

Dear Shareholders, **Dear Ladies and Gentlemen,**



Chairman of the Supervisory Board
Eugen Münch

In the following I report to you on the work of the Supervisory Board and its committees during the 2018 financial year:

Cooperation between Supervisory Board and Board of Management

During the 2018 financial year 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, advised the Board of Management, discussed issues of development comprehensively 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 – as in the previous year – were the further strategic development of the Group, issues, projects and measures aimed at reorienting business activity to that 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 Group headquarters in Bad Neustadt a. d. Saale 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.

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: 100 per cent).

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. The Committee granted its approval for the issuance of

a successfully placed promissory note for 100 million euros and approved the corporate amalgamation of Herz- und Gefäß-Klinik GmbH Bad Neustadt and Neurologische Klinik GmbH Bad Neustadt/Saale into RHÖN-KLINIKUM AG in the wake of the establishment of the Campus Bad Neustadt.

At all meetings, the focus of interest of supervision and consultations was on the further development and the measures for implementing the project of the Bad Neustadt health campus completed at the end of the year, as well as on developing and planning further campus projects. Additional subjects falling under the corporate strategy on which the Committee focused its attention were the digitalisation of the business model and the tools employed for that purpose, such as the medical cockpit, doctors' portal or health apps. Also of relevance in this context were advising on the implementation of telemedical services in collaboration with the Swiss telemedicine provider Medgate through the establishment of a joint venture in Germany with a view to mitigating the impending shortage of doctors, and on the commencement of a strategic reorientation of full-coverage healthcare delivery in Germany. A key subject of discussion at the meetings was the unsatisfactory performance of our investment in Marburger Ionenstrahl-Therapie Betriebsgesellschaft des Universitätsklinikums Heidelberg mit beschränkter Haftung (MIT GmbH). With the Board of Management we discussed the alternatives of either continuing to operate the company or of decommissioning the particle therapy facility, and after carefully weighing up the opportunities and risks created the basis for a revitalisation resolution in the plenary session, i.e. acquisition of the interests hitherto held by Universitätsklinikum Heidelberg and the subsequent revitalisation of the company.

During the reporting year, **the Personnel Affairs Committee** held three conference call meetings (attendance rate in each case: 100 per cent). At these meetings, the Committee prepared subjects relating to personnel matters of the Board of Management for the Supervisory Board and, to the extent required, adopted resolutions or made recommendations to the Supervisory Board on the adoption of resolutions. The subject of the meetings was measures for winding up service contracts of removed board members, amendments to service contracts of Board members, and preparing for the appointment of a new Board member.

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: 97 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, Controlling and Finance departments were regularly consulted by the Board of Management, and were available to the committee for additional reports and questions.

This committee notably was responsible for reviewing and preparing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2017. 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 the 2018 financial year 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 it 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 2018.

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 2018 as well as its update. The audit reports of the Internal Auditing department as well as the 2017 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. According to the provision in the Rules of Procedure of the Internal Auditing department, we gave advance approval for the personnel measure of appointing the new head 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.

The Committee examined the procedure for the required external rotation of the statutory auditor based on the EU audit reform and prepared a statement at the time of the change in auditor giving due regard to the transitional provisions.

For the non-financial declaration at the Company level and Group level to be submitted in the form of a separate condensed non-financial report for 2018, the Committee once again 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 2018, the committee met four times (attendance rate: 94 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 at all times by the Central Compliance and Internal Auditing departments as well as to a certain extent by the heads of the Group's Investor Relations and Communications divisions 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 as well as the organisation of the Central Compliance department. In the field of corporate communications, the Board of Management reported on the communication strategy particularly in the context of the opening of the campus in Bad Neustadt, activities in the area of employer branding as well as social media, and presented the new concept of the online presence. The newly oriented investor relations strategy was also presented. The Committee was kept informed on the 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. There was no necessity for separate meetings since the special subjects were discussed comprehensively in the plenary session.

