



Eugen Münch
Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

FOR THE FINANCIAL YEAR OF RHÖN-KLINIKUM AG
FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

MONITORING AND CONSULTATION IN AN ONGOING DIALOGUE WITH THE BOARD OF MANAGEMENT

During financial year 2010 the Supervisory Board performed the duties incumbent on it by law and the Articles of Association, regularly advising the Board of Management on the strategic direction of the Company as well as carefully and regularly supervising the Board of Management regarding the management of the Company. The Supervisory Board was involved in all strategic decisions of significance for the Company directly and at an early stage.

The Board of Management informed us regularly, through written and oral reports in a timely and comprehensive manner, on all relevant aspects of corporate planning and strategic further development of the Group, on the development of transactions, the position of the Group including its risk position, as well as on risk management. We have kept ourselves informed of all major projects and developments as well as transactions of major significance. Where business performance deviated from the Company's plans and targets, this was discussed with us and plausibly explained by the Board of Management with reasons being stated for such deviations. The Board of Management co-ordinated with us the Group's strategic orientation. Based on the reports of the Board of Management we thoroughly discussed transactions of decisive importance for the Company in the competent committees and in the plenum and, to the extent required by law and the Articles of Association, voted on the proposed resolutions of the Board of Management after careful and thorough review and consultation. Where required in the case of pressing business matters, the Supervisory Board or, as the case may be, the competent committee adopted resolutions by written vote.

Moreover the chairman of the Supervisory Board, at individual meetings held at least once a week, was in regular contact with the chairman of the Board of Management, where required also consulting further members of the Board of Management or specialised employees, and conferred on the strategy, business performance and risk management of the Company. The personal meetings lasting several hours, which as a rule take place on a weekly basis and if required are also supplemented by telephone calls, are used for an exchange of mutual impressions and assessments.

The drastic changes faced by the healthcare system as a result of demographic trends mean that, over a period of perhaps twenty years, a declining birth rate will raise the relative share of the elderly in the population and, consequently, lead to a declining share of younger persons. So far, policy-makers and society have been responding to the foreseeable rising demand of the older generation for products and services from the healthcare sector (which will come at the expense of general consumption) by cost-cutting, restrictions and rationing measures. Such measures, however, are not being discussed openly but instead carried through as *faits accomplis*. For this reason, the Company is developing viable, forward-looking provider concepts and detailed, convincing programmes in an effort to foster the emergence of a contemporary healthcare system. For a company at the vanguard of sweeping changes in society, this is a necessary and normal function, far exceeds the normal potential for internal change within an established industry, and also calls for constant co-ordination and consultation between the Supervisory Board and the Board of Management on the evaluation of trends and the orientation of measures as well as continuous corrections. This also has ramifications for the work of the Supervisory Board, since the standards of co-operation between the chairman of the Supervisory Board and the twenty-member supervisory body cannot be derived from traditional structures but have to be adapted to the specific requirements in the case of a company at the vanguard of sweeping changes.

In the regular meetings with the chairman of the Board of Management – and thus also in the information provided to the plenary body and to the committees – a great deal of attention was devoted to the changing health policy environment as a result of the Statutory Health Insurance Financing Act (Gesetz zur nachhaltigen und sozial ausgewogenen Finanzierung der Gesetzlichen Krankenversicherung, GKV-FinG) and the restrictions it places on the hospital sector. The new challenges that this presents to the Group requires adjustments in the corporate strategy and the instruments of corporate governance so that it can continue further on its path of transition from hospital operator to provider of healthcare services. In this context, the reorganisation of the management and re-allocation of responsibilities within the Board of Management at the beginning of financial year 2011 was also an important subject of discussion.

Other important routine issues relate to the internal workings of the Board of Management as well as personnel prospects and the appraisal of the performance of the individual members of the Board of Management and of the Board of Management as a whole.

The Supervisory Board discussed the issues of provision of information by the Board of Management and within the Supervisory Board in connection with the evaluation of its work and, overall, agreed with the information policy practised. Understandably, certain members of the Supervisory Board take up different personal positions in this area and therefore have different expectations as well. Thus, an employee released from working duties to serve on a supervisory board will take a greater interest in information oriented on the interests of employees, whereas a financial expert devoting his full working capacity to matters relating to the capital markets will be more interested in the results than the underlying motives of demographic trends in society. The established practice of reporting by the chairman of the Supervisory Board and the chairmen of the committees at the beginning of every Supervisory Board meeting in which all Supervisory Board members make ample use of this right of inquiry forms the basis of a comprehensive transfer of information. The starting point and basis of such practice of providing information to the plenum is for the complete minutes of committee meetings to be made available in a timely manner to all members.

