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ANNUAL REPORT 2017

RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

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KEY FIGURES
Q1 – Q4 2017

€ '000	Jan.–March 2017	April–June 2017	July–Sept. 2017	Oct.–Dec. 2017	**Jan.–Dec. 2017**
Revenues	300,116	298,324	304,011	308,626	**1,211,077**
Materials and consumables used	83,381	85,796	86,567	91,806	**347,550**
Employee benefits expense	197,186	194,349	195,428	200,936	**787,899**
Depreciation/amortisation and impairment	14,622	14,667	14,806	15,025	**59,120**
Consolidated profit according to IFRS	8,448	8,499	10,049	9,741	**36,737**
– Profit share of shareholders of RHÖN-KLINIKUM AG	7,852	8,130	9,588	9,580	**35,150**
– Profit share of non-controlling interests	596	369	461	161	**1,587**
Return on revenue (%)	2.8	2.8	3.3	3.2	**3.0**
EBT	10,459	9,846	12,404	4,407	**37,116**
EBIT	10,919	9,986	12,605	5,187	**38,697**
EBIT-ratio (%)	3.6	3.3	4.1	1.7	**3.2**
EBITDA	25,541	24,653	27,411	20,212	**97,817**
EBITDA ratio (%)	8.5	8.3	9.0	6.5	**8.1**
Property, plant and equipment as well as investment property	710,558	717,400	729,290	749,681	**749,681**
Income tax assets (non-current)	–	–	–	–	**–**
Equity according to IFRS	1,121,837	1,107,056	1,115,651	1,125,256	**1,125,256**
Return on equity in %	4.0	3.0	3.6	3.7	**3.3**
Balance sheet total according to IFRS	1,470,653	1,452,454	1,456,198	1,471,398	**1,471,398**
Investments in goodwill, other intangible assets, as well as in property, plant and equipment and in investment property	21,522	22,477	26,919	35,981	**106,899**
Earnings per ordinary share (in €)	0.12	0.12	0.14	0.15	**0.53**
Number of employees (headcount)	16,524	16,541	16,634	16,688	**16,688**
Number of cases (patients treated)	212,187	210,763	208,703	204,734	**836,387**
Beds and places	5,358	5,358	5,358	5,370	**5,370**

KEY FIGURES
2013–2017

€ '000	2013	2014	2015	2016	**2017**
Revenues	3,013,835	1,510,519	1,108,189	1,176,349	1,211,077
Materials and consumables used	791,656	425,106	321,831	329,542	347,550
Employee benefits expense	1,840,407	963,937	695,716	757,560	787,899
Depreciation/amortisation and impairment	119,697	82,792	61,023	59,867	59,120
Consolidated profit according to IFRS	90,027	1,227,878	87,443	58,635	36,737
– Profit share of shareholders of RHÖN-KLINIKUM AG	86,648	1,225,711	85,381	56,430	35,150
– Profit share of non-controlling interests	3,379	2,167	2,062	2,205	1,587
EBT	117,693	1,248,466	90,288	60,862	37,116
EBIT	155,747	1,330,850	93,138	96,993	38,697
EBITDA [2]	275,444	1,413,642	154,161	156,860	97,817
Property, plant and equipment as well as investment property	715,103 [1]	666,259	671,394	703,782	749,681
Income tax assets	6,684 [1]	4,576	2,383	–	–
Other non-current assets, other non-current financial assets	375 [1]	11,942	50,115	52,670	35,153
Equity according to IFRS	1,666,687	1,248,924	1,108,713	1,113,383	1,125,256
Return on equity in %	5.5	84.2	7.4	5.3	3.3
Balance sheet total according to IFRS	3,098,189	1,804,311	1,634,488	1,456,245	1,471,398
Investments in goodwill, other intangible assets, as well as in property, plant and equipment and in investment property	118,808	54,366	69,426	99,065	106,899
Earnings per ordinary share (in €)	0.63	9.36	1.19	0.84	0.53
Number of employees (headcount)	43,363	15,602	15,654	16,486	16,688
Number of cases (patients treated)	2,654,249	1,222,846	765,109	813,747	836,387
Beds and places	17,113	5,227	5,218	5,348	5,370

[1] Excluding assets held for sale

[2] The result in 2013 and 2014 was marked by the sale of hospitals to Fresenius/Helios. In 2015 and 2016 one-off delayed effects from this transaction likewise had a positive impact on the result.

OUR MISSION

Extensive and full-coverage healthcare delivery in rural areas is a central element of RHÖN-KLINIKUM AG's strategic orientation and a key factor of our success. We are the only provider having the expertise of two university hospitals – together with highly innovative IT solutions making for important factors of success.

Stephan Holzinger | Chairman of the Board of Management

"A clear potential for improvement in our healthcare system lies in the more efficient management of patients by the system. With our RHÖN Campus strategy, patients are treated more quickly, with greater safety and with higher quality."

Stephan Holzinger, Chairman of the Board of Management

LETTER TO SHAREHOLDERS

Dear Ladies and Gentlemen,
Dear Shareholders,

There is no need for an indictment of our healthcare system, but given what we spend on healthcare in this country as a share of our economy we can and must become more efficient. The potential for making improvements continues to be significant and for the most part undisputed. That is why our problem does not lie in identifying the problems in German healthcare policy and in the economy, but in implementing their solutions.

An appreciable potential for improving the German healthcare system would consist in adjusting the number and specialisation of hospitals. We currently have too many hospitals. Many of these have proven too financially weak to keep pace at all with the huge advances being made in, for example, the cost-intensive fields of medical technology and digitalisation. And yet many smaller hospitals offer special and complex treatments which they are ill equipped to handle both in terms of their staffing and level of technology. That has a dramatic impact on treatment quality and safety. Rates of complications and mortality rise in hospitals with a lack of experience and equipment. The decision by the Joint Federal Committee, the highest body of self-governance in the German healthcare system, to expand the minimum volumes for treatments and the quality requirements for hospitals in 2018 is therefore an important step in the right direction.

That being said, these small hospitals are only surviving on artificial life support. Over the last few months alone, municipal and regional politicians have injected hundreds of millions of taxpayer funds into preserving what for the most part are ailing and outdated infrastructure, instead of making difficult but objectively sound decisions: closing a hospital meets with fierce opposition among the local population. People there on the one hand want to have a hospital close to where they live, but on the other generally have little trust in the medical expertise and quality of such hospitals. In matters relating to their own health, they prefer to visit a more experienced specialist hospital located further away – and gladly make the longer journey. A paradox.

A further area with clear potential for improvement in our healthcare system lies in the more efficient management of patients by the system. Frequently, they have to embark on a long and arduous odyssey with GP and specialist practices before obtaining, at long last, the reliable diagnosis they were searching for. The fact that they are less and less willing to put themselves through this is seen not least in the fact that when they fall ill they will visit the emergency outpatient department where all specialist disciplines are represented. They are usually aware that they "do not belong there". This is a case of people "voting with their feet" and a clear indication that the healthcare system in its existing form is too complicated and in its structure no longer meets the needs of patients – which should, however, be its key focus of interest.

"With our digitalisation strategy we are taking a lead role and actively helping to shape the future of the healthcare industry."

Stephan Holzinger, Chairman of the Board of Management

Given their experience from many other sectors, today's patients have meanwhile become accustomed to seeing their needs met quickly and efficiently through digitalisation and networking and being able to take care of many tasks online. It is this standard that they are now increasingly also coming to expect from healthcare delivery. Why should they, in the year 2018, have to visit the doctor in person for every medical question – which not least often means having to put up with long trips and long waiting times in crowded practices? Still, something seems afoot here – the German prohibition on remote treatment is not likely to stand much longer. That will contribute to a major transformation of the system: first aid will increasingly be performed telemedically, with first contact being made via a mobile phone screen.

We, RHÖN-KLINIKUM AG, have not only observed and discerned the signs of the times but have also been actively pressing ahead with the development of the healthcare system with innovative and path-breaking projects.

With our campus strategy we stand for future-oriented, excellent medical care above all in rural regions. 2018 marks a special milestone in this regard: we will complete and put into service our landmark project, the Campus Bad Neustadt. This is a project in which we will invest some € 250 million. The centres for out-patient and clinical medicine being established here will enable a close collaboration between community-based specialists and medical service providers of inpatient cutting-edge medical care. At the centre for outpatient medical care some 30 community-based specialist physicians – initially – will provide care for our patients and their relatives together with many other specialists such as physiotherapists, pharmacists, rehab specialists, and wellness providers.

Thanks to the networking of outpatient and inpatient medicine, a cross-sector and integrative approach with noticeable and direct patient orientation will be established at the RHÖN-KLINIKUM Campus Bad Neustadt whilst at the same time securing basic medical care for the regional population. All this at one location, in one continuous process, in one treatment system. In that way we can help our patients more effectively within a very short time. That is the future. That is our commitment as RHÖN-KLINIKUM AG.

In order to provide anamnesis, diagnosis and treatment quickly and to the best standards of quality, we are assuming a trailblazing role with our digitalisation strategy and are thus proactively helping to shape the future of the healthcare industry. For us, that also means having state-of-the-art clinical information systems, electronic patient files and new digital tools, such as the Medical Cockpit through which we provide doctors and nurses with a top-notch, fast guidance and analysis tool for patient data. It also takes innovative telemedicine through which we are networked with other hospitals, community-based GPs and specialists, emergency services and other outpatient partners in the region and beyond. Those are some of the key, if not decisive prerequisites for embracing and pursuing these new ways of ensuring optimum and fast healthcare delivery for patients, also on an economically feasible basis.

However, the Group of course consists of several sites which only together make up a smoothly working system. Here, too, a lot of things happened in 2017:

With the agreement reached on what is referred to as separate accounting, we succeeded in overcoming a major problem of our private university hospitals in Gießen and Marburg (UKGM) that had gone unresolved for a decade. This consisted primarily in valuing and adequately organising the financial circuits of research and teaching on the one hand and healthcare delivery on the other. Shortly after I took up my office, it was possible to find a provision reflecting the interests of patients, employees and shareholders alike. In future we will receive higher amounts for our services, but on the other hand have made also made commitments to new investments in the staff and the hospitals. The central Hesse healthcare site Gesundheitsstandort Mittelhessen will benefit tremendously from that.

In Frankfurt (Oder), we gave the go-ahead in 2017 for the comprehensive refurbishment of the hospital there in keeping with the aforementioned campus strategy; construction is already in full swing. At our site in Bad Berka, we began reviewing in 2017 how we can improve this longstanding hospital's future viability in a difficult competitive environment. And last but not least, with our operative improvement programme in the Group we launched key projects in backlog areas: that relates to securing and optimising revenues, conventional IT and review of maintenance and servicing contracts as well as lowering the materials ratio.

Dear Shareholders, 2017 was not least the year in which the share reached a new all-time high at over € 30. It was also a year of sweeping changes – within both the Company and the Board of Management. Thanks to the agreement between UKGM, the federal state and universities reached within a very short time, we created a new footing on which we can better expand our unique selling point of having Germany's only privatised university hospital. We are also tackling our operative challenges. As a debt-free Group with an extraordinarily high equity ratio, we thus have a good basis for 2018 which is being marked by the Campus Bad Neustadt approach and our digitalisation strategy and in which we will continue to look at new sites for future campus models in Germany.

"Paths are made by walking", goes the saying ascribed to Franz Kafka.
Continue to walk this path with us!

Yours sincerely,

Stephan Holzinger
Chairman of the Board of Management

Bad Neustadt a. d. Saale, March 2018

Eugen Münch | Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
Dear Ladies and Gentlemen,

In the following I report to you on the work of the Supervisory Board and its committees during the financial year 2017:

Cooperation between Supervisory Board and Board of Management

During the financial year 2017 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 RHÖN Campus approach at the Bad Neustadt and Marburg sites as well as the digitalisation of the business model, were among the key tasks of the Supervisory Board during the past financial year.

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

Work of the Supervisory Board in committees and plenary session

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

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

The **Investment, Strategy and Finance Committee** held three ordinary meetings during the year under review (attendance rate: 91 per cent). A further meeting (attendance rate 80 per cent) was held as a joint meeting with the **Medical Innovation and Quality Committee**.

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.

At all meetings, the focus of interest of supervision and consultations was on the further development and measures for implementing the commenced project of the Bad Neustadt health campus and the development of a university campus model for the Marburg site with the establishment of an outpatient and diagnosis centre. In this regard, the Board of Management kept us informed on a regular basis through progress reports on the respective stage of development, with conceptual adjustments being made in some points after strategic discussion. Other areas of focus were the adapting and overhauling of Group IT, digitalisation measures and further applications from the IT/e-Health area for healthcare delivery using big data and artificial intelligence.

The Committee also discussed planned measures within the Group's Materials Management division with the aim of improving the materials ratio. The trend in patient numbers at the Marburg Particle Therapy Centre and its financial situation were focused on as were the efforts of the Board of Management in the negotiations with the Federal State of Hesse on an agreement relating to separate accounting with the aim of achieving an appropriate cost reimbursement of expenses for research and teaching, which at long last were successfully concluded at the end of the year, ensuring a sound economic basis for the future of Universitätsklinikum Gießen und Marburg GmbH. With regard to Group financing, resolutions of principle were adopted and a new Group financing guideline was approved.

At the joint meeting with the Medical Innovation and Quality Committee, in addition to the updates of the aforementioned issues, the conceptual medical development of Zentralklinik Bad Berka, the development of the campus approach and the campus approach at the Frankfurt (Oder) site as well as measures to reduce avoidable losses from audits by the MdK (Medical Review Board of the Statutory Health Insurance Funds) were discussed.

During the reporting year, the **Personnel Affairs Committee** held three conference call meetings (attendance rate in each case: 100 per cent). After careful consideration, the Committee submitted resolution proposals on reducing the number of members of the Board of Management to the minimum number stipulated by the Articles of Association, the related removal of members of the Board of Management and the reorganisation of the assignment of responsibilities through amendment of the Terms of Reference of the Board of Management. Other resolution proposals were made on the termination of the service relationships of the removed members of the Board of Management as well as on the amendment of one Board of Management service contract to adapt it to the resulting remuneration structure.

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: 93 per cent). All meetings were attended by the Board of Management. Two meetings were attended by the statutory auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). For selected agenda items, the heads of the Internal Auditing, Compliance as well as Accounting, Tax and Controlling departments were regularly consulted by the Board of Management; they 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 the financial year 2016. 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 2017 and for the review of the Half-Year Financial Report, obtained the statement regarding the auditor's independence pursuant to Item 7.2.1 of the German Corporate Governance Code, recommended to the plenary session of the Supervisory Board a proposal for the election of the auditor to be submitted to the Annual General Meeting and – after the election – issued the auditor with the audit mandate and concluded with 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 prepared and defined for the audit in 2017.

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 2017 as well as its update. The audit reports of the Internal Auditing department as well as the 2016 activity report were then submitted and discussed with the Board of Management. We kept ourselves informed by the Board of Management on the implementation of the recommendations by the Internal Auditing department through information on the results of follow-up reporting and inspection. We once again satisfied ourselves of the effectiveness of the Internal Auditing department.

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

For the non-financial declaration at the Company level and Group level to be submitted for the first time for 2017 in the form of a separate condensed non-financial report, the Committee adopted a resolution on the performance of a voluntary external audit. The audit assignment was issued on the basis of an offer and by fee agreement to the statutory auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC).

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

In 2017, the Committee met three times (attendance rate: 92 per cent). The Board of Management was represented at all meetings by one member of the Board of Management and was assisted in the deliberations by the Central Compliance and Internal Auditing departments as well as the head of the Group's Investor Relations & Communications division as well as the Group data protection officer.

The focus of interest of the meetings was the ongoing compliance reports from headquarters and the individual sites, the organisation of the Central Compliance department and the stage reached in the implementation of the eLearning programme. Moreover, the Committee approvingly acknowledged the compliance programme planned by the Board of Management for 2018. In the area of corporate communications, the Board of Management reported on the newly designed communications concept, the impact of the change to the SDAX® segment and the measures intended in the context of the advance of digitalisation. The Committee further informed on the strategy and stage reached in implementing the General Data Protection Regulation.

The **Medical Innovation and Quality Committee** provides the Board of Management with technical advice on developments and trends in medicine and monitors the situation and development of medical quality within the Company. During the reporting year, the Committee did not hold any separate meetings but convened exclusively in one joint meeting 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, proposed Dr. Annette Beller to succeed Mr. Stephan Holzinger, who resigned his office by switching to the Board of Management, after reviewing the requirements both for court appointment and for the election at the Annual General Meeting.

During the reporting year, four regular meetings of the **full Supervisory Board** were held (attendance rate: 95 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. One further meeting that was intended to preferably serve to provide information to the employee representatives was held as a working and information meeting with continued training character on the subject of cognitive intelligence.

At the four ordinary meetings of the Supervisory Board the plenary session, based on detailed reports of the chairman of the Board of Management on current developments. strategic issues and the business position of the Group, as well as based on the written reports and presentations by the Board of Management, regularly deliberated together with the Board of Management on the net assets, financial position and results of operations, the trend in revenues and earnings, the performance data, key figures and personnel of the Company and Group as well as of the individual Group subsidiaries. The respective interim reports for the past quarters were explained by the Board of Management in detail at the plenary session prior to publication.

At the first meeting of the financial year on 23 February 2017, the Supervisory Board examined in detail, in the context of reporting by the chairman of the Board of Management, the expiry of the IBM/RHÖN-KLINIKUM AG cooperation scheme and the use of the product Watson developed by IBM in digital anamnesis. The body deliberated on the future development of the Board of Management, passed the required resolutions and approved Terms of Reference amended to reflect changes in the assignment of responsibilities as a result of the personnel changes on the Board of Management. We received the report of the Board of Management on the preliminary 2016 annual financial statements and approved the submitted drafts of the Report of the Supervisory Board and the Corporate Governance Report for financial year 2016.

At the balance sheet meeting on 6 April 2017 also attended by the statutory auditors, the plenary session discussed the annual financial statements and management report of RHÖN-KLINIKUM AG as well as the consolidated financial statements and the Group management report for financial year 2016 together with the Board of Management and the statutory auditor PwC. The auditors reported on the essential findings and results of the audits and were available to the Supervisory Board for questions and additional information. The plenary session approved the annual financial statements. Also discussed at this meeting were the preparations for the Annual General Meeting on 7 June 2017, 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). A report and a presentation of findings from the efficiency audit conducted regarding the work of the Supervisory Board was remitted by the external moderator collaborating on the audit.

At the meeting on 6 July 2017, the plenary session, after the matters relating to the Board of Management and the Supervisory Board were dealt with, thoroughly examined the strategic focus of digitalisation, its further development in the context of the campus project, the establishment of a central department Digital Transformation and the consequences of the findings of an IT audit. Further areas of focus were the progress reached in the Bad Neustadt campus project as well as the expansion of the psychosomatic clinic and an inpatient rehabilitation department at that site.

At the Supervisory Board Meeting on 9 November 2017, the plenary session first approved the amendment to a Board of Management service contract to bring it in line with the remuneration structure. The subject matter of extensive reporting and deliberation by the Board of Management within the body, besides the usual Management Report and Annual Report and the reports by the individual facilities, also covered the considerable investment projects at the Bad Neustadt a. d. Saale site, its current construction progress and the planning stage of other construction projects, updated construction cost estimates as well as the amalgamation of three facilities. 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. The target as well as the targeted date for the proportion of women on the Board of Management was defined by resolution.

Conflicts of interests and their management

In May 2017, Ms. Meike Jäger became a member of the Supervisory Board of Vivantes – Netzwerk für Gesundheit GmbH (in short: Vivantes) where she assumed the office of Deputy Chairman of the Supervisory Board. As a municipal hospital group, Vivantes is likewise a healthcare services provider like RHÖN-KLINIKUM AG and its Group companies. It is therefore not possible to rule out conflicts of interests. However, it was only in March 2018 that Ms. Jäger informed RHÖN-KLINIKUM AG of her appointment to the Supervisory Board of Vivantes. For that reason, the Supervisory Board as a precaution reviewed all resolutions of the full Supervisory Board and of the committees to which Ms. Jäger belongs that had been adopted since May 2017 to determine whether the vote by Ms. Jäger had been decisive for the adoption of a resolution. This is not the case.

In future, the Supervisory Board will urge Ms. Jäger not to participate in discussions and the adoption of resolutions in which a conflict of interests is to be assumed by reason of her membership on the Supervisory Board of Vivantes.

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 3 November 2016 pursuant to section 161 of the Stock Corporation Act (Aktiengesetz, AktG) was revised and, giving due regard to the Code as amended on 7 February 2017, was replaced by an updated Declaration of Compliance issued on 9 November 2016 by the Board of Management and the Supervisory Board. By reason of the late disclosure of Ms. Jäger's membership on the Supervisory Board of Vivantes, the Declaration of Compliance was to be corrected subsequently since the late disclosure constitutes a deviation from Code Item 5.5.2 of the German Corporate Governance Code. The resolution required for this was adopted without undue delay following the disclosure on [28] March 2018. The declarations were permanently made available to the shareholders on the Company's website. In accordance with Item 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board jointly report on corporate governance on pages 60 seq. of this Annual Report.

Examination and approval of the 2017 financial statements

The Board of Management adopted the financial statements of the Company and the management report for the year ended 31 December 2017 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 2017 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 GmbH Wirtschaftsprüfungsgesellschaft (PwC), 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 2017. The auditors of the accounts issued an unqualified auditor's report in each case. Since changes in individual parts of the financial statements arose as a result of the late disclosure of Ms. Jäger's membership on the Supervisory Board of Vivantes, a supplemental audit was initiated by the statutory auditor which did not give rise to any objections.

The financial statements of the Company and management report, the consolidated financial statements and Group management report as well as the reports of the auditors on the result of their audit were received by all members of the Supervisory Board together with the Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and extensively discussed by the Audit Committee and by the Supervisory Board with representatives of the auditors at the respective balance sheet meetings. As part of the audit, the Audit Committee and the Supervisory Board examined both the accounting findings and the procedures and processes relating to the accounting findings. As the standard of their review, they primarily applied the criterion of legality and verified whether the documents submitted comply with legislation in force and in particular with applicable accounting rules. Furthermore, in addition to their review of legality they also conducted an expediency review in terms of accounting, financial and business policy aspects. Based on the findings of the preliminary review by the Audit Committee, the Supervisory Board concurred with the findings of the auditors and, having conducted its own review, determined that it sees no grounds for objections.

The Supervisory Board approved the financial statements of the Company and the consolidated financial statements prepared by the Board of Management at the meeting on 28 March 2018 on recommendation of the Audit Committee; the financial statements of the Company are thus adopted as final.

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

Review of separate condensed non-financial report

The Audit Committee and the Supervisory Board have furthermore examined the separate condensed non-financial report prepared with the Board of Management as at 31 December 2017. The auditing firm PricewaterhouseCoopers GmbH has conducted a review to obtain limited assurance and has issued an unqualified report. The documents were carefully reviewed by the Audit Committee at its meeting on 27 March 2018 and by the Supervisory Board at its meeting on 28 March 2018. The Board of Management thoroughly explained the reports at both meetings. Representatives of the auditor attended both meetings and reported on the key results of their review and answered additional questions from the Supervisory Board members. After its review, the Supervisory Board had no objections.

Changes and composition of the Board of Management

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

With effect from 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 minimum 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.

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 and elected by the Annual General Meeting on 7 June 2017. The employee representative Ms. Bettina Böttcher resigned her Supervisory Board mandate for health reasons with effect from 31 December 2017. Ms. Natascha Weihs, hand therapist, succeeded her with effect from 1 January 2018.

The personal details of the members of the Supervisory Board in 2017 are set out in the Notes to the consolidated financial statements. The section also provides information on the professional qualifications of the Supervisory Board members as well as their further mandates. The organisational structure of the Supervisory Board and the composition of the committees during the past financial year are set out in the overview provided following this Report.

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

The Supervisory Board

Eugen Münch
Chairman

Bad Neustadt a. d. Saale, 28 March 2018

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

(period of 1 January – 31 December 2017)

Chair of the Supervisory Board

Eugen Münch
Chairman

Georg Schulze-Ziehaus
1st deputy Chairman

Wolfgang Mündel
2nd deputy Chairman

Composition of the committees

Investment, Strategy and Finance Committee

Eugen Münch
Chairman

Dr. Annette Beller (since 23 March 2017)
Björn Borgmann
Prof. Dr. Ludwig Georg Braun
Stefan Härtel
Klaus Hanschur
Stephan Holzinger (until 31 January 2017)
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

Dr. Annette Beller (since 23 March 2017)
Peter Berghöfer
Stephan Holzinger (until 31 January 2017)
Meike Jäger
Christine Reißner
Dr. Katrin Vernau

Committee for Compliance and Communication

Dr. Annette Beller (since 23 March 2017)
Chairwoman

Stephan Holzinger (until 31 January 2017)
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

PASSION FOR PATIENTS MEETS HIGH-TECH

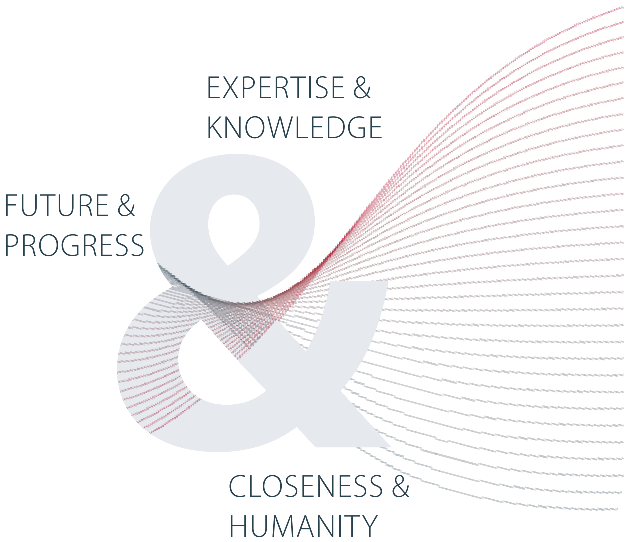
Our hospitals are characterised by excellent medical care using state-of-the-art technology – coupled with the know-how and empathy of our employees.

WHO ARE WE?

RHÖN-KLINIKUM AG is one of the most innovative healthcare providers in Germany. We are rethinking the way in which healthcare is provided: with our RHÖN Campus approach, networked medical care and digitalisation, we are making a contribution to excellence in medical care.

Providing excellent and affordable medical care – also to the rural population

We consistently orient ourselves on the needs of our patients, who benefit from our direct tie-in to cutting-edge university research and teaching at all our hospitals. Our direct tie-in to research and teaching is what sets us apart from other healthcare providers and what establishes our treatment excellence. At all our hospitals, we can put new findings to use for our patients and make increasing strides in improving the quality of diagnosis and treatment. At all our facilities, we promote future-oriented medical and nursing concepts – from clinically oriented basic medical research, the evaluation of innovative treatment methods, to cooperation models, e.g. for better integration of inpatient care and aftercare at home. Our RHÖN Campus approach, for instance, is a care delivery structure specifically geared to the needs of patients that integrates outpatient and inpatient offerings. At the same time, the use of digital assistance systems provides support to our staff and enhances the quality of treatment received by patients.



Digitalisation in the best interests of patients and employees

We have carefully thought through our digitalisation strategy and thus provide ideas for other providers within the healthcare system. With innovative technologies and cooperation across disciplines, we facilitate the work of all employees involved in the treatment, so that our patients receive the best possible treatment. At the same time, our investments in digital technologies and processes are strictly guided by the benefits they confer on both patients and employees.

Committed to patient well-being, expertise and progress

Expertise and knowledge, closeness and humanity – these are the values that typify our self-perception. Ever since our Company was established, our medical and nursing standards have exceeded the market average. As a matter of principle, we make use of state-of-the-art technology and the latest, scientifically sound therapy procedures. Our Medical Board, made up of top physicians, reviews and evaluates these medical innovations and procedures. In addition, we set ourselves the goal of providing all patients with the best possible nursing and care.

5,370

BEDS AT FIVE LOCATIONS

836,387

PATIENTS TREATED IN THE FINANCIAL YEAR 2017

100%

CUTTING-EDGE MEDICINE FOR EVERYONE

rhoen-klinikum-ag.com/expertenverzeichnis

TOP 5

KEY AREAS OF TREATMENT

CARDIOVASCULAR MEDICINE
NEUROLOGICAL MEDICINE
ONCOLOGY
PNEUMOLOGY
ORTHOPAEDICS AND EMERGENCY (ACCIDENT) SURGERY

WHERE ARE WE?

KLINIKUM
FRANKFURT (ODER)

Number of patients
(outpatient and inpatient): approx. 71,500

Number of beds: 773

Number of clinics/specialist disciplines: 28

Number of employees: approx. 1,500

klinikumffo.de/imagefilm
klinikumffo.de

ZENTRALKLINIK
BAD BERKA

Number of patients
(outpatient and inpatient): approx. 40,000

Number of beds: 648

Number of clinics/specialist disciplines: 21

Number of employees: approx. 1,800

zentralklinik.de/imagefilm
zentralklinik.de

UNIVERSITÄTSKLINIKUM
GIESSEN UND MARBURG

Number of patients
(outpatient and inpatient): approx. 500,000

Number of beds: 2,395

Number of clinics/specialist disciplines: 86

Number of employees: approx. 10,000

ukgm.de/imagefilme
ukgm.de/imagefilme

RHÖN-KLINIKUM CAMPUS
BAD NEUSTADT

Number of patients
(outpatient and inpatient): approx. 70,000

Number of beds: 1,674

Number of clinics/specialist disciplines: 26

Number of employees: approx. 2,900

campus-nes.de/imagefilm
campus-nes.de/imagefilm

OUR PATH INTO THE FUTURE

"We put our passion and commitment to work daily for the best interests of our patients."

rhoen-klinikum-ag.com/videos

Like in many other areas of life, we as healthcare providers are also impacted in no small way by digitalisation and demographic change. Our greying population alone means that the healthcare system will have to be prepared for a rising number of people with medical conditions and in need of nursing care. It is true that we are now healthier when we age than used to be the case, and stay in good health longer, but the elderly need more medical care with their complex chronic conditions. The challenge here is to succeed in securing and funding these care services amid rising quality expectations.

RHÖN-KLINIKUM AG takes on this challenge with courage, resolve and tremendous passion. We are driven by the entrepreneurial and healthcare policy vision of national full-coverage, integrated healthcare delivery. In future also, every patient is to receive high-quality medical care tailored to their needs. To continue to be profitable on a sustainable basis, we have to raise our efficiency whilst ensuring at least the same level of quality. We will achieve this through greater integration of telemedicine and our RHÖN Campus approach that closely integrates outpatient and inpatient offerings as well as numerous medical and preventive care services – the community-based GP and specialist with the hospital and the hospital in turn with rehabilitation and nursing.

OUR PATH INTO THE FUTURE >

RHÖN CAMPUS APPROACH

DIGITAL-ISATION

EFFICIENCY

WE ARE BUILDING THE HOSPITAL OF THE FUTURE

With our RHÖN Campus approach for networked healthcare delivery, we are showing ways to move forward into the future.

How can excellence in healthcare delivery be secured also in the future, and especially to rural regions? In response to this pressing question, we developed the RHÖN Campus approach which is currently being realised in its ideal form in Bad Neustadt a. d. Saale and which we wish to transfer to other regions.

The RHÖN Campus approach represents a new, holistic understanding of medical care. This is a place where prevention, treatment, rehab and nursing all come together seamlessly. On a single hospital site, we closely integrate outpatient and inpatient offerings as well as numerous medical services and care offerings which, up to now, had been spatially and systemically separate: community-based specialists, the hospital, rehabilitation and nursing. Previously, providers of medical services as a general rule had no contact with one another and were often widely dispersed. Our aim is to link them together in such a way that the treatment process is made noticeably easier for patients and they are escorted safely from one system to another. Digital networking of all those involved – with intelligent IT solutions and innovative communication systems – is indispensible in this context.

Also conceivable is that the campus will integrate numerous additional services – such as assisted living, wellness or even a hotel for relatives. And the campus is also attractive for the increasingly scarce staff available on the healthcare market: here, new professional fields are emerging in a modern work environment.

ONE FRIDAY EVENING ON THE CAMPUS

OUR VISION – AN INTEGRATIVE CONCEPT
AND A MAGNET FOR RURAL REGIONS

With our future model, we are ensuring excellent, full-coverage medical care to people from the region. RHÖN Campus means one-stop healthcare delivery: outpatient and inpatient acute/rehab care, outpatient nursing, a nursing home and age-specific living concepts, care for the chronically ill and preventive care offerings. Also integrated are wellness and tourism facilities.

rhoen-klinikum-ag.com/campus-konzept

> COOPERATION WITH SPECIALISTS

> MEDICAL SERVICES

> INPATIENT AND OUTPATIENT CARE

> HOLISTIC HEALTHCARE DELIVERY AT ONE LOCATION

A case for the RHÖN Campus

On Friday evening, a patient complains of a bad headache. Neither his trusted GP nor the community-based specialist can be reached. The patient thus drives straight to the hospital to have his symptoms clarified. A doctor in the emergency ward examines him, discovers a serious health problem and can release him again or admit him as an inpatient for further tests on Monday.

Soon a thing of the past: Needless journeys, high costs

The example sounds all too familiar. For the patient – in a situation already unpleasant enough for him – it results in additional costs to obtain medical advice. But the decisive point is that the patient enters the healthcare delivery process at the wrong place in the healthcare system. His symptoms should be clarified primarily with community-based physicians and only in a secondary stage in the more cost-intensive hospital setting.

"The hospital of the future will be a perfectly networked facility. The comprehensive RHÖN Campus approach is our model for the future."

Stephan Holzinger, Chairman

24/7

AVAILABLE
24 HOURS,
7 DAYS A WEEK
ON 365 DAYS A YEAR

The future: Optimum treatment processes for satisfied patients

On the RHÖN Campus, outpatient and inpatient care are systematically networked. The patient no longer takes a direct path to the hospital emergency ward but arrives at a centralised point of contact. Here, he can then speak with specially trained case managers. It is also at this first point of entry to the campus that the digital anamnesis is performed, and the accompanying medical records are fed into the electronic patient file. The case managers decide where the patient is directed next. Will he be treated as an outpatient right away or admitted as an inpatient?

By this approach, we overcome two typical problems seen in today's healthcare system: that of patients having to remain in hospital over the weekend without a diagnosis having been made, and of patients being sent home again without anything having being done. Already at such early stage, the treatment process is much more efficient.

WE USE THE POWER OF DIGITALISATION

We are forging ahead with the digital transformation throughout the Company. With our established strategy, we are leading the way in the hospital sector by good example.

rhoen-klinikum-ag.com/digitalisierung

Technologies as a factor for success

Digitalisation is a decisive basis for taking new paths towards an efficient healthcare system. Digitalisation will speed up and organise our internal processes. It will help ensure that anamnesis processes are faster and more structured, that our services are correctly recorded and documented, and that doctors can make more precise diagnoses. With the supporting use of innovative IT technologies, doctors can be quickly provided with all important data, and at the same time all parties involved are given access to relevant patient information. One of our new digital tools is the "Medical Cockpit". With it we give doctors and nurses a first-class tool for rapid orientation and analysis based on a patient's full medical data. One other area of activity is telemedicine, through which we are networked with other hospitals, community-based GPs and specialists, emergency services and other outpatient partners in the region and beyond.

Basis: Networking, cooperation, communication

But digital transformation cannot be realised through innovative technology alone. It still takes people coming together in a fundamentally cooperative approach – the ability to collaborate, particularly across borders. That is why we promote the exchange amongst colleagues from different areas, for example for continued training. Our database of experts is borne from a cooperative approach, transparency and service orientation. Patients and all other interested parties can inform themselves about the different specialists within the Group.

Smart investment in new technologies

But in which of the new cognitive technologies should we invest? In our search we take a strategic approach and have established the new centralised Digital Transformation department.

It analyses the patient-oriented, sensible use of digital technologies and is a nucleus visible internally and externally out of which we are pooling and promoting centralised activities. What is important to us here is to come up with solutions that can be used to noticeably simplify the day-to-day work of our doctors and nurses.