The **Nomination Committee**, which selects candidates from the shareholders' representatives for supervisory board office and proposes them to the Supervisory Board, held one meeting (attendance rate: 100 per cent). The subject was the preparation for the Supervisory Board of a proposal to the 2019 Annual General Meeting on the succession to Prof. Dr. h. c. Ludwig Georg Braun, who will be leaving the Supervisory Board upon reaching the retirement age in accordance with the Articles of Association.

During the reporting year, four regular meetings of the full Supervisory Board were held (attendance rate: 94 per cent). No member of the Supervisory Board attended fewer than half the meetings of the Supervisory Board and the committees attached to it. The members of the Board of Management attended the meetings of the Supervisory Board except in the case of agenda items relating to internal matters of the Supervisory Board and matters pertaining to the Board of Management. In the case of one other meeting held in connection with the 2018 Annual General Meeting, the members of the Supervisory Board had the opportunity to inform on the situation of the construction site and construction progress of the healthcare campus at the Bad Neustadt site, which is currently the Group's most significant investment.

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 financial 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 Board of Management moreover informed on the current developments in healthcare policy, the healthcare

environment, healthcare legislation and their impact on the Group as well as the competitive situation. 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 22 February 2018, the Supervisory Board examined the future development of the Board of Management and a reorientation and distribution of the divisions necessitated by the reduction in the number of members of the Board of Management. The Board of Management submitted a progress report on the Campus Bad Neustadt and informed on progress made in quality management, digitalisation, implementation of the new General Data Protection Regulation and on the current stage reached in a project for reducing avoidable losses from audits by MDK (Medical Review Board of the Statutory Health Insurance Funds). We received the report of the Board of Management on the preliminary 2017 annual financial statements and on the proposal for the appropriation of profit for 2017 and approved the submitted drafts of the Report of the Supervisory Board, the Corporate Governance Report for financial year 2017 and the Declaration on Corporate Governance pursuant to section 289f of the German Commercial Code (Handelsgesetzbuch, HGB).

At the balance sheet meeting on 28 March 2018 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 2017 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 6 June 2018, 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, the Declaration on Corporate Governance pursuant to section 289f of the HGB and on Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) updated during the year under way. After the Supervisory Board completed its own review, the separately summarised non-financial report audited by PwC was approved as of 31 December 2017. At this meeting, the Board of Management member Dr. Dr. Martin Siebert was removed from the Board of Management with immediate effect and Dr. Gunther Weiß appointed as new member of the Board of Management.

At the meeting on 5 July 2018 the plenary session, after discharging matters relating to the Board of Management and the Supervisory Board, thoroughly examined the Board of Management reports on the development of the individual sites. In this regard, particular areas of focus covered by the discussions were the digitalisation strategy for the Campus Bad Neustadt as well as the results of reviews carried out regarding the medical and economic situation at the Frankfurt (Oder) and Bad Berka sites. Policy discussions were held on the human resources strategy and on the subjects of human resources recruiting, employee satisfaction, organisation of general working environment and the situation in nursing. The deliberations also focused on the impending deterioration in the economic situation of the investee MIT GmbH and the consequences arising from that.

At the Supervisory Board meeting on 8 November 2018, the Supervisory Board examined the company MIT GmbH in depth, which had since been in preliminary insolvency proceedings. As already discussed in advance in the Investment, Strategy and Finance Committee, the plenary session also held a critical discussion on the alternatives of either continuing to operate the company or decommissioning the particle therapy facility and then, giving due regard to the commercial and legal opportunities as well as the technical criteria for continuing business operations, decided on the basis of a detailed and sound Board of Management concept to approve an investment framework for the revitalisation of MIT GmbH which essentially involved acquiring in the entirety all interests in the company. Another key subject of the meeting was the report by an external expert on a study regarding the development of new remuneration models for regional healthcare delivery that might be used for the Campus Bad Neustadt. Resolutions were adopted on the Declaration of Compliance to be submitted annually pursuant to section 161 AktG, on the recommendations of the German Corporate Governance Code as well as on the updated versions of the Terms of Reference for the cooperation of the Board of Management and on the Special Terms of Reference for the cooperation of the Board of Management and the Supervisory Board.