The chairman of the Supervisory Board maintains working contacts with the other chairmen only in the presence or upon clear consultation with the chairman of the Board of Management, and almost never with other employees. For the same reason, contact between the members of the Board of Management and the Supervisory Board is confined to the meetings unless individual members of the Supervisory Board conduct certain consultations with the consent of the chairman of the Supervisory Board and with the knowledge of the plenum. Since the chairman of the Supervisory Board strictly observes the prohibition of working on an operative basis, contacts with members of the Board of Management or employees of the Company take place only in the presence of the chairman of the Board of Management. This ensures that the relationship between the Board of Management and the Supervisory Board is critical but also built on mutual trust, and that a clear distance is kept from the operative sphere. The plenary and committee meetings do not impose any restrictions in terms of questions or issues, but an effort is made to avoid prior arrangements and the formation of groups, since even merely de facto groupings could not be reconciled with the principle of a Supervisory Board member acting personally and under his or her own responsibility.

The significant change in the composition of the Supervisory Board following the elections in 2010 requires the body's working principles to be redefined. It also calls for the formation of a new consensus which to a certain extent is still ongoing.

INTENSIVE AND EFFICIENT WORK IN THE COMMITTEES OF THE SUPERVISORY BOARD

With a view to efficiently performing its tasks, the Supervisory Board has set up a total of seven standing committees to which members are appointed not according to proportionality but based on the specific expertise they possess for the special issues dealt with in the committees. After the re-election of the Supervisory Board at the 2010 Annual General Meeting, this principle was also maintained for the re-appointment of the committees, thus allowing for the different skills of members to be combined and exploited optimally. The committees act as bodies with power to pass resolutions within the scope prescribed by law, the Articles of Association – also in lieu of the Supervisory Board – based on the Terms of Reference of the latter adapted to the respective committee mandates to the extent permitted by law and defined by the Supervisory Board.

Members of the Supervisory Board who are not represented on a committee or do not belong to the committee for which a plenary meeting has been convened must ensure the responsible involvement of the plenary body as one of their most vital tasks in enforcing their claim to information. They are to act as a counterweight to the closer contact a committee might have with the Board of Management and potential weaknesses in supervision by reason of its more intensive co-operation with the Board of Management. It is accepted and useful for members less knowledgeable in the subject currently being deliberated on to ask the experts to comprehensibly explain their position, thus providing a broad basis for the work of the Supervisory Board. Since the members of the Supervisory Board are required to maintain strict secrecy, a proposal was put forth within the Board to take advantage of the expertise of specific persons on special issues through mutual contacts and to communicate such expertise directly.

The composition of the standing committees during the financial year and their current composition is shown below in the overview of the Supervisory Board's organisational structure.

The **Investment, Strategy and Finance Committee** held three ordinary meetings during the year under review (attendance rate: 100 per cent), of which one meeting was held as a combined meeting together with the Audit Committee because of issues involving different fields. The Committee consults on the development and implementation of corporate strategy together with the Board of Management and passes resolutions in lieu of the Supervisory Board on the acquisition of healthcare facilities, investments subject to approval as well as the financing of such measures. It moreover reviews the reports to be remitted by the Board of Management on the investment and financial development which the latter submits to the plenary meeting of the Supervisory Board. An important duty of the Investment, Strategy and Finance Committee is to discuss the overall and part-strategy of the Board of Management on the development of the Company into which the specific investment projects and financing measures have to fit, which also includes a discussion of technological and social issues as well as developments in medicine.

One of the main points of negotiation in the work of this Committee at the beginning of the year under review was the rescheduling of the Group's debt financing, which among other things ultimately resulted in the successful issuance of a bond with a volume of 400 million euros. Together with the equity capital increase carried out in the previous year, it allows us to finance investments and acquisitions planned as part of our growth strategy on a secure basis and independent from the banks. As an objective consequence of the deterioration in public finances in the wake of the economic and financial crisis and the resulting loss of tax revenues, public hospital owners will no longer be able to provide their facilities with the requisite funding. It will no longer be possible for them to finance investments, modernisation measures and the settlement of annual operating losses, and these will be the drivers of an expected privatisation wave. Subjectively, however, many municipalities and their elected representatives are trying to deny these unpopular consequences, arguing that solving their hospital problems would not bring any breakthrough given the looming mountain of problems. No solutions are being proposed in the run-up to elections. Since this is only leading to further backlogs, the privatisation question at most will be put off, but will not take care of itself. The Group's task, then, is to use this time for structural improvements and preparation, since experience shows that the time and effort required to resolve problems is all the greater when they have been put off.