OUR STRATEGIC DIGITAL PORTFOLIO

Digital transformation of clinical processes

- Medical Cockpit
- Universal medical archive
- Semantic DRG coding assistance

Digital information exchange with our network partners

- Digital patient file
- Telemedicine

Digital services for our patients

- Health blog and database of experts
- Online appointment scheduling

Technology-assisted care concepts

- Tele Stroke
- Tele monitoring

ESPECIALLY FOR PATIENTS IN RURAL REGIONS, CARDIOSECUR MAKES THINGS EASIER BECAUSE YOU CAN SAVE FREQUENT VISITS TO THE DOCTOR.

campus-nes.de/campus-magazin

Access to artificial intelligence through industrial partners

Industrial partnerships help us adapt already mature products to the individual needs of our users with the help of a specialist. Together with a big data specialist, for example, we have further developed search engine technology that is based on artificial intelligence. This application in the form of a Medical Cockpit allows the entire medical staff to orient themselves more quickly, thus facilitating their work. Doctors, for example, can specifically filter and process information of relevance for them from very different, unstructured medical records – such as doctor's letters, laboratory or reports as well as radiology findings. In the clinical area and in the field of research, they can for example identify certain patterns in findings, diseases and medications with precision, and gain a quick overview for complex cases. Relevant patient documents and patient data available in a structured form can be viewed by them arranged in chronological order on a centralised interface referred to as a Medical Cockpit. The Medical Cockpit is being introduced for the first time at the new Bad Neustadt Campus.

In addition, we will continue to work together with other partners from industry and perform research on the future issues of "artificial intelligence" and "big data". For this purpose we are setting up a corresponding cooperation platform.

Cooperating smoothly – thanks to an electronic patient file

Further expanding the electronic patient file is significant for us. In Frankfurt/Oder and Bad Berka, 91 per cent of all patients consented to making available their doctor's letters and findings on a secure communication platform. This overwhelmingly positive response provides clear proof of the trust placed in us by our patients. The platform gives physician's practices, medical care centres and hospitals a simple and easy way to exchange all important treatment data with one another digitally – in compliance with data protection rules and securely. Redundant examinations can be avoided, patients do not have to carry their medical records around all the time, and the necessary information is fully available to all treating physicians at all times – so that after the stay nothing is overlooked or forgotten.

The electronic patient file is an important building block towards our Company's digital transformation. The data collected at our hospitals along with the knowledge of medical studies and databases are the key to our future success. These huge volumes of data are essential when it comes to making further improvements to cognitive systems. In future, they will potentiate and perfect our medical knowledge in a way no single physician can or will ever be able to do in future.

“Digitalisation is resulting in growing data volumes, also with us. Already now we are using artificial intelligence so as to facilitate the work of our doctors and nurses, provide new services and to further optimise our clinical processes in the face of rising budgetary pressures.”

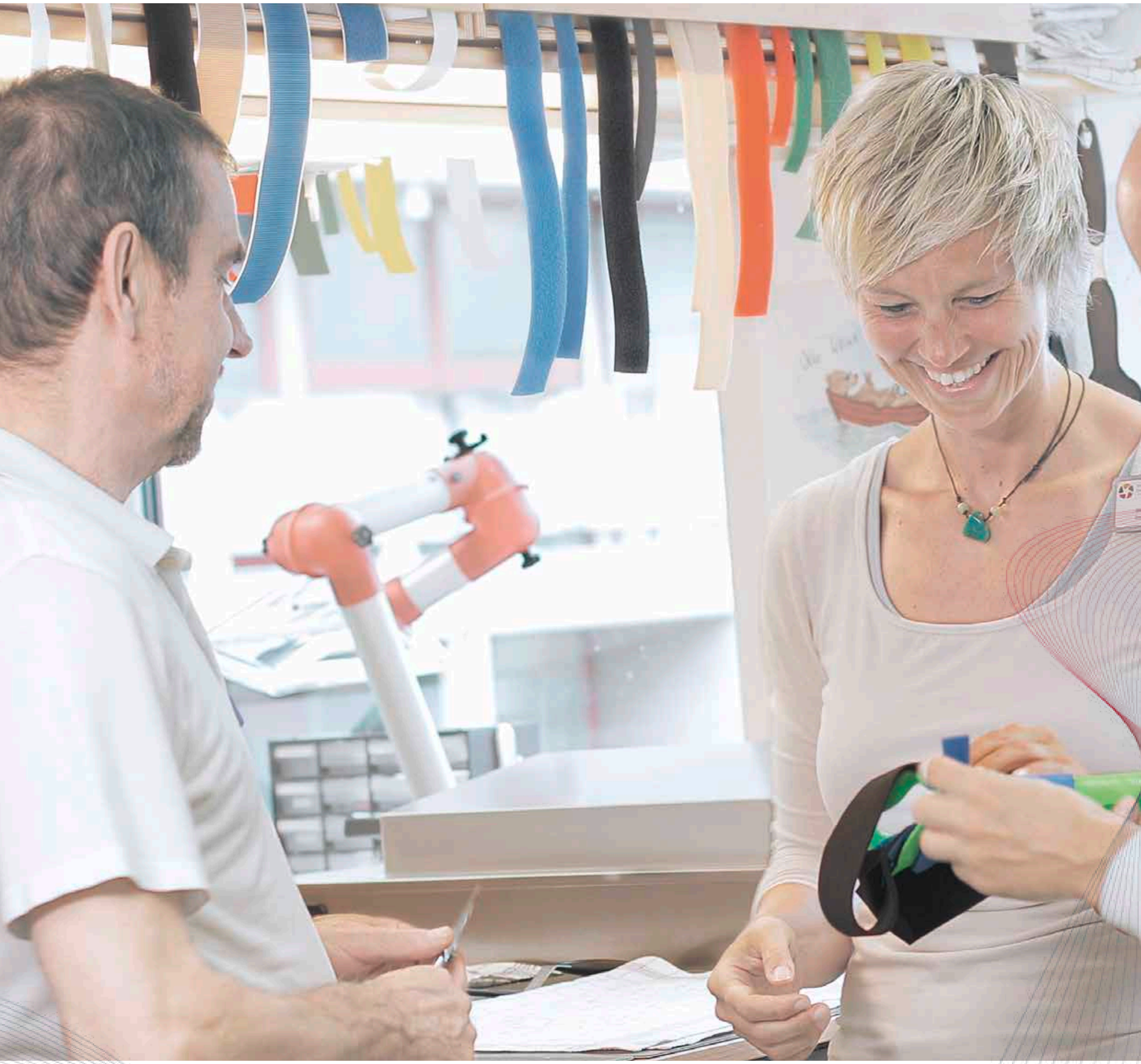
Stephan Holzinger, Chairman

Avoiding long distances through telemedicine
With telemedicine, patients can receive some medical services without having to leave home. These options will gain in importance over the coming years. Already now, we are testing the first applications for this.

CardioSecur is the name of the app for tablets and smartphones, enabling our patients to perform an ECG at home. It is helpful, e.g. for patients who need to check their ECG daily. CardioSecur makes things easier – especially for patients living in the countryside.

91%

OF ALL PATIENTS HAVE CONSENTED TO THEIR DATA BEING TRANSFERRED TO THE ELECTRONIC PATIENT FILE



EXCELLENT EMPLOYEES WITH A PASSION FOR PATIENTS

Our employees engage in a lively exchange with one another, with our partners and with our patients. For us, that is vital.

Our employees are our key factor of success. They are the reason that our patients and partners see us as competent, humane and service-oriented. It is only thanks to their daily commitment that we as RHÖN-KLINIKUM AG can offer excellent medical care and continually improve the way we look after patients and their relatives.

Our Company is currently undergoing a transformation triggered by digitalisation and an efficiency drive. For our employees, that not only means using innovative technologies and products, but also rethinking processes, breaking down boundaries and old ways of thinking, as well as becoming more efficient and thus also economical. In this way our employees ensure progress and our sustained existence on the market.

Time and again they enter uncharted territory, as with our strategic projects such as the RHÖN Campus approach and our extensive activities relating to digitalisation. Working in a team on an inter-disciplinary, inter-facility basis offers huge potential. That is why it is a key component of our human resources strategy.

16,688

MAKE IT POSSIBLE FOR US TO PROVIDE EXCELLENT MEDICAL TREATMENT AND NURSING. WE ARE KEEN TO ENSURE THEIR LONG-TERM LOYALTY AND SATISFACTION WITH OUR COMPANY

RHÖN-KLINIKUM AG AS AN ATTRACTIVE EMPLOYER – WHAT WE OFFER OUR EMPLOYEES

- Individual promotion of professional and personal advancement
- System of employee suggestions
- Fair dealings with each other
- Health management such as preventive courses
- In-house kindergartens at most sites
- Assistance in looking for an apartment
- Flexible working time schemes

Qualified staff through a varied recruiting strategy

As with many companies, finding and retaining highly qualified and motivated staff and keeping them loyal to our Company is a challenge for us. In this context, it is important to recognise regional differences at the individual facilities, which we address individually.

One means that has proven itself is to train our own young talent ourselves. RHÖN-KLINIKUM AG runs its own nursing schools as well as schools for therapists and medical assistance professions. But our training offering also covers business, catering and IT professions.

We recruit qualified young physicians through our recognised Academic Teaching Hospitals and our cooperation with specialised universities. To counter the shortage of doctor's assistants, we have created a Scholarship Programme through which we recruit doctors from abroad and train them as specialists. Also through our Nursing Integration Programme for Foreign Nursing Staff in Bad Neustadt, we have already recruited new employees.

Our specialist and executive talent of all professional groups are given structured continued and further-qualification training within the Group. This is organised on a decentralised basis. Since people from various places and locations meet there, this promotes intensive networking within the Company as well as the exchange of knowledge and experience. In addition to that, we also set great store by the perspectives created by our employees through social commitment. For example, numerous employees volunteer for aid projects such as Doctors Without Borders.

37

STATE-RECOGNISED SCHOOLS FOR NURSING AND NON-PHYSICIAN MEDICAL PROFESSIONS ARE PART OF OUR GROUP

RHÖN-KLINIKUM AG: An attractive employer

The excellent medical care we provide is made possible by our more than 16,500 employees. We are keen to ensure their long-term loyalty and satisfaction with the Company. That is why we provide employee-friendly working conditions and the best possible prospects at our hospitals, and service and other companies, as well as our training facilities.

For example, we have entered into individual site-specific agreements to take account of our employees' personal priorities to a greater extent. Our employees work under trust-based, flexible or part-time working time schemes.

We are also concerned with keeping our employees in good health. They can choose between various prevention courses, including physical education and nutrition. Our occupational healthcare management department analyses workplace design as well as the working situation, and organises Health Week conferences on the subject of individual health.

With our human resources policy, we promote a balancing of professional and family life. We therefore have in-house kindergartens at most of our sites. Some hospitals have entered into cooperation schemes with local day-care centres. We assist new employees looking for an apartment, and they can also rent hospital-owned apartments at a reasonable cost during the initial phase.

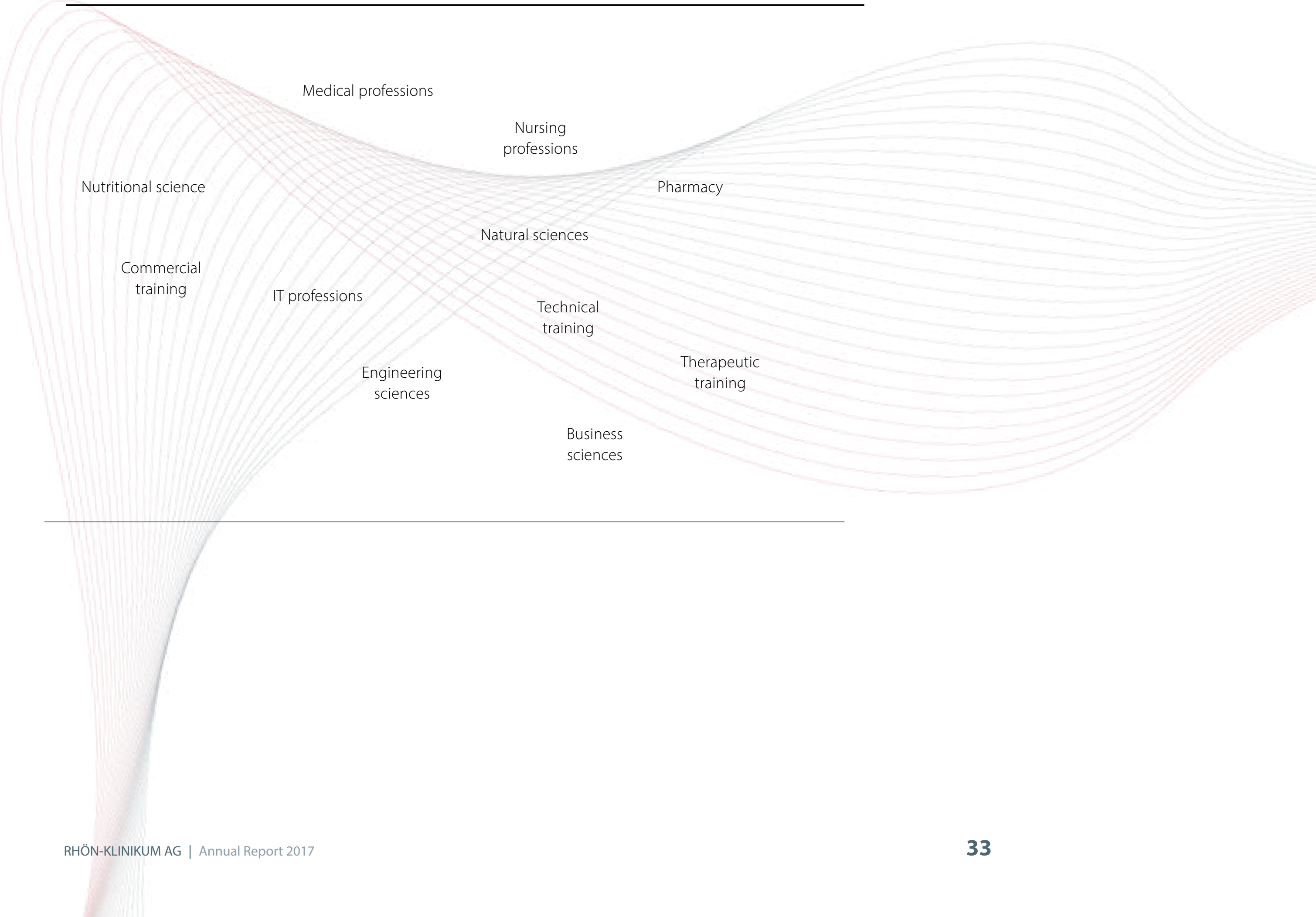
We offer profit participation and Company pensions

As a fair employer, we allow our employees to have a stake in our Company's success, and in addition to the performance-based remuneration also offer various incentive schemes. For its hospitals, RHÖN-KLINIKUM AG has negotiated in-house collective agreements with the trade union ver.di and Marburger Bund. These have numerous advantages over public service pay scales. In this way employees benefit from high premiums free of tax and social insurance charges, also for on-call services. In addition to a fixed salary, we offer our executive employees variable salary components by which we motivate them to pursue the Company's objectives.

Ideas wanted

Excellent medical care compels us to make constant advances. Many good ideas on improving processes and techniques come from our own ranks. To take advantage of this systematically, we have established a system of employee suggestions within our Company. All employees, including trainees, are encouraged to make suggestions for improvements. In that way we can improve the offering for our patients and their relatives.

MANY TRAINING PATHS LEAD TO RHÖN-KLINIKUM AG

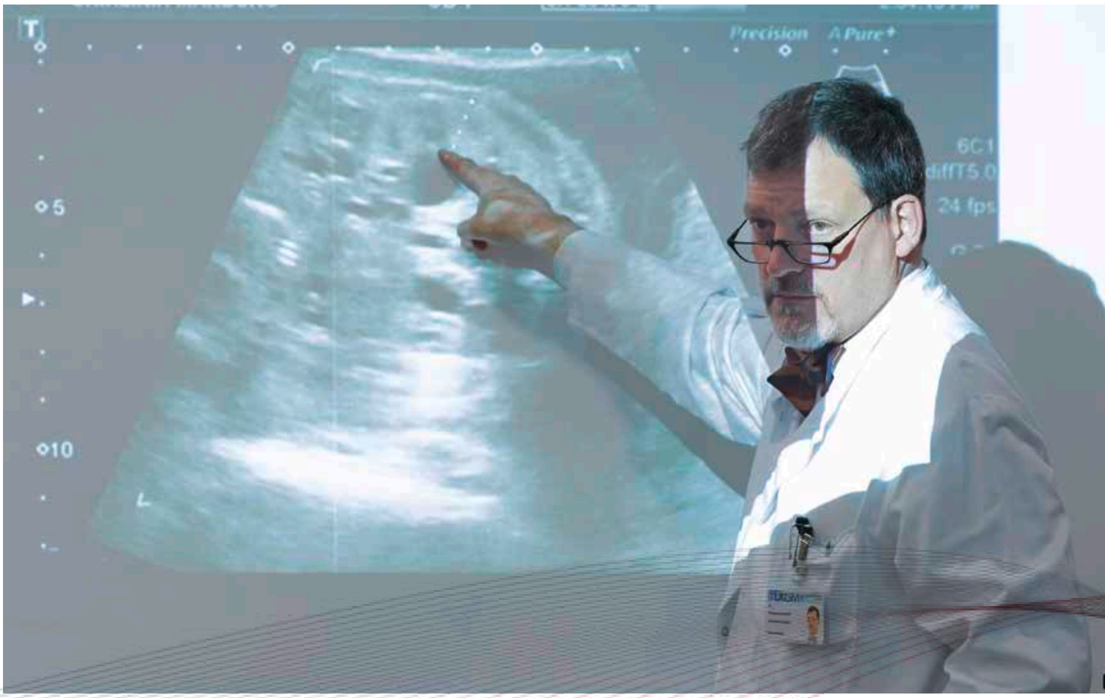


QUALITY AS A DAILY TASK

With us, each individual employee ensures daily that patients, relatives and cooperation partners experience what quality in medical care can mean.

Our quality management system ensures that the optimum is the norm. For us, quality first of all means coordinating all activities and procedures in our hospitals: from admission to discharge, from meals/catering to cleaning. We ensure comprehensive quality both in our medical treatment and in care provision, in our services and in the work with our cooperation partners. The Board of Management and the hospital management bodies show the way – subjects of relevance for quality are on the agenda of every meeting. The objective is to ensure high quality within an economically reasonable framework.

In firmly established quality circles, employees from different disciplines work on further enhancing the high standard. In in-house continued training, they are qualified as quality officers. Internal auditors regularly review the effectiveness of quality management. That has brought about a stable and viable system throughout the Company, and one that exceeds the statutory requirements.



46+

CORE INDICATORS HELP US TO IMPROVE MEDICAL PROCESSES

Patient safety as a top priority

To ensure the safety of our patients, we do everything we can to safeguard them from avoidable harm relating to their treatment. For this purpose, we use various routines and measures in the context of our clinical risk management system.

In addition to emergency management, fall prevention, decubitus prophylaxis or patient and drugs confusion, we appoint clinical risk managers: their job is to "track down" possible risks to patients to specifically initiate and implement countermeasures. At regularly held interdisciplinary and inter-professional meetings, special treatment courses are analysed. In that way we learn in all hospitals from experiences made and use them in our clinical risk management.

Hospital hygiene in times of globalisation

Hospital infections are a serious problem worldwide, which is why we are especially concerned with protecting patients and employees effectively from the risks of infection. We therefore pay particular attention to screening when admitting patients, effective outbreak management, antibiotics stewardship (i.e. the efforts and measures to improve the use of antibiotics), preparation of medical devices such as surgical instruments and medical equipment, as well as implementing hygiene standards. This also means documenting and monitoring problem sources and comparing them with national reference data.

Ongoing improvement of treatment quality

RHÖN-KLINIKUM AG stands for medical excellence. To secure it also in the long term, we prepare for future subjects and maintain an intensive exchange of information between the Board of Management and our expert panels.

An important lever for monitoring treatment quality is our RHÖN Quality Cockpit. Here we measure defined quality indications and assess them regularly, for example the duration or complication rates of procedures. In the case of any irregularities, we take a close look at the cases concerned and analyse them in terms of their causes.

Optimising medical processes

From admission to discharge, our processes are important to us as a guarantor of quality. By surveying our patients as to how satisfied they were with their treatment and stay, and by regularly reviewing our processes through internal auditors, we gather valuable results we can use as a basis for optimising our processes as required. Intensive cooperation with community-based doctors improves this possibility.

Medical controlling for correct invoices

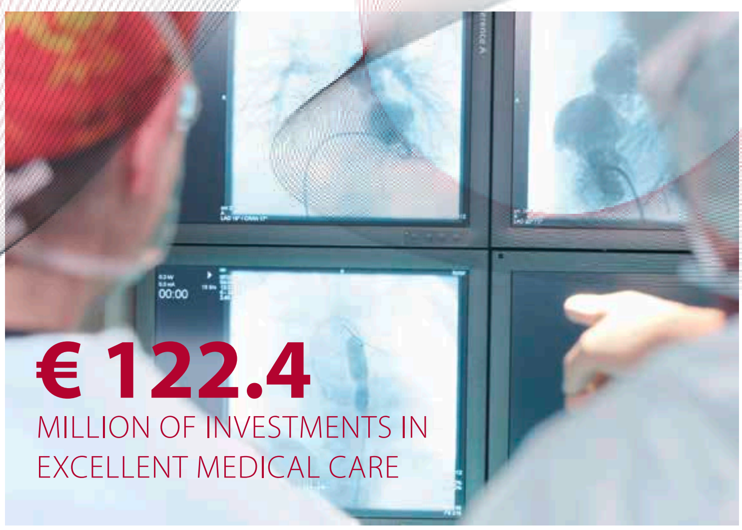
As a commercial enterprise, we not only have to deliver medical quality. Correct invoices with the healthcare funds is the basis for our cost coverage and for new budget negotiations. In day-to-day clinical work, specialists check medical and nursing documentation and coding specialists then record the services provided for each individual patient.

100+

PATH-BREAKING
MEDICAL AND
NURSING CONCEPTS

3
DIMENSIONS
OF QUALITY

TREATMENT EXCELLENCE
PATIENT SAFETY
HOSPITAL HYGIENE



CORPORATE RESPONSIBILITY

We wholly embrace quality and sustainable commitment – as a provider of healthcare services, as an employer and as a company. For us, economic success is inseparably bound up with medical, ecological and social responsibility: A healthcare system oriented towards long-term success, in addition to quality medical care, also calls for a sound working and living environment.

CORPORATE SOCIAL RESPONSIBILITY REPORT

SUSTAINABILITY MANAGEMENT AND ORGANISATION

Our sustainability reporting

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

✓ | All sections in this Corporate Social Responsibility Report (CSR Report) belonging to the NFR are identified by a tick and vertical line. The accounting firm PricewaterhouseCoopers has reviewed the present NFR in accordance with the auditing standard ISAE 3000 (Revised) with limited assurance (in this regard see Auditor's Report on page 176).

✓ | The reporting period for the NFR, as well as CSR reporting going beyond that, is the year 2017. The NFR covers the Group subsidiaries which are also included in the consolidated financial statements. You will find information on the business model in the Group Management Report of this Annual Report on page 75 seq.

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

Material subject areas

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

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

– Patient well-being
– Hygiene management
– Network medicine
– Education and training
– Continued and higher-qualification training

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

✓ | With the materiality analysis it was determined that the aspects of environmental matters, the respect of human rights as well as the combating of corruption and bribery are not material with the meaning of the CSR-RLUG. Since, however, we continue to regard these and other issues as being important in the context of responsible corporate governance, we report on further aspects relating to these issues in the sections "Employees", "Compliance", "Environmental protection", "Supplier management" and "Social commitment".

✓ | NFR

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

Our objectives

✓ | We approach the five material subjects strategically. That, in particular, means defining qualitative objectives, establishing specific measures and determining what results RHÖN-KLINIKUM AG achieved over the past year. These objectives, measures and results are given in the concept table below. We provide further information on these and their related management processes in the sections "Medical excellence" and "Employees".

✓ | CONCEPT TABLE

Material subject	Objective	Measures	Results of concepts	Page reference
Patient well-being	Continuous improvement in patient well-being	Improvement in medical quality	– Introduction of RHÖN Peer Review – Introduction of "Structured RHÖN Quality Dialogue" – Establishment of new sets of quality indicators – Investment in state-of-the-art medical technology	45 seq.
		Expansion of offering for intermediate national medical care	– Formation of intermediate medical centres	45
		Further enhancement of patient safety	– Training of clinical risk managers – Establishment of an interfacility risk management group	46
		Improvement in patient communication/ services	– Updating of expert directory – Establishment of RHÖN Health Blog	45
Hygiene management	Expansion of hygiene management	Introduction of Antibiotic Stewardship Programme (ABS) at all sites	– Introduction of Antibiotic Stewardship Programme (ABS) at all sites	45, 47
Networked medical care	Continuous expansion of networked medical care	Further expansion of campus approach at Bad Neustadt site	– Cooperation with specialist practices – Communication of RHÖN Campus approach (trade press as well as regionally and nationally)	45, 48
		Expansion of offering through telemedical tools	– Patient monitoring at home (e.g. ECG in case of heart failure) – Video-consulting aftercare of cardiosurgical patients – Review of further possibilities for telemedicine projects	45, 48
Training	Further development of training	Continued positioning as attractive employer on employment/ training market	– Performance of site-specific drives and other measures to enhance name recognition – Continuous use of social media – Use of trainees – Change in starting date for training from April to October (resolution and preparation in 2017, implementation in 2019)	49 seq.
		Countering future shortage of specialist employees	– Close liaising with nursing services with a view to new generalist nursing training programme – Expansion of acceptance capacities/class sizes, particularly in nursing	49 seq.
Continued and higher-qualification training	Expansion of continued and higher-qualification training programme	Qualitative expansion of continued and higher-qualification training programme	– Implementation of e-learning system – Design of a scan system for classroom training sessions – Identification of qualification requirements related to site – Filtering of continued training requests and suggestions and their targeted/structured implementation	49, 51
		Expansion of continued training (CT) of teaching staff	– Didactic and methodological continued training of teaching staff according to a fixed schedule – Internal agreement (with works council) for CT obligation of teaching staff beyond the statutory mandatory CTs – Development of own e-learning content for continued training of teaching staff – Continued training plan for every teaching staff member – Appointment of subject area groups (teaching staff) under the direction of a specialist pedagogical coordinator	49, 51

Risks in relation to non-financial aspects

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

✓ | The basis for our risk management system is the Group risk guideline containing both the definition of the term "risk" and the principles of risk management, as well as describing the requirements for the risk management process uniformly binding on the Group as a whole including the related duties and responsibilities. The actual risk management process is documented in a risk management software program. For detailed information on our risk management (approach) as well as material risks, also in connection with non-financial aspects, please refer to page 91 seq. of our Group Management Report.

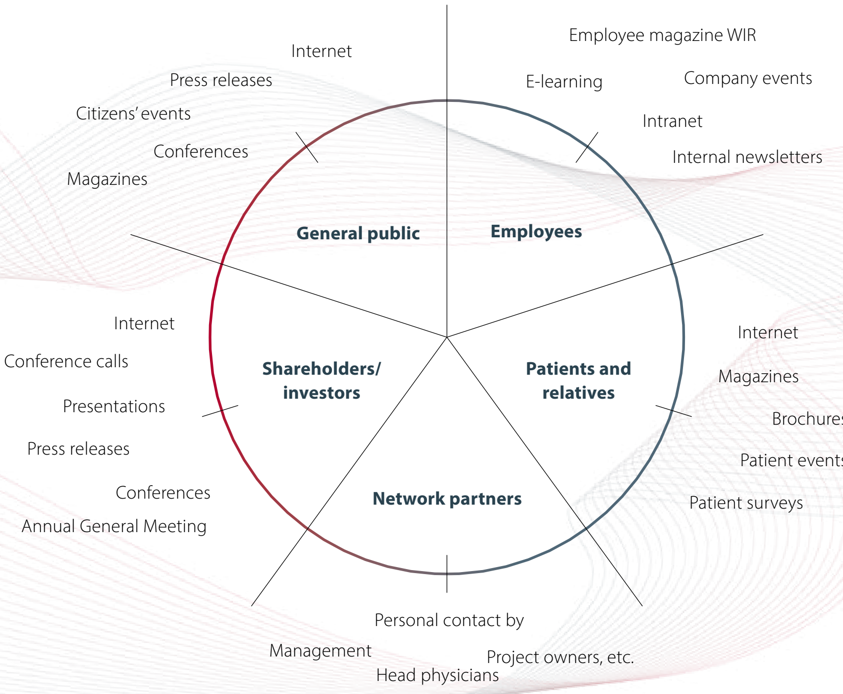
✓ | RHÖN-KLINIKUM AG has implemented risk reduction measures. On a net view of risks, no risks were identified that are, or will be, very likely to have a serious adverse impact on the aspects.

Our sustainability management

✓ | Responsibility for sustainability and for our Group's entrepreneurial success in both cases is assumed by the Board of Management of our Group – and rightly so, since both aspects go hand in hand. As a healthcare Group, we depend on the trust people place in our work. If this trust is not there, we cannot succeed. For that reason, our Board of Management explicitly commits itself to the value of personal integrity and to our "Corporate Code", which sets out the fundamental conduct of all employees as well as the relationship between employees and patients. The code clarifies that trust for us is the key element of the doctor-patient relationship. Moreover, the Board of Management has entered into Group-level works agreements with the employee representatives – for example on the interaction with industry and on corruption prevention – by which the personal integrity of our employees is safeguarded whenever we cooperate with external entities. Our own contact for corruption prevention and a Group-wide whistle-blowing system are additional proof that integrity at RHÖN-KLINIKUM AG is a part of our self-perception.

As a healthcare Group, we depend on the trust people place in our work. If this trust is not there, we cannot succeed. For that reason, our Board of Management explicitly commits itself to the value of personal integrity and to our "Corporate Code".

✓ | OUR STAKEHOLDERS



Our stakeholders

✓ | Interacting with our stakeholders is important to us. Through dialogue with them we receive valuable insights into how we can organise our Group even better in future. And they help us understand on what issues we have to communicate with them more closely. We take the comments of our patients especially seriously – after all, their well-being is our top priority. That means that if patient complaints reveal any specific scope for improvements, these are implemented and carried through by our quality management team. When, for example, comments from patients and visitors have revealed a shortage of parking spaces at some sites, we have responded by appropriate upgrade measures. If we receive any evidence or comments from patients or other stakeholders regarding compliance breaches, we thoroughly and fully investigate these.

✓ | We have taken the feedback from our employees during the reporting year as an opportunity to improve our information offering regarding the new campus in Bad Neustadt, to publish our newsletter more frequently – now every two to three weeks – and to offer presentations and guided tours to employees and interested external persons.

MEDICAL EXCELLENCE

The well-being of our patients is our top priority

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

✓ | RHÖN-KLINIKUM AG sees medical excellence as being key to the Group. Here, we strictly pursue a comprehensive approach, with clinical risk management, hygiene management and medical controlling representing the most important elements in this scheme. Regular exchange between disciplines covering similar medical subjects and "classic" quality management brings about a stable and viable system.

✓ | RHÖN-KLINIKUM AG has a separate Board division, Medical, which establishes a link between economic efficiency and medicine. The areas of responsibility of the Board member in charge of Medical include patient safety, quality and hygiene, medical process management, innovation, network medical care as well as the further development of the Medical Board. This Board is a permanent advisory body for the Board of Management and essential for preparing decisions on issues of medical strategy. It is made up of top physicians and – in addition to its strategic advisory function for the Group Board of Management and management bodies of the hospitals – has also been entrusted with the task of implementing specific innovation projects and synchronising medical expertise with the Company's corporate objectives. The members of the Medical Board work together with their colleagues at the individual hospitals on an inter-facility and interdisciplinary basis. The Medical Board evaluates medical and technological innovations as well as new therapy procedures, and is therefore of key importance for medical excellence at RHÖN-KLINIKUM AG.

✓ | The Group Board of Management has adopted a medical strategy for RHÖN-KLINIKUM AG. It seeks to provide for optimum patient navigation in a complex healthcare system: each patient is to be put in touch with the right expert as quickly as possible. That is why the highest priority is given to the processes of reliable diagnosis. Medical needs are determined individually for every patient, and our experts define what the adequate medical path is. The medical strategy also determines the research and innovation programme by which RHÖN-KLINIKUM AG promotes subjects of medical and strategic relevance, such as genome medicine. In this context, interactions and professional exchange between the five hospital sites are consistently supported. The programme is moreover geared to organisational and logistical improvements such as better integration of inpatient treatment and aftercare at home.

✓ | RHÖN-KLINIKUM AG has set itself the aim of

- constantly improving patient well-being as well as
- hygiene management, and
- continuously improving integrated medical care.

✓ | To improve patient well-being, RHÖN-KLINIKUM AG is seeking, amongst other things, to expand its intermediate medical care offering nationally. To achieve that, further intermediate medical centres in addition to those already in place at all hospital sites are to be established to pool expertise. Patient communication and services are also being continuously optimised. In 2017 the Directory of Experts was updated and the RHÖN Health Blog established – an information offering over the Internet specifically addressing patients and those interested in healthcare issues which provides tips and information from experts as well as interesting facts from the medical field.

RHÖN QUALITY CONCEPT

✓ | The quality concept of RHÖN-KLINIKUM AG pursues a comprehensive approach in which various functions mesh: clinical risk management, medical controlling, hospital hygiene and Group-wide regular reporting on quality assurance in the form of the RHÖN Quality Cockpit.

Clinical risk management

✓ | 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. Thanks to this interdisciplinary collaboration, insights can be gained from comparing scientific quality indicators with routine data from the invoicing of medical services.

✓ | Patient safety is the most important driver of treatment excellence at RHÖN-KLINIKUM AG. For this purpose, we train clinical risk managers and establish an inter-facility risk management group. Through our innovation pool we also promote projects on the subject of risk management. Building on a risk audit dealing with patient safety at the University Hospital of Marburg, a follow-on project was launched during the reporting year in which a risk management software program is to be implemented. This will allow for structured risk audits to be carried out to identify relevant risks and to establish and implement risk reduction measures.

RHÖN Quality Cockpit

✓ | To further improve medical quality, we expanded the RHÖN Quality Cockpit to include new elements during the reporting year. In the Structured RHÖN Quality Dialogue the Board member for the Medical division liaises with the hospitals on quality assurance and implementing the quality strategy. Experience gained from this format, which we also have been the only hospital group so far to introduce, is pooled together with the results from the – likewise newly introduced – RHÖN Peer Reviews into the work of the Medical Board and the expert panels. The Peer Reviews are oriented on the guideline of the German Medical Board (Bundesärztekammer, BÄK) and are used to identify potential improvements in medical treatment.

✓ | In the expert panels, top physicians and specialists from all sites have aggregated quality indicators in some cases into new sets. At the same time, some new indicators were added, such as the results from the stroke registries. Legally relevant indicators are now specially highlighted in the Quality Cockpit. Currently, these are the so-called "minimum volumes" defined for eight service areas as well as "planning-relevant quality indicators" established for selected services in the specialist areas of gynaecology and obstetrics. Both indicators were defined by the legislature and are to give patients an orientation basis for choosing a hospital in terms of the best possible quality coupled with a certain degree of safety. For the reporting to take account also of patients' subjective perception in addition to objective medical results, the survey results also include the "White List" in the RHÖN Quality Cockpit.

✓ | In the context of the RHÖN Quality Cockpit, statutory and invoicing-relevant requirements relating to structure-, process- and results-based quality in medical care and their changes are monitored on an ongoing basis and, depending on their relevance, communicated at the meetings of the Board of Management, Medical Board and management bodies. For example, plans to enshrine quality standards for inpatient medical services in law are of relevance in this regard. The Institute for Quality and Efficiency in the Healthcare System (Institut für Qualitätssicherung und Transparenz im Gesundheitswesen) (IQTIG) has been mandated to develop and promote binding quality indicators for the services of German hospitals.

✓ | Above and beyond these quality efforts, RHÖN-KLINIKUM AG is a member of two major quality initiatives of German hospitals: Initiative Qualitätsmedizin (IQM) and Qualitätskliniken.de. We are, moreover, a member of the association Stiftung Initiative Qualitätsmedizin (SiQ!) through which some 500 German hospitals pursue the aim of contributing their efforts to the work of IQTIG.

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. We strive to protect our patients and employees from the risks of infection. To that end we are continuously expanding our existing Group-wide hygiene management scheme. The key elements of this management are the recording and systematic, continuous monitoring of nosocomial infections – i.e. infections from pathogens acquired within the hospital – as well as comparing them with national reference data (surveillance), evaluating the consumption of hand disinfectants and antibiotics as well as further hygiene-relevant data. These data are recorded and evaluated on an individual hospital basis and are used, amongst other things, as a basis for developing improvement measures.

