MEDICLIN

Annual Report 2005

MediClin: Keydata business development

TEUR	2005	2004
Sales	370,434	357,970
Operating Result (EBIT)	16,096	–12,755
EBITDA-Margin	6.3%	1.7%
EBIT-Margin	4.3%	–3.6%
Financial Result	–6,466	–5,983
Result attributable to shareholders of MediClin	7,667	–15,841
Cash Flow from operating activities	17,524	8,517
Balance sheet total	268,572	255,147
Non-current assets incl. deferred taxes	182,079	177,742
Current assets	86,492	77,405
thereof cash and cash equivalents	26,991	18,180
Equity	86,150	78,354
Equity ratio in per cent	32.1%	30.7%
Non-current liabilities incl. deferred taxes	121,503	128,796
Current liabilities incl. tax liabilities	60,919	47,997
Gross capital expenditure	16,514	19,071
Net financial liabilities	64,691	68,366
Number of full time employees (annual average)	5,248	5,298
Sales per full time employee	70,586	67,567
Staff costs per full time employee	39,942	39,587
Occupancy rates in per cent	76.2%	72.6%
Earnings per share undiluted in Euro	0.26	–0.53
Earnings per share diluted in Euro	0.25	–0.53
Cash Flow from operating activities per share in Euro	0.56	0.27
Dividend per share in Euro	–	–
Number of shares in million	31.5	31.5

Quarterly Development of the Group in 2005

in million Euro	Q1	Q2	Q3	Q4
Sales	87.5	93.9	94.6	94.4
Operating Result	–1.1	3.7	7.1	6.4
EBIT-Margin	–1.3%	3.9%	7.5%	6.8%
Result attributable to sharesholders of MediClin	–3.0	2.0	5.6	3.1
Return on sales	–3.4%	2.1%	5.9%	3.3%
Cash Flow from operating activities	0.7	–1.1	10.3	7.6
Equity ratio	28.8%	29.5%	30.5%	32.1%
Gross capital expenditure	2.9	3.3	4.1	6.2
Net financial liabilities	71.3	71.7	63.7	64.7
Number of full time employees	5,230	5,227	5,264	5,272
Occupancy rates in per cent	74.0%	78.1%	78.5%	74.4%
Earnings per share undiluted in Euro	–0.09	0.06	0.17	0.12
Cash Flow per share in Euro	0.02	–0.03	0.33	–0.04

MediClin: Development of Nursing days and cases

		Q1	Q2	Q3	Q4	Total
Nursing days	**2005**					
Segment Postacute		395,836	430,009	437,310	409,200	1,672,355
Segment Acute		97,046	94,933	92,021	90,422	374,422
Segment Nursing care		14,819	20,299	25,289	25,912	86,319
Group		**507,701**	**545,241**	**554,620**	**525,534**	**2,133,096**
	2004					
Segment Postacute		395,618	414,771	422,503	407,995	1,640,887
Segment Acute		103,073	101,081	98,201	100,452	402,807
Segment Nursing Care		0	2,116	8,965	12,777	23,858
Group		**498,691**	**517,968**	**529,669**	**521,224**	**2,067,552**
Cases	**2005**					
Segment Postacute		15,831	17,290	17,356	16,358	66,835
Segment Acute		9,361	9,124	8,890	8,627	36,002
Group		**25,192**	**26,414**	**26,246**	**24,985**	**102,837**
	2004					
Segment Postacute		15,299	16,228	16,621	16,011	64,159
Segment Acute		9,608	9,359	9,477	9,548	37,992
Group		**24,907**	**25,587**	**26,098**	**25,559**	**102,151**

MediClin: Business Development by Quarters

		Q1	Q2	Q3	Q4	Total
Sales in million Euro	**2005**					
Segment Postacute		50.5	54.5	55.3	52.9	213.2
Segment Acute		35.9	37.9	37.4	39.6	150.8
Segment Nursing care		1.1	1.5	1.9	1.9	6.4
Group		**87.5**	**93.9**	**94.6**	**94.4**	**370.4**
	2004					
Segment Postacute		49.8	52.4	52.8	52.5	207.5
Segment Acute		36.0	36.4	37.7	38.7	148.8
Segment Nursing care		–	0.1	0.7	0.9	1.7
Group		**85.8**	**88.9**	**91.2**	**92.1**	**358.0**
Operating result in million Euro	**2005**					
Segment Postacute		–4.2	0.0	2.4	–0.5	–2.3
Segment Acute		3.3	4.0	4.7	6.9	18.9
Segment Nursing care		–0.2	–0.3	0.0	–0.0	–0.5
Group		**–1.1**	**3.7**	**7.1**	**6.4**	**16.1**
	2004					
Segment Postacute		–5.2	–2.8	–0.3	–9.0	–17.3
Segment Acute		2.9	1.9	3.7	–2.3	6.2
Segment Nursing care		–0.5	–0.5	–0.3	–0.4	–1.7
Group		**–2.8**	**–1.4**	**3.1**	**–11.7**	**–12.8**
Occupancy rates in %	**2005**					
Segment Postacute		73.7	79.1	79.4	74.4	76.6
Segment Acute		79.6	77.0	74.0	73.0	75.9
Segment Nursing care		52.7	64.1	79.0	79.5	69.3
Group		**74.0**	**78.1**	**78.5**	**74.4**	**76.2**
	2004					
Segment Postacute		68.8	76.1	76.7	73.9	73.8
Segment Acute		76.9	75.6	72.5	74.1	75.2
Segment Nursing care		0.0	8.4	32.8	46.5	36.1
Group		**70.7**	**73.4**	**73.8**	**72.9**	**72.6**

Content

Foreword by the Chairman of the Management Board	2
The MediClin Share	6
Summarized Management Report and Group Management Report of MEDICLIN Aktiengesellschaft	9
Consolidated Financial Statements of MEDICLIN Aktiengesellschaft	35
Notes to the Consolidated Financial Statements	41
Auditor's Report	92
Annual Financial Statements of MEDICLIN Aktiengesellschaft	95
Notes to the Annual Financial Statements	102
Auditor's Report	119
Report of the Supervisory Board	120
Corporate Governance	123
Decision-making Bodies of the Company	132
Glossary	135
Financial Calendar	139
Adresses and Imprint	140

Dr. Ulrich Wandschneider,
Chairman of the Management Board

Ladies and Gentlemen,

Dear Shareholders, Staff, Partners

and Friends of MediClin AG,

We have managed the turnaround – Mediclin is once again profitable. Many and very varying reasons are responsible for this return to a profit situation – but not, however, the general business and economic conditions. Those continue to be difficult and do not improve the situation of demand in our industry sector.

So, what have we done to return to profitability? We have implemented what we announced last year:

- We increased efficiency at our clinics
- We shortened decision making channels and tightened our organisation
- We redefined and reassigned fields of responsibility
- We analysed market structures of our clinics and adopted our medical portfolio even better to local demand
- We introduced a regional concept, and thus laid the foundation for improved positioning of our clinics in the regions
- We begun to put communication with coverage providers on a new partnership footing by being pioneers in demand-oriented solutions in the medical care segment
- We invested in our facilities: in state-of-the-art diagnostic equipment and technology at the acute hospitals, and in therapeutic equipment and technology at the post-acute clinics
- We opened two medical care centres, one at Plau am See and one in Leipzig, and we will establish further centres
- We concluded another 18 Integrated Medical Care contracts in 2005; in 2004, we concluded 9 contracts
- We expanded the nursing care segment locally
- We began intensifying sales and marketing by supporting it with corresponding databank systems

- We introduced an intranet which improved considerably and accelerated the exchange of information and the transfer of know-how within the Group
- We substantially increased awareness of the MediClin brand through our presence at conventions, conferences and at trade fairs.

Our motto for 2005 was: Stability and Trust. We were successful in achieving this. Internally, we have established stable structures and employees have regained confidence in the Company and its future development. Our motto has left a positive impression in the cooperation with external partners. Our tasks in 2006 now are: Gain profile – Increase revenues.

But how do we intend to achieve this? There has been no change to conditions in the health care sector up to the present. The following still applies:

- The length of stay in the acute segment will continue to decline
- Professional and qualitative requirements on subsequent nursing treatment will increase significantly
- With the exception of the psychosomatics segment, financing of curative treatment will be increasingly restrictive
- Prevention will gain in importance, but will increasingly have to be financed by the patients themselves
- Concentration processes in the acute segment are fully underway and will continue for a while
- Also the rehabilitation sector is undergoing an intensified consolidation process
- Public authorities and coverage providers have only limited funds for disposal

Politicians are facing great challenges in shaping healthcare reforms. People are growing older and diseases of civilization are increasing. These are facts that, in times of empty coffers, allow only unpopular solutions.

What does this mean for us? How can we gain in profile?

By MediClin standing for the following:

- Integrated medical care – MediClin offers cross-sector medical services
- Patient-oriented cooperations – the focus is on solutions for patients and, consequently, on networking among the clinics and in the region

- Trustful partnership – MediClin stands for innovative concepts that create a win-win situation for patients, cooperation partners, coverage providers and MediClin
- Quality – in addition to its quality reports on the acute clinics, MediClin publishes a report on the services of its post-acute facilities

By MediClin also expanding its available ressources further through

- Making use of knowledge gained from a large number of cases – MediClin is one of the largest providers with extensive know-how nationwide in the neuro- and psychosciences.
  - In the neurosciences, MediClin covers the entire treatment chain from prevention through to acute care, rehabilitation and subsequent care treatment.
  - In the field of orthopaedics, MediClin on one hand is highly specialised and on the other hand has comprehensive knowledge due to a large treatment volume.
- Demand-oriented specialisation – MediClin offers excellent competence in challenging medical niches

And how can we increase revenues? By driving forward our existing activities:

- We will continue to concentrate on offering high-quality subsequent nursing treatment
- We will concentrate on cooperations for Integrated Medical Care more strongly than before
- We will develop new products focused on the subject of prevention
- Our market presentation will be raised to focus on content, on specialization and on the identification of niches
- We will invest in quality and so further improve MediClin's market position, and
- We will again review the possibility of external growth.

After one year as Chairman of the Management Board of MediClin, I can state that I am not mistaken in my initial impression that the Company has strong resources and, overall, is well positioned. The management at our clinics has excellent professional and medical knowledge and our staff's willingness to perform is impressive. This has been demonstrated in many successfully concluded but not always simple projects.

On behalf of my colleague, Frank Abele, and myself, I would like to express my special thanks to all employees and the staff representatives of MediClin AG. We have put the Company back on a successful course in 2005. Let's continue to do so in 2006.

Frankfurt am Main, 9 March 2005

Dr. Ulrich Wandschneider
Chairman of the Management Board

From left to right: The Chairman of the Management Board, **Dr. Ulrich Wandschneider** (45), is responsible for strategy and product development, operative clinics management, marketing/ sales, contract management, public relations/investor relations, personnel and for quality/ risk management.

Prior to commencement of his activities at MediClin AG in November 2004, he worked for many years as a partner in an internationally renowned consulting firm. Dr. Ulrich Wandschneider is married and has three children.

The Chief Financial Officer, **Frank Abele** (46), is responsible for controlling, finance and accounting, legal affairs/tax, IT, internal audit, procurement/technique and payroll accounting.

Frank Abele has been the Chief Financial Officer of MediClin AG since 1999; he was a partner at a renowned international auditing firm before that time. Frank Abele is married and has two children.

The MediClin Share

- **The DAX gained approximately 25 % in 2005**
- **Experts expect prices to continue to rise in 2006**

The DAX gained strongly in 2005 after moderate development during the 2004 stock exchange year and surpassed all forecasts. At its peak price of 5,469.96 points, it was 28.4 % above the price at the beginning of the year. The MDAX and the SDAX rose even more strongly: at year-end, both indices were more than 35 % above their values at the beginning of the year. The MDAX closed on 30 December 2005 with 7,311.53 points and the SDAX at 4,248.90 points.

In the second half of 2005, in particular, prices on the German stock exchange received a tailwind. This was due to an anticipated political turnaround and a more liberal economic policy, and to the fact that the US economy proved to be more robust than expected, which had a positive impact on prices on the world's leading stock exchange, the New York Stock Exchange (NYSE).

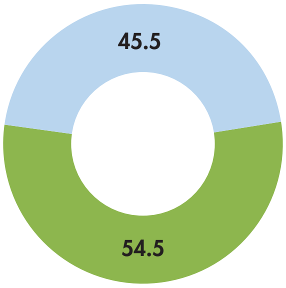
The prospects of prices continuing to rise in 2006 are good. Corporate profits have risen, there are visions of takeovers on the market and there are again candidates striving for a stock market listing. Up to the middle of March 2006, the DAX has climbed by almost 9 % in comparison with its value as at 2 January 2006, and, at approximately 5,900 points, has already reached or even exceeded forecasts to date with respect to its target set for the stock exchange year 2006.

The MediClin share price development in keeping with Company's turnaround

The MediClin share price rose from EUR 1.86 (2004 year-end price) to 2.50 at the end of 2005, and therefore by more than 34 %. In so doing, the price developed analogue to the corporate results which improved from quarter to quarter. In November 2005, the price sank after an announcement that MediClin intended to sell the 1.55 million treasury shares which it held. The price recovered quickly from this and seamlessly picked up on the rising price development that had begun and continued in 2005. The peak price during the past 12 months was achieved with EUR 3.25 on 2 February 2006.

The share is listed in the Prime All Share Index, in the Classic All Share Index, in the CDAX and in the Prime Pharma & Healthcare sector index.

Shareholder structure
in per cent



Free float	**45.5%**
Main shareholders*	**54.5%**
thereof:	
Insurance companies	43.2%
Private shareholders	11.3%

*Shareholders equal or exceeding 5 per cent
as at 6 February 2006

Own shares

Since 2 February 2006, MediClin no longer holds any of its treasury shares. On 16 November 2005, the Management Board resolved to sell all of 1.55 million treasury shares held since 2003 unchanged on the stock exchange in a market considering way. The shares had been purchased in 2002 (1,439,371 shares) and 2003 (110,629 shares). The shares were acquired at an average price of EUR 1.81 per share, and sold for an average price of EUR 2.86 per share.

Share indicators

(ISIN: DE0006595101; WKN: 659 510; Ticker: MED)

in Euro	2005	2004
Earnings per share (undiluted)	0.26	–0.53
Earnings per share (diluted)	0.25	–0.53
Cashflow per share[1]	0.56	0.27
Book value per share[2]	2.68	2.44
Dividend per share	–	–
Year-end price[3]	2.50	1.86
52-week-high[3]	3.25	
52-week low[3]	1.80	
Market capitalisation (year-end price) in mill. euro	78.8	58.6
Number of shares in million	31.5	31.5

[1] Cash flow from operating business activities
[2] Equity less minority shares
[3] Source: Deutsche Börse AG; as of 13 March 2006, Xetra-closing prices

Herz-Zentrum Coswig, Coswig (Anhalt)

Summarized Management Report and Group Management Report of MEDICLIN Aktiengesellschaft for Financial Year 2005

General Economic Conditions	10
Development of the "Health Care" Sector	11
MediClin in 2005	13
Business Development	14
Net Assets, Financial Position and Results of Operations	17
Capital Expenditure	21
Strategy	22
Organization	23
Employees	24
Segment Reporting	25
MediClin AG	28
Company Risks	29
Events of Special Significance after the Balance Sheet Date	31
Outlook	32

General Economic Conditions

After the record year 2004, the world economy posted growth of 4.3 % in 2005 which was still impressive. In Germany, by contrast, economic recovery began to wane slightly compared to the previous year. According to the Federal Statistical Office, Germany's price-adjusted gross domestic product (GDP) increased by 0.9 % in 2005, compared to +1.6 % in the previous year. Since 2005 had fewer workdays than the year before, the adjusted GDP growth for both years after exclusion of this calendar effect was 1.1 %.

Economic growth in Germany was supported mainly by exports. Since exports grew more strongly than imports, the increase in price-adjusted export surpluses (export contribution) accounted for the greatest share of growth with 0.7 % percentage points. Economic development continued to lag due to continued restraint in private consumer spending, which has persisted since 2001. While disposable income increased by 1.5 % to EUR 1,468 billion in 2005, private consumer spending was up by only 1.4 %. The savings quota rose steadily to 10.7 % (previous year: 10.5 %), thus reaching the highest level since 1995 (11.0 %).

Reasons for the restrictive consumer behaviour are, inter alia, fear of unemployment and high oil and energy prices:

- On an annual average, the number of unemployed persons in 2005 was 4.863 million. The unemployment rate relative to all gainfully employed persons was 11.7 % on an annual average, or 1.2 percentage points higher than the previous year's level.
- According to calculations of the Federal Statistical Office, the annual average for the consumer price index in Germany rose by 2.0 % in 2005 compared with 1.6% in 2004. At 1.9 %, the the rise of prices for healthcare was slightly below the increase in the overall index in comparison to the previous year.

The financial condition of the public authorities did not improve substantially in 2005. In 2005 the Federal Republic of Germany failed to meet the threshold of the Maastricht agreement for the fourth consecutive time. The national deficit quota in 2005 was 3.3 % of the gross domestic product (GDP).

Development of the "Health Care" Industry

Historically, in Germany there is a clear separation between the different areas of the healthcare system relative to the organizational and financial competencies. This applies particularly to acute care and rehabilitation. Generally, the health care mandate of a certified physician ends with the patient's admission to hospital, and that of the hospital with the shift to rehabilitation. In addition, there are completely different budgets, coverage providers and invoicing modalities.

The operating structure of hospitals (acute care facilities) in Germany is very heterogeneous. Hospitals are differentiated according to the supporting organization, which can be legally organized as public, non-profit or private. Furthermore, hospitals are differentiated according to the type of regulation (university-, plan-, contract- and private hospitals) and according to the care levels offered (basic, standard, specialized and central care). Most hospitals are supported by public institutions. Since many of the Federal States and municipalities operate under tight budget constraints, the privatisation process is on the rise in the area of acute care.

Additional cost pressures also arise for the hospitals from a change in the system of hospital reimbursement. The Diagnosis Related Group System (DRG System) which charges the treatment of patients through fixed, illness-related rates was introduced at the beginning of 2004. The prevalent remuneration system which was applied in a variety of models unto that time operated under the cost carrier refund principle, according to which all costs incurred by the hospital were refunded. Beginning from 2009, more than 1000 fixed rates are to be defined and invoiced at the same prices across all Federal States in Germany. It is assumed that half of all acute care facilities will have to expect price decreases. In particular, the facilities with high levels of inefficiency will experience economic difficulties. Experts project that around 25 % of all hospital facilities will have to close by the year 2020 and that the number of private hospitals will grow by over 40%.

The rehabilitation sector is organized and financed in a completely different manner. Here, there is no country or Federal Government-specific clinic planning that controls the number of existing facilities (post acute care facilities). Every clinic must sign supply contracts with the coverage providers before the facility can be occupied. In this case, quotas are defined rather than fixed allocations based on numbers. A further special feature is that, in the rehabilitation field, there is no uniform classification system and therefore no real price transparency. Compensation is based on per diem rates and lump sum compensation relative to specialised fields. The rates are negotiated by the cost providers with each facility. Since the market is characterized by overcapacities, prices have been on a downward trend for a number of years. In addition, one rehabilitation sector, the curative treatment market (cures, preventive medicine) is experiencing a strong decline in demand due to the economic environment in Germany, the tighter budgets of the cost carriers, and the job market situation.

The healthcare industry in Germany also had to cope with declining demand, smaller budgets and increasing prices in 2005. This development is reflected in the continuous decline in the number of requests for rehabilitation treatment. According to the Association of German Pension Insurance Institutions 1,295,991 requests for medical rehabilitation services were filed in 2005, or 1.7 % (21,888) fewer than in 2004. Since social security pension funds mainly grant the measures for actively employed, the smaller number of requests is consistent with the Federal Ministry of Social Affairs information on the sick leave status in Germany. At 3.3 %, the sick leave status in 2005 reached a historical low. In 2004, employees missed about 3.4 % of their working time. The acute care field is also seeing a certain restraint in demand. Treatments that are not immediately needed are postponed, and other treatments are increasingly provided in the form of out-patient treatment.

Deficits in the public budget and cost pressure have led to the continuous growth of privatisation in the acute care sector (acquisition of hospitals) in 2005. Consolidation in the rehabilitation and nursing care sectors is progressing more slowly, since providers in these areas are mainly from the private sector of the economy.

MediClin in 2005

In the 2005 reporting year MEDICLIN Aktiengesellschaft (hereinafter referred to as MediClin AG or MediClin) included 30 clinics, 7 nursing care facilities, and 2 medical care centres. Of the 30 clinics, 23 clinics are allocated to the post acute segment (rehabilitation) and 7 clinics are allocated to the acute segment (hospitals). The nursing care facilities are situated at the locations of the post acute clinics. At some locations, MediClin offers acute medical care and rehabilitation under the same roof (Bad Bellingen, Bad Düben, Lingen, Plau am See and Soltau). At these locations the objective of integrated medical care is satisfied optimally. In order to arrive at a segment statistic on capacity utilization, the number of nursing days and cases, the allocation of beds is based on usage and not on the clinic's segment category.

Number of beds as at 31.12.

	2005	2004	Change in %
Post acute	5,963	6,016	–0.9
Acute	1,368	1,481	–7.6
Nursing care	368	299	+23.1
Group	**7,699**	**7,796**	**–1.2**

In 2005, MediClin developed and implemented a regional concept. The 39 facilities are now assigned to 8 regions. The purpose is to facilitate quicker and better adjustment to the respective regional market needs.

In addition, two medical care centres were opened in 2005: the MediClin MVZ at Plau am See with the departments urology, neurology, psychiatry, and the Leipzig MediClin MVZ which specializes in general medicine, internal medicine and orthopaedics. This health care offer provides access to the out-patient acute market and underlines the integrated approach of MediClin.

Business Development

In 2005 MediClin succeeded in achieving a turnaround. New products and services, intensive marketing of the existing professional competence and medical performance and services in regard to patients and coverage providers have led to an increase in revenue although the market continues to decline. Overall, the increase in revenues, cost management and the decline in rental expenditure have led to a positive result.

Sales Development in Group and Segments

In the 2005 financial year the **consolidated sales revenues** of MediClin which totaled EUR 370.4 million were approximately EUR 12.4 million or 3.5 % up on the previous year's level.

Sales in the Group and Segments

in million Euro	2005	2004	Change in %
Post acute	213.2	207.5	+2.7
Acute	150.8	148.8	+1.3
Nursing care	6.4	1.7	n.a.
Group	**370.4**	**358.0**	**+3.5**

Revenues developed positively in all three segments. **Revenue** in **the post acute segment** rose by EUR 5.7 million or 2.7 % compared to the previous year and reached EUR 213.2 million. The PlusPrograms rendered a positive contribution to revenue. The offers developed for self-paying patients in 2004 contributed approximately EUR 1.1 million or 0.5 % to post acute segment revenues in 2005. In the **acute segment, revenues** increased by EUR 2.0 million to EUR 150.8 million. In the first full financial year of the **nursing care segment**, revenues of EUR 6.4 million were achieved.

Development of Nursing Days and Case Numbers in Group and Segments

Group-wide, the number of **nursing days** in 2005 increased by 3.2 % compared to the previous year. Excluding the **nursing care** segment, there is a slight plus of 0.2 %. The seasonal effect in 2005 was significantly lower than in previous years and the number of nursing days in the Group concerning the otherwise low capacity months of January and December was less than 1 percentage points lower than the monthly average of 170,565 nursing days calculated for the acute and post acute segments in 2005.

Nursing days in the Group and Segments

in days	2005	2004	Change in %
Post acute	1,672,355	1,640,887	+1.9
Acute	374,422	402,807	–7.0
Nursing care	86,319	23,858	n.a.
Group	**2,133,096**	**2,067,552**	**+3.2**

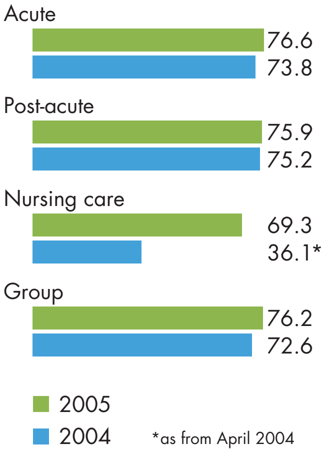
In the acute care facilities the number of nursing days was on a decline in all clinics due to the trend toward shorter stays and an increase in out-patient treatment. Stay durations in this segment decreased from 10.6 days in 2004 to 10.4 days in 2005. This calculation includes the significantly longer patient stays at psychiatric clinics.

The development of **case numbers** was consistent with that of nursing days. In the post acute and acute segments, the number of cases in the Group rose by 0.7 %, or somewhat more strongly than the nursing days. In the post acute segment, the number of cases rose by 2,676, while there was a decline of 1,990 cases in the acute segment.

