ANNUAL REPORT 2006

MEDICLIN AKTIENGESELLSCHAFT

MEDICLIN

MediClin **Key data business development**

Quarterly development of the Group in 2006

About MediClin

MediClin is a nationwide operator of hospitals and a large provider in the areas of the neuro- and psychosciences as well as orthopaedics. With 30 hospital operations, eight nursing care facilities and three medical care centres in eleven German federal states, at the end of 2006 MediClin had a total capacity of approximately 7,700 beds. The hospitals are acute-care hospitals providing basic, standard and specialised care, as well as specialist clinics for medical rehabilitation. MediClin has approximately 6,900 employees.

Cover picture **MediClin Krankenhaus Plau am See**

MediClin: Key data business development

In thousands of €	2006	2005	2004
Sales	378,498	370,434	357,970
Operating result (EBIT)	16,723	16,096	– 12,755
EBITDA margin in %	6.7	6.3	1.7
EBIT margin in %	4.4	4.3	– 3.6
Financial result	– 5,552	– 6,466	– 5,983
Result attributable to shareholders of MediClin	9,509	7,667	– 15,841
Cash flow from operating activities	7,533	17,524	8,517
Balance sheet total	268,399	268,572	255,147
Non-current assets incl. deferred tax assets	179,053	182,079	177,742
Current assets	89,346	86,492	77,405
Thereof cash and cash equivalents	29,063	26,991	18,180
Equity	100,226	86,150	78,354
Equity ratio in %	37.3	32.1	30.7
Non-current liabilities incl. deferred tax liabilities	112,795	121,503	128,796
Current liabilities incl. tax liabilities	55,378	60,919	47,997
Gross capital expenditure	18,818	16,514	19,071
Net financial liabilities	61,090	64,691	68,366
Number of full-time employees (annual average)	5,252	5,248	5,298
Sales per full-time employee in €	72,067	70,586	67,567
Staff costs per full-time employee in €	40,465	39,942	39,587
Occupancy rates in %	78.1	76.2	72.6
Earnings per share undiluted in €	0.30	0.26	– 0.53
Earnings per share diluted in €	0.30	0.25	– 0.53
Cash flow from operating activities per share in €	0.24	0.56	0.27
Dividend per share in €	–	–	–
Number of shares in millions	31.5	31.5	31.5

Quarterly development of the Group in 2006

In millions of €	Q1	Q2	Q3	Q4
Sales	91.8	94.6	95.3	96.8
Operating result	1.1	4.5	6.3	4.8
EBIT margin in %	1.2	4.6	6.7	4.9
Result attributable to shareholders of MediClin	– 0.4	2.9	4.2	2.8
Return on sales in %	– 0.5	3.1	4.4	2.9
Cash flow from operating activities	– 0.3	– 5.2	6.6	6.4
Equity ratio in %	33.9	35.8	36.4	37.3
Gross capital expenditure	4.7	4.0	3.6	6.5
Net financial liabilities	58.3	65.6	61.7	61.1
Number of full-time employees (quarterly average)	5,223	5,239	5,265	5,276
Occupancy rates in %	76.5	79.2	79.0	77.8
Result per share in €	– 0.01	0.09	0.13	0.09
Cash flow per share in €	– 0.01	– 0.17	0.21	0.21

Content

FACES
OF MEDICLIN



> Let staff members guide you through selected work areas.

Dear Ladies and Gentlemen, Dear Shareholders, Staff, Partners and Friends of MediClin AG,

DR. ULRICH WANDSCHNEIDER
Chairman of the
Management Board

Last year was characterised by discussions relating to the current health care reform, industrial action in public clinics and the introduction of the Working Hours Act on 1 January 2007. In the area of rehabilitation, a very warm summer led to shifts in seasonality. This was not an easy time for care providers to maintain and enhance their position on the market. MediClin had set two major objectives for the Company in 2006: "Raise turnover, enhance the profile" – two aspects, which in effect, are inseparable from one another.

Generating turnover without a clearly defined profile cannot lead to the sustainability necessary in the health care market. And it is this sustainability that allows a health services company to strengthen its position within the competitive field.

Due to the measures that we introduced and carried out, we have achieved our set objectives.

We were able to increase turnover by EUR 8.1 mill. to EUR 378.5 mill. and the net result by EUR 1.8 mill. to EUR 9.5 mill. And we were also successful in developing our market presence. Coverage providers once again view us as being "top tier" for the conception and realisation of collaborative projects. Analysts and investors have also regained their confidence in MediClin. And this fact is not only reflected in our rising share price.