✓ | The relevant subject fields of our Expert Panel on Hygiene include, in addition to the uniform recording of nosocomial infections, the personnel concept for specialist hygiene staff, surface disinfection, preparation of medical devices, screening especially for multi-resistant pathogens and outbreak management. During the reporting year, one outcome from the work of this Expert Panel has been the introduction of an Antibiotic Stewardship Programme at all sites. Antibiotic stewardship is a response to increasing antibiotics' resistance and describes the strategies and measures used to achieve optimum results in anti-infection treatments with minimum toxicity for patients.

Medical controlling

The economic counterpart to quality management is medical controlling. Medical controllers are internal advisers and the interface between the medical and administrative areas. The close meshing of quality management and medical controlling is essential for RHÖN-KLINIKUM AG to adequately respond to the rising number of invoicing audits by payers. Medical controlling, together with the professional groups involved in the treatment, records the services provided for each and every patient. This patient documentation covering all individual steps of the treatment is not only used as an internal record to track the work performed for patients, but at the same time serves as a basis for invoicing services. Medical controlling makes an essential contribution towards enhancing transparency, improving interfacing processes and ensuring adequate remuneration of services. It creates a sound information basis for budget negotiations with payers, for quality assurance and for the development of a corporate strategy. To reduce losses from MDK audits in the medium term, joint projects were conducted to review systematically – and in some cases reorient – the processes for documenting and coding. Another task of medical controlling is documenting and recording especially complex nursing services and deriving the nursing complex procedure scores (PKMS).

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. A specific referral of patients – also beyond regional borders and in keeping with the principle of freedom of choice – to the place and type of treatment optimises their care, saves resources and also facilitates the work of our employees. With our campus approach we are seeking to closely integrate outpatient and inpatient offerings as well as numerous medical and healthcare services, so that patients from a catchment area of some 100 kilometres can be provided with comprehensive care.

✓ | At our Bad Neustadt site we are pressing ahead with this approach by creating offerings that allow in particular specialists and other service providers to establish themselves directly on-site. With communications work we support reporting on the campus approach in the specialised media as well as regional and national publications to raise awareness of this offering with as many players in the healthcare industry as possible.

✓ | In addition to the physical establishment of cooperation partners on the campus, we are pushing ahead with telemedicine as an additional type of link. Already now, specialist practices can connect to the campus through various telemedical systems. In 2017 we already achieved results in the area of telemedical cooperation, for example with the introduction of CardioSecur, a system for telemedical aftercare and monitoring of patients with heart failure at home; with video-consulting aftercare of cardiosurgical patients; with the digital patient file for secure exchange of patient data between sectors; and with the stroke network TRANSIT: Our hospital in Bad Neustadt offers medical support to providers within the care region of Unterfranken without neurological expertise. In future, we want to further expand our telemedical offering, both by linking up further doctor's practices and through a separate access platform for our patients. That might enable the registration and first assessment process to be restructured and upgraded, and give rise to an online-based appointment scheduling system.

Funding programmes for excellence projects

RHÖN-KLINIKUM AG drives medical innovation through its own funding projects. In the first funding round from 2015 to the summer of 2017, over 50 – in some cases inter-facility – projects were completed. In the two areas of "treatment excellence" and "research", projects relating to the subjects of genome medicine, treatment excellence, simulation, digitalisation, telemedicine, clinical research and basic research, amongst others, were funded.

Currently, a second funding round for the period 2016–2018 is under way. It is concentrating on two specific areas: "Personalised medicine" in the area of research and innovation, and "Simulation training/procedures for employees" in the area of treatment excellence.

Also after the completion of the funding in a total amount of € 8 million, many of these projects will continue at the individual facilities where they have become a permanent part of day-to-day clinical routine.

In future, we want to further expand our telemedical offering, both by linking up further physician's practices and through a separate access platform for our patients.

EMPLOYEES

For good staff we will do (almost) anything

✓ | As a company from the healthcare sector, we rely on excellent staff. It is only thanks to them that we offer above-average medical care based on the latest medical research. Recruiting highly qualified and motivated employees in sufficient numbers is something that is becoming increasingly difficult for companies due to demographic changes and the shortage of specialist personnel – and that is no different for our Group given the particularly personnel-intensive field in which we operate. After all, we are amongst the largest private healthcare providers in Germany, with 16,688 employees. We therefore frequently seek contact with students of medicine – e.g. by making job offers for the practical year of training at all our sites, or by organising one-week courses in cardiosurgery at Herz- und Gefäßklinik. To convey to potential employees a positive picture of our Group already in the application process, we are currently implementing an electronic job application management system to ensure prompt and competent handling of applications.

✓ | As a decentralised Group, each subsidiary has its own human resources department that reports to the respective management body. Since the Board of Management decides on the management of the subsidiaries, it indirectly influences their human resources policy. Organised at the Group-level are collective agreement law, fundamental issues of personnel law, works council constitution law as well as co-determination within the Group. The Group Board of Management deals with the issues of training including continued and higher qualification training. RHÖN-KLINIKUM AG has set itself the objective of continuously enhancing training. To achieve this we are pursuing measures to establish our image as an attractive employer and to counter the future shortage of specialist staff. The Group's continued and higher-qualification training programme is to be qualitatively expanded – this applies particularly to the continuing training of teaching staff. Already today, the Group is promoting knowledge management amongst staff. For example, led by the Chief Medical Officers (CMO) numerous expert panels have been established for the inter-facility exchange of knowledge and experience. Moreover, we are building on close integration of medical care and management.

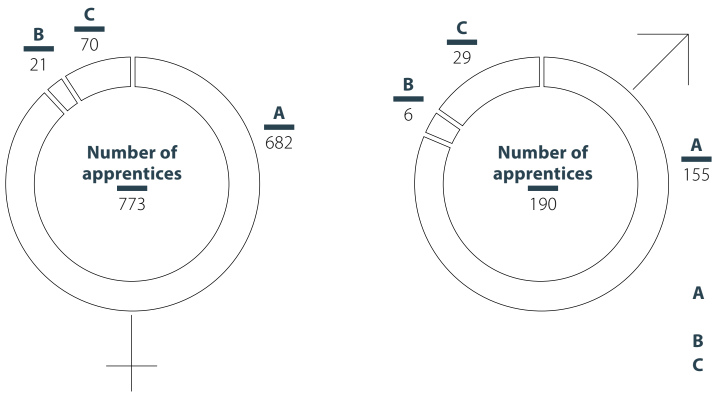
✓ | NUMBER OF EMPLOYEES 2017

	Total	Proportion of part-time employees
Number of employees (headcount)	16,688	42.17%
Number of employees (full-time positions)	13,383	31.83%
Female employees (headcount)	12,168	50.31%
Male employees (headcount)	4,520	20.27%

Training

✓ | APPRENTICES, TOTAL (TRAINING YEAR 1–3)

Headcount



A Apprentices, nursing professions (nursing, etc.)
B Apprentices, commercial professions
C Apprentices, other professions

✓ | Training our own junior staff has proven an effective means of countering the shortage of skilled staff. Already today, RHÖN-KLINIKUM AG has its own schools for nursing, physiotherapy, ergotherapy, logopaedics, dietician services, medical assistance professions in the areas of functional diagnosis (MTAF), laboratory (MTLA), radiology (MTRA) and medical documentation (MDA), as well as for commercial, gastronomy and IT professions. As a result of our efforts to optimise training offerings, we filled two trainee positions during the reporting year after recently having suspended trainee programmes for some years. In 2017, 963 young persons were in training with us, of whom 837 in nursing professions, 27 in commercial professions and 99 in other areas. Of the apprentices having completed their training in 2017, the vast majority of them (i.e. 162) were taken on in an employee relationship.

✓ | To continue to be perceived as an attractive employer on the training market, we are carrying out site-specific campaigns as well as further measures to raise our name recognition and are making consistent use of social media. One result of these efforts is the campaign "Nüscht für Luschen" (English: "Not for weaklings") launched in 2017 by which Zentralklinik Bad Berka is raising awareness for training as nurses. As of 2019 we have also decided to move the starting date for training from April to October so as to allow school leavers quicker access to training, i.e. right after they have finished school.

✓ | To counter the future shortage of specialist staff, we are already now preparing ourselves for generalist nursing training provided for by the new nursing profession law as of 2019 – for Bavarian schools probably from

✓ | APPRENTICES TAKEN OVER AFTER COMPLETION OF TRAINING 2017

Headcount

	Total employees	Of which total female employees	Of which total male employees
Management level			
Number of apprentices taken on after training	162	133	29
Number of apprentices taken on after training, nursing professions (nursing, etc.)	148	122	26
Number of apprentices taken on after training, commercial professions	4	4	0
Number of apprentices taken on after training, other professions	10	7	3

2020 – by selecting suitable cooperation partners and collaborating closely with managers of nursing services. We are also expanding acceptance capacities in the training classes, particularly in nursing.

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 as it is for our doctors and therapists. Physicians have the option of obtaining supplementary qualifications and of being trained as specialists at all our sites. The individual hospitals organise their continued and higher-qualification training programmes on a decentralised basis. In that way, demand for training courses can be adapted to the need for qualifications locally, thus including the continued training requests and suggestions of employees in the planning.

✓ | We set great store by using a variety of teaching formats. In many cases, classroom training sessions are the suitable format for imparting practical content and for discussions. As a result of our optimisation efforts, we are having a scan system developed to record attendance during these training sessions in a structured manner, quickly and fault-free. Besides classroom training formats we also use an e-learning system that is available at all sites – since 2017 also at Universitätsklinikum Gießen und Marburg. The system enables our employees to obtain continued training at their own pace as well as when and where they wish. This moreover allows us to quickly adapt and flexibly create teaching content. The e-learning system allows for a direct exchange between employees and the respective expert and is thus used by us as an organisational platform for continued and high-qualification training as well. There, employees can register for courses, take exams and even print out certificates. With the Group-level works council, RHÖN-KLINIKUM AG has entered into a "Group-level works agreement on e-learning" in which training curricula for professional groups are defined whilst, at the same time, ensuring that employee rights are safeguarded.

✓ | For good training we also need good teaching staff. We therefore provide them with continued training didactically and methodologically according to a fixed schedule. During the reporting year, we have discussed with the works council of our school facility ESB the conclusion of an agreement under which the continued training obligation of teaching staff of ESB will exceed the statutory obligations. For our e-learning system, we are developing separate offerings for this specially for the teaching staff, with each teaching staff member receiving their own continued training schedule. In this regard, ESB plans to appoint subject area groups under the direction of a specialist pedagogical coordinator so as to develop both professional and teaching pedagogical content for e-learning.

✓ | It is not possible to calculate the total number of hours spent on continued and higher-qualification training within the Group. First of all, internal training sessions take place in some cases during working hours, and secondly the time spent on e-learning is not recorded. Expenditure on continuous, higher-qualification and further training totalled roughly € 3.6 million in 2017.

Attractive employer

Our aim is to be an attractive employer. We are committed to equal opportunities and diversity, and are opposed to any form of discrimination. This is reflected in the composition of our staff in terms of age and gender (see table "Age structure of employees") as well as the share of female executives at the three management levels below the Board of Management (see table "Number of executives").

AGE STRUCTURE OF WORKFORCE 2017

Headcount

	Total employees	Of which total female employees	Of which total male employees
Number of employees	16,688	12,168	4,520
Number of employees under 30 years of age	3,947	3,028	919
Number of employees 30 to 50 years of age	7,908	5,645	2,263
Number of employees over 50 years of age	4,833	3,495	1,338

NUMBER OF EXECUTIVES 2017

Headcount

	Total employees	Female employees	Male employees
Management levels			
1	35	10	25
2	204	51	153
3	904	386	518
Total	1,143	447	696

We want to be there for our patients 24/7. For many employees, though, that means working in shifts. Since we depend on the flexibility of our employees for this, we want to give them the most flexible working time scheme possible in return. 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 working hours or part-time work. A total of 7,038 employees (42.17 per cent) were employed part-time during the reporting period.

We want to accommodate particularly employees with children so that they can balance their professional and family life as well as possible. That is why RHÖN-KLINIKUM AG has entered into the Group-level works agreement "Career and Family" with the Group-level works council. Moreover, in-house kindergartens are established at most of our sites. Some hospitals have entered into cooperation schemes with local day-care centres.

An attractive employer also offers fair remuneration models. We have negotiated in-house collective agreements for our hospitals together with the social partners ver.di and Marburger Bund. Compared with the other collective wage scales within the healthcare system, these colleagues benefit from high night-shift premiums exempt of tax and social insurance contributions. The in-house wage scale also provides that all employees are given a stake in the Company's result before tax. For our executive employees, we have created a remuneration scheme with fixed and variable components that provides incentives for achieving the Company's goals.

As a healthcare Group, we of course are also actively engaged in the area of preventive healthcare for our employees. For example, our hospital in Bad Berka entered into a 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 situations, continued and higher-qualification training, as well as the Health Week conferences.

COMPLIANCE

Creating trust through clear rules

The doctor-patient relationship is one of trust. In order to protect this essential relationship of trust, doctors (also through the Hippocratic oath) and other employees working closely with patients already have to observe statutory provisions and ethical standards. In addition, RHÖN-KLINIKUM AG recognises the trust relationship with patients in its Corporate Code as a decisive basis for business. That goes to show that compliance – i.e. acting in accordance with legislation and Company-wide ethical standards – is of key importance for a healthcare provider, because it ultimately serves the well-being of our patients. It is of course needless to say that we comply with the legal provisions. In addition we have entered into valid agreements Group-wide. In addition to Group-level works agreements, these also include our Rules of Procedure for Compliance as well as guidelines and recommendations – particularly the already mentioned Corporate Code that is binding on all employees. Through this obligation, we not only raise our employees' awareness for the code – we also protect them. That is because a Group that complies with rules also reduces the risks that may arise for its employees – that rings true for legal risks and litigation costs as well as negative media coverage or adverse influences on corporate culture.

Systematic approach

The structure and functioning of our compliance management system (CMS) are laid down in the Rules of Procedure for Compliance valid Group-wide. Primary responsibility for compliance is assumed by the chairman of the Board of Management of RHÖN-KLINIKUM AG. He reports to the Supervisory Board Committee for Compliance and Communication. Given the key importance of this subject, this committee meets at least once per quarter. A Central Compliance department is set up at the Group level. It gears efforts to developing a corporate organisation that already ensures early prevention of compliance breaches in the best possible way. Moreover, this central department supports the individual subsidiaries in compliance-relevant issues. Each hospital also has their own compliance officer who reports to the Central Compliance department and acts as a contact person on-site. To ensure an ongoing exchange between Risk Management, Internal Auditing and Compliance departments, there is also a Compliance Committee that meets several times each year.

We review the effectiveness and up-to-date character of the CMS on a regular basis and adapt the frameworks as required. This may be occasioned by both internal incidents and information on compliance breaches at similar companies. We want to prevent such breaches by identifying and averting risks in good time. To that end we review working procedures ensuring legally compliant working activity, and inform employees about the rules in force. In addition to a guide to the most important information on the subject of compliance, we have developed a recommended procedure for dealing with potentially critical contracts.

A further key element of our CMS is training schemes designed to make employees aware of the subject of compliance. Every employee must complete a corresponding classroom or online training session at least every two years. For the latter, RHÖN-KLINIKUM AG has developed a multi-stage online training programme. Subjects such as purchasing, optional services for private patients, hygiene, data protection or occupational safety can take on special relevance in terms of compliance and are therefore also addressed in the training sessions. For this, RHÖN-KLINIKUM AG has set up a learning management system by which training levels of the employees can be maintained.

If employees wish to report compliance breaches, several contact persons are available to them in the whistleblower hotline: the compliance officer at the hospitals, the head of the Central Compliance department, the chairman of the Board of Management of RHÖN-KLINIKUM AG as well as the chairman of the Supervisory Board Committee for Compliance and Communication.

How we handle compliance reports

The Rules of Procedure for Compliance of RHÖN-KLINIKUM AG stipulate that each compliance report received – regardless of its form or the person submitting it – is sent immediately to the Central Compliance department. It works together with the compliance

officer to check whether a compliance event exists. For this purpose, it initiates its own investigations and at its reasonably exercised discretion works with the Internal Auditing and Risk Management departments. If this reveals a sufficient suspicion of a breach, measures are initiated to ensure that it cannot be repeated. Moreover, the risk and the level of damage is determined, and a written report to the chairman of the Board of Management of RHÖN-KLINIKUM AG is prepared if the suspicion has been confirmed.

Current areas of focus

Every year, RHÖN-KLINIKUM AG defines a programme for the Central Compliance department. In 2017 the compliance programme included, for example, the continuation of an audit – already begun in 2016 – dealing with the new criminal offences of taking and giving bribes in the healthcare system as well as the existing criminal offences of breach of trust, bribery in business transactions and bribery of public officials. In this regard, RHÖN-KLINIKUM AG has reviewed all contracts for violations. For the employees of RHÖN-KLINIKUM AG this new legislation has not given rise to any material changes, but has nonetheless once again honed employees' awareness of compliance issues. The audit thus proved positive. At the same time, the audit was not entirely without consequence since some service provision partnerships had to be brought in line with the new legislation. In addition to service provider partnerships, industry sponsoring agreements in particular were reviewed. Here, too, there was a need to make improvements in some cases.

Since 2016, the drugs industry has been proceeding with the partial publication of these agreements, and the medical devices industry is to follow suit soon. The Board of Management has taken this as a cue to make a statement on this and to make a commitment to transparency.

The 2017 compliance programme also included the development of a compliance training course for our new e-learning platform and drawing up guidelines, e.g. for handling online complaints or introducing a blacklist for business partners with inadequate compliance. Moreover, the Central Compliance department during the reporting year began an audit addressing anaesthetics and the equipping of emergency vehicles. Following the audit, a corresponding Group-wide guideline is to be drawn up in 2018. In addition, the Central Compliance department in 2018 will also deal with a guideline on dealing with internal and external advertising media and with training courses for employees.

ENVIRONMENTAL PROTECTION

Caring is part of our nature

RHÖN-KLINIKUM AG is a strong advocate of human health. That is why it is completely natural for us to seek to protect the human environment. For us, the focus is above all on making responsible use of energy. Given the increasing pace of digitalisation and the use of ever more efficient technology, our energy requirements are set to rise continually. However, we want to meet this development through more efficient use of energy and are raising awareness with our employees to avoid unnecessary consumption of energy.

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

In the company "RHÖN Energie für Gesundheit GmbH" established at the end of 2016, we pool procurement of energy Group-wide. That simplified procurement and enables us to have a centralised overview and monthly controlling with regard to the energy volumes used.

Energy supply

The rising consumption of electricity and cooling in hospitals makes our environmental footprint bigger and places burdens on our economic performance. That is why we have been pursuing efforts in generating our own energy with our cogeneration plants (CHPs) for over 20 years already. In addition to the electrical energy generated, we use the heat produced by our CHPs for heating and hot water as well as cooling generation.

In 2017, these combined heat and power units generated a total of 37,948 megawatt hours (MWh) of electricity, thus covering roughly 41 per cent of our requirements. This is cost-efficient and saves around 2,917 t in CO_2 emissions each year as compared with conventional energy supply. Compared with the previous year, electricity consumption at RHÖN-KLINIKUM AG in 2017 was reduced by 2 per cent to 91,663 MWh. Roughly 40 per cent of the electricity purchased comes from renewable energies (green electricity). Heat consumption was reduced by 2 per cent to 130,036 MWh. The reduction is essentially attributable to the fact that we were able to commission modernised hospitals whilst decommissioning inefficient buildings.

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We meet a potential failure of external energy supply by consistently implementing redundant energy supply concepts. Two emergency power generators per hospital ensure self-sufficiency in electricity and cooling for several days. With oil-operated back-up boilers, we moreover ensure a supply with sufficient heat and, where applicable, steam. We are thus able to ensure safe patient care in the event of protracted external supply failures.

Emissions

At RHÖN-KLINIKUM AG, emissions are produced primarily in the form of CO_2 from heat and electricity generation from the use of natural gas and indirectly from the procurement of electricity and district heating. Through modernisation measures, we want to diminish these emissions further. We thus decided in 2017 to modernise the cooling units in Bad Berka and Bad Neustadt as well as the supply of heat to the psychiatry department at the Marburg Ortenberg site. What are referred to as Scope 1 emissions are produced directly on-site in our own heat and electricity generation. During the reporting period, these amounted to over 37,080 t of CO_2. Scope 2 emissions cover all indirect emissions from district heating and electricity deliveries. In 2017 they were roughly 20,216 t of CO_2. A direct comparison with levels of the previous year is not possible since we made changes to the way CO_2 emissions are calculated in 2017. We no longer use the Germany-wide average emission factors but calculate emissions individually for each site – depending on the underlying electricity mix of the respective suppliers.

Fresh water and wastewater

In medical facilities, drinking water must be available to the highest standards of quality at all times. We therefore inspect water quality regularly through microbiological tests that exceed the legal requirements. We also flush out infrequently used lines regularly to prevent bacteria from building up in stagnant water. During the reporting period, water consumption declined by 1.2 per cent to 708,993 m^3. The total amount of wastewater of all sites was roughly 653,199 m^3 in 2017. Contaminants of such wastewater result from excretions of contrast agents and medications as well as from preparation processes for medical accessories. Grease separators ensure that wastewater containing grease from preparation of foods is filtered.

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. Given more stringent hygiene requirements, we use disposable products in many areas. The has a tendency to result in rising waste volumes. We are endeavouring to counteract this development through consistent waste management.

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. One of the biggest logistical challenges facing the medical facilities of RHÖN-KLINIKUM AG is ensuring availability of all required medical devices and pharmaceuticals at all times. That is because developments with our suppliers are largely beyond are control. Company mergers or takeovers amongst suppliers can result, for example, in certain products being removed from the market in the short term. Likewise, products may become disproportionately more expensive. During the reporting year there were supply bottlenecks for the drugs remifentanil and heparin. Logistics failures and damage to production facilities as a result of natural disasters also had an adverse impact on our procurement activities. 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. Our principal suppliers are moreover evaluated by us on an annual basis.

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 several materials management heads from different hospitals jointly with the Group Materials Management department.

Key categories of goods at RHÖN-KLINIKUM AG:

- Medicines
- Transcatheter aortic valve implants (TAVI)
- Cardiac pacemakers and defibrillators
- Heart catheter accessories
- Nursing items

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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. This understanding is also reflected in our RHÖN Campus approach, but also in the social commitment of RHÖN-KLINIKUM AG.

At the Company, social commitment has many different facets. In keeping with our decentralised organisation, the individual sites decide independently in what form they wish to commit themselves and to what extent. Moreover, numerous employees throughout the world have committed themselves to making a voluntary social contribution to international aid projects such as Doctors Without Borders.

Assistance to refugees

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

Qualifying refugees in nursing: that is the goal of our integration programme in Gießen and Bad Neustadt. In this way refugees are given the opportunity to make a new professional start, and hospitals the prospect of qualified new nursing staff.

The initiative builds on experience from a nursing integration programme launched at the Campus Bad Neustadt in 2015. At that time, nurses from Serbia and Bosnia were hired as nursing assistants at the hospital for an initial period of twelve months. They were given German-language lessons for the language skills needed in the profession, and the Company then had their professional training recognised. The aim was to further employ the participants subsequently in the long term. Since the beginning of the nursing integration programme, more than 40 employees with professional and social skills have been recruited at the Bad Neustadt site.

Given this success, the Campus Bad Neustadt at the beginning of 2017 launched a traineeship project together with the Schweinfurt employment agency which is directly geared to refugees. The precondition for participating in this traineeship is completion of a course of professional training in the country of origin and completion of an integration course. In March 2017 the first trainees from Syria and Afghanistan were enrolled: four nurses, two technicians, one kitchen employee and one IT employee. To further enhance the integration of the trainees, they received further language courses on the campus.

The university hospital Universitätsklinikum Gießen-Marburg is a cooperation partner of First Step, an integration programme of the training institute Bildungswerk der Hessischen Wirtschaft (BWHW). With a nine-month course for nursing preparation, refugees with a good prospect of staying are qualified for the German employment market. This includes, for example, three four-week nursing traineeships and language courses. Universitätsklinikum Gießen-Marburg developed and forged ahead with the project ideas for First Step and thus enabled its implementation.

Non-cash donations

For 25 years now, the Campus Bad Neustadt site has been supporting the Carpathian region – a 1,500 km long mountain chain extending from the Czech Republic to Romania – with medical aid deliveries, latterly with a transport in the autumn of 2017. The inhabitants of this region do not receive adequate medical care and therefore rely on external aid. In July 2017, a group from the Carpathian Art Association expressed their thanks in person during their visit to Bad Neustadt.

Zentralklinik Bad Berka has also committed itself in the form of aid deliveries. In 2017 it shipped a total of three containers with 170 hospital beds to the Lebanese non-profit Bahmann Hospital. As a small token of thanks the Bahmann Hospital presented Zentralklinik Bad Berka with an award.

Consultation with heart

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

Care for patients

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

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CORPORATE GOVERNANCE REPORT

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

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

In the financial year 2017, the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG conducted a thoroughgoing regular examination of the German Corporate Governance Code (GCGC). Its development, amendments as well as compliance at RHÖN-KLINIKUM AG and its subsidiaries were the subject of detailed consultations.

A declaration of compliance – jointly drafted by the Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) – was submitted on 9 November 2017 in accordance with Item 3.10 of the German Corporate Governance Code as amended on 7 February 2017, which was updated on 28 March 2018. In this regard we currently and in future depart from the Code's recommendations in a total of three disclosed exceptions.

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

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

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

Shareholder communication and transparency

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

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

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

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

Shareholders and General Meeting

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

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

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

Board of Management and Supervisory Board

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

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

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

The Board of Management informs the Supervisory Board regularly and timely on the current situation of the Company. At the level of RHÖN-KLINIKUM AG and its subsidiaries, the Board of Management has implemented a compliance and risk management system. Our Group-wide compliance management system pursues the aim of ensuring that statutory requirements and ethical codes of conduct are observed over all hierarchical levels. Our Rules of Procedure and Guidelines for Compliance define the relationship with our patients, customers, suppliers, shareholders and the general public as well as the conduct of employees amongst one another. Our compliance activities are focused on combating corruption both actively and passively. Thus, any contraventions in the area of corruption are not tolerated and strictly sanctioned at all management and employee levels. Initiation and implementation of measures is event-driven. RHÖN-KLINIKUM AG moreover maintains a whistleblowing system in which everyone enjoys protection when they report evidence of legal violations within the Company. To identify risks of substantial losses in time, a risk management system has been implemented Group-wide. The risk profile allows the Board of Management to respond early and adequately to changes in the Group's risk position and to exploit opportunities. Our handling of risks and opportunities is also consistent with the principles of responsible corporate behaviour. The risk management system is reviewed by our auditor as part of the annual audit of the financial statements.

Both for members of the Supervisory Board and for members of the Board of Management, RHÖN-KLINIKUM AG has taken out indemnity insurance cover (D&O insurance) with an adequate coverage concept and in accordance with the deductible mandatory for the Board of Management in accordance with Code Item 3.8 (2) of the GCGC. In this connection, the insurance premium (including insurance tax) paid by the Company in the financial year 2017 was € 158 thousand.

Board of Management

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

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

The Board of Management is currently comprised of three members: 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. Mr. Stephan Holzinger was appointed as a new member to the position of chairman of the Board of Management as of 1 February 2017, replacing 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. 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 responsibilities within the

Board of Management were adjusted accordingly and the Terms of Reference updated to the respective dates. From this decision the Supervisory Board's expectation is for the Company's re-orientation can be pursued with even greater resolve in future.

Supervisory Board

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

In accordance with the requirements of the German Co-Determination Act (Mitbestimmungsgesetz, MitbestG), the Supervisory Board of RHÖN-KLINIKUM AG, in accordance with the principle of equal representation of shareholders and staff and pursuant to the Articles of Association, currently comprises an equal number of shareholder and employee representatives (16 in total). In 2017 four regular meetings were held. The Supervisory Board is chaired by Mr. Eugen Münch in a full-time capacity.

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

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

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 initially appointed by the court before being elected at the Annual General Meeting on 7 June 2017.

As members of the employee representatives, Ms. Bettina Böttcher left the Supervisory Board with effect from 31 December 2017 and Mr. Björn Borgmann with effect from 28 February 2018. As substitute members, Ms. Natascha Weihs has been the new member on the Supervisory Board for Ms. Bettina Böttcher since 1 January 2018 and Mr. Oliver Salomon for Mr. Björn Borgmann since 1 March 2018.

As a result, 43.8 per cent of the Supervisory Board is currently comprised of women and 56.2 per cent of men. The composition of our Supervisory Board is presented in the 2017 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 2017 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) of the AktG, and the Nomination Committee and Medical Innovation and Quality Committee. The respective committee chairmen report at regular intervals to the Supervisory Board on the work of the committees.

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

The Personnel Affairs Committee is responsible for the personnel-related matters of the Board of Management. Its tasks include reviewing candidates for service as members on the Board of Management and making proposals to the Supervisory Board regarding appointments. It is also responsible for negotiating, making preparations for entering into, amending and terminating service contracts of members of the Board of Management and other contracts. Furthermore, it evaluates the performance of the Board of Management, and at regular intervals conducts a review of whether the remuneration of the Board of Management is reasonable and customary as well as of the guidelines for the remuneration of members of the Board of Management. In this regard, it makes proposals to the full Supervisory Board for adoption of resolutions.

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

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

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

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

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

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

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

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

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

A detailed overview of the work of the individual committees and their composition in the financial year 2017 is provided in the Report of the Supervisory Board in the 2017 Annual Report.

Other bodies

An Advisory Board was constituted as an additional body at RHÖN-KLINIKUM AG which was dissolved on 31 December 2017. Its advisory activities encompassed the future trends in the hospital and healthcare sector as well as medical development issues.

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 and the principles and amount of the remuneration of the Supervisory Board and of the Advisory Board are explained.

In 2017 the remuneration of the Board of Management is made up of fixed and variable components. The remuneration of the Supervisory Board exclusively comprises fixed components. The payments of each member of the Supervisory Board and the Board of Management, broken down into their components, are set out in tabular form in the Notes to the Consolidated Financial Statements.

Remuneration of the Board of Management

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

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

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

Essential provisions of Board of Management remuneration scheme

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

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

The basic salary as a rule is € 192,000 p.a. and is paid out as non-results-based remuneration in twelve equal monthly instalments. The chairman of the Board of Management is normally entitled to 1.5 times to twice said standard salary or currently a fixed annual basic salary. 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 accidence insurance premiums are remuneration components, each individual member of the Board of Management has to pay tax on these benefits. As a general rule, all members of the Board of Management are entitled to these in the same way, the amount of which varies depending on the member's personal situation.

The managing profit sharing element represents the results-based component of the remuneration. The multi-year or one-year assessment basis for its level is the development of the consolidated result after minority interests in accordance with the currently applicable IFRSs as the reference value. In the event that the consolidated result has been influenced by extraordinary developments, the one-off impacts of such developments are not included.

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 the financial year 2017. The calculation of the management profit sharing bonuses is adjusted to the changed circumstances of the Group. The provisions for the management profit sharing bonuses of the members of the Board of Management holding office in the financial year 2017 comprised the following elements:

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

As of financial year 2016, the members of the Board of Management receive a guaranteed a total annual remuneration (sum of base salary and management profit sharing) of at least € 600 thousand. The caps are each represented individually and in the Notes to the Consolidated Financial Statements. The guaranteed total remuneration for the year is paid out in advance in twelve equal monthly instalments. As a general rule, the minimum remuneration and the cap can be fixed at up to 2.5 times these amounts for the chairman of the

Board of Management and at up to twice these amounts for his permanent representative and the chief financial officer (CFO). In the event of a change of control at the level of RHÖN-KLINIKUM AG, the chairman of the Board of Management has the right, within a period of 4 months, to resign from his Board of Management position and give notice of termination of his service contract subject to a defined amount of severance compensation.

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 decease of the member of the Board of Management during such member's term of office, the member of the Board of Management receives (or, in the event of decease, that member's heirs receive) an old-age pension benefit in the form of a one-off payment. For each full year of work as member of the Board of Management, this benefit amounts to 0.125 times the annual payments (annual basic salary plus management profit sharing excluding virtual shares) for the calendar year in which such member leaves the Board of Management or deceases – not more than 1.5 times such latter payments, but at least 1.5 times the average remuneration during the contractual term for the term of work for the Board of Management. The retirement benefit is due and payable six months after the close of the financial year in which the service contract ends or the member of the Board of Management has deceased. As a rule, no old-age pension benefit is granted if a member of the Board of Management terminates the service contract of his/her own accord before reaching the age of 60 for a reason not attributable to the Company, or does not renew the service contract despite having received an offer for a renewal.

If a member of the Board of Management having terminated 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 the financial year 2017, the payments of the incumbent members of the Board of Management totalled € 4.8 million (previous year: € 4.9 million). Of this total, € 2.3 million (previous year: € 1.0 million) was accounted for by components that are not results-based and € 2.5 million (previous year: € 3.9 million) by variable components. The provision for claims to post-retirement benefits by the incumbent Board of Management in accordance with IFRS amounted to € 1.5 million (previous year: € 2.2 million) as at 31 December 2017. The remuneration of the members of the Board of Management no longer holding office as at the balance sheet date or their surviving dependants totalled € 2.8 million in the financial year 2017 (previous year: € 0.0 million).

Remuneration of the Supervisory Board

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

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

For their participation in person in a meeting of the Supervisory Board, of a committee and of an Annual General Meeting, each member of the Supervisory Board receives a fixed attendance fee of € 2 thousand. The chairman of the Supervisory Board and the deputy chairmen of the Supervisory Board shall receive double the amount of the fixed attendance fee. Chairmen of Supervisory Board committees with power to adopt resolutions on behalf of the Supervisory Board shall also receive twice the aforementioned amount unless they hold office as chairman of the Supervisory Board or deputy chairman of the Supervisory Board at the same time. If a Supervisory Board member chairs several committees with power to adopt resolutions, he shall receive double the amount only once. Supervisory Board members belonging to the Supervisory Board during only part of the financial year receive a pro rata remuneration.

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

All expenditures which members of the Supervisory Board incur in the performance of their mandate as well as the VAT payable on the payments are reimbursed. The Company's chauffeur service and an office including a secretariat are made available to the Chairman of the Supervisory Board. No loans are granted by the Company to the members the Supervisory Board. In the financial year 2017, the remuneration of the active members of the Supervisory Board was € 2.0 million (previous year: € 2.0 million). The total amount in 2017 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 € 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 the financial year 2017, the total payments of the Advisory Board (excluding VAT) amounted to € 9.4 thousand (previous year: € 21 thousand).

The remuneration tables of the Supervisory Board and Board of Management as well as the Advisory Board are disclosed in the Notes to the consolidated financial statements.

Bad Neustadt a. d. Saale, 28 March 2018

The Supervisory Board The Board of Management

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

THE RHÖN-KLINIKUM SHARE

2017 share price performance marked by dividend policy, high demand for second-tier stocks and a shift in shareholder base. The Board of Management and the Supervisory Board propose a dividend of € 0.22 per eligible share.

Development of equity markets in 2017

Developments on the international stock markets were positive, with new highs being reached around the world. Positive impetus came from the unexpectedly high growth in the global economy, the optimistic business outlook as well as the continued expansive monetary policy of the central banks. By contrast, the negative effects from political uncertainties (Brexit negotiations, key elections in Europe, terror attacks, North Korea conflict) and the uncertainties surrounding the future policy of the central banks barely made themselves felt. Share price fluctuations in the 2017 stock market year were at historically low levels.

In the US, economic recovery and an improvement in the labour market continued. Europe surprised with its expectedly high growth momentum. The economic mood increasingly brightened in the US, the euro zone and Germany. The ifo business climate index rose from 110.1 points in January to 117.2 points in December 2017, showing that the German economy is booming.

The German leading index DAX® posted a positive performance and reached 13,479 points on 3 November 2017, a new historical high. Overall, the DAX® climbed roughly 12.5 per cent over the year, closing the year at 12,918 points. The rise in the second-tier German index SDAX® over 2017 of roughly 24.9 per cent was even more pronounced. Overall, the German indices clearly outperformed the European benchmark indices. For example, the DJ EURO STOXX® gained 10.1 per cent and the DJ EURO STOXX 50® increased by roughly 6.5 per cent. European stocks from the healthcare sector came under pressure in the second half, and the DJ EURO STOXX Healthcare®, which posted a gain of 11.0 per cent in the first half, saw an improvement of only 2.4 per cent over the year. This reflects among other things the unexpected momentum in global growth and the strong demand for technology, banking and industrial stocks.