Cases in the group and segments

in number of cases	2005	2004	Change in %
Post acute	66,835	64,159	+4.2
Acute	36,002	37,992	–5.2
Group (without nursing care)	**102,837**	**102,151**	**+0.7**

Clinic occupancy according to segments
in %



Capacity Utilization in the Group and Segments

The capacity utilization in the group improved significantly and in many clinics exceeds the capacity utilization quota required for a positive profit contribution. In the nursing care segment the occupancy quota at 4 out of 7 facilities was over 95 % during the vacation months.

Development of the Coverage Provider Structure

The coverage provider structure in 2005 remained almost unchanged in comparison to 2004. As in the previous year, social security pension funds and public health insurance funds accounted for 92.4 % of total occupancy days.

Occupancy days divided up according to coverage provider groups, excluding nursing care
in per cent

	2005	2004
Social security pension funds	**36.5**	36.9
Public health insurance funds	**55.9**	55.5
Private health insurance companies	**7.1**	6.4
Other coverage providers	**0.5**	1.2

The two largest funding agencies for medical rehabilitation are the social security pension funds and the public health insurance funds. The social security pension funds finance occupational and medical rehabilitation measures for persons in dependent employment, and thus pursue the objective of restoring the ability to work and the avoidance of early retirement. The public health insurance funds are responsible for persons not gainfully employed. The objective of the services of these coverage providers is to prevent disabilities and to reduce the need for nursing care, or to prevent deterioration of already existing disabilities through rehabilitation measures.

In the acute care segment the funding agencies are mainly the social security pension funds.

Development of Earnings in Group and Segments

MediClin again records positive results in 2005. **The consolidated operating result** (earnings before interest and taxes) came to EUR 16.1 million after EUR –12.8 million in the previous year. Other than in 2005, the operating result in 2004 was affected by goodwill amortisation to the amount of EUR 9.1 million. Compared to the previous year, the 2005 result benefited from rental expenses relief amounting to EUR 6.9 million. Excluding these special influences, the consolidated operating result improved by EUR 12.9 million.

Consolidated Operating Result and Segment Results

in million Euro	2005	2004
Post acute	–2.3	–17.3
Acute	18.9	6.2
Nursing care	–0.5	–1.7
Group	**16.1**	**–12.8**

The **post acute segment** successfully reduced its **segment loss** to a substantial extent. Even without the effect of the rental costs reduction by EUR 6.9 million, the result improved by EUR 8.1 million. The **segment result for the acute segment** tripled, compared with 2004, whereby the amortisation of goodwill in the previous year associated with MC Pharma GmbH adversely affected results and the DRG conversion in 2005 showed positive income effects. **Nursing care** posted a **segment result** of EUR –0.5 million in 2005. The result in this area continued to be affected by start-up costs to a minor extent.

Consolidated result after minority interest for 2005 was EUR 7.7 million, after a loss of EUR 15.8 million in the previous year.

Net Assets, Financial Position and Results of Operations

Accounting According to International Financial Reporting Standards (IFRS)

The European Parliament and European Council directive approved in July of 2002 governing the application of international financial reporting standards (IFRS) places all capital-market oriented EU enterprises under an obligation to prepare their consolidated financial statements according to IFRS for financial years beginning at or after 1 January 2005. The EU member states are given the option of postponing the mandatory application of IFRS until the year 2007, and the conditions for an extension option came into force in Germany within the framework of the German Accounting Legislation Act (Bilanzrechtsreformgesetzes (BilReG) on 10 December 2004. MediClin is under obligation to prepare IFRS financial statements as from financial year 2005. Thus, the financial statements as of 31 December 2005 including the previous year's figures for 2004 were prepared according to IFRS for the first time. The effects of the conversion of the accounting policies previously applied in the preparation of the commercial consolidated financial statements are described in the Notes to the Consolidated Financial Statements of MEDICLIN Aktiengesellschaft for the 2005 financial year in the section: Basis and Methods.

Development of Results of Operations

In addition to a sales revenue increase and the decrease in rental expenditure, for the first time in the reporting year, MediClin benefits fully from the cost reduction and targeted efficiency programs carried out in 2004. The consolidated return on sales improved from quarter to quarter and amounted to 2.1 % for the year as a whole (previous year: –4.4 %).

Other operating income decreased slightly by EUR 0.2 million to EUR 7.5 million. Write ups, gains from the sale of non-current assets, income from the release of provisions and other off-period income are posted under other operating income.

In the **cost of materials** category, expenses for raw materials and supplies remained nearly constant at EUR 46.2 million (previous year EUR 46.0 million). Costs of purchased services increased significantly by around EUR 2.8 million to EUR 30.0 million (previous year: EUR 27.2 million). Half of the increase was due to price increases associated with energy costs and the other half was due to an increase in purchased medical services.

Cost of Materials

	2005	2004	Change in %
Cost of materials in million Euro	76.1	73.2	+4.0
Cost of materials ratio in %	20.6	20.4	

Staff costs decreased slightly. The staff costs ratio was down from the previous year by 2 percentage points. On an annual average for 2005, the number of full-time employees declined by 50 in comparison with 2004.

Staff costs

	2005	2004	Veränderung in %
Staff costs in million Euro	209.6	209.7	0.0
Staff costs ratio in %	56.6	58.6	

Depreciation/amortisation decreased from just under EUR 19.0 million to EUR 7.1 million. The value reported in the previous year included non-scheduled goodwill amortisation to the amount of EUR 9.1 million, comprised of EUR 5.0 million goodwill amortisation according to IFRS, and EUR 4.1 million relating to acquisition of MC Pharma GmbH and writedowns in connection with liquidation of the joint practice of Ruhlmann/Reul.

The **financial result** of EUR -6.5 million was EUR 0.5 million below the previous year's level of EUR -6.0 million. Interest and similar income were down by EUR 0.3 million, and interest and similar expenses rose by EUR 0.2 million in accordance with the course of business.

Consolidated result after minority interest in 2005 amounted to EUR 7.7 million (previous year: EUR –15.8 million). Undiluted earnings per share were EUR 0.26 (previous year: EUR –0.53). Diluted earnings per share were EUR 0.25 (previous year: EUR –0.53).

Development of the Financial Position

Cash flow from operating activities increased from EUR 8.5 million to EUR 17.5 million mainly due to the consolidated profit. **Cash flow from investing activities** which totalled EUR –14.1 million was EUR –4.4 million higher than the previous year's level of EUR –9.7 million. **Cash flow from investing activities concerning property, plant and equipment** (CAPEX) was EUR –13.7 million (previous year: EUR –10.1 million).

Development of Net Assets

Balance Sheet Structure

in million Euro	31.12.2005		31.12.2004	
Assets				
Non-current assets	182.1	67.8%	177.7	69.7%
Current assets	86.5	32.2%	77.4	30.3%
	268.6	**100.0%**	**255.1**	**100.0%**
Equity and liabilities				
Equity	86.2	32.1%	78.3	30.7%
Non-current debts	121.5	45.2%	128.8	50.5%
Current debts	60.9	22.7%	48.0	18.8%
	268.6	**100.0%**	**255.1**	**100.0%**

The **balance sheet total** rose by EUR 13.5 million or 5.3 % to EUR 268.6 million in 2005.

Non-current assets including deferred taxes increased by EUR 4.4 million or 2.5 %. Intangible assets included software, licenses and goodwill from the acquisition of clinic operations. They decreased from EUR 53.0 million to EUR 47.6 million. The reported goodwill included EUR 42.9 million (previous year: EUR 48.1 million) of asset differences due to the consolidation of capital. The land, land rights and buildings included in property, plant and equipment related mainly to Herz-Zentrum Coswig, Waldkrankenhaus Bad Düben, Krankenhaus Plau am See, Robert Janker Klinik, Rose Klinik, Rehazentrum Soltau, Krankenhaus am Crivitzer See, Müritz-Klinikum and Fachklinik Rhein/Ruhr. Overall, property, plant and equipment increased by EUR 8.0 million to a total of EUR 121.3 million (previous year: EUR 113.3 million). The increase in property, plant and equipment is mainly due to the new construction of the hospital building of the Müritz-Klinikum at Waren. Financial assets mainly relate to a loan of TEUR 261 granted to the Board of Management, and accrued interest as of the balance sheet date. The loan is used for the acquisition of a convertible bond issued by MediClin AG. Deferred tax assets to the amount of EUR 12.9 million (previous year: EUR 11.5 million) relate to a difference between the balance sheet values according to IAS and the tax values at which assets and liabilities are recognized for tax purposes.

Current assets rose by EUR 9.1 million or 11.8 % to EUR 86.5 million. At EUR 4.5 million, inventories remained almost constant in comparison with the previous year. Trade receivables rose parallel to revenues. Other assets dropped by EUR 1.8 million to EUR 5.8 million. Liquid assets increased significantly to EUR 27.0 million (previous year: EUR 18.2 million) due to the positive business development. The recognition of receivables persuant the Hospital Financing Act (Krankenhausfinanzierungsgesetz (KHG)) is in accordance with the provisions of the Hospital Accounting Rules (Krankenhausbuchführungsverordnung (KHBV)). As at 31 December 2005 receivables totalling EUR 2.6 million were reported in accordance with the KHG (previous year: EUR 2.7 million).

The **Equity** of the MediClin Group as of 31 December 2005 amounted to EUR 86.2 million (previous year: EUR 78.3 million). It included the subscribed capital of MediClin AG amounting to EUR 31.5 million, and capital reserves to the amount of EUR 105.0 million which resulted from the stock market flotation of MediClin AG. The revenue reserves include treasury stock to the amount of EUR 2.8 million which are deducted from equity in accordance with IFRS. Further disclosures are presented in the Notes to the Consolidated Financial Statements of MEDICLIN Aktiengesellschaft in the statement of changes in equity.

Non-current liabilities decreased by EUR 7.3 million to EUR 121.5 million (previous year: EUR 128.8 million), while liabilities to banks and insurance companies increased by 4.5 million to EUR 91.0 million (previous year: EUR 86.5 million). Liabilities to insurance companies amounting to EUR 61.4 million remained unchanged from the previous year and relate to liabilities to shareholder companies of MediClin AG. The provisions of the MediClin Group amounted to EUR 26.4 million (previous year: 41.9 million). Other provisions decreased by EUR 16.4 million to EUR 12.0 million in comparison with 2004 due to the completed settlement connected with the takeover of the Hurrle-Klinik Group.

Current liabilities increased by EUR 12.9 million (previous year: EUR 48.0 million) to EUR 60.9 million. Trade receivable decreased by EUR 0.6 million to EUR 11.0 million (previous year: EUR 11.6 million). Other current liabilities are including liabilities to banks and liabilities under the Hospital Financing Act. They included EUR 11.3 million (previous year: EUR 10.2 million) of purpose-bound, unused fixed subsidies based on the local law provisions on hospital financing, and on compensation obligations under the Federal Patient Care Rates Ordinance and the Hospital Compensation Act. Other liabilities mainly related to not yet disbursed amounts from final settlements with former limited partners in connection with the takeover of the Hurrle-Klinik Group as of the balance sheet date. Tax liabilities to the amount of EUR 4.1 million (previous year: EUR 1.8 million) included amounts for corporation tax and the solidarity tax surcharge due to be paid to the fiscal authorities. They cover the obligations for the current financial year and previous years.

Capital Expenditure

The operating and office equipment item in 2005 included capital expenditure of approximately EUR 2.0 million for medical equipment and facilities. A little over EUR 1.0 million was spent on technical equipment and IT hardware, with the goal of driving forward with the networking of clinics within the Group.

Gross additions to property, plant and equipment

TEUR	2005	2004
Land and buildings	151	423
Technical equipment, IT equipment	359	218
Operating and office equipment	5,868	8,118
Payments on account and assets under construction	9,098	3,775
Total	**15,476**	**12,534**

The item payments on account and assets under construction relates mainly to building improvements and new construction of the Müritz-Klinikum at Waren.

Strategy

MediClin is one of the largest providers of rehabilitation services in Germany with a market share of 3 % (according to beds). MediClin offers cross-sector services in connection with the acute care facilities of the corporate group and the nursing care facilities.

The strategy of the Company is to

- create regional supply networks, and to drive forward the cooperation of its own clinics in the respective region with registered physicians, hospitals and specialist clinics. The objective here is to guarantee integrated medical care,
- continue to improve the cooperation and communications within the Group in order to be able to offer a corporate-wide standard which guarantees the best possible treatment and process quality,
- cooperate closely with health insurance funds and social security pension funds in order to reduce costs and further improve the quality of patient care through new therapy approaches, and optimised cooperation between health insurance providers, insurance companies, clinics and doctors,
- strengthen MediClin's position on the market as a leading clinics operator. In addition to internal growth, this also means revenue and profitability increases through the takeover of public and private clinics. A significant aspect in this process is that, as a result of such takeovers, regional market penetration is strengthened and the yield objectives of the Group can be achieved over the medium term.

In implementation of its strategy, MediClin's focus is on innovative treatment concepts in high-volume indication areas such as neurology and psychosomatics, as well as on areas where illnesses are on the increase and treatment is cost intensive, such as strokes, diabetes or tinnitus.

Organization

MediClin is active as a nationwide clinics operator. The strategic aim is integrated medical services and the networking of MediClin's own clinics within the Group and with external cooperation partners.

MediClin AG as a Group holding company is dedicated to strategic management, corporate planning and the acquisition and integration of clinics and other service areas in the health care segment. The Group includes 30 clinics, 7 nursing care facilities and 2 medical care centres (MVZ).

The central administration of the clinics, Alphamed Klinik GmbH & Co. KG Offenburg branch, offers intra-group service functions relating to accounting and personnel, quality management, training and further education as well as logistics and facility management. In addition, certain services are offered by the Group companies:

- Cortex Software GmbH
  Dataflow and process optimisation, software development in therapy planning, installation of network technology, user support
- MediLog GmbH
  Consulting in the areas of purchasing, materials management, logistics and service management and in the non-medical value added areas of the clinics, such as cleaning, kitchen, laundry
- MediClin Immobilienverwaltung GmbH
  Real estate management, investment management, cost and income management in the real estate segment.

The background and business objectives of the organizational concentration of functions relate to realization of specialization- and cost advantages. Through the cross-clinic integration of services in segments such as purchasing, MediClin achieves cost degression effects (economies of scale). The strain on clinics management is eased and this leads to a more efficient allocation of resources at the clinics.

In 2005 MediClin developed and implemented a regional concept. The 39 facilities are now assigned to 8 regions. The objective is to enable better, more rapid adaptation to the respective regional market requirements. Each region is managed by a regional manager who, in particular, synchronizes the sales and marketing activities of the individual facilities in the respective region pursuant to the Group's guidelines.

The planning process in the Company was likewise reorganized in 2005. A significantly higher level of detail, stronger integration (and thus assumption of responsibility for goal achievement) of the commercial directors and chief physicians significantly improves the management and controlling options of the Company.

Transparency in the post acute segment is increased through introduction of the intra-group rehabilitation evaluation system. The system ensures group-wide recording and comparison of case costs or results of patient surveys.

MediClin has operated a corporate-wide Intranet since mid 2005. This has led to clear improvements in the exchange of knowledge and relevance of information.

Employees

The average number of employees, calculated on the basis of full-time staff, was 5,248 (previous year: 5,298 full-time staff).

in full-time staff	2005	2004	Change
Post acute	3,438	3,502	–64
Acute	1,596	1,629	–33
Nursing care	89	39	+50
Administration	125	128	–3
Group	**5,248**	**5,298**	**–50**

In the reporting year, revenues per full-time employee rose by EUR 3,019 or 4.4 %, while average staff costs per full-time employee and per bed were up only slightly by EUR 355 or EUR 323 respectively.

in Euro	2005	2004
Sales per full-time employee	70,586	67,567
Staff costs per full-time employee	39,942	39,587
Staff costs per bed	27,226	26,903

In 2005, the Group employed 115 young people within the scope of occupational training agreements.

Segment Reporting

MediClin succeeded in raising sales revenues and improving results in all segments in 2005. The share of sales revenue in total revenue was around the previous year's level, whereby the nursing care segment had its first complete financial year in 2005. Percentage-based, the revenues were allocated as follows: post acute 57.6 % (previous year: 57.9%), acute 40.7 % (previous year: 41.6 %) and nursing care 1.7 % (previous year: 0.5 %)

	Sales Revenues			Segment result	
in million Euro	2005	2004	Change	2005	2004
Post acute	213.2	207.5	+2.7%	–2.3	–17.3
Acute	150.8	148.8	+1.3%	18.9	6.2
Nursing Care	6.4	1.7	n.a.	–0.5	–1.7
Group	**370.4**	**358.0**	**+3.5%**	**16.1**	**–12.8**

Sales revenues in the **post acute segment** rose by 2.7 % or EUR 5.7 million. The PlusPrograms developed for self-paying patients contributed approximately EUR 1.1 million. The result improved significantly by EUR 8.1 million, despite rental expenditure relief to the amount of approximately EUR 6.9 million.

This segment has 3,438 full-time employees (previous year: 3,502 full-time employees). Overall, EUR 3.6 million (previous year: EUR 5.8 million) were net invested in addition to investments in technical equipment and IT, primarily for modernization of therapy rooms and therapeutic equipment.

In its post acute segment MediClin offers medical rehabilitation services in two areas: subsequent nursing treatment and curative procedures. Subsequent nursing treatment includes all medical measures required to facilitate the healing process and return the patient to a functioning state immediately after acute care treatment. The curative treatment includes prophylactic measures against the occurrence of (possible) illnesses or reoccurrence of illnesses. The curative procedures also include all treatments in the field of psychosomatics.

in nursing days	2005	2004	Change in %	ratio 2005 in %
Subsequent nursing treatment	1,082,036	1,059,234	+2.2	64.7
Curative treatment	503,491	501,483	+0.4	30.1
Others	86,828	80,170	+8.3	5.2
Group	**1,672,355**	**1,640,887**	**+1.9**	**100.0**

The share of subsequent nursing care treatment continued to rise compared with 2004 and meanwhile makes up almost 65 % of all rehabilitation services in the post acute segment.

The two largest medical fields of MediClin in the post acute segment (according to number of beds) are orthopaedics and neurology, including psychosomatics. Their share of the total available beds (5,988 beds) amounted to 65.9%.

Number of beds on an annual average	2005	ratio in %
Orthopaedics	2,011	33.6
Neurology and psychosomatic medicine	1,938	32.3
Internal medicine	933	15.6
Cardiology	454	7.6
Oncology	285	4.8
Others	367	6.1
Total	**5,988**	**100.0**

Nursing care days allocated by medical areas indicates that the areas of neurology, including psychosomatics and the other sectors, had significantly more nursing care days compared to the previous year. In the area of orthopaedics and internal medicine the number of actual nursing care days was at the approximate level of the previous year. In the fields of oncology and cardiology, they were below the previous year's levels, although in part higher case numbers were reported.

Revenues in the **acute segment** were up by 1.3 % or EUR 2.0 million. The result for 2005 tripled, whereas the utilization of two clinics was impaired by building improvements and restructuring in the previous year.

The acute segment employed 1,596 full-time employees (previous year: 1,629 full-time employees). Net capital expenditures amounted to EUR 5.1 million (previous year: EUR 4.0 million). This segment also invested in technical equipment and IT, but primarily in modern medical equipment and facilities.

The acute segment is much more heterogeneous than the post acute segment with respect to the service offering, whereby here too, analogous to the post acute segment, the medical areas psychiatry, orthopaedics, and the neurological areas represent the largest specialist fields (with over 54%) according to the number of beds.

Number of beds on an annual average	2005	Anteil in %
Psychiatry	274	20.0
Orthopaedics	253	18.5
Internal medicine	206	15.1
Surgery	202	14.7
Others	433	31.7
Total	**1,368**	**100.0**

The **nursing care segment** posted revenues of EUR 6.4 million in its first full year (previous year: EUR 1.7 million). At EUR -0.5 million, the segment's earnings almost cover costs.

In the nursing care segment 89 full-time employees are working (previous year: 39 full-time employees). Net capital expenditure amounted to EUR 0.2 million (previous year: EUR 2.7 million).

MediClin AG

The annual financial statements of MEDICLIN Aktiengesellschaft, Frankfurt am Main, were prepared in accordance with the provisions of the German Commercial Code and the special provisions of the German Stock Corporation Act in a manner consistent with the previous year.

MediClin AG exercises the functions arising in the Group within the framework of strategic corporate planning, strategic controlling, financing, acquisition and cooperation management. As a listed company, MediClin AG meets all requirements of the capital market and can use the latter for capital procurement or in the context of internal capital market-oriented incentive models.

MediClin AG recorded no sales revenues for the reporting year. Other operating income of MediClin AG to the amount of EUR 0.6 million (previous year: EUR 4.4 million) includes mainly income from the release of provisions (EUR 0.2 million), rental and lease income (EUR 0.1 million), and income from management services (EUR 0.2 million). Personnel expenses rose by EUR 0.2 million to EUR 2.0 million (previous year: EUR 1.8 million). Other operating expenses amounting to EUR 2.7 million (previous year: EUR 4.2 million) relate mainly to legal, consultancy and audit fees (EUR 1.5 million), rent and leaseback (EUR 0.3 million), insurance costs (EUR 0.2 million), and to reports and publication costs (EUR 0.1 million). Income from partizipation related mainly to the annual profits of subsidiaries for 2005 and rose by EUR 10.1 million to EUR 14.0 million (previous year: EUR 3.9 million) in 2005. Other interest and similar income dropped from EUR 2.1 million to EUR 1.1 million in 2005. Other interest and similar expenses dropped from EUR –5.9 million to EUR –5.5 million.

In the 2005 financial year, MediClin AG reported net profit for the year of EUR 3.2 million after a net loss of EUR 33.2 million in the previous year, which was mainly an effect of depreciations of shares in affiliated companies to the amount of EUR 33.7 million.

The number of staff was 9 on an annual average.

Disclosures concerning the balance sheet and schedule of fixed assets of MEDICLIN Aktiengesellschaft are provided in the Notes to the Annual Financial Statements of MEDICLIN Aktiengesellschaft.

Outlook

As in previous years, the income structure of MediClin AG in 2006 will continue to depend on the economic development of the subsidiaries and thus also of the Group a whole.

Company Risks

Risk Factors and Risk Management

The Board of Management of a stock corporation is required to set up an internal monitoring system under the provisions of the German Stock Corporation Act (Aktiengesetz = AktG)

Entrepreneurial activities are associated with risks. In order to minimize these risks, risk factors must be defined and a risk management must be established. The task of risk management is the early detection and adequate assessment of risks in order to permit early response to the risks identified.

External Risks

The Market

Demographic developments such as a disproportionate number of old people and increased life-expectancy and factors such as multi-morbidity, have a decisive influence on the further development of medical, technical and cost developments in the healthcare sector. Changes in the demand for rehabilitative services are also to be expected; i.e., curative methods will decrease in favour of subsequent nursing treatment. MediClin has already adapted to this shift in demand.

General Legal Conditions

Political, legal and statutory conditions such as government budgeting, hospital planning, change over to case-based DRG rates and the health insurance funds' financial deficit will continue to have an impact on the further development of the healthcare system.

In the acute area in 2003 und 2004, the case-based flat fee system (DRG System) was introduced without any budget effects. As from 2005, basic case values specific to individual clinics witll be aligned to the basic case values of the federal states in a so-called convergence phase. The effects on the seven acute care clinics of MediClin are clinic-specific and may have positive as well as negative effects on the earnings situation of the acute care segment. MediClin is monitoring this development in the framework of its controlling function.

Economic factors such as a shortage of funds at federal state level and rising competitive pressures will lead to a change in the clinics market. MediClin is aligned to changing political conditions and legal requirements and is designing its healthcare structures concept accordingly.

Competition

The privatisation and consolidation process in the healthcare system will continue to accelerate and will lead to price pressures concerning the services offered. MediClin's business success mainly depends on whether the Company can react flexible to legal changes and adapt active the services it offers to the changed market conditions and demand structures relating to medical services.

Internal Risks

General Risk

The Board of Management expects to see an improvement in occupancy and an accompanying increase in revenues in the long term. It also sees a possibility to achieve additional revenues and income increases through services related to nursing care, self-payment programs and the promotion of partnerships in connection with the model of integrated medical care. This also applies to clinics whose present earnings situation falls short of the defined targets. If, in contrast to expectations, the noted improvements are not realized, long term real estate rental contracts could involve risks relating to the net assets, financial position and results if it is not possible to use the real estate otherwise.

Operating Risks

Operating risks are to be sought mainly in the high fixed costs incurred, which can be offset though flexibilisation of internal operational processes only to a certain extent. In this respect, MediClin has implemented a number of measures which, on the one hand, reduce the break-even at the individual clinics, but will increase occupany rates through new service offers on the other.

Risks resulting from clinics operations and dealing with patients are minimized through certified quality measures and are an important element in the risk provision and early identification of risks in the field of operative performance.

Financial Risks

The Group is not exposed to any currency risks and financing risks are not discernible, at present.

