website of RHÖN-KLINIKUM AG and thus made available to the general public.

## 10.7 DISCLOSURE OF THE FEES RECOGNISED AS EXPENSES (INCLUDING REIMBURSEMENT OF OUTLAYS AND EXCLUDING VAT) FOR THE STATUTORY AUDITORS

In financial year 2016, expenses resulting from fees for statutory auditors amounting to € 1.5 million (previous year: € 1.5 million) were incurred Group-wide. A breakdown of these fees (including outlays and excluding VAT) by service rendered is provided below:

	2016	2015
	€ '000	€ '000
Fees for auditing financial statements	792	862
Fees for other auditing services	157	179
Fees for tax advice	396	203
Fees for other services	121	223
	<b>1,466</b>	<b>1,467</b>

Of the total fee (excluding VAT), € 0.1 million (previous year: € 0.1 million) is attributable to other statutory auditors who are not auditors of the consolidated financial statements. The fees comprise the following:

	2016	2015
	€ '000	€ '000
Fees for auditing financial statements	90	84
Fees for other auditing services	0	0
Fees for tax advice	13	12
Fees for other services	1	10
	<b>104</b>	<b>106</b>

## 10.8 EVENTS AFTER THE REPORTING DATE

With effect from 1 February 2017, Mr. Stephan Holzinger was appointed as a new member to the position of Chairman of the Board of Management and replaced Dr. Dr. Martin Siebert as previous Chairman of the Board of Management who assumes the office of permanent representative of the Chairman of the Board of Management. The expectation of the Supervisory Board from this decision is that it will give new impetus for the Company's new orientation introduced with the Fresenius transaction to be pursued with even greater determination in future so as to promote the further and ongoing development of the Company in the long term, also as regards the implementation of the campus approach and the ubiquitous advance of digitalisation. The Terms of Reference were adapted accordingly.

The Supervisory Board member Stephan Holzinger resigned his Supervisory Board mandate before taking up his mandate as Chairman of the Board of Management on 31 January 2017. The Nomination Committee nominated Dr. Annette Beller, tax advisor, auditor and member of the management board of B. Braun Melsungen AG, to succeed on the Supervisory Board. The still outstanding court appointment of Dr. Beller would end with a new election at the Annual General Meeting on 7 June 2017.

## 11 CORPORATE BODIES AND ADVISORY BOARD 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, Munich (Board of Trustees)

#### GEORG SCHULZE-ZIEHAUS

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

#### WOLFGANG MÜNDEL

Kehl, 2nd Deputy Chairman, Auditor and Tax Consultant  
in own practice

- Jean d'Arcel Cosmétique GmbH & Co. KG, Kehl (Chairman of the Advisory Board)
- HCM SE, Bad Neustadt a. d. Saale (Deputy Chairman 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

#### BETTINA BÖTTCHER

Marburg, Employee at Universitätsklinikum Gießen und Marburg GmbH, Gießen

*Also a member of the Supervisory Board of:*

- Universitätsklinikum Gießen und Marburg GmbH, Gießen

#### BJÖRN BORGMANN

Marburg, male Nurse and Chairman of the Central Works Council of RHÖN-KLINIKUM AG

#### PROFESSOR DR. H. C. LUDWIG GEORG BRAUN

Melsungen, entrepreneur

*Also a member of the Supervisory Board of:*

- Aesculap AG, Tuttlingen (Chairman of the Supervisory Board)
- B. Braun Avitum AG, Melsungen (Chairman of the Supervisory Board)
- B. Braun Melsungen AG, Melsungen (Chairman of the Supervisory Board)
- Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
- Stihl AG, Waiblingen
- WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg

*Other mandates:*

- B. Braun Medical AG, Luzern, Switzerland (Vice-President of the Board of Directors)
- Stihl Holding AG & Co. KG, Waiblingen (member of the Advisory Board)

#### PROFESSOR DR. GERHARD EHNINGER

Dresden, Medical Doctor

*Also a member of the Supervisory Board of:*

- Universitätsklinikum Gießen und Marburg GmbH, Gießen

#### STEFAN HÄRTEL

Müllrose, male Nurse, Klinikum Frankfurt (Oder) GmbH,  
Frankfurt (Oder)

