



Eugen Münch  
Chairman of the Supervisory Board

# REPORT OF THE SUPERVISORY BOARD

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for the financial year of RHÖN-KLINIKUM AG  
from 1 January 2014 to 31 December 2014

Dear shareholders,

2014 was mainly characterised by the business, personnel and organisational restructuring which was initiated by the reorientation due to the sale of part of the corporate group to Helios in 2013. Here, we should not and will not forget that the pressure for change in the hospital sector in the form of demographic trends still continues to impact on healthcare and does not take our company into consideration.

The rapidly advancing digitisation of healthcare and the resulting consequences for medicine and healthcare itself are playing an ever increasing role. Yet this seems to have hardly been noticed by the established players in Germany. This is surprising since the digitisation of healthcare is expected to have a significant impact on the information given to and the care and management of outpatients and inpatients, for example. As in other industries, such as in the transport sector, profound changes can be expected in the structure of providers. Network medicine that is being driven forward in the cross-provider initiative "We stand for Health" will also face this challenge.

We remain firmly convinced that it was a correct and effective business decision to hand over to Helios the quantitative market leadership in the competitive field of "general full-service care" and with the initiation of and participation in a network to still be involved with a sophisticated care system that is being created step-by-step. With the systematic focus on cutting-edge and specialist medicine as well as the new small area full-service care model of Bad Neustadt, and the upcoming renewal of university medicine, which must be, and also can be, made more sustainable, we continue to have a good starting point. RHÖN-KLINIKUM AG is the initiator of and reliable partner in the care system "We stand for Health". By being integrated in the distribution system of this network it provides, we can safeguard our niche for specialist and cutting-edge medical care. At the same time, we are contributing our increased flexibility and speed to provide creative stimuli for addressing future tasks. In conjunction with new care models (in Bad Neustadt) which have been systemically re-designed, we are laying the foundation for a RHÖN-KLINIKUM AG with a very promising future.

The objective of the 2014 share repurchase programme was to transfer the first segment of the sale proceeds from the deal with Fresenius / Helios to shareholders in a meaningful way. With a take-up-rate of 98.4 per cent, acceptance among shareholders was excellent. The successful implementation of the programme also resulted in changes to the company's shareholder structure.

## **COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD**

In financial year 2014 the Supervisory Board continuously and comprehensively addressed the situation and development of our company, and performed the duties assigned to it by law and the articles of association. These include in particular monitoring the Board of Management and advising the Board of Management on the operational management of the company. When performing its duties, the Supervisory Board was always guided by the decisive principles of appropriateness, compliance with legal provisions, expediency and economic efficiency. Adherence to these principles by the Board of Management was monitored by periodic inspection of the general organisation of the company and by verifying the instruments used in internal risk control.

The Supervisory Board was fully and directly involved in all the fundamental and important decisions of the Board of Management of RHÖN-KLINIKUM AG. The Board of Management informed us comprehensively both in writing and verbally in due time – the Supervisory Board received documents and records that are relevant for decision-making in good time ahead of the individual deliberations and formal meetings. The Supervisory Board reviewed the information presented by the Board of Management on strategic and operational business development, on compliance issues and on risks and risk management in terms of its conclusiveness and plausibility and also raised critical questions when necessary.

The focal points of the deliberations in the executive bodies and with the Board of Management were the handling and completion of the sale of a portfolio of 41 hospitals, medical care centres and other related investments to the Fresenius Group, and the resulting structural reorganisation of the company. This also included the provision of advice and the involvement in distributing the sales proceed from this deal to the shareholders by way of a capital reduction through the redemption of shares in a simplified procedure following the share repurchase by the company. Another key focus was setting up the particle therapy centre at the University Hospital in Marburg through an agreement with all those involved in the project – the State of Hesse, Siemens AG, the University of Heidelberg and the University Hospital in Heidelberg, Philipps University in Marburg, RHÖN-KLINIKUM AG and the University Hospital in Giessen and Marburg UKGM GmbH.