Risk Management

MediClin AG's risk management is in accordance with the provisions of Section 91 (2) AktG concerning risk analysis and risk monitoring, and is also a subject of the statutory annual audit.

Ensuring the quality of medical services and the optimisation of organizational structures are central functions of management. MediClin has introduced an extensive certification procedure at its clinics which is the core element of risk prevention, and, most importantly, serves the early detection of risks in the area of operative services. It records and monitors both internal and external risks in the Group. In 2005 documentation of the existence of the risk management system and the measures to be introduced was recorded in detail and systematically compiled in extensive documentation.

Events of Special Significance after the Balance Sheet Date of 31 December 2005

Receivables in connection with the sale of limited partners' shares in MediClin AG

In early 2006 it was possible to reach settlements with all participating parties, with one exception. The claims relating to the settlements were compensated by settlement payments.

Sale of own shares concluded successfully

The sale of all treasury shares approved on 27 May 2004 by the Annual General Meeting and launched through a Resolution of the Board of Management on 16 November 2005 was completed on 1 February 2006. Thus, MediClin no longer owns any treasury shares.

Outlook

The findings of the Ifo World Economic Survey (WES) from the first quarter of 2006 in co-operation with the International Chamber of Commerce in Paris (ICC) indicate that the global economic recovery begun in the fall of 2005 is continuing at a stronger pace. The improvement trends relate both to the general economic conditions as well as to the expectations for the next six months and will be particularly noticeable in Western Europe.

The ifo Indicator for the business climate in the Euro zone rose significantly in January 2006 and thus continued the recovery trend that had already emerged in the middle of 2005. The economic climate improved in all countries of the euro zone with one exception (Spain), including in countries where the current economic situation is not satisfactory. The economic climate in Germany showed particular improvement.

Despite these positive signals, the current outlook for health services in Germany in 2006 is that there will be no major change with respect to the general economic conditions. The persistently strained budget situation of public budgets and cost providers will continue to amplify the pressure on the market and thus also on prices. The results of the financing deficit are also illustrated by different trends. On the one hand, the improvement of cooperation between the segments (acute, post acute, nursing care) is driven forward with new concepts for integrated care and the establishment of medical care centres. On the other hand, there is a clear trend toward out-patient treatment for some medical indications.

MediClin maintained its position well in the existing market environment in 2005. In terms of the number of beds, the Group is one of the two largest providers of rehabilitation services in Germany. MediClin is the only clinics provider which, in addition to providing post acute care facilities, is a relevant provider of acute care facilities. Moreover, there is an established supplementary business in the field of nursing care. The medical services offering is highly qualified with emphasis on orthopaedics and psychosomatics/psychiatry, as well as specialist areas such as tinnitus or diabetes.

Owing to these three business segments, MediClin is optimally prepared to further engage in extend partnerships for integrated medical services. The establishment of two medical care centres (Leipzig and Plau) has opened up the possibility to access the out-patient acute care market and thus contributes to ensuring occupancy at the locations of both the acute and post acute facilities. The market for nursing care will continue to grow in importance due to age structure development in Germany. In the coming years, the group of over 80-year-olds will be one of the most strongly growing population groups in Germany.

Product development will be expanded successively. This also relates to projects with coverage providers. The aim is to be the leading provider of attractive and patient oriented concepts which enjoy broad market acceptance across Germany.

In 2006, MediClin will continue to drive forward the initiated measures, to tap into new distribution channels, particularly in connection with partnerships for integrated medical care, and to expand synergies within the Group.

The acquisition and cooperation policy which, to date, has been oriented towards networking and domestic market leadership will also be pursued further.

For the year 2006 the Board of Management expects moderate growth in revenues and earnings at the levels of financial year 2005.

MediClin AG

Frankfurt am Main

9 March 2006

The Board of Management

Dünenwald Klinik Insel Usedom, Seebad Trassenheide

Consolidated Financial Statements of MEDICLIN Aktiengesellschaft for Financial Year 2005

Consolidated Balance Sheet as at 31 December 2005

Assets

	Notes		31.12.2005 Euro	Previous year TEUR
Non-current assets				
Intangible Assets	(1)			
Concessions, licences		648,733		1,181
Goodwill		46,763,743		51,671
Payments on account		149,767		117
			47,562,243	**52,969**
Property, plant and equipment	(2)			
Land, landrights and buildings including buildings on third party land		92,228,400		93,910
Technical equipment and machines		3,941,616		3,191
Other equipment, operating and office equipment		11,720,048		10,585
Payments on account and assets under construction		13,385,693		5,571
			121,275,757	**113,257**
Other non-current financial assets	(3)			
Participations		37,141		24
Other loans		265,719		9
			302,860	**33**
Deferred taxes	(4)		**12,938,522**	**11,483**
			182,079,382	**177,742**
CURRENT ASSETS				
Inventories	(5)		**4,530,421**	**4,520**
Trade receivables	(6)		**49,188,284**	**47,155**
Other current assets				
Prepaid expenses		999,945		1,387
Receivables pursuant to Hospital Financing Act	(7)	2,603,867		2,722
Other assets	(8)	2,178,989		3,441
			5,782,801	**7,550**
Cash and cash equivalents	(9)		**26,990,719**	**18,180**
			86,492,225	**77,405**
			268,571,607	**255,147**

EQUITY AND LIABILITIES

	Notes		31.12.2005 Euro	Previous year TEUR
EQUITY				
Subscribed capital	(10)		**31,500,000**	**31,500**
Capital reserve	(11)		**105,019,792**	**105,000**
			136,519,792	**136,500**
Revenue reserve	(12)		**3,102,817**	**3,103**
Consolidated balance sheet loss	(13)		**–52,352,408**	**–60,020**
Treasury stock	(14)		**–2,799,728**	**–2,800**
			84,470,473	**76,783**
Minority interests	(15)		**1,679,924**	**1,571**
			86,150,397	**78,354**
NON-CURRENT LIABILITIES				
Non-current liabilities				
Liabilities to banks and insurance companies	(16)	91,021,627		86,512
Bond issues	(17)	250,000		0
Other liabilities	(18)	2,337,938		0
			93,609,565	**86,512**
Non-current provisions				
Provisions for pensions and similar commitments	(19)	14,425,105		13,447
Other non-current provisions	(20)	12,018,864		28,446
			26,443,969	**41,893**
Deferred tax liabilities	(21)		**1,449,139**	**391**
			121,502,673	**128,796**
CURRENT LIABILITIES				
Trade payables	(22)		**10,971,166**	**11,605**
Other current liabilities				
Liabilities to banks	(23)	660,568		34
Liabilities pursuant to Hospital Financing Act	(24)	11,344,748		10,157
Other liabilities	(25)	31,729,043		22,532
			43,734,359	**32,723**
Current provisions	(26)		**2,143,986**	**1,848**
Current tax liabilities	(27)		**4,069,026**	**1,821**
			60,918,537	**47,997**
			268,571,607	**255,147**

Consolidated Profit and Loss Account for the Financial Year from 1 January to 31 December 2005

	Notes	1.1. to 31.12.2005 Euro		Previous year TEUR
Sales	(28)	370,434,153		357,970
Other operating income	(29)	7,497,091		7,725
Total operating performance			**377,931,244**	**365,695**
Raw material and consumables used	(30)			
a) Cost of raw materials and supplies		–46,179,584		–46,036
b) Cost of purchased services		–29,962,863		–27,164
			–76,142,447	–73,200
Staff costs	(31)			
a) Wages and salaries		–174,747,770		–174,562
b) Social security, pension and retirement		–34,867,945		–35,171
			–209,615,715	–209,733
Depreciation and amortization	(32)		–7,076,716	–18,954
Other operating expenses	(33)		–69,000,016	–76,563
Operating result			**16,096,350**	**–12,755**
Financial result	(34)			
a) Other financial revenues		459,056		738
b) Other financial costs		–6,925,033		–6,721
			–6,465,977	–5,983
Result before tax			**9,630,373**	**–18,738**
Taxes on income	(35)		–1,854,469	2,833
Result after tax			**7,775,904**	**–15,905**
Result attributable to minority interests	(36)		–108,453	64
Result attributable to shareholders of MediClin			**7,667,451**	**–15,841**
Earnings per share	(37)			
Earnings per share undiluted (in Euro)			0.26	–0.53
Earnings per share diluted (in Euro)			0.25	–0.53

Consolidated Cash Flow Statement

	2005 Euro	2004 Euro
Result before extraordinary items (before result shares of minority interests)	**16,096,350**	**–12,755,268**
Result of finance activities	–6,465,977	–5,982,479
Result of income taxes	–1,854,470	2,833,038
Depreciation on fixed asset items	7,076,716	18,954,399
Change in non-current provisions	–10,341,827	25,052,756
Change in current provisions	366,589	233,291
Result from the disposal of fixed asset items	–38,608	136,387
Other non-cash income	19,792	0
Change in current assets	–1,732,231	–5,007,500
Change in non-current liabilities	3,396,291	–887,376
Change in current liabilities	11,001,515	–14,060,182
Cash flow from operating activities	**17,524,140**	**8,517,066**
Payments received from the disposal of fixed asset items	289,370	3,887,097
Cash used for investments in fix assets	–14,390,338	–13,634,980
Cash flow from investing activities in fixed assets	**–14,100,968**	**–9,747,883**
Change in minority interests	785	–740
Change in non-current finance liabilities	4,759,957	–6,084,833
Change in current finance liabilities	626,992	–16,125
Cash flow from financing activities	**5,387,734**	**–6,101,698**
Cash flow for the period	**8,810,906**	**–7,332,515**
Cash and cash equivalents at the beginning of period	18,179,813	25,512,328
Cash and cash equivalents at the end of period	**26,990,719**	**18,179,813**

(See Notes to the consolidated financial statements of MEDICLIN Aktiengesellschaft, page 55)

Development of Group Equity and Minority Shares

Amounts in Euro	Subscribed Capital	Capital Reserve	Revenue Reserve	Consolidated net loss	Own Shares	Group equity generated	Minority Capital	Group Equity
As at 01.01.2004	31,500,000	105,000,000	3,102,817	–44,179,252	–2,799,728	92,623,837	1,634,788	94,258,625
Total consolidated result				–15,840,607		–15,840,607	–64,102	–15,904,709
As at 31.12.2004/ 01.01.2005	31,500,000	105,000,000	3,102,817	–60,019,859	–2,799,728	76,783,230	1,570,686	78,353,916
Change in the consolidated group							785	785
Allocation to reserves for option rights		19,792				19,792		19,792
Total consolidated result				7,667,451		7,667,451	108,453	7,775,904
As at 31.12.2005	**31,500,000**	**105,019,792**	**3,102,817**	**-52,352,408**	**–2,799,728**	**84,470,473**	**1,679,924**	**86,150,397**

(See Notes to the consolidated financial statements of MEDICLIN Aktiengesellschaft, point 10)

Notes to the Consolidated Financial Statements of MEDICLIN Aktiengesellschaft for Financial Year 2005

Basics and Methods	42
Accounting and Valuation Principles	45
Reconciliation statements	51
Consolidation Principles	52
Notes to the Cash Flow Statement	55
Segment Reporting	56
Notes to the MEDICLIN AG Consolidated Balance Sheet	58
Notes to the Consolidated Profit and Loss Account	74
Other Disclosures	79

Basics and Methods

The present notes were prepared for the consolidated financial statements of MEDICLIN Aktiengesellschaft, Frankfurt am Main. The underlying consolidated financial statements were approved by the Management Board on 9 March 2006.

The consolidated financial statements were prepared in accordance with IFRS as applied in the EU, and the supplementary commercial provisions defined under Section 315 a (1) of the German Commercial Code (HGB). The present consolidated financial statements of MediClin were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, valid as of the balance sheet date, and taking the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) into consideration for the first time this year. All International Financial Reporting Standards (IFRS) – formerly International Accounting Standards (IAS) – whose application is mandatory as from the financial year beginning on 1 January 2005, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly Standing Interpretations Committee (SIC) have been taken into account. No accounting and valuation methods under German law were applied which are not consistent with the IFRS/IAS or IFRIC/SIC, respectively. The consolidated financial statements are consistent with the directives of the European Union on consolidated accounting (Directive 83/349/EWG). New standards adopted by the IASB are applied as from the date of their coming into effect.

The International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published standards and interpretations whose application is not yet obligatory for financial year 2005. Application of these IFRS standards requires prior approval by the EU; in part, this is still pending. According to current knowledge, application of these new IFRS would impact on the present consolidated financial statements only with respect to the amended IAS 19 (amendment 2004) "Employee Benefits", which must be applied for financial years beginning on and after 1 January 2006, and which relates to an extension of the required disclosures in the Notes. The additional possibility provided for in this new version, specifically, the treatment of actuarial gains and losses through inclusion in shareholders' equity with neutral effect on profits represents an accounting option.

The consolidated financial statements of MediClin AG were prepared in accordance with the provisions of the German Commercial Code ("HGB Consolidated Financial Statements") for the last time on 31 December 2004. Any differences between the accounting, valuation and consolidation method according to HGB and IFRS were subject to respective adjustments with a view to complying with IFRS provisions. This concerns both the reporting period and the comparable period.

The first-time application of IASB provisions is based on IFRS 1. As a consequence, the IFRS/IAS adjustments of accounting and valuation as of 1 January 2004 were made with neutral effect on profits in favour of or at the expense of consolidated revenue reserves.

Preparation of consolidated financial statements in accordance with IFRS requires that assumptions and estimates be made which may have an effect on the valuation of the assets and debts and the income and expenses reported in the balance sheet. These assumptions and estimates relate, inter alia, to the accounting and valuation of provisions, whereby the discounting factor concerning pension provisions and similar commitments represents a significant estimation parameter. Since actuarial gains and losses are recorded only if they are in excess of 10 % of the higher amount from the obligation volume and the present value of the plan assets, future changes in the discounting factor concerning the pension systems existing within the MediClin Group usually do not have an effect on the book value of provisions in the following financial year.

The impairment test concerning goodwill is based on future-oriented key assumptions. From a present point of view, changes to these key assumptions will not lead to a devaluation of book values of the cash generating units above their achievable amount, and thus to an adjustment of the book values in the next financial year.

Furthermore, the valuation adjustments of receivables, including budget compensation claims, value adjustments concerning deferred taxes, the valuation of options from the convertible bond as well as the valuation of other provisions are based on adequate assumptions and estimates by Management, and have been derived from the most recently available reliable information.

All assumptions and estimates are based on the conditions and assessments as of the balance sheet date. Moreover, expectations respecting future business development took into account assumptions of future developments of the economic environment in the sector of industry and the regions in which the Group is engaged which appeared to be realistic at that time. The development of these general underlying conditions may deviate from the assumptions made, and this may lead to actual amounts not being consistent with the estimated values. In such cases, the assumptions and, if necessary, the book values of the assets and debts concerned will be adjusted accordingly. At the time of preparation of the consolidated financial statements, no significant changes respecting the underlying assumptions and estimates are expected. Accordingly, from a present point of view, no significant adjustment to the book values of reported assets and debts is to be expected for financial year 2006.

The following significant deviations in comparison with the accounting and valuation methods applied in the previous consolidated financial statements under HGB resulted from the first time application of IFRS/IAS as of 1 January 2004:

- The designations in the balance sheet and the profit and loss account were adjusted to comply with IFRS/IAS.
- The asset and liability side of the balance sheet is classified according to maturities in accordance with IAS 1 (Presentation of Financial Statements).
- Disclosure of prepaid expenses and deferred income under other short term assets and other short term liabilities, respectively.
- Adjustment of the disclosure of other provisions and short term liabilities in accordance with IAS 37.
- Discontinuation of scheduled amortisation of goodwill and a duty to perform an impairment test at least at annual intervals in accordance with IFRS 3 (Business Combinations).
- Treasury stock is disclosed as a reduction in shareholders' equity in accordance with IAS 32.33, and the acquisition and sale of treasury stock is presented exclusively as a change in shareholders' equity.
- Netting the "Special item from grants for non-current assets financing" with non-current assets in accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance).
- Netting of depreciation write-downs with income from release of the special item from grants for the purpose of non-current assets financing.
- Prohibition to recognise expense provisions (Provision for Maintenance Not Carried Out)
- Valuation of pension and long-service benefits provisions in accordance with the projected unit credit method, taking into account future salary and pension developments and current biometric probabilities in accordance with IAS 19 (Employee Benefits).
- Tax deferral in accordance with the "Liability" method in accordance with IAS 12 (Income Taxes).
- Recording of work in process as trade receivables

The consolidated financial statements are prepared in euro currency. All amounts are stated in thousand euros (TEUR) to the extent not otherwise specified. Derivative financial instruments are not in existence. The MEDICLIN Group is engaged in domestic activities only. Foreign currency transactions or other currency risks do not exist. The profit and loss account was prepared using the expenditure format.

The Company complies with its reporting duty respecting events after the balance sheet date in the management report.

The consolidated financial statements prepared as of 31 December 2005 and the management report are filed with the Commercial Register of the Frankfurt am Main local court under HRB 42420.

Accounting and Valuation Principles

The companies included in consolidation apply uniform accounting and valuation principles in accordance with HGB; these principles have remained unchanged in comparison with the previous year. The accounting and valuation principles at group level have been adjusted to comply with IFRS.

To the extent that, as a result of specific regulations of the Hospital Accounting Rules (Krankenhausbuchführungsverordnung or KHBV), receivables, liabilities, special items or compensating items of consolidated subsidiaries are to be reported in conformity with the Hospital Financing Act (Krankenhausfinanzierungsrecht or KHG), these are eliminated at group level in as much as they do not meet IFRS standards. For example:

- Receivables and liabilities pursuant to the Hospital Financing Act arising from pending transactions are set off against one another, and
- The special item from grants to finance non-current assets is deducted from non-current assets in keeping with the option provided for under IAS 20 (book value reduction).

The compensating items for the promotion of own funds pursuant to KHG were set off against the respective capital reserves at the subsidiaries concerned and were thus eliminated at the time of initial consolidation of the respective company.

With the exception of goodwill, the **intangible assets** have limited useful lives and are amortised according to schedule on a straight line basis. The software developed for the Group by a subsidiary does not represent an internally developed intangible asset since the IAS 38.57 recognition criteria are not met. The respective research and development expenses are immaterial for the Group.

The **goodwill** resulting from corporate acquisitions prior to transition to IFRS was transferred from the previous HGB accounts and reviewed with respect to impairment at that date. The goodwill amortised in preceding periods was not reinstated. The value of goodwill is reviewed every year as of 31 December. Indications of impairment in value are taken into account by recording respective, non-scheduled amortisation on the recoverable amount.

Property, plant and equipment as well as intangible assets, excluding goodwill, are stated at acquisition costs plus non-deductible value added tax net of acquisition cost deductions and less scheduled depreciation/amortisation. The total amount of economic assets depreciated/amortised during the reporting year is recorded under depreciation/amortisation.

The loan disclosed under **other loans** is allocated to the category of loans and receivables in accordance with IAS 39.9 and stated at depreciated acquisition cost which corresponds to the nominal value. Interest rates are in line with the market.

The useful lives of scheduled **depreciation/amortisation** of consolidated property, plant and equipment and intangible assets are as follows:

Concessions and licenses	3 to 5 years
Buildings	25 years
Technical equipment and machines	6 to 30 years
Operating and office equipment	3 to 15 years

Technical equipment and machines are generally depreciated using the declining balance method, with transition to the straight line method if the respective amounts are in excess of those achieved when applying the declining balance method of depreciation. Depreciation concerning business and office equipment is largely based on the straight line method.

Non-scheduled depreciation/amortisation of property, plant and equipment and of intangible assets with defined useful lives is recorded in compliance with IAS 36 if the recoverable amount of the asset has fallen below the book value. The recoverable amount is the higher of the net selling price and its value in use. Except for goodwill, original values are reinstated if the reason for impairment in value no longer applies.

Government **subsidies** and **grants** are deducted from acquisition costs. In accordance with the reduction of acquisition costs of the subsidised property, plant and equipment, the depreciation write-downs are limited to the amount of utility depletion of the non-subsidised non-current assets. Off-period netting, e.g. from the refinancing of formerly self-financed investments from previous years, is not netted with depreciation in the profit and loss account but disclosed under other operating income.

In accordance with IAS 23.10, **borrowing costs** are recognised as an expense in the period in which they are accrued.

In accordance with IAS 17 a **finance lease** is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. This is assumed if the present value of minimum lease payments is below the fair value of the lease asset. The lower limit is considered to be 90 % of the fair value. Significant finance leasing agreements existed neither on 31 December 2005 nor in the previous year. A present value test concerning the real estate leased from a real estate company on the basis of a long term contract revealed that this threshold of 90 % was achieved neither relative to the sum total of the purchase price nor relative to the sum total of the building's earnings powers.

Also all other leasing contracts are classified as operating leases. Rental payments from operating leases are generally treated as income over the term of the respective lease. Reductions in rent or the waiving of rent granted by lessors are allocated to the pertaining economic periods and distributed on a straight line basis over the period of reduced benefit for the Company resulting from the rental reduction.

Financial investments are stated at acquisition costs which correspond to the fair value of the respective consideration including incidental acquisition costs. Investments held until final maturity are valued at depreciated acquisition costs using the effective interest rate method. Any existing premiums or discounts are distributed over time up to maturity and, in so doing, recognised in the determination of deprciated acquisition costs. In the following periods, gains and losses from financial investments stated at depreciated acquisition costs are realised in the period result to the extent the financial investments are subject to derecognition, down-ward adjustment or when the value of the financial investment increases or decreases in the course of time. Financial investments classified as "disposable for sale" are not in existence.

To the extent raw materials and supplies are concerned, **inventories** are recorded at acquisition costs applying the Fifo method (first in – first out). Acquisition or manufacturing costs do not include borrowing costs.

Short term assets recorded for the first time are stated at acquisition costs which correspond to the fair value of the respective consideration including incidental acquisition costs.

Receivables from services not yet invoiced are reliably estimated pursuant to IAS 18.20. The services are charged either on the basis of daily rates or flat rates which can be translated into fictitious daily rates. When uncertainty about collectability arises, the respective amounts are recorded as an expense in accordance with IAS 18.22 rather than as an adjustment of the amount of revenue originally recognised. The receivables are stated at depreciated acquisition costs.

Liquid assets encompass cash, sight deposits, other short term, highly liquid financial assets with original terms of not more than three months, and current account balances. Current accounts credits drawn upon are disclosed under short term debt as liabilities to banks.

Treasury stock acquired by MediClin AG is deducted from shareholders' equity until the shares of stock are called in, reissued or resold. If such shares are subsequently issued or sold, the consideration received is included in shareholders' equity as a net amount after deduction of directly allocable additional transaction costs and pertaining income taxes.

Long term financial debts are recorded at acquisition costs on the liabilities side and accounted for at depreciated acquisition costs in the following periods. Loans recorded for the first time are stated at the fair value of the consideration received less borrowing costs. In the following periods, the interest-bearing loans are stated at depreciated acquisition costs using the effective interest rate method. Gains and losses are recorded in the period result to the extent the debts are derecognised, value-adjusted or amortised.

Pension and long-service award commitments are stated applying the projected unit credit-method, taking into account future salary and pension developments and biometric probabilities pursuant to IAS 19. Profits and losses from unplanned changes in the present value of benefits and from changes to actuarial assumptions remain unconsidered within a corridor of 10 % of the present value of benefits. Only if the threshold is underrun or exceeded are these gains/losses distributed over the remaining term of service and included in the provision.

Payments for defined contribution plans are recorded as expense as they fall due.

In accordance with IAS 37, **other provisions** are recorded to the extent that a current commitment vis à vis a third party exists which will probably lead to an outflow of resources and which can be reliably estimated. The provisions for recognisable risks and contingent liabilities are recognised at the amount of their probable occurrence. They are not offset against recourse claims. The fulfilment amount also includes the cost increases to be accounted for as of the balance sheet date. Discounts are applied if the respective interest effect is significant.

The increase in amounts relating to **liabilities from early retirement pension schemes** is accrued at the time of the agreement in the amount of their utilisation. The amounts accrued within the scope of the block model during the employment phase are accrued and carried as a liability to the amount of the discounted unpaid amount.

Liabilities are stated at their repayable amounts.

Prepayments received from customers and deferred income items are disclosed under **other liabilities**.

Income taxes are recognised and reported in accordance with IAS 12. **Deferred taxes** are recorded to account for temporary differences between the values according to IFRS and tax values, consolidation measures and also for adjustments to the uniform intra-group accounting and valuation method. Deferred tax assets are recorded for temporary differences which will lead to tax deductions in future periods to the extent that it is probable that sufficient taxable profits will be available against which these differences can be set off. The deferred tax assets also included tax deduction claims resulting from the expected utilisation of existing losses carried forward in subsequent years. These were, in part, subject to value adjustments. The tax rate applied for deferred tax assets and tax liabilities is 26.375 % (25 % corporation tax plus 5.5 % solidarity surcharge).