How were we able to increase sales in the continuingly difficult market environment?

A key part of our strategy was the bundling of various measures, many of them having proven their effectiveness already in 2006, while for others, they were put into place as the cornerstone for positive development in 2007.

In particular, our regional concept bore its first fruit in 2006. Responsibility for marketing and sales activities is now regionally based. As for the Company, framework guidelines have been established and the association with coverage providers active across Germany has been defined. Concrete coordination will be effected regionally in the clinics.

In addition, we have reorganised the area of customer contact management at the Company, supporting it with the introduction of a CRM database. We have also made a great leap forward in terms of framework contracts with national coverage providers – all confidence-building measures, designed to foster long-term cooperation with our customers, whether they are coverage providers or patients.

In 2006, we also created important foundations for future development: in the acute segment we broke ground and laid the cornerstone for the functional wing of the

Krankenhaus am Crivitzer See; we have also commenced with the new construction of the surgical wing and the conversion of the admission and recovery room. By the end of 2007, the new wing will be inaugurated. At MediClin's Müritz-Klinikum, three new stations, accomodation units and administration rooms are being constructed. In the MediClin Hedon Klinik, a new wing of beds is currently being built with accompanying therapy areas. The annexe became necessary due to the high demand in neurological rehabilitation for measures encompassing early rehabilitation.

In 2006, a special emphasis was placed on our medical care centres. The medical care centres in Leipzig and Plau, both founded in 2005, have established themselves on the market. Offering a comprehensive medical "one-stop" care centre offers advantages both to the patient and the health care system. We opened a further medical care centre at the beginning of the year in Bad Düben. Further centres will follow.

At MediClin, the integration of acute and rehabilitation segments is an important factor affecting the well-being of the patients. Therefore, our focus lies on an optimal collaboration between the acute and the post-acute segments. But also ambulant care is becoming increasingly important and, therefore, will be integrated more heavily into the treatment chain. The fact that we are fulfilling our objectives can be seen by the example of a clinic where the acute neurology department with stroke unit, as well as the neurosurgery, neurological rehabilitation and patient aftercare departments are all closely coupled with a medical care centre staffed by attending neurologists. Neurological and neurosurgical patients benefit from a complete local treatment chain, which covers everything from the acute phase to the various stages of rehabilitation and aftercare.

And we will continue to invest in this integrated approach. On the one hand, where possible we will do this under one single roof, on the basis of a coordinated regional offer of cross-sector medical services, or, on the other hand, by the accumulation and use of knowledge and experience.

Within the post-acute segment, we will continue to concentrate on subsequent nursing treatment and curative procedures.

In 2006, we developed new products with coverage providers and will offer these regularly in the form of integrated medical care contracts ("IV contracts"). For instance, we developed the concept "Operational Health Care Management", together with coverage providers and the industry. This project has been distinguished by the North Rhine-Westphalia Department of Health as being particularly innovative.

Moreover, we have proved our medical and technical competence in corresponding studies:

- A study conducted in 2005 and 2006 at one of our special clinics for tinnitus (MediClin Bosenberg Kliniken, St. Wendel) proves, for the first time, the importance of instrument-based care of the hearing-impaired for successful tinnitus therapy.

- A study conducted at the Fachklinik für Psychosomatische Medizin (a specialised clinic for psychosomatic medicine) at the MediClin Bliestal Kliniken, Blieskastel, proves the substantial psychological burdens that the partners of patients with cardiac arrhythmia bear. A corresponding therapy offer has subsequently been developed.

What have we done to enhance our profile?

- We have created a medical performance survey on our Company, in which we outline the medical achievements of our individual facilities as well as across-the-board projects.
- For our post-acute clinics, we have published rehabilitation quality reports, a novelty in the rehabilitation segment.
- We have achieved the certification of our post-acute centres according to the IQMP-Reha standard. This means that our facilities now operate under the "Excellent Quality in Rehabilitation" (EQR) quality seal. The certificate will be awarded by the Institut für Qualitätsmanagement im Gesundheitswesen GmbH (IQMG), Berlin.
- We have successfully presented the quality of our achievements at many congresses and in individual discussions with our coverage providers.

In terms of our internal workflow, we have also launched several new measures:

- Since mid-2006, a MediClin rehabilitation evaluation system is in place for our post-acute clinics, which enables clinics to be compared with each other.
- We have coordinated the process of concept creation clinic-wide.