The currently prepared restructuring of Group financing, which is being actively escorted by the Committee, will put the Company in a position to act quickly – with a precise and direct internal controlling capability – in the case of acquisition proposals meeting our qualitative requirements.

A further focus of the strategy discussion at all meetings of this Committee related to the proposals being debated by policymakers regarding healthcare reform legislation and their foreseeable impact on the hospital sector, as well as the counteracting and compensatory measures open to the Group to prevent adverse impacts on its net assets and results of operations, as well as exploiting any opportunities arising from the new legislation. Since so far all legislative approaches have led to a rationing of service volumes, the Group as provider will respond with qualified healthcare offerings and thus further improve its position versus the reactive participants in the healthcare market.

The structuring and implementation of the two divisions Outpatient and Inpatient Basic and Standard Care, Medical Development and Quality Management (Division 1) and Specialised, Intermediate and Maximum Care (Division 2) was critically monitored and regularly discussed by the Committee. This also applies for the corporate and investment planning of the university hospital subsidiary Universitätsklinikum Gießen und Marburg GmbH, at its two sites of Giessen and Marburg where the current large-scale investments are nearing the completion and commissioning stage. The investment requests required for these sites were approved.

The focus of the combined meeting of the Investment, Strategy and Finance Committee with the Audit Committee, which took place in the presence of the auditor, was on discussions of fundamental and strategic significance relating to Group financing, the restructuring of the capital base of the subsidiaries and considerations regarding the tax-efficient use of profit-and-loss transfer agreements.

In addition to the report of the chairman of the Board of Management on current developments, the Board of Management routinely remitted an acquisitions report which, along with providing an overview of the national hospital market, also served as the basis of discussion for planned and ongoing acquisition projects with the Board of Management.

The 2010 investment plan was approved after being discussed critically and in terms of content. At each meeting the Board of Management reported on the development of investments and financing in a continuously updated investment and finance plan discussed as part of a critical dialogue. Specific motions for approval of investment projects were subsequently discussed based on detailed written resolution proposals of the Board of Management, including market studies and investment calculations. By critical inquiry and questioning, the Committee reviewed the investment projects for compatibility with the newly structured divisions and approved these where the requirements were met.

The **Personnel Affairs Committee**, which is responsible for the personnel matters of the Board of Management and which prepares the personnel decisions of the Supervisory Board, also held three meetings (attendance rate: 100 per cent). The Committee examined the change in the personnel structures of the Board of Management and the reorganisation of duties and Board divisions that were required after the departure of Mr. Ralf Stähler as at 30 April 2010 and the deputy chairman of the Board of Management, Mr. Gerald Meder, and of Ms. Andrea Aulkemeyer as at 31 December 2010.

The Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG) and amendments to the German Corporate Governance Code necessitated a revision of the remuneration scheme for the Board of Management to comply with these new requirements. The Committee discussed the subsequent revision of the guide-

lines on the remuneration of the members of the Board of Management which also took account of the results of an external remuneration expertise, and adopted a draft resolution for the full Supervisory Board. Details on the revised remuneration scheme, which was approved by resolution at the Annual General Meeting on 9 June 2010, are set out in the Corporate Governance Report ("Remuneration report" section), on pages 30 ff.

Other points of discussion were the appointments of Mr. Volker Feldkamp and Mr. Martin Menger as members of the Board of Management and the review and preparation of service contracts for members of the Board of Management. This also included examining service contracts of former members of the Board of Management. The Committee also dealt with the appraisal of the performance and development of specific members of the Board of Management and of the Board of Management as a whole, as well as the remuneration commensurate therewith. Draft resolutions for such adjustments to remuneration provisions in the service contracts of members of the Board of Management were submitted to the full Supervisory Board giving due regard to the new remuneration scheme.

During the past financial year also, the **Mediation Committee** (pursuant to section 27 (3) of the Co-Determination Act (Mitbestimmungsgesetz, MitbestG)) did not have to be convened.

The **Audit Committee** held five meetings during the year under review (attendance rate: 97 per cent), of which one meeting was held as a combined meeting together with the Investment, Strategy and Finance Committee because of issues involving different fields. The meetings were attended regularly by the chairman of the Board of Management as well as the responsible members of the Board of Management for Accounting, Finance/Investor Relations and Internal Auditing/Compliance. The auditor attended three meetings. This Committee notably was responsible for reviewing and preparing the RHÖN-KLINIKUM AG consolidated annual financial statements for financial year 2009. Also reviewed and discussed at the meetings were the stand-alone financial statements, the management reports and the respective audit reports of the Group subsidiaries which were subjected to critical review by the members of the Committee, as well as the proposal on the appropriation of the net distributable profit.

