

DECLARATION ON CORPORATE GOVERNANCE
CORPORATE GOVERNANCE REPORT

28 MARCH 2018



RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289F AND 315D OF THE GERMAN COMMERCIAL CODE

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

DECLARATION OF COMPLIANCE

The German Corporate Governance Code (GCGC) describes nationally and internationally recognised standards of responsible corporate governance. In financial year 2017, the Supervisory Board and the Board of Management of RHÖN-KLINIKUM AG regularly scrutinised the German Corporate Governance Code, its development and amendments thereto as well as its compliance at RHÖN-KLINIKUM AG and its subsidiaries. We currently and in future depart from the Code's recommendations in a total of three disclosed exceptions. We observe most of the non-mandatory suggestions of the German Corporate Governance Code on a voluntary basis.

As a result of these 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 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. The current and all past declarations of compliance are permanently made available over the Internet under www.rhoen-klinikum-ag.com.

**Declaration of Compliance pursuant to section 161 of the AktG
(as issued on 9 November 2017 in the version of
the interim update of 28 March 2018)**

„1. The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG declare that the recommendations issued by the ‘Government Commission of the German Corporate Governance Code’ as amended on 7 February 2017 and published by the Federal Ministry of Justice in the official section of the Federal Gazette on 24 April 2017 have been implemented with the following exceptions:

a) Code Item 4.2.2 (2) sentence 3

Relationship between remuneration of the Board of Management and that of senior management and staff overall

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

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

b) Code Item 4.2.3 (3)

Pension commitments

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

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

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

c) 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)

The Supervisory Board refrains from stating specific objectives for its composition and from defining an abstract skills profile for the body as a whole within the meaning of Code Item 5.4.1 (2) sentence 1 as well as from defining any limits in respect of age or standard length of service within the meaning of Code Item 5.4.1 (2) sentence 2. Consequently, it is not possible to comply with the recommendations pursuant to Code Item 5.4.1 (4), which are based on the recommendations pursuant to Code Item 5.4.1 (2) sentence 1 and 2.

In the past the Supervisory Board, when nominating candidates for membership on the Supervisory Board, has been guided solely by the qualification of such candidates and by the law. In this regard, the Supervisory Board has long been guided by a fundamental requirements profile, which is adapted and clarified on an ad hoc basis as required in the individual case. The shareholders’ representatives on the Supervisory Board are convinced that this practice has proven itself and in its view does not require any further self-regulation giving rise to further layers of bureaucracy.

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 CVs supplemented within the meaning of Code Item 5.4.1 (5)

sentence 3 – where no Supervisory Board elections are impending – are not permanently published and annually updated on the website.

In the assessment of the Supervisory Board, it has an adequate number of independent members of the shareholders within the meaning of Code Item 5.4.2 sentence 1.

However, the Supervisory Board does not regard needlessly exposing individual members by stating their number and names in the Corporate Governance Report as objectively justified, especially given the vague character of the independence criterion as defined in the Code. This also rings true for permanent publishing all CVs on the website when no Supervisory Board elections are actually impending. Where elections to the Supervisory Board are impending, the CVs of the candidates have been published, and in future will continue to be published, on the website during this period.

d) Code Item 5.5.2

Conflicts of interest

The recommendation pursuant to Code Item 5.5.2 provides that every Supervisory Board member should disclose conflicts of interests to the Supervisory Board. An employee representative on the Supervisory Board disclosed the assumption of the office of deputy chairman of the supervisory board of Vivantes - Netzwerk für Gesundheit GmbH to the Supervisory Board late.

2. The Board of Management and the Supervisory Board of RHÖN-KLINIKUM AG further declare that the recommendations issued by the “Government Commission of the German Corporate Governance Code” as amended on 7 February 2017 and published by the Federal Ministry of Justice in the official section of the Federal Gazette on 24 April 2017 have been implemented with the exception of the deviations specified under 1. a) to c).”

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

To meet the social responsibility in the highly complex world of a healthcare services provider, the corporate governance practices at RHÖN-KLINIKUM AG, which are applied above and beyond the statutory requirements, include ethical standards that are reflected in

our corporate philosophy, corporate responsibility and our corporate code. We act at all times in accordance with the leading 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.”