The Chairman of the Supervisory Board was also kept continuously and comprehensively informed by the Chief Executive Officer even between the scheduled meetings of the Supervisory Board and its Committees. Therefore we cannot determine any violations of the Board of Management in fulfilling its duty to provide information. We have discussed the proposed resolutions of the Board of Management in detail and, to the extent required by the provisions of law and the articles of association, given our vote following close examination. In a few cases we also considered it in the interest of the shareholders to involve external experts and consultants. In particularly urgent business operations, the Supervisory Board or relevant Committee held conference calls and passed resolutions by written procedure.

## WORK OF THE SUPERVISORY BOARD IN THE COMMITTEES AND PLENARY SESSION

In order to perform its tasks and assume its responsibilities as effectively as possible, the Supervisory Board set up a total of seven standing committees, whose members have specific skills and experience to handle the specific issues faced by the committees.

The committees act in accordance with the law, articles of association and the rules of procedure of the Supervisory Board – also in lieu thereof – as committees with power to adopt resolutions, where this corresponds to the law and was previously determined down by the Supervisory Board. The committees generally meet separately from the plenary sessions. When needed, meetings were also held in the form of conference calls that were arranged at short notice.

The **Investment, Strategy and Finance Committee** convened at four regular meetings (97 per cent attendance rate) during the reporting year.

As with last year, network medicine was one of the priorities of the strategic deliberations of the committee. The idea is to develop and implement a business model for the creation of nationwide, comprehensive full-service medical care, including additional health insurance for members of the statutory health insurance system, through a network which is to be created with a broad, nationwide presence. For consultative assistance in the implementation of this project, there is a working group, "Network Medicine", which is composed of members of the Investment, Strategy and Finance Committee, the Board of Management and scientific experts, and which met four times during the financial year.

The committee thoroughly addressed the execution and consequences of the share purchase agreement concluded in the previous financial year with Fresenius / Helios for the sale of 41 hospital companies and 15 medical care centres, whereby, after completion of the deal, the allocation of resources – particularly the share repurchase adopted by the Annual General Meeting on 12 June 2014 – was the main topic. The restructuring of the remaining companies of the Group following the sale and the re-orientation of corporate goals and strategy were also focal points of the discussions in all meetings. Implementing the strategic re-orientation to cutting-edge medicine, innovation and excellence in treatment under the direction of a medical expert body called the Medical Board, as well as age-related healthcare and the investment required for this were the subject matters in strategic debates in the committee and received the approval of this body of experts.

The economic development of the subsidiary, University Hospital Giessen and Marburg GmbH, with the goal of achieving task-oriented profitability, was also one of the main focal points of the monitoring and advisory activities of the body. This also included the deliberations and, after careful consideration, the resolution on the decisive action required to set up and put the particle therapy centre in Marburg into service in a timely manner. The reimbursement for research and teaching from the State of Hesse to the university hospitals which continues to be incorrect was the reason for setting up a working group at the University Hospital Giessen and Marburg GmbH for further development of separate accounting and implementation of relevant provisions of the cooperation agreement.

In each meeting the CEO reported in the latest developments of the hospital industry and on the business situation of the Group. The investment plan for 2014 was approved following a critical discussion and review of the content. Approvals were also granted for debt measures, such as the early repayment of long-term debt, as a result of the allocation of resources from the "Scala" project (Fresenius / Helios deal).

In addition, the Board of Management reported in all meetings on the development of investment and financing in a continuously updated investment and financial plan. Specific applications for approval of investment projects and debt measures were openly discussed, critically reviewed and adopted in the committee on the basis of detailed, written resolution proposals drawn up by the Board of Management, including market studies, investment calculations and finance offers.

The **Personnel Affairs Committee** held two meetings (100 per cent attendance rate) during the reporting year. The committee dealt with the status and development of management contracts, taking into account the changes which had occurred due to the Fresenius / Helios deal and the upcoming restructuring of the Group. Following a comprehensive review, a remuneration concept that includes the granting of virtual shares as an incentive measure for the Board of Management was presented to the Supervisory Board for approval. It is structured towards the achievement of future goals in a restructured company and should ensure continuity.