RHÖN-KLINIKUM SHARE IN COMPARISON

Source: Xetra® indexed (2 January 2017 = 100)

RHÖN-KLINIKUM share price marked by dividend policy, high demand for second-tier stocks and shift in shareholder base

The RHÖN-KLINIKUM share ended the first half of 2017 almost unchanged at a closing price of € 25.57. During the first half, the RHÖN-KLINIKUM share thus clearly underperformed the German and European share indices. Over the third quarter, the share of RHÖN-KLINIKUM AG then rose by 11.4 per cent and in the course of 2017 by 16.4 per cent, reaching a new historical high on 7 November 2017 of € 30.70. Overall, the RHÖN-KLINIKUM share was somewhat weaker than the SDAX® but did better than the DAX®, DJ EURO STOXX®, DJ EURO STOXX 50® and the DJ EURO STOXX Healthcare®. The share ended the stock market year at a closing price of € 29.88 (30 December 2016: € 25.66).

The strategic investors Eugen Münch (HCM SE), B. Braun and Asklepios further expanded their voting rights during the financial year 2017 (see Shareholder structure of RHÖN-KLINIKUM AG as at 31 December 2017, p. 71).

The RHÖN-KLINIKUM share is listed in the Prime Standard of the Frankfurt Stock Exchange and represented on the SDAX® share index. At year-end, the 66.96 million non-par shares in issue had a market capitalisation of € 2.0 billion at the end of 2017 (previous year: € 1.7 billion). The mean value of the daily average trading volume on the German stock exchanges including Xetra® trading stood at 98,910 shares in 2017.

Dividend

Our dividend policy constitutes a pay-out ratio of approximately 40 per cent. With this ratio RHÖN-KLINIKUM AG safeguards its medium-term ability to make investments yet also allows its shareholders to participate in the success of the company.

For the financial year 2017, the Board of Management and the Supervisory Board propose to the Annual General Meeting the distribution of a dividend of € 0.22 (previous year € 0.35) per non-par share with dividend entitlement.

Capital market communication

RHÖN-KLINIKUM AG is committed to transparent and fair communication. That is why investor relations (i.e. the dealings we have with our shareholders) enjoy high priority for us. As part of our financial market communication, we therefore again strived in 2017 to convey a realistic picture of our company. For that purpose, we make available to investors, analysts and all other interested market participants a platform with comprehensive and timely information about RHÖN-KLINIKUM AG. We moreover maintain a direct, continuous and personal contact with our investors and analysts, for example as part of investor conferences or on investor roadshows. The investor relations division reports directly to chairman of the Board of Management.

As part of our financial reporting, we report on our operating business performance each quarter. We provide investors, analysts and the media with current and share price-relevant information on our company in real time and directly, also promptly publishing the same as news items on our website. Further sources of information we provide our shareholders with are the regular annual events, such as our annual results press conference in the spring and our Annual General Meeting in the middle of the year. The next Annual General Meeting will be held on Wednesday, 6 June 2018, at the Stadthalle in Bad Neustadt a. d. Saale.

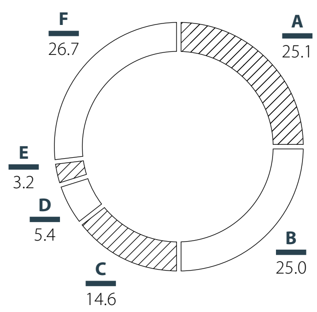
RHÖN-KLINIKUM SHARE

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

in €	**2017**	2016
Year-end closing price	29.88	25.66
High	30.70	28.27
Low	23.65	24.75
Market capitalisation as of 31 December (€ m)	2,000.83	1,718.26

SHAREHOLDER STRUCTURE OF RHÖN-KLINIKUM AG

As at: 31 December 2017 (on the basis of the most recent notification of voting rights to the Company)



A Asklepios/Dr. gr. Broermann
B B. Braun Melsungen [1]
C Eugen Münch
D Ingeborg Münch
E Landeskrankenhilfe V. V. a. G.
F Shareholders with less than 3 per cent of total voting rights

[1] B. Braun informed us by a Manager`s Transaction notification on 24 July 2017 about the placement of a discretionary order to acquire up to 4.97 per cent of voting rights (3,330,074 voting rights) by 23 July 2018 inclusive.

You will find a financial calendar containing all important financial dates for 2018 on the front inside cover as well as on our website at www.rhoen-klinikum-ag.com in the "Investor Relations" section.

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

In the financial year 2017 we treated 836,387 patients in our hospitals and medical care centres, generating revenues of € 1,211.1 million as well as EBITDA of € 97.8 million. We thus stayed in line with the targets (guidance) communicated to the capital markets.

With a view to financing our Group on a sustainable basis and securing the currently low level of interest rates in the medium-to-long term, a syndicated line of credit was successfully concluded as a back-up in the financial year 2017.

We are further pressing ahead with our Group-wide new construction and modernisation projects in keeping with our RHÖN Campus approach. One of the key objectives in this regard is notably the completion and successful start-up of the newly created RHÖN Campus Bad Neustadt a. d. Saale at the end of the financial year 2018.

With our digitalisation strategy we are creating new paths and ways of offering anamnesis, diagnosis and treatment more safely, faster and to the highest standards of quality. At the same time, this makes it easier for those employees involved in the treatment process to perform their work.

1 | BASIC CHARACTERISTICS OF THE RHÖN-KLINIKUM GROUP

1.1 Overview

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

With our eleven hospitals and 5,370 beds/places at a total of five sites in four federal states, we are one of the largest hospital operators in Germany. A total of 836,387 patients (previous year: 813,747) were treated in our facilities in the financial year 2017. As at the balance sheet date, the Group employed 16,688 persons (31 December 2016: 16,486), with the share of women at nearly 73% (previous year: roughly 75%). Compared with the previous year, the development of our key financial ratios was as follows:

in € million

	2017	2016	Change (in %)
Revenues	1,211.1	1,176.4	2.9
EBITDA	97.8	156.9	–37.7
EBIT	38.7	97.0	–60.1
EBT	37.1	60.9	–39.1
Consolidated profit	36.7	58.6	–37.4
Balance sheet total	1,471.4	1,456.2	1.0
Investments	122.4	115.9	5.6
Equity	1,125.3	1,113.4	1.1
Net liquidity	253.7	302.0	–16.0

1.2 Future of the Group

In the financial year 2017, RHÖN-KLINIKUM AG equally devoted efforts towards improving its operating efficiency and important projects of the future, such as the impending start-up of the new RHÖN Campus Bad Neustadt a. d. Saale or the refurbishment of Klinikum Frankfurt (Oder). In pursuing the aim of integrated medical care, our efforts to regionally network the sites with other hospitals and community-based physicians locally were also stepped up: that is the basis for realising the entrepreneurial and health-policy vision of national full-service networked medical care and for ensuring the success of our RHÖN Campus approach.

During the past financial year, we succeeded in resolving the dispute that had persisted with the Hesse State Government and the two universities of Gießen and Marburg for around ten years over what is referred to as separate accounting. The main issue here was the reasonable remuneration of services for research and teaching for the privatised university hospitals of Gießen and Marburg (UKGM) belonging to RHÖN-KLINIKUM AG. UKGM has been performing extensive tasks for this publicly mandated area since 2006. In return it receives from the two universities instalment payments, the amount and framework terms of which have now been redefined and agreed to by contract.

This arrangement now clears the way for further developing in a positive way what has hitherto been a somewhat strained relationship with the Hesse State Government and the two universities in the best interests of sustainably viable, first-class patient care in Central Hesse. This is also of tremendous importance for the many thousands of employees of UKGM. We are confident that following the adoption of the Hesse state budget for 2018/2019 the last condition for entry into force of the agreement, i.e. the plausibility test of the contractual agreement by an independent auditor, will be met in the financial year 2018.

UKGM – Germany's third-largest and only privatised university hospital – gives RHÖN-KLINIKUM AG a unique selling point versus its competitors. As the only private hospital operator, we thus have outstanding university research and teaching and thus the possibility of transferring this valuable knowledge both to our other hospitals and beyond that to the national and international research community. With the agreement reached on the separate accounting issue, we hope to generate new opportunities and impetus for UKGM, the hospitals and the Group.

With the programme of measures to improve operating efficiency, we identified and forged ahead with several key projects in 2017: for example, we are tackling the current deficiencies in optimising and securing revenues as well as performing a review of all maintenance and service contracts on an interfacility and cross-device basis. With the “Personnel controlling/benchmarking” project we recognised personnel allocations no longer covered by medical services and adjust our personnel resources as required by the development of service volumes. We have moreover initiated an externally performed IT review and in this regard have identified areas in which there is a need for action. It is on that basis that we have since, for example, performed a Company-wide modernisation of our conventional IT. Materials Management has moreover been working intensively and systematically on overhauling and simplifying the range of medical products and is optimising internal procurement processes – in close cooperation with the Medical Board so as to ensure that doctors are closely involved in the process.

Besides these many different operating tasks, we are of course also focusing our attention on strategic issues. By the end of 2018, the Bad Neustadt site will witness the creation of a campus on which we will closely integrate outpatient and inpatient offerings as well as numerous medical and preventive care services. Our aim is to link together all medical services that have previously existed in parallel in such a way that the treatment process is optimised for patients and they are treated and escorted safely within an integrated system. The use of innovative, digital tools has a key role to play in this.

With this innovative and path-breaking campus approach, RHÖN-KLINIKUM AG is committed to excellent medical care in rural regions. We thus have a solution to the further exacerbation of the problems increasingly arising from 2022 from the forecast demographic trend – since the model of the RHÖN Campus Bad Neustadt with its innovative, cross-sector approach can be adopted in other regions of Germany. We will take hold on this opportunity. We are thus well positioned on the market and are pursuing an organic, moderate growth model.

With its digitalisation strategy and entry into the gradual digital transformation of the Company, RHÖN-KLINIKUM AG is taking a lead role and is actively shaping the future of the healthcare sector. At the same time, we are guided strictly by the benefits for both our patients and our employees. With our Medical Cockpit, which we plan to launch at the new Campus Bad Neustadt at the end of 2018, we make it easier – for the first time through the targeted use of artificial intelligence – for doctors and all other persons involved in the treatment process to perform their work whilst, at the same time, making the treatment process quicker and safer for patients. We will quickly deploy these new digital tools throughout the Group. Thanks to our electronic patient file and further intelligent software solutions, such as in the area of coding our services, we are expanding our new, rather broad range of digital solutions also beyond the Company.

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 defines the overall body of rules and guidelines and in that way ensures ethically sound activity within the Company. It determines the management of risks and opportunities, compliance, corporate governance as well as quality management: they ensure the success of the Company with a view to a sustainable increase in its value and a continuous strengthening of the trust our investors place in it.

Corporate Social Responsibility

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

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 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.

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. That is why it is completely natural for us to seek to protect the human environment. For us, the focus is above all on making sparing use of energy. Given the increasing pace of digitalisation and the use of ever more efficient technology, our energy requirements are set to rise. However, we want to meet this development through efficiency measures and are making our employees aware of optimum energy use.

Promoting and retaining employees
With roughly 16,500 employees, RHÖN-KLINIKUM AG one of the largest private healthcare providers in Germany. The Company's success is, to a decisive extent, built on the commitment, expertise and skills 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 the daily focus of interest of the work performed by our doctors and nursing staff, therapists and medical-technical assistants (MTAs). To offer an attractive workplace, our hospitals are characterised by state-of-the-art medical equipment. Most of all, though, we offer variable working time models as well as numerous offers in terms of remuneration, retirement and childcare. It is in this way that we make ourselves an attractive employer, also beyond regional boundaries, and can hold our own in the increasingly fierce vying for talent and specialists.

For further information on the subjects of corporate social responsibility as well as the environment and employees, reference is made to the separate non-financial report in accordance with section 289b (3) of the German Commercial Code (Handelsgesetzbuch, HGB) and section 315b (3) HGB in the Annual Report published on our website.

1.3 Objectives and strategies

RHÖN-KLINIKUM AG pursues the objective of diagnosing and treating our patients with the latest, scientifically sound therapy procedures using state-of-the-art medical technology and providing them with the best nursing and care. The ethical basis and the principles underlying all our activity is the well-being of our patients who entrust themselves to our staff at our hospitals and facilities and who are daily the focus of our efforts.

To create optimum framework conditions for developing innovative solutions in patient care, university is combined with non-university medical care and the exchange of knowledge and treatment excellence is promoted and ensured within our Group by means of our Medical Board – an expert body of top physicians from all sites of our Group. Our entrepreneurial activities are essentially aimed at promoting the exchange of knowledge and experience and continuously integrating new findings and procedures into daily clinical practice so that our patients can receive the best treatment possible.

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

With our campus approach we are pursuing a new, highly efficient and modern form of healthcare delivery particularly in rural regions. Rural regions are especially hard hit by the greying of the population and the accompanying rise in morbidity and treatment cases and the increasing shortage of doctors. Essentially, our RHÖN Campus approach is concerned with the logistical and spatial integration of outpatient and inpatient services in conjunction with the offer to community-based doctors to work together closely with the respective hospital – in this way patients can be quickly diagnosed and treated at one location instead, as is often the case, of being tediously navigated through the healthcare system for days. This model is currently being implemented at our site in Bad Neustadt a. d. Saale as part of a major new construction project that we will complete and put into service at the end of 2018. In Frankfurt (Oder), we commenced the refurbishment of the hospital there based on the RHÖN Campus strategy. We believe that the campus model, giving due regard of course to individual regional structures, can be implemented at other existing sites of our hospitals.

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. In order to provide anamnesis, diagnosis and treatment quickly and to the very best standards of quality, we are also going new ways in IT. State-of-the-art clinical information systems, electronic patient files and new tools such as the Medical Cockpit based on intelligent algorithms scheduled to be launched at the end of 2018 on our Campus Bad Neustadt a. d. Saale, and through which we provide doctors and nurses with a fast guidance and analysis tool for patient data, are the decisive prerequisites enabling us to take these new paths for optimum and rapid treatment of patients also on an economically viable basis. We will continue to forge ahead with our activities in digitalisation, but at the same time, will be guided by what is feasible today and not allow ourselves to be carried away by exuberant euphoria. In this regard, digitalisation not only means collecting, evaluating and interpreting large amounts of data. Rather, it provides the basis for significantly optimised patient management, integration and harmonisation of outpatient and inpatient care, and the interlinking of related services as well as numerous applications in the area of telemedicine.

1.4 Controlling system

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

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

Valuation ratios are key figures used to account for medical services at hospitals. For each group of 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 see revenues as an important financial performance indicator of relevance for controlling. 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, interest and tax and represents a further important controlling-relevant financial performance indicator. Our objective is to achieve EBITDA margins throughout the financial year which are amongst the most attractive in the hospital market in keeping with the orientation of the individual facilities. These margins are defined as the quotient of EBITDA and revenues.

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

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

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

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

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

1.5 Quality

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.

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

1.6 Medical research and its transfer into practice

Providing excellent medical care for everyone at all times – that is the stated aim of RHÖN-KLINIKUM AG. That is why we always examine and treat our patients on the basis of the latest, scientifically founded findings 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 path-breaking medical and nursing concepts at all its sites.

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

1.7 Compliance

RHÖN-KLINIKUM AG’s ethical 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" together with the legal rules and provisions in force is a commitment that underlies all our decision-making processes.

Acting for the well-being of our patients is also oriented on this guiding principle in the interest of compliance. Every patient must be able to have absolute trust in a doctor’s individual treatment decision and in such a decision being based solely on medical criteria. For RHÖN-KLINIKUM AG, the focus of interest is on the trust our patients put in us. Unlawful and unethical conduct not only causes economic damage but first and foremost destroys such trust.

In addition to the statutory regulations, we 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. But the aim is not to create as many rules and guidelines as possible, but instead to embrace them in our day-to-day practice. For that reason, we focus on thoroughgoing and regular training of executives and employees – also through electronic training courses (eLearning).

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

1.8 Corporate Governance

Issued share capital

The subscribed capital of RHÖN-KLINIKUM AG stated in the consolidated financial statements is completely made up of 66,962,470 ordinary voting bearer shares (non-par shares) each having a nominal share in the registered share capital of € 2.50. Restrictions on voting rights or the transfer of shares – even if these may result from agreements of shareholders – do not exist or are not known to us. None of our shares is issued with special rights that confer on its holder special powers of control. Employees who hold shares exercise their voting right freely. Shareholders may exercise their voting rights themselves at the Annual General Meeting or through proxies appointed for this purpose. In the Notes of RHÖN-KLINIKUM AG 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 315e HGB, and audited in accordance with both national and international auditing standards. The half-year financial statements are subjected on a voluntary basis to a review by a statutory auditor in accordance with the same aforementioned principles. When issuing auditor mandates, due care is taken to ensure the requisite independence of the auditors appointed. The audit mandate for the annual financial statements and for the half-year financial statements of the Group as well as for the Group's ultimate parent company is issued by the chairman of the Audit Committee after due examination pursuant to the resolutions adopted at the Annual General Meeting.

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

Corporate bodies

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

In line with the principle of equal representation of shareholders and staff pursuant to the German Co-Determination Act (Mitbestimmungsgesetz), the Supervisory Board of RHÖN-KLINIKUM AG comprises an equal number of employee and shareholder representatives (16) and held four ordinary meetings in 2017 (2016: four ordinary meetings). The last election of the shareholder representatives to the Supervisory Board took place as scheduled at the Annual General Meeting on 10 June 2015. The five-year term of office of the Supervisory Board ends upon conclusion of the Annual General Meeting resolving on the formal approval of the actions of the Supervisory Board for financial year 2019. The Articles of Association provide for an age limit of 75 years for members. 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. 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 initially appointed by the court before being elected at the Annual General Meeting on 7 June 2017. With effect from 31 December 2017, Bettina Böttcher left the Supervisory Board as a member of the employee representatives. Natascha Weihs has been on the Supervisory Board as a substitute member since 1 January 2018. As a result, 43.8% of the Supervisory Board is currently comprised of women and 56.2% of men. The Terms of Reference provide for the formation of committees. In 2017 there were seven committees: the Mediation Committee, Personnel Affairs Committee, Audit Committee, the Investment, Strategy and Finance Committee, as well as the Committee for Compliance and Communication as committees with power to adopt resolutions, as defined in section 107 (3) of AktG, and the Nomination Committee and Medical Innovation and

Quality Committee. The respective committees report at regular intervals to the Supervisory Board on the work of the committees.

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

The Board of Management of RHÖN-KLINIKUM AG is responsible for directing the Company. In accordance with the Terms of Reference, its business operations are carried out under joint responsibility. The Board of Management reports regularly, without delay and comprehensively to the Supervisory Board on all significant issues relating to the business development and position of the Group and its subsidiaries. The Board of Management of RHÖN-KLINIKUM AG is currently composed of three members: 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. Stephan Holzinger was appointed as a new member to the position of Chairman of the Board of Management as of 1 February 2017, replacing 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. Moreover, the Supervisory Board resolved on 23 February 2017 to remove the members of the Board of Management Martin Menger and Jens-Peter Neumann with immediate effect. The responsibilities within the Board of Management were adjusted accordingly and the Terms of Reference updated to the respective dates.

Remuneration of corporate bodies

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

In 2017 the remuneration of the Board of Management is made up of fixed and variable components. The remuneration of the Supervisory Board exclusively comprises fixed components. The payments of each member of the Supervisory Board and the Board of Management, broken down into their components, are set out in tabular form in the Notes to the consolidated financial statements.

For the Board of Management, the remuneration for the financial year 2017 is comprised of the base salary, the management profit sharing bonus, fringe benefits (non-cash benefits), as well as in part a long-term, share price-based remuneration and a contingent retirement benefit. The remuneration of the Supervisory Board is performance-linked, taking into account of the amount of time worked, the duties and the functional responsibilities assumed by the members of the Supervisory Board. The remuneration of the Supervisory Board is comprised of a fixed basic remuneration, a fixed attendance fee as well as a share in the annual fixed total remuneration.

The basic salary of the members of the Board of Management as a rule is € 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 or currently a fixed annual basic salary. The permanent representative of the chairman of the Board of Management receives a 10% 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 the use of a company car and the accidence insurance premiums are remuneration components, each individual member of the Board of Management has to pay tax on these benefits. As a general rule, all members of the Board of Management are entitled to these in the same way, the amount of which varies depending on the member's personal situation. The managing profit sharing element represents the performance-linked component of the remuneration. The multi-year or one-year assessment basis for its level is the development of the consolidated result after minority interests in accordance with the currently applicable IFRS 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 the financial year 2017. The calculation of the management profit sharing bonuses is adjusted to the changed circumstances of the Group.

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

In the financial year 2017, the payments of the incumbent members of the Board of Management totalled € 4.8 million (previous year: € 4.9 million). Of this total, € 2.3 million (previous year: € 1.0 million) was accounted for by components that are not results-based and € 2.5 million (previous year: € 3.9 million) by variable components. The provision for claims to post-retirement benefits by the incumbent Board of Management in accordance with IFRS amounted to € 1.5 million (previous year: € 2.2 million) as at 31 December 2017. The remuneration of the members of the Board of Management no longer holding office as at the balance sheet date, or their surviving dependants, totalled € 2.8 million in the financial year 2017 (previous year: € 0.0 million).

The remuneration of the active members of the Supervisory Board amounted to € 2.0 million (previous year: € 2.0 million). The total amount in 2017 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 2017, the members of the Supervisory Board and the Board of Management and their related parties together held, pursuant to Article 19 of the Market Abuse Regulation (MAR), roughly 45% of the Company's registered share capital, of which the Supervisory Board and its related parties account for roughly 45% of the shares in issue. The members of the Board of Management and their related parties do not hold any interests in the registered share capital.

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

Contracts containing a change-of-control clause

The Company purchase agreements of the hospitals acquired by us contain provisions according to which, subject to the condition of a change of control as a result of a takeover bid for RHÖN-KLINIKUM AG, a re-transfer of the Company shares can be demanded. This rings true in particular for Universitätsklinikum Gießen und Marburg GmbH up to the end of 2019. Likewise, various contracts relating to financial instruments exist in which the lenders may demand immediate repayment in the event of a change of control. Furthermore, the Chairman of the Board of Management of RHÖN-KLINIKUM AG, in the event of a change of control at the level of RHÖN-KLINIKUM AG, has the right, within a period of four months, to resign from his Board of Management position and to give notice of termination of his service contract subject to a defined amount of severance compensation. Beyond that there are no agreements from which the Board of Management or employees may establish claims to compensation in the event of a Company takeover.

1.9 Declaration on Corporate Governance

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

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

2 | ECONOMIC REPORT

2.1 Macroeconomic conditions

The German economy is currently witnessing a powerful economic upswing. According to initial calculations of the Federal Statistical Office (Destatis), gross domestic product (GDP) rose in 2017 by 2.2% on a price-adjusted basis. The growth drivers in 2017 were primarily domestic.

The German economy has thus grown for the eighth year in a row. Compared with the previous years, the pace of growth has increased once again. GDP had already risen smartly by 1.9% in 2016 and by 1.7% in 2015. A longer-term view shows that German economic growth in 2017 was nearly a full percentage point above the average of the past ten years of +1.3%.

Public budgets recorded a record surplus. The federal government, federal states and municipalities achieved a financing surplus of € 38.4 billion in 2017. As measured by gross domestic product in respective prices, this translates into a public surplus ratio of 1.2%.

The number of gainfully employed persons with their place of work in Germany has again increased sharply, reaching 44.6 million in 2017 and thus a new high. According to initial calculations, there were roughly 647,000 more persons in employment in 2017 than the year before. That translates into an increase of 1.5%. This is the highest gain since 2007. The rise stems from an increase in employment subject to social insurance contributions. A higher share of persons in employment as well as the emigration of workers from abroad compensated for age-related demographic effects.

2.2 Sector-specific conditions

According to the Federal Statistical Office (Destatis), some 19.5 million patients were treated in hospitals on an inpatient basis in 2016, which is 293,205 treatment cases more than in the year before that. In 1,951 (2015: 1,956) hospitals a total of 498,718 (2015: 499,351) beds were available for provision of inpatient care to the population. Whereas the number of facilities declined by 0.3%, the supply of beds was nearly unchanged compared with the previous year (–0.1%).

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 2016, every third hospital (36.2%) was privately owned. The share in public hospitals decreased during the same period from 46.0% to 29.2%. By contrast, the share of other non-profit hospitals has been little changed at 34.5% (1991: 39.1%).

Total costs of hospitals also increased in 2016 and stood at € 101.7 billion (2015: € 97.3 billion). The costs of inpatient hospital care stood at € 87.8 billion, 4.3% more than in the previous year (€ 84.2 billion).

The financial situation of hospitals in Germany continues to be difficult. Although increasingly more hospitals are managing to raise their revenues, fewer and fewer expect to generate a surplus. For the financial year 2017 they therefore expect their financial situation to deteriorate. In the medium term, more than 60% of hospital managers predict a deterioration in general economic conditions within the healthcare sector. That is the conclusion reached by the "Krankenhausstudie 2017" (Hospital study 2017) for which the corporate consultancy Roland Berger, according to its own statements, conducted a survey of directors and managers of the 500 biggest German hospitals.

The hospitals see the growing shortage of skilled staff as well as the persistently high investment requirement as their biggest challenges. Both the rising competition on quality and increasing digitalisation are seen as opportunities. The hospitals are looking to invest particularly in specialist areas with a high share of older patients. However, nearly 60% of them do not have sufficient investment funds –90% attribute this to inadequate grants from the federal states.

2.3 Business performance

2.3.1 Overall statement on economic position

The financial year 2017 at RHÖN-KLINIKUM AG was the year when the share reached a new, tentative all-time high at € 30. 2017 was marked by the active further development of a viable system for the future with innovative and path-breaking projects. At the same time, we are setting great store by our RHÖN Campus concept which integrates outpatient and inpatient services at one site and includes downstream offerings tailored to the elderly, such as rehabilitation or nursing. We maintain the focus of our efforts on our activities in the area of digitalisation. We continue to concentrate on bringing about a noticeable improvement in the Company's profitability. Thanks to the agreement on separate accounting reached in 2017 by Universitätsklinikum Gießen und Marburg, the Federal State of Hesse and the two universities involved, we have created an excellent basis on which we can expand our unique selling point of having Germany's only privatised university hospital.

In the financial year 2017, a total of 836,387 patients were treated in our hospitals and medical care centres (MVZs). Compared with the same period last year, this translates into a total increase of 22,640 patients or 2.8%. However, the trend throughout Germany away from inpatient care towards outpatient care is continuing, also at our facilities.

The result in terms of our organic development was hampered by the regulatory measures following the Act Reforming the Structures of Hospital Care (Krankenhausstrukturgesetz, KHSG) such as the reduction in remuneration for cardiological and specialist orthopaedic services, as well as the fixed cost degression discount applicable since 1 January 2017 that replaced the discount on surplus service volumes. A further burden comes from the increasing inspection rate and more restrictive inspection practice of the Medical Review Board of the Statutory Health Insurance Funds (MDK).

In addition, the hospital sector continues to be influenced by two developments: whilst demand for medical services is rising, the remuneration paid for such services is not being adequately adjusted. That means that the gap between revenues and costs within the hospital sector is increasingly widening and that this trend of the past years will continue to have a detrimental impact on the operating side.

We have taken on the challenges presented by this regulatory environment. Our expertise in dealing with this, our organic flexibility as well as our trailblazing role in innovation and digitalisation are the best means of holding our own in a challenging market environment.

2.3.2 Trend in service volumes

As at 31 December 2017, our consolidated financial statements included eleven hospitals with 5,370 beds/places at a total of five sites in four federal states.

	Hospitals	Beds
As at 1 January 2017	**11**	**5,348**
Change in capacities	–	22
As at 31 December 2017	**11**	**5,370**

Of the change in capacities compared with 31 December 2016, +22 beds/places or +0.4% is accounted for entirely by semi-inpatient and day-clinical capacities:

	Approved beds/ places		Change	
	31 Dec. 2017	31 Dec. 2016	Absolute	%
Inpatient capacities				
Acute hospitals	4,638	4,638	0	0.0
Rehabilitation hospitals and other inpatient facilities	537	537	0	0.0
	5,175	**5,175**	**0**	**0.0**
Semi-inpatient and day-clinical capacities	195	173	22	12.7
Total	**5,370**	**5,348**	**22**	**0.4**

As at 31 December 2017, we operate seven medical care centres with a total of 40.00 specialist practices:

	Medical care centres	Specialist practices
As at 31 December 2016	**7**	**35.75**
Opened/acquired		
MVZ Bad Berka	–	3.00
MVZ Bad Neustadt a. d. Saale	–	0.50
MVZ Frankfurt (Oder)	–	2.50
Disposals		
MVZ Marburg	–	–1.75
As at 31 December 2017	**7**	**40.00**

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

January to December	**2017**	2016	Change Absolute	Change %
Inpatient and semi-inpatient treatments at our				
Acute hospitals	210,522	213,488	–2,966	–1.4
Rehabilitation hospitals and other facilities	4,954	5,147	–193	–3.7
	215,476	**218,635**	**–3,159**	**–1.4**
Outpatient attendances at our				
Acute hospitals	467,266	468,901	–1,635	–0.3
Medical care centres	153,645	126,211	27,434	21.7
Total	**836,387**	**813,747**	**22,640**	**2.8**

A total of 836,387 (previous year: 813,747) patients were cared for at our hospitals and medical care centres in the financial year 2017. Of this rise by 22,640 patients or 2.8%, 25,799 patients or 114.0% are attributable to the outpatient area and –3,159 patients or –14.0% to the inpatient and semi-inpatient area. The trend towards outpatient care is continuing in the entire German hospital sector as it is in our facilities.

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

in €

January to December	**2017**	2016
Per-case revenue		
inpatient	5,149	4,964
outpatient	164	153

Compared with the previous year, per-case revenue rose in the financial year 2017 by 3.7% in the inpatient area and by 7.2% in the outpatient area.

2.3.3 Results of operations

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

Consolidated performance figures developed as shown below:

in € million

January to December	**2017**	2016	Change	Change %
Income				
Revenues	1,211.1	1,176.4	34.7	2.9
Other income	151.9	186.4	–34.5	–18.5
Total	**1,363.0**	**1,362.8**	**0.2**	**0.0**
Expenditure				
Materials and consumables used	347.6	329.5	18.1	5.5
Employee benefits expense	787.9	757.6	30.3	4.0
Other expenditure	129.7	118.8	10.9	9.2
Total	**1,265.2**	**1,205.9**	**59.3**	**4.9**
EBITDA	**97.8**	**156.9**	**–59.1**	**–37.7**
Depreciation/ amortisation and impairment	59.1	59.9	–0.8	–1.3
EBIT	**38.7**	**97.0**	**–58.3**	**–60.1**
Finance result	1.6	36.1	–34.5	–95.6
EBT	**37.1**	**60.9**	**–23.8**	**–39.1**
Income taxes	0.4	2.3	–1.9	–82.6
Consolidated profit	**36.7**	**58.6**	**–21.9**	**–37.4**

Compared with the previous year, we recorded in the financial year 2017 a decline in EBITDA by € 59.1 million or 37.7% to € 97.8 million and a decline in EBIT by € 58.3 million or 60.1% to € 38.7 million. This is attributable, amongst other things, to positive delayed one-off effects recognised in the previous year from the transaction with Fresenius/Helios as well as one-off expenses recognised in the financial year 2017 resulting from changes to our Board of Management. Moreover, the further widening in the gap between revenues and costs due to inadequate remuneration of our services has resulted in a decline in our key ratios. As a counter-effect to this, consolidated profit was impacted by a value adjustment in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung. Consolidated profit declined by € 21.9 million or 37.4% to € 36.7 million.

Our key ratios, also as a result of the aforementioned matters, developed as follows:

in %	2017	2016
EBITDA margin	8.1	13.3
EBIT margin	3.2	8.2
EBT margin	3.1	5.2
Return on revenues	3.0	5.0
Return on equity (after taxes)	3.3	5.3

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

in %	2017	2016
Materials ratio	28.7	28.0
Personnel ratio	65.0	64.4
Other cost ratio	10.7	10.1
Depreciation and amortisation ratio	4.9	5.1
Finance result ratio	0.1	3.0
Effective tax ratio	0.1	0.2

Compared with the same period last year, revenues grew by +€ 34.7 million or 2.9%. To be noted in this regard is that the trend towards a widening gap between revenues and costs having persisted for years is continuing or has become further pronounced compared with previous years, and that personnel and material expenses in some cases are being offset only partially by refinanced revenues, and that services are not being adequately remunerated.

The decline in other income by € 34.5 million or 18.5% is attributable to the income recognised in the previous year from the reversal of provisions for potential legal and tax warranty risks in the amount of € 42.0 million. A counter-effect to this in the financial year 2017 was the rise in the income recognised under this item from ancillary and incidental activities resulting, amongst other things, from the sale of cytostatics and drugs.

The cost of materials increased disproportionate to revenues by € 18.1 million or 5.5% from € 329.5 million to reach € 347.6 million. This stems from the provision of services entailing higher material costs which are not adequately remunerated. The materials ratio rose from 28.0% to 28.7%.

The employee benefits expense and other expenses rose compared with the previous year. Whilst the employee benefits expense, which in addition to collective wage increases includes one-off expenses from the changes in the Board of Management in the medium single-digit million range in the financial year 2017, rose by € 30.3 million or 4.0%, the other expenses item increased by € 10.9 million or 9.2%. Other expenditures include additional expenditures for digitalisation and IT systems with cognitive intelligence. The personnel cost ratio rose from 64.4% to 65.0% and the other expense ratio from 10.1% to 10.7%.

The depreciation and impairment item declined slightly compared with the previous year by € 0.8 million or 1.3% to € 59.1 million and the depreciation rate from 5.1% to 4.9%.

The negative finance result improved by € 34.5 million to € 1.6 million. This was essentially owing to a value adjustment in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung recognised in the previous year in the finance result in the amount of € 35.5 million. Besides that, the finance result was adversely impacted to the tune of € 1.0 million by loss of shares in companies using the equity method.

At an unchanged rate of taxation, the income tax expense item declined by € 1.9 million to € 0.4 million (previous year: € 2.3 million) compared with same period of the previous year as a result of a lower taxable result.

Consolidated profit was down by € 21.9 million to € 36.7 million (previous year: € 58.6 million). Profit attributable to non-controlling interests declined compared with the same period last year by € 0.6 million to € 1.6 million.

We met the forecast for revenues stated in the Group management report 2016 for the year 2017 in the range between € 1.20 billion and € 1.23 billion with our actual figure of € 1.21 billion. We also met the EBITDA figure forecast in the 2016 Group management report and clarified in the first quarter of 2017 for the financial year 2017 of between € 85 million and € 105 million with our actual figure of € 97.8 million.

The interest of RHÖN-KLINIKUM AG shareholders in profit for the financial year 2017 declined to € 35.2 million (previous year: € 56.4 million) compared with the previous year. This translates into earnings per share of € 0.53 (previous year: € 0.84) in accordance with IAS 33.

The total result (sum of consolidated profit and other earnings) for the financial year 2017 stands at € 36.8 million (previous year: € 58.3 million). In this connection, profits from the revaluation of defined benefit pension plans amounting to € 0.1 million after tax (previous year: losses of € 0.3 million after tax) had to be recognised directly at equity.

2.3.4 Net assets and financial position

in € million

	31 Dec. 2017		31 Dec. 2016	
		%		%
Assets				
Non-current assets	968.8	65.8	936.1	64.3
Current assets	502.6	34.2	520.1	35.7
	1,471.4	**100.0**	**1,456.2**	**100.0**
Equity and liabilities				
Equity	1,125.3	76.5	1,113.4	76.5
Long-term loan capital	25.2	1.7	25.4	1.7
Short-term loan capital	320.9	21.8	317.4	21.8
	1,471.4	**100.0**	**1,456.2**	**100.0**

Compared with the balance sheet date of 31 December 2016, the balance sheet total rose by € 15.2 million or 1.0% to € 1,471.4 million (previous year: € 1,456.2 million). The rise essentially stems from consolidated profit in 2017 in the amount of € 36.7 million, which compares with dividends paid to shareholders and non-controlling interests amounting to € 24.9 million.

The equity ratio has remained unchanged compared with the last reporting date at 76.5%. Equity now stands at € 1,125.3 million (previous year: € 1,113.4 million). The increase in equity capital compared with the reporting date of 31 December 2016 by € 11.9 million results from consolidated profit of the financial year 2017 (€ 36.7 million) as well as from gains from the revaluation of defined benefit pension plans (€ 0.1 million). A counter-effect of this was the dividends paid to shareholders and non-controlling interests in the amount of € 24.9 million.