Conflicts of interests and their management

Ms. Meike Jäger is a member of the supervisory board of Vivantes – Netzwerk für Gesundheit GmbH (in short: Vivantes) where she holds 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. In the view of the Supervisory Board, however, membership in that supervisory board has not given rise during the reporting period to any specific conflicts of interest that resulted in an impairment in the performance of her mandate.

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 9 November 2017 pursuant to section 161 AktG as amended during the year under way on 28 March 2018, was revised and, giving due regard to the Code as amended on 7 February 2018, was replaced by an updated Declaration of Compliance issued on 8 November 2018 by the Board of Management and the Supervisory Board. This Declaration of Compliance subsequently had to be corrected since recommendation pursuant to Code Item 3.8 (3) regarding a deductible for the D&O insurance of supervisory board members was deviated from up to 31 December 2018 because in the adjustment of the D&O insurance in financial year 2016 the continuation of the deductible had been unintentionally refrained from. Since 1 January 2019 the deductible has been resumed. The deviation from Code Item 3.8 (3) of the German Corporate Governance Code was taken into account in the version as updated on 18 January 2019 during the year under way. 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 80 et seq. of this Annual Report.

Examination and approval of the 2018 financial statements

The Board of Management adopted the financial statements of the Company and the management report for the year ended 31 December 2018 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 2018 were adopted pursuant to section 315e 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, 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 2018. The auditors of the accounts issued an unqualified auditor's report in each case.

The financial statements of the Company and management report, the consolidated financial statements and Group management report as well as the reports of the auditors on the result of their audit were received by all members of the Supervisory Board together with the Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and extensively discussed by the Audit Committee and by the Supervisory Board with representatives of the auditors at the respective balance sheet meetings. As

part of the audit, the Audit Committee and the Supervisory Board examined both the accounting findings and the procedures and processes relating to the accounting findings. As the standard of their review, they primarily applied the criterion of legality and verified whether the documents submitted comply with legislation in force and in particular with applicable accounting rules. Furthermore, in addition to their review of legality they also conducted an expediency review in terms of accounting, financial and business policy aspects. Based on the findings of the preliminary review by the Audit Committee, the Supervisory Board concurred with the findings of the auditors and, having conducted its own review, determined that it sees no grounds for objections.

The Supervisory Board approved the financial statements of the Company and the consolidated financial statements prepared by the Board of Management at the meeting on 28 March 2019 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 2018. 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 2019 and by the Supervisory Board at its meeting on 28 March 2019. The Board of Management thoroughly explained the reports at both meetings. Representatives of the auditor attended the meeting of the Audit Committee on 27 March 2019 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 28 March 2018, the member of the Board of Management Dr. Dr. Martin Siebert was removed. Dr. Gunther Weiß was appointed as member of the Board of Management with effect from 1 May 2018 for the period until 31 December 2021. Dr. Weiß holds the position of Chief Operating Officer (COO).

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.

The employee representative Mr. Björn Borgmann resigned his Supervisory Board mandate with effect from 28 February 2018. Mr. Oliver Salomon, specialist nurse, succeeded him as elected substitute member on 1 March 2018.

The personal details of the members of the Supervisory Board in 2018 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 2019

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

(period of 1 January to 31 December 2018)

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
Björn Borgmann (until 28 February 2018)
Prof. Dr. Ludwig Georg Braun
Stefan Härtel
Klaus Hanschur
Wolfgang Mündel
Oliver Salomon (since 5 July 2018)
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
Peter Berghöfer
Meike Jäger
Christine Reißner
Dr. Katrin Vernau

Committee for Compliance and Communication

Dr. Annette Beller
Chairman

Evelin Schiebel
Dr. Katrin Vernau
Natascha Weihs (since 22 February 2018)

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