The Corporate Governance Code forms an integral part of the compliance management system implemented at RHÖN-KLINIKUM AG. In addition to statutory requirements and rules to be observed in the administrative area (e.g. patient data protection, combating corruption in the healthcare system), most of the services provided in the hospital constitute an invasion of a patient’s physical integrity. That is why it is all the more important for our patients to feel they are safe and in good hands when under our care.

Our compliance guidelines and recommendations explain the principles and rules of fair dealings with one another and responsible corporate governance. They define the relationship to our patients, customers, suppliers, shareholders and the general public as well as the conduct of employees amongst one another. In this regard, our employees are regularly informed of current developments, and in 2017 an eLearning programme was moreover introduced for this purpose. The safety cards published internally by Compliance serve to assist and protect employees. At a glance, they cover on a subject-by-subject basis the most important legal requirements and rules and make corresponding recommendations.

At the heart of our corporate philosophy and underlying all our activity is the well-being of our patients. That is why the well-being of patients and integrity in dealing with patients is always the focus of interest of the work performed by our staff. Our success is based on the well-being of our patients and the trust they place in our employees and the medical services provided.

We firmly believe that everyone is entitled to affordable and high-quality medical care. For us, quality, cutting-edge medical care consists in the freedom in choosing medical treatment, ongoing investments in modern medical care as well as the further development of clinical processes and structures relating to our patients. We specifically promote interdisciplinary cooperation in the treatment provided by doctors and nurses, thus raising the quality of

treatment noticeably. Personal integrity and professionalism enjoy the highest priority in all areas of our Company. At the same time, our basis of affordable, high-quality healthcare is private capital, whether generated thanks to our own entrepreneurial output or made available by the capital market. It enables investment in innovations, ensuring the future viability of healthcare. This in turn allows for profitability and sustainable financing of new growth and medical innovations.

Our corporate code and statements on corporate philosophy and corporate responsibility are permanently made available to the general public over the Internet at www.rhoen-klinikum-ag.com.

WORK APPROACH OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As prescribed in German stock corporation and corporate law, RHÖN-KLINIKUM AG has a dual management system, i.e. a strict separation exists at the personnel level between the Board of Management vested with powers of direction and the Supervisory Board vested with supervisory powers. Simultaneous membership in both corporate bodies is not permissible.

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. The Supervisory Board is responsible for advising the Board of Management on directing the Company and for supervising its management activity. To achieve the objective of sustainable value-added, the Board of Management and the Supervisory Board have committed themselves to cooperating through mutual trust in the best interests of the Company and on the basis of a balanced allocation of duties and responsibilities in accordance with the law, the Articles of Association and the Terms of Reference.

For further details on the work approach of the Board of Management and of the Supervisory Board and its committees, please refer to the Corporate Governance Report which is publicly accessible on our website at www.rhoen-klinikum-ag.com.

The composition of our Board of Management, Supervisory Board and its committees is likewise permanently accessible on our website.

EQUAL PARTICIPATION OF WOMEN AND MEN IN MANAGEMENT POSITIONS

Already before and on entry into force of the Act on Equal Participation of Women and Men in Management Positions in the Public and Private Sector (Gesetz zur gleichberechtigten Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst, BGleIG), target figures, relevant management levels and target dates for the share of women were the subject of thorough discussions.

For the Board of Management and the two management levels below it, targets pursuant to section 111 (5), section 76 (4) AktG were specified.

All three members of the Board of Management have five-year contracts. The proportion of women on the Board of Management was defined as nil as at 30 June 2017 and is currently likewise nil. The terms of two contracts of Board of Management members end on 31 December 2020. As a result, the proportion of women continued to be defined as nil until 31 December 2020.

The two management levels below the board of management refer to the hierarchical levels below the board of management actually established in the specific company. According to the management structure in place at RHÖN-KLINIKUM AG and the Terms of Reference, only one management level is formed below the Board of Management. The group of persons includes the persons participating in the extended Board of Management meeting: managing directors, Group divisional heads, chairman and deputy chairman of the Medical Board. The target for the proportion of women at this management level was defined and observed at 13% until 30 June 2017. Currently, the proportion of women is 16%, and the proportion targeted until 30 June 2022 was raised to 21%.