118.8% (previous year: 121.7%) of non-current assets is nominally covered by equity and non-current liabilities at fully matching maturities. As at 31 December 2017, we report net liquidity of € 253.7 million (31 December 2016: € 302.0 million). Net liquidity is calculated as follows:

in € million	31 Dec. 2017	31 Dec. 2016
Current cash	122.5	80.8
Current fixed term deposits	105.1	185.1
Non-current fixed term deposits	30.0	50.1
Cash, fixed term deposits	**257.6**	**316.0**
Current financial liabilities	–	10.0
Non-current financial liabilities	–	–
Finance lease liabilities	3.9	4.0
Financial liabilities	**3.9**	**14.0**
Net liquidity	**253.7**	**302.0**

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

in € million January to December	2017	2016
Cash generated from (+)/cash used in (–) operating activities	80.3	109.1
Cash generated from (+)/cash used in (–) investing activities	–2.9	25.9
Cash generated from (+)/cash used in (–) financing activities	–35.7	–197.5
Change in cash and cash equivalents	**41.7**	**–62.5**
Cash and cash equivalents as at 1 January	80.8	143.3
Cash and cash equivalents as at 31 December	**122.5**	**80.8**

Cash and cash equivalents increased in the financial year 2017 by € 41.7 million (change in the financial year 2016: € –62.5 million). The change compared with the period of the previous year is essentially attributable to the difference in cash used in financing activities. This was influenced by the repayment of our exchange-listed bond made in the first quarter of 2016, which resulted a cash outflow of € 143.2 million. The change in cash generated/used in investing activities was influenced especially by cash generated from terminations of fixed deposits. Whereas during the previous year cash amounting to € 139.8 million was generated from terminations of fixed deposits, cash of € 100.1 million was generated in the financial year 2017.

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 € 356.2 million.

2.3.5 Investments

Aggregate investments of € 122.4 million (previous year: € 115.9 million) in the financial year 2017 are shown in the following table:

in € million	Use of govt grants	Use of own funds	Total
Current investments	15.5	105.7	121.2
Takeovers	–	1.2	1.2
Total	**15.5**	**106.9**	**122.4**

During the financial year 2017, we invested a total of € 122.4 million (previous year: € 115.9 million) in intangible assets, in property, plant and equipment as well as in investment property. Of this total, € 15.5 million (previous year: € 16.9 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 € 106.9 million (previous year: € 99.0 million). Current capital expenditure accounted for € 105.7 million (previous year: € 92.9 million) and assets and specialist practices acquired on takeovers for € 1.2 million (previous year: € 6.1 million) of total net investments during the year under review.

An analysis of investments financed from Company funds by site in the financial year 2017 is given below:

in € million	
Bad Neustadt a. d. Saale	65.5
Gießen, Marburg	22.4
Frankfurt (Oder)	12.1
Bad Berka	6.9
Total	**106.9**

Of investments financed from company funds, € 60.0 million is accounted for by investments in our campus project in Bad Neustadt a. d. Saale.

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 2017, the Group employed 16,688 persons (31 December 2016: 16,486):

Number	
As at 31 December 2016	**16,486**
Change in employees at hospital companies	137
Change in employees at medical care centre companies	36
Change in employees at service companies	29
As at 31 December 2017	**16,688**

In this increase by 202 versus the reporting date of 31 December 2016, 137 persons were added as a result of staffing increases at our hospitals, 36 persons as a result of staffing changes in our MVZ companies, and 29 persons as a result of staffing increases at our service companies.

Doctors accounted for 15.6% (previous year: 15.5%) of the total headcount on the reporting date, whilst nursing and medical-technical staff accounted for 55.5% (previous year: 55.6%). On average over the year, we recorded a rise of 1.8% in full-time staff. The share of women is around 73% (previous year: roughly 75%).

3 | FORECAST REPORT

3.1 Strategic objectives

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

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

By staking out a position in the premium medical care segment, we will help our patients have access to unrestricted cutting-edge medical services also in future. In order to provide anamnesis, diagnosis and treatment quickly and to the very best standards of quality, we will take new paths in IT also. State-of-the-art clinical information systems, electronic patient files and new tools such as the Medical Cockpit scheduled to be launched at the end of 2018 on our Campus Bad Neustadt a. d. Saale, and through which we provide doctors and nurses with a fast guidance and analysis tool for patient data, are the decisive prerequisites enabling us to take these new paths for optimum and fast treatment of patients also on an economically viable basis. 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.

3.2 Economic and legal environment

According to renowned research institutes, the year 2018 will witness the strongest growth in the German economy since 2011. The ifo Institute raised its forecast for growth in gross domestic product for 2018 from 2.0% to 2.6%, the German government is expecting growth of 2.4%. Private consumption will likely post significant gains thanks to a good labour market situation. With capacity utilisation already running very high, Germany is moving very quickly towards a boom economy.

The hospital sector will continue to be impacted by the regulatory measures following the Act Reforming the Structures of Hospital Care (Krankenhausstrukturgesetz, KHSG) such as the reduction in remuneration for cardiological and specialist orthopaedic services, as well as the fixed cost degression discount applicable since 1 January 2017. Demand for medical services will continue to rise, but by contrast the remuneration is not being adequately adjusted. That means that the gap between revenues and costs within the hospital sector is increasingly widening and that this trend of the past years will continue to have a detrimental impact on the operating side.

Economic and legal framework conditions of inpatient healthcare continue to present 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 medical care and technology as well as digitalisation. The latter is providing medicine the opportunity to diagnose and treat patients in future more individually and with greater precision.

3.3 Forecast

Also in the coming year, the economic basis of the RHÖN-KLINIKUM Group will be provided by its five large sites in four federal states counting some 5,400 beds and over 16,000 employees. That makes us one of the largest hospital operators in Germany.

For the current the financial year 2018, we expect revenues of € 1.24 billion within a range of plus or minus 5%. In this context, the persistent regulatory measures are having a particularly heavy impact, such as lower remuneration for services entailing high material cost intensity, particularly cardiological services, or the fixed cost degression discount on surplus services.

For earnings before interest, tax and depreciation/amortisation (EBITDA), we expect a level of between € 117.5 million and € 127.5 million in 2018. Besides other effects, EBITDA is being influenced by the agreement on separate accounting at Universitätsklinikum Gießen und Marburg.

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

4 | OPPORTUNITIES AND RISK REPORT

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

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

4.1 Risk report

4.1.1 Risk management system

The Board of Management of RHÖN-KLINIKUM AG has implemented a Group-wide risk management system to detect imminent risks early on and to specifically counter them in a systematic process. Our risk management system fully meets the statutory requirements for early detection of risks posing a threat to the Company's existence and is in line with the requirements of section 91 (2) 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.

Risk management process

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

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

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

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

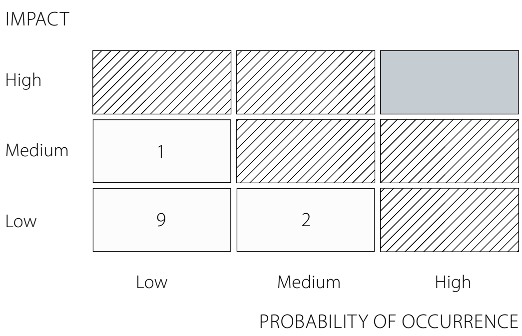
The analysis and evaluation of the relevant risks is the task of the respective persons entrusted with such responsibility. In the case of risk analysis and evaluation, their probability of occurrence and potential monetary impact (amount of damage) are derived with an explanation being given on the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

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

4.1.2 Risk assessment

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



Throughout the Group, twelve relevant risks from various risk fields were identified. Of these, two risks were classified as having a low probability of occurrence and one risk as having a medium impact. Based on the risk assessment and giving due regard to the measures initiated, all risks despite this are classified as being relatively low. We continue to rate the overall risk position as low. We expect a risk expectation value for the full year of roughly € 1.7 million. Given the developments in service volumes as well as further cost-cutting potential, these risks can be treated as neutral in terms of result and should not have any material impact on planning for 2018.

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

General environment and industry risks

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

For any future potential company transactions, 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 the might arise from existing company purchase agreements are likewise regularly reviewed.

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

The provisions on the three-year discount on surplus service volumes, which was replaced as of 2017 as part of KHSG by a fixed cost degression discount, resulted and are resulting in burdens on earnings from subsequent arithmetic corrections. To improve our economic efficiency, we already identified the biggest levers in 2017 and are tackling these with our initiated programme of measures.

On 22 December 2017, RHÖN-KLINIKUM AG, Universitätsklinikum Gießen und Marburg GmbH (UKGM), the Federal State of Hesse and the two Universities of Gießen and Marburg signed an agreement to implement the white paper for the further development of university medicine in Central Hesse (separate accounting) for the university hospitals in Gießen and Marburg. The agreement provides that Universitätsklinikum Gießen und Marburg GmbH as of 2017 will receive an additional amount of roughly € 15 million each year to finance the services provided by it for research and teaching. For that purpose the basic amount paid by the Federal State of Hesse to the two universities will be increased accordingly, as well as supplemented by annual rates of increase to compensate for cost increases. In addition, UKGM will receive one-off funds of € 13.0 million for investment and procurement that will not encumber the depreciations of UKGM. Prior to entry into force of the agreement, the plausibility test of the agreements reached must be performed by an auditor.

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

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

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

Fluctuations in service volumes at our facilities, shifts in service volumes from the inpatient to outpatient sector, but also to nearby facilities of other companies, pricing regulation as well as possible quality-related discounts may result in losses in revenues and cost increases, and consequently to a decrease in earnings. Through regular period-based and inter-operation comparisons with regard to service volumes, revenues and earnings as well as selected business ratios and other indicators, it is possible for us to identify adverse developments early. Where it is appropriate and necessary, we can take corrective action and manage a reasonably low risk potential. In the context of the programme of measures for improving our efficiency, we have identified the deficiencies in optimising and securing revenues and are resolutely proceeding to implement these elements and are likewise performing a prompt review of all maintenance and service contracts on an inter-facility and cross-device basis.

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

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

Personnel risks
To achieve sustained success as a diversified healthcare group with leading expertise, we need committed and highly qualified employees and executive staff. Hospitals on average have personnel cost ratios of between 50% and 70%, making them particularly dependent on developments in wages. A shortage of specialist employees is a key issue also in the healthcare sector, it being necessary to recognise regional differences in the individual facilities. For RHÖN-KLINIKUM AG, too, finding highly

qualified and motivated staff to meet the wide-ranging and complex requirements of the healthcare industry is a challenge. We meet these requirements with individual measures by, for example, identifying misallocations with our personnel benchmarking, thus enabling us to respond to the trend in service volumes.

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 the procurement of alternative drugs are consumption-intensive specialist departments such as neurology and oncology. In the context of the programme of measures, Materials Management is currently undertaking intensive and systematic efforts to reach Group contract agreements, to overhaul and simplify the product range and to optimise internal procurement processes. By ongoing market and product monitoring we moreover ensure that dependency on sole suppliers, on single products and service providers is kept to a bare minimum and classify the risk position in this area also as low overall.

Financial risks

Since we operate exclusively in Germany, we are not subject to any transaction and currency risks. As at 31 December 2017, the Group had financial liabilities totalling € 0.0 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 the financial year 2017, no risks jeopardising our corporate existence were reported to us. The principles of the statutorily prescribed system of early identification of risks jeopardising corporate existence were continued in the reporting year as in the previous years.

As an overall assessment based on our analysis of the risk position within the Group and at its subsidiaries for the financial year 2017, we have concluded that there are no risks that could endanger the existence of the subsidiaries or the Group of RHÖN-KLINIKUM AG, and do not see any matters having an adverse effect on corporate development. The risks at the individual companies as well as at the Group as a whole continue to be rated as low.

4.2 Report on opportunities

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

We control and optimise our processes and strategies on a continuous basis. For example, we have continued our activities in the financial year 2017 to optimise our sites by reviewing their service portfolios and identifying performance potential. The process and communication paths involved are analogous to risk management.

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

As already in the previous year, we have supported various projects through our funding pool also in 2017. 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, inter-facility risk auditors were trained with a view to making information and improvement potential identified from this accessible to all sites as part of Group-wide clinical risk management.

With our innovative and path-breaking RHÖN Campus approach, RHÖN-KLINIKUM AG is committed to excellent medical care in rural regions. With the campus approach we are pursuing an organic, moderate growth model. If the demographic situation exacerbates further from 2022 as forecast, we are well positioned on the market with the RHÖN Campus Bad Neustadt a. d. Saale and the related expertise and will know how to realise our opportunities by rolling out the campus approach.

In addition to the ongoing conceptual and constructional modernisation of our sites, digitalisation will become an increasingly important issue. With our digitalisation strategy and entry into the gradual digital transformation of the Company, the Group is taking a lead role and thereby actively helping to shape the future of the healthcare sector. In that respect also, we are guided strictly by the benefits for patients as well as our employees. With our "Medical Cockpit" IT solution, which we plan to launch at the new Campus Bad Neustadt a. d. Saale at the end of 2018, we make it easier for doctors and all other persons involved in the treatment process to perform their work whilst, at the same time, making the treatment process faster and safer for patients. We will quickly deploy these new digital tools throughout the Group. Thanks to our electronic patient file and further intelligent software solutions, such as in the field of coding our services, we are expanding our new rather broad range of digital solutions also beyond the Company.

Overall, we see our Group as being very well positioned with revenues of roughly € 1.2 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 RHÖN Campus approach. To this end we avail ourselves of all opportunities presented to us and thus counteract the potential risks with a practised and functioning risk management system at our hospitals, medical care centres and service companies.

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

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

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

The Group's accounting process is organised in such a way that for each of the subsidiaries on each reporting date – i.e. monthly, quarterly and annually – a financial statement according to HGB is prepared in the Group's own data centres based on a uniform Group-wide accounting guideline and a uniform Group-wide accounting programme. From these financial statements, a consolidated financial statement is derived for each quarter in accordance with the International Financial Reporting Standards (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 strictly monitored are observed to ensure uniform accounting. Responsibilities for the preparation of the annual financial statements are clearly defined both for the individual companies and within the Group. The controls applied in this context, which depending on the specific case may be preventive or downstream, manual or automated, give due regard to the principles of segregation of functions.

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

Bad Neustadt a. d. Saale, 16 February 2018

The Board of Management

Prof. Dr. Bernd Griewing   Stephan Holzinger   Dr. Dr. Martin Siebert

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2017

ASSETS

in € '000	Notes	**31 Dec. 2017**	31 Dec. 2016
Non-current assets			
Goodwill and other intangible assets	6.1	174,482	173,119
Property, plant and equipment	6.2	747,050	701,010
Investment property	9.3.3	2,631	2,772
Investments accounted for using the equity method	6.4	389	864
Deferred tax assets	6.3	9,134	5,700
Other financial assets	6.5	35,153	52,670
		968,839	**936,135**
Current assets			
Inventories	6.6	25,022	24,816
Trade receivables	6.7	203,963	190,855
Other financial assets	6.8	140,021	210,041
Other assets	6.9	9,385	8,482
Current income tax assets	6.10	1,716	5,102
Cash and cash equivalents	6.11	122,452	80,814
		502,559	**520,110**
		1,471,398	**1,456,245**

EQUITY AND LIABILITIES

in € '000	Notes	31 Dec. 2017	31 Dec. 2016
Equity			
Issued share capital	6.12	167,406	167,406
Capital reserve		574,168	574,168
Other reserves		360,803	349,057
Treasury shares		–76	–76
Equity attributable to shareholders of RHÖN-KLINIKUM AG		1,102,301	1,090,555
Non-controlling interests in equity		22,955	22,828
		1,125,256	**1,113,383**
Non-current liabilities			
Provisions for post-employment benefits	6.14	2,288	2,247
Other financial liabilities	6.17	15,005	16,310
Other liabilities	6.18	7,982	6,903
		25,275	**25,460**
Current liabilities			
Financial liabilities	6.13	–	10,000
Trade payables	6.16	108,225	94,830
Current income tax liabilities	6.19	1,299	1,715
Other provisions	6.15	92,673	95,831
Other financial liabilities	6.17	19,909	19,223
Other liabilities	6.18	98,761	95,803
		320,867	**317,402**
		1,471,398	**1,456,245**

CONSOLIDATED INCOME STATEMENT

1 JANUARY TO 31 DECEMBER 2017

in € '000	Notes	2017	2016
Revenues	5.1	1,211,077	1,176,349
Other income	5.2	151,930	186,408
		1,363,007	**1,362,757**
Materials and consumables used	5.3	347,550	329,542
Employee benefits expense	5.4	787,899	757,560
Depreciation/amortisation and impairment	5.5	59,120	59,867
Other expenses	5.6	129,741	118,795
		1,324,310	**1,265,764**
Operating result		**38,697**	**96,993**
Result of investments accounted for using the equity method	5.8	–1,395	– 423
Finance income	5.8	624	1,370
Finance expenses	5.8	810	37,078
Finance result (net)	5.8	**1,581**	**36,131**
Earnings before taxes		**37,116**	**60,862**
Income taxes	5.9	379	2,227
Consolidated profit		**36,737**	**58,635**
of which			
non-controlling interests	5.10	1,587	2,205
shareholders of RHÖN-KLINIKUM AG		35,150	56,430
Earnings per share in €			
undiluted	5.11	0.53	0.84
diluted	5.11	0.53	0.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY TO 31 DECEMBER 2017

in € '000	**2017**	2016
Consolidated profit	**36,737**	**58,635**
of which		
non-controlling interests	1,587	2,205
shareholders of RHÖN-KLINIKUM AG	35,150	56,430
Revaluation of defined benefit pension plans	29	–343
Income taxes	–5	54
Other comprehensive income (revaluation of pension plans) not subsequently reclassified to income statement	**24**	**–289**
Total other comprehensive income [1]	**24**	**–289**
of which		
non-controlling interests	–	–
shareholders of RHÖN-KLINIKUM AG	24	–289
Total comprehensive income	**36,761**	**58,346**
of which		
non-controlling interests	1,587	2,205
shareholders of RHÖN-KLINIKUM AG	35,174	56,141

[1] Sum of value changes recognised in the equity.

STATEMENT OF CHANGES IN EQUITY

in € ’000	Issued share capital	Capital reserve	Retained earnings	Treasury shares	Equity attributable to shareholders of RHÖN-KLINIKUM AG	Non-controlling interests in equity [1]	Equity
As at 31 Dec. 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 December 2016	**167,406**	**574,168**	**349,057**	**–76**	**1,090,555**	**22,828**	**1,113,383**
As at 31 Dec. 2016/1 Jan. 2017	**167,406**	**574,168**	**349,057**	**–76**	**1,090,555**	**22,828**	**1,113,383**
Equity transactions with owners							
Dividend payments	–	–	–23,428	–	–23,428	–1,460	–24,888
Consolidated profit	–	–	35,150	–	35,150	1,587	36,737
Other comprehensive income	–	–	24	–	24	–	24
Other changes							
Changes in consolidated companies	–	–	–	–	–	–	–
As at 31 December 2017	**167,406**	**574,168**	**360,803**	**–76**	**1,102,301**	**22,955**	**1,125,256**

[1] Including other comprehensive income (OCI).

STATEMENT OF CASH FLOWS

in € million	Notes	2017	2016
Earnings before taxes		37.1	60.9
Finance result (net)	5.8	1.6	36.1
Depreciation/amortisation and impairment and gains/losses on disposal of assets	5.5	58.8	59.8
		97.5	**156.8**
Change in net current assets			
Change in inventories	6.6	–0.2	–1.3
Change in trade receivables	6.7	–12.9	–12.6
Change in other financial assets and other assets	6.8 seq.	–10.3	16.2
Change in trade payables	6.16	7.9	2.2
Change in other net liabilities/other non-cash transactions	6.17 seq.	3.5	3.0
Change in provisions	6.14 seq.	–3.1	–46.7
Income taxes paid	5.9	–1.3	–1.8
Interest paid		–0.8	–6.7
Cash generated from operating activities		**80.3**	**109.1**
Investments in property, plant and equipment and in intangible assets	6.1 seq.	–115.8	–113.5
Government grants received to finance investments in property, plant and equipment and in intangible assets		15.5	15.7
Change in investments in fixed term deposits	6.5/6.8	100.1	139.8
Investments in financial assets	6.5	–3.0	–18.7
Acquisition of subsidiaries, net of cash acquired	4	–1.2	0.6
Sale proceeds from disposal of assets		0.9	0.2
Interest received		0.6	1.8
Cash used in/cash generated from investing activities		**–2.9**	**25.9**
Repayment of financial liabilities	6.13	–10.0	–143.2
Proceeds from debt	6.13	–0.8	–
Payments from finance leases	9.3	0.0	–0.6
Dividend payments to shareholders of RHÖN-KLINIKUM AG	6.12	–23.4	–53.6
Payments to non-controlling interests in equity	6.12	–1.5	–0.1
Cash used in financing activities		**–35.7**	**–197.5**
Change in cash and cash equivalents	6.11	41.7	–62.5
Cash and cash equivalents as at 1 January		80.8	143.3
Cash and cash equivalents as at 31 December	6.11	**122.5**	**80.8**

NOTES

CONTENT

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 ending 31 December 2017 have been prepared applying section 315e of the German Commercial Code (Handelsgesetzbuch, HGB) in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as well as the related Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), which are the subject of mandatory adoption in accordance with the European Parliament and Council Directive number 1606/2002 concerning the application of international accounting standards in the European Union in the financial year 2017. No early adoption of new standards is planned at this time.

a) New accounting rules from the financial year 2017

The following revised standards and interpretations – to the extent adopted by the European Union – are to be applied as of the financial year 2017. As far as can be seen at present, they have no material impact or no impact/are of no practical relevance on the consolidated financial statements of RHÖN-KLINIKUM AG as of the financial year 2017 as well as subsequent years:

Standard/interpretation			Mandatory adoption date	Endorsement[1]	Impact
Amendments	IAS 7	Disclosure Initiative	1 Jan. 2017	Yes	No material impact
Amendments	IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan. 2017	Yes	No impact
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

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

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

Amendments to IAS 7: "Disclosure Initiative"

The amendments to IAS 7 "Statement of Cash Flows" require entities to make broader disclosures on the development of those debt capital items on the balance sheet during the reporting period in which cash flows were, or in future will be, reported in the statement of cash flows as financing activities. Such disclosures are likewise to be made on the development of financial assets in which payments relating thereto are to be reported in cash flow from financing activities.

Specifically, the following disclosures are to be made:

- cash changes resulting from changes from financing cash flows,
- changes arising from obtaining or losing control of subsidiaries or other businesses,
- effect of changes in foreign exchange rates,
- changes resulting from changes in fair values, and
- other changes.

The amendments to IAS 7 are to be applied to financial years beginning on or after 1 January 2017. The amendments to this standard have no material impact on the consolidated financial statements of RHÖN-KLINIKUM AG.

Amendments to IAS 12: "Recognition of Deferred Tax Assets for Unrealised Losses"

The amendments to IAS 12 clarify that the determination of a temporary difference as defined in IAS 12 is based on the fundamental notion that the carrying amount is realised on the determination date from an economic benefit recovered by the entity in future periods. In this context, the existence of a temporary difference from arising from a comparison of the IFRS carrying value at the respective reporting date with the tax base on that date is to be determined. Future foreseeable changes in the carrying value are not to be taken into consideration. It is moreover clarified that the IFRS carrying value is relevant only for calculating temporary differences, not also for estimating the future taxable result. When calculating the taxable earnings, the realisation of a value above the current IFRS carrying value is also conceivable provided that it is likely. In this connection it is likewise clarified that – where by reason of tax law the utilisation of deductible temporary differences is limited to a certain type of earnings – only that type of earnings is to be used as a basis for such differences when assessing whether and in what amount deferred tax assets are to be recognised.

The amendments to IAS 12 are to be applied to financial years beginning on or after 1 January 2017. The amendments to this standard will have no effect on the net assets, financial position and results of operations of the Group.

b) New accounting rules from the financial year 2018 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 the financial year 2018 and subsequent years and have no material impact on, or are of no practical relevance for, the consolidated financial statements of RHÖN-KLINIKUM AG, are subject to a review by the management or have material impact:

Standard/Interpretation			Mandatory adoption date	Endorsement [1]	Impact
Amendments	IFRS 4	Application of IFRS 9 with IFRS 4	1 Jan. 2018	Yes	No practical relevance
New	IFRS 9	Financial Instruments	1 Jan. 2018	Yes	No material impact
Clarifications	IFRS 15	Revenue from Contracts with Customers	1 Jan. 2018	Yes	No material impact
New	IFRS 15	Revenue from Contracts with Customers incl. Change in Initial Adoption Date	1 Jan. 2018	Yes	No material impact
New	IFRS 16	Leasing	1 Jan. 2019	Yes	Material impact
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
Amendments	IAS 28	Long-term interests in associated companies and joint ventures	1 Jan. 2019	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	IAS 40	Transfers of Investment Property	1 Jan. 2018	No	No practical relevance
Amendments	IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 Jan. 2018	No	Subject to a review by the management
Amendments	IFRS 9	Early repayment options with negative prepayment costs	1 Jan. 2019	No	Subject to a review by the management
New	IFRS 17	Insurance contracts	1 Jan. 2021	No	Subject to a review by the management
Clarifications	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 Jan. 2018	No	No practical relevance
Amendments	IFRIC 23	Tax risk items from income tax	1 Jan. 2019	No	Subject to a review by the management
Amendments	Annual improvements to IFRS: 2015–2017 cycle	Collective Standard for amendments to various IFRS	1 Jan. 2019	No	Subject to a review by the management

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

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

Amendments to IFRS 4: "Applying IFRS 9 with IFRS 4"

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

- temporarily postponing adoption of IFRS 9
- applying the "overlay approach"

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

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

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

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

IFRS 9: "Financial Instruments"

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

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

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

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

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

The principal part of non-derivative financial assets is measured at RHÖN-KLINIKUM AG up to and including 2017, pursuant to IAS 39, at amortised cost. The analysis of the business model and the fulfilment of the cash flow criterion comes to the conclusion that at RHÖN-KLINIKUM AG as of 2018 there are no changes regarding the recognition and measurement of financial assets as a result of IFRS 9. Regarding the subject of impairment of financial assets or the amended impairment model as of 2018, RHÖN-KLINIKUM AG, based on information currently available, expects at the initial adoption date a decline in financial assets without effect on the income statement and in equity in the range from € 1.0 million and € 1.5 million. In the financial year 2018, RHÖN-KLINIKUM AG does not expect any material impact on the income statement. Moreover, RHÖN-KLINIKUM AG currently does not use any hedging relationships and does not intend to do so in the near future either.

IFRS 15: "Revenues from Contracts with Customers" as well as "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.

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

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

The standard is to be applied to financial years beginning on or after 1 January 2018. Based on what has been learned so far, RHÖN-KLINIKUM AG, as a result of the first-time adoption of IFRS 15, expects declining revenues and declining other expenses for the financial year 2018 in the range of € 10 million to € 11.0 million compared with existing accounting policies. Within the balance sheet, no changes are expected as a result of IFRS 15.

IFRS 16: "Leasing"

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

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

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

IFRS 16 provides for two exemptions from the principle of recognising all leases, each of which may be used alternatively. Leases with a term of 12 months maximum as well as leases relating to low-value assets may continue to be treated as operating leases. The standard setter understands low-value assets in particular as low-value IT equipment as well as operating and office equipment having a maximum value of US$ 5,000.00.

The standard is to be applied as of financial years beginning on or after 1 January 2019. Voluntary early adoption is possible provided that IFRS 15 is also already applied at such time. Initial adoption can applied by lessees alternatively either in full retrospectively as defined in IAS 8 or in modified form retrospectively on the basis of the transitional rules defined in the standard. Lessors as a general rule continue their past accounting practice unchanged as of the date of initial adoption; only for subleases do special transitional provisions apply to intermediate lessors.

The adoption of IFRS 16 as a lessee is not likely to have any material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG. Thus, within the balance sheet there will be an increase in assets and liabilities (balance sheet extension) as well as a lower equity ratio. Existing lease expenditure will benefit EBITDA, which in turn will result in an increase in the depreciation/ amortisation item. As a result of the mark-up on lease liabilities, the finance result will be burdened in future by higher interest expenses. It is not possible to definitively quantify the impact at this time given the complexity of lease structures, particularly in the case of medical equipment. In all other respects, the adoption of IFRS 16 as lessor will have no material impact on the net assets, financial position and results of operations of RHÖN-KLINIKUM AG.

c) Estimates

Preparing consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made. Moreover, the application of Group-wide accounting policies means that management has to exercise reasonable judgment. Areas that call for a greater degree of judgment to be exercised or that are characterised by a higher degree of complexity, or areas for which assumptions and estimates are of decisive importance for the consolidated financial statements, are set out and explained. The preparation of the consolidated financial statements was based on historical cost, qualified by the financial assets and financial liabilities recognised at fair value through profit or loss.

d) Publication

The consolidated financial statements will be approved for publication by the Supervisory Board on 28 March 2018.

2.2 Consolidation

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

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) which the Group has the possibility of controlling pursuant to IFRS 10. When assessing whether control exist, it is examined whether the parent has power over the subsidiary, obtains positive or negative variable returns and from it can influence the amount of such returns through exercising its power. The Group examines whether control is exercised also when the parent company does not hold the majority of the voting rights but has the possibility of controlling the relevant activities of the subsidiary based on de facto control. De facto control exists for example in the case of voting right agreements or high minority rights.

Subsidiaries are included in the consolidated financial statements (full consolidation) from the date that the Group obtains control and are deconsolidated when the control ends. Acquired subsidiaries are accounted for using the purchase method.

The cost of the acquisition is measured as the fair value, at the transaction date, of assets rendered, equity instruments issued and liabilities incurred or acquired. They also contain the fair values of all recognised assets and liabilities resulting from a contingent consideration agreement. Upon their first-time consolidation, assets, liabilities and contingent liabilities identifiable within the scope of a business combination are recognised separately at their fair values at the acquisition date. For each company acquisition the Group decides on a case-by-case basis whether the non-controlling interests in the acquired company are recognised at fair value or based on the proportionate share in the net assets of the acquired company. Costs relating to the acquisition are expensed as incurred.

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

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

2.2.2 Transactions with non-controlling interests

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

2.2.3 Associated companies and joint ventures

Associated companies are those companies over which the Group has a substantial influence. A substantial influence is refutably presumed if the share of voting rights is between 20.0% and 50.0%. Investments in associated companies and jointly controlled entities (joint ventures) are accounted for using the equity method and initially recognised at cost. The Group's interest in associated companies and jointly controlled entities includes the goodwill arising on acquisition (less accumulated impairment losses).

The Group's interest in the profits and losses of associated companies or joint ventures is recognised in the income statement as of the date of acquisition and the cumulative changes are offset against the carrying amount of the investment. Changes in equity without effect in profit or loss 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 inter-Company profits or losses from transactions between Group companies and associated companies or joint ventures are eliminated on a pro rata basis if the underlying circumstances are material.

In an impairment test, the carrying amount of a company accounted for using the equity method is compared with its recoverable amount. If the carrying amount exceeds the recoverable amount, an impairment equal to the difference must be recognised. If the reasons for a previously recognised impairment have ceased to exist, the impairment is reversed through the income statement.

The financial statements of investments accounted for using the equity method are prepared using uniform accounting principles within the Group. Associated companies whose individual or overall impact on the net assets and results of operations is not material are not accounted for using the equity method. They are included in the consolidated financial statements at fair value. Immaterial equity interests whose market value cannot be calculated due to the absence of an active market are measured at cost.

2.2.4 Sale of subsidiaries and associated companies

If the Group loses either control or material influence over a company, the remaining interest is remeasured at fair value and the resulting difference recognised as profit or loss. Fair value is the fair value calculated upon the initial recognition of an associate, joint venture or financial asset. Moreover, all amounts stated in other income are recognised with reference to such company in the same way as would be required if the related assets and liabilities had been sold by the parent company directly. That means that a profit or loss previously recognised under other income is transferred to the income statement. If it cannot be transferred to the income statement, it remains in equity (e.g. actuarial profits or losses from pensions).

2.3 Segment reporting

According to IFRS 8 – Operating Segments, segment information on operating segments is to be presented in accordance with the internal reporting to the chief operating decision maker (management approach). An operating segment is a company component

- which carries out business activities from which revenue is earned and for which expenses may be incurred. For us these include all revenues relating to services provided directly and indirectly for patients, as well as all expenses necessary for providing services,
- whose operating result is regularly reviewed by the company's chief decision maker to make decisions about resources to be allocated to this segment and assess its earnings strength, and
- for which separate financial information is available.

The chief decision-making body in our Group is the Board of Management. It is in this body that the strategic decisions are made for the Group and to this body that the key ratios of the hospitals, which represent our operating segments, are reported.

Monthly reporting to the Board of Management includes the hospitals. Group management costs are fully distributed to the operative segments. The monthly target/actual comparison in the report to the Board of Management, by aggregating the operative segments into one reporting segment, serves to control the targets published in the Company forecast, in particular the EBITDA margin.

Given our understanding of an integrated healthcare services offering, we do not make any distinction in control by whether the services within the meaning of German social insurance legislation are attributed to the inpatient or the outpatient sector, or to the rehab or nursing sector. All expenses and income which are directly or indirectly related to patients are included under the operating segments.

The operating segments are aggregated to one reporting segment since they exhibit similar economic characteristics. As a result of the same structural framework conditions, the operating segments in the Group with the healthcare services provided are characterised by a similar risk and rewards profile whose economic environment is largely regulated by legislation. The politically desired state interference is felt both on the income side and with expenses. It is thus possible for the operating segments to achieve similar EBITDA margins. We thus continue to have only one operating segment subject to reporting.

We generate all revenues for all our areas of activity in Germany. We generate most of our revenues in the inpatient, outpatient, rehab and nursing area with the statutory health insurance funds, the state pension insurance agency, the statutory occupational insurance agencies and the other public healthcare institutions. Only a small share of revenues is generated with private health insurance funds or self-payers. Regarding the breakdown of revenues by business areas and federal states, we refer to section 5 of the Notes.

2.4 Goodwill and other intangible assets

2.4.1 Goodwill

Goodwill is the excess of the cost of the company acquisition over the Group's interest in the fair value of the net assets of the acquired company at the acquisition date. Goodwill arising on acquisitions is allocated to intangible assets. Goodwill is subjected at least to an annual impairment test and measured at its historical cost less any impairment losses. A review is also performed when there are events or circumstances indicating that the value might be impaired. Impairment losses are not reversed. Profits and losses arising on the sale of a company include the carrying amount of the goodwill allocated to the company sold.

For the purpose of the impairment test, goodwill is allocated to cash generating units. At RHÖN-KLINIKUM AG these correspond, as a rule, to the individual hospitals (each hospital with its inpatient, semi-inpatient and outpatient care structures) unless the related goodwill of cooperating units is monitored at a higher level.

If the recoverable amount is below the carrying amount, an impairment is recognised. Here, the recoverable amount is the higher of the two fair value amounts less costs to sell the asset and its value in use.

2.4.2 Computer software

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

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

2.4.3 Other intangible assets

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

2.4.4 Research and development expenses

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

2.5 Property, plant and equipment

Land and buildings are reported under "Property, plant and equipment" and mainly comprise hospital buildings. In the same way as the other items of property, plant and equipment, they are measured at cost less any depreciation. Cost includes the expenditure directly attributable to the acquisition or construction of an asset as well as any overheads attributable to construction. Subsequent costs are recognised as part of the cost of the asset or – where applicable – as a separate asset only if it is probable that future economic benefits associated with the asset will accrue to the Group and if the cost of the asset can be measured reliably. All other repair and maintenance work is recognised as expenditure in the income statement in the financial year in which it is incurred.

Property, plant and equipment are tested for impairment if events or changed circumstances suggest that an impairment may have occurred. In such a case, the impairment test is performed pursuant to IAS 36 according to the principles explained for intangible assets. Where an impairment is to be made, the remaining useful life of the asset may be adjusted accordingly. If the reasons for a previously recognised impairment have ceased to exist, such impairment losses are reversed, in which case such reversal may not exceed the carrying amount that would have resulted if no impairment had been recognised in the previous periods.

Land is not depreciated. All other assets are depreciated using the straight-line method, with costs being depreciated over the expected useful lives of the assets so as to write down the value of the assets to their residual carrying amount as follows:

Buildings	33 1/3 years
Machinery and equipment	5 to 15 years
Other plant and equipment	3 to 12 years

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

2.6 Government grants

Government grants are recognised at fair value if it can be assumed with reasonable assurance that the grant will be received and that the Group has satisfied the necessary conditions for this. Government grants for investments are deducted from cost to arrive at the carrying amount for the assets to which they relate. They are distributed as a reduction in expenses over the expected useful life of the related assets using the straight-line method. Such grants are granted to hospitals within the framework of investment finance legislation. Grants not yet used for their intended purpose are reported under "Other financial liabilities" at the balance sheet date.