- We have continued to refine our reporting system, placing a focal point, first and foremost, on medical performance data. Furthermore, we have developed and comprehensively documented our risk management system.
- We have also accomplished several new features in the area of job training. The MediClin Academy, which was launched in the second half of 2006, has already offered 14 seminars attended by 220 participants, on general as well as specialist topics.

How will our business continue in 2007?

The health care reform legislation has not fundamentally restructured the health care sector in Germany.

However, the budget reduction of 0.5% will put a strain on our acute clinics, while compensation for diminished proceeds and the absence of reimbursement for integrated medical care contracts will add to this problem.

We expect larger cost burdens due to increased pay rates in the public hospitals; as a result, MediClin could be forced to raise its fees in certain segments also.

The commencement of the Working Hours Act on 1 January 2007, will lead to a further increase in costs. We have decided to carry out measures in compliance with the new legislation; thus in many locations, new doctors will have to be hired.

The increase of the German value added tax will affect the entire Company, while the reduction of the unemployment insurance contribution and the non-wage labour costs will benefit the annual accounts.

Apart from these legal changes, it is now apparent that coverage providers are increasingly placing an emphasis on better treatment, information and reporting quality. Non-compliance with the coverage providers' guidelines and complaints will have ever greater effects on the occupancy rates. But we are well positioned in this area, since the Company has invested heavily in both quality and transparency.

After all, quality and transparency is also our motto for 2007.

During the current financial year, we will position the name MediClin on the market, more strongly than ever, as an integrated provider for cross-sector medical services. For this reason, Alphamed GmbH & Co KG has been renamed as MediClin GmbH & Co. KG. Furthermore, for all facilities in the MediClin Group, the Company name will soon be placed before the name of the individual clinic.

Each clinic contributes to the image building and increasing the level of awareness through its competence and know-how. This accommodates the wishes of our clinic management, who want to see a strengthening of the MediClin brand and, in so doing, want to demonstrate their affiliation to the Group.

Growth is what is important for us now. Internal growth can be generated by consistently following the course we have set upon. We plan to boost external growth through acquisitions, specifically within the acute segment. Naturally, a set of preconditions must first be fulfilled. In this process, priority will always be given to the realisation of our integrative strategy.

In 2006, we have, once again, achieved a great deal. I am certain that the efforts we have undertaken will form a sound basis for financial success in 2007.

Special thanks go to all employees for their hard work and commitment. I would particularly like to thank the staff representatives for their excellent collaboration. In 2007, let's build on the good results of the last two years and continue to foster the success of our Company.

Frankfurt am Main, 1 March 2007

Dr. Ulrich Wandschneider
Chairman of the Management Board

MANAGEMENT BOARD

right: **Dr. Ulrich Wandschneider,** CHAIRMAN OF THE MANAGEMENT BOARD,
is responsible for strategy and product development, operative clinics management, marketing/sales, contract management, public relations/investor relations, personnel and for quality/risk management

left: **Frank Abele,** CHIEF FINANCIAL OFFICER,
is responsible for controlling, finance and accounting, legal affairs/tax, IT, internal audit and procurement/technique

The MediClin share

2006 met with the expectations

While at year-end 2005, the DAX index was 27 % above its value at the beginning of the year, the stock market also performed favourably in 2006. This upturn was due to strong company profits and a significantly improved economic climate. In addition, the outcome was surely helped by continuing low interest rates.

At the beginning of 2006, the DAX started out at 5,410.24 points and closed at 6,596.92 points – a rise of 22 %. The MDAX and the SDAX rose even more strongly; at year-end, the indices were 30 % and 31% above their values at the beginning of the year.

Stock market experts are convinced of the prospect of further positive developments on the stock market for the year 2007. This would make 2007 the fifth year in a row with market profits. Many large German banks and investment houses are confident that the economic upturn will continue, in particular, in Europe and Germany. But they have also announced that due to existing risks, the courses could fluctuate much more strongly than in 2006. Cited risks include: the danger of inflation in the USA, resulting in further increases in interest rates, the sustained weakness of the dollar, and political risks, which could lead to a rise in the price of oil.

The MediClin share rose in value by 67 %

The price of the MediClin share rose from EUR 2.57 (opening rate on 2 January 2006) to EUR 4.28 (closing price on 29 December 2006), equivalent to a rise of approximately 67 %. Particularly following publication of the annual result for 2005, the share price advanced.

