



RHÖN-KLINIKUM
AKTIENGESELLSCHAFT

29TH ANNUAL GENERAL MEETING

Report of the Supervisory Board

Eugen Münch

Chairman of the Supervisory Board

RHÖN-KLINIKUM Aktiengesellschaft

7 June 2017, Frankfurt/M.

Note:

Check against delivery

Dear Shareholders and Shareholders Representatives,
Dear Guests, Ladies and Gentlemen,

Three years ago, most of RHÖN-KLINIKUM AG's primary care hospitals were sold. As the Company has been downsized it has also become flexible, and that is something not typical for hospital groups. Almost all debts had been paid off, and the shareholders who did not agree with the changed business model had been duly compensated.

The campus approach was born and the development of the university hospitals was described as an objective; the electronic patient file offering the prospect of cognitive procedures existed as a concept.

The Board of Management and the Supervisory Board had agreed on the objective and strategy. Whilst preserving a reasonable level of profitability backed up by reserves, the Company was able focus significant efforts on promoting innovation. Measured profitability, i.e. 8-12% of EBITDA, is necessary to maintain the momentum of current processes and the gap to the rationalisation leaders is accepted because that leaves employees little, but sufficient scope to cope with and help to constructively promote fundamental changes as defined.

The implementation of the concept would have negatively impacted the Board of Management payments for Dr. Siebert, Mr. Neumann and Mr. Menger that very much depended on the management profit sharing bonus. For that reason, the Supervisory Board decided at the end of 2015 and beginning of 2016 to agree five-year contracts with them so as to ensure security and prevent rivalries amongst one another, since without the common resolve the necessary performance was not to be expected. The fixed salaries were raised when the service contracts were re-drafted (thus reducing dependence on the management profit sharing bonuses) so as to offset the future burdens arising at the beginning of the innovations to be implemented.

Over the past years, we have reported to you on the basic features of this remuneration system and submitted them to you for approval. You can find the structure of the remuneration system in the Remuneration Report included as a separate section in the Corporate Governance Report of the Annual Report.

In reporting year 2016, it became increasingly clear that without the steadfast and resolved performance of the Management Board operating results were crumbling and cooperation amongst the members of the Management Board was deteriorating. When in the autumn of 2016 no improvement was seen despite a clear statement by the Supervisory Board, but rather a paralysis borne of fear set in, we stepped in, downsizing and unanimously re-establishing the management under the leadership of Mr. Holzinger. The two members of the Board of Management Jens-Peter Neumann (Board Member for Finance) and Martin Menger (Board Member for Operative Business) were removed. Later, notice of termination was served on Mr. Neumann. With Mr. Menger we have now reached a mutual agreement on the termination of his contract that still requires approval by the Supervisory Board.

To prevent any speculation in this connection, I would like to explain to you the following:

First of all with regard to the removal:

Our Articles provide in § 7 para. 1 for a three-person Board of Management as its standard composition. Since the Fresenius transaction has since been completely digested, it was obvious for the Supervisory Board to reduce the size of the Board of Management and thus to focus responsibility to a greater extent. Added to this was the necessity already mentioned – I had referred to it as “paralysis of fear” – to give a new impetus to the Company’s further development. Mr. Neumann moreover, without openly engaging in a discussion with the Supervisory Board, had set himself in opposition to the future projects regarded as decisive by the Supervisory Board, thus resulting in a considerable loss of trust within the entire Supervisory Board. Here, I would like to say something very clearly: Contrary to what you may have heard from the media in some cases, this had nothing to do with a personal conflict between Mr. Neumann and myself. The Supervisory Board as a whole was no longer convinced that Mr. Neumann was behind the course needed for the future of the Company.

Now regarding the termination notices:

After Mr. Neumann and Mr. Menger had been removed, it was reviewed as a matter of routine whether there are any indications of misconduct on the part of the two members of the Board of Management. In the case of Mr. Neumann, the Supervisory Board received knowledge of matters that prompted it to serve him notice of termination and that did not allow for any other response. Mr. Neumann denies any breaches of duty and made known he would bring a lawsuit. This is the reason that no proposal is being made for formal approval of Mr. Neumann’s actions. We cannot make you a proposal to decide on the issue of formal approval already now if we know that a judicial proceeding will follow in which potential breaches of duties will be clarified. Neither is it unusual for formal approval of the actions of a management board member to be postponed in such cases. Should Mr. Neumann succeed in refuting the allegations, it will be possible to adopt such formal approval subsequently.

With Mr. Menger, the situation is different. Here there are no indications of misconduct. We have therefore reached a mutual agreement with him on the termination of his contract which – as stated – still requires approval by the Supervisory Board. The terms are in line with those provided for by his contract in the event of notice of termination served by himself following a removal. That is, observance of mutual obligations and instead of a salary a severance compensation payment limited to two years’ salary also provided for by the Corporate Governance Code, and the winding up of an agreed pension insurance scheme and a virtual stock option plan.

I now come to the newly formed Board of Management:

On 1 February the Board of Management took up its work under new leadership and acted decisively, and I think we can all pay tribute to the successful settlement in Marburg Gießen putting an end to the impasse that had lasted nearly 10 years.