The assessment of the performance and development of individual members of the Board of Management and of the Board of Management as a whole were the subject of discussions at both meetings. Both the expectations of Board of Management members as well as their prospects in the further development of the company in the medium and long-term periods were discussed. Following negotiations the committee chairmen made recommendations to the Supervisory Board on the reappointment and extension of the Board of Management service contract with the CEO, Dr. Dr. Martin Siebert.

Pursuant to clause 27, para. 3 of the German Co-Determination Act, the **Arbitration Committee** was not needed in the past financial year.

The **Audit Committee** of the Supervisory Board met five times during the reporting year (91 per cent attendance rate). The Board of Management attended all meetings. Two meetings were held with participation of the auditor. For selected agenda items, the Board of Management called the heads of the departments for internal audit and accounting, taxation and controlling to the committee for additional reports and questioning.

The committee dealt in particular with the audit and preparation of the 2013 annual financial statements of RHÖN-KLINIKUM AG and the Group. Also reviewed and discussed were the individual financial statements and management reports, the respective audit reports of the Group of companies, which were subject to a critical review by the members of the committee, and the proposal on the appropriation of the net distributable profit.

The audit committee assessed the independence of the auditors designated for the annual financial statements of 2014 and, for the review of the half-year financial report, it obtained the declaration of independence pursuant to section 7.2.1 of the German Corporate Governance Code. It also 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 – awarded the audit assignment to the auditor and agreed an appropriate fee with him. The auditors reported to the committee on orders for services that were rendered in addition to the auditor services. The qualification of the auditor was monitored by the committee. A list of audit items was developed and defined for the audit of 2014.

Fundamental issues of accounting, business planning, capital base, the supervision of the accounting process, the effectiveness of the internal control system, the risk management system including specific business risks and the internal audit system were discussed with the Board of Management and partly with the auditor. The interim reports were discussed intensively on a regular basis with the Board of Management and the half-year financial report with the Board of Management and the auditor before their publication. Here, special emphasis was placed on the precise analysis of the profit situation, taking into account the effects of the Fresenius / Helios deal on the figures of the current financial year.

The quarterly Group controlling report on performance and financial controlling, which is part of the risk management system, was discussed intensively with the Board of Management. Here the performance development of the individual Group hospitals is presented by the Board of Management at both hospital level and department level, and is discussed and queried by the committee.

The body was regularly informed of the activities of the internal audit department by the relevant member of the Board of Management and the head of internal audit, and examined the audit plan for 2014 and its update. The audit reports from the internal audit department and the operational report of 2013 were submitted to the committee and discussed with the Board of Management. We were informed about the implementation of recommendations from the internal audit department by means of information on the results of the follow-up reporting, as well as a review by the Board of Management. We were again satisfied with the effectiveness of the internal audit system.

For reasons of efficiency, the Supervisory Board delegated to the audit committee its consent requirement for further action to be determined by the Board of Management during the share repurchase which was adopted at the Annual General Meeting in 2014, and for the settlement of the dispute proceedings against resolutions of the AGMs in 2013 and 2014. In fulfilling this mission, the audit committee agreed, following several conference calls, to a settlement on the approval process related to the resolutions of the AGM in 2014 on the repurchase of shares on the basis of a settlement agreement with the claimants instead of the Supervisory Board, and it granted its assent to a Board of Management resolution on the approval of the offer documentation and on the determination of offer parameters for the share repurchase in 2014.

When updating the declaration of conformity pursuant to section 161 of the German Stock Corporation Act on the recommendations of the German Corporate Governance Code, the version of 24 June 2014 was checked and considered in terms of its application, and a recommendation for a resolution was submitted to the entire Supervisory Board.

The **Committee for Compliance and Communication** may be directly addressed by all employees, suppliers, patients and other third parties in compliance matters and concentrates on the advice and supervision of compliance management in the Group, as well as communication with the media and capital markets. To ensure close interaction with the Audit Committee, the Chairman of the Committee for Compliance and Communication was also given a seat in the Audit Committee.