In 2006, DZ-BANK AG and BHF-BANK AG reported comprehensively and regularly on MediClin and the Company’s share.

Shareholder structure in %

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

* Share property of 5 % or more

As of 6 February 2006

Treasury stock

Since 2 February 2006, MediClin no longer holds any treasury stocks. 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 €	2006	2005
Earnings per share, undiluted	0.30	0.26
Earnings per share, diluted	0.30	0.25
Cash flow per share[1]	0.24	0.56
Book value per share[2]	3.13	2.68
Dividend per share	–	–
Year-end price[3]	4.28	2.50
52-week high[3]	4.85	
52-week low[3]	2.99	
Market capitalisation (year-end price) in mill. €	134.8	78.8
Number of shares in million	31.5	31.5

[1] Cash flow from operating activities
[2] Equity less minority shares
[3] Source: Deutsche Börse AG; as of 15 March 2007, Xetra closing prices

MAREIKE WIESE Emergency Ward Manager

EMERGENCY WARD

Mareike Wiese has worked at the MediClin hospital in Plau am See since 1996. At first she was in the Intensive Ward and afterwards in the Emergency Room, where she has been manager since October of last year. The Emergency Ward takes care of up to 40 patients a day. Together with her team, Mareike Wiese also handles medical admission for the Neurology Department and the Department of Internal Medicine.

I HAVE TO ACCELERATE FROM ZERO TO SIXTY IN AN INSTANT – MAKING DECISIONS, COORDINATING, TAKING CHARGE

What are the special characteristics of working in the Emergency Ward?
> No doubt the dynamics, which can develop in an instant. For example, if the victims of a traffic accident are going to be admitted in five minutes, I have to accelerate immediately from zero to sixty, using all my experience.

What are the procedures when there is a serious traffic accident at hand?
> The central office handles the external organisation of taking care of the patients. First, it asks if a bed is available in the Intensive Ward. If an Intensive Ward bed is ready, we are told what has happened where, the state in which the patient is going to be brought in, and by what means of transportation. I then decide on the specialists and equipment we need to attend to him or her. When we are dealing with a traffic accident, I typically need the surgeons, the neurosurgeons, the orthopaedics and the anaesthesiologist, all of whom I bleep and who then come to the Emergency Room from the main hospital building. In the meantime, I get the X-Ray Department ready so the patient can get a CT (computer tomography) as quickly as possible.

What are the special qualities a nurse in the Emergency Ward requires?
> You have to be able to make the right decisions fast. This is a matter of experience, you have to be able to see the whole medical picture. I must recognise what the patient suffers from and what kind of doctor he or she needs. Sometimes this is difficult to decide. For instance, if a patient arrives in the Emergency Ward with severe but unclear stomach pain, I have to ask myself if I should turn to a surgeon or an internist. I also have to be able to gauge which patient has priority, in other words, which patient is worse off than another patient.

How do you handle all this pressure?
> In the beginning, I was, in fact, constantly asking myself whether I had thought of everything or forgotten a certain medical field. Even today, I obviously never know what to expect when I go to work. We do have certain standardised procedures – but there is no routine in my everyday work.

Summarised management report and Group management report of MEDICLIN Aktiengesellschaft

for the 2006 financial year

Contents

General economic conditions

The global economic upswing observed since 2003, continued in 2006. In Germany, the gross domestic product (GDP) rose by 2.7 % in real terms, the strongest growth seen since 2000. The German economy exported nearly EUR 900 billion worth of goods in 2006. The export surplus thus reached a record-breaking level of more than EUR 160 billion. The construction industry showed initial signs of recovery after a ten-year slump. The previously weak level of consumption began to increase.

According to the latest calculations from the German Federal Statistical Office, the government sector showed a budget deficit of 1.7 % (based on the GDP in respective prices) in 2006. This means that it was under the reference values of 3 %, stipulated by the Treaty of Maastricht, for the first time since 2001.

The labour market improved slightly. The unemployment rate, which was still at 12.1 % in January 2006, dropped steadily to 9.6 % in December. The annual inflation rate for 2006 was 1.4 % (previous year 2.0 %).