2.7 Impairment of property, plant and equipment and intangible assets (excl. goodwill)

The Group assesses on every balance sheet date whether there are any indications that an asset might be impaired. If such indications exist or if an annual impairment test has to be performed in relation to an asset, the Group estimates the recoverable amount. If it is not possible for independent inflows to be allocated to the individual asset, the Group estimates the recoverable amount for the cash generating unit to which the asset belongs. The recoverable amount is the higher of the fair value of the asset less costs to sell it and its value in use. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In order to calculate the value in use, the estimated future cash flows are discounted to their present value using a discount rate before taxes which reflects the current market expectation with regard to the interest effect and the specific risks of the asset. Impairments are shown in the income statement under the item depreciation/amortisation.

On every balance sheet date, a test is performed to establish whether there are any indications that an impairment recognised in previous reporting periods no longer exists or might have diminished. If such an indication exists, the recoverable amount is estimated. An impairment previously recognised has to be reversed if there has been a change in the estimates used for determining the recoverable amount since the last impairment was recognised. If this is the case, the carrying amount of the asset has to be increased to the recoverable amount of the asset. However, this must not exceed the carrying amount which would have resulted after the recognition of depreciation/amortisation if no impairment had been recognised in previous years. Any such reversal of a prior impairment has to be recognised immediately in the profit or loss for the period. After a prior impairment has been reversed, the amount of depreciation/amortisation in future reporting periods has to be adjusted in order to systematically distribute the revised carrying amount of the asset, less any residual value, over the remaining useful life of the asset.

2.8 Financial assets

Financial assets in principle comprise receivables, other financial assets, equity instruments, derivative financial instruments with positive fair values and cash.

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.

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. Financial assets are derecognised if the rights to payments from the investment expire or have been transferred and the Group has substantially transferred all the risks and rewards of ownership of the financial asset.

Gains or losses arising from fluctuations in the fair value of financial assets classified as at fair value through profit or loss, including dividends and interest payments, are 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.

2.8.1 Assets measured at fair value through profit or loss

This category has two subcategories: 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.

2.8.2 Loans and receivables

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.

2.8.3 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.

2.9 Investment property

Investment properties comprise land and buildings which are held for the purpose of generating rental income or for achieving capital gains, and which are not used for the Company's own provision of services, for administrative purposes or for revenues within the scope of ordinary operations. Investment properties are measured at cost less cumulative depreciation.

Since RHÖN-KLINIKUM AG or its subsidiaries retain beneficial ownership in leased properties as lessor (operating lease), these properties are identified as such and reported separately in the balance sheet. Leased assets are recognised at cost and depreciated in accordance with the accounting principles for property, plant and equipment. Lease income is recognised on a straight-line basis over the term of the lease.

2.10 Inventories

Inventories within the Group of RHÖN-KLINIKUM AG are materials and supplies. These are measured at the lower of cost (including transaction costs) and net realisable value. Cost of inventories is determined by the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell.

2.11 Trade receivables

Trade receivables are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost less impairments. 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". The verity risk resulting from audits conducted by the Medical Review Board of the Statutory Health Insurance Funds (MDK), financial difficulties on the part of 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.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term, highly liquid financial assets with original maturities of up to three months. Utilised bank overdrafts are shown on the balance sheet as liabilities to banks under the item "Current financial liabilities".

2.13 Equity

Ordinary shares are classified as equity. Costs that are directly attributable to the issuance of new shares are recognised in equity (net of tax) as a deduction from the issuance proceeds.

If a company belonging to the Group acquires treasury shares of RHÖN-KLINIKUM AG, the value of the consideration paid including directly attributable additional costs (net of tax) is deducted from the equity capital attributable to shareholders of the company until the shares are either redeemed, reissued or resold. If such shares are subsequently reissued or resold, the consideration received, net of directly attributable additional transaction costs and related income tax, is recognised in the equity attributable to the shareholders of RHÖN-KLINIKUM AG.

2.14 Financial liabilities

Financial liabilities in principle comprise financial debt (including the negative fair values of derivative financial instruments), trade payables as well as other financial liabilities. 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.

2.15 Current and deferred taxes

The tax expense of the period is made up of current and deferred taxes. Taxes are recognised in the income statement unless they relate to items which were directly recognised in equity or in other income. In this case, taxes are likewise recognised in equity or other income.

Deferred tax is recognised using the liability method for all temporary differences between the tax basis of assets and liabilities and the respective IFRS consolidated carrying amounts. If, however, in a transaction which is not a business combination, deferred tax arises from the initial recognition of an asset or liability which at the time of the transaction affects neither accounting nor taxable profit or loss, no deferred tax is recognised. Deferred taxes are measured subject to the tax rates (and tax laws) that apply or have been substantively enacted on the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred taxes have been calculated using a corporate income tax rate of 15.0% (plus the 5.5% solidarity surcharge on corporate income tax).

Deferred tax assets are recognised to the extent it is probable that they will result in a tax benefit when offset against taxable profits.

Deferred tax liabilities in connection with temporary differences arising from equity interests in subsidiaries are always recognised unless the point in time of the reversal of the temporary differences can be controlled by the Group and a reversal of the temporary differences is not probable in the foreseeable future.

2.16 Employee benefits

2.16.1 Pension obligations and other long-term benefits due to employees

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

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

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

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

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

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

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

Multi-employer plans

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

The present plans are multi-employer plans (IAS 19.8) since the participating companies share both the risk of the capital investment and the actuarial risk. In principle, the VBL/ZVK benefit plan is to be classified as a defined benefit plan (IAS 19.38), but the information needed for an objectively correct representation of the Group's share of the future payment is not available due to the existing PAYGO financing regime. Because of such PAYGO financing approach in which the levy rate is calculated for a certain coverage layer on the basis of the aggregate insurance portfolio and not on the basis of the individual risk of insurees, the benefit plan pursuant to IAS 19.34 is to be recognised as a defined contribution plan. Since no agreements within the meaning of IAS 19.37 exist, there is no recognition of a corresponding asset or liability. Any superordinated guarantee obligations of public-law entities take precedence over the recognition of any liability item in the balance sheet.

The current contributions to VBL/ZVK were reflected in the employee benefits item as pension expenses or post-employment benefits for the respective years.

In addition to the levy, the VBL also levies reform imposts from the participating employers with compulsory insurees in the separately organised and managed settlement class "Abrechnungsverband West". The flat-rate monies cover the additional financing requirement necessary until the comprehensive healthcare system is switched over to the points model. The share in the reform impost that the individual employers have to pay depends on which residual liabilities and insured remunerations they cover. Up to 2015, the reform impost amounted to roughly 2% of the remunerations on average. Since in particular the insurance portfolio developed more favourably than had originally been assumed, cash assets of VBL have risen significantly. As things now stand, no recapitalisation charge would have been required for the period 2013–2015. At its meeting on 12 November 2015, the Supervisory Board of VBL therefore decided to refund the recapitalisation charges paid for those years, including the net return in 2016. Since 2016, the recapitalisation charge to 31 December 2022 has been 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 insufficient information, it is not possible to make any statement on the level of participation in the pension schemes based on the contributions paid by the Group of RHÖN-KLINIKUM AG compared with the aggregate payments to the VBL and other public service pension schemes (ZVK).

In the event of a VBL participation being terminated, the legal consequences arising therefrom are defined in section 23 of the VBL Rules. Termination of a VBL participation also triggers the end of the mandatory insurance schemes. Since the VBL also continues to settle the pension claims and entitlements arising up to the end of the participation, the withdrawing party, as compensation, is required to pay an equivalent value which does not include those components financed under the funded scheme. This equivalent value comprises the full funding of existing entitlements and coverage of administrative expenses as well as future benefit claims. The supplementary pension insurance scheme 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. The hospitals in Gießen and Marburg are members of VBL, and RHÖN-Kreisklinik Bad Neustadt a. d. Saale is a member of ZVK.

2.16.2 Termination benefits

Termination benefits are provided if an employee is made redundant before the normal retirement date or accepts voluntary redundancy in return for severance compensation. The Group recognises severance compensation payments if it is committed to terminating the employment of current employees subject to a detailed formal plan which cannot be rescinded or is committed to paying severance compensation if employees accept voluntary redundancy. Termination benefits which fall due more than twelve months after the balance sheet date are discounted to their present value.

2.16.3 Management profit sharing and employee profit sharing

Management profit sharing and employee profit sharing are recognised as liabilities using a measurement method based on the consolidated result or the results of consolidated subsidiaries. The Group recognises a liability in the cases in which a contractual obligation exists or an obligation arises from a past practice.

2.16.4 Share-based payments

Share-based payments are recognised in accordance with IFRS 2. In the 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 6.0% (previous year: 9.0%) was held by the members of the Board of Management, and an interest of 1.2% (previous year: 1.2%) by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made for the interests in the amount of € 0.4 million (previous year: € 0.5 million) – of which € 0.3 million (previous year: € 0.4 million) is attributable to the members of the Board of Management) – are reported under the other liabilities item as share-based remuneration as defined in IFRS 2 (cash-settled share-based payment transactions). In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. Moreover, the option of returning the interests on termination of the service relationship exists. In 2017 a now retired member of the Board of Management has made use of this provision. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable.

2.17 Provisions

Provisions for restructuring and legal obligations are recognised when the Company has an obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the value of the outflow of resources can be reliably determined. Restructuring provisions essentially include the costs of early termination of employment contracts with employees.

Where there are a number of similar obligations, the probability of an outflow of resources being required for settlement is assessed based on an aggregate view of such similar obligations. A provision is also recognised if the probability of outflow for any one of such obligations is deemed to be small.

Provisions are measured as the present value of the payments expected to be required to settle the obligation. The discounting process uses a pre-tax interest rate which reflects the current market expectations with regard to the present value of the funds and the risk potential of the obligation. Increases in the value of provisions based on interest effects reflecting the passage of time are recognised as interest expense in the income statement.

2.18 Revenue recognition

Revenue is recognised at the fair value of the consideration received for the provision of services and for the sale of products. Revenue from intra-Group goods and services is eliminated by way of consolidation. Revenue is recognised as follows:

2.18.1 Inpatient and outpatient hospital services

Hospital services are recognised in the financial year in which the services are performed by reference to the stage of completion as a proportion of the total services to be performed. Charges agreed with the payers are essentially invoiced at fixed rates irrespective of the duration of stay. In certain segments daily hospital and nursing rates are invoiced.

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.

2.18.2 Interest income

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

2.18.3 Income from distribution and dividends

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

2.19 Leasing

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

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

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

2.20 Costs of borrowing

If borrowing takes place, the costs of borrowing are deducted from the corresponding items and are distributed using the effective interest method. Moreover, the interest is then recognised as current expense. Costs of borrowing incurred in connection with the acquisition/construction of qualifying assets are capitalised during the entire production process until commissioning. Other costs of borrowing are recognised as an expense.

2.21 Dividend payments

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

2.22 Financial risk management

2.22.1 Financial risk factors

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

- Credit risk
- Liquidity risk
- Interest rate risk

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

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

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 inter-divisional risk management and the guidelines for certain areas such as the management of interest rate and credit risks, the use of derivative and non-derivative financial instruments as well as the investment of liquidity surpluses.

2.22.2 Credit risk

The Group provides over 90% of its services for members of the statutory social insurance scheme, and the remainder to persons who pay medical invoices themselves and who have taken out private health insurance. There are no significant concentrations with respect to individual payers. The cost of hospital services is normally settled by payers within the legally prescribed period. With regard to the default risks in the financial year 2017, please refer to our comments in the sections "Trade receivables", "Other financial assets" and "Other assets". The maximum risk of default is equal to the aggregate amount of the financial assets (less impairments) recognised on the balance sheet. Counterparty risks from entering into financial transactions are minimised by adherence to rules and limits.

2.22.3 Liquidity risk

Careful liquidity management includes holding a sufficient reserve of cash, having the possibility of obtaining finance for an adequate amount under agreed credit lines, and being able to raise liquidity from market issuances. Given the dynamic nature of the market environment in which the Group operates, the objective of RHÖN-KLINIKUM AG is to maintain the necessary flexibility in finance matters by having sufficient credit lines available and access to the capital markets at all times. A minimum strategic liquidity of cash and free, immediately available credit lines is held in order to ensure the Group's ability to act at all times. A liquidity report is prepared daily for monitoring liquidity risk. Short- to medium-term liquidity planning calculations are also carried out.

2.22.4 Interest rate risk

Interest rate risk results from uncertainty about future developments in the level of interest rates and affects all interest-bearing items as well as interest derivatives. RHÖN-KLINIKUM AG is therefore always exposed to interest rate risks.

In the 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, and in August 2017 a fixed interest rate bullet loan in the amount of € 10.0 million, were repaid. As at the balance sheet date, 47.5% (previous year: 25.7%) of cash at banks was invested at a variable interest rate subject to 30 days' termination notice or callable daily, and 52.5% (previous year: 74.3%) at a fixed interest rate maximum residual term of up to 17 months (previous year: 18 months).

As at the balance sheet date, there was thus exclusively cash with banks with a term of up to 17 months (previous year: 18 months). All derivative financial instruments were terminated in the financial year 2014. As already in the previous year, no monitoring of interest rate risks was performed in the financial year 2017 by means of sensitivity analyses given the reduced risk.

In October 2017, a syndicated line of credit in the amount of € 100 million was concluded as a back-up facility for general corporate purposes. As at 31 December 2017, this line had not been utilised.

2.22.5 Management of equity and debt

The aim of the management with regard to the handling of equity and debt is to adopt a strict policy of matching maturities (horizontal balance sheet structure) of source and use of funds. Non-current assets should be funded on a long-term basis. The items of equity and non-current liabilities shown in the balance sheet are included under the source of long-term funds. This ratio should be at least 100%, and amounted to 118.8% in the year under review (previous year: 121.7%). Long-term appropriation of funds relates to financial assets and property, plant and equipment. Although given the personnel cost ratio of more than 50% the Group of RHÖN-KLINIKUM AG is frequently attributed to the services sector, our business model has a long-term focus and is, for the most part, investment-driven. It is to be ensured that at least 35.0% of capital expenditure is sustainably backed by equity. As at 31 December 2017, this ratio at the Group level was 76.5% (previous year: 76.5%).

Group growth is also managed by way of appropriate equity measures through resolutions on the appropriation of profits for the consolidated companies. With regard to retaining parts of the net income, the management focuses on an equity ratio of 25%.

If debt capital is used, the management focuses on the following management ratios for minimising risks. The aim is to limit the ratio between net financial debt (= financial liabilities less cash and cash equivalents) and EBITDA to a maximum 3.5-fold multiple.

3 | CRITICAL ESTIMATES AND ASSESSMENTS IN ACCOUNTING AND VALUATION

All estimates and assessments are subject to ongoing review and are based on past experience and other factors, including expectations with respect to future events which appear reasonable under the given circumstances.

The Group makes assessments and assumptions about the future. The estimates derived from these of course only rarely reflect actual future circumstances. These uncertainties in particular concern the following:

- The planning parameters taken as a basis of the impairment test for goodwill,
- assumptions made in determining pension obligations,
- assumptions and probabilities for determining provision requirements, and
- assumptions relating to the credit risk of trade receivables.

The estimates and assumptions that entail a significant risk of a substantial adjustment in carrying amounts of assets and liabilities during the next financial year are discussed in the following.

3.1 Estimated impairment of goodwill

To determine goodwill at fair value less costs to sell, the operating cash flows of the individual hospitals, with their inpatient, semi-inpatient and outpatient care structures, were discounted at the weighted average cost of capital (WACC) after tax of 5.67% (previous year: 4.75%). The carrying amounts do not exceed fair value less cost of sale. Based on this calculation, no impairment requirement was ascertained. Key assumptions having a substantial influence on fair value less costs to sell are WACC and the average EBIT margin. See our Note under 6.1 for average growth in revenues. For the cash generating units, the recoverable amount is equal to the carrying amount as of an assumed cost of capital rate of 7.7% (previous year: 9.8%).

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) (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 of the German Social Insurance Code V (Sozialgesetzbuch V, SGB V) as well as section 17 of the German Hospital Financing Act (Krankenhausfinanzierungsgesetz, KHG), payers as a rule have a right of review with regard to the coded income by the Medical Review Board of the Statutory Health Insurance Funds (MDK). In the assessment of trade receivables or liabilities and of revenues from hospital services rendered, estimates are made with reference to the complaint rate of the MDK and, based on empirical values, corresponding corrections in revenues taken into account for this. The final results from the reviews of the MDK in turn have an influence on the income compensation for the respective financial year.

3.3 Income taxes

Estimates are required for the recognition of tax provisions as well as deferred tax items.

For determining the actual value of deferred tax assets, it is essential to assess the probability of the reversal of the valuation differences and the extent to which it is possible to use the tax loss carry-forwards that led to the recognition of deferred tax assets. This depends on the generation of future taxable profits during the periods in which tax valuation differences are reversed and tax loss carry-forwards can be utilised. Uncertainties exist with regard to the interpretation of complex tax regulations as well as the amount and timing of future taxable income that result in changes in the tax income or expense in future periods. The Group recognises adequate provisions for the possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience from past tax audits and differing interpretations of substantive tax law by the taxable entity and the competent tax authorities on specific issues.

4 | COMPANY ACQUISITIONS

Consolidated companies

The ultimate parent company is RHÖN-KLINIKUM Aktiengesellschaft with its registered office in Bad Neustadt a. d. Saale. The consolidated companies are as follows:

	31 Dec. 2016	Additions	Disposals	Reclassification	**31 Dec. 2017**
Fully consolidated subsidiaries	28	–	–	–	28
Companies consolidated using the equity method	3	–	–1	–	2
Other subsidiaries	8	1	–	–	9
Consolidated companies	**39**	**1**	**–1**	**–**	**39**

Other entities are companies whose individual or overall impact on the net assets and results of operations is not material and/or for which we cannot exert any material influence over financial and business policy decisions. They are included in the consolidated financial statements at the lower of cost or fair value.

The added entity (Other entities) relates to the acquisition of an interest in CLEW Medical Inc. (formerly: Intensix Inc.) with its legal headquarters in Delaware (USA) and location in Netanya (Israel). The interest of 14.8% was acquired by RHÖN-Innovations GmbH whose objective is to take out equity interests in start-ups within the medical sector in a targeted investment and risk strategy. In the third quarter of 2017, we acquired further interests in Inovytec Medical Solutions Ltd. after achieving the contractually agreed milestones. The share held by RHÖN-Innovations GmbH in the company is now 11.8%.

CLEW Medical focuses on big data analysis in the treatment of patients on the intensive care ward. CLEW Medical is developing a learning system aimed at identifying trends in the development of a patient's health from currently measurable data in combination with historical data records, thus providing medical staff on the intensive care ward, in the event of complications, with signals for taking therapeutic countermeasures earlier. This makes it possible not only to optimise decision-making processes and treatment excellence but also to reduce durations of stay on the intensive care ward. The software is still in the beta phase; the first retrospective studies have been concluded successfully. Currently, further clinical studies are under way.

We also increased, in the third quarter of 2017, our interest in RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale, to 100%. The company serves as a shelf company and no longer has any business operations. The acquisition did not result in any goodwill.

The cooperation with Helios and Asklepios in Wir für Gesundheit GmbH was reorganised. We sold our interest in the company to Helios and Asklepios at the end of the year. The expenses resulting from that were reported together with the pro rated loss for the year for 2017 in the result of investments accounted for using the equity method.

Acquisition of physician's practices

In the financial year 2017 a total of three physician's practices were acquired whose conditions of validity as per agreement were satisfied during the reporting period of 2017. Consolidation in the Group also took place in the financial year 2017. No costs were incurred from the acquisition of these physician's practices. The revenues and annual results generated since their inclusion in the consolidated statements are of minor importance for the Group of RHÖN-KLINIKUM AG. The final purchase price allocation has the following impact on the Group's net assets in 2017:

in € million

	Fair value post acquisition
Purchase of physician's practices, January to December 2017	
Acquired assets and liabilities	
Property, plant and equipment	0.3
Net assets acquired	**0.3**
+ Goodwill	0.9
Cost	**1.2**
– Purchase price payments outstanding	0.0
– Acquired cash and cash equivalents	0.0
Cash outflow on transaction	**1.2**

Goodwill amounting to € 0.9 million essentially includes synergy effects expected from the expansion of medical care centres. The goodwill recognised is likely to be tax-deductible.

Moreover, we were awarded 3.0 physician's practices from the Association of Accredited Physicians (Kassenärztliche Vereinigung, KV), and at the same time returned 1.75 physician's practices to the KV. This did not incur any costs.

In the financial year 2017 a total of two physician's practices were acquired whose conditions of validity as per agreement will be satisfied only during the reporting period of 2018. Consolidation in the Group will also take place in the financial year 2018. The preliminary purchase price allocation has the following impact on the Group's net assets in 2018:

in € million

	Fair value post acquisition
Purchase of physician's practices valid as of 1 January 2018	
Acquired assets and liabilities	
Property, plant and equipment	0.0
Net assets acquired	**0.0**
+ Goodwill	0.6
Cost	**0.6**
– Purchase price payments outstanding	–0.6
– Acquired cash and cash equivalents	0.0
Cash outflow on transaction	**0.0**

5 | NOTES TO THE CONSOLIDATED INCOME STATEMENT

5.1 Revenues

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

in € million

	2017	2016
Business areas		
Acute hospitals	1,173.2	1,139.4
Medical care centres	12.2	10.8
Rehabilitation hospitals	25.7	26.2
	1,211.1	**1,176.4**
Regions		
Bavaria	257.9	249.9
Saxony	0.2	0.2
Thuringia	164.9	170.8
Brandenburg	136.1	135.2
Hesse	652.0	620.3
	1,211.1	**1,176.4**

According to IAS 18, revenues constitute revenues generated from the provision of services and in the financial year 2017 rose by € 34.7 million or 2.9% to reach € 1,211.1 million. Of that, our acute and rehabilitation hospitals accounted for € 1,198.9 million (previous year: € 1,165.6 million) and the medical care centres for € 12.2 million (previous year: € 10.8 million).

5.2 Other income

Other operating income comprises:

in € million	2017	2016
Income from services rendered	131.2	123.5
Income from grants and other allowances	11.4	11.9
Income from adjustment of receivables	0.7	0.3
Income from indemnification payments/ other reimbursements	0.2	1.1
Other	8.4	49.6
	151.9	**186.4**

Income from services rendered includes income from ancillary and incidental activities amounting to € 124.7 million (previous year: € 117.4 million) as well as income from rental and lease agreements amounting to € 6.5 million (previous year: € 6.1 million). The rise in income from services essentially is the result of higher sales of cytostatics and drugs.

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

Since related contractual guarantee periods in some cases had expired, provisions were reversed during the financial year 2016 for potential legal and fiscal guarantee risks in connection with the sale of subsidiaries to Fresenius/Helios in the amount of € 42.0 million, which explains the decline in remaining other income.

5.3 Materials and consumables used

in € million	2017	2016
Cost of raw materials, consumables and supplies	316.5	299.1
Cost of purchased services	31.1	30.4
	347.6	**329.5**

As a result of use of articles entailing higher material costs at our facilities of cutting-edge medicine, a rise in materials cost compared with the previous year by € 18.1 million or 5.5% to € 347.6 million was recorded. The materials ratio rose from 28.0% to 28.7%.

5.4 Employee benefits expense

in € million	2017	2016
Wages and salaries	661.3	636.8
Social insurance contributions	53.6	52.8
Expenditure for post-employment benefits		
Defined contribution plans	72.4	67.4
Defined benefit plans	0.6	0.6
	787.9	**757.6**

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

In the financial year 2017, contribution payments to the federal and state pension scheme (Versorgungsanstalt des Bundes und der Länder, VBL) were made in the amount of € 20.8 million (previous year: € 19.3 million). Payments to ZVK (supplementary pension insurance scheme of municipalities in Bavaria) amounted to € 1.0 million (previous year: € 1.1 million) in 2017. As at the reporting date of 31 December 2017, 8,115 employees (previous year: 8,019 employees) with a claim to supplementary pension benefits were registered with VBL and 474 employees (previous year: 496 employees) with ZVK.

Employee benefits expenses include a figure of € 5.2 million (previous year: € 1.3 million) for severance payments.

5.5 Depreciation/amortisation and impairment

This item includes amortisation of intangible assets and depreciation of property, plant and equipment and investment property. Compared with the same period last year, the depreciation/amortisation item declined by € 0.8 million (or 1.3%) to € 59.1 million. This is essentially attributable to the staggered expiry of depreciation on buildings at the campus in Bad Neustadt a. d. Saale.

5.6 Other expenses

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

in € million	2017	2016
Maintenance	49.3	45.7
Charges, subscriptions and consulting fees	25.1	23.7
Administrative and IT costs	10.2	10.7
Impairment on receivables	11.3	9.6
Insurance	11.1	8.9
Rents and leaseholds	5.8	6.3
Travelling, entertaining and representation expenses	2.1	2.2
Other personnel and continuing training costs	4.8	4.9
Losses on disposal of non-current assets	0.1	0.1
Secondary taxes	0.3	0.5
Other	9.6	6.2
	129.7	**118.8**

Compared with the same period last year, the other expenses item witnessed an increase by € 10.9 million or 9.2% to € 129.7 million. Other expenditures include additional expenditures for digitalisation and IT systems with cognitive intelligence. Depreciation on receivables results from the continually increasing inspection activity of the Medical Review Board of the Statutory Health Insurance Funds (MDK) and the related restrictive and staggered payment mode of payers. Higher indemnification amounts for medical malpractice are the reason for the continued increase in liability insurance contributions.

5.7 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, € 2.5 million (previous year: € 2.2 million) were allocated in 2017.

5.8 Finance result – net

The finance result is shown as follows:

in € million	2017	2016
Result of investments accounted for using the equity method		
Income of investments accounted for using the equity method	–	–
Expense of investments accounted for using the equity method	1.4	0.4
	1.4	**0.4**
Finance income		
Bank balances	0.5	1.1
Other interest income	0.1	0.3
	0.6	**1.4**
Finance expenses		
Bond	0.0	1.1
Liabilities to banks	0.3	0.5
Other interest expenses	0.5	35.5
	0.8	**37.1**
	–1.6	**–36.1**

In the financial year 2017, the negative finance result declined by € 34.5 million to € 1.6 million compared with the same period of the previous year. This was owing to a value adjustment in connection with an equity interest in Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung recognised in the previous year under other interest expenses in the amount of € 35.5 million. Besides that, the finance result was adversely impacted in the financial year 2017 to the tune of € 1.0 million by loss shares in companies using the equity method. These primarily constitute expenditures in connection with WfG.

The negative finance result includes shares in losses in companies accounted for using the equity method in the amount of € 1.4 million (previous year: € 0.4 million).

Other interest income relates essentially to interest income from tax receivables. Besides that, the items reported under other interest expenses include i.a. interest expenses from tax liabilities.

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

The net negative interest income under IFRS 7 for financial assets and liabilities which are not included in the category "financial assets and liabilities shown at fair value in profit and loss" amounted to € 0.0 million in the financial year 2017 (previous year: € 35.7 million), and comprises income of € 0.5 million (previous year: € 1.2 million) and expenses of € 0.5 million (previous year: € 36.9 million). The lower income and expenses result from the cash outflow in connection with the repayment of the exchange-listed bond in the previous year as well as the impairment in connection with a loan amounting to € 35.5 million in the previous year.

5.9 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:

in € million

	2017	2016
Current income tax	3.8	5.4
Deferred taxes	–3.4	–3.2
	0.4	**2.2**

At an unchanged rate of taxation, the tax expense item declined by € 1.8 million to € 0.4 million (previous year: € 2.2 million) compared with the previous year as a result of a lower taxable result. The income tax burden stands at 1.1% (previous year: 3.6%).

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

in € million

	2017		2016	
		%		%
Earnings before taxes	**37.1**	**100.0**	**60.9**	**100.0**
Nominal tax expense (tax rate 15.0%)	5.6	15.0	9.1	15.0
Solidarity surcharge (tax rate 5.5%)	0.3	0.8	0.5	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	–6.2	–16.7	–6.7	–11.0
Additional expense from dividend payment	0.1	0.3	0.1	0.2
Trade tax	0.6	1.6	0.3	0.5
Increase in tax liability due to non-deductible charges	0.2	0.5	6.0	9.9
Taxes, previous years	–0.2	–0.5	0.2	0.3
Effects from disposal of companies/ Other	0.0	0.0	–7.3	–12.0
Effective income tax expense	**0.4**	**1.1**	**2.2**	**3.6**

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

5.10 Profit to non-controlling interests

This is the share of profit attributable to minority shareholders.

5.11 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. 17	**No. of shares on 31 Dec. 2017**
Non-par shares	66,962,470	66,962,470
Treasury shares	–24,000	–24,000
	66,938,470	**66,938,470**

The number of shares is unchanged. For disclosures on equity, please refer to the Note 6.12.

Earnings per share are calculated as follows:

	Ordinary shares
Share in consolidated profit (€ '000)	35,150
(previous year)	(56,430)
Weighted average number of shares outstanding, in thousands	66,938
(previous year)	(66,938)
Earnings per share in €	0.53
(previous year)	(0.84)

Diluted earnings per share are identical to undiluted earnings per share, as there were no stock options or convertible debentures outstanding at the respective balance sheet dates.

6 | NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1 Goodwill and other intangible assets

in € million

	Goodwill	Other intangible assets	Total
Cost			
1 Jan. 2017	**162.4**	**37.1**	**199.5**
Additions due to changes in consolidated companies	0.9	0.0	0.9
Additions	0.0	2.7	2.7
Disposals	0.0	0.0	0.0
Transfers	0.0	0.0	0.0
31 Dec. 2017	**163.3**	**39.8**	**203.1**
Cumulative depreciation and impairment			
1 Jan. 2017	**0.0**	**26.4**	**26.4**
Depreciation	0.0	2.2	2.2
Disposals	0.0	0.0	0.0
31 Dec. 2017	**0.0**	**28.6**	**28.6**
Balance sheet value as at 31 Dec. 2017	**163.3**	**11.2**	**174.5**

in € million	Goodwill	Other intangible assets	Total
Cost			
1 Jan. 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 Dec. 2016	**162.4**	**37.1**	**199.5**
Cumulative depreciation and impairment			
1 Jan. 2016	**0.0**	**24.4**	**24.4**
Depreciation	0.0	2.1	2.1
Disposals	0.0	0.1	0.1
31 Dec. 2016	**0.0**	**26.4**	**26.4**
Balance sheet value as at 31 Dec. 2016	**162.4**	**10.7**	**173.1**

The item "Other intangible assets" primarily includes software. There are no restrictions on title and/or other rights related to the assets.

Goodwill is subjected to an annual impairment test for its respective cash generating unit (each hospital with its inpatient, semi-inpatient and outpatient care structures, unless the related goodwill of co-operating units is monitored at a higher level). This impairment test is performed on 1 October of each year. The carrying amount of the cash generating unit is compared with the recoverable amount for the unit which was determined at the fair value less costs to sell of the unit. The fair value is calculated on the basis of a discounted cash flow method (DCF method). In this regard, a corresponding present value is projected with assumptions on long-term growth rates on the basis of an operative detailed five-year plan – which also includes expectations on future market development in the healthcare system – and calculated with subsequent recognition of a perpetual annuity. The calculated cash flows are discounted at the WACC to calculate the present value of the perpetual annuity. In view of unforeseeable measures by the legislature, a discount of 0.5% (previous year: 0.5%) was included in the discounting factor. 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 2017.

Goodwill of the acquired entities was tested for impairment as at 31 December 2017 based on data from the companies' current planning. This did not reveal any indications that the goodwill had changed negatively between the contract date and the balance sheet date.

The weighted cost of capital of a potential investor from the healthcare sector is used as the discount rate at the time of measurement, taking into account the tax shield arising from theoretical debt financing. This discount rate was defined at 5.67% for 2017 (previous year: 4.75%). Significant goodwill relates to the following cash generating units:

in € million

Company	**31 Dec. 2017**	31 Dec. 2016
Universitätsklinikum Gießen und Marburg	137.5	137.5
Zentralklinik Bad Berka	15.7	14.9
RHÖN-KLINIKUM Campus Bad Neustadt	5.9	5.9
Other goodwill of less than € 5.0 million	4.1	4.1
Balance sheet value	**163.2**	**162.4**

For the calculation of fair value, less cost of sale, of the business generating units, cash flows were forecast on the basis of past experience, current operating results and best-possible estimates of future management performance as well as market assumptions. The values in use could not be taken as a basis because these are exceeded by fair values less cost of sale. The calculated fair value for the business generating units was attributed to level 3 of the hierarchy levels of fair values. Fair value less cost of sale is primarily defined by the terminal value (present value or perpetual annuity) which is particularly sensitive to changes in assumptions on the long-term growth rate of revenues and on the discount rate. Whereas the discount rate was defined uniformly for all business generating units, the growth rate is defined individually per entity. The discount rate reflects the current market assessment of the entities' specific risks. The growth rates take account of external macro-economic data and sector-specific trends. For planning purposes, the units accounting for the main portion of goodwill are assumed to have a homogenous structure.

The table below shows the assumptions of long-term growth rates for revenues for the perpetual annuity which were used in the impairment test of the business generating units to which material goodwill was attributed to determine fair value less cost of sale:

in %

	2017		2016	
	Long-term growth rate perpetual annuity	WACC	Long-term growth rate perpetual annuity	WACC
Universitätsklinikum Gießen und Marburg	3.00	5.67	3.00	4.75
Zentralklinik Bad Berka	3.00	5.67	3.00	4.75
RHÖN-KLINIKUM Campus Bad Neustadt	3.00	5.67	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 3.2% (previous year: 2.5% and 3.3%).

In connection with the impairment test, a sensitivity analysis was also performed. Within the test the following assumptions were used:

- EBIT declines by 10%
- Increase in WACC by 0.5%

As a result of the sensitivity analysis it was determined that a decline in EBIT by 10% does not result in any impairment requirement (previous year: no impairment requirement). An increase in WACC by 0.5% likewise does not give rise to an impairment requirement (previous year: no impairment requirement).

6.2 Property, plant and equipment

in € million	Land and buildings	Technical plant and equipment	Operating and office equipment	Plant under construction	Total
Cost					
1 Jan. 2017	**955.8**	**46.6**	**292.0**	**50.9**	**1,345.3**
Additions due to changes in consolidated companies	0.2	0.0	0.1	0.0	0.3
Additions	9.6	2.0	20.7	70.7	103.0
Disposals	12.9	0.0	12.1	0.0	25.0
Transfers	5.3	1.4	0.6	–7.3	0.0
31 Dec. 2017	**958.0**	**50.0**	**301.3**	**114.3**	**1,423.6**
Cumulative depreciation and impairment					
1 Jan. 2017	**398.8**	**29.6**	**215.9**	**0.0**	**644.3**
Depreciation	30.6	3.3	22.9	0.0	56.8
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	12.7	0.0	11.9	0.0	24.6
31 Dec. 2017	**416.7**	**32.9**	**226.9**	**0.0**	**676.5**
Balance sheet value as at 31 Dec. 2017	**541.3**	**17.1**	**74.4**	**114.3**	**747.1**

in € million	Land and buildings	Technical plant and equipment	Operating and office equipment	Plant under construction	Total
Cost					
1 Jan. 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 Dec. 2016	**955.8**	**46.6**	**292.0**	**50.9**	**1,345.3**
Cumulative depreciation and impairment					
1 Jan. 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 Dec. 2016	**398.8**	**29.6**	**215.9**	**0.0**	**644.3**
Balance sheet value as at 31 Dec. 2016	**557.0**	**17.0**	**76.1**	**50.9**	**701.0**

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 € 166.5 million (previous year: € 182.9 million). To secure conditionally repayable single grants under KHG (e.g. for the construction of new hospitals or major extensions) totalling € 2.5 million (previous year: € 2.7 million), the Group holds registered charges on real property in the amount of € 4.1 million (previous year: € 4.1 million). There are no reasons to assume that these grants will have to be repaid.