*Other mandates:*

- Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) (member of the Advisory Board)

#### KLAUS HANSCHUR

Marburg, Masseur and med. Spa Therapist

*Also a member of the Supervisory Board of:*

- Marburger Spar- und Bauverein eG, Marburg
- Universitätsklinikum Gießen und Marburg GmbH, Gießen

#### STEPHAN HOLZINGER

Munich, Managing Shareholder of Holzinger  
Associates GmbH (until 31 January 2017)

*Also a member of the Supervisory Board of:*

- Universitätsklinikum Gießen und Marburg GmbH, Gießen (since 1 June 2016)

*Other mandates:*

- HCM SE, Bad Neustadt a. d. Saale (Board of Directors)
- Stiftung Münch, Munich (Chairman of Trustees)

#### MEIKE JÄGER

Berlin, Regional Director and Secretary of ver.di

#### 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:*

- Member of Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh
- Stiftung Michael Skopp, Bielefeld (member of the Board of Trustees)
- Stiftung Deutsche Schlaganfall-Hilfe, Gütersloh (Chairman of the Board of Trustees)
- Agentur Nordpol, Hamburg (member of the Advisory Board)
- Dachstiftung Diakonie, Kästorf (member of the Board of Trustees)
- Flytxt B.V., Netherlands (Non-Executive-Director)
- Clue by Biowink GmbH, Berlin (member of the Advisory Board)
- Sunrise Capital GmbH, Leopoldhöhe (Managing Shareholder)
- Volunteer Directly Ltd., GivingWay, Israel (member of the Advisory Board) (since March 2016)

#### CHRISTINE REISSNER

Sülzfeld, Merchant

#### EVELIN SCHIEBEL

Görsbach, nurse

#### DR. KATRIN VERNAU

Hamburg, Administrative Director of WDR Westdeutscher Rundfunk  
Cologne

*Also a member of the Supervisory Board of:*

- Universitätsklinikum Gießen und Marburg GmbH, Gießen
- WDR mediagroup GmbH, Cologne
- Duale Hochschule Baden-Wuerttemberg, Stuttgart

*Other mandates:*

- Rheinische Friedrich Wilhelms Universität Bonn, Bonn (member and Deputy Chairman of the University Council)
- Claussen-Simon-Stiftung, Hamburg (member of the Board of Trustees)
- Fee service of ARD, ZDF and Deutschlandradio, Cologne (Chairman of the Administrative Board)
- IVZ Informationsverarbeitungszentrum, Cologne (member of the Board of Directors)

**THE BOARD OF MANAGEMENT OF RHÖN-KLINIKUM AG COMPRISES THE FOLLOWING PERSONS:****STEPHAN HOLZINGER**

business address at Bad Neustadt a. d. Saale,  
Chairman of the Board of Management (since 1 February 2017)  
Member of the Supervisory Board of:  
– Universitätsklinikum Gießen und Marburg GmbH, Gießen (since 1 June 2016)  
Other mandates:  
– HCM SE, Bad Neustadt a. d. Saale (Board of Directors)  
– Stiftung Münch, Munich (Chairman of the Trustees)

**DR. MED. DR. JUR. MARTIN SIEBERT**

business address Bad Neustadt a. d. Saale,  
Chairman of the Board of Management (until 31 January 2017),  
permanent representative of the Chairman of the  
Board of Management (since 1 February 2017)  
Member of the Supervisory Board of:  
– Universitätsklinikum Gießen und Marburg GmbH, Gießen (Chairman of the  
Supervisory Board)  
Other mandates:  
– Willy Pitzer Beteiligungsgesellschaft mbH, Bad Nauheim (member of the  
Advisory Board)  
– Bundesverband Deutscher Privatkliniken e.V., Berlin (Board of Management)

**PROF. DR. MED. BERND GRIEWING**

business address Bad Neustadt a. d. Saale, Medical  
Member of the Supervisory Board of:  
– Universitätsklinikum Gießen und Marburg GmbH, Gießen  
Other mandates:  
– Stiftung Münch, Munich (Board of Trustees)  
– Mittelhessische Medizin-Stiftung Universitätsklinikum Gießen und Marburg,  
Gießen (Board of Trustees)  
– Geschäftsstelle Zentrum für Telemedizin e. V., Bad Kissingen  
(Board of Management)