Indemnification payments associated with the termination of employment relationships are made if employees are released from their duties before having reached the statutory pension age or if employees terminate their employment voluntarily in exchange for indemnification. Indemnification payments are recorded in the Group if it is proved that indemnification has to be paid after discontinuation of the employment relationship by the employee.

A liability is recorded for **bonus payments and profit sharing bonuses** in cases where a contractual obligation exists.

In accordance with IFRS 2, **share-based payments** are recorded as assets at the time when the option is exercised and when IFRS recognition criteria have been fulfilled. To the extent that the payments received do not meet the assets recognition criteria, they are recorded as an expense. If a blocking period has been agreed upon, the expense to be recorded is distributed over this period of time. As a general rule, valuation is based on fair value. The decisive criterion for determining the fair value is the time of granting the equity capital instrument. The valuation is performed using a modified Black-Scholes option price model.

Sales revenues encompass the fair value received for the sale of services and merchandise excluding VAT, rebates and price deductions, and after elimination of intra-group sales. The sales revenues from the sale of services are recorded in accordance with the stage of performance relative to the service already provided and the overall service in the financial year in which the services are provided. As a general rule, revenues are realised when the respective service is provided. Revenues from flat rate payments are recorded in keeping with the stage of performance.

Operating expenses are charged to expenditure at the time of the provision of services or their cause, respectively. Basically, pre-tax deduction is not applied and the expenses therefore mainly relate to statutory VAT.

Write-ups, gains from the disposal of non-current assets, income from the release of provisions and other off-period income are disclosed under **other operating income**.

Non-scheduled depreciation write-downs, losses from the sale of non-current assets and other off-period expenses are recorded under **other operating expenses**.

Interest income and expenses are recorded as they accrue.

Reconciliation Statements

Transition of the Group Equity from HGB to IAS/IFRS Principles

TEUR	31.12.2004	01.01.2004
Group equity pursuant to HGB	**81,446**	**98,799**
Reclassification of own shares	–2,800	–2,800
Company pension scheme (IAS 19)	–13,189	–12,390
Elimination of setting up provisions for maintenance not carried out	831	654
Revaluation of anniversary obligations	324	192
General allowances for inventories	313	282
Elimination of the depreciation to goodwill pursuant to HGB	327	0
Others	10	0
Deferred taxes		
on losses carried forward	7,269	7,269
on other differences	3,823	2,253
Group equity pursuant to IAS/IFRS	**78,354**	**94,259**

Transition of the Consolidated Results from HGB to IAS/IFRS Principles

TEUR	2004
Consolidated result pursuant to HGB	**–13,581**
Company pension scheme (IAS 19)	–799
Elimination of setting up provisions for maintenance not carried out	177
Revaluation of anniversary obligations	131
General allowances for inventories	31
Revaluation of minority interests	1
Elimination of the depreciation to goodwill pursuant to HGB	–3,381
Deferred taxes on differences to the tax statement	1,570
Others	10
Consolidated result pursuant to IAS/IFRS	**–15,841**

Consolidation Principles

MEDICLIN Aktiengesellschaft with Head Office in Frankfurt am Main, is the group parent company. MEDICLIN Aktiengesellschaft is registered in the Commercial Register of the Frankfurt am Main local court under HRB 42420. The annual financial statements are filed with this Commercial Register.

In accordance with the principles of full consolidation, the consolidated financial statements include, in addition to the parent company, MEDICLIN Aktiengesellschaft, all subsidiaries under the economic control of MEDICLIN Aktiengesellschaft with the exception of KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH and the Müritz-Klinikum Service GmbH, which was founded in 2005. The two companies were not consolidated and they were not valued at equity due to their immaterial importance for the Group. The two companies continue to be reported at their acquisition costs.

The fully consolidated subsidiaries included in the consolidated financial statements are listed together with their respective participation quota under the table "Shareholdings 2005".

With effect as of 31 December 2005, MediClin AG acquired the capital share of the Gesellschaft für Medizinvertrieb und Consulting mbH in MediClin Beteiligungsgesellschaft mbH & Co. Objekt Hedon KG (formerly MediClin Beteiligungsgesellschaft mbH Objekt Hedon) and now owns all shares in this company. MediClin Beteiligungsgesellschaft mbH & Co. Objekt Hedon KG was integrated into Alphamed Klinik GmbH & Co. KG.

The assets and liabilities reported in the consolidated balance sheet remained unaffected by this.

The Rehazentrum Essen GmbH i.L., Essen, ceased to be a member of the consolidated group after its liquidation as of 31 December 2005. The comparability of the financial year 2005 figures with those of the previous year is not impaired due to insignificance of the liquidated company.

The present consolidated financial statements have an exempting effect in accordance with Section 264b HGB for all commercial partnerships included in the consolidated group pursuant to Section 264a (1) HGB. Consequently these commercial partnerships are exempt from the duty to prepare, have audited and publish the annual financial statements in accordance with the provisions defined for corporations and certain commercial partnerships.

Shareholdings 2005

Companies included in the consolidated financial statements	Percentage of shares held
Alphamed Klinik GmbH & Co. KG, Offenburg	100.00
Cortex Software GmbH, Offenburg	100.00 **)
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	100.00
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	100.00 *)
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	100.00 *)
Gesellschaft für Medizinvertrieb und Consulting mbH, Offenburg	100.00
KB Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Düsseldorf	100.00
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Düsseldorf	100.00
Krankenhaus am Crivitzer See GmbH, Crivitz	69.00
MC Pharma GmbH, Bonn	100.00
MediClin GmbH, Offenburg	100.00
MediClin Immobilien Verwaltung GmbH, Offenburg	100.00 *)
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	100.00 *)
MediClin Pflege GmbH, Offenburg	100.00 *)
MediLog GmbH, Offenburg	100.00 *)
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen	100.00 *)
Müritz-Klinikum GmbH, Waren	94.02
MVZ-Müritz GmbH, Waren	94.02 *)
Reha-Klinik GmbH & Co. KG Soltau, Soltau	100.00

Companies not included in the consolidated financial statements	
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz	47.77 *)
Müritz-Klinikum Service GmbH, Waren	47.95 *)

*) indirect participation
**) of which indirect participation 62.353 %

Consolidation Principles Applied in the Consolidated Financial Statements

All companies under the control of the Group with respect to their finance and business policies and in which the Group holds more than 50 % of voting rights qualify as subsidiaries. The existence and impact of potential voting rights which can be exercised or converted are taken into account in the assessment of whether the criterion of control applies.

Until 31 December 2003 MEDICLIN Aktiengesellschaft set off the acquisition values of shares in affiliated companies against the equity capital shares attributable to it as determined on the basis of the revaluation method at the time of initial consolidation (revaluation method pursuant to Section 301 (1) Sent. 2 No. 2 HGB). For all companies, the date of initial consolidation was the date of acquisition, and in the case of newly founded companies, the date of foundation. The debit balances resulting from these settlements are stated as goodwill on the assets side of the consolidated balance sheet and amortised on schedule over a period of 15 years using the straight line method.

The balance sheet values as of 31 December 2003 were transferred to the IFRS opening balance sheet as of 1 January 2004. In accordance with IFRS 3 (Business Combinations), goodwill is now no longer amortised according to schedule over the useful life but is subjected to an impairment test which is required to be performed at annual intervals at the least. The impairment test may lead to a devaluation requirement ("Impairment Only Approach"). Within this context, the individual permanent establishments are defined as "cash generating units" within the meaning of IAS 36. Shares in non-consolidated affiliated companies are reported as participating interests at depreciated acquisition costs.

Receivables and liabilities between consolidated Group companies as well as expenses and income from mutual service and supply transactions were eliminated.

Notes to the Consolidated Cash Flow Statement

The cash flow statement was prepared using the indirect method in accordance with IAS 7 and classified on the basis of cash from operating, investing and financing activities. Cash and cash equivalents encompass cash in hand and bank credit balances. The cash flows from interest received and paid as well as income taxes are allocated to operating activities.

The cash flow from operating activities improved by EUR 9.0 million from EUR 8.5 million in 2004 to EUR 17.5 million in the reporting year. The cash flow from investing activities increased by EUR –4.4 million to EUR –14.1 million (previous year: EUR –9.7 million). Cash and cash equivalents at the end of the period improved by EUR 8.8 million to EUR 27.0 million (previous year: EUR 18.2 million).

The cash flow from operating activities is reduced by tax payments to the amount of TEUR 3 (previous year: tax refund to the amount of TEUR 2,214) and interest payments of TEUR 6,006 (previous year: TEUR 6,953) and includes interest received to the amount of TEUR 455 (previous year: TEUR 724).

The decline in the item change of long term provisions is associated with the provision for insurance and other risk costs.

The item change of minority shareholder relates to the Rehazentrum Essen GmbH i. L., Essen, which ceased to be a member of the consolidated group after completion of liquidation as of 31 December 2005. The minority shares were deconsolidated.

The items changes of long term and short term financial debt include the new financial debt of EUR 10.3 million (previous year: EUR 0.0 million) and the amount of EUR 4.9 million from repatriation (previous year: EUR 6.1 million).

Segment Reporting

Segment reporting is prepared on the basis of IAS 14. All requirements defined in the standard have been observed. The standard aims at deriving the special profit abilities, growth prospects and risks of the various business segments from the highly aggregated data of the consolidated financial statements.

With respect to the determination of reportable segments, IAS 14 provides only for sectoral segmenting (Business Segments) and regional segmenting (Geographical Segments). In accordance with the risk and rewards approach of IAS 14, the segment is to be defined as a primary reporting format which mainly influences the risks and return on equity of a company. In addition to segmenting according to business fields, IAS 14 also requires segmenting according to geographical segments which are characterised by different opportunities and risks and which must have a defined minimum size. MediClin AG operates on the German market which, due to uniform legal regulations that are valid for all federal states, presents an uniform economic environment. As a consequence, businesses are exposed to the same opportunities and risks regardless of their location, so that the preconditions for further regional segmenting are not given.

MEDICLIN AG provides services in the field of medical rehabilitation (subsequent nursing treatment and curative treatment), hospital services and nursing care services; therefore, MediClin AG opted for sector-based segment reporting as the primary reporting format including the rehabilitation (Post-Acute), hospital (Acute) and nursing facilities (Nursing Care) segments.

In addition, segment reporting includes the administrative area which primarily consists of central services such as software support which is provided by Cortex Software GmbH, bookkeeping and controlling activities, quality assurance, PR activities, investment management and purchasing, and the technical organisation of clinics by employees of Alphamed Klinik GmbH & Co. KG and MEDICLIN Aktiengesellschaft.

In all, the following companies are subsumed under the administrative area:

Alphamed Klinik GmbH & Co. KG, Offenburg Branch, MEDICLIN GmbH, Cortex Software GmbH, Gesellschaft für Medizinvertrieb und Consulting mbH, MediLog GmbH, MEDICLIN Immobilien Verwaltung GmbH, MEDICLIN Aktiengesellschaft.

The income and expenses of these companies which cannot be directly allocated were coded and distributed in accordance with their respective share in revenue to the segments: Post Acute (rehabilitation), Acute (hospitals), and Nursing Care facilities. Moreover, revenues are broken down into internal sales and external sales. Internal sales play a subordinated role. For this reason a reconciliation statement pursuant to IAS14.16 was not prepared. The total results are consistent with the balance sheet and the profit and loss account figures. Transactions between the segments take place at conditions that are in line with the market.

Sectoral (primary) Segmenting

in million Euro	2005 Post acute	2005 Acute	2005 Nursing Care	2005 **Total**	2004 Post acute	2004 Acute	2004 Nursing Care	2004 **Total**
External Sales	213.2	150.8	6.4	**370.4**	207.5	148.8	1.7	**358.0**
Total Sales	216.4	152.8	6.4	**375.6**	209.4	150.1	1.7	**361.2**
Thereof internal sales	3.2	2.0	0.0	**5.2**	1.9	1.3	0.0	**3.2**
Segment result	–2.3	18.9	-0.5	**16.1**	–17.3	6.2	–1.7	**–12.8**
Thereof non-cash items:								
Depreciations/Write-ups	4.5	10.2	0.4	**15.1**	9.4	16.2	0.7	**26.3**
Release of special item	0.0	–8.1	0.0	**–8.1**	0.0	–7.4	0.0	**–7.4**
Release of provision	0.7	0.4	0.0	**1.1**	1.1	0.9	0.0	**2.0**
Operational assets	134.6	93.5	0.6	**228.7**	137.9	87.0	0.6	**225.5**
Non-operational assets	–	–	–	**39.9**	–	–	–	**29.6**
Assets	134.6	93.5	0.6	**268.6**	137.9	87.0	0.6	**255.1**
Operational liabilities	58.0	26.6	0.4	**85.0**	61.8	26.0	0.2	**88.0**
Non-operational liabilities	–	–	–	**97.4**	–	–	–	**88.8**
Liabilities	58.0	26.6	0.4	**182.4**	61.8	26.0	0.2	**176.8**
Investments	3.6	5.1	0.3	**9.0**	5.8	4.0	2.7	**12.5**

Notes to the MEDICLIN AG Consolidated Balance Sheet

NON-CURRENT ASSETS

(1) Intangible assets

TEUR	Concessions, licenses	Goodwill	Payments on account	**Total**
as at 01.01.2005	6,485	79,828	117	**86,430**
Additions	56	245	47	**348**
Reclassifications	38	0	–14	**24**
Disposals	0	5,107	0	**5,107**
as at 31.12.2005	6,579	74,966	150	**81,695**
Cumulated depreciation as at 01.01.2005	5,304	28,157	0	**33,461**
Change in value because of revaluation	0	45	0	**45**
Scheduled depreciation	627	0	0	**627**
Cumulated depreciation as at 31.12.2005	5,931	28,202	0	**34,133**
Balance Sheet value as at 31.12.2005	648	46,764	150	**47,562**
Balance Sheet value as at 31.12.2004	1,181	51,671	117	**52,969**

Of the goodwill disclosed, the amount of EUR 42.9 million (previous year: EUR 48.1 million) is attributable to debit differences from capital consolidation. The additions to goodwill relate to the doctors' practice values of the MVZ Leipzig and MVZ Plau am See medical supply centres. The goodwill disposals result from the disposal of subsequent acquisition costs concerning the investment in the Hurrle Clinic Group acquired in 1998. The subsequent acquisition costs result from subsequent purchase price claims on the part of former limited partners of the Hurrle Clinic Group. After, with one exception, composition arrangements have meanwhile been concluded with all those involved in the proceedings and the claims that were subject to the proceedings have been settled, the acquisition costs had to be adjusted accordingly. The amortisation resulting from revaluation concerns the MVZ Plau am See goodwill.

(2) Property, plant and equipment

TEUR	Land, land rights and buildings including buildings on third party land	Techincal equipment and machines	Other equipment, operating and office equipment	Payments on account and assets under contruction	**Total**
as at 01.01.2005	117,195	16,400	80,717	5,583	**219,895**
Additions	145	299	4,225	9,098	**13,767**
Reclassifications	159	595	289	–1,067	**–24**
Disposals	4	3	418	216	**641**
as at 31.12.2005	117,495	17,291	84,813	13,398	**232,997**
Cumulated depreciation as at 01.01.2005	23,285	13,209	70,132	12	**106,638**
Scheduled depreciation	1,982	140	3,356	0	**5,478**
Disposals	0	0	395	0	**395**
Cumulated depreciation as at 31.12.2005	25,267	13,349	73,093	12	**111,721**
Balance Sheet value as at 31.12.2005	92,228	3,942	11,720	13,386	**121,276**
Balance Sheet value as at 31.12.2004	93,910	3,191	10,585	5,571	**113,257**

In 2005 also, additions to property, plant and equipment mainly relate to the new construction of the Müritz Klinikum in Waren. In addition, the medical technology was further developed in the clinic operations and was significantly extended at the Plau am See hospital, in particular. Group-wide investments in renewal and extension of IT facilities were made in 2005.

In accordance with IAS 20, public **subsidies and grants** for the financing of investments are deducted from acquisition and manufacturing costs of the assets subsidised or granted with a reducing effect on current depreciation. The item largely relates to purpose-bound funds granted pursuant to the Hospital Financing Act; the residual book value is EUR 83.6 million (previous year: EUR 90.5 million). Additions to subsidised assets amount to EUR 2.1 million (previous year: EUR 2.6 million). The scheduled deprecation allowances compare to the release of special items amounting to EUR 9.0 million (previous year: EUR 7.4 million).

(3) Other non-current financial assets

Other non-current financial assets primarily relate to receivables from related parties amounting to TEUR 261.

The item relates to a loan extended to the Management Board (TEUR 250) and interest accrued up to the balance sheet date (TEUR 11). The loan is used to acquire the convertible bond issued by MediClin AG. The loan is subject to an annual interest rate of 5.0 % which, as with repatriation of the loan, falls due on the date of exercising the convertible right or by February 2010, at the latest. Recognition in the balance sheet is largely similar to the present value of the loan.

The investments relate to shareholdings in the Institut für Tinnitus Forschung und Therapie GmbH (TEUR 6), the KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH (TEUR 18) and the Müritz-Klinikum Service GmbH (TEUR 13).

(4) Deferred taxes

Deferred taxes result from temporary differences between the balance sheet values according to IAS and the tax values applied for the assets and debts. In accordance with IAS 12.53, deferred taxes are not to be discounted. The relevant tax rate is 26.375 % (corporation tax, solidarity surcharge).

They result from:

	Difference		Tax	
TEUR	**31.12.2005**	31.12.2004	**31.12.2005**	31.12.2004
Pension Obligation	14,196	13,190	3,744	3,479
Tax loss carried forward	31,780	27,560	8,382	7,269
Interim profits of non-current assets	1,110	807	293	213
Current liabilities	1,970	1,980	520	522
			12,939	**11,483**

Subject to subsequent tax audit, the Company reported losses carried forward to the amount of EUR 47.6 million (previous year: EUR 49.1 million). The resulting deferred tax assets are capitalised to the extent that realisation is sufficiently certain. Due to improved results of operations, the amount of tax losses carried forward for which no deferred tax assets are reported declined from EUR 21.5 million to EUR 15.8 million.

Current assets

(5) Inventories

Raw materials and supplies to the amount of EUR 3.5 million (previous year: EUR 3.4 million) are largely attributable to inventories concerning medical supplies.

(6) Trade receivables

TEUR	**31.12.2005**	31.12.2004
Receivables stock	52,184	49,892
Allowance	–2,996	–2,737
Disclosure	49,188	47,155
Thereof from related party disclosures	0	2

The residual term of receivables is less than one year.

Trade receivables are non-interest bearing and are stated at depreciated acquisition costs which correspond to the nominal value, less an adequate estimated amount for losses on receivables. Additions to the value adjustments during the financial year are disclosed in the income statement under other operating expenses; releases and write-ups are disclosed under other operating income. Write-ups (reinstatement of original values) are recorded only when the reason for the individual value adjustment no longer applies. The Company is of the opinion that the book value of trade receivables and other receivables corresponds approximately with their fair value.

(7) Receivables pursuant to Hospital Financing Act

TEUR	**31.12.2005**	31.12.2004
Receivables stock	3,214	3,706
Allowance	–610	–984
Disclosure	2,604	2,722
Thereof from related party disclosures	0	0

Receivables in terms of the Hospital Financing Act relate to claims according to the Hospital Financing Act and compensation claims stipulated in the Federal Directive on Nursing Care Rates or the Hospital Compensation Act, respectively. According to management's assessments and past experience, the receivables were subject to adequate value adjustments. Receivables from a pending contract involving the amount of EUR 25.0 million associated with promised investment grants pursuant to Section 9 of the Hospital Financing Act (KHG) were set off against the corresponding liabilities pursuant to the KHG.

(8) Other assets

TEUR	**31.12.2005**	31.12.2004
Receivables stock	2,179	3,441
Allowance	0	0
Disclosure	2,179	3,441
Thereof from related party disclosures	40	877

This item discloses financial assets which are stated at depreciated acquisition costs net of necessary value adjustments to account for recognisable risks. The residual term of the receivables is less than one year. The amounts reported are about equal to the present value.

(9) Cash and cash equivalents

In the reporting year, the item only includes cash and bank credit balances.

Equity

(10) Subscribed capital

The subscribed capital (capital stock) of the parent company, MEDICLIN AG, is split up into 31,500,000 no-par value bearer shares.

Authorised capital

By resolution of the Shareholders' Meeting on May 25, 2005, the Board of Management was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 7,875,000.00 through the one-time or repeated issuance of up to 7,875,000 new bearer shares in exchange for a contribution in cash up to May 31, 2010 (Authorised Capital I). The issuance relates to ordinary shares. The shareholders are granted subscription rights; The Board of Management is authorised, however, to exclude fractional amounts from shareholders' subscription rights. Moreover, with the approval of the Supervisory Board, the Management Board is authorised to define the further contents of share rights and details concerning the execution of capital increases from the Authorised Capital I.

By resolution of the Shareholders' Meeting on May 25, 2005, the Board of Management was authorised, with the approval of the Supervisory Board, to increase the share capital by up to EUR 7,875,000.00 through the one-time or repeated issuance of 7,875,000 new bearer shares (Authorised Capital II) up to May 31, 2010. The issuance relates to ordinary shares. The capital may be increased on the basis of cash contributions and/or contributions in kind. The shareholders' statutory subscription right is excluded to the extent that the acquisition of additional companies, company units or shareholdings in companies (acquisition of shares and/or asset items through contribution in kind), in individual cases in exchange for the issue of new shares, or one or several cash capital increases pursuant to Section 186 (3) Sent. 4 AktG, whose total amount does not exceed 10 % of the share capital at the time of the utilisation resolution, is to be financed or executed at an issue amount which is not significantly lower then the stock exchange price (simplified subscription right exclusion pursuant to Section 186 (3), Sent. 4 AktG). Furthermore, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription right in order to exclude any fractional amounts from the shareholders' subscription right. In addition, the Management Board is authorised, with the approval of the Supervisory Board, to define the further contents of share rights and details concerning the execution of capital increases from the authorised Capital II.

Conditional capital

On 13 November 2000, the Shareholders' Meeting passed a resolution on a conditional increase of the share capital by up to EUR 3,150,000.00 through the issuance of up to 3,150,000 no-par bearer shares (ordinary shares). The Conditional Capital was registered in the Commercial Register of the Frankfurt am Main local court on 1 December 2000. The conditional capital increase is to be carried out only to the extent that convertible bonds are issued and the holders of convertible bonds exercise their option right to convert the bonds into company shares. The convertible bonds at a nominal amount of ¤

5.00 per convertible bond entitle to the purchase of five shares in the company per convertible bond. In order to purchase a share, an issue amount is to be paid as a cash payment to the amount by which the shares' conversion price exceeds the prorated nominal amount of the bonds to be converted. The new shares will participate in profits from the beginning of the financial year in which they are generated by exercising the conversion right.

(11) Capital reserve

The capital reserve includes the amount achieved beyond the nominal amount of shares issued within the context of the capital increase in 2000, and the increase in equity capital resulting from the issue of a convertible bond in accordance with IFRS 2. In February 2005, 50,000 convertible bonds were issued as part of Management Board remuneration. Following a two-year blocking period these convertible bonds entitle to subscription for 250,000 shares of MediClin AG stock. Pursuant to Section 9 (2) of the issuing terms, the conversion right may be based on the issue of own shares rather than the issue of new shares. The non-transferable convertible bonds at a nominal amount of EUR 5.00 respectively are based on a term of five years. Following expiry of a waiting period (at the earliest, from February 2007 onwards), each convertible bond entitles its owner to conversion into five shares of stock per EUR 5.00 convertible bond every year within specified periods. As a precondition, the share price upon conversion must be at least 50 % up from the specified conversion price. More details, as well as the benchmark data of the convertible bond and option rights, are presented in Management remuneration on page 86. The fair value of option rights as of the date issue date to the amount of TEUR 45 is spread over the two-year blocking period on a pro rata temporis basis and added to the capital reserve. In 2005, the amount of TEUR 20 was posted at the expense of personnel expenses to this end.

(12) Revenue reserve

The consolidated revenue reserves are structured as follows:

TEUR	**31.12.2005**	31.12.2004
Revenue reserve to HGB	2,045	2,045
– Result of the first IAS-consolidation	–1,742	–1,742
+ own shares	2,800	2,800
	3,103	**3,103**

(13) Consolidated balance sheet loss

The consolidated balance sheet loss includes a loss carried forward to the amount of TEUR 60,020 (previous year: TEUR 44,179).

(14) Treasury stock

On 27 May 2004, pursuant to Section 71 (1) No. 8 AktG, the Shareholders' Meeting authorised MediClin AG to acquire treasury stock with a proportion of share capital amounting to EUR 31,150,000.00 (10 % of the existing share capital as of the date of passing the resolution) attributable to these shares through the one-off or repeated repurchase of treasury stock up to 26 November 2005. As of 31 December 2005, the Company held 1,550,000 own shares of stock (4.92 % of the share capital), measured at acquisition cost of EUR 2,799,728.