The Audit Committee examined the independence of the auditor designated for the auditing of the annual financial statements for financial year 2010 and for the review of the Half-Year Financial Report, obtained the statement regarding the auditor's independence pursuant to Item 7.2.1 of the German Corporate Governance Code, recommended to the plenary meeting of the Supervisory Board a proposal for the election of the auditor to be submitted to the Annual General Meeting, and after the election issued the auditor with the audit mandate and concluded the remuneration agreement for the same. For the audit in 2010 a comprehensive list of audit items was defined. Also examined was the award of consulting contracts for non-auditing services to the statutory auditors within the Group. The qualification of the statutory auditor was monitored.

The Committee moreover examined questions of fundamental importance relating to accounting, corporate planning, the capital base, the supervision of the accounting process, as well as the effectiveness of the internal controlling system, risk management system, internal audit system and compliance system. The interim reports were discussed regularly with the Board of Management prior to their publication, and the half-year financial report was thoroughly discussed with the Board of Management and the auditor. The members of the Committee also continue to critically monitor, based on the figures submitted by the Board of Management, the ongoing financial integration of Universitätsklinikum Gießen und Marburg GmbH into the Group and the related changes made in this enterprise as well as the trend in service volumes in connection with the large-scale investments made.

The Committee was and is kept informed by the Board of Management on the course and content of the audit by the German Financial Reporting Enforcement Panel – FREP – (normal audit conducted on a random sampling basis without any immediate cause).

The Group controlling report on performance and finance controlling submitted quarterly, which forms part of our risk management system, was discussed with the Board of Management in depth and critically at the Committee's meetings. Here the performance trend of the Group's individual hospitals is presented, critically examined and discussed by the Board of Management both at the hospital level and at the level of the specialist department.

The body kept itself regularly informed about the activity of the Internal Auditing department by the responsible member of the Board of Management, and by reports submitted by the head of Internal Auditing who attended three meetings. The Committee approved the auditing plan of the Internal Auditing department for 2010 as well as its update. The audit reports of the Internal Auditing department as well as the 2009 action report were then submitted and discussed with the Board of Management. We kept ourselves informed by the Board of Management on the implementation of the recommendations by the Internal Auditing department through information on the results of follow-up reporting and inspection.

Also covered by the consultations and the reporting by the Board of Management in the meetings were the organisation and introduction of the compliance management system. The concept and structure submitted by the Board of Management for this purpose were approved by the Committee and released for implementation. The compliance officer appointed in the second half of the year attended one meeting of the Audit Committee. The audit reports of the Compliance department as well as the 2009 action report were then submitted and discussed with the Board of Management, and the 2010 compliance programme was approved. Regular reporting of the Board of Management also includes the quarterly report on notified violations, doubtful cases and problems from the area of compliance, each of which is the subject of intensive discussion with the Board of Management.

In preparing the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) relating to the recommendations of the German Corporate Governance Code, the amendments by the Government Commission of 26 May 2010 were reviewed as to their application and duly reflected, with a corresponding resolution proposal being submitted to the Supervisory Board as a whole.

The **Anti-Corruption Committee** is the point of contact for employees, suppliers and patients in suspected cases of corruption. During the past financial year, no employee, supplier or patient turned to the Committee to notify a suspected case of corruption. For this reason, no meetings of the Committee were necessary. The reports of the Auditing department confirm the impression that parties are increasingly turning directly to the Auditing or Compliance department.

One employee turned to the chairman of the Committee to notify a possible conflict of interests of an office holder at one hospital. In a direct query to the Board of Management through the chairman of the Committee, this notice was investigated. The Board of Management assured that corrective measures would be taken.

The **Medical Innovation and Quality Committee** advises the Board of Management and the Supervisory Board on developments and trends in medicine and monitors the development of medical quality. No meetings were held during the period under review so as to allow the Board of Management time to implement a number of measures which it plans to develop in the current decade.

The **Nomination Committee**, in preparation for the nomination of candidates for the upcoming re-election of Supervisory Board members of the shareholders at the Annual General Meeting on 9 June 2010, has drawn up a profile of specialist requirements for members of the Supervisory Board in which knowledge and expertise were defined as part of a list of qualifications as the prerequisite for Supervisory Board candidacy. All Supervisory Board candidates, including those seeking re-election, were required to disclose their current qualifications in accordance with the requirements profile.

At its meeting on 26 April 2010 (attendance rate: 100 per cent), the Nomination Committee once again nominated the existing members of the Supervisory Board as candidates for election to the Supervisory Board by reason of their proven service in the past and their knowledge and expertise documented in the profile of specialist requirements. As an additional candidate to succeed Dr. Heinz Korte, who is leaving the Supervisory Board for age reasons, Dr. Rüdiger Merz was nominated. A higher participation of women on the Supervisory Board and the Board of Management, provided that the candidates have the required qualifications, is desirable and is being further pursued by the Supervisory Board.