**MARTIN MENGER**

business address Bad Neustadt a. d. Saale (since 1 January 2016),  
business operations  
Other mandates:  
– Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) (Chairman of the  
Advisory Board)  
– Niedersächsische Krankenhausgesellschaft e. V., Hanover (member of the  
Board of Management)  
– Niedersächsische Krankenhausgesellschaft e. V., Hanover (member of the  
Arbitration Body)  
– Verband der Privatkliniken Niedersachsen und Bremen e. V. (managing  
director)

**JENS-PETER NEUMANN**

business address Bad Neustadt a. d. Saale, permanent representative  
of the Chairman of the Board of Management (until 31 January 2017),  
Finance

**THE ADVISORY BOARD OF RHÖN-KLINIKUM AG COMPRISES THE FOLLOWING PERSONS:****PROFESSOR DR. MED. FREDERIK WENZ**

Heidelberg (Chairman)

**DR. BORIS AUGURZKY**

Essen

**JOCHEN BOCKLET**

Bad Neustadt a. d. Saale

**SUSANNE HELM**

Bad Neustadt a. d. Saale

**PROFESSOR DR. RER. POL. GEORG MILBRADT**

Dresden

**MICHAEL WENDL**

Munich

Bad Neustadt a. d. Saale, 20 February 2017

The Board of Management

Prof. Dr. Bernd Griewing    Stephan Holzinger    Martin Menger    Jens-Peter Neumann    Dr. Dr. Martin Siebert

## 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, 20 February 2017

The Board of Management

Prof. Dr. Bernd Griewing    Stephan Holzinger    Martin Menger    Jens-Peter Neumann    Dr. Dr. Martin Siebert

# INDEPENDENT AUDITOR'S REPORT

**TO RHÖN-KLINIKUM AKTIENGESELLSCHAFT, BAD NEUSTADT A. D. SAALE**

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 1, to December 31, 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements.

### Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group entities in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

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 January 1, to December 31, 2016. 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, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

1. Recognition of revenue generated from hospital services provided and revenue settlement (Erlösausgleich)
2. Recoverability of deferred tax assets
3. Recoverability of goodwill
4. Provisions for legal and tax risks in connection with the sale of companies

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

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

#### **1. Recognition of revenue generated from hospital services provided and revenue settlement (Erlösausgleich)**

1. The revenue amounting to EUR 1.176,4 million recognized in the Company's consolidated financial statements relates primarily to hospital services and are therefore largely subject to the statutory fee regulations for the healthcare sector. For the purposes of settling the provided hospital services, the health insurance funds and the respective hospital annually negotiate and agree revenue budgets, DRG number of cases (patients treated) (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 (Erlösausgleich) between the health insurance funds 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, management estimates the service quantities to be remunerated as of the balance sheet date. The resulting receivables or liabilities are recognized in the consolidated statement of financial position and 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 verified by the Medical Review Board of Statutory Health Insurance Funds (Medizinischer Dienst der Krankenversicherung, MDK). In measuring the trade receivables and payables and revenue from the hospital services provided, management makes estimates with respect to the MDK's objection rate, and in this respect also performs any necessary revenue adjustments based on experience. In turn, the final findings of MDK's reviews influence the revenue settlement for the respective financial year.



The revenue adjustments are based to a large extent on management's estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement underlying this material item, this matter was of particular importance during 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. Being aware that estimated values result in an increased risk of accounting misstatements and that management's 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 management uses for performing revenue adjustments. Furthermore, we also evaluated management's 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 performing comparisons using respective information of performance statistics of the patient management system and the underlying agreements as part of validating the revenue figures. With respect to any corrections by the MDK, we evaluated the processes for calculating the service quantities (coding) and for determining the corresponding corrections. We also analyzed the development of MDK's review 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 management concerning the recognition and measurement of revenue from hospital services provided were sufficiently documented and that the estimates applied and the assumptions made by management were consistently derived.
3. The Company's disclosures relating to revenue recognition are contained in section 3.2 of the notes to the consolidated financial statements.