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

in € million

	31 Dec. 2017	31 Dec. 2016
Cost of assets of capitalised lease properties under finance leases	6.3	5.9
Changes in consolidated companies	0.0	0.1
Additions	1.3	0.3
Accumulated amortisation and impairment	3.8	2.4
Net carrying amount	3.8	3.9

6.3 Deferred tax assets

Deferred tax assets and liabilities are netted if there is an enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes exist against the same tax authority. The following amounts were netted:

in € million

	31 Dec. 2017		31 Dec. 2016	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	9.1	0.0	7.5	0.0
Property, plant and equipment/ Intangible assets	0.0	6.9	0.0	8.0
Interest bearing liabilities	0.0	0.1	0.0	0.0
Valuation differences at subsidiaries	0.0	1.0	0.0	0.8
Other assets and liabilities	9.3	1.3	8.1	1.1
Total	**18.4**	**9.3**	**15.6**	**9.9**
Balance sheet value	**9.1**		**5.7**	

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 € 57.4 million (previous year: € 47.4 million). On the balance sheet date, tax losses carried forward which have so far not been utilised amounted to € 64.8 million (previous year: € 54.6 million); no deferred tax assets were recognised in relation to € 7.4 million (previous year: € 7.3 million) of this figure. In Germany, tax loss carry-forwards can reduce the taxable result for an unlimited term. The annual taxable result can reduce tax loss carry-forwards fully up to an amount of € 1.0 million and beyond that only at the rate of 60.0% of the remaining current taxable result.

Deferred taxes from property, plant and equipment result from the difference between their useful lives defined in tax law and the economic depreciation periods in accordance with IFRS. In addition, accelerated tax depreciation and write-downs were corrected in IFRS.

Deferred tax liabilities for non-distributed profits of subsidiaries totalling € 120.0 million (previous year: € 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:

in € million	31 Dec. 2017	31 Dec. 2016
Deferred tax assets at beginning of year	**5.7**	**2.5**
Recognition directly in equity of deferred taxes in connection with revaluation of defined benefit pension plans recognised in equity	0.0	0.0
Gain/loss from current netting in the income statement	3.4	3.2
Deferred tax assets at end of year	**9.1**	**5.7**

6.4 Financial investments accounted for using the equity method

Information on changes in the composition of consolidated companies of RHÖN-KLINIKUM AG are presented in section 4 "Company acquisitions" and in section 8 "Shareholdings".

6.4.1 Investments accounted for using the equity method

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

Associated companies and joint ventures accounted for using the equity method

Name of company	Registered office	Capital share (%)
Associated companies		
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	Heidelberg	24.9
Joint ventures		
Energiezentrale Universitätsklinikum Gießen GmbH	Gießen	50.0

6.4.2 Associated companies

The object of enterprise of Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung is patient operations of the particle therapy facility at the Marburg site. In addition to RHÖN-KLINIKUM AG with an interest of 24.9%, the University Hospital of Heidelberg holds an interest of 75.1%. Whereas roughly 170 patients were treated in 2016, that figure had already risen to around 280 patients in 2017.

At the end of 2017, shareholding relationships in Wir für Gesundheit GmbH (WfG) reported under this item in the previous year were reorganised. Asklepios and Helios acquired the interest of RHÖN-KLINIKUM AG. The table below shows the effects from the sale of the interest of roughly € 0.6 million and the pro rated current loss for the year in 2017 compared with 2016.

The table below also provides a summary of the aggregated results data and aggregated carrying amounts of the associates accounted for using the equity method:

in € million	2017	2016
Results data and carrying amounts of associates accounted for using the equity method		
Revenues	6.0	1.2
Earnings after taxes	–7.7	–13.0
Pro rata earnings after taxes	**–1.5**	**–0.5**
Pro rata total comprehensive income after taxes	–1.5	–0.5
Carrying amount of associates accounted for using the equity method	**0.0**	**0.4**

6.4.3 Joint ventures

The object of enterprise of the joint venture is to carry on, together with Stadtwerke Gießen, the supply of energy to the university hospital in Gießen. In addition to RHÖN-KLINIKUM AG with an interest of 50%, Stadtwerke Gießen AG holds an interest of 50% in the joint venture. The table below provides a summary of the aggregated results data and aggregated carrying amounts of the joint venture accounted for using the equity method:

in € million

	2017	2016
Results data and carrying amounts of joint venture accounted for using the equity method		
Revenues	0.4	0.9
Earnings after taxes	0.2	0.3
Pro rata earnings after taxes	**0.1**	**0.1**
Pro rata total comprehensive income after taxes	0.1	0.1
Carrying amount of joint venture accounted for using the equity method	**0.4**	**0.5**

6.5 Other financial assets (non-current)

Of other financial assets (non-current), € 30.0 million (previous year: € 50.1 million) is attributable to fixed deposit investments having a residual term of > 1 year and € 5.2 million (previous year: € 2.6 million) to equity investments recognised under this item. These relate to equity investments of RHÖN-Innovations GmbH in the companies Inovytec Medical Solutions Ltd. and Telesofia Medical Ltd. as well as the equity interest in CLEW Medical Inc. acquired in 2017. The interests are measured at fair value in accordance with IAS 39. Moreover, € 0.0 million (previous year: € 0.0 million) relates to equity interests whose market value cannot be calculated due to the absence of an active market. These are measured at cost.

6.6 Inventories

Inventories in the amount of € 25.0 million (previous year: € 24.8 million) are attributable to raw materials, consumables and supplies and mainly consist of medical supplies. Impairments of € 2.8 million (previous year: € 2.5 million) were effected. All inventories are owned by RHÖN-KLINIKUM AG and the companies affiliated with RHÖN-KLINIKUM AG. There are no assignments or pledges of inventories.

6.7 Trade receivables

in € million

	31 Dec. 2017	31 Dec. 2016
	< 1 year	< 1 year
Trade receivables (gross)	240.6	218.1
Impairments on trade receivables	–36.6	–27.2
Trade receivables (net)	**204.0**	**190.9**

Allowances recognised on trade receivables (net) totalling € 204.0 million (previous year: € 190.9 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.

in € million

	2017	2016
Impairment as at 1 January	**27.2**	**18.9**
Impairments during reporting period	11.1	9.6
Utilisation	–1.7	–1.3
Impairment as at 31 December	**36.6**	**27.2**

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 table:

in € million	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	
31 Dec. 2017						
Trade receivables	240.6	179.7	11.2	5.3	3.7	40.7
31 Dec. 2016						
Trade receivables	218.1	150.2	13.2	6.0	17.3	31.4

With regard to the trade receivables in the amount of € 179.7 million (previous year: € 150.2 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. Trade receivables were derecognised in the income statement in the amount of € 1.7 million in the financial year 2017 (previous year: € 1.3 million). Settlement mechanisms in accordance with the Hospital Remuneration Act (KHEntgG) partially compensated for these defaults. Inflows of € 0.1 million (previous year: € 0.0 million) were recognised in the income statement in relation to previously derecognised trade receivables.

6.8 Other financial assets (current)

in € million	**31 Dec. 2017**	31 Dec. 2016
	< 1 year	< 1 year
Time deposit < 1 year	105.1	185.1
Receivables under Hospital Financing Act	27.8	16.8
Remaining other financial assets	7.1	8.1
	140.0	**210.0**

Owing to the continuing 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 € 105.1 million (previous year: € 185.1 million).

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

The remaining other financial assets relate to receivables from services rendered which are not primarily related to patient treatments at hospitals (€ 5.3 million, previous year: € 6.6 million), receivables due from employees in particular from invoices as part of the liquidation right of head physicians (€ 1.6 million, previous year: € 1.2 million), as well as trade receivables (€ 0.7 million, previous year: € 0.9 million).

The remaining other financial assets (current) include impairments amounting to € 0.9 million (previous year: € 1.3 million). No reversals of impairment losses were made.

Within the Group, settlement receivables due from, and settlement liabilities to, the payers under fee/budget agreements of the current year and the previous years are stated on a netted basis. A similar approach is taken towards claims under government grants for investments and grants not yet used for their intended purpose. On a gross basis, the statement is as follows:

in € million	31 Dec. 2017	31 Dec. 2016
Receivables according to KHG/KHEntgG (gross)	31.0	23.0
Liabilities according to KHG/KHEntgG (gross)	–3.2	–6.2
Balance sheet value	**27.8**	**16.8**

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

6.9 Other assets (current)

Of other current assets in the amount of € 9.4 million (previous year: € 8.5 million), essentially € 6.5 million (previous year: € 4.6 million) is attributable to prepaid expenses, mainly insurance expenses, and € 2.6 million (previous year: € 3.5 million) is attributable to reimbursement claims against insurers under liability claims.

6.10 Current income tax assets

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

6.11 Cash and cash equivalents

in € million	31 Dec. 2017	31 Dec. 2016
Cash with banks and cash on hand	112.5	70.8
Short-term bank deposits	10.0	10.0
	122.5	**80.8**

The rise in cash with banks and cash on hand compared with the previous year is attributable to the environment of low interest rates for time deposits relative to overnight money investments. Moreover, this increases flexibility in controlling cash outflows in connection with various construction measures. As far as possible, freely disposable funds were reallocated at matching maturities into fixed deposit investments with a remaining term of < 1 year (> 3 months) and > 1 year and reported under the item "Other financial assets (current)" and "Other financial assets (non-current)", respectively. As at the balance sheet date, the effective interest rate for bank balances with an initial term < 3 months was 0.05% (previous year: 0.10%). The average remaining term of these deposits was 30 days (previous year: 30 days).

Cash and bank overdrafts are aggregated as follows for the purpose of the statement of cash flows:

in € million	31 Dec. 2017	31 Dec. 2016
Cash and cash equivalents	122.5	80.8
Bank overdrafts	–	0.0
Cash position	**122.5**	**80.8**

6.12 Equity

The registered share capital of RHÖN-KLINIKUM AG was € 167,406,175 (previous year: € 167,406,175). It is divided into 66,962,470 (previous year: 66,962,470) non-par value bearer shares each with a notional value in the registered share capital of € 2.50 per share.

	Number	Arithmetic share in registered share capital €
Ordinary shares as at 1 Jan. 2017	66,962,470	167,406,175
Changes in 2017	–	–
Ordinary shares as at 31 Dec. 2017	**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 € 360.8 million (previous year: € 349.1 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 € 360.8 million (previous year: € 349.1 million) as well as effects of consolidation adjustments.

The total result (sum of consolidated profit and other comprehensive income) for the financial year 2017 stands at € 36.8 million (previous year: € 58.3 million). This includes gains from the revaluation of defined benefit pension plans amounting to € 0.0 million after tax (previous year: losses of € 0.3 million).

Treasury shares are valued at € 0.1 million (previous year: € 0.1 million) and deducted from equity. The level of treasury shares developed as follows during the financial year:

	Number
Treasury shares as at 1 Jan. 2017	24,000
Changes in 2017	–
Treasury shares as at 31 Dec. 2017	**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 35 cents (previous year: 80 cents) was made in the financial year 2017.

Non-controlling interests in equity of € 22.9 million (previous year: € 22.8 million) relate to interests held by non-Group third parties in the following consolidated subsidiaries:

in %	Non-controlling interests	
	31 Dec. 2017	31 Dec. 2016
Hospital companies		
Universitätsklinikum Gießen und Marburg GmbH, Gießen	5.0	5.0
Zentralklinik Bad Berka GmbH, Bad Berka	12.5	12.5
Medical care centre companies		
MVZ UKGM GmbH, Marburg	5.0	5.0
MVZ Zentralklinik GmbH, Bad Berka	12.5	12.5
Service companies		
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	49.0	49.0

6.13 Financial liabilities

in € million	31 Dec. 2017		31 Dec. 2016	
	Remaining term > 1 year	Remaining term < 1 year	Remaining term > 1 year	Remaining term < 1 year
Liabilities to banks	–	–	–	10.0
Total non-current financial liabilities	**–**	**–**	**–**	**10.0**
Current financial liabilities				
Liabilities to banks	–	–	–	0.0
Total current financial liabilities	**–**	**–**	**–**	**0.0**
Total financial liabilities	**–**	**–**	**–**	**10.0**

RHÖN-KLINIKUM AG issued a fixed interest rate bullet loan in the amount of € 10.0 million in August 2017. In the fourth quarter of 2017, a syndicated line of credit amounting to € 100.0 million was concluded to ensure sufficient funds for investments planned in the medium to short term. As at the reporting date, it had not been utilised.

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

in € million

Fixed interest period ends	31 Dec. 2017 Interest rate in % [1]	31 Dec. 2017 Original value	31 Dec. 2017 Carrying amount of loans	31 Dec. 2016 Interest rate in % [1]	31 Dec. 2016 Original value	31 Dec. 2016 Carrying amount of loans
Liabilities to banks						
2017	0.00	0.0	0.0	5.10	10.0	10.0
		0.0	**0.0**		**10.0**	**10.0**

[1] Weighted interest rate.

The effective interest rates at balance sheet date are:

in %

	31 Dec. 2017	31 Dec. 2016
Liabilities to banks	–	5.10

The remaining terms of the financial liabilities are:

in € million

	31 Dec. 2017	31 Dec. 2016
Up to 1 year	–	10.0
Between 1 and 5 years	–	–
More than 5 years	–	–
Total	**–**	**10.0**

As in the previous year, the financial liabilities stated are not secured by registered charges on real property.

6.14 Provisions for post-employment benefits

The Group provides post-retirement benefits for eligible employees under its company pension scheme, which comprises both defined benefit and defined contribution pension plans. Obligations under this scheme include current pension payments and future entitlements.

Defined benefit obligations are financed by recognising provisions. Amounts relating to defined contribution plans are recognised immediately in profit or loss.

Members of the Board of Management are covered by a plan providing for post-retirement benefits. In addition to their regular remuneration the members of the Board of Management, on termination of their employment as Board members, receive a post-retirement benefit depending on the length of service and level of remuneration and not exceeding 1.5 times the last annual remuneration. The scope of the obligation was calculated based on the individual contract terms and not on a uniform retirement age as with the other pension plans. In this connection, there are risks associated with changes in the assessment basis. These essentially relate to the dependence on the last salary and last variable remuneration components. If the development of this assessment basis turns out to be different from what is assumed in the provision calculations, this might give rise to a subsequent financing requirement.

The provision volume on the balance sheet relates only to one-off payments:

in € million	31 Dec. 2017	31 Dec. 2016
Commitment for one-off payments	2.3	2.2
Provision for pensions (defined benefit liability)	**2.3**	**2.2**

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

in %	31 Dec. 2017	31 Dec. 2016
Rate of interest	1.75	1.70
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 the financial year 2017 compared with the previous year is shown in the following:

in € million	2017	2016
As at 1 January	**2.2**	**1.4**
Service time cost	0.6	0.5
Interest expense	0.1	0.0
Losses from plan changes	0.0	0.0
Pension payments	0.0	0.0
Actuarial gains/losses from changes in financial assumptions	0.0	0.1
Experience-based adjustments	0.0	0.2
Payments rendered	–0.6	–
As at 31 December	**2.3**	**2.2**

There are no reimbursement claims resulting from pension liability insurance policies entered into by reason of pension commitments to employees.

The weighted average duration of the pension liabilities is five years (previous year: seven years). The sensitivity of the pension obligations in terms of fluctuation range due to changes in the various actuarial valuation assumptions is shown in the table below:

	Change in assumption in percentage points	Increase in assumption	Reduction in assumption
Impact on the commitment (%) as at 31 December 2017			
Interest rate	0.2	–1.0	1.0
Remuneration trend	0.2	1.0	–1.0
Mortality	+/–1 year	0.1	–0.1
Impact on the commitment (%) as at 31 December 2016			
Interest rate	0.2	–1.4	1.4
Remuneration trend	0.2	1.3	–1.3
Mortality	+/–1 year	0.1	–0.1

The effects of the sensitivity were calculated using the same method as the obligations at the end of the year. In this regard, effects of a simultaneous change in several assumptions were not examined. Since the commitments remaining at the end of the financial year are capital commitments, no or no material changes result from the change in the pension trend; consequently, no disclosure of sensitivity in this regard was made.

6.15 Other provisions

Other provisions developed as follows in the financial year:

in € million	1 Jan. 2017	Con-sumption	Write-back	Allo-cation	31 Dec. 2017	of which < 1 year	of which > 1 year
Liability risks	11.6	1.7	0.5	0.1	9.5	9.5	0.0
Other provisions	84.2	1.0	0.0	0.0	83.2	83.2	0.0
	95.8	**2.7**	**0.5**	**0.1**	**92.7**	**92.7**	**0.0**

The provisions for liability risks relate to claims for damages by third parties. These compare with repayment claims from insurers in the amount of € 2.6 million (previous year: € 3.5 million) against insurers; these are shown under other assets (current). In the assessment of the Board of Management, the settlement of these liability events using the provisions will not entail any significant additional expenses. The timing of cash outflows from liability risks, which generally may occur in the short term, essentially depends on the course and outcome of specific liability cases.

Other provisions relate to provisioning for legal and fiscal risks in connection with the sale of subsidiaries and the tax risks triggered thereby (tax types such as trade tax, value-added tax, corporation tax with the solidarity surcharge, as well as land transfer tax).

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

in € million	31 Dec. 2017	of which < 1 year	of which > 1 year	31 Dec. 2016	of which < 1 year	of which > 1 year
Liability risks	9.5	9.5	0.0	11.6	11.6	0.0
Other provisions	83.2	83.2	0.0	84.2	84.2	0.0
	92.7	**92.7**	**0.0**	**95.8**	**95.8**	**0.0**

The Group of RHÖN-KLINIKUM AG has contingent liabilities of up to € 0.6 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.

6.16 Trade payables

in € million	31 Dec. 2017		31 Dec. 2016	
	< 1 year	> 1 year	< 1 year	> 1 year
Trade payables	108.2	0.0	94.8	0.0

Trade payables exist with regard to third parties. The total amount of € 108.2 million (previous year: € 94.8 million) is due within one year.

6.17 Other financial liabilities

in € million

	31 Dec. 2017		31 Dec. 2016	
	< 1 year	> 1 year	< 1 year	> 1 year
Liabilities under KHG	9.7	0.0	8.5	0.0
Purchase prices	1.7	0.0	1.0	0.0
Leasing	1.0	2.9	1.0	2.9
Other financial liabilities	7.5	12.1	8.7	13.4
Other financial liabilities (financial instruments)	**19.9**	**15.0**	**19.2**	**16.3**

The liabilities under 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 (BPflV).

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 € 4.6 million (previous year: € 6.0 million), € 4.6 million (previous year: € 6.0 million) is attributable to obligations arising from research grants owed to the universities in Gießen and Marburg.

Within the Group, settlement receivables due from, and settlement liabilities to, payers under fee/budget agreements of the current year and the previous years are stated on a netted basis. A similar approach is taken towards claims under government grants for investments and grants not yet used for their intended purpose. On a gross basis, the statement is as follows:

in € million

	31 Dec. 2017	31 Dec. 2016
Liabilities according to KHG/KHEntgG (gross)	12.9	14.7
Receivables according to KHG/KHEntgG (gross)	–3.2	–6.2
Balance sheet value	**9.7**	**8.5**

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

6.18 Other liabilities

in € million

	31 Dec. 2017		31 Dec. 2016	
	< 1 year	> 1 year	< 1 year	> 1 year
Personnel liabilities	66.6	8.0	63.3	6.9
Deferred income	9.9	0.0	9.2	0.0
Operating taxes and social insurance	11.0	0.0	11.7	0.0
Prepayments	1.5	0.0	0.4	0.0
Other liabilities	9.8	0.0	11.2	0.0
Other liabilities (non-financial instruments)	**98.8**	**8.0**	**95.8**	**6.9**

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, amongst other things, ongoing studies not yet appropriated.

6.19 Current income tax liabilities

Current income tax liabilities in the amount of € 1.3 million (previous year: € 1.7 million) comprise corporate income tax, the solidarity surcharge and trade tax not yet assessed for the past financial year and previous years.

6.20 Derivative financial instruments

As at the previous year’s balance sheet date, no derivative financial instruments exist.

6.21 Additional disclosures regarding financial instruments

6.21.1 Carrying amounts, recognised figures and fair values according to measurement categories

The 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:

in € million

	Measurement category according to IAS 39	31 Dec. 2017	Of which Financial Instruments Carrying amount	Of which Financial Instruments Fair value	31 Dec. 2016	Of which Financial Instruments Carrying amount	Of which Financial Instruments Fair value
ASSETS							
Non-current assets							
Other financial assets		35.2	35.2	35.2	52.7	52.7	52.7
of which investments	Available-for-sale financial assets	5.2	5.2	5.2	2.6	2.6	2.6
of which other	Loans and receivables	30.0	30.0	30.0	50.1	50.1	50.1
Current assets							
Trade receivables and other financial assets		344.0	344.0	344.0	400.9	400.9	400.9
of which trade receivables and other financial assets	Loans and receivables	344.0	344.0	344.0	400.9	400.9	400.9
Cash and cash equivalents	Loans and receivables	122.5	122.5	122.5	80.8	80.8	80.8
EQUITY AND LIABILITIES							
Non-current liabilities							
Other financial liabilities		15.0	15.0	16.3	16.3	16.3	18.4
of which other financial liabilities	Financial liabilities measured at amortised cost	12.1	12.1	13.4	13.4	13.4	15.5
of which under finance leases	n.a.	2.9	2.9	2.9	2.9	2.9	2.9
Current liabilities							
Trade payables	Financial liabilities measured at amortised cost	108.2	108.2	108.2	94.8	94.8	94.8
Financial liabilities		–	–	–	10.0	10.0	10.0
of which financial liabilities	Financial liabilities measured at amortised cost	–	–	–	10.0	10.0	10.0
Other financial liabilities		19.9	19.9	19.9	19.2	19.2	19.2
of which other financial liabilities	Financial liabilities measured at amortised cost	18.9	18.9	18.9	18.1	18.1	18.1
of which under finance leases	n.a.	1.0	1.0	1.0	1.1	1.1	1.1
Aggregated according to measurement categories, the above figures are as follows:							
	Loans and receivables		496.5	496.5		531.8	531.8
	Available-for-sale financial assets		5.2	5.2		2.6	2.6
	Financial liabilities measured at amortised cost		139.2	140.5		136.3	138.4

The fair values of financial assets and liabilities accounted for are classified as follows to the three levels of the fair value hierarchy:

in € million	Level 1	Level 2	Level 3	Total	Previous year
Non-current assets available for sale	–	5.2	–	5.2	2.6
Non-current assets from loans and receivables	–	30.0	–	30.0	50.1
Current assets from loans and receivables	–	344.0	–	344.0	400.9
Non-current liabilities from other financial liabilities	–	16.3	–	16.3	18.4
Current liabilities from trade payables	–	108.2	–	108.2	94.8
Current financial liabilities	–	–	–	–	10.0
Current liabilities from other financial liabilities	–	19.9	–	19.9	19.2

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), € 5.2 million (previous year: € 2.6 million) is attributable to the start-up equity interests whose market value was calculated in accordance with IFRS 13. Moreover, € 0.0 million (previous year: € 0.0 million) relates to equity interests whose market value cannot be calculated due to the absence of an active market. 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 as compared with 31 December 2016 essentially results from the termination of fixed deposit investments.

The fair value of non-current other financial liabilities is calculated on the basis of the discounted cash flow. A risk- and maturity-related rate appropriate for RHÖN-KLINIKUM AG has been used for discounting purposes. 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 liabilities under finance leases was calculated using a market interest curve as at the balance sheet date and corresponds to their carrying amount.

6.21.2 Net gains or losses by measurement category

in € million		From subsequent measurement			Net result	
	From share price gains	At fair value	Impairment	From disposal	**2017**	2016
Loans and receivables	–	–	9.1	1.3	10.4	9.3
Available-for-sale financial assets	–	0.0	–	–	0.0	–
Financial liabilities measured at amortised cost	–	–	–	–	–	–
Total	**–**	**–**	**9.1**	**1.3**	**10.4**	**9.3**

+ = cost – = income

The net result is derived from income and expenses relating to impairment on 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.

Financial assets available for sale resulted in only immaterial results from the subsequent measurement.

During the financial year, no expenditures and income resulted from liabilities at amortised cost.

6.21.3 Financial liabilities (maturity analysis)

The following table sets out the contractually agreed (undiscounted) interest payments and redemption payments of the original financial liabilities and of the derivative financial instruments, including the financial liabilities stated under liabilities held for sale:

in € million	Cash outflows		
	2018	2019–2024	> 2024
Financial liabilities	–	–	–
Other financial liabilities	–18.9	–12.3	–2.0
Liabilities under finance leases	–1.1	–3.1	0.0
	–128.2	**–15.4**	**–2.0**

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

in € million	Cash outflows		
	2017	2018–2023	> 2023
Financial liabilities	–10.3	–	–
Other financial liabilities	–18.1	–12.2	–4.0
Liabilities under finance leases	–1.2	–3.5	0.0
	–124.4	**–15.7**	**–4.0**

The above table includes all financial liabilities held as at the balance sheet date and for which payments had been contractually agreed. Planned payments for new liabilities in the future have not been included in the calculations. Interest payments were included in the future cash flows under agreements in effect as at the balance sheet date. Current liabilities and liabilities which can be terminated at any time are shown under the shortest time horizon.

7 | STATEMENT OF CASH FLOWS

The statement of cash flows shows how the item "Cash and cash equivalents" of RHÖN-KLINIKUM Group has changed in the year under review as a result of cash inflows and outflows. The impact of acquisitions, divestments and other changes in consolidated companies has been eliminated. In accordance with IAS 7 (Statement of Cash Flows), a distinction is made between cash flows from operating activities, investing activities as well as financing activities. The liquidity shown in the statement of changes in financial position includes cash on hand, cheques as well as cash with banks. For the purposes of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents. As at 31 December 2017 there were no bank overdrafts.

Compared with the previous year, the change in cash generated from current operating activities was primarily influenced by the change in the result before taxes and the change in provisions, in each case subject to the reversal of provisions for potential legal and tax warranty risks, as well as by the change in other assets. The change in other assets primarily results from the reimbursement of overpayments of contributions to a pension fund in the previous year as well as the accumulation of receivables owed from payers from budget adjustments in the current year.

Significant changes compared with the previous year resulted in particular with investment and finance activities. Compared with the previous year, investments in property, plant and equipment as well as in intangible assets remained at a high level, which is primarily attributable to the new construction measures in Bad Neustadt a. d. Saale and Frankfurt (Oder). In addition, terminations of fixed deposits in the amount of € 100.1 million (previous year: terminations of fixed deposits amounting to € 139.8 million) were reported under investments. During the previous year, the termination of the fixed deposit together with the reduction of cash and cash equivalents were used to finance the repayment of the exchange-listed bond of RHÖN-KLINIKUM AG in March 2016.

€ 3.0 million (previous year: € 18.7 million) were invested in associated companies. During the reporting period, an amount of € 2.5 million (previous year: € 2.5 million) was invested in two companies in keeping with the objective of taking equity interests in highly innovative start-up companies from the medical field. In the context of two capital increases in the total amount of € 0.6 million (previous year: € 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 was operated in 2017 jointly with Helios and Asklepios. This compares with the dividend payment of Energiezentrale Universitätsklinikum Gießen GmbH in the amount of € 0.1 million (previous year: € 0.0 million). Moreover, additional loans for an amount of € 15.2 million were extended to one associate during the previous year.

€ 1.2 million was used in the acquisition of physician's practices during the year. During the previous year, an amount of € 0.6 million was received as a result of the acquisition of Kreisklinik and cash with banks acquired with it.

The repayment of the bond in the first quarter of 2016 resulted in the same period last year in a cash outflow of € 143.2 million. In 2017 a fixed interest rate bullet loan in the amount of € 10.0 million was repaid in the third quarter. In the fourth quarter of 2017, a syndicated line of credit amounting to € 100.0 million was concluded to ensure sufficient funds for investments planned in the medium-to-short term. As at the reporting date, it had not been utilised. The expenses in connection with the issue amounted to € 0.8 million. After the Annual General Meeting in June 2017, € 23.4 million (previous year: € 53.6 million) was paid to the shareholders of RHÖN-KLINIKUM AG. Dividends paid to non-controlling interests in the third quarter of 2017 amounted to € 1.5 million (previous year: € 0.1 million).

A total of € 14.3 million (previous year: € 8.8 million) in outstanding construction invoices was reflected in the statement of cash flows.

The statement of cash flows sets out the change in cash and cash equivalents between two balance sheet dates. In the RHÖN-KLINIKUM Group, this item exclusively comprises cash and cash equivalents attributable to continuing operations because no operations were discontinued.

Financial liabilities changed as follows:

in € million	31 Dec. 2016	Cash changes	Non-cash changes	**31 Dec. 2017**
Lease obligations	4.0	0.0	–	4.0
Current financial liabilities	10.0	–10.0	–	0.0
Proceeds from issuing of financial liabilities	0.0	–0.8	–	–0.8
Total liabilities from finance activities	**14.0**	**–10.8**	**–**	**3.2**

The conclusion of a syndicated line of credit resulted in costs which are distributed over the term of the line of credit of five years. The line is expected to be drawn only at the end of 2018. Furthermore, a loan in the amount of € 10.0 million was repaid in August 2017 in accordance with the contractual provisions. No non-cash changes occurred during the reporting period.

8 | SHAREHOLDINGS

8.1 Companies included in the consolidated annual report

in € '000	Interest held in %	Equity	Result for the year
Hospital companies			
Haus Saaletal GmbH, Bad Neustadt a. d. Saale [1]	100.0	1,516	0
Herz- und Gefäß-Klinik GmbH Bad Neustadt, Bad Neustadt a. d. Saale [1]	100.0	12,158	0
Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) [1]	100.0	73,677	0
Neurologische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt a. d. Saale [1]	100.0	9,169	0
RHÖN-Kreisklinik Bad Neustadt GmbH, Bad Neustadt a. d. Saale	100.0	402	286
Universitätsklinikum Gießen und Marburg GmbH, Gießen	95.0	93,322	8,777
Zentralklinik Bad Berka GmbH, Bad Berka	87.5	130,618	9,740

[1] The Company claims the exemption from the disclosure obligation pursuant to section 264 (3) HGB.

in € '000	Interest held in %	Equity	Result for the year
Medical care centre companies			
MVZ Bad Neustadt/Saale GmbH, Bad Neustadt a. d. Saale	100.0	369	0
MVZ des Klinikums Frankfurt (Oder) GmbH, Frankfurt (Oder)	100.0	228	29
MVZ UKGM GmbH, Marburg	95.0	255	59
MVZ Zentralklinik GmbH, Bad Berka	87.5	1,394	–83

in € '000	Interest held in %	Equity	Result for the year
Research and education companies			
ESB – Gemeinnützige Gesellschaft für berufliche Bildung mbH, Bad Neustadt a. d. Saale	100.0	1,405	44
Gemeinnützige Gesellschaft zur Förderung der klinischen Forschung auf dem Gebiet der Humanmedizin und zur Betreuung von Patienten an den Universitäten Gießen und Marburg mbH, Marburg	100.0	35	0

in € '000	Interest held in %	Equity	Result for the year
Property companies			
BGL Grundbesitzverwaltungs-GmbH, Bad Neustadt a. d. Saale	100.0	29,383	1,260
GPG Gesellschaft für Projekt- und Grundstücksentwicklung GmbH Leipzig, Leipzig	100.0	290	30

in € '000	Interest held in %	Equity	Result for the year
Service companies			
RHÖN-Cateringgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	123	48
RHÖN-Reinigungsgesellschaft mbH, Bad Neustadt a. d. Saale	100.0	2,589	165
RK Reinigungsgesellschaft Nordost mbH, Bad Neustadt a. d. Saale	100.0	223	–7
RK-Reinigungsgesellschaft Süd mbH i. L., Bad Neustadt a. d. Saale	51.0	52	2
UKGM Service GmbH, Bad Neustadt a. d. Saale	100.0	78	2

in € '000	Interest held in %	Equity	Result for the year
Shelf companies/other companies			
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	50.0	778	164
Kinderhort Salzburger Leite gemeinnützige Gesellschaft mbH, Bad Neustadt a. d. Saale	100.0	148	9
KLINIK "HAUS FRANKEN" GMBH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	653	–4
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung, Heidelberg	24.9	–6,030	–5,406
Psychosomatische Klinik GmbH Bad Neustadt/Saale, Bad Neustadt a. d. Saale	100.0	9	–7
PTZ GmbH, Marburg	100.0	377	–111
RHÖN Energie für Gesundheit GmbH, Bad Neustadt a. d. Saale	100.0	1,520	0
RHÖN-Innovations GmbH, Bad Neustadt a. d. Saale	100.0	9,645	–129
RK Klinik Betriebs GmbH Nr. 35, Bad Neustadt a. d. Saale	100.0	133	–6
Wolfgang Schaffer GmbH, Bad Neustadt a. d. Saale	100.0	580	–6

8.2 Other companies according to section 313 (2) No. 2 et seq. HGB

in € '000

	Interest held in %	Equity	Result for the year
4QD – Qualitätskliniken.de GmbH, Berlin [1]	20.0	953	65
Bäderland Bayerische Rhön GmbH & Co. KG, Bad Kissingen [1]	0.1	7	–23
Gesellschaft zur Durchführung des Schulversuchs Generalistische Pflegeausbildung mit beruflichen Schwerpunkten in Bayern UG (haftungsbeschränkt), Röhrmoos [1]	30.0	1	0
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar [1]	15.9	481	1
Inovytec Medical Solutions Ltd., Hod Hasharon (Israel) [2]	11.8	213	–948
CLEW Medical Inc., Delaware (USA) [2]	14.8	234	–1,656
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale [1]	25.0	922	184
Soemmerring GmbH privates Institut für Bewegungsstörungen und Verhaltensneurologie i. L., Bad Nauheim [1]	31.7	22	–1
Telesofia Medical Ltd., Tel Aviv (Israel) [2]	12.3	1,414	–180

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

9 | OTHER DISCLOSURES

9.1 Average annual number of employees

	2017	2016	Change	
	Number [1]	Number [1]	Number [1]	%
Medical doctors	1,014	974	40	4.1
Nursing services	4,568	4,512	56	1.2
Medical-technical services	2,487	2,445	42	1.7
Functional	1,636	1,620	16	1.0
Supply and misc. services	1,856	1,817	39	2.1
Technical	250	243	7	2.9
Administrative	1,040	1,010	30	3.0
Other personnel	275	268	7	2.6
	13,126	**12,889**	**237**	**1.8**

[1] Headcount, excluding Board members, Managing Directors, apprentices, trainees and those in alternative national service.

9.2 Other financial obligations

in € million

	31 Dec. 2017	31 Dec. 2016
Order commitments	**88.7**	**78.4**
Operating leases		
Due in subsequent year	1.6	1.4
Due in 2 to 5 years	0.7	0.8
Due after 5 years	0.1	0.1
Total operating leases	**2.4**	**2.3**
Other		
Due in subsequent year	28.9	29.4
Due in 2 to 5 years	28.4	14.4
Due after 5 years	1.1	2.1
Total other	**58.4**	**45.9**

Of the figure for order commitments, € 2.2 million (previous year: € 1.2 million) is attributable to intangible assets, and € 81.7 million (previous year: € 73.6 million) to property, plant and equipment. Of the order commitments for property, plant and equipment, € 77.9 million (previous year: € 64.9 million) is attributable to plant under construction. The increase results in particular from the construction measure at Campus Bad Neustadt a. d. Saale.

The remaining other financial obligations are mainly attributable to service agreements (maintenance agreements, agreements concerning the sourcing of products, agreements relating to laundry services, etc.).

As at the reporting date, obligations under loan commitments to associated companies additionally exist in the amount of € 3.0 million (previous year: € 0.0 million). Further, with the exception of the obligation under a company purchase agreement (31 December 2016: € 0.7 million) as well as the investment obligation relating to the development and establishment of a medical network (31 December 2016: € 9.0 million), there were no material changes in the remaining other financial obligations since the last reporting date. The interests under the company purchase agreement were acquired in the third quarter of 2017. Likewise, since proof for fulfilment of the network obligation was furnished, both obligations no longer exist as of 31 December 2017.

In addition, absolute bank guarantee undertakings not limited by contract exist for claims of the associations of accredited physicians (kassenärztliche Vereinigungen) and health insurance funds against medical care centre subsidiaries from their accredited physician activities, and with a medical care centre subsidiary a contract performance guarantee amounting to € 0.2 million as security for advance payments of the association of accredited physicians.

As part of the construction of the new hospital in Bad Neustadt a. d. Saale, a bank guarantee in the amount of € 0.1 million was granted to secure the reforestation agreement with the Free State of Bavaria.

Moreover, an aval guarantee declaration (Aval-Bürgschaftserklärung) in the amount of € 5.6 million exists for claims to government grants of the Free State of Bavaria.

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

9.3 Leases within the Group

Leasing transactions are classified as finance leases or operating leases. Leasing transactions in which the Group acts as the lessee and bears all the major risks and rewards associated with ownership are generally treated as finance leases. As at the balance sheet date of 31 December 2017, this relates to Zentralklinik Bad Berka GmbH, Universitätsklinikum Gießen und Marburg GmbH, Klinikum Frankfurt (Oder) GmbH, RHÖN-Kreisklinik Bad Neustadt GmbH, RHÖN-Reinigungsgesellschaft mbH, MVZ Zentralklinik GmbH as well as RHÖN-KLINIKUM AG. Accordingly, the Group capitalised the assets at the present value of the minimum leasing payments of € 7.6 million (previous year: € 6.3 million), and subsequently depreciates the assets over the estimated economic useful life or the shorter term of the contract. At the same time, a corresponding liability is recognised, which is paid down using the effective interest method. All other leases in which the Group acts as the lessee are treated as operating leases. In this case, the payments are recognised as expense on a straight-line basis.