THE WORK OF THE SUPERVISORY BOARD'S PLENARY MEETING

The Supervisory Board held a total of five meetings during financial year 2010 (attendance rate: 98 per cent), of which four ordinary meetings and the constituting meeting immediately following the Annual General Meeting at which re-election of the Supervisory Board took place as planned. No member attended fewer than half the meetings.

Ordinary meetings of the Supervisory Board are divided into two blocks, with the first block dealing with internal Supervisory Board issues and the second one with special issues of supervision. In this regard considerable attention is devoted to the reports of the committee chairmen on the work of the committees. These reports as well as the questions and the discussions of the same go beyond the content of the minutes of meetings of the committees available in advance to all members of the Supervisory Board and give the members not represented on the committees the opportunity to obtain comprehensive information on the items dealt with and the resolutions adopted. In principle, this first part was attended only by the chairman of the Board of Management and his deputy where the specific situation did not call for a meeting in the absence of the entire Board of Management. Given that, after Mr. Meder left the Board of Management, the concept of the deputy function is being changed into that of a leave-of-absence replacement function, it is planned that in future only the chairman of the Board of Management will be called for this part of the meeting.

In the usually more extensive and longer reporting and proposal part of the meetings, the chairman of the Board of Management – and to the extent required the chairman of the Supervisory Board from his viewpoint – normally first reports on current developments in the healthcare system and on the current status of the Group's development. The ensuing analytical discussions also routinely promote the further development of insight and knowledge regarding the matters at hand on the part of the Board of Management and Supervisory Board members.

At all four ordinary meetings of the Supervisory Board the plenary meeting, based on extensive but concise and systematised written reports and presentations by the Board of Management, regularly consulted on and discussed with the Board of Management the trend in the revenues and earnings, the performance data, the key ratios and the personnel of the Company and Group as well as the individual Group subsidiaries. In addition to routine subjects, previously defined areas of focus as well as trends and events impacting the Group's future development were discussed. To prepare individual agenda items, the Supervisory Board availed itself of external expert legal advice and on several occasions requested and received separate reports by the Board of Management.

At the meeting on 10 February 2010, the Supervisory Board addressed matters relating to the Board of Management and on recommendation of the Personnel Affairs Committee approved the revised remuneration guidelines and decided to submit these to the Annual General Meeting for approval as well as to appoint an independent remuneration adviser to assess the reasonable and customary nature of the remuneration of the Board of Management and the provisions set out in this regard in the remuneration guidelines. The profile of specialist requirements for members of the Supervisory Board was adopted and released to be applied to all shareholders' representatives.

The Supervisory Board elected Mr. Joachim Lüddecke as first deputy chairman of the Supervisory Board to replace Mr. Bernd Becker who resigned his office on 2 December 2009, and re-appointed members to succeed Mr. Becker on the committees. A further focus of consultations regarding the operative area was the development of a generalised healthcare contract concept giving due regard to the relevant framework conditions on provision of services.

At the balance sheet meeting on 27 April 2010 and with the attendance of the auditors, the annual financial statements and management report of RHÖN-KLINIKUM AG as well as the consolidated financial statements and the Group management report for financial year 2009 were discussed with the Board of Management and the auditor. The auditors reported on the essential findings and results of the audits and were available to the Supervisory Board for questions and additional information. Also discussed at this meeting were the preparations for the 2010 Annual General Meeting, in particular the adoption of resolution recommendations of the Supervisory Board on the resolution proposals in the agenda items to the Annual General Meeting after a prior discussion of the agenda items. On proposal by the Nomination Committee, the candidates for re-election to the Supervisory Board as representatives of the shareholders were presented. As part of the discussions on matters related to the Board of Management, resolutions on the approval of the resignation of office by Mr. Ralf Stähler and for the appointment of Mr. Volker Feldkamp as member of the Board of Management were adopted on recommendation of the Personnel Affairs Committee, and the conclusion of a termination agreement and service contract, respectively, submitted for this purpose was approved.

At the constituting meeting of the Supervisory Board on 9 June 2010 immediately following the Annual General Meeting, Mr. Eugen Münch was once again elected as chairman of the Supervisory Board and Mr. Joachim Lüddecke as first deputy and Mr. Wolfgang Mündel as second deputy. Mr. Eugen Münch (chairman), Joachim Lüddecke, Dr. Rüdiger Merz and Ms. Sylvia Bühler were then appointed as members of the Mediation Committee. The existing Terms of Reference of the Supervisory Board were confirmed.