With the installation of the new management, the Supervisory Board demonstrated its ability to act and its determination in a situation that was turbulent and not easy, making full use of the capacities conferred on it, which even included delegating a member to the Board of Management.

The new Board of Management will ensure the Company's effective, strategic and firm leadership and will define, set out and implement its long-term objectives. For that reason, you will not hear any development or conceptual solutions from me from this position. The dialogue between the Supervisory Board and the Board of Management on strategy and the achievement of objectives will of course be continued and is part of our advisory duties.

When Mr. Holzinger left, the Supervisory Board lost a powerful and highly qualified member, leaving a gap that needed to be filled immediately. In Dr. Beller we have gained someone making an ideal fit for this corporate body with her experience and skills. For that reason, the nomination for today's election was a logical decision supported by all.

I now come to the routine part of the Report and to avoid repeating what we have already reported on the work of the Supervisory Board for financial year 2016 first of all refer you to the detailed written Report of the Supervisory Board in the current Annual Report. This Report has been displayed within the premises of RHÖN-KLINIKUM AG since the convocation to this Annual General Meeting, has been sent to the Shareholders on request and was accessible online on the Company's website. And of course, the Report is also available here today. You will find the Report of the Supervisory Board printed on pages 14 to 23.

In this comprehensive and at times in-depth written Report, we have tried to provide you with an informative insight into the work of the Supervisory Board last year.

This Supervisory Board has established and appointed seven standing committees for the efficient performance of its duties. These committees deal with the specialist subjects and prepare resolutions for the plenary meeting as required. Moreover, specific powers to adopt resolutions were delegated to the committees under the Terms of Reference. We review the efficiency of the work in the committees on a continuous basis and make changes to structures and processes without delay by taking appropriate measures whenever we identify the need to do so or any weaknesses. During the past financial year, we availed ourselves of the expertise available on the Supervisory Board to escort the Management in an advisory and supervisory capacity in the implementation of the campus projects and network medical care. By holding joint meetings of the Investment, Strategy and Finance Committee with the Medical Innovation and Quality Committee and involving external experts for special subjects, we have escorted the Board of Management and the Company as an equal partner on the path into the new territory.

At the end of the past financial year and the beginning of the new one, we had the efficiency of our Supervisory Board work reviewed with the involvement of an external moderator and within this context performed a thorough evaluation of its composition, organisation and activity. From this external perspective, the efficiency of the Supervisory Board in these areas was basically confirmed.

We are of course closely watching the further development of the provisions of the German Corporate Governance Code, and after thoroughgoing consultation respond to the same with corresponding measures to implement recommendations or refuse such recommendations giving reasoned arguments for non-adoption. We report jointly with the Board of Management on corporate governance at the Company; you will find the written report in this regard in the Annual Report on pages 25 to 39.

Since this is where I conclude my Report on the activity of the Supervisory Board, I would like first to extend my thanks to the Board of Management and my colleagues on the Supervisory Board for the work together with them and their commitment over the past year. It was a time during which the foundation had to be laid for the huge changes to be met in the future. Each Supervisory Board member had to assess the traditional patterns of conduct from the perspective of their profession and vantage point and decide how and why changes were right and had to be initiated. That was not easy, and the complex issues involved meant facing and overcoming many doubts and misgivings. Despite that it is always possible, with the efforts and good faith of all, to find lasting common ground for the future.

My thanks also goes to the members of the Board of Management for all the efforts they have put into this process of change, with the thousand set-backs endured and challenges faced by them in the day-to-day business. Anyone who has had to change processes and traditions in the workings of a large company can imagine what a momentous task that is. The demands placed on a management board of a healthcare provider – when it comes to change management – are far more daunting than in many other sectors of the economy. Medical care is an empirical discipline with characterised by extremely traditional practices. It takes tremendous courage and total, wholehearted commitment to lead the way for change in this field. If in such a mission the team does not stand shoulder-to-shoulder and is capable of engaging in dialogue, it can fail. I would like to express my thanks for your personal contribution and will not make any snap judgments because the group result was not sufficient.

My thanks goes in particular to those employees who, in their commitment to the interests of the patients and the Company have once again shown themselves to be a supporting pillar. Although the change of the future that has been felt with our employees is barely perceptible, it has been raging in public debates and looming menacingly large above their heads. It lends us strength to see how the absolute majority of our employees are handling this with complete serenity, thus providing for the stable basis of our Company in our common interest. For the Supervisory Board I can say without reservation that this is something we have valued in the past and will continue to value in future in our decisions wherever possible, and that is more than just wishful thinking.

My thanks also goes to the members of the Supervisory Board whose tasks were not always easy. That rings true especially when these prove to be more than mere functionary positions. Keeping the balance between short-term interests of employees and the not always compatible necessities of ensuring long-term job security and the future of the Company is a tremendous responsibility; it calls for courage, the ability and willingness to convey the message.

I thus conclude the Report of the Supervisory Board with the following words:

“The past year has been a turbulent time and yet only the precursor to further change and transformation. I believe that we have not done a bad job, since otherwise I would not be able to explain the future interest of three major shareholders hailing from this specialist field and not being in the habit of throwing money out the window”.