(15) Minority interests

Minority shares to the amount of EUR 1.7 million (previous year: EUR 1.6 million) include shares of outside parties in the equity capital of the following consolidated subsidiaries:

	Percentage of minority interests
Krankenhaus am Crivitzer See GmbH, Crivitz	31.00 %
Müritz-Klinikum GmbH, Waren	5.08 %

The amount of TEUR 108 (previous year: TEUR –64) of the Group's result for the year is attributable to minority shareholders.

Non-current liabilities

(16) Liabilities to insurance companies and banks

TEUR	31.12.2005	31.12.2004
Liabilities to insurance companies	61,355	61,355
Liabilities to banks	29,667	25,157
	91,022	**86,512**

Liabilities to insurance companies relate to three insurance companies which themselves are shareholders or subsidiaries of shareholders of the Company. Collateral for these loans exists in the form of a pledge of shares in an affiliated company (book value TEUR 163,920). The loans are subject to annual interest rates of 6.9 %. They are due to expire on 31 July 2008. In the reporting year, interest was paid to the amount of TEUR 4,233 (previous year: TEUR 4,556).

Of the liabilities to banks, the amount of TEUR 18,888 (previous year: TEUR 20,407) is secured by real property liens (book value TEUR 39,916). Interest to the amount of TEUR 1,450 was paid for these loans in 2005.

(17) Bond issues

This item discloses the convertible bond issued to the Management Board within the framework of share-based remuneration pursuant to IFRS 2. The pertaining conversion right was valued in accordance with a modified Black-Scholes option price model. Reference is made in this respect to the comments on management remuneration. The bond is subject to an annual interest rate of 2.5 %. It is to be repaid on 21 February 2010 at the latest if not converted and lapsed. The bond is recorded as a financial debt at a nominal value which corresponds to the issue amount. Owing to the presumed earlier date of conversion and, from the Company's point of view, lower bond volume of TEUR 250, the amount does not significantly deviate from the present value despite the lower rate of interest.

(18) Other liabilities

This item relates to five loans granted by the employers' liability insurance companies and two loans extended by public corporations. Interest was paid to the amount of TEUR 58.

The future interest expense from long term liabilities is as follows:

TEUR	Total	Interest expenses up to 1 year	> 1 year
Loan interests to insurance companies	10,937	4,234	6,703
Loan interests to banks	7,120	1,266	5,854
Interests for other non-current loans	388	54	334
Bond	26	6	20
Total	**18,471**	**5,560**	**12,911**
Thereof from related party disclosures	10,963	4,240	6,723

(19) Provisions for pensions and similar commitments

TEUR	as at 01.01.2005	Additions	Consumption	Reversal	as at 31.12.2005
Provident fund	13,189	975	0	0	14,164
Others	258	28	25	0	261
Balance sheet disclosure	**13,447**	**1,003**	**25**	**0**	**14,425**

Employee Support Fund

Some of the employees were granted post-employment benefits within the scope of the Group’s retirement benefit plans on the basis of ongoing pension payments. The benefits relate to post employment, invalidity and surviving dependents’ pensions on the basis of defined contribution and benefit plans.

Up until 31 December 2001, the defined benefit commitments were processed through the Employee Support Fund of the Combined Clinics Operations (MAUK). The retirement benefits accumulated by active employees up to 31 December 2001 were frozen at this status so that the calculation of pension provisions does not include current service expense. The pension commitments are fully allocated and were remeasured for the purpose of preparing the IFRS balance sheet. The Group's commitments encompass both current pensions and future pension benefits. As a rule, pensions are assessed on the basis of time of service in the company and remuneration relevant to retirement benefits.

The pension provisions are subject to actuarial assessment in accordance with IAS 19 (Employee Benefits), taking future developments into account. The present value of benefits is determined using a discounting rate of 4.25 % (previous year: 4.75 %). The annual rate of pension increases at the companies is assumed to be 1.5 % (previous year: 1.5 %). Expected income from plan assets is determined applying an interest rate of 3.38 % (previous year: 2.72 %). Employees’ average remaining working life is assumed to be 19 years. The 2005 mortality tables of Dr. Klaus Heubeck were used for the biometric calculations.

Actuarial gains and losses are recognised as income pursuant to the "10 % corridor approach" only if the accumulated balances of unrecognised actuarial gains and losses at the end of the previous reporting period exceed 10 % of the present value of the defined benefit liability at that time (before deduction of the plan assets), or 10 % of the fair value of any plan assets at that date (IAS 19.92). These limits are calculated and applied separately for each defined benefit plan. Amounts outside these limits are written down over the average remaining time of service of the persons entitled to benefits.

The development of the Employee Support Fund pension provisions during the financial year is reflected in the following tables:

Reconciliation of the present value of the total commitment, present value of plan assets and net pension provision.

TEUR	**2005**	2004
Estimated defined benefit obligation	23,130	19,239
Plan assets at fair value	–1,598	–1,754
Funded status	21,532	17,486
Unamortizied net loss	–7,368	–4,296
Defined benefit liability	**14,164**	**13,189**

The table below shows the change in the fair value of the total commitment in the years 2004 and 2005:

TEUR	**2005**	2004
Actuarial defined benefit obligation as at 01.01.	19,239	14,275
Interest Cost	914	856
Expected benefit payments	–196	–189
Expected settlement rate of benefit payments	–4	–6
Actuarial loss	3,177	4,303
Market value of the defined benefit obligation as at 31.12.	**23,130**	**19,239**

The pertaining plan assets developed as follows:

TEUR	2005	2004
Plan assets at fair value as at 01.01.	1,754	1,885
Expected return	60	51
Benefit payments	–196	–189
Expected value of assets as at 31.12.	1,618	1,747
Actuarial result of fiscal year according to assets	–20	7
Market value of assets as at 31.12.	**1,598**	**1,754**

The pension expense of the Employee Support Fund is structured as follows:

TEUR	2005	2004
Settlement rate of current service cost	0	0
Interest cost	914	856
Return on plan assets	–60	–51
Expected settlement rate of benefit payments	–4	–6
Amortization cost of actuarial result	125	0
Pensions cost	**975**	**799**

The total pension expense is posted to personnel expenses.

Other Pension Provisions

Other pension provisions relate to pension commitments for six other individuals, two of whom are already recipients of retirement benefits. The respective amount was TEUR 25 in the reporting year (previous year: TEUR 25). The amount accrued for these persons is TEUR 252. In accordance with IAS principles, the provision concerning the remaining four commitments was based on an interest rate of 4.25 %, an annual pension increase rate of 1.5%, and an average remaining working life of 12 years. The present value of the total commitment amounts to TEUR 122. The amount of TEUR 48 was added and the amount of TEUR 113 (previous year: TEUR 93) was deducted as an insurance claim from reinsurance cover. There are no unrealised insurance-based gains or losses.

As a contribution-oriented pension commitment, MediClin pays an annual contribution amounting to EUR 200.00 into a pension scheme (basic retirement benefit) for active employees who have served the Company for 5 years (cut-off date 31 December) and who have reached the end of their 28th year of age. The amount is adjusted to the rising cost of living (by an annual maximum of 1.5 %). In addition, MediClinRent offers entitled employees the possibility to build up a private pension consisting of parts of their gross salary (maximum EUR 2,496.00 per year) (additional retirement benefit).

MediClin transfers these amounts directly to the MediClin Support Fund. Recover insurance taken out with a life insurance company secures the Support Fund payments. MediClinRent honours employees' own initiatives respecting their future pensions and increases the pension contribution by 20 % (or at least by an annual amount of EUR 50.00 and a maximum amount of EUR 100.00 p.a.) as long as the contributions are not subject to social security (retirement provision bonus). As a precondition, the annual gross salary must fall below the income threshold of the statutory pension insurance.

These defined contribution plans do not involve the recording of a provision. The respective expenses in the reporting year amounted to TEUR 565 (previous year: TEUR 553).

Employees at the Krankenhaus am Crivitzer See GmbH are entitled to retirement benefits (additional pension benefits) from the Federal Pension Fund (Versorgungsanstalt des Bundes und der Länder = VBL). According to IAS 19, the retirement benefits on the basis of independent public supplementary pension funds are to be classified as defined benefit plans since individual benefits of the pension funds to former employees of the member companies are not contingent on the amounts paid in. Since the employees of a large number of member companies are insured through the VBL, this form of retirement benefit is regarded as a multi-employer plan to which the special regulations of IAS 19 apply.

As the information required for detailed calculation of the share of future payment commitments attributable to the Krankenhaus am Crivitzer See GmbH is not in place, the recording of a provision is not admissible pursuant to IAS 19. Consequently, in accordance with IAS 19.30, the commitments are to be accounted for analogous to defined contribution plans.

Current contribution payments are disclosed as retirement benefit expenses in the operative result for the respective years. The contribution payments to VBL amount to approximately TEUR 27.6 (previous year: TEUR 35.0). If membership in the VBL continues, upon payment of current contributions, no further commitments arise respecting the Krankenhaus am Crivitzer See GmbH.

(20) Other non-current provisions

TEUR	as at 01.01.2005	Additions	Consumption	Reversal	as at 31.12.2005
Other non-current provisions					
Provisions for renewal of rentagreement	2,126	24	0	0	2,150
Provisions for partial retirement	1,062	233	251	0	1,044
Provisions for anniversary pensions	729	515	145	60	1,039
Provisions for insurance and other risk costs	24,529	1,400	13,010	5,133	7,786
	28,446	**2,172**	**13,406**	**5,193**	**12,019**

Respecting the release of provisions, the amount of TEUR 5,107 was set off against goodwill with neutral effect on profits and the amount of TEUR 86 was recognised in income.

(21) Deferred tax liabilities

Deferred tax liabilities result from the temporary differences between IAS balance sheet values and tax values concerning taxable assets and debts pursuant to IAS 12.53 are not to be discounted. The relevant tax rate was determined at 26.375 % (corporation tax, solidarity surcharge).

The deferred tax liabilities result from:

	Difference		Tax	
TEUR	**31.12.2005**	31.12.2004	**31.12.2005**	31.12.2004
Allowances of anniversary pensions	99	324	26	86
Tax goodwill depreciation	4,877	327	1,286	86
Elimination cost provisions	519	831	137	219
			1,449	**391**

When calculating the long-service award obligation in accordance with the projected unit credit method, the resulting amount was lower in comparison to that of the previously used accrued value method. Derivative goodwill is amortised using the straight line method in the supplementary balance sheets. The commercial balance sheet pursuant to IAS does not provide for straight line amortisation.

In accordance with IFRS provisions, expense provisions are not to be recorded in the balance sheet.

Current liabilities

The current liabilities disclosed under this item are due in less than one year and are stated at their repayment amount or depreciated acquisition costs which basically correspond to the present values.

(22) Trade Payables

Trade payables to the amount of EUR 11.0 million were 5.5 % or EUR 0.6 million down from the previous year's value. In the previous year, the amount of EUR 0.5 million was attributable to related parties.

Other current liabilities

TEUR	**31.12.2005**	31.12.2004
To banks	660	34
Pursuant to the Hospital Financing Act	11,345	10,157
Other	31,729	22,532
Total	**43,734**	**32,723**
Thereof against related parties	0	0

(23) Liabilities to banks

Of the liabilities to banks, the amount of TEUR 60 is secured through real property liens. The book values of collateral provided are included in the long term liabilities data.

(24) Liabilities pursuant to the Hospital Financing Act

Liabilities pursuant to the Hospital Financing Act relate to flat rate subsidiaries pursuant to the local provisions on hospital financing which have not yet been used for their purpose, as well as to compensation obligations pursuant to Federal Nursing Rate Regulation or the Hospital Compensation Act.

(25) Other liabilities

The other liabilities mainly relate to amounts from settlement agreements concluded with former limited partners within the context of acquisition of the Hurrle Clinic Group which have not yet been paid as of the balance sheet date, and also to rental payments, social security contributions and amounts payable to the tax authorities.

(26) Current provisions

TEUR	as at 01.01.2005	Additions	Consumption	Reversal	as at 31.12.2005
Current provisions					
Provisions for costs of annual financial statement	871	775	682	99	865
Provisions for billing risks	727	100	0	0	827
Provisions for litigation	0	302	0	0	302
Others	250	0	0	100	150
	1,848	**1,177**	**682**	**199**	**2,144**

(27) Current tax liabilities

Current tax liabilities amounting to EUR 4.1 million (previous year: EUR 1.8 million) include payable corporation tax and solidarity surcharge. Tax liabilities cover the obligations of the current financial year and of previous years.

Notes to the Consolidated Profit and Loss Account

(28) Sales

The Group's domestically generated sales only relate to the Post Acute segment (Rehabilitation) to the amount of EUR 194.5 million (previous year: EUR 190.0 million), the Acute segment (hospitals) to the amount of EUR 139.5 million (previous year: EUR 136.8 million), the Nursing care segment (nursing care facilities) to the amount of EUR 6.4 million (previous year: 1.7 million) and to others amounting to EUR 30.0 million (previous year: EUR 29.5 million). The increase in other services is due primarily to the increase in out-patient treatment. The resulting proceeds amounted to EUR 7.5 million in financial year 2005 (previous year: EUR 6.4 million). Proceeds from private accommodation amounted to EUR 8.0 million and were unchanged in comparison with the previous year.

in million Euro	**2005**	2004
Post acute	194.5	190.0
Acute	139.5	136.8
Nursing care	6.4	1.7
Others	30.0	29.5
Sales revenues	**370.4**	**358.0**

Other revenues include, among other things, revenue amounting to EUR 3.1 million (previous year: EUR 2.8 million) from the disposal of medical goods and pharmacy merchandise, and from cafeteria and kiosk revenue and from meals provided EUR 3.5 million (previous year: EUR 3.7 million).

(29) Other operating income

Other operating income disclosed in the consolidated financial statements mainly relates to grants received in accordance with the KHG, public grants received, and off-period income from the release of provisions to the amount of approximately EUR 0.3 million (previous year: EUR 0.3 million). The item also includes rental income from related parties to the amount of TEUR 25 (previous year: EUR 60).

(30) Raw materials and consumables used

Costs concerning raw materials and supllies used increased by 0.3 % in comparison with 2004. Cost of purchased services rose by 10.3 %. Overall, the costs was up 4.0 % on the previous year's value. The ratio is 20.6 % in comparison to 20.5 % in the previous year.

(31) Staff costs

Staff costs of EUR 209.6 million were slightly below the previous year's value of EUR 209.7 million. The ratio improved to 56.6 % following 58.6 % in the previous year. Pension expenses, including contribution payments to external provider facilities, amounted to EUR 2.5 million (previous year: EUR 2.5 million).

(32) Depreciation and amortization

Depreciation and amortization concerning immaterial matters within the meaning of IAS 1.29 to which the IFRS/IAS standards are not applied amounted to TEUR 824 in the reporting year (previous year: TEUR 760).

(33) Other operating expenses

Of other operating expenses, the amount of EUR 30.6 million (previous year: EUR 37.2 million) relates to services provided to related parties pursuant to IAS 24, whereby EUR 30.1 million (previous year: EUR 35.6 million) concern rental payments for 21 clinics transferred to a real estate fund and leased back during the years 1999 and 2002. A rent reduction of EUR 7.0 million per year for the years from 2005 to 2007 has been agreed upon with the fund owners. This rent reduction is spread straight-line over the financial years 2005 to 2007, by allocating the sum total of the rents to be paid during this period over the months of this period, thereby taking into account the accrued rent reductions that had already applied in December 2004. Since the first months of a year are always completely rent-free and the rental expense is allocated evenly over the period from 2005 to 2007, the rental expense is shown as a deferred item in the quarterly financial statements. In connection with this rent reduction, a performance-based repayment (rental allowance) was agreed upon which is contingent on the achieving of certain economic performance parameters on the part of the clinics included in the fund. Basically, the performance parameter is the sum total of audited earnings before interest and tax (EBIT) of all 21 rented clinics during a financial year. The amount of the rental allowance is 50 % of the amount by which the EBIT total of the respective financial years exceeds a critical value.

In all, the maximum potential rental allowance is limited to rent reduction of EUR 21 million. In accordance with IAS 17.33 it is possible to deviate from the method of straight line lease payments over the entire contract term if another systematic distribution is more appropriate and suitable for the lessee. For the period from 2005 to 2007, MediClin expects a reduced benefit to arise from the asset items concerned. This is indicated by the contractual design which stipulates a rent reduction for the three financial years and, as specified, assumes an accumulated time period respecting determination of the rental allowances. Moreover, the fact should be taken into account that the agreed upon critical values for possible rental allowances are reduced by the rent reductions which have already been spread over the 2005 to 2007 period. If the performance in this period should be better than expected, allowances are to be granted which, with regard to their amounts, are limited by the amount of the rent reductions. If, in deviation of this, the rent reductions be accounted for over the entire residual contract term on a straight line basis, rent expenditure for the years from 2005 to 2007 would be stated too highly if rental allowances were to apply for this period. The fact that the critical values for possible rental allowances are reduced by the entire rent reductions consequently indicates allocation of the rent reductions over the same period in the accounting records. In the end, the method chosen is to be regarded as scaled lineation of lease payments, whereby the lease payments for the period which relates to the agreed upon rent reductions are recorded as an expense which is distributed evenly over this period. From 2008 onwards, the lease payments to be made under this method will be recognised straight-line as an expense over the remaining contract period. A compilation of future rental payments is presented under other financial obligations.

MediClin issued a payment guarantee vis à vis the acquirer and lessor concerning the rental payments plus pertaining operating costs relating to these rental agreements which were initially concluded by the subsidiaries up to 2024 and extended in 2004 by another three years up to 31 December 2027.

Other operating expenses were down EUR 8.6 million from the previous year's value of ¤ 77.7 million. This decline is largely due to the rent reduction. In addition to rental costs of EUR 35.9 million (previous year: EUR 41.1 million), the other operating expenses include primarily maintenance costs of EUR 12.1 million (previous year: EUR 12.1 million), insurance expenses of EUR 4.1 million (previous year: EUR 2.6 million) legal and advisory costs as well as other expenses.

(34) Financial result

The financial result is structured as follows:

TEUR	**2005**	2004
Other financial revenues	459	738
Other financial costs	6,925	6,721
	–6,466	**–5,983**

Of interest expenses, the amount of EUR 4.2 million (previous year: EUR 4.6 million) concerns payments to related parties in accordance with IAS 24. An overview of future interest expenses are described under non-current liabilities.

(35) Taxes on income

This item is structured as follows:

TEUR	2005	2004
Taxes on income	2,252	–1,263
Tax accrual and deferral	–397	–1,570
Taxes on income	**1,855**	**–2,833**

The current income tax expense Income tax expense increased to EUR 2.3 million during the financial year following tax refunds of EUR 1.3 million in the previous year. With respect to deferred taxes, the reporting year saw a tax refund of EUR 0.4 million (previous year: EUR 1.6 million).

The recording of deferred taxes is due to the differences between the valuation in the consolidated financial statements and the tax balance sheets prepared in accordance with German tax law. The deferred taxes were calculated using an average corporation tax rate of 25 % plus a 5.5 % solidarity surcharge.

Reconciliation of earnings before taxes on income to tax expense is as follows:

TEUR	2005	2004
Result before tax	9,630	–18,738
Calculational tax charge	2,540	–4,942
Tax effect of change of loss carryforwards not set off	–1,509	2,345
Non-deductible expenses		
Goodwill	0	1,059
Others	13	32
Taxes of previous years and others	811	–1,327
Actual tax expenses	**1,855**	**–2,833**

(36) Profit attributable to minority shareholders

This item relates to profit shares attributable to minority shareholders.

(37) Earnings per share

The undiluted earnings per share are calculated by establishing the quotient from the profit attributable to equity providers and the average number of shares issued during the financial year, with the exception of treasury stock held by the Company.

	2005	2004
Result attributable to shareholders (in TEUR)	7,668	–15,841
Average number of shares issued (in thousand)	29,950	29,950
Earnings per share undiluted (in Euro per share)	0.26	–0.53

The diluted earnings per share take into account the potentially diluted number of shares from the convertible bonds issued. The calculation assumes the exercising of subscription rights at the beginning of the financial year at the price most favourable for the executing party, whereby the net profit is adjusted for interest expense and the tax effect.

TEUR	**2005**	2004
Result attributable to shareholders	7,668	–15,841
Interests of convertible bond (net)	6	0
Current or rather deferred taxes on interests	2	0
Result to define earnings per share diluted	7,660	–15,841
Average number of shares issued (in thousand)	29,950	29,950
Stockoption (in thousand)	250	0
Adjustment for assumed conversion of convertible bond (in thousand)	208	0
Average number of shares for the earnings per share diluted (in thousand)	30,158	29,950
Earnings per share diluted (in Euro)	0.25	–0.53

Other Disclosures

MEDICLIN Aktiengesellschaft is a company registered in Germany with head office in Frankfurt am Main. The clinics' central administration is located at Okenstrasse 27, 77652 Offenburg.

Number of employees

The average number of employees, based on full-time staff and excluding the Management Board, managing directors and trainees, is as follows:

per full-time staff	**2005**	2004
Medical	578	568
Nursing	1,645	1,632
Medical-technical	1,228	1,274
Functional	284	274
Medical services	**3,735**	**3,748**
Support functions	811	837
Technical	176	174
Administrative	419	426
Other	59	61
Non-medical services	**1,465**	**1,498**
Total	**5,200**	**5,246**

Contingencies and other financial obligations

The Group's total obligations arising form rental and leasing contracts amount to EUR 34.7 million (previous year: EUR 40.8 million) in the reporting year. Of this amount, the amount of EUR 30.1 million (previous year: EUR 35.6 million) is attributable to real estate rented over the long term. Due to the contractual design, the respective 21 long term leasing contracts qualify as operating leases pursuant to IAS 17 and are recorded in the lessor's balance sheet. The underlying rental contracts are due to expire on 31 December 2027. The annual leasing payments as stipulated in the respective contracts amounted to EUR 37.0 million (unreduced) in the reporting year. The contracts provide for annual rental adjustments in accordance with changes in the consumer pricing index for Germany (i.e. a maximum of 2 % per year). Up to the year 2007, rental reductions of approximately EUR 7 million p.a. are granted for the 10 leased properties. More details are to be found in the income statement under the item: Other operating expenses cf. paragraph 33.

The expenses for other rentals and leases amounted to TEUR 2,448 in comparison to TEUR 2,192 in the previous year.

In all, future obligations concerning significant rental and lease contracts for real estate are as follows:

Remaining term in million Euro	Nominal value **31.12.2005**	Nominal value 31.12.2004
up to 1 year	32.3	32.2
1 – 5 years	148.5	142.1
> 5 years	631.3	669.8
Total	**812.1**	**844.1**

Leasing expenses relating to movable property, such as vehicles, office equipment and medical technology amounted to TEUR 2,110 (previous year: TEUR 2,347) in the reporting year. The terms of leasing agreements are between two and a maximum of five years. Since the agreements were renewed on a revolving basis, MediClin assumes that the Group will incur total obligations from these rental and leasing agreements at respective comparable amounts in the coming years.

The agreed performance-based rental reductions of EUR 21million involve a duty to pay a rental allowance should certain performance parameters be achieved. The potential maximum rental allowance is limited to the rental reduction volume.

Within the scope of acquisition of the Müritz-Klinikum GmbH, MediClin has provided the seller with a continuation guarantee. In addition, the seller was contractually promised that, within the framework of investment projects, the amount of EUR 10 million would be paid within the scope of an increase in the equity capital of the Müritz-Klinikum GmbH subsidiary. In 2002, the subsidiary's equity capital was increased by EUR 6 million. The investment project was commenced in 2004 and will be continued in 2005.

Should the option right be exercised, issuance of the convertible bond involves an obligation to deliver up to 250,000 shares of stock at EUR 1.88 each by 21 February 2010, at the longest. The obligation concerning the convertible bond interest amounts to TEUR 6 per year (2.5 % annual interest rate).

Subsequent tax payments may result from the external tax audit commenced in the reporting year. At present, it is not possible to determine the exact amount of these payments.

There were no other significant contingencies or financial obligations as of the balance sheet date.

Financial risk management

Within the framework of its business activities the Group is primarily exposed to credit risks as well as to liquidity and refinancing risks. A credit risk means the risk of a contracting partner's inability to pay or deterioration of the contracting party's credit standing. Since MediClin generates almost all of its sales (approximately 98 %) with health insurance institutions as well as with statutory and private health insurance funds, this risk is considered to be low. The liquidity risk relates to the risk of MediClin not being able to meet its current or future payment obligations to the full extent or within the time stipulated. A refinancing risk is a special form of the liquidity risk which arises when the liquidity required cannot be provided at the expected terms and conditions. In addition, interest rate risks may arise from possible changes in the market interest rate level. This risk is counteracted through appropriate terms.