At the meeting on 7 July 2010, the further committees of the Supervisory Board were formed and appointed. Reference is made to the "Overview of organisational structure of the Supervisory Board and the composition of the committees (period of 9 June to 31 December 2010)" provided hereafter. The points of focus of the consultations at the meeting were the current resolutions of the German Government on the austerity programme for the healthcare sector and its impact on hospitals as well as the burdens this is expected to bring about for the Group and the possibilities arising to counteract them. At this meeting, the Supervisory Board gave its approval to launch the project of Medical Care Centres (MVZs) in Ophthalmology.

At the Supervisory Board meeting on 3 November 2010, we discussed the result of the efficiency audit of our Supervisory Board activities together with the external moderator and discussed further possible ways of optimising the work of the Supervisory Board. In the absence of the members of the Board of Management except the chairman of the Board of Management, matters relating to the Board of Management were dealt with and on recommendation of the Personnel Affairs Committee the negotiating powers for preparing the financial statements and amending the service contracts of current and former members of the Board of Management were granted.

The earnings targets submitted by the Board of Management for financial year 2011 were discussed thoroughly and critically by the plenary meeting in terms of their premises and the targets specified for the Group companies. Following this meeting, Mr. Martin Menger was appointed in a written resolution procedure as a further member of the Board of Management and the service contracts of current and former members of the Board of Management finally negotiated by the chairman of the Supervisory Board were approved.

The Board of Management informed us fully and in continuously updated reports for the Company and the Group on investment, revenue and liquidity planning and earnings projections for financial year 2010. At all Supervisory Board meetings the Supervisory Board examined all these reports and deliberated with the Board of Management on deviations, with the grounds for these being stated. Risks were reported on regularly at every meeting with the written reports of the Board of Management which were carefully scrutinised by the Supervisory Board.

For all subjects, in-depth discussions were held with the Board of Management to which the Supervisory Board members also contributed their experience and know-how.

Separate meetings with the Board of Management on a proportionality basis are not held because the exchange of information between all members of the Supervisory Board is sensible and useful, and encouraging the formation of groups, however, is not in the best interests of the eminently independent and self-responsible Supervisory Board. Only for preparing the balance sheet meeting does a meeting of the employee representatives on the Supervisory Board take place without the participation of the Board of Management which other members of the Supervisory Board are entitled to attend on request, at which the employee representatives represented on the Audit Committee for the most part assist in an explanatory capacity. The room expenses arising from this are borne by the Company.

CORPORATE GOVERNANCE CODE AND DECLARATION OF COMPLIANCE

During the past financial year, the Supervisory Board examined the issues of the German Corporate Governance Code on an ongoing basis, with the body taking a particularly close look at the most recent Code amendments regarding the composition of supervisory boards in terms of the diversity and reasonable consideration of women. In its appointments, the Supervisory Board will give regard to the criteria of internationality, conflicts of interests, age limits, diversity as well as reasonable participation of women. However, it expressly refrains from stating any specific time- or quota-related targets for its composition. The Supervisory Board considers the qualification of the candidates to be the exclusive criterion for re-appointments and therefore sees no need to depart from this practice. For this reason it will not comply with the recommendations in Code Item 5.4.1 (2) and (3).

In respect of ongoing and higher-qualification training being advocated for Supervisory Board members, the chairman of the Supervisory Board and the majority of the members of the Supervisory Board take the view that each member of the Supervisory Board must have responsibly acquired the basic knowledge required by their duties within this corporate body if they accept the mandate, and that each has an obligation to complete further training as required on an ongoing basis on the one hand through internal communication of the actual tasks and on the other, to the extent required externally, by higher-qualification courses of training completed by the members individually and under their own responsibility (which, given the reasonable remuneration that they also receive for this purpose for their Supervisory Board work, is possible for each member). The chairmen of the committees and the chairman of the Supervisory Board additionally refer to certain measures of particular interest. Assistance in the form of assumption of costs as part of non-cash benefits is not admissible since the remuneration of the Supervisory Board work is exhaustively covered in the Articles of Association and the latter do not provide for any special remuneration.

Overall, derogations from the Code's recommendations were kept to a minimum. Giving due regard to the revision of the Code on 26 May 2010, the Declaration of Compliance issued on 28 October 2009 pursuant to section 161 of the Stock Corporation Act (AktG) was replaced by an updated Declaration of Compliance issued on 3 November 2010 by the Board of Management and the Supervisory Board. This updated Declaration of Compliance was then permanently made available to shareholders on the Company's homepage.