Currently, 43.8% of the Supervisory Board is comprised of women and 56.2% of men. The minimum proportion of 30% pursuant to section 96 (2) sentence 1 AktG is complied with already as of 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.

DIVERSITY CONCEPT

Pursuant to Code Item 5.1.2 (1) sentence 2 GCGC, the Supervisory Board also gives due regard to diversity in the composition of the Board of Management. However, this is not done by pursuing an explicitly stipulated diversity concept in relation to age, gender, education or professional background. The composition of the Board of Management must ensure an effective and sustainable management of the Company geared to the Company's interests. To ensure that these statutory duties are duly performed, the Supervisory Board, when filling positions on the Board of Management, will primarily be guided in future also by the knowledge, skills and experience of the candidates being considered. In this regard, the Supervisory Board orients itself on a fundamental requirements profile, which is adapted and clarified on an ad hoc basis as required in the individual case. The Supervisory Board is convinced that this concept has proven itself.

The Supervisory Board has refrained from setting out any specific objectives regarding its composition within the meaning of Code Item 5.4.1 (2) sentence 1 GCGC and has stated this in the Declaration of Compliance pursuant to section 161 AktG. 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.

Bad Neustadt a. d. Saale, 28 March 2018

The Supervisory Board The Board of Management

For better readability, we have avoided any gender differentiation in the terminology used in this Report. For any cases of relevance in this regard, the terms used apply equally to both genders in the interest of equal treatment.

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 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. 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 the 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 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 shareholders' and employees' 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 Board of management 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% of the Supervisory Board is currently comprised of women and 56.2% 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) 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 regulations and internal controlling processes.

The chairman of the Audit Committee, Mr. Wolfgang Mündel, possesses the required knowledge of the Company and its market environment given his long-standing membership in the Supervisory Board of RHÖN-KLINIKUM AG. He meets the requirements pursuant to Item 5.3.2 of the German Corporate Governance Code for this challenging position thanks to his qualification as auditor and tax adviser. Mr. Mündel is the 2nd deputy chairman of the Supervisory Board and performs his duties on the Supervisory Board in a full-time capacity. The Audit Committee comprises 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 a close ties to the Audit Committee, the chairman of the Committee for Compliance and Communication is also represented on the Audit Committee. He has the right in certain cases to request a special audit.

The **Nomination Committee** selects candidates from the 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 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 meeting 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-performance-linked and a performance-linked component as well as short-term and long-term incentives. The non-performance-linked part is comprised of the basic salary and fringe benefits, and the performance-linked component covers a management profit sharing component. Provisions for a minimum remuneration and for a cap on total remuneration have been put in place to compensate for unexpected earnings developments. Moreover, there is a long-term share-based remuneration (stock options) for some members of the

Board of Management 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-performance-linked and performance-linked components of the remuneration scheme.

The basic salary as a rule is € 192,000 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 in turn 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 use of a company car and the accident insurance premiums are remuneration components, each individual member of the Board of Management has to pay tax on these benefits. As a general rule, all members of the Board of Management are entitled to these in the same way, the amount of which varies depending on the member's personal situation.

The managing profit sharing element represents the performance-linked component of the remuneration. The multi-year 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 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 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 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 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 been received an offer for a renewal.

If a member of the Board of Management having terminated his activity on the Board of Management without good cause is granted severance compensation, the amount of such benefit including the additional benefits may not exceed the value of two years' remuneration and may not provide remuneration for more than the remaining term of the service contract.

Currently, pension commitments, loans and similar benefits are not granted to the members of the Board of Management.

In financial year 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 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 meetings and the Annual General Meeting. For each non-attendance, this share is reduced by one fifth.

For their participation in person in a meeting of the Supervisory Board, of a committee and of an Annual General Meeting, each member of the Supervisory Board receives a fixed attendance fee of € 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 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 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.