## 2. Recoverability of deferred tax assets

1. Deferred tax assets (net of set-offs and impairment losses) of EUR 5.7 million are recognized in the Company's consolidated financial statements. Deferred tax assets are recognized to the extent that, based on management's estimates, it is probable in the foreseeable future that future taxable profit of the same taxable entity and in relation to the same taxation authority can be offset against unused tax losses and deductible temporary differences. Deferred taxes are calculated using future tax rates, to the extent they have already been enacted or substantively enacted. Of the RHÖN-KLINIKUM Group's deferred tax assets totaling EUR 15.6 million prior to set-offs, EUR 7.5 million is attributable to loss carryforwards. In total, EUR 7.3 million in deferred tax assets were not recognized since it was not probable to yield any tax advantages by setting these off against taxable profit. Against this background and due to the fact that the RHÖN-KLINIKUM Group's taxable earnings projections (used for justifying recoverability) depend to a large extent on management's estimates and assumptions and are therefore subject to uncertainty, the matter was of particular importance during our audit.

2. As part of our audit, we added internal tax accounting specialists to our audit team to help us assess the recoverability of tax positions. These specialists supported us *inter alia* in assessing the processes and controls implemented for recording tax matters and the appropriateness of the accounting treatment. Furthermore, we assessed the recoverability of deferred tax assets on loss carryforwards and on deductible temporary differences between the carrying amounts in the financial statements and the tax accounts on the basis of the RHÖN-KLINIKUM Group's tax planning prepared by management; we also assessed the appropriateness of the underlying budget assumptions. Furthermore, we examined the reconciliation to the tax expense. We were able to follow the assumptions made by management concerning the recognition and measurement of deferred taxes, and agree with the assessments arrived at by management.
3. The Company's disclosures relating to deferred taxes are contained in sections 7.4 and 6.9 of the notes to the consolidated financial statements.

### 3. Recoverability of goodwill

1. In the Company's consolidated financial statements an amount of EUR 162.4 million in goodwill (11.2% of consolidated total assets) has been reported under the balance sheet line item "Goodwill and other intangible assets". The Company allocates goodwill to the respective cash-generating units (each hospital of the Company, as far as the associated goodwill of cooperating units is not monitored at a higher level). At least once annually, the Company tests the goodwill for impairment ("impairment test") in terms of IAS 36. Furthermore, an impairment test is also performed when there is an indication that the goodwill may be impaired. Goodwill is generally measured as the present value of the future cash flows of the respective cash-generating unit. The respective present value is calculated using discounted cash flow models. The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. The result of this measurement depends to a large extent on management's assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the methodological requirements for the measurement, this matter was of particular importance during our audit.
2. As part of our audit, we, among other things, examined the method used for performing impairment tests and assessed the calculation of the weighted average cost of capital. We satisfied ourselves as to the appropriateness of the future cash inflows used in the measurement by, *inter alia*, comparing this data with the current budgets in the five-year plan prepared by management, and reconciling it against general and sector-specific market expectations. We also considered the inclusion of the recognized costs for Group functions of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the amount of goodwill calculated in this way, we also focused on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the measurement model. Furthermore, in addition to the Company's sensitivity analyses, we also carried out our own analyses and, found that, on the basis of the available information, the respective goodwill was sufficiently covered by the discounted future cash surpluses. Overall, we consider the measurement inputs and assumptions used by management to be in line with our expectations.
3. The Company's disclosures pertaining to goodwill are contained in sections 2.4.1, 3.1 and 7.1 of the notes to the consolidated financial statements.