In accordance with Item 3.10 of the German Corporate Governance Code, the Board of Management reports, at the same time also on behalf of the Supervisory Board, on corporate governance on pages 30 ff. of this Annual Report.

If members of this Supervisory Board also exercise mandates on supervisory boards or similar bodies of other companies or organisations, membership on these supervisory boards, in the view of the Supervisory Board of RHÖN-KLINIKUM AG, has not given rise to any conflicts of interest that might result in an impairment in the performance of their mandates.

EXAMINATION AND APPROVAL OF THE 2010 FINANCIAL STATEMENTS

The Board of Management has prepared the financial statements of the Company and the management report for the year ended 31 December 2010 in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB), whilst the consolidated financial statements and Group management report for the year ended 31 December 2010 have been prepared pursuant to section 315a HGB in accordance with the principles set out in the International Financial Reporting Standards (IFRS) as applicable within the European Union. The auditors, PricewaterhouseCoopers Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have examined the financial statements of the Company and management report as well as the consolidated financial statements and Group management report for the year ended 31 December 2010. Their audit gave no cause for objections; the auditors have issued an unqualified auditor's report.

The financial statements of the Company and the management report, the consolidated financial statements and the Group management report as well as the reports of the auditors on the result of their audit were submitted to all members of the Supervisory Board together with Management's proposal for the appropriation of the net distributable profit for the year. These documents were examined by the Supervisory Board and thoroughly discussed by the Audit Committee and by the Supervisory Board with representatives of the auditors at the respective balance sheet meetings. Based on the findings of the preliminary review by the Audit Committee, the Supervisory Board concurs with the finding of the auditors and, having conducted its own review, has determined that it sees no grounds for objections.

The Supervisory Board approved the financial statements of the Company and the consolidated financial statements prepared by the Board of Management at the meeting on 27 April 2011 on recommendation of the Audit Committee; the financial statements of the Company are thus adopted as final.

The Supervisory Board approves the Board of Management's proposals for the appropriation of net distributable profit.

CHANGES AND COMPOSITION OF THE BOARD OF MANAGEMENT

The composition of the Board of Management and the personal data, duties and responsibilities of the specific members of the Board of Management are set out in the Notes to the consolidated financial statements.

Mr. Ralf Stähler left the Board of Management on 30 April 2010 for health reasons; Ms. Andrea Aulkemeyer and the deputy chairman of the Board of Management Mr. Gerald Meder left the Board of Management on expiry of their appointment as at 31 December 2010. Mr. Meder will continue to be available to the Company as divisional head. The Supervisory Board thanks all members leaving the Board of Management for the successful work with them over the past years.

Mr. Volker Feldkamp was appointed as of 1 September 2010 for the period of five years and Mr. Martin Menger as of 1 January 2011 for the period of three years as members of the Board of Management. Both members of the Board of Management are assigned to Division 2, Specialised, Intermediate and Maximum Care.



Members of the Supervisory Board from left to right, front row: Dr. Rüdiger Merz, Annett Müller, Jens-Peter Neumann, Michael Mendel, Dr. Brigitte Mohn, Wolfgang Mündel, Professor Dr. Dr. sc. Karl W. Lauterbach, Detlef Klimpe, Professor Dr. Jan Schmitt, Werner Prange; back row: Caspar von Hauenschild, Dr. Rudolf Schwab, Eugen Münch, Bettina Böttcher, Professor Dr. Gerhard Ehninger, Joachim Lüddecke, Stefan Härtel, Sylvia Bühler, Georg Schulze-Ziehaus, Peter Berghöfer

CHANGES AND COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the requirements of the Co-Determination Act (MitbestG), the Supervisory Board of RHÖN-KLINIKUM AG has been comprised of 20 members from 31 December 2005. Ten Supervisory Board members were elected by the shareholders and ten Supervisory Board members by the employees.

In the period under review, the period of office of the previous Supervisory Board ended on conclusion of the Annual General Meeting on 9 June 2010. The Annual General Meeting elected as shareholders' representatives on an individual basis Dr. Brigitte Mohn as well as Professor Dr. Gerhard Ehninger, Caspar von Hauenschild, Detlef Klimpe, Professor Dr. Dr. sc. Karl W. Lauterbach, Michael Mendel, Eugen Münch, Wolfgang Mündel, Jens-Peter Neumann and Dr. Rüdiger Merz as successor to Dr. Heinz Korte who was no longer able to submit his candidacy for re-election after reaching the age limit. Of the employee representatives, the following members were elected to the Supervisory Board: Ms. Bettina Böttcher, Ms. Sylvia Bühler, Ms. Annett Müller, Mr. Peter Berghöfer, Mr. Stefan Härtel, Mr. Joachim Lüddecke, Mr. Werner Prange, Professor Dr. Jan Schmitt, Mr. Georg Schulze-Ziehaus and Dr. Rudolf Schwab.