Also the risks stated above are counteracted by careful liquidity management and sufficient liquid assets resources in addition to an adequate amount of promised credit lines. A further measure to cover these risks is the Group-wide liquidity provision based on central cash pool management. Available liquid assets are invested in the form of short term time deposits. Derivative financial instruments such as those in the form of interest rate swaps have not been employed to date.

Supervisory Board

The following persons were members of the Supervisory Board during financial year 2005:

Prof. Dr. Gerhard Schmidt, Frankfurt am Main (Chairman) (until May 25, 2005)
Attorney at law and tax consultant

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Grohe AG, Hemer
- Grohe Beteiligungs GmbH, Hemer
- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main*
- Deutsche Immobilien Chancen Beteiligungs AG, Frankfurt am Main*
- DIC Asset AG, Frankfurt am Main*

Member of the Supervisory Board of
- TTL Information Technology AG, Unterschleißheim
- TTL International AG, Unterschleißheim

* Section 100 (2) Sent.2 AktG applies with respect to these mandates.

Günter Schlatter, Köln (Chairman from 25 May 2005)
Chairman of the Board of Provinzial Rheinland Versicherung AG, Düsseldorf

Supervisory Board Mandate:

Member of the Supervisory Board
- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main
- Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden

Hans Hilpert[1], Kirkel (Vice Chairman)
Sports therapist, Bliestal Kliniken

Dipl.-Kfm. Michael Bock, Düsseldorf (from 25 May 2005)
Executive Manager at Provinzial Rheinland Versicherung AG

Supervisory Board Mandate:

Member of the Supervisory Board
- KDV Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG, Düsseldorf
- DIC Asset AG, Frankfurt am Main
- MUK Kapitalbeteiligungsgesellschaft mbH, Köln

[1] Supervisory Board members of employee representatives

Dr. Daniel von Borries, München (from 25 May 2005)
Member of the Board of ERGO Versicherungsgruppe AG

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Forst Ebnath AG, Ebnath
- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board
- BHS tabletop AG, Selb
- MEAG Munich ERGO Kapitalanlage Gesellschaft mbH, München
- VICTORIA Volksbanken AG, Wien
- GFKL Financial Services AG, Essen
- Ideenkapital Media Finance AG, Düsseldorf
- iii Internationales Immobilien-Institut GmbH, München
- Jenoptik AG, Jena
- Karstadt Quelle Bank AG, Neu-Isenburg

Gerd Dielmann[1], Berlin
Trade Union Secretary at the Federal Office of ver.di

Prof. Dr. Erich Donauer[1], Plau am See
Chief Physician, Department for Neurosurgery and Stereotaxy of Klinikum Plau am See

Peter Erni[1], Mannheim
Trade Union Secretary for the regional office of Baden-Württemberg at ver.di

Axel Große-Heitmeyer[1], Bielefeld (until 29 January 2005)
Physician, Seepark Klinik

Carsten Heise, Neuss (from 25 May 2005)
Lawyer and managing director at Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

[1] Supervisory Board members of employee representatives

Dr. Jochen Messemer, Köln
Member of the Management Board of DKV Deutsche Krankenversicherung AG

Supervisory Board and Administrative Board mandates:

Chairman of the Supervisory Board
- Storebrand Helseforsikring AS, Oslo
- ArztPartner almeda AG, München
- MedWell Gesundheits-AG, Cologne

Chairman of the Administrative Board
- DKV Belgium, Brussels
- DKV Luxemburg S.A., Luxembourg

Member of the Supervisory Board
- Globale Krankenversicherung AG, Cologne (Vice Chairman)

Member of the Administrative Board
- DKV Seguros y Reaseguros S.A.E., Saragossa
- ERGO Vida S.A., Saragossa
- Union Medica la Fuencisla S.A. Compania de Seguros, Saragossa

Klaus Müller[1], Oberthal
Sports and recreational therapist, Bosenberg Kliniken

Prof. Dr. Peter Reichling, Biederitz (until 25 May 2005)
Holder of a Chair for financing and banks, University of Magdeburg

Supervisory Board Mandate:

Chairman of the Supervisory Board
- LinusContent AG, Frankfurt am Main

Member of the Supervisory Board
- Wohnungsbaugenossenschaft Otto von Guericke eG, Magdeburg
- icubic AG, Magdeburg

Dr. Hans Rossels, Kall (from 25 May 2005)
Managing Director of Kreiskrankenhaus Mechernich

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Gemeinnützige Gesellschaft der Franziskanerinnen zu Olpe mbH, Olpe

Member of the Supervisory Board
- Katholische Kranken- und Altenhilfe Rhein-Sieg gGmbH, Olpe

Member of the Administrative Board
- Deutsche Krankenhausverlagsgesellschaft (DKVG), Düsseldorf

[1] Supervisory Board members of employee representatives

Bernd W. Schirmer, Santanyi, Spain (until 25 May 2005)
Entrepreneur

Supervisory Board Mandate:

Member of the Supervisory Board Mandate
- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main
- LinusContent AG, Frankfurt am Main

Gero Schlagelambers[1], Andervenne (from 5 April 2005)
Nursing Assistant, Hedon Klinik, Lingen

Frank-Rainer Vaessen, Meerbusch (until 25 May 2005)
Managing Director of ERGO Trust GmbH

Supervisory Mandate:

Chairman of the Supervisory Board
- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board
- AEDES S.p.A., Mailand
- Dolmen Securities Ltd., Dublin
- TMW Property Fund AG, München

[1] Supervisory Board members of employee representatives

Supervisory Board Committees

Präsidialausschuss (General Committee)
Günter Schlatter (Chairman)
Hans Hilpert
Dr. Jochen Messemer
Gero Schlagelambers

Vermittlungsausschuss pursuant to Section 27 (3) MitbestG
Günter Schlatter (Chairman)
Hans Hilpert
Dr. Jochen Messemer
Gero Schlagelambers

Audit Committee
Dr. Daniel von Borries (Chairman)
Michael Bock
Prof. Dr. Erich Donauer
Carsten Heise
Klaus Müller

Board of Management

The following persons were members of the Board of Management of MEDICLIN Aktiengesellschaft during the 2005 financial year:

Dr. Ulrich Wandschneider, Hamburg
Chairmain of the Management Board

Frank Abele, Gerlingen
Chief Financial Officer

Management remuneration

Total remuneration for active and former executive body members was as follows in the 2005 and 2004 financial years:

in Euro	**2005**	2004
Board of Management	1,345,833	1,640,812
Supervisory Board	87,559	88,198
Advisory Board	0	35,940

The Supervisory Board and Advisory Board remuneration relates to meeting attendance fees. The Management Board remuneration consists of the following:

in Euro	**2005**	2004
Short-term payments	1,290,518	897,305
Payments after termination of employment	0	0
Other long-term payments	35,523	33,707
Payments due to termination of employment	0	709,800
Share-based payments	19,792	0
	1,345,833	**1,640,812**

In addition to fixed and performance-based compensation components, MediClin AG also grants the Board of Management share-based compensation in the form of convertible bonds. The Board of Management was entitled to acquire options for MediClin AG shares of stock within the scope of a convertible bond subscription. The conversion rights granted are based on non-transferable convertible bonds of EUR 5.00 each with a term of five years. Each convertible bonds entitles the bond owner to conversion into five shares of stock for each EUR 5.00 convertible bond following a 24-month waiting period at certain specified times of each year. This entitlement is subject to the proviso that the share price upon conversion is at least 50 % above the defined conversion price. The conversion price comprises the prorated nominal amount of the convertible bond to be converted and a cash payment at the amount by which the conversion price of the MediClin share exceeds the prorated nominal amount of the convertible bond to be converted. The present value of the option was defined on the basis of a modified Black-Scholes option price model as of the time of granting the options.

The benchmark data for the convertible bonds granted in 2005 as well as the pertaining option rights are as follows:

Bond:	
Nominal interest	2.5 %
Term	22.02.2005 to 21.02.2010
Blocking period	22.02.2005 to 21.02.2007
Conversion price	EUR 1.88
thereof cash payment	EUR 0.88
Price of the MediClin share as of 31.12.2005	EUR 2.50
Existing option rights as of 31.12.2005	250.000
Exercisable option rights as of 31.12.2005	0
Exercised option rights as of 31.12.2005	0

Option	
Expected volatility	38.60 %
Risk-free investment interest rate	2.00 %
Expected duration until execution	2 years
Present value per option right[1)]	EUR 0.95
Total value	EUR 47,500.00

1) Entitles to the acquisition of 5 shares of stock

The Management Board was granted a loan amounting to TEUR 250 for the acquisition of the convertible bond. The loan bears an annual interest rate of 5.0 % p.a. and is repaid upon conversion.

Participations in MEDICLIN Aktiengesellschaft of which it was notified pursuant to Section 21 (1) or (4) Securities Trading Act (Wertpapierhandelsgesetz, WpHG)

Notification on 3 February 2005

Pursuant to Section 21 (1) WpHG, Rainer J. Räsch, Frankfurt am Main, notified us that his share in the voting right of MediClin AG was below the threshold of 5 % as of 28 January 2005 and that it now amounts to 0.90 %.

Notification on 11 April 2005

Bernd Schirmer, Santanyi, Spain, notified us pursuant to Section 21 (1) WpHG that his share in the voting right of MediClin AG as of 8 April 2005 was below the threshold of 5 % and that it now amounts to 4.15 %.

Notification on 23 September 2005

The Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Königinstrasse 107, 80802 München, notified us on 15 September 2005 pursuant to Sections 21 (1), 22 (1) No. 1 WpHG that it exceeded the threshold of 25 % of the voting rights in MediClin AG on 15 September 2005 and that it now holds 28.4 % of the voting rights in our Company, which include 28.4 % of the voting rights attributable to it pursuant to Section 22 (1) No. 1 WpHG.

Pursuant to Section 24 WpHG, the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft concurrently informed us pursuant to Sections 21 (1), 22 (1) Sent. 1 No. 1 WpHG, on behalf of ERGO Versicherungsgruppe AG, Victoriaplatz 2, 40198 Düsseldorf, that this company exceeded the threshold of 25 % of the voting rights in MediClin AG on 15 September 2005, and that it now holds 28.4 % of the voting rights in our company; this includes 23.7 % of the voting rights that are attributable to it pursuant to Section 22 (1) Sent. 1 No. 1 WpHG.

Notification on 15 December 2005

ERGO Trust GmbH Düsseldorf reported on 6 December 2005 that it fell below the threshold of 10 % and 5 % of the voting rights in MediClin AG as of 30 November 2005, and that it now holds no voting rights in MediClin AG.

This concerns an intra-Group transfer of shares in MediClin AG within the ERGO group of insurance companies; no other notification requirements resulted from this for the ERGO group of insurance companies.

Report concerning related parties pursuant to IAS 24

In his capacity as Chairman of the Management Board of Provinzial Rheinland Versicherung AG, Düsseldorf, Mr. Günter Schlatter, Chairman of the Supervisory Board, is also a member of the Supervisory Board of Oppenheim Immobilien-KAG mbH, Wiesbaden, with whom extensive leasing transactions have been concluded. The respective sales revenues are processed at common market conditions and amounted to EUR 30.1 million in the financial year. The respective expenses are disclosed in the profit and loss account under other operating expenses and the liability items still open are disclosed in the balance sheet under trade payables.

Prof. Dr. Gerhard Schmidt, Partner of the law firm Weil, Gotshal & Manges, Frankfurt, which provides consulting services for MEDICLIN AG, was Chairman of the Supervisory Board of MEDICLIN AG up to 25 May 2005. Up to his departure, sales revenues generated by the law firm with MEDICLIN AG in the reporting year in accordance with generally accepted market terms amounted to TEUR 331 (previous year: TEUR 501). The expenses are recorded in the profit and loss account under other operating income, and the resulting open items under trade payables.

The Supervisory Board members, Dr. Daniel von Borries, deputy member of the Board of Management of the ERGO Versicherungsgruppe AG, Frank-Rainer Vaessen, Managing Director of ERGO Trust GmbH, and Dr. Jochen Messemer, member of the Management Board of DKV Deutsche Krankenversicherung AG, are executive officers of Münchner Rückversicherungs-Gesellschaft AG subsidiaries. Financial and credit relationships at the usual market conditions exist with the Münchner Rückversicherungs Gesellschaft AG, Munich, which holds 28.4 % of the voting rights in MediClin AG.

Financial and credit relationships at usual market conditions also exist with Provinzial Rheinland Versicherung AG which holds 14.9 % of the voting rights in MediClin AG. The Supervisory Board members, Günter Schlatter, Chairman of the Management Board of Provinzial Rheinland Versicherung AG, and Michael Bock, universal agent at Provinzial Rheinland Versicherung AG, are executive officers at Provinzial Rheinland Versicherung AG.

Interest expense recorded in the profit and loss account amounted to TEUR 4,233 (previous year: TEUR 4,556); the corresponding liability items are disclosed in the balance sheet under long term financial debt.

Directors’ Dealings

The members of the Supervisory Board and the Board of Management as well as their spouses and first degree relatives are legally required to disclose any significant purchases or significant sales of stock shares, stock options, or derivatives of MediClin AG pursuant to Section 15a WpHG.

In 2005 the following reportable transactions were made:

	Dr. Ulrich Wandschneider, Chairman of the Management Board	
Transaction	Transaction day	22.02.2005
	Description	Convertible bonds
	Type of transaction	Purchase
	Place	Off-exchange
	No. of items	50,000
	Price	5.00 Euro
Instruments	Type	Ordinary shares
	ISIN	DE0006595101
	Strike price	1.88 Euro
	Expiration date	21.02.2010

	Bernd Schirmer, Member of the Supervisory Board (until 25.05.2005)	
Transaction	Transaction day	08.04.2005
	ISIN	DE0006595101
	Description	Ordinary shares
	Type of transaction	Sale
	Place	Off-exchange
	No. of items	750,000
	Price	2.50 Euro

Conformity declaration concerning the German Corporate Government Code in accordance with Section 161 AktG

The conformity declaration of MEDICLIN Aktiengesellschaft pursuant to Section 161 AktG is accessible to the shareholders on a permanent basis in the respective updated version on the Company’s Internet pages.

Auditors' Fees

The fees paid to the auditing firm for financial statements auditing activities and other services were recorded as expense in the financial year at the following amounts:

	TEUR
Annual Audit	464
Other evaluation or validation	0
Tax Advisory	0
Other Services	0

Proposed appropriation of earnings

It is proposed that the balance sheet loss of MEDICLIN AG as at 31 December 2005 to the amount of EUR 4,807,244.72 be carried forward to the new accounting period.

Frankfurt am Main, 9 March 2006

Dr. Ulrich Wandschneider   Frank Abele

Auditor’s Report

We have audited the consolidated financial statements prepared by the MEDICLIN Aktiengesellschaft, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statement together with the combined management report and group management report for the business year from January 01, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the combined management report and group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs (paragraph) 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report and group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report and group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report and group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 10 March 2006

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(zu Inn- u. Knyphausen) Wirtschaftsprüfer	(Philipp) Wirtschaftsprüfer

Hedon-Klinik, Lingen

Annual Financial Statements of MEDICLIN Aktiengesellschaft for Financial Year 2005

Balance Sheet MEDICLIN Aktiengesellschaft as at 31 December 2005

ASSETS

		31.12.2005 Euro	Previous year TEUR
A. FIXED ASSETS			
I. Intangible assets			
Concessions, industrial rights, licences		**2,896**	4
II. Property, plant and equipment			
Other equipment, operating and office equipment		**129,147**	167
III. Financial assets			
1. Shares in affiliated companies	208,887,347		207,506
2. Other loans	260,719		
		209,148,066	
		209,280,109	**207,677**
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Trade receivables	0		2
2. Receivables from affiliated companies	4,951,975		9,100
3. Other assets	71,127		25
		5,023,102	**9,127**
II. Securities			
1. Treasury stock	2,799,728		2,790
2. Other securities	0		124
		2,799,728	**2,914**
III. Cash on hand, bank balances		**1,200,031**	**10,472**
		9,022,861	**22,513**
C. PREPAID EXPENSES		**18,384**	**28**
		218,321,354	**230,218**

EQUITY AND LIABILITIES

		31.12.2005 Euro	Previous year TEUR
A. EQUITY			
I. Subscribed capital		**31,500,000**	**31,500**
II. Capital reserve		**105,000,000**	**105,000**
III. Revenue reserve			
1. Legal reserve	2,045,167		2,045
2. Reserve for treasury stock	2,799,728		2,790
		4,844,895	**4,835**
IV. Balance sheet loss		**–4,807,244**	**–7,988**
		136,537,651	**133,347**
B. PROVISIONS			
1. Provisions for taxes	2,341,748		0
2. Other provisions	8,134,507		25,823
		10,476,255	**25,823**
C. LIABILITIES			
1. Bond issues	250,000		0
2. Liabilities to banks and insurance companies	61,955,026		64,360
3. Trade payables	260,904		531
4. Liabilities to affiliated companies	1,237,463		5,961
5. Other liabilities	7,604,055		196
		71,307,448	**71,048**
		218,321,354	**230,218**

Profit and Loss Account MEDICLIN Aktiengesellschaft for the Financial Year from 1 January to 31 December 2005

		1.1. to 31.12.2005 Euro	Previous year TEUR
1. Other operating income		573,113	4,357
Total operating performance		**573,113**	**4,357**
2. Cost of materials			
a) Costs of raw materials and supplies	0		–1
b) Costs of purchased services	0		–10
		0	–11
3. Personnel expenses			
a) Wages and salaries	–1,871,229		–1,680
b) Social security, pension and retirement thereof pension and retirement: Euro 44,721 (previous year: TEUR 36)	–142,684		–130
		–2,013,913	–1,810
4. Depreciation on intangible assets and on property, plant and equipment		–45,644	–69
5. Other operating expenses		–2,726,892	–4,156
Operating result		**–4,213,336**	**–1,689**
6. Income from participations thereof from affiliated companies: Euro 13,995,236 (previous year: TEUR 3,878)		13,995,236	3,878
7. Income from financial investments and similar income thereof from affiliated companies: Euro 1,027,964 (previous year: TEUR 1,622)		1,143,434	2,094
8. Depreciation on financial assets		0	–33,700
9. Other interests and similar expenses thereof from affiliated companies: Euro 564,226 (previous year: TEUR 1,028)		–5,539,867	–5,901
10. Result from ordinary activities		**5,385,467**	**–35,318**
11. Taxes on income		–2,192,545	2,147
12. Other taxes		–2,453	–1
13. Result for the year		**3,190,469**	**–33,172**
14. Loss carried forward from previous year		–7,987,985	25,174
15. Transfers to/release of reserve for treasury stock		–9,728	10
16. Balance sheet loss		**–4,807,244**	**–7,988**

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Schedule of Fixed Assets MEDICLIN Aktiengesellschaft

	Development of acquisition costs			
	as at 01.01.2005 Euro	**Additions** Euro	**Disposals** Euro	**as at 31.12.2005** Euro
I. Intangible assets				
Concessions, industrial rights, licences	14,922	1,076	0	15,998
	14,922	**1,076**	**0**	**15,998**
II. Property, plant and equipment				
Other equipment, operating and office equipment	556,614	4,927	–82,464	479,077
	556,614	**4,927**	**–82,464**	**479,077**
III. Financial assets				
Shares in affiliated companies	316,815,234	6,549,420	–5,167,876	318,196,778
Other loans	0	260,719	0	260,719
	316,815,234	**6,810,139**	**–5,167,876**	**318,457,497**
Total fixed assets	**317,386,770**	**6,816,142**	**–5,250,340**	**318,952,572**

Development of depreciations					
as at 1.1.2005 Euro	**Additions** Euro	**Disposals** Euro	**as at 31.12.2005** Euro	**Book value 31.12.2005** Euro	**Book value 31.12.2004** TEUR
10,609	2,493	0	13,102	2,896	4
10,609	**2,493**	**0**	**13,102**	**2,896**	**4**
389,243	43,151	–82,464	349,930	129,147	167
389,243	**43,151**	**–82,464**	**349,930**	**129,147**	**167**
109,309,431	0	0	109,309,431	208,887,347	207,506
0	0	0	0	260,719	0
109,309,431	**0**	**0**	**109,309,431**	**209,148,066**	**207,506**
109,709,283	**45,644**	**–82,464**	**109,672,463**	**209,280,109**	**207,677**

Notes to the Annual Financial Statements of MEDICLIN Aktiengesellschaft for Financial Year 2005

General	103
Accounting and Valuation Principles	103
Notes to the Balance Sheet	104
Notes to the Profit and Loss Account	109
Other Disclosures	110

General

MEDICLIN Aktiengesellschaft, Frankfurt am Main, is registered in the Commercial Register of the Frankfurt am Main local court under HRB 42420. The published annual financial statements are filed with this Commercial Register.

The consolidated financial statements of MEDICLIN Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, valid as of the balance sheet date, and taking the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) into consideration for the first time this year. Therefore, other than in the previous year, the Company chose to prepare the consolidated financial statements and the annual financial statements separately rather then presenting them in the summarised form used in the previous year.

As in the previous year, the annual financial statements of MEDICLIN Aktiengesellschaft, Frankfurt am Main, have been prepared in accordance with the regulations of the German Commercial Code and the special regulations defined in the Stock Corporation Act.

Accounting and Valuation Principles

The accounting and valuation methods based on the German Commercial Code have remained unchanged in comparison with the previous year. Property, plant and equipment were stated at acquisition or manufacturing costs net of scheduled depreciation. The Company was not engaged in foreign currency transactions. Financial assets are stated at acquisition costs or the lower fair value due to the expected sustained earnings power. Receivables and other assets are stated at nominal values. Other provisions take into account all recognisable risks and contingent liabilities; they were set up at the amounts of their probable utilization. Liabilities are recorded at the amounts repayable. The expenditure format was used for the profit and loss account.

Notes to the Balance Sheet

Fixed Assets

The development of fixed assets in the period from 1 January to 31 December 2005 is reflected in the schedule of fixed Assets.

Financial Assets

Shares in affiliated companies concern the companies listed in the summary of shareholdings.

Shareholdings 2005

	Results for 2005 Euro	Total equity Euro	Percentage of shares held
Alphamed Klinik GmbH & Co. KG, Offenburg	16,155,571	41,355,734	100.00
Cortex Software GmbH, Offenburg	52,196	208,808	100.00 **)
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	565,789	11,207,070	100.00
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	–710,820	1,522,311	100.00 *)
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	856	31,325	100.00 *)
Gesellschaft für Medizinvertrieb und Consulting mbH, Offenburg	8,323	118,901	100.00
KB Krankenhausbeteiligungsgesellschaft mbH & Co KG, Düsseldorf	40,115	6,063,363	100.00
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Düsseldorf	1,479	29,848	100.00
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz (as 31.12.2004)	17,749	29,760	47.77 *)
Krankenhaus am Crivitzer See GmbH, Crivitz	–25,204	2,209,449	69.00
MC Pharma GmbH, Bonn	87,382	647,985	100.00
MediClin GmbH, Offenburg	21,495	1,309,232	100.00
MediClin Immobilien Verwaltung GmbH, Offenburg	12,172	111,659	100.00 *)
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	–199,694	325,905	100.00 *)
MediClin Pflege GmbH, Offenburg	–160,719	18,934	100.00 *)
MediLog GmbH, Offenburg	10,478	316,474	100.00 *)
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen	35,641	75,412	100.00 *)
Müritz-Klinikum GmbH, Waren	1,777,152	16,450,007	94.02
Müritz-Klinikum Service GmbH, Waren	0	25,000	47.95 *)
MVZ-Müritz GmbH, Waren	–16	24,984	94.02 *)
Reha-Klinik GmbH & Co. KG Soltau, Soltau	2,350,049	7,150,422	100.00

*) indirect participation
**) of which indirect participation 62.353 %

Current Assets

The other loans relate to a loan (TEUR 250) granted to the Management Board and interest accrued up to the balance sheet date (TEUR 11). The loan serves the acquisition of a convertible bond issued by MediClin AG. The loan bears an annual interest rate of 5.0%. Both the interest and the loan amount are to be repaid at the time of exercising the convertible right or by February 2010, at the latest.

The receivables from affiliated companies primarily concern receivables within the scope of the cash pool management.

Equity

Subscribed Capital

The subscribed capital (capital stock) of MediClin AG is split up into 31,500,000 no-par value bearer shares.

Authorised Capital

By resolution of the Shareholders' Meeting on 25 May 2005, the Board of Management was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by an amount up to a total of 7,875,000.00 Euro through the one-time or repeated issuance of up to 7,875,000 new bearer shares against a contribution in cash up to 31 May 2010 (Authorised Capital I). The issuance relates to ordinary shares. The shareholders are granted subscription rights. The Board of Management is authorised, however, to exclude fractional amounts from shareholders' subscription rights. Moreover, with the approval of the Supervisory Board, the Management Board is authorised to define the further contents of share rights and details concerning the execution of capital increases from the Authorised Capital I.