#### 4. Provisions for legal and tax risks in connection with the sale of companies

1. In the Company's consolidated financial statements other provisions amounting to EUR 95.8 million has been reported. Of this amount, EUR 84.2 million relates to provisions for potential legal and tax warranty risks in connection with the sale of clinics to Fresenius/Helios. The requisite risk assessment and determining on the basis of that assessment whether or not a provision should be recognized to cover the risk, and if so, in what amount, is shaped to a high degree by estimates and assumptions on the part of management. The contractual warranty obligations from the underlying share purchase agreement form the basis for recognizing these provisions. To measure these provisions, the Company calculated the expected future cash outflows relating to the underlying obligations. Against this background and due to the materiality of these provisions (5.8% of consolidated total assets) as well as management's underlying assumptions and judgment, this matter was of particular importance during our audit.
2. With the knowledge that estimated values bear an increased risk of accounting misstatements and that management's measurement decisions have a direct and significant effect on consolidated profit, we assessed the appropriateness of the carrying amounts as a part of our audit. We assessed the recognition and measurement of the obligation inter alia by comparing these amounts with historical data, evaluating the consistency of the used calculation methodology and by referring to the underlying contracts provided to us. We also examined the calculation of the provisions. We were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of these material provisions. We were able to follow the measurement assumptions applied by management, and deem appropriate the assessments arrived at by management as well as the recognition and measurement of these material provisions.
3. The Company's disclosures pertaining to provisions for legal and tax risks in connection with the sale of companies are contained in section 7.17 of the notes to the consolidated financial statements.

#### Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report according to section 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB and § 315 Abs. 5 HGB, as well as
- draft version of other parts of the annual report of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, for the financial year ended on December 31, 2016, which were not subject of our audit; the final version of the annual report is expected to be made available to us after the date of our auditor's report.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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 Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, management is responsible for such internal control as management determines is 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objective is 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 to issue an auditor's report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, 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 economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, 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, 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 opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 our auditor's report to the related disclosures in the consolidated financial statements or the group management report or, if such disclosures are inadequate, to modify our audit opinion. 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 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 represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, 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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and 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 report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **REPORT ON THE AUDIT OF THE GROUP MANAGEMENT REPORT**

#### **Audit Opinion on the Group Management Report**

We have audited the group management report of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, for the financial year from January 1, to December 31, 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements, complies with legal requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

#### **Basis for Audit Opinion on the Group Management Report**

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Group Management Report**

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such policies and procedures (systems) as management determines are necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and 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 group management report.

#### **Auditor's Responsibilities for the Audit of the Group Management Report**

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements as well as the findings of our audit, complies with legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the policies and procedures (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 policies and procedures (systems).
- We perform audit procedures on the prospective information presented by management in the group management report. Based on appropriate and sufficient audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.
- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

#### **RESPONSIBLE AUDITOR**

The auditor responsible for the audit is Anne Böcker.

Frankfurt am Main, February 21, 2017

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

sgd. Anne Böcker	sgd. ppa. Stefan Sigmann
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

## BALANCE SHEET AND INCOME STATEMENT

### BALANCE SHEET

ASSETS	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Intangible assets	2.5	2.5
Property, plant and equipment	79.0	46.6
Financial assets	672.2	681.2
<b>Fixed assets</b>	<b>753.7</b>	<b>730.3</b>
Inventories	4.7	3.9
Receivables and other assets	90.0	99.7
Securities, cash and cash equivalents	287.0	490.5
<b>Current assets</b>	<b>381.7</b>	<b>594.1</b>
Prepaid expenses	0.9	0.8
Deferred tax assets	8.0	4.6
	<b>1,144.3</b>	<b>1,329.8</b>

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2016	31 Dec. 2015
	€ m	€ m
Subscribed capital/ issued capital	167.4	167.4
Capital reserve	589.0	589.0
Retained earnings	0.1	0.1
Net distributable profit	168.4	180.8
<b>Shareholders' equity</b>	<b>924.9</b>	<b>937.3</b>
Contributions to finance fixed assets	1.8	1.2
Provisions	115.8	160.4
Liabilities	101.8	230.9
	<b>1,144.3</b>	<b>1,329.8</b>

### INCOME STATEMENT

	2016	2015
	€ m	€ m
Revenues	184.2	181.4
Change in services in progress	0.6	-0.1
Other operating income	44.8	34.7
Materials and consumables used	50.9	46.5
Employee benefits expense	89.7	85.2
Depreciation	9.4	11.1
Other operating expenses	33.6	33.7
<b>Operating result</b>	<b>46.0</b>	<b>39.5</b>
Investment result	15.6	18.4
Gain/loss on disposal of financial assets	0.0	8.3
Finance result	-23.8	9.6
<b>Earnings from ordinary operations</b>	<b>37.8</b>	<b>75.8</b>
Taxes	-3.3	0.3
<b>Net profit for the year</b>	<b>41.1</b>	<b>75.5</b>
Profit carried forward from previous year	127.3	271.8
Income from capital reduction	0.0	16.3
Allocation to capital reserve pursuant to section 237 (5) AktG	0.0	16.3
Expenditure from simplified capital reduction through withdrawal of shares	0.0	166.5
<b>Net distributable profit</b>	<b>168.4</b>	<b>180.8</b>

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.