9.3.1 Obligations as lessee of operating leases

The Group rents medical equipment as well as residential and office space; these are classified as cancellable operating leases. The leases generally have a term of up to five years. Under these lease agreements, the Group has a maximum termination notice of twelve months for the end of the term. The minimum lease payments to be made in future (up to one year) are € 1.6 million (previous year: € 1.4 million). The minimum lease payments for the period of up to five years are stated at € 0.7 million (previous year: € 0.8 million). The corresponding figure for the period in excess of five years is € 0.1 million (previous year: € 0.1 million).

9.3.2 Obligations as lessee of finance leases

Under finance leases, the Group mainly rents copier and printer systems as well as laboratory equipment. In the Group, there is a principle of always acquiring ownership of operating assets.

in € million

Liabilities from finance leases – minimum payments	**2017**	2016
Due in subsequent year	1.1	1.2
Due in 2 to 5 years	3.0	2.8
Due after 5 years	0.1	0.3
	4.2	**4.3**
Future financing costs under finance leases	**–0.3**	**–0.3**
Present value of liabilities under finance leases	**3.9**	**4.0**

in € million

Present value of liabilities under finance leases	**2017**	2016
Due in subsequent year	1.0	1.1
Due in 2 to 5 years	2.8	2.6
Due after 5 years	0.1	0.3
	3.9	**4.0**

As a result of new purchases as well as repayments for various copying and printing systems, laboratory equipment and a clothing system, there were no material changes in liabilities under finance leases compared with the period of the previous year. The leases in some cases contain purchase and extension options that can be exercised after expiry of the minimum contractual term.

9.3.3 Investment property

The Group lets residential space to employees, office and commercial space to third parties (e.g. cafeteria), as well as premises to doctors cooperating with the hospital and to joint laboratories as part of cancellable operating leases.

The most significant operating lease contracts by amount stem from the letting of property to third parties.

The largest item in absolute terms is the letting of a property to a nursing home operator. Based on the provisions of IFRS 13.97, fair value is calculated for the assets to be stated according to IAS 40. The fair value determined in this regard cannot be observed on an active market nor can it be derived from a quoted market price and is thus classified to Level 3 of the fair value hierarchy of IFRS 13. The fair value is determined using a capitalised value approach in which the corresponding components of the income cost approach such as gross profit, expected return on land value and standard land value are used as input factors. On the basis of the capitalised value of potential earnings, no material differences between the fair value of the properties and their carrying amounts shown below are seen. For this reason, no external fair-value expertise was obtained.

Depreciation is recognised on a straight-line basis over a useful life of 33 $^{1}/_{3}$ years. Rental income of € 0.4 million (previous year: € 0.4 million) was received in 2017. The operating costs for the investment properties amounted to € 0.2 million in the financial year (previous year: € 0.2 million). These are accounted for entirely by properties with which rental income was generated.

in € million

	2017	2016
	Total	Total
Cost		
1 January	**5.0**	**5.0**
Additions	0.0	0.0
Disposals	0.0	0.0
31 December	**5.0**	**5.0**
Cumulative depreciation		
1 January	**2.2**	**2.1**
Depreciation	0.2	0.1
Disposals	0.0	0.0
31 December	**2.4**	**2.2**
Balance sheet value as at 31 December	**2.6**	**2.8**

There is also income from non-terminable leases. The minimum lease payments to be received in future (up to one year) are € 0.1 million. The minimum lease payments for the period of up to five years are € 0.0 million. The corresponding figure for the period in excess of five years is € 0.0 million.

9.4 Related parties

According to the definition of IAS 24.9, related parties are those related to the reporting entity. Such parties are in particular natural persons who control the reporting entity or are involved in its joint management, exercise a material influence or hold a key position in the corporate management of the reporting entity. The same is true of close relatives of such persons. Also included are companies of the same corporate group and companies subject to or exercising a material influence.

Companies in the RHÖN-KLINIKUM Group enter into transactions with related parties in certain cases. These in particular include lettings of buildings as well as services related to nursing as well as supply of staff. Such service or lease relations are arranged at arm’s length terms.

Related companies are accordingly defined as all companies in which we own an interest of between 20.0% and 50.0% or which were not included in the consolidated financial statements on the grounds of materiality (for the companies of the Group, please refer to the list of shareholdings in these Notes). Jointly managed joint ventures are also deemed to be related companies. From the point of view of the Group, the volume of transactions with related companies in the financial year 2017 was as follows:

in € '000

	Expenses 2017	Income 2017	Receivables 31 Dec. 2017	Liabilities 31 Dec. 2017
Seniorenpflegeheim GmbH Bad Neustadt a. d. Saale, Bad Neustadt a. d. Saale	5	424	18	5
4QD – Qualitätskliniken.de GmbH, Berlin	61	–	–	–
HOSPIZ MITTELHESSEN gemeinnützige GmbH, Wetzlar	9	–	–	–
	75	**424**	**18**	**5**

From the point of view of the Group, the volume of transactions with companies consolidated using the equity method in the financial year 2017 was as follows:

in € '000

	Expenses 2017	Income 2017	Receivables 31 Dec. 2017	Liabilities 31 Dec. 2017
Energiezentrale Universitätsklinikum Gießen GmbH, Gießen	863	–	208	89
Marburger Ionenstrahl-Therapie Betriebs-Gesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung	–	711	2	500
	863	**711**	**210**	**589**

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 (Bürgerliches Gesetzbuch, BGB). The Board of Management of RHÖN-KLINIKUM AG as well as the members of the Supervisory Board were included among the members of management in key positions.

In the financial year 2017, a provision was formed for a former member of the Board of Management for the termination of his service contract in the amount of € 3.6 million.

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:

in € '000

Related party	Companies as defined by IAS 24	Nature of services	Expense 2017	Expense 2016
Prof. Dr. Gerhard Ehninger	AgenDix – Applied Genetic Diagnostics – Gesellschaft für angewandte molekulare Diagnostik mbH	Laboratory services	13	8
		Supervisory board activity at an affiliated company	4	3
Prof. Dr. h. c. Ludwig Georg Braun	B. Braun Konzern (primarily B. Braun Melsungen AG und Aesculap AG)	Purchase of medical products	10,173	10,091
Peter Berghöfer		Supervisory board activity at an affiliated company	4	3
Bettina Böttcher		Supervisory board activity at an affiliated company	4	1
Klaus Hanschur		Supervisory board activity at an affiliated company	4	4
Dr. Katrin Vernau		Supervisory board activity at an affiliated company	4	3
Stephan Holzinger		Supervisory board activity at an affiliated company	–	2

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 the financial year 2017.

The following services were recognised in the income statement under other income:

in € '000

Related party	Companies as defined by IAS 24	Nature of services	Income 2017	Income 2016
Eugen Münch		Telephone expenses, books, insurance fees	1	3

As at the balance sheet date of 31 December 2017, the following trade receivables/trade liabilities existed:

in € '000

Related party	Liabilities 2017	Liabilities 2016	Receivables 2017	Receivables 2016
Prof. Dr. h. c. Ludwig Georg Braun	365	308	–	–

The employee representatives on the Supervisory Board employed at RHÖN-KLINIKUM AG or its subsidiaries received the following remuneration within the scope of their employment contracts in the past financial year:

in € '000	Fixed	Profit-linked	**Total 2017**	Total 2016
Peter Berghöfer	131	39	170	166
Bettina Böttcher (until 31 December 2017)	33	–	33	30
Björn Borgmann	41	1	42	40
Stefan Härtel	48	1	49	50
Klaus Hanschur	36	1	37	36
Evelin Schiebel	42	1	43	42
	331	**43**	**374**	**364**

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

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

in € '000	**2017**	2016
Remuneration of the Supervisory Board	1,967	2,023
Remuneration of the incumbent Board of Management	4,760	4,851
Remuneration of former members of the Board of Management	1,066	0
Remuneration of the Advisory Board	9	21

No loans were granted to members of the Supervisory Board, the Board of Management or the Advisory Board as at 31 December 2017. The members of the Supervisory Board and their related parties together have a shareholding interest in RHÖN-KLINIKUM Aktiengesellschaft of 45.2% (previous year: 37.1%) of total equity capital. As at 31 December 2017, 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 2017 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 Article 19 of the MAR, the Market Abuse Regulation (EU) No 596/2014 which has been valid in Germany since 3 July 2016. RHÖN-KLINIKUM Aktiengesellschaft has received the following notifications for the financial year 2017:

Date of transaction	First and last name	Position/ status	Financial instrument and ISIN	Nature and place of transaction	Quantity	Price	Trading volume
5 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	15,000	€ 25.43	€ 381,465.00
6 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	25,000	€ 25.56	€ 639,107.50
9 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	25,000	€ 25.41	€ 635,125.00
10 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	25,000	€ 25.50	€ 637,387.50
11 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	50,000	€ 25.50	€ 1,274,900.00
12 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	44,999	€ 25.37	€ 1,141,447.50
13 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	59,999	€ 25.44	€ 1,526,130.00
16 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	10,000	€ 25.89	€ 258,850.00
17 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	20,000	€ 25.98	€ 519,624.00
18 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	45,001	€ 25.99	€ 1,169,338.50
19 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	190,003	€ 25.67	€ 4,876,426.00
20 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	80,001	€ 25.59	€ 2,047,136.00
20 Jan. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	110,000	not quantifiable	not quantifiable
27 Feb. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	1,000,000	€ 24.50	€ 24,500,000.00
1 Mar. 2017	Eugen Münch	Member of Supervisory Board	RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	1,000,000	not quantifiable	not quantifiable
1 Mar. 2017	Eugen Münch	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	1,000,000	not quantifiable	not quantifiable
7 Mar. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	1,200,000	not quantifiable	not quantifiable
24 Jul. 2017	Prof. Dr. h. c. Ludwig Georg Braun	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	3,330,074	not quantifiable	not quantifiable
28 Nov. 2017	Eugen Münch	Member of Supervisory Board	Forward share purchase of RHÖN-KLINIKUM share ISIN DE0007042301	Purchase over the counter	2,027,578	not quantifiable	not quantifiable

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

in € '000 Total payments	Fixed basic remuneration	Fixed attend-ance fee	Fixed total remuneration	**Total 2017**	Total 2016
Eugen Münch	120	40	208	368	365
Georg Schulze-Ziehaus	80	40	30	150	163
Wolfgang Mündel	80	44	176	300	290
Dr. Annette Beller (since 23 March 2017)	28	36	48	112	0
Peter Berghöfer	40	22	40	102	94
Bettina Böttcher (until 31 December 2017)	40	16	18	74	64
Björn Borgmann	36	14	19	69	99
Prof. Dr. h. c. Ludwig Georg Braun	40	20	30	90	93
Prof. Dr. Gerhard Ehninger	40	14	16	70	64
Stefan Härtel	40	20	30	90	99
Klaus Hanschur	36	16	23	75	95
Stephan Holzinger (until 31 January 2017)	3	4	1	8	192
Meike Jäger	40	22	40	102	72
Dr. Brigitte Mohn	40	10	13	63	48
Christine Reißner	40	20	40	100	94
Evelin Schiebel	40	20	22	82	90
Dr. Katrin Vernau	40	26	46	112	101
	783	**384**	**800**	**1,967**	**2,023**

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

in € '000 Incumbent member of Board of Management	Prof. Dr. Bernd Griewing (member of Board of Management)					
	Inducements granted				Inflow	
	2017	2016	2017 (min.)	2017 (max.)	**2017**	2016
Base salary (fixed remuneration)	192	192	192	192	192	192
Fringe benefits	11	8	11	11	11	8
Total	**203**	**200**	**203**	**203**	**203**	**200**
One-year variable remuneration						
Management profit sharing	1,008	854	1,008	1,308	1,008	854
Total payments	**1,211**	**1,054**	**1,211**	**1,511**	**1,211**	**1,054**
Pension expense [1]	135	127	135	135	135	127
Total remuneration	**1,346**	**1,181**	**1,346**	**1,646**	**1,346**	**1,181**

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

in € '000

Incumbent member of Board of Management	Stephan Holzinger (Chairman of Board of Management since 1 February 2017)					
	Inducements granted				Inflow	
	2017	2016	2017 (min.)	2017 (max.)	**2017**	2016
Base salary (fixed remuneration)	1,650	0	1,650	1,650	1,650	0
Fringe benefits	10	0	10	10	10	0
Total	**1,660**	**0**	**1,660**	**1,660**	**1,660**	**0**
One-year variable remuneration						
Management profit sharing	0	0	0	917	0	0
Total payments	**1,660**	**0**	**1,660**	**2,577**	**1,660**	**0**
Pension expense [1]	0	0	0	0	0	0
Total remuneration	**1,660**	**0**	**1,660**	**2,577**	**1,660**	**0**

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

in € '000

Incumbent member of Board of Management	Dr. Dr. Martin Siebert (Chairman of Board of Management until 31 January 2017, permanent representative of Chairman of Board of Management since 1 February 2017)					
	Inducements granted				Inflow	
	2017	2016	2017 (min.)	2017 (max.)	**2017**	2016
Base salary (fixed remuneration)	384	384	384	384	384	384
Fringe benefits	10	10	10	10	10	10
Total	**394**	**394**	**394**	**394**	**394**	**394**
One-year variable remuneration						
Management profit sharing	1,116	1,334	1,116	2,616	1,116	1,334
Multi-year variable remuneration						
Virtual share options	379	30	0	1,422	32	72
Total payments	**1,889**	**1,758**	**1,510**	**4,432**	**1,542**	**1,800**
Pension expense [1]	213	155	213	213	213	155
Total remuneration	**2,102**	**1,913**	**1,723**	**4,645**	**1,755**	**1,955**

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

in € '000

Former member of Board of Management	Martin Menger (member of Board of Management until 23 February 2017)					
	Inducements granted				Inflow	
	2017	2016	2017 (min.)	2017 (max.)	**2017**	2016
Base salary (fixed remuneration)	32	192	32	32	32	192
Fringe benefits	5	10	5	5	5	10
Total	**37**	**202**	**37**	**37**	**37**	**202**
One-year variable remuneration						
Management profit sharing	68	556	68	168	68	556
Multi-year variable remuneration						
Virtual share options	379	30	0	1,422	32	72
Total payments	**484**	**788**	**105**	**1,627**	**137**	**830**
Pension expense [1]	94	105	94	94	94	105
Severance payments	1,496	0	1,496	1,496	1,496	0
Total remuneration	**2,074**	**893**	**1,695**	**3,217**	**1,727**	**935**

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

in € '000

Former member of Board of Management	Jens-Peter Neumann (member of Board of Management until 23 February 2017, permanent representative of Chairman of Board of Management until 31 January 2017)					
	Inducements granted				Inflow	
	2017	2016	2017 (min.)	2017 (max.)	**2017**	2016
Base salary (fixed remuneration)	35	211	35	35	35	211
Fringe benefits	3	10	3	3	3	10
Total	**38**	**221**	**38**	**38**	**38**	**221**
One-year variable remuneration						
Management profit sharing	165	1,000	165	365	165	1,000
Multi-year variable remuneration						
Virtual share options	379	30	0	1,422	32	72
Total payments	**582**	**1,251**	**203**	**1,825**	**235**	**1,293**
Pension expense [1]	154	111	154	154	154	111
Total remuneration	**736**	**1,362**	**357**	**1,979**	**389**	**1,404**

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

In the 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 the 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 equity interest of 6.0% (previous year: 9.0%) was held by the members of the Board of Management, and an interest of 1.2% (previous year: 1.2%) by other employees, in the registered share capital of the company RHÖN-Innovations GmbH founded in March 2016. The payments made for the interests in the amount of € 0.4 million (previous year: € 0.5 million) – of which € 0.3 million (previous year: € 0.4 million) is attributable to the members of the Board of Management) – are reported under the other liabilities item as share-based remuneration as defined in IFRS 2 (cash-settled share-based payment transactions). The result for the period of the reporting year does not contain any income or expenses in this connection. In this connection, the members of the Board of Management are granted a put option to tender the interests to RHÖN-KLINIKUM AG in each case after five years, for the first time as at 31 December 2020. Moreover, the option of returning the interests on termination of the service relationship exists. In 2017, a member of the Board of Management made use of this provision. The interests are measured at fair value, but at least at their nominal value. The interests are not freely disposable. No expenses as part of this remuneration were incurred during the reporting period.

On termination of their service contracts, the Board members receive a post-retirement benefit when certain conditions are met. This compensation amounts to 12.5% of the annual remuneration owed on the date of termination of the service contract for each full year (twelve full calendar months) of service as member of the Board of Management, but not exceeding 1.5 times such latter remuneration. For such post-termination entitlements of the members of the Board of Management, the following provisions have been formed for post-employment benefits:

in € '000

Retirement benefits	Provision as at 31 Dec. 2016	Change in retirement benefits	**Provision as at 31 Dec. 2017**	Nominal amount on contract expiry[1]
Incumbent members of the Board of Management				
Prof. Dr. Bernd Griewing	135	181	316	750
Stephan Holzinger	0	215	215	1,125
Dr. Dr. Martin Siebert	905	96	1,001	1,547
Total	**1,040**	**492**	**1,532**	**3,422**

[1] Claim according to expiry of service contract of the incumbent members of the Board of Management (31 December 2020) based on remuneration.

in € '000

Retirement benefits	Provision as at 31 Dec. 2016	Change in retirement benefits	**Provision as at 31 Dec. 2017**
Former members of the Board of Management			
Martin Menger (until 23 February 2017)	564	–564	0
Jens-Peter Neumann (until 23 February 2017)	643	113	756
Total	**1,207**	**–451**	**756**

9.6 Declaration of Compliance with the German Corporate Governance Code

By joint resolution of the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG of 9 November 2017, the Company made the required declaration pursuant to section 161 of the German Stock Corporation Act (AktG) regarding the application of the German Corporate Governance Code in the financial year 2017. These have been published on the website of RHÖN-KLINIKUM AG and thus made available to the general public.

9.7 Disclosure of the fees recognised as expenses (including reimbursement of outlays and excluding VAT) for the statutory auditors

In the financial year 2017, 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:

in € '000	2017	2016
Fees for auditing financial statements	885	905
Fees for other statutory auditing services	115	44
Fees for tax advice	349	396
Fees for other services	167	121
	1,516	**1,466**

The fees for the other statutory auditing services essentially cover certificates for hospital legislation purposes as well as for review of the separate non-financial report. The tax advisory services include in particular fees for preparing tax declarations as well as support services in the context of company tax audits. Other services primarily relate to fees for project-related advisory services.

Of the total fee (excluding VAT), € 0.0 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:

in € '000	2017	2016
Fees for auditing financial statements	–	90
Fees for other statutory auditing services	–	0
Fees for tax advice	16	13
Fees for other services	–	1
	16	**104**

9.8 Events after the reporting date

With effect from 31 December 2017, Ms. Bettina Böttcher left the Supervisory Board as a member of the employee representatives. Ms. Natascha Weihs has been on the Supervisory Board as a substitute member since 1 January 2018.

Apart from that, no particularly significant events have occurred since 31 December 2017 that are expected to have a material influence on the net assets, financial position and results of operations of the Group of RHÖN-KLINIKUM AG.

10 | CORPORATE BODIES 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

Other mandates:
- 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)

Dr. Annette Beller
(since 23 March 2017), Kassel, member of the Board of Management of B. Braun Melsungen AG

Other mandates:
- Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main (member of the Board of Directors)

Peter Berghöfer
Münchhausen, Head of Finance, Universitätsklinikum Gießen und Marburg GmbH, Gießen

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

Bettina Böttcher
(until 31 December 2017), 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

Prof. Dr. h. c. Ludwig Georg Braun
Melsungen, Entrepreneur

Also a member of the Supervisory Board of:
- Aesculap AG, Tuttlingen (Chairman of the Supervisory Board)
- B. Braun Avitum AG, Melsungen (Chairman of the Supervisory Board) (until March 2017)[1]
- 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)

Prof. Dr. Gerhard Ehninger
Dresden, Medical Doctor

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

Stefan Härtel
Müllrose, male Nurse, Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder)

Other mandates:
- Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) (member of the Advisory Board)

Klaus Hanschur
Marburg, Masseur and med. Spa Therapist

Also a member of the Supervisory Board of:
- Marburger Spar- und Bauverein eG, Marburg
- Universitätsklinikum Gießen und Marburg GmbH, Gießen

Stephan Holzinger
(until 31 January 2017), Munich,
Managing Shareholder of Holzinger Associates GmbH

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

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

Other mandates:
- Vivantes – Netzwerk für Gesundheit GmbH, Berlin (Deputy Chairman of the Supervisory Board) (since May 2017)[1]

Dr. Brigitte Mohn
Gütersloh, member of the Board of Management of Bertelsmann Stiftung

Also a member of the Supervisory Board of:
- Bertelsmann SE & Co. KGaA, Gütersloh
- Bertelsmann Management SE, Gütersloh
- PHINEO gAG, Berlin (Chairman of the Supervisory Board)

Other mandates:
- Agentur Nordpol, Hamburg (member of the Advisory Board)
- Clue by Biowink GmbH, Berlin (member of the Advisory Board)
- Dachstiftung Diakonie, Kästorf (member of the Board of Trustees)
- Flytxt B.V., Netherlands (Non-Executive Director)
- Member of Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh
- Regine Sixt Kinderhilfe Stiftung, Pullach (member of the Advisory Board)
- Stiftung Michael Skopp, Bielefeld (member of the Board of Trustees)
- Stiftung Deutsche Schlaganfall-Hilfe, Gütersloh (Chairman of the Board of Trustees)
- Sunrise Capital GmbH, Leopoldshöhe (Managing Shareholder)
- Volunteer Directly Ltd., GivingWay, Israel (member of the Advisory Board)

Christine Reißner
Sülzfeld, Merchant

Evelin Schiebel
Görsbach, Nurse

Dr. Katrin Vernau
Hamburg, Administrative Director of
WDR Westdeutscher Rundfunk, Cologne

Also a member of the Supervisory Board of:
- Baden-Badener Pensionskasse VVaG, Baden-Baden (Chairman of Supervisory Board since September 2017)
- Bavaria Film GmbH, Geiselgasteig (since August 2017)
- Duale Hochschule Baden-Wuerttemberg, Stuttgart
- Universitätsklinikum Gießen und Marburg GmbH, Gießen
- WDR mediagroup GmbH, Cologne

Other mandates:
- Fee service of ARD, ZDF and Deutschlandradio, Cologne (Chairman of the Administrative Board)
- Claussen-Simon-Stiftung, Hamburg (member of the Board of Trustees) (until 2017)[1]
- IVZ Informationsverarbeitungszentrum, Cologne (member of the Board of Directors)
- Rheinische Friedrich-Wilhelms-Universität Bonn, Bonn (member and Deputy Chairman of the University Council)

Natascha Weihs
(since 1 January 2018), Bad Neustadt a. d. Saale, Physiotherapist

[1] Disclosure on further Supervisory Board mandate of Ms. Meike Jäger, disclosure on termination of further Supervisory Board mandate for Prof. Dr. h. c. Ludwig Georg Braun as well as disclsosure on termination of further mandate for Dr. Katrin Vernau were supplemented on 19 March 2018.

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

Stephan Holzinger
(since 1 February 2017), business address at Bad Neustadt a. d. Saale, Chairman of the Board of Management

Member of the Supervisory Board of:
- Universitätsklinikum Gießen und Marburg GmbH, Gießen (Chairman of the Supervisory Board since 22 March 2017)

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 until 21 March 2017)
- P.E.G. Einkaufs- und Betriebsgenossenschaft eG, Munich (since 17 October 2017)

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)
- Zentrum für Telemedizin e. V., Bad Kissingen (Board of Management)

Martin Menger
(until 23 February 2017), business address Bad Neustadt a. d. Saale, Business Operations

Other mandates:
- Klinikum Frankfurt (Oder) GmbH, Frankfurt (Oder) (Chairman of the Advisory Board until 23 February 2017)
- 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 (until 23 February 2017)

The Advisory Board of RHÖN-KLINIKUM AG comprised the following persons until 31 December 2017:

Prof. Dr. med. Frederik Wenz
Heidelberg (Chairman)

Prof. Dr. Boris Augurzky
Essen

Jochen Bocklet
Bad Neustadt a. d. Saale

Susanne Helm
Bad Neustadt a. d. Saale

Prof. Dr. rer. pol. Georg Milbradt
Dresden

Michael Wendl
Munich

Bad Neustadt a. d. Saale, 16 February 2018/19 March 2018

The Board of Management

Prof. Dr. Bernd Griewing Stephan Holzinger 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, 16 February 2018/19 March 2018

The Board of Management

Prof. Dr. Bernd Griewing   Stephan Holzinger   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 and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of RHÖN-KLINIKUM Aktiengesellschaft for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

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

❷ ***Recoverability of goodwill***

❸ ***Provisions for legal and tax risks in connection with the sale of companies***

❹ ***Accounting treatment of deferred taxes***

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

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

① The revenue amounting to EUR 1,211.1 million recognized in the Company's consolidated financial statements relates primarily to hospital services and is therefore largely subject to the statutory fee regulations for the healthcare sector. For the purposes of settling the provided hospital services, the health insurance funds, in their capacity as the payer, and the respective hospital annually negotiate and agree revenue budgets, diagnosis-related groups (DRGs) and measurement ratios. The basis for this is the measurement of the general hospital services within the health care mandate of the respective hospital. The DRGs used to measure hospital services are set out in the standardized DRG catalogue for Germany. If, at the end of the financial year, the quantity (in terms of number, severity or type) of the services invoiced are not in line with the budget negotiated for this year, the resulting excess or shortfall in revenue is settled between the health insurance funds in their capacity as the payer and the respective hospital. Since the budgets are negotiated primarily during the course of the financial year or not until after the end of the financial year, the executive directors of the company estimate the service quantities to be remunerated as of the balance sheet date. The revenue is adjusted accordingly.

Furthermore, in accordance with § 275 SGB V [Sozialgesetzbuch V: Book V of the German Social Code] and § 17 KHG [Krankenhausfinanzierungsgesetz: German Hospital Financing Act], the health insurance funds generally have the right to have the coded revenue (calculation of service quantities) reviewed by Medizinischer Dienst der Krankenversicherung (MDK), an external medical consulting firm for the German healthcare sector. The revenue from the hospital services provided is adjusted by the executive directors of the Company on the basis of estimates in relation to the MDK's objection rate, and on the basis of experience. In turn, the final findings of MDK's verifications influence the revenue settlement for the respective financial year.

The revenue adjustments are based to a large degree on the executive directors' estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement on which this material item was based, this matter was of particular significance for our audit.

② As part of our audit, we, among other things, used the contractual documents and other correspondence provided to us to gain an overview of the budget arrangements between the health insurance funds and the respective hospitals of the RHÖN-KLINIKUM Group as well as the respective remunerated service quantities. With the knowledge that estimated values result in an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on consolidated profit, we assessed the appropriateness of the budget estimates, the revenue settlements and the revenue adjustments performed on basis of the MDK's verifications. In order to assess the appropriateness of the revenue recognized as of the balance sheet date, we assessed the Company's processes for recognizing and adjusting revenue from provided hospital services and we examined the method the executive directors use for performing revenue adjustments. Furthermore, we also evaluated the executive directors' related assumptions relating to the remunerated service quantities as of the balance date on the basis of the detailed information provided to us. We compared the revenue adjustments with the minutes and records provided to us of the respective negotiations with the health insurance funds as well as the outcomes of negotiations in previous years. For the revenue settlements, we also evaluated the process for determining the revenue settlements in addition to validating the revenue figures using the respective information on hospital services provided by the patient management system and the underlying agreements. With respect to any corrections by the MDK, we assessed the processes for determining the service quantities (coding) and for determining the corresponding corrections. We also analyzed and assessed the development of MDK's verification and objection rates as well as its audit focal points. In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors concerning the recognition and measurement of revenue from hospital services provided were sufficiently documented and that the estimates applied and the assumptions made by the executive directors were consistently derived.

③ The Company's disclosures relating to revenue recognition are contained in sections 3.2 and 5.1 of the notes to the consolidated financial statements.

❷ ***Recoverability of goodwill***

① In the Company's consolidated financial statements goodwill of EUR 163.2 million (11.1% of consolidated total assets) is reported under the "Goodwill and other intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The Company allocates goodwill to the respective cash-generating units. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of fair value less costs of disposal. Goodwill is generally measured as the present value of the future cash flows of the respective cash-generating unit. The relevant present value is calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted cost of capital for the relevant cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodological procedure adopted for the purpose of the impairment tests and evaluated the calculation of the weighted cost of capital, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We also assessed the appropriate consideration of the costs of Group functions. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the goodwill calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and assessed the calculation method. Furthermore, in order to take into account existing uncertainties inherent in the forecasts and projections, in addition to the sensitivity analyses carried out by the Company we performed our own sensitivity analyses and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures pertaining to goodwill are contained in sections 2.4.1, 3.1 and 6.1 of the notes to the consolidated financial statements.

❸ ***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 92.7 million (6.3% of consolidated total assets) are reported. Of this amount, EUR 83.2 million relates to provisions for potential legal and tax risks in connection with the sale of clinics to Fresenius/Helios. The requisite risk assessment and determination on the basis of that assessment whether or not a provision should be recognized to cover the risk, and if so, in what amount, is shaped to a high degree by assessments and assumptions on the part of the executive directors. The warranty obligations from the underlying share purchase agreement form the basis for recognizing these provisions. To measure these provisions, the Company calculated the expected future cash outflows relating to the underlying obligations. Against this background and due to the materiality of these provisions (8% of consolidated total assets) as well as the executive directors' underlying assumptions and judgment, this matter was of particular significance for our audit.

② With the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on consolidated profit, we evaluated the appropriateness of the carrying amounts as a part of our audit. We assessed the recognition and measurement of the uncertain obligations inter alia by comparing these amounts with historical data, evaluating the consistently used calculation methodology and by referring to the contractual documents provided to us. We also examined the calculation of the provisions. In doing so, we also assessed whether the estimates applied and the assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the material provisions. We were able to follow the measurement assumptions applied by the executive directors, and deem the assessments arrived at by the executive directors as well as the measurement of these material provisions as justifiable.

③ The Company's disclosures pertaining to provisions for legal and tax risks in connection with the sale of companies are contained in section 6.15 of the notes to the consolidated financial statements.

❹ ***Accounting treatment of deferred taxes***

① Deferred tax assets (net of set-offs and impairment losses) of EUR 9.1 million are reported in the Company's consolidated financial statements. Deferred tax assets amounting to EUR 18.4 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan. Deferred taxes are measured using future tax rates, to the extent they have already been enacted or substantively enacted. Of the RHÖN-KLINIKUM Group's deferred tax assets totaling EUR 18.4 million prior to set-offs against deferred tax liabilities, EUR 9.1 million is attributable to loss carryforwards. In total, EUR 1.2 million in deferred tax assets in respect of unutilized tax loss carryforwards were not recognized since it was not probable that setting these off against taxable profit would yield any tax advantages. From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we added internal tax accounting specialists to our audit team to help us assess the recoverability of tax positions. With their assistance, we assessed, among other things, the established processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions. In addition, we examined the reconciliation to the tax expense. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and adequately documented.

③ The Company's disclosures relating to deferred taxes are contained in sections 5.9 and 6.3 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior to the date of our auditor's report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 1.9 of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (with the exception of the remuneration report)

The annual report and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 7 June 2017. We were engaged by the supervisory board on 15 November 2017. We have been the group auditor of RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt a. d. Saale, without interruption since the financial year 1988.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Emphasis of Matter – Supplementary Audit

We issue this auditor's report on the amended consolidated financial statements and the group management report on the basis of our audit, duly completed as of 16 February 2018, and our supplementary audit completed as of 19 March 2018 related to the amendment of the notes to the consolidated financial statements with respect to the disclosures regarding the members of corporate bodies. We refer to the presentation of the amendment by the executive directors in the section "Corporate bodies and advisory board of RHÖN-KLINIKUM AG" in the amended notes to the consolidated financial statements.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Michael Conrad.

Frankfurt am Main, 16 February 2018/limited to the adjustments mentioned above: 19 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

BALANCE SHEET AND INCOME STATEMENT

BALANCE SHEET

in € million

	31 Dec. 2017	31 Dec. 2016
Assets		
Intangible assets	2.3	2.5
Property, plant and equipment	132.4	79.0
Financial assets	679.0	672.2
Fixed assets	**813.7**	**753.7**
Inventories	4.5	4.7
Receivables and other assets	87.8	90.0
Securities, cash, and cash equivalents	230.7	287.0
Current assets	**323.0**	**381.7**
Prepaid expenses	**1.3**	**0.9**
Deferred tax assets	**12.5**	**8.0**
	1,150.5	**1,144.3**

in € million

	31 Dec. 2017	31 Dec. 2016
Shareholders' Equity and Liabilities		
Subscribed capital/issued capital	167.4	167.4
Capital reserve	589.0	589.0
Retained earnings	0.1	0.1
Net distributable profit	172.1	168.4
Shareholders' equity	**928.6**	**924.9**
Contributions to finance fixed assets	**1.6**	**1.8**
Provisions	**124.8**	**115.8**
Liabilities	**95.5**	**101.8**
	1,150.5	**1,144.3**

INCOME STATEMENT

in € million

	2017	2016
Revenues	193.2	184.2
Changes in services in progress	0.1	0.6
Other operating income	2.2	44.8
Materials and consumables used	53.0	50.9
Employee benefits expense	99.4	89.7
Depreciation	9.2	9.4
Other operating expenses	34.8	33.6
Operating result	**–0.9**	**46.0**
Investment result	13.4	15.6
Finance result	10.2	–23.8
Taxes	**–4.5**	**–3.3**
Net profit for the year	**27.2**	**41.1**
Profit carried forward from previous year	144.9	127.3
Net distributable profit	**172.1**	**168.4**

The annual financial statements of RHÖN-KLINIKUM Aktiengesellschaft, which have been audited and certified by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, will be published in the Federal Gazette (Bundesanzeiger) and deposited with the Commercial Register.

The report can be obtained from the Company on request.

PROPOSED APPROPRIATION OF PROFIT

The annual financial statements of RHÖN-KLINIKUM AG for the year ended 31 December 2017, 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 € 172,147,458.00.

The Board of Management and the Supervisory Board propose appropriating an amount of € 14,726,463.40 to distribute a dividend of € 0.22 per no-par value share with dividend entitlement (DE0007042301), and carrying forward to new account the remaining amount of € 157,420,994.60.

Bad Neustadt a. d. Saale, 28 March 2018

RHÖN-KLINIKUM Aktiengesellschaft

The Supervisory Board	The Board of Management

INDEPENDENT PRACTITIONER'S REPORT

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

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

We have performed a limited assurance engagement on the separate combined non-financial report pursuant to § 289b Abs. 3 und 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of RHÖN-KLINIKUM AG, Bad Neustadt (Saale), (hereinafter the "Company") for the period from January 1, to December 31, 2017 (hereinafter the "non-financial report"). The non-financial report comprises the sections marked with a check mark in the Corporate Social Responsibility Report of the Company for the financial year 2017.

Responsibilities of the Executive Directors

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

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner´s Responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the non-financial report.

[1] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's non-financial report for the period from January 1, to December 31, 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the non-financial report regarding the preparation process, the internal control system relating to this process and selected disclosures in the non-financial report
- Identification of the likely risks of material misstatement of the non-financial report
- Analytical evaluation of selected disclosures in the non-financial report
- Comparison of selected disclosures with corresponding data in the consolidated financial statement and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's non-financial report for the period from January 1, to December 31, 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, March 19, 2018
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad	ppa. Nicolette Behncke
(German public auditor)	(German public auditor)

FINANCIAL CALENDAR

DATES FOR SHAREHOLDERS AND ANALYSTS 2018

23 February	Publication of preliminary results for the financial year 2017
29 March	Publication of 2017 Annual Financial Report, Press conference
4 May	Publication of Interim Report for the quarter ending 31 March 2018
6 June	Annual General Meeting (Stadthalle, Bad Neustadt a. d. Saale)
2 August	Publication of half-year Financial Report as at 30 June 2018
9 November	Publication of Interim Report for the quarter ending 30 September 2018

RHÖN-KLINIKUM AG

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This Annual Report is also available in German.

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

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RHÖN-KLINIKUM AG

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