The committee held four meetings (100 per cent attendance rate) during the reporting year. The Board of Management attended all meetings. For selected agenda items to the committee for additional reports and questioning, the Board of Management called the heads of the departments for compliance, communication, internal audit and investor relations.

At all meetings, the Board of Management reported on the work of the compliance department in order to convince us of the effectiveness of the compliance management system. Regular reporting includes a detailed report on reported compliance violations, their examination and processing. The audit reports and the operational report of 2013 were presented in the committee and discussed with the Board of Management. The submitted compliance programme for 2014 was approved. The committee was informed by the Head of Investor Relations about the communication with the capital market which takes place in the Group, and approved the communication concept for 2015. Several participants argued for a corporate communication strategy for the group which – due to the deal with Helios / Fresenius – especially has to face many challenges.

The **Medical Innovation and Quality Committee** advises the Board of Management on medical developments and trends in technical terms, and monitors the situation and development of medical quality at the company. The committee held one meeting (100 per cent attendance rate) during the reporting year. The meeting dealt with the goals and strategic direction of the newly established Medical Board in the company, the presentation of new diagnostic and treatment methods as well as the current situation of medical training at the Universities of Giessen and Marburg. In addition to the Board of Management, this meeting was also attended by the members of the Medical Board.

The **Nomination Committee** selects candidates from shareholder representatives to take up office in the Supervisory Board and proposes them to the Supervisory Board for nomination. At its meetings on 27 March and 3 April 2014 (100 per cent attendance rate), the committee agreed to the nomination of the previously court-appointed Supervisory Board members, Stephan Holzinger, Reinhard Hartl and Dr. Katrin Vernau, and to the nomination of Prof Ludwig Georg Braun as a replacement to succeed the Supervisory Board member Detlef Klimpe who had stepped down, for the Supervisory Board elections that were carried out in the Annual General Meeting on 12 June 2014.

During the year there were four ordinary meetings of the **plenary session** (95 per cent attendance rate). No Supervisory Board member attended less than half of the meetings.

In the four ordinary Supervisory Board meetings, the plenary session regularly deliberated with the Board of Management on the basis of detailed written Board of Management reports and presentations on the financial, liquidity and earnings position, the development of revenues, profit, performance data, key ratios and personnel of the company and Group as well as the individual Group companies. The Board of Management explained in detail the respective interim reports for the previous quarters at the plenary sessions prior to their publication. In each meeting, regular information and reports were made on the progress of the implementation of the "Scala" project (Fresenius / Helios deal) on setting up the particle therapy centre in Marburg, and on the re-orientation of the company due to the corporate structure resulting from the clinic divestitures.

At its meeting on 12 March 2014, the Supervisory Board held a special election for the Personnel Affairs Committee (Mr Härtel for Ms Müller) and made other appointments for the Committee for Compliance and Communication (Dr. Vernau) and the Audit Committee (Mr Hartl), because of the change in Supervisory Board members which had occurred. Mr Hanschur was proposed to succeed the employee representative Mr Prange who had stepped down in the Investment, Strategy and Finance Committee – the election was adopted by written procedure in lieu of a meeting. The members of the Supervisory Board unanimously consented to waive the part of performance-based Supervisory Board remuneration resulting from the exceptional profit made from completion of the Fresenius / Helios deal. The report of the Board of Management on the provisional annual financial statements of 2013 was received and the proposal on the appropriation of the net distributable profit for financial year 2013 was discussed in the context of the allocation of resources for the Scala project.

At the balance sheet meeting on 29 April 2014 the plenary session discussed in the presence of the auditor the annual financial statements and the management report of RHÖN-KLINIKUM AG, and also the consolidated financial statements and the Group management report for financial year 2013 together with the Board of Management and the auditor. The auditors reported on the key 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. A further subject of this meeting was the preparations for the 2014 Annual General Meeting, in particular the adoption of the proposed resolutions of the Supervisory Board on the applications for resolutions on the agenda of the Annual General Meeting following the previous discussion on the agenda items. Approval resolutions were adopted on the Supervisory Board report, the corporate governance report and on the corporate governance statement pursuant to section 289a of the German Commercial Code. The outcome of the review of the efficiency of the Supervisory Board's work, which was carried out by an external expert, was given by this report and its suggestions and recommendations for further optimisation of our activities were discussed in detail in the plenary session. Following detailed and critical discussion the conclusion of an agreement on granting virtual shares as an incentive measure for the members of the Board of Management was approved.