Should you wish to receive a full copy, please write to RHÖN-KLINIKUM Aktiengesellschaft.



## PROPOSED APPROPRIATION OF PROFIT

The annual financial statements of RHÖN-KLINIKUM Aktiengesellschaft for the year ended 31 December 2016, 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 € 168,369,902.96. The Board of Management and the Supervisory Board propose appropriating from the net distributable profit an amount of

**€ 23,428,464.50 to distribute a dividend of € 0.35 per non-par share with dividend entitlement (DE0007042301)**

and carrying forward to new account the remaining amount of € 144,941,438.46.

Bad Neustadt a. d. Saale, 6 April 2017

RHÖN-KLINIKUM Aktiengesellschaft

The Supervisory Board

The Board of Management



# Excellence & Reliability

---

To provide cutting-edge medical care, you need a top-notch team: here, excellent doctors and nursing staff work hand in hand. Sustainable treatment success is not merely the result of modern apparatusive medicine: receiving the best possible nursing and care from our highly qualified staff at our hospitals is every bit as important.

---





## ZENTRAKLINIK BAD BERKA

Zentralklinik Bad Berka is one of the most modern medical facilities in Germany. It is an academic teaching hospital and has a supraregional care mandate. Each year, thousands of patients are treated here from all over Germany, Europe and many non-European countries.

### FACTS AND FIGURES

Number of patients (outpatient and inpatient)	roughly 40,000
Number of beds	648
Number of hospitals / specialist disciplines	21
Number of employees	roughly 1,800

### ZENTRAKLINIK BAD BERKA

Robert-Koch-Allee 9  
99437 Bad Berka  
T. +49 (0) 36458 5-0  
F. +49 (0) 36458 42180  
gf@zentraklinik.de  
www.zentralklinik.de

The facility offers cutting-edge medical care at an international level. At the same time, being close to patients and their wishes is at the forefront of its work. Individual care and attention is just as important for the team of doctors, nurses and medical-technical assistants as providing the best possible treatment, which is made possible by interdisciplinary cooperation amongst the various clinics.

Patients in particular with thoracic, pulmonary and vascular diseases, tumours, heart conditions as well as diseases of the nervous and skeletal system are treated in 21 specialist clinics and centres as well as in an interdisciplinary diagnostics facility. Moreover, two medical care centres in Bad Berka and Weimar with branches in Apolda and Sömmerda offer comprehensive outpatient care at one convenient location, thus contributing to securing good, generalised specialist care.

Over the past year, Zentralklinik Bad Berka made extensive investments. These e.g. included completion of the most state-of-the-art radiopharmacy in Europe. The new building has five production laboratories with a total of ten "hot cells". Since November 2016, this facility has been authorised to produce drugs for internal hospital use; authorisation for distribution of selected products is expected to be granted by the Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM) in 2017.

Bad Berka is also the location of the Europe's most state-of-the-art hospital kitchen: it began operating in January 2017. Intelligent kitchen appliances that can both cook and cool, as well as a corresponding meal distribution system allow for more quality-oriented catering to patients.

The hospital also has the only rescue helicopter landing pad in Thuringia on standby 24/7. With the comprehensive modernisation of this facility in 2016, the Company invested first of all in the safety of seriously injured patients as well as in pilots and emergency personnel.

In 2016, Zentralklinik Bad Berka was the only hospital from central Germany to be accepted to the ESF federal programme "Securing the skilled labour base: vocational training and education (CVET) and gender equality". Over the next three years, 84 employees are to be prepared for management tasks or established in existing leadership roles. With this project, Zentralklinik Bad Berka is breaking new ground in human resources management and securing the skilled labour base.





## RHÖN-KLINIKUM CAMPUS BAD NEUSTADT

On the RHÖN-KLINIKUM Campus Bad Neustadt, many different specialist medical disciplines work in close proximity to one another in seven facilities, with the excellent medical reputation going beyond the region of Rhön-Grabfeld and reaching patients from the whole of Germany. Each year nearly 80,000 patients are treated in the facilities on an inpatient and outpatient basis.