By resolution of the Shareholders' Meeting on 25 May 2005, the Board of Management was authorised, with the approval of the Supervisory Board, to increase the company's share capital by an amount up to a total of 7,875,000.00 Euro through the one-time or repeated issuance of 7,875,000 new bearer shares (Authorised Capital II) up to 31 May 2010. The issuance relates to ordinary shares. The capital may be increased on the basis of cash contributions and/or contributions in kind. The shareholders' statutory subscription right is excluded to the extent that, in individual cases, the acquisition of additional companies, company units or shareholdings in companies (acquisition of shares and/or asset items through contribution in kind), against the issue of new shares, or one or several cash capital increases pursuant to Section 186 (3) Sent. 4 AktG, whose total amount does not exceed 10% of the share capital at the date of adopting the resolution, is to be financed or executed at an issue amount which is not significantly lower then the stock exchange price (simplified subscription right exclusion pursuant to Section 186 (3), Sent. 4 AktG). Furthermore, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription right in order to exclude any fractional amounts resulting from shareholders' subscription rights. Moreover, the Management Board is authorised, with the approval of the Supervisory Board, to define the further contents of share rights and details concerning the execution of capital increases from the Authorised Capital II.

Conditional Capital

On 13 November 2000, the Shareholders' Meeting passed a resolution on a conditional increase of the company's share capital by up to 3,150,000.00 Euro through the issuance of up to 3,150,000 no-par value bearer shares (ordinary shares). The Conditional Capital was registered in the Commercial Register of the Frankfurt am Main local court on 1 December 2000. The conditional capital increase is to be carried out only to the extent that convertible bonds are issued and the holders of the convertible bonds exercise their option right to convert the bonds into company shares. The convertible bonds at a nominal amount of 5.00 Euro per convertible bond entitle the holder to purchase five shares in the company per convertible bond. In order to purchase a share, an issue amount is to be paid as a cash payment to the amount by which the shares' conversion price exceeds the prorated nominal amount of the bond to be converted. The new shares will participate in profits from the beginning of the financial year in which they are generated by exercising the conversion right. In financial year 2005, 50,000 convertible bonds were issued. Following a 2-year blocking period, these convertible bonds entitle to the purchase of 250,000 MediClin AG no-par value bearer shares. In accordance with Article 9 of the issuing terms, the conversion right may also be exercised through treasury stock rather than through the issue of new shares.

Capital Reserve

The capital reserve includes the amount achieved in excess of the nominal value of the shares issued within the course of the capital increase in 2000.

Revenue Reserves

On 27 May 2004, pursuant to Section 71 (1) No. 8 AktG, the Shareholders' Meeting authorised MediClin AG to acquire treasury stock with a proportion of share capital amounting to 3,150,000.00 Euro (10 % of the existing share capital as of the date of passing the resolution) attributable to these shares through the one-off or repeated repurchase of treasury stock up to 26 November 2005. As of 31 December 2005 the Company held 1,550,000 treasury shares (4.92 percent of the capital stock) which are stated at acquisition costs of Euro 2,799,728. Pursuant to Section 272 Abs. 4 HGB a reserve for treasury shares is recorded. As of the 31 December 2005 balance sheet date, the market value of the shares is 3,875,000.00 Euro. The previous year's write-down of TEUR 10 was reinstated due to an increase in the share price. No sales or purchase transactions were performed in financial year 2005.

Balance Sheet Loss

The balance sheet loss is as follows:

TEUR	2005	2004
Balance sheet loss 2004	–7,988	0
Balance sheet profit 2003	0	25,174
Loss/Profit carried forward	–7,988	25,174
Transfers to/Release of reserve for treasury stock	–10	10
Net profit/Net loss for the year	3,191	–33,172
Balance sheet loss	**–4,807**	**–7,988**

Other Provisions

The other provisions relate to personnel costs, the cost of annual financial statements preparation and auditing, contingent purchase price liabilities, rental risks from the renting of office rooms and provisions to account for the litigation risk.

Liabilities

The residual terms of liabilities are as follows:

		Remaining term		
TEUR	Total	up to 1 year	1–5 years	> 5 years
Bond issues	250	0	250	0
Previous year	0	0	0	0
Liabilities to banks and insurance companies	61,955	600	61,355	0
Previous year	64,360	2,405	61,955	0
Trade payables	261	261	0	0
Previous year	531	531	0	0
Liabilities to affiliated companies	1,237	1,237	0	0
Previous year	5,961	5,961	0	0
Other liabilities	7,604	7,604	0	0
Previous year	196	196	0	0
Total	**71,307**	**9,702**	**61,605**	**0**
Previous year	71,048	9,093	61,955	0

The bond issues represent a convertible bond which bears an annual interest rate of 2.5 % and which is to be repaid by 21 February 2010 at the latest to the extent that is not converted or has expired.

Liabilities to banks and insurance companies relate to the financing of the participations entered into and the associated loan extensions. The amount of TEUR 61,355 (previous year: TEUR 61,355) relates to insurance companies which themselves are shareholders or subsidiaries of shareholders of the Company. Collateral has been provided for these loans in the form of pledges of shares in an affiliated company. The loans bear an annual interest rate of 6.9 % and are due to expire on 31 July 2008. The interest expense amounted to TEUR 4,233 in the reporting year (previous year: TEUR 4,556).

The liabilities to affiliated companies are mainly attributable to liabilities within the scope of the cash pool management.

The other liabilities largely concern amounts from composition arrangements concluded with former limited partners within the context of the Hurrle-Klinik Group acquisition.

Liabilities secured by real property liens do not exist at MediClin AG.

Notes to the Profit and Loss Account

Other operating income

The other operating income of MediClin AG mainly includes income from the release of provisions (TEUR 224), rental and lease income (TEUR 63), and income from management services provided (TEUR 150).

Other Operating Expenses

The other operating expenses primarily concern audit and consulting costs (TEUR 1,546), rent and leases (TEUR 307), insurance (TEUR 153), cost of reporting and publication (TEUR 140), administration costs (TEUR 293), and other costs.

Income from Participations

The income from participations relates, above all, to the subsidiaries' annual results for 2005.

Other Disclosures

Number of Employees

The average number of employees during the financial year was nine (previous year: ten).

Contingencies and Other Financial Obligations

The other financial obligations relate to rental contracts for the Company's office rooms. Annual rent amounts to TEUR 241. The rental contract is due to expire in 2007 at the latest.

MEDICLIN Aktiengesellschaft issued a guarantee respecting the payment of rent plus operating costs vis à vis the acquirer and lessor of the real estate sold and leased back in 1999 and 2002. Rent for the financial year amounted to approximately 37.0 million Euro (excluding reductions). The rental contracts are due to expire in 2027. They provide for an annual rental adjustment equal to the change in the German consumer price index, at a maximum of 2 % increase per year). The lessor granted rent reductions to the approximate amount of 7 million Euro concerning 10 of the rented real estate properties for the years from 2005 to 2007, so that the rental expense is reduced accordingly for this period. The agreed upon performance-based rent reductions in the amount of 21 million Euro involve a rental allowance obligation if certain economic performance parameters are achieved. The potential maximum amount of the rent allowance is limited to the volume of the rent reduction.

Within the scope of acquisition of the Müritz-Klinikum GmbH, the seller was guaranteed continuation by MediClin AG. In addition, MediClin AG agreed that it would pay 10 million Euro within the scope of investment projects through an increase in the equity capital of the Müritz-Klinikum GmbH subsidiary. The equity capital of the subsidiary was increased by 6 million Euro in 2002. The investment project was begun in 2004 and continued in 2005.

The issue of the convertible bond involves an obligation to deliver up to 250,000 ordinary shares at a price of 1.88 Euro per share if the option right is exercised – by 21 February 2010 at the latest.

Supervisory Board

The following persons were members of the Supervisory Board during financial year 2005:

Prof. Dr. Gerhard Schmidt, Frankfurt am Main (Chairman) (until May 25, 2005)
Attorney at law and tax consultant

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Grohe AG, Hemer
- Grohe Beteiligungs GmbH, Hemer
- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main*
- Deutsche Immobilien Chancen Beteiligungs AG, Frankfurt am Main*
- DIC Asset AG, Frankfurt am Main*

Member of the Supervisory Board of
- TTL Information Technology AG, Unterschleißheim
- TTL International AG, Unterschleißheim

* Section 100 (2) Sent.2 AktG applies with respect to these mandates.

Günter Schlatter, Köln (Chairman from 25 May 2005)
Chairman of the Board of Provinzial Rheinland Versicherung AG, Düsseldorf

Supervisory Board Mandate:

Member of the Supervisory Board
- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main
- Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden

Hans Hilpert[1], Kirkel (Vice Chairman)
Sports therapist, Bliestal Kliniken

Dipl.-Kfm. Michael Bock, Düsseldorf (from 25 May 2005)
Executive Manager at Provinzial Rheinland Versicherung AG

Supervisory Board Mandate:

Member of the Supervisory Board
- KDV Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG, Düsseldorf
- DIC Asset AG, Frankfurt am Main
- MUK Kapitalbeteiligungsgesellschaft mbH, Köln

[1] Supervisory Board members of employee representatives

Dr. Daniel von Borries, München (from 25 May 2005)
Member of the Board of ERGO Versicherungsgruppe AG

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Forst Ebnath AG, Ebnath
- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board
- BHS tabletop AG, Selb
- MEAG Munich ERGO Kapitalanlage Gesellschaft mbH, München
- VICTORIA Volksbanken AG, Wien
- GFKL Financial Services AG, Essen
- Ideenkapital Media Finance AG, Düsseldorf
- iii Internationales Immobilien-Institut GmbH, München
- Jenoptik AG, Jena
- Karstadt Quelle Bank AG, Neu-Isenburg

Gerd Dielmann[1], Berlin
Trade Union Secretary at the Federal Office of ver.di

Prof. Dr. Erich Donauer[1], Plau am See
Chief Physician, Department for Neurosurgery and Stereotaxy of Klinikum Plau am See

Peter Erni[1], Mannheim
Trade Union Secretary for the regional office of Baden-Württemberg at ver.di

Axel Große-Heitmeyer[1], Bielefeld (until 29 January 2005)
Physician, Seepark Klinik

Carsten Heise, Neuss (from 25 May 2005)
Lawyer and managing director at Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

[1] Supervisory Board members of employee representatives

Dr. Jochen Messemer, Köln
Member of the Management Board of DKV Deutsche Krankenversicherung AG

Supervisory Board and Administrative Board mandates:

Chairman of the Supervisory Board
- Storebrand Helseforsikring AS, Oslo
- ArztPartner almeda AG, München
- MedWell Gesundheits-AG, Cologne

Chairman of the Administrative Board
- DKV Belgium, Brussels
- DKV Luxemburg S.A., Luxembourg

Member of the Supervisory Board
- Globale Krankenversicherung AG, Cologne (Vice Chairman)

Member of the Administrative Board
- DKV Seguros y Reaseguros S.A.E., Saragossa
- ERGO Vida S.A., Saragossa
- Union Medica la Fuencisla S.A. Compania de Seguros, Saragossa

Klaus Müller[1], Oberthal
Sports and recreational therapist, Bosenberg Kliniken

Prof. Dr. Peter Reichling, Biederitz (until 25 May 2005)
Holder of a Chair for financing and banks, University of Magdeburg

Supervisory Board Mandate:

Chairman of the Supervisory Board
- LinusContent AG, Frankfurt am Main

Member of the Supervisory Board
- Wohnungsbaugenossenschaft Otto von Guericke eG, Magdeburg
- icubic AG, Magdeburg

Dr. Hans Rossels, Kall (from 25 May 2005)
Managing Director of Kreiskrankenhaus Mechernich

Supervisory Board Mandate:

Chairman of the Supervisory Board
- Gemeinnützige Gesellschaft der Franziskanerinnen zu Olpe mbH, Olpe

Member of the Supervisory Board
- Katholische Kranken- und Altenhilfe Rhein-Sieg gGmbH, Olpe

Member of the Administrative Board
- Deutsche Krankenhausverlagsgesellschaft (DKVG), Düsseldorf

[1] Supervisory Board members of employee representatives

Bernd W. Schirmer, Santanyi, Spain (until 25 May 2005)
Entrepreneur

Supervisory Board Mandate:

Member of the Supervisory Board Mandate

- DIC Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main
- LinusContent AG, Frankfurt am Main

Gero Schlagelambers[1], Andervenne (from 5 April 2005)
Nursing Assistant, Hedon Klinik, Lingen

Frank-Rainer Vaessen, Meerbusch (until 25 May 2005)
Managing Director of ERGO Trust GmbH

Supervisory Mandate:

Chairman of the Supervisory Board

- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board

- AEDES S.p.A., Mailand
- Dolmen Securities Ltd., Dublin
- TMW Property Fund AG, München

[1] Supervisory Board members of employee representatives

Supervisory Board Committees

Präsidialausschuss (General Committee)
Günter Schlatter (Chairman)
Hans Hilpert
Dr. Jochen Messemer
Gero Schlagelambers

Vermittlungsausschuss pursuant to Section 27 (3) MitbestG
Günter Schlatter (Chairman)
Hans Hilpert
Dr. Jochen Messemer
Gero Schlagelambers

Audit Committee
Dr. Daniel von Borries (Chairman)
Michael Bock
Prof. Dr. Erich Donauer
Carsten Heise
Klaus Müller

Board of Management

The Board of Management of MEDICLIN Aktiengesellschaft had the following members in the 2005 financial year:

Dr. Ulrich Wandschneider, Hamburg, Chairman of the Board of Management

Frank Abele, Gerlingen, Chief Financial Officer

Executive Body Remuneration

Total remuneration in 2005 was allocated as follows:

Management Board:	Euro	1,326,041
Supervisory Board:	Euro	87,559
Advisory Board	Euro	0

In addition to fixed and performance-based compensation components, MediClin AG also grants the Board of Management share-based compensation in the form of convertible bonds. The Board of Management was entitled to acquire options for MediClin AG shares of stock within the scope of a convertible bond subscription. The conversion rights granted are based on non-transferable convertible bonds to the nominal amount of Euro 5.00 each with a term of five years. Each convertible bond entitled the holder to conversion into five shares of stock for each Euro 5.00 convertible bond after a 24-month waiting period at certain specified times of each year. This entitlement is subject to the proviso that the share price upon conversion is at least 50 % above the defined conversion price. The conversion price comprises the prorated nominal amount of the convertible bond to be converted and a cash payment at the amount by which the conversion price of the MediClin share exceeds the prorated nominal amount of the bond to be converted.

The benchmark data for the convertible bonds granted in 2005 as well as the pertaining option rights are as follows:

Nominal interest	2.5 %
Term	22.02.2005 to 21.02.2010
Blocking period	22.02.2005 to 21.02.2007
Conversion price	EUR 1.88
of which cash payment	EUR 0.88
Price of the MediClin share as of 31.12.2005	EUR 2.50
Existing option rights as of 31.12.2005	250.000
Exercisable option rights as of 31.12.2005	0
Exercised option rights as of 31.12.2005	0

The Management Board was granted a loan amounting to o TEUR 250 for acquisition of the convertible bond. The loan bears an annual interest rate of 5.0 % and is repaid upon conversion.

Securities Trading Act (Wertpapierhandelsgesetz, WpHG)

Notification on 3 February 2005

Pursuant to Section 21 (1) WpHG, Rainer J. Räsch, Frankfurt am Main, notified us that his share in the voting rights of MediClin AG was below the threshold of 5 % as of 28 January 2005, and that it now amounts to 0.90 %.

Notification on 11 April 2005

Bernd Schirmer, Santanyi, Spain, notified us pursuant to Section 21 (1) WpHG that his share in the voting rights of MediClin AG as of 8 April 2005 was below the threshold of 5 % and that it now amounts to 4.15 %.

Notification on 23 September 2005

The Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Königinstrasse 107, 80802 München, notified us on 15 September 2005 pursuant to Sections 21 (1), 22 (1) No. 1 WpHG that it exceeded the 25 % threshold of voting rights in MediClin AG on 15 September 2005, and that it now holds 28.4 % of the voting rights in our Company, which include 28.4 % of the voting rights attributable to it pursuant to Section 22 (1) Sent. 1 No. 1 WpHG.

Pursuant to Section 24 WpHG, the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft concurrently informed us pursuant to Sections 21 (1), 22 (1) Sent. 1 No. 1 WpHG, on behalf of ERGO Versicherungsgruppe AG, Victoriaplatz 2, 40198 Düsseldorf, that this company exceeded the 25 % threshold of voting rights in MediClin AG on 15 September 2005, and that it now holds 28.4 % of the voting rights in our company; this includes 23.7 % of the voting rights that are attributable to it pursuant to Section 22 (1) No. 1 WpHG.

Notification on 15 December 2005

ERGO Trust GmbH Düsseldorf reported on 6 December 2005 that it fell below the threshold of 10 % and 5 % of the voting rights in MediClin AG as of 30 November 2005, and that it now holds no voting rights in MediClin AG.

This concerns an intra-Group transfer of shares in MediClin AG within the ERGO group of insurance companies; no other notification requirements resulted from this for the ERGO group of insurance companies.

Directors' Dealings

The members of the Supervisory Board and the Board of Management, as well as their spouses and first degree relatives are legally required to disclose any significant purchases or significant sales of stock shares, stock options, or derivatives of MediClin AG pursuant to Section 15a WpHG.

In 2005 the following reportable transactions were published:

	Dr. Ulrich Wandschneider, Chairman of the Management Board	
Transaction	Transaction day	22.02.2005
	Description	Convertible bonds
	Type of transaction	Purchase
	Place	Off-exchange
	No. of items	50,000
	Price	5.00 Euro
Instruments	Type	Ordinary shares
	ISIN	DE0006595101
	Strike price	1.88 Euro
	Expiration date	21.02.2010

	Bernd Schirmer, Member of the Supervisory Board (until 25.05.2005)	
Transaction	Transaction day	08.04.2005
	ISIN	DE0006595101
	Description	Ordinary shares
	Type of transaction	Sale
	Place	Off-exchange
	No. of items	750,000
	Price	2.50 Euro

Conformity Declaration concerning the German Corporate Governance Code pursuant to Section 161 AktG

The conformity declaration of MEDICLIN Aktiengesellschaft pursuant to Section 161 AktG is accessible to the shareholders on a permanent basis in the respective updated version on the Company's Internet pages.

Auditors' Fees

The fees paid to the auditing firm for financial statements auditing activities and other services were recorded as an expense in the financial year at the following amounts:

	Tsd. Euro
Annual audit	113
Other attestation or valuation services	0
Tax consulting services	0
Other services	0

Proposed Appropriation of Earnings

It is proposed that MEDICLIN AG's balance sheet loss amounting to 4,807,244.72 Euro as at 31 December 2005 be carried forward to the new accounting period.

Frankfurt am Main, 9 March 2006

Dr. Ulrich Wandschneider

Frank Abele

Auditor's Report

We have audited the annual financial statements comprising the balance sheet, the income statement and the notes to the financial statements together with the bookkeeping system, and the combined management report and group management report of the MEDICLIN Aktiengesellschaft, Frankfurt am Main for the business year from January 1, 2005 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report and group management report in accordance with German commercial law are the responsibility of the Company's executive board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report and group management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) and German generally accepted standards of the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report and group management report are detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the and the combined management report and group management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessing the accounting principles used and of significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the combined management report and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

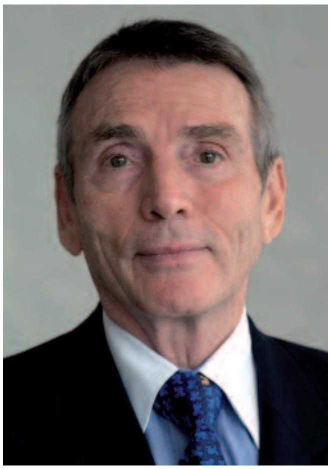
In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German Principles of proper accounting. The combined management report and group management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company`s position and suitable presents the opportunities and risks of future development.

Frankfurt am Main, 10 March 2006

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(zu Inn- u. Knyphausen) Wirtschaftsprüfer	(Philipp) Wirtschaftsprüfer

Report of the Supervisory Board



Günter Schlatter
Chairman of the Supervisory board

Dear Shareholders,

In the financial year 2005, the Board of Management provided us regularly with timely and comprehensive information about the economic position and development of the Company as well as on important business transactions by means of written and verbal reports. At eight meetings, the Board of Management reported in detail about the course of business in the individual quarters, about finance, investment and human resources planning and also about special issues. We supervised and advised the Company's management on a continuous basis. We performed our duties and made the required decisions as mandated by law, the Articles of Incorporation, and the Rules of Procedure.

In particular, the Supervisory Board dealt with the measures introduced in order to increase efficiency at the clinics, and the marketing and sales activities commenced to improve the clinics' occupancy rates. The strategic options for the MediClin Group prepared by the Board of Management were discussed in depth. The structural measures and strategic positioning of individual clinics, which are intended to ensure improved market penetration in connection with the "regional concept", are endorsed by the Supervisory Board.

At its meeting in November 2005, the Supervisory Board approved the Board of Management's proposal to enter into settlement negotiations in the pending proceedings with regard to claims arising in connection with the takeover of Hurrle Klinik Group in 1998. Based on these efforts, settlements were entered into with all parties to the proceedings and the proceedings terminated, with one exception. Also, the Supervisory Board agreed to sell MediClin's treasury shares, which were held since 2003, via the stock market considering market conditions.

Apart from meetings, the Chairman of the Management Board regularly informed the Chairman of the Supervisory Board about corporate development and significant events.

The Supervisory Board has reviewed its efficiency.

Changes in the Supervisory Board and the Board of Management

During the reporting year 2005, changes in the Supervisory Board occurred both on the staff representatives' side as well as on the shareholders' side.

As of 29 January 2005, Dr. Axel Große-Heitmeyer, the Supervisory Board's member of employees, departed from the Supervisory Board. On 5 April 2005, Gero Schlagelambers was judicially appointed as Supervisory Board member of employees.

With effect as of the closing of the Annual General Meeting held on 25 May 2005, Prof. Dr. Gerhard Schmidt (Chairman), Prof. Dr. Peter Reichling, Bernd W. Schirmer and Frank-Rainer Vaessen resigned from the Supervisory Board.

The Supervisory Board wishes to thank the above gentlemen who have accompanied MediClin since its beginnings for their many years of trusting and constructive cooperation. On 25 May 2005, the Annual General Meeting appointed Dipl.-Kfm. Michael Bock, Dr. Daniel von Borries, Carsten Heise and Dr. Hans Rossels as new Supervisory Board members. The Annual General Meeting followed the proposal of candidates by the supervisory board.

As a consequence of the departure of Prof. Dr. Gerhard Schmidt, the function of the Chairman of the Supervisory Board had to be filled and the signatory was appointed as new Chairman of the Supervisory Board in the Supervisory Board meeting that followed the Annual General Meeting on 25 May 2005.

There have been no changes in the Board of Management during the reporting year.

Corporate Governance

In August 2005, the Supervisory Board approved the Conformity Declaration pursuant to Section 161 of the German Stock Corporation Act for the financial year 2005, including the statement on the new recommendations of the German Corporate Governance Code, which came into effect on 20 July 2005. The currently valid version has been published on the MediClin Internet page together with the previous statements.

Work of the Committees

Following the Annual General Meeting on 25 May 2005, the committees were newly set up within the course of subsequent Supervisory Board meetings. Members of the General Committee (Präsidialausschuss) include Günter Schlatter (Chair), Hans Hilpert, Dr. Jochen Messemer and Gero Schlagelambers. Members of the Audit Committee include Dr. Daniel von Borries (Chair), Michael Bock, Dipl.-Kfm., Prof. Dr. Erich Donauer, Carsten Heise and Klaus Müller. The „Vermittlungsausschuss" pursuant to Section 27, (3) of the Co-Determination Act, includes Günter Schlatter (Chair), Hans Hilpert, Dr. Jochen Messemer and Gero Schlagelambers.

The committees appointed by the Supervisory Board are engaged in the professional preparation of the issues and resolutions to be discussed at the meetings. For reasons of efficiency the committees are authorized to pass within the legally permitted scope. This has not been the case in the reporting year.

The Audit Committee convened twice during the reporting year. In February 2005, it held intensive consultations with the Board of Management concerning the preliminary financial statements for 2004 and, in November 2005, dealt in detail with the Company's finance, investment and human resources planning for the financial year 2006, and the resulting business development.

The General Committee (Präsidialausschuss) convened twice and dealt with remuneration for the Board of Management.

The „Vermittlungsausschuss" did not convene in the year under review.

Annual Financial Statements and Consolidated Financial Statements

The annual financial statements of MediClin AG and the consolidated financial statements prepared by the Board of Management for financial year 2005, including the accounting records and the combined management report and group management report of the Company, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The auditing firm was elected by the Annual General Meeting on 25 May 2005, und commissioned with the annual audit by the Supervisory Board. The annual auditors issued an unqualified auditor's report on the annual financial statements of MediClin AG and the consolidated financial statements for the year 2005.