At the constituting meeting of the Supervisory Board on 9 June 2010, Mr. Eugen Münch was re-elected as chairman of the Supervisory Board, Mr. Joachim Lüddecke as first deputy and Mr. Wolfgang Mündel as second deputy. At its meeting on 7 July 2010, the Supervisory Board appointed Mr. Michael Mendel, Dr. Rüdiger Merz and Mr. Wolfgang Mündel as financial experts pursuant to section 100 (5) AktG.

The personal details of the members of the Supervisory Board in 2010 are set out in the Notes to the consolidated financial statements. The section also provides information on the professional qualifications of the Supervisory Board members as well as their further mandates. The organisational structure of the Supervisory Board and the composition of the committees during the past financial year and at the present time are set out in the overview provided further on in this Report. The Supervisory Board thanks all members leaving the Supervisory Board for their good work and dedication to the Company over the past years.

The Supervisory Board thanks the members of the Board of Management, all employees as well as the employee representatives of the Group companies for their commitment and work during the past financial year.

Bad Neustadt a. d. Saale, 27 April 2011

The Supervisory Board

Eugen Münch
Chairman

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

(period of 1 January to 9 June 2010)

CHAIR OF THE SUPERVISORY BOARD

Chairman
Eugen Münch

1st Deputy Chairman
Joachim Lüddecke
(from 10 February 2010)

2nd Deputy Chairman
Wolfgang Mündel

COMPOSITION OF THE COMMITTEES

INVESTMENT, STRATEGY AND FINANCE COMMITTEE

Eugen Münch
Chairman
Helmut Bühner
(from 10 February 2010)
Detlef Klimpe
Dr. Heinz Korte
Joachim Lüddecke
Michael Mendel
Wolfgang Mündel
Werner Prange
Michael Wendl

PERSONNEL AFFAIRS COMMITTEE

Eugen Münch
Chairman
Joachim Lüddecke
(from 10 February 2010)
Dr. Brigitte Mohn
Joachim Schaar

MEDIATION COMMITTEE

Eugen Münch
Chairman
Joachim Lüddecke
(from 10 February 2010)
Sylvia Bühler
Dr. Heinz Korte

AUDIT COMMITTEE

Wolfgang Mündel
Chairman
Caspar von Hauenschild
Detlef Klimpe
Dr. Heinz Korte
Jens-Peter Neumann
Michael Wendl

ANTI-CORRUPTION COMMITTEE

Caspar von Hauenschild
Chairman
Ursula Harres
Werner Prange

MEDICAL INNOVATION AND QUALITY COMMITTEE

Eugen Münch
Chairman
Gisela Ballauf
Professor Dr. Gerhard Ehninger
Ursula Harres
(from 10 February 2010)
Professor Dr. Dr. sc. Karl W. Lauterbach

NOMINATION COMMITTEE

Eugen Münch
Chairman
Dr. Heinz Korte
Wolfgang Mündel

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

(period of 9 June to 31 December 2010)

CHAIR 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 (from 7 July 2010)

Eugen Münch
Chairman
Peter Berghöfer
Stefan Härtel
Detlef Klimpe
Joachim Lüddecke
Michael Mendel
Wolfgang Mündel
Jens-Peter Neumann
Werner Prange

PERSONNEL AFFAIRS COMMITTEE (from 7 July 2010)

Eugen Münch
Chairman
Joachim Lüddecke
Dr. Brigitte Mohn
Annett Müller

MEDIATION COMMITTEE

Eugen Münch
Chairman
Joachim Lüddecke
Sylvia Bühler
Dr. Rüdiger Merz

AUDIT COMMITTEE (from 7 July 2010)

Wolfgang Mündel
Chairman
Sylvia Bühler
Caspar von Hauenschild
Detlef Klimpe
Michael Mendel
Dr. Rüdiger Merz
Jens-Peter Neumann

ANTI-CORRUPTION COMMITTEE (from 7 July 2010)

Caspar von Hauenschild
Chairman
Bettina Böttcher
Dr. Rudolf Schwab
Werner Prange

MEDICAL INNOVATION AND QUALITY COMMITTEE (from 7 July 2010)

Eugen Münch
Chairman
Professor Dr. Gerhard Ehninger
Professor Dr. Dr. sc. Karl W. Lauterbach
Professor Dr. Jan Schmitt
Georg Schulze-Ziehaus

NOMINATION COMMITTEE (from 7 July 2010)

Eugen Münch
Chairman
Dr. Rüdiger Merz
Wolfgang Mündel