### FACTS AND FIGURES

Number of patients (outpatient and inpatient)	roughly 80,000
Number of beds	1,579
Number of hospitals / specialist disciplines	26
Number of employees	roughly 2,700

### RHÖN-KLINIKUM CAMPUS BAD NEUSTADT

Salzburger Leite 1  
97616 Bad Neustadt a. d. Saale  
T. +49 (0) 9771 65-0  
F. +49 (0) 9771 548-981221  
gf@herzchirurgie.de  
www.campus-nes.de

The Cardiovascular Clinic Herz- und Gefäß-Klinik together with the clinics for cardiology, cardiosurgery and vascular surgery forms one of the major centres in Germany. The Women's Clinic is a modern and efficient rehabilitation centre for cardiovascular, vascular and metabolic conditions. Working together with the Cardiovascular Clinic, it forms the integrated heart centre and thus enables a smooth chain of treatment between hospital treatment and rehabilitation.

The Hand Surgery Clinic is amongst the major specialist clinics for hand surgery in Germany. This highly specialised medical offering is rounded off by the Clinic for Shoulder Surgery and the Clinic for Foot and Ankle Surgery.

The Neurological Clinic is a specialist hospital for neurological acute and rehabilitation medicine and thus one of the biggest neurological competence centres in Germany. The teams are specialised in the whole range of neurological diagnostics and therapy.

RHÖN-Kreisklinik is a basic and standard care hospital and since 1 January 2016 has supplemented the offering of RHÖN-KLINIKUM Campus Bad Neustadt by ensuring comprehensive care to people from the region.

Under the roof of Haus Saaletal GmbH, three facilities – Saaletalklinik, Klinik Neumühle and Adaption "Maria Stern" – help persons suffering from addictions return to normal life through a comprehensive treatment concept.

The Psychosomatic Clinic has many decades of experience in treating psychological and psychosomatic conditions. It was put into service in 1975 and re-opened in May 2016 in new and modern premises.

By 2018, the Bad Neustadt a. d. Saale hospital site will undergo sweeping changes. An extensive new building laying claim to new path breaking standards in patient care, medical equipment and hospital architecture will be established. Most of the clinics will be integrated under one roof in the then newly created Campus Bad Neustadt so as to enable even greater integration of the specific treatment fields. A new complex of interconnecting buildings will shorten the paths from one specialist to another, and cover the entire process of patient care with a modular concept – from prevention, outpatient and inpatient acute and rehab care, right through to expanded healthcare services.





## KLINIKUM FRANKFURT (ODER)

Klinikum Frankfurt (Oder) is amongst the most modern medical facilities in the Federal State of Brandenburg. As an academic teaching hospital of Charité – Universitätsmedizin Berlin and a training centre, it helps secure the high level of treatment also in future.

### FACTS AND FIGURES

Number of cases (outpatient and inpatient)	roughly 74,000
Number of beds	773
Number of hospitals / institute	28
Number of employees	roughly 1,500

### KLINIKUM FRANKFURT (ODER) GMBH

Müllroser Chaussee 7  
15236 Frankfurt (Oder)  
T. +49 (0) 335 548-0  
F. +49 (0) 335 548-2003  
gf@klinikumffo.de  
www.klinikumffo.de



In its 23 clinics, four day-care clinics, the medical care centre, a social-paediatric centre as well as outpatient psychiatric institutes in Frankfurt (Oder), Eisenhüttenstadt, Seelow and Rüdersdorf, Klinikum Frankfurt (Oder) has both a broad and specialised examination and treatment offering based on state-of-the-art highly efficient medical technology equipment. The close integration of our numerous clinics and the pooled expertise from all specialist disciplines enables optimum patient care.

Klinikum Frankfurt (Oder) is an intermediate care facility with broadly diversified disciplines which in many areas are specialised in the treatment of various highly complex diseases. Its patients include those suffering from vascular diseases and variations of the brain, tumour diseases, serious injuries and injury sequelae. The hospital also provides care in cases of high-risk pregnancies and births and is prepared for treating and caring for premature babies. The medical offering most recently has been rounded off by a specialty clinic for psychosomatic medicine and psychotherapy as well as a geriatrics clinic.