At the meeting on 3 July 2014 following the resignation of Mr Klimpe from the Supervisory Board, the required reappointment in the Arbitration Committee was made by Dr. Korte by means of a special election. The necessary consent to measures of the Board of Management in carrying out the share repurchase which was adopted at the Annual General Meeting in 2014 and the settlement of the dispute proceedings against resolutions of the AGMs in 2013 and 2014 were delegated to the Audit Committee for objective and rationalisation reasons.

Following previous discussion in the Personnel Affairs Committee, the plenary session adopted the resolution to reappoint Dr. Dr. Martin Siebert as a member of the Board of Management for another four years, and to approve the Board of Management service contract in the Supervisory Board meeting that was held on 6 November 2014. The Board of Management reported in detail on implementing the share repurchase, on setting up the particle therapy centre in Marburg, on the development status of the network medicine project, and on the network partnership with Helios and Asklepios, and also on the planned investments for a health mall at the Bad Neustadt (Saale) site.

## **CORPORATE GOVERNANCE CODEX AND DECLARATION OF CONFORMITY**

In the past financial year, the Supervisory Board dealt with the further development and implementation of the recommendations and suggestions in the German Corporate Governance Code. The declaration of conformity of 6 November 2013 pursuant to section 161 of the German Stock Corporation Act was updated and replaced by a declaration of conformity made by the Board of Management and the Supervisory Board on 6 November 2014, taking into account the revised version of the code dated 24 June 2014. The declarations are permanently available to shareholders on the company's website. The Board of Management and Supervisory Board report jointly on corporate governance pursuant to section 3.10 of the German Corporate Governance Code on pages 27-43 of this company report.

## **EXAMINATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR 2014**

The Board of Management prepared the annual financial statements of the company as at 31 December 2014 and the management report for the financial year 2014 in accordance with the provisions of the German Commercial Code, as well as the consolidated financial statements as at 31 December 2014 and the consolidated management report for the financial year 2014 in accordance with section 315a of the German Commercial Code and following the principles of IFRS (International Financial Reporting Standards). The company's financial statements and management report for the financial year 2014 and the consolidated financial statements, as well as the Group management report for the financial year 2014, were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt (Main). The auditors issued an unqualified auditors' report in each case.

All members of the Supervisory Board received the company's financial statements and management report, the consolidated financial statements and Group management report, and the auditor's reports on the results of the audit together with the Board of Management's proposal on the appropriation of the net distributable profit. These documents were examined by the Supervisory Board and each discussed in detail by the Audit Committee and the Supervisory Board with representatives of the auditors in the respective balance sheet meetings. As part of the examination the Audit Committee and Supervisory Board considered both the accounting findings and also the associated procedures and processes. They primarily applied the criterion of legality as a measure of their review and examined whether the submitted documents complied with applicable law in particular with the applicable accounting rules. Furthermore, in addition to the review of legality, they also examined expediency in terms of accounting, financial and company policy aspects. Following the results of the preliminary review by the Audit Committee and as a result of its own examination, the Supervisory Board agreed with the findings of the auditors and established during its own review that there were no grounds for objection.

At the meeting on 16 April 2015 and at the recommendation of the Audit Committee, the Supervisory Board approved the company's annual financial statements and consolidated financial statements that were prepared by the Board of Management. The company's financial statements have thus been adopted as final. The proposal of the Board of Management on the appropriation on the net distributable profit was examined with particular regard to the economic situation, the liquidity situation, and also with consideration for the resources required for restructuring the company, taking into account the justified interests of the shareholders. The Supervisory Board consented to the proposals of the Board of Management for the appropriation of the net distributable profit.



