

Abridged version of the Annual Report 2017



**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 Manage-

ment, 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  
1<sup>st</sup> deputy Chairman

Wolfgang Mündel  
2<sup>nd</sup> 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

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