Up to 2021, the hospital's service offering is to be further expanded. The basis for that are extensive refurbishment and new construction measures which have been under way already since 2015 and already today are changing the appearance of the Markendorf hospital site. It is here where a modern healthcare campus will be established, combining all inpatient, semi-inpatient and outpatient services from the region. With this project, the Company is creating the structural basis for securing optimum healthcare delivery for patients in the long term – particularly in view of the demographic changes the region is undergoing.

In addition to a palliative ward, a mother-child centre will be established. Of key importance is also the accommodation quality for patients: with the refurbishment of the bed facilities, only modern and comfortable 2-bed rooms will be provided in future.





## GIEßEN AND MARBURG UNIVERSITY HOSPITAL

Universitätsklinikum Gießen und Marburg (UKGM) is the third-largest university hospital in Germany. It offers medical care, state-of-the-art diagnostics and comprehensive therapy to the highest internal standards. As a maximum care hospital, it covers the whole range of modern medical care – from ophthalmology and trauma surgery to dental medicine.

### FACTS AND FIGURES

Number of patients (outpatient and inpatient)	roughly 499,000
Number of beds	2,395
Number of hospitals / specialist disciplines	86
Number of employees	roughly 9,900

### GIESSEN SITE

Universitätsklinikum  
Gießen und Marburg  
GmbH  
Rudolf-Buchheim-Straße 8  
35392 Gießen  
T. +49 (0) 641 985-40100  
F. +49 (0) 641 985-40109  
kgf.gi@uk-gm.de  
www.ukgm.de

### MARBURG SITE

Universitätsklinikum  
Gießen und Marburg  
GmbH  
Baldingerstraße  
35043 Marburg  
T. +49 (0) 6421 58-66000  
F. +49 (0) 6421 58-63370  
gf@uk-gm.de  
www.ukgm.de

The aim of UKGM is to provide cutting-edge university medicine of the highest quality. That is why UKGM specifically promotes innovative and independent medicine. UKGM is looking to continue asserting its position as one of the leaders in medical advances not only as compared with other German university hospitals but also internationally.

A strong basis has already been created for this with the merger of the two sites and the intensive cooperation this has produced. As part of RHÖN-KLINIKUM AG's national network of hospitals, UKGM also promotes the transfer of knowledge to the local medical care facilities. That brings the network of hospitals one big step closer to the corporate objective of making affordable cutting-edge medical care available to everyone.

In addition to patient care, research and teaching are also part of a university hospital's key and important tasks – UKGM takes this responsibility very seriously. UKGM greatly supports the special areas of research of the medical faculties of Justus-Liebig University Gießen and Philipps University Marburg. Successful cooperation schemes with industry are in place in numerous fields to develop products and services that are immediately put to use to improve the treatment of our patients.

Since October 2015, cancer patients have been treated using particle beams at Marburger Ionenstrahl-Therapiezentrum (MIT) – one of three facilities of this kind throughout Europe. This state-of-the-art form of radiation therapy is a further element rounding off the oncological treatment possibilities and cancer research. It is moreover highly effective and opens up new avenues of treatment for patients with tumours hitherto difficult to control.



RHÖN-KLINIKUM AG

Postal address:

D-97615 Bad Neustadt a. d. Saale

Visitors' address:

Salzburger Leite 1

D-97616 Bad Neustadt a. d. Saale

T. +49 (0) 09771 65-0

F. +49 (0) 09771 97467

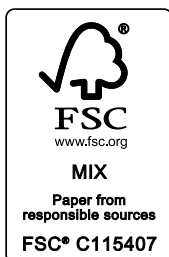
Internet:

[en.rhoen-klinikum-ag.com](http://en.rhoen-klinikum-ag.com)

E-mail:

[rka@rhoen-klinikum-ag.com](mailto:rka@rhoen-klinikum-ag.com)

This Annual Report is also available in German.



The paper used for this Annual Report comes from responsible forest management in accordance with FSC® certification. (FSC® C115407):  
The FSC® logo is the only globally recognised Ecolabel that guarantees exemplary forest management.