The audit documents and the auditors' reports were presented to the Supervisory Board for inspection in good time. The auditors attesting to the report as signatories attended the Supervisory Board meeting which approved the annual financial statements. They reported on significant audit findings and answered questions. Subsequent to the Audit Committee's examination, the Supervisory Board examined the annual financial statements of MediClin AG, the consolidated financial statements, and the combined management report and the group management report issued by the Board of Management. Based on their own examination, the Audit Committee and the Supervisory Board concurred with the results of the audit issued by the annual auditor with respect to the annual financial statements of MediClin AG and the consolidated statements. In accordance with the final result of their own examination, they did not raise any objections. The Supervisory Board endorsed the individual and consolidated financial statements, the management report and the group management report prepared by the Board of Management. The annual financial statements are thereby approved and released for publication.

The Supervisory Board wishes to thank the Board of Management and all employees for their commitment and performance which contributed to guiding MediClin back to a successful course in the past financial year.

Düsseldorf, 29 March 2006

On behalf of the Supervisory Board

Günter Schlatter
Chairman of the Supervisory Board

Corporate Governance

Corporate Governance is of high priority to MediClin. The Company complies with the recommendations issued by the German Corporate Governance Code ("Code") in almost all points.

Conformity Declaration

The Management Board and the Supervisory Board of MediClin dealt with the issue of compliance with the requirements defined by the Code in their meetings on 26 June 2005 and 12 August 2005. On the basis of these consultations, the following Conformity Declaration concerning the Corporate Governance Code was adopted in August 2005, pursuant to Section 161 of the German Stock Corporation Act (AktG).

The MEDICLIN Aktiengesellschaft complies with the recommendations of the "Government Commission: German Corporate Governance Code" in the version valid as from 2 July 2005, with the following exceptions:

- Remuneration for members of the Management Board and the Supervisory Board is not reported in individualised figures in the Notes to the Consolidated Financial Statements or in the Corporate Governance report (Item 4.2.4, Sent. 2 and Item 5.4.7 (3) Sent. 1).
- The Vice Chairman of the Supervisory Board and the members of the Supervisory Board committees do not receive separate remuneration (Item 5.4.7 (1) Sent. 3).
- The remuneration paid by the Company to members of the Supervisory Board or the benefits granted for individual performance, in particular consulting and mediation services, are not specified in the Notes to the Consolidated Financial Statements for 2004 (Item 5.4.7 (3) Sent. 2). The respective information is provided as from the consolidated financial statements for 2005.

Management and Controlling Bodies of MediClin

MediClin's Management Board consists of two persons, and its Supervisory Board consists of twelve persons in accordance with the requirements specified in the German Stock Corporation Act. Pursuant to the German Co-Determination Law, the Supervisory Board is equally filled by representatives of the shareholders and employees.

The Supervisory Board underwent the following changes in financial year 2005:

Mr. Axel Grosse-Heitmeyer departed from the Supervisory Board as an employee representative on 29 January 2005. On 5 April 2006, Mr. Gero Schlagelambers was appointed to the Supervisory Board as employee representative by court order.

The following shareholders' members retired from their seats upon conclusion of the General Meeting of the Shareholders on 25 May 2005:

- Prof. Dr. Gerhard Schmidt, Frankfurt am Main (Chairman),
  Lawyer and Tax Consultant
- Prof. Dr. Peter Reichling, Biederitz
  Holder of the Chair for Financing and Banks, University of Magdeburg
- Bernd W. Schirmer, Santanyi, Spain
  Entrepreneur
- Frank-Rainer Vaessen, Meerbusch
  Managing Director at ERGO Trust GmbH

The following Supervisory Board members were newly appointed by the General Meeting of the Shareholders on 25 May 2005:

- Dipl.-Kfm. Michael Bock, Düsseldorf
  Executive Manager at Provinzial Rheinland Versicherung AG
- Dr. Daniel von Borries, München
  Member of the Management Board of ERGO Versicherungsgruppe AG
- Carsten Heise, Neuss
  Lawyer, Managing Director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
- Dr. Hans Rossels, Kall
  Managing Director of the Kreiskrankenhaus Mechernich

The Supervisory Board meeting held after the Meeting of the Shareholders on 25 May 2005 elected Mr. Günter Schlatter, Chairman of the Management Board of Provinzial Rheinland Versicherung AG, Düsseldorf, as Chairman of the Supervisory Board.

Independency of the Corporate Body

In accordance with the rules of internal procedure, the principle of independence applies to the representatives of the shareholders in the Supervisory Board.

Some members of the Supervisory Board hold, or held, leading positions at other companies with which MediClin maintains business relationships in the past year. The business transactions were performed applying the arm's length principle and therefore do not affect the independence of the Supervisory Board members, in the opinion of MediClin.

In his capacity as Chairman of the Management Board of Provinzial Rheinland Versicherung AG, Düsseldorf, Günter Schlatter, Chairman of the Supervisory Board, is also a member of the Supervisory Board of Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden (OIK). MediClin maintains a rental agreement relationship with this company that covers a total of twenty-one clinic operations. OIK manages the real estate within the scope of the Special Fund in accordance with the provisions defined in the capital investment law. Shareholders are, inter alia, the Provinzial Lebensversicherungsanstalt der Rheinprovinz, the DKV Deutsche Krankenversicherung AG and Ergo Trust GmbH. The rental payments amounted to EUR 30.1 million in financial year 2005. The respective expenses are disclosed in the profit and loss account under other operating expenses, and the assets and liability items are disclosed in the balance sheet under trade payables.

Prof. Dr. Gerhard Schmidt, Partner of the law firm of Weil, Gotshal & Manges, Frankfurt, which provides consulting services for MediClin AG, acted as Chairman of the MediClin Supervisory Board until 25 May 2005. Up to the time of his departure, sales revenues generated by MediClin with the law firm in keeping with usual market practice amounted to TEUR 331 in the reporting year. The expenses are disclosed in the profit and loss account under other operating expenses and the resulting open items are disclosed under trade payables.

The Supervisory Board members, Dr. Daniel von Borries, who acts as member of the Management Board of ERGO Versicherungsgruppe AG, Frank-Rainer Vaessen (Supervisory Board member until 25 May 2005), who acts as Managing Director at ERGO Trust GmbH and Dr. Jochen Messemer, member of the Management Board of DKV Deutsche Krankenversicherung AG are executive officers at subsidiaries of Münchner Rückversicherungs-Gesellschaft AG. MediClin maintains financing and credit relationships at the usual market terms with subsidiaries of Münchener Rückversicherungs-Gesellschaft AG, Munich, which holds 28.4 % of the voting rights in MediClin AG. The corresponding asset and liability items are disclosed in the balance sheet under liquid assets, long term financial debt and other liabilities. Financing and credit relationships at usual market terms are also maintained with Provinzial Rheinland Versicherung AG, which holds 14.9 % of the voting rights in MediClin AG. The Supervisory Board members, Günter Schlatter, Chairman of the Management Board of Provinzial Rheinland Versicherung AG, and Michael Bock, Universal Agent at Provinzial Rheinland Versicherung AG, are executive officers at Provinzial Rheinland Versicherung AG.

Tasks of the Supervisory Board

The Supervisory Board supervises and regularly advises the Management Board on management of the enterprise and periodically discusses with the Management Board the business development, business planning, strategy and their implementation. The Supervisory Board adopts the annual financial statements of MEDICLIN Aktiengesellschaft and the Group, taking into account the audit reports of the annual auditor and the results of the audit by the audit committee. The Supervisory Board appoints the members of the Management Board. Significant decisions of the Management Board are subject to approval by the Supervisory Board.

The Supervisory Board's internal rules of procedure provide for the establishing of three committees. The Supervisory Board may set up additional committees and define their authorisations.

„Vermittlungsausschuss“ pursuant to Section 27 (3) of the Co-Determination Law (MitbestG).

The committee comprises the Chairman of the Supervisory Board, the Vice Chairman elected pursuant to Section 27 (1 and 2) MitbestG, as well as one member respectively elected by the shareholders' representatives and the employee representatives on the basis of a majority vote. The committee is headed by the Chairman of the Supervisory Board.

General Committee (Präsidialausschuss)

The general committee comprises the Chairman of the Supervisory Board, the Vice Chairman, and the respective members elected by recommendation of the shareholders' representatives and the employees' representatives. The presiding committee is headed by the Chairman of the Supervisory Board. The presiding committee prepares personnel-related decisions for the Supervisory Board and governs the annual payment of profit sharing bonuses.

Audit Committee

The audit committee comprises at least two members of the Supervisory Board elected by recommendation of the shareholders' representatives and the employees' representative. The audit committee need not necessarily be appointed on a parity basis. The Chairman of the audit committee is elected by recommendation of the shareholders' representatives.

The audit committee is, in particular, involved in negotiations and resolutions of the Supervisory Board concerning accounting issues and risk management, the required independence of the annual auditor, placement of the audit engagement, the determination of audit emphasis and the respective fee agreement.

Tasks of the Management Board

The Management Board is responsible for independently managing the enterprise. In doing so, it is obliged to act in the enterprise's best interests. The Management Board defines the strategic orientation of the enterprise and is responsible for management planning and control. The Board of Management is responsible for preparation of quarterly financial statements and the annual financial statements of MEDICLIN Aktiengesellschaft and the consolidated financial statements. The Management Board works closely with the Supervisory Board. In a timely manner, it informs the Supervisory Board comprehensively and at regular intervals about all issues relevant to MediClin with respect to strategy, strategy implementation, planning, business development, the financial and earnings position and business risks.

Share Transactions Performed by the Management Board and the Supervisory Board

The members of the Management Board and the Supervisory Board are obliged, pursuant to Section 15 a of the Securities Trading Act (WpHG), to disclose the acquisition or sale of securities of MEDICLIN Aktiengesellschaft to the extent that the value of the transactions performed by the members or a related party achieves or exceeds the amount of EUR 50,000 within one calendar year.

The following transactions were reported in financial year 2005:

	Dr. Ulrich Wandschneider, Chairman of the Management Board	
Transaction	Transaction day	22.02.2005
	Description	Convertible bonds
	Type of transaction	Purchase
	Place	Off-exchange
	No. of items	50,000
	Price	5.00 Euro
Instruments	Type	Ordinary shares
	ISIN	DE0006595101
	Strike price	1.88 Euro
	Expiration date	21.02.2010

	Bernd Schirmer, Member of the Supervisory Board (until 25.05.2005)	
Transaction	Transaction day	08.04.2005
	ISIN	DE0006595101
	Description	Ordinary shares
	Type of transaction	Sale
	Place	Off-exchange
	No. of items	750,000
	Price	2.50 Euro

Communication with Shareholders

In its quarterly reports, MediClin reports about the development of the current financial year and the financial position and results of operations. The ordinary Annual General Meeting usually takes place in May. The annual financial statements are presented to the public at a balance sheet and analyst conference. Within the scope of the presentation of business figures, individual talks are held with analysis and investors.

Convertible Bonds

The Meeting of the Shareholders decided on share-based compensation plans. The meeting of the shareholders on 13 November 2000 adopted a program governing the issue of convertible bonds. The respective authorisation was valid for five years and expired in November 2005. A new program concerning the passing of a resolution has not been presented to the shareholders' meeting to date. At the beginning of financial year 2005, 50,000 convertible bonds were issued which entitle to the subscription of 250,000 MediClin AG shares following a 2-year blocking period, and with the proviso that certain hurdles are exceeded. Pursuant to Section 9 (2) of the issuing terms, the conversion right may also be fulfilled through the issue of treasury stock rather than through the issue of new shares.

Treasury Stock

On 27 May 2004, pursuant to Section 71 (1) No. 8 AktG, the shareholders' meeting authorised MediClin AG to acquire treasury stocks with a proportion of share capital amounting to 3,150,000.00 (10 % of the existing share capital as of the date of passing the resolution) attributable to these shares through the one-off or repeated repurchase of treasury stock up to 26 November 2005. In 2005, the Company did not purchase any own shares. As of 31 December 2005, the Company held 1,550,000 own shares of stock (4.92 % of the share capital), at an average price of EUR 1.81 per share. On 16 November 2006, MediClin reported that it will sell the treasury stock on the stock exchange. As from 2 February 2006, MediClin no longer holds any treasury stocks. The shares were sold at an average price of EUR 2.86 per share.

Report on Compensation

The report on compensation is oriented towards the recommendations of the German Corporate Governance Code and includes information which, pursuant to the requirements of the German Commercial Code extended by the Law on the Disclosure of Board Remuneration enacted on 11 August 2005, is a component of the Notes pursuant to Section 314 HGB or the management report, pursuant to Section 315 HGB. The new provisions are to be applied for the first time in the annual and consolidated financial statements for the financial years beginning as from 1 January 2006. With respect to these financial statements which will be published in the spring of 2007, the shareholders may make use of the opting out clause within the scope of the 2006 annual general meeting and, in doing so, forego the individualised disclosure of Board compensation for a maximum period of five years. MediClin will not make use of this option.

In its report on compensation for financial year 2005, MediClin discloses the principles governing compensation of the MediClin Board and describes the composition of Management Board income. The principles and amount of Supervisory Board compensation are likewise disclosed. Moreover, the report contains information about the shares held by the Management Board and the Supervisory Board.

Management Board Compensation

The presiding committee is responsible for the determination of compensation for members of the Management Board. The presiding committee comprises the Chairman of the Supervisory Board, the Vice Chairman, a shareholders' representative member and an employees' representative member, respectively. The presiding committee is headed by the Chairman of the Supervisory Board.

The presiding committee determines the annual profit sharing bonus for the Management Board. In so doing, it is oriented towards the enterprise's financial condition and the achievement of defined goals.

The compensation of the Management Board is comprised of a fixed salary and a variable profit sharing bonus determined by the presiding committee, as well as share-based compensation and a pension commitment. The fixed component is paid out monthly. The profit sharing bonus is contingent on the achievement of certain goals which are defined by the presiding committee at the beginning of the financial year.

The Group grants the Management Board, in addition to fixed and performance-based compensation components, share-based compensation in the form of convertible bonds. The Management Board was entitled to acquire options concerning MEDICLIN Aktiengesellschaft shares within the context of the subscription of a convertible bond. The granted conversion rights are based on non-transferable convertible bonds at the nominal amount of EUR 5.00 each and with a term of five years. Each year, within certain time periods, every convertible bond entitles the owner to conversion into 5 shares per EUR 5.00 convertible bond following a 24-month blocking period. As a precondition, the share price upon conversion must be in excess of the defined conversion price by at least 50 %. In addition, in the event of the conversion right being exercised, a cash payment is to be made at the amount by which the conversion price of the MEDICLIN share exceeds the prorated nominal amount of the bond to be converted. The option was valued on the basis of a modified Black Sholes option price model.

Share-based compensation on the basis of a convertible bond was possible up to the end of November 2005. At present, no program exists which permits share-based compensation.

Expenses for the MediClin pension commitment relating to the Management Board amounted to TEUR 36 in 2005 and are included in the respective pension payments.

In the event of premature termination of an employment contract, the Management Board agreements do not stipulate any explicit indemnification regulation. Indemnification may be governed by an individual cancellation agreement, however.

Total compensation of TEUR 1,346 (previous year; TEUR 1,641) was paid for financial year 2005. The entire fixed salary amounted to TEUR 600.0 (previous year: TEUR 819.0).

With respect to loans extended to Management Board members, see the notes to the consolidated financial statements of MEDICLIN Aktiengesellschaft for financial year 2005.

Supervisory Board Compensation

The Articles of Incorporation govern compensation for the Supervisory Board. The currently valid compensation regulation concerning the Supervisory Board was adopted by the General Meeting of the Shareholders on 21 June 2000.

The compensation includes, in addition to a fixed salary, components linked to the business performance. After the close of the financial year, each member is paid compensation amounting to EUR 6,391.15. In addition, every member receives the amount of EUR 2,556.46 for each percent of the dividend that is distributed above a percentage rate of 4 %, calculated on the amount of capital stock. Work performed within the scope of committees is not subject to additional compensation with respect to the Vice Chairman of the Supervisory Board receives twice the amount of compensation. Total compensation for financial year 2005 amounts to EUR 87,558.66 (previous year: EUR 88,197.85). Performance-based compensation was paid neither in 2004 nor in 2005 since no dividends were distributed.

Shareholdings of the Management Board and the Supervisory Board

In accordance with a recommendation of the German Corporate Governance Code, the holding of shares in the Company or related financial instruments is to be reported by Management Board and Supervisory Board members, if the shareholding is directly or indirectly in excess of 1 % of the shares issued by the enterprise. This is not the case with respect to MediClin.

D&O Insurance

MediClin took out an assets liability group insurance for the members of the Management Board and the Supervisory Board. The insurance covers the individual liability risk in the event that the group of persons is made liable for assets losses incurred in the performance of its activities. Should such an event occur, a deductible to the amount of EUR 15,000.00 applies for members of the Management Board, and of EUR 15,000.00 for the members of the Supervisory Board.

Decision-making Bodies of the Company

Management Board

Dr. Ulrich Wandschneider
Chairman of the Management Board

Frank Abele
Chief Financial Officer

Supervisory Board

Günter Schlatter, Chairman (from 25 May 2005)
Chairman of the Board of Provinzial Rheinland Versicherung AG, Düsseldorf

Hans Hilpert[1], Vice Chairman
Sports therapist, Bliestal Kliniken

Dipl.-Kfm. Michael Bock (from 25 May 2005)
Executive Manager at Provinzial Rheinland Versicherung AG

Dr. Daniel von Borries (from 25 May 2005)
Member of the Board of ERGO Versicherungsgruppe AG

Gerd Dielmann[1]
Trade Union Secretary at the Federal Office of ver.di

Prof. Dr. Erich Donauer[1]
Chief Physician, Department for Neurosurgery and Stereotaxy of Klinikum Plau am See

Peter Erni[1]
Trade Union Secretary for the regional office of Baden-Württemberg at ver.di

Carsten Heise (from 25 May 2005)
Lawyer and managing director at Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Dr. Jochen Messemer
Member of the Management Board of DKV Deutsche Krankenversicherung AG

Klaus Müller[1]
Sports and recreational therapist, Bosenberg Kliniken

[1] Supervisory Board members of employees representatives

Dr. Hans Rossels (from 25 May 2005)
Managing Director of Kreiskrankenhaus Mechernich

Gero Schlagelambers[1] (from 5 April 2005)
Nursing Assistant, Hedon Klinik, Lingen

[1] Supervisory Board members of employee representatives

Advisory Board

The Advidsory Board will constitute at its meeting of 26 April 2006.

Members of the Management of affiliated companies

Frank Abele
MediClin GmbH
MediLog GmbH
Cortex Software GmbH
MediClin Medizinisches Versorgungszentrum GmbH (before: Pro.San Verwaltungs GmbH)

Mario Biewers
MediClin Immobilien Verwaltung GmbH

Frank Horn
MediClin GmbH (from 01.05.2005)
Krankenhaus am Crivitzer See GmbH (from 17.05.2005)
Müritz-Klinikum GmbH (from 01.05.2005)
Müritz-Klinikum Service GmbH (from 16.12.2005)
MVZ-Müritz GmbH (from 01.05.2005)

Christine Neu
MediClin GmbH

Irmgard Raschka-Halberstadt
MediClin GmbH

Joachim Richter
MC Pharma GmbH

Christian Röhrl
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen
(vormals Klinik auf der Rötsch Verwaltungs-GmbH)
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungsgesellschaft mbH

Dirk Schmitz
MediClin GmbH

Bernd Schulz
Gesellschaft für Medizinvertrieb und Consulting mbH
MediClin Immobilien Verwaltung GmbH

Hermann Steppe
Cortex Software GmbH

Dr. Hans Heinrich Uhlmann
Krankenhaus am Crivitzer See GmbH

Dr. Ulrich Wandschneider
MediClin GmbH (from 03.03.2005)
MediClin Pflege GmbH (from 01.04.2005)
MediClin Medizinisches Versorgungszentrum GmbH (before: Pro.San Verwaltungs GmbH)
(from 17.05.2005)

Glossary

Terms of the healthcare sector

Cases
Number of treated patients

Curative procedures
Out-patient, partly in-patient or fully in-patient rehabilitation measures without prior stay at an acute hospital are usually granted in the event of chronic diseases or functional disturbances and within the scope of prevention

Diagnosis Related Groups (DRG)
An economic-medical classification system which allocates patients to case groups on the basis of diagnosed conditions and treatments within the scope of hospital treatment. By means of allocation to case groups, the cost of treatment is individualised largely on a flat rate basis in the German health system

Full-time jobs
Number of jobs based on full-time employees, part-time employees are included partially

Integrated Medical Service
Health insurance companies and medical service providers draw up stand-alone agreements about medical services which are spanned over different service sectors or which are interdisciplinary

Medical Care Center (MVZ)
A Medical Care Center is a cross-discipline facility where physicians listed in the Medical Register work either as employees or as contracted physicians. In addition to medical management, a feature of such a center is the interdisciplinary character of the health care services that are provided by a single organisation.

Nursing days
Total number of in-patients per day; patients who come and leave or who are transferred at the same day are not accounted for

PlusPrograms
Specially targeted medical service packages developed by MediClin for private patients

Rehabilitation
Following serious illnesses or in the event of chronic disorders, rehabilitation serves to restore or significantly improve patients’ health, thus enabling them to manage everyday life and restoring their ability to work

Sector
The sectors in the health system are different from one another due to their various types of services, i.e., hospitals, rehabilitation facilities and registered physicians or nursing homes are allocated to different sectors

Subsequent nursing treatment (AHB)
In-patient, as well as partial in- and out-patient rehabilitation services immediately or soon after hospital treatment

The Health Sector
The health sector comprises comprises the sum of all companies and institutions that, either directly or indirectly, work on solutions for or take care of persons who are ill or in poor health. It comprises inter alia all hospitals, rehabilitation facilities, physicians, pharmacies, nursing care services and homes, producers of medical equipment, pharmaceutical companies, health insurance funds and research facilities. The Health Sector as a branch has approximately five million employees in Germany; this accounts for thirteen percent of the total number of jobs. Sales revenues are estimated at EUR 500 billion, which represents one tenth of the gross domestic product.

Therapeutic offers
Medical treatments which enable patients to master further on their professional tasks and to play their roles in family and society despite physical or health-related handicaps; they are based on the principle of personal responsibility

Usage fee
Allowance for using clinic equipment

Terms of Accounting and Finance

Convertible bonds
Convertible bonds which are transferable within a certain period of time and under certain condition into shares of the respective company

Deferred Tax
Deferred tax are following from the difference between book value of assets and liabilities of the commercial balance sheet (balance sheet and consolidated balance sheet) and their inclusion in the tax balance sheet.

Diluted earnings per share
The diluted earnings per share are determined by adjusting the annual result and adjusting the number of shares from the diluted options and other diluted potential common stock

EBIT
Earnings Before Interest and Taxes

Fair value
In accordance with IAS/IFRS, the fair value of an asset or a liability is recorded as the market value in the balance sheet. This value approximates the replacement value used in accounting pursuant to the German Commercial Code (HGB)

Fifo method
Abbreviation of first in/first out method

Finance leasing
Finance leasing relates to leasing agreements which, in terms of beneficial ownership, are allocated to the lessee. In such cases, the lease item must be reported in the lessee's balance sheet

HGB
German Commercial Code

IAS
International Accounting Standards; will be replaced successively by the International Financial Reporting Standards (IFRS) after the year 2003

IASB
International Accounting Standards Board

IASC
International Accounting Standards Committee; founded 1973

IFRIC
International Financial Reporting Interpretations Committee; succeeded the Standing Interpretations Committee (SIC)

IFRS
International Financial Reporting Standards

Operating-Leasing
According IAS/IFRS the lessee does not achieve beneficial ownership and therefore does not has to report it in the balance sheet

Projected unit credit method
Valuation method for pension commitments

Segment
In accordance with the risk and rewards approach of IAS 14, the segment is to be defined as primary reporting format which mainly influences the risks and return of equity of a company. MediClin's primary reporting format is based on sectoral segmentation and consists of the segments post acute, acute and nursing care

SIC
Standing Interpretations Committee; was responsible for interpretation and commentation of standards adopted by the IASC

Undiluted earnings per share
The undiluted earnings per share are determined by dividing the period results attributable to the common shareholders through the average weighted number of common stock in circulation during the period (common stock issued)

Xetra®
Exchange Electronic Trading; computer assisted trading system by the Deutsche Börse AG

Financial Calendar

24 February 2006:	Publication of preliminary figures for financial year 2005
30 March 2006:	Balance sheet press and analyst conference for financial year 2005
12 May 2006:	Publication of the first quarter 2006
30 May 2006:	Annual Shareholders' Meeting
10 August 2006:	Publication of the Interim Report 2006
10 November 2006:	Publication of the 9-Month Report 2006

Addresses and imprint

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Dieser Geschäftsbericht liegt auch in deutscher Sprache vor.

This is a preliminary translation of the German annual report. In case of divergence from the German version, the German version shall prevail.