## CHANGES AND COMPOSITION OF THE BOARD OF MANAGEMENT

The composition of the Board of Management and the personal data, functions and duties of the individual members are presented in the annual report in the Notes.

## CHANGES IN THE SUPERVISORY BOARD

Following expiration of the term of their legal appointment, the following individuals were elected as members of the Supervisory Board at the annual general meeting of 12 June 2014.

- Mr Stephan Holzinger, Managing Director of Holzinger Associates GmbH, Munich,
- Mr Reinhard Hartl, Auditor and Tax consultant, Director of Dr. Kleeberg & Partner GmbH, Icking / Irschenhausen, and
- Dr. Katrin Vernau, Head of Roland Berger School of Strategy and Economics, Hamburg, and
- Professor h.c. Ludwig Georg Braun, former Chief Executive Officer of B. Braun Melsungen AG, Director of B. Braun Holding GmbH & Co. KG, Melsungen, as successor to Mr Detlef Klimpe,

who resigned from office with effect from 12 June 2014.

Due to the Fresenius / Helios deal, Ms Annett Mueller and Mr Werner Prange stepped down from the employees' representatives team with effect from 28 February 2014. Professor Jan Schmitt resigned from the Supervisory Board with effect from 30 April 2014. They were succeeded with effect from 9 April 2014 by Mr Oliver Salomon, from 17 April 2014 by Mr Klaus Hanschur, and from 1 May 2014 by Dr. Franz-Josef Schmitz.

The organisational structure of the Supervisory Board and the members of the committees in the past financial year, and according to the current status, are derived from the list following this report.

Bad Neustadt a. d. Saale, 16 April 2015

The Supervisory Board

Eugen Münch  
Chairman

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

### CHAIRMANSHIP OF THE SUPERVISORY BOARD

Chairman  
Eugen Münch

1st Deputy Chairman  
Joachim Lüddecke

2nd Deputy Chairman  
Wolfgang Mündel

### COMPOSITION OF THE COMMITTEES

#### INVESTMENT, STRATEGY AND FINANCE COMMITTEE

Eugen Münch  
*Chairman*  
Peter Berghöfer  
Stefan Härtel  
Klaus Hanschur (from 17 April 2014)  
Detlef Klimpe (until 12 June 2014)  
Dr. Heinz Korte  
Joachim Lüddecke  
Michael Mendel  
Wolfgang Mündel  
Werner Prange (until 27 February 2014)

#### PERSONNEL AFFAIRS COMMITTEE

Eugen Münch  
*Chairman*  
Stefan Härtel (from 12 March 2014)  
Joachim Lüddecke  
Dr. Brigitte Mohn  
Annett Müller (until 27 February 2014)

#### ARBITRATION COMMITTEE

Eugen Münch  
*Chairman*  
Sylvia Bühler  
Detlef Klimpe (until 12 June 2014)  
Dr. Heinz Korte (from 03 July 2014)  
Joachim Lüddecke

#### AUDIT COMMITTEE

Wolfgang Mündel  
*Chairman*  
Reinhard Hartl (from 12 March 2014)  
Stephan Holzinger  
Detlef Klimpe (until 12 June 2014)  
Dr. Heinz Korte  
Michael Mendel  
Oliver Salomon (from 01 June 2014)  
Georg Schulze-Ziehaus

#### COMMITTEE FOR COMPLIANCE AND COMMUNICATION

Stephan Holzinger  
*Chairman*  
Bettina Böttcher  
Helmut Bühner  
Dr. Katrin Vernau (from 12 March 2014).

#### MEDICAL INNOVATION AND QUALITY COMMITTEE

Eugen Münch  
*Chairman*  
Prof. Dr. Gerhard Ehninger  
Prof. Dr. Jan Schmitt (until 30 April 2014)  
Dr. Franz-Josef Schmitz (from 01 June 2014)  
Georg Schulze-Ziehaus

#### NOMINATION COMMITTEE

Eugen Münch  
*Chairman*  
Dr. Brigitte Mohn  
Wolfgang Mündel