Development of the "health care" sector

The health care sector in Germany continued to struggle, with decreasing demand, lower budgets and increasing costs in 2006. The general sick-leave status in Germany in 2006, decreased to 3.0 %, its lowest level since 1970. The working population's hesitancy to take longer periods of time off work when sick continues to make itself noticeable. This holds true in the acute care field as well, as long as the treatment in question can be postponed. The trend towards more outpatient treatment is growing further. The situation in the post-acute sector improved somewhat. According to the Association of German Pension Insurance Institutions, the number of applications submitted for medical rehabilitation service rose for the first time since 2002, climbing by 6.7 %, as compared to the low level seen in 2005.

Deficits in the public budget and cost pressure led to further growth of privatisation in the acute care sector in 2006. Consolidation in the rehabilitation and nursing care sectors is progressing more slowly, as most of the providers here are members of the private sector of the economy.

On 5 October 2006, the panel experts and members of the coalition committee reached a compromise after months of talks on how to implement health care reforms. After minor changes, the reform plan was adopted on 2 February 2007, and approved by the Federal Council of Germany on 16 February. The health care reform (law on strengthening competition among the public health insurance funds) will thus go into effect on 1 April 2007. In the final version of the law, the restructuring contribution to be made by hospitals was reduced from the original figure of 0.7 % to 0.5 % of revenues.

MediClin in 2006

In the 2006 reporting year, MediClin included 30 clinics, eight nursing care facilities and three medical care centres. MediClin's objective is to provide integrated medical care. This means that the Company attaches great value to offering acute medical care and rehabilitation as complementary services. The goal of offering integrated medical care has already been optimally realised in several of our facilities, including the creation of new capacities for early rehabilitation.

We offer full-time and short-term nursing care in eight nursing care facilities. These facilities are located on the sites of post-acute clinics and can thus benefit from their infrastructure. The Klinikum Offenbach near Frankfurt, includes a separate floor for our short-term nursing care facility.

We have successfully tapped the market for acute, outpatient treatment, with the three medical care centres, MediClin MVZ at Plau am See, specialising in urology, neurology and psychiatry; MediClin MVZ Leipzig, focusing on general medicine, internal medicine and orthopaedics and MediClin MVZ Bad Düben, specialising in general medicine and orthopaedics.

The allocation of beds to the segments is as follows:

Number of beds as of 31. 12. 2006

	2006	2005	Change in %
Post-acute	5,908	5,963	– 0.9
Acute	1,341	1,368	– 2.0
Nursing care	395	368	+ 7.3
Group	**7,644**	**7,699**	**– 0.7**

Since 2 February 2006, MediClin no longer holds any of its treasury stock. On 16 November 2005, MediClin announced that it would sell the 1,550,000 treasury stock (4.92 % of the subscribed capital) held by it on the stock exchange. The shares were sold at an average price of EUR 2.86 per share (average buying price EUR 1.81). MediClin thus generated gains of approximately EUR 1.6 mill. from the sale in the first quarter of 2006.

The rental expenses relief of approximately EUR 7 mill. agreed on in 2005, once again benefited the results in the post-acute segment in 2006. The rental expenses relief is applicable to the year 2007, as well. The agreed-on rents of then approximately EUR 39 mill. for this real estate will go into effect again from 2008.

Business development in 2006

MediClin continued to improve its revenues and result in 2006. Intensive marketing of existing professional competencies and medical services to patients and coverage providers led to an increase in revenue.

Sales development in the Group and the segments

In the 2006 financial year, MediClin's **consolidated sales revenues** of EUR 378.5 mill. were approximately EUR 8.1 mill. or 2.2 % up on those of the previous year.

Sales in the Group and in the segments

In millions of €	2006	2005	Change in %
Post-acute	214.9	213.2	+ 0.8
Acute	154.9	150.8	+ 2.7
Nursing care	8.7	6.4	+ 35.9
Group	**378.5**	**370.4**	**+ 2.2**

Revenue in the **post-acute segment** rose by EUR 1.7 mill. to EUR 214.9 mill. The offers developed in 2004, for self-paying patients (PlusPrograms) contributed approximately EUR 1.0 mill. (previous year: approximately EUR 1.1 mill.) to post-acute segment revenues in 2006. In the **acute segment, revenues** increased by EUR 4.1 mill. to EUR 154.9 mill. The **nursing care segment** generated revenues of EUR 8.7 mill. in its second full financial year.

Development of nursing days and case numbers in the Group and the segments

The number of **nursing days** provided in 2006, increased Group-wide by 1.8 %, or 39,030 days more than provided in the previous year.

Nursing days in the Group and in the segments

In days	**2006**	2005	Change in %
Post-acute	1,681,494	1,672,355	+ 0.5
Acute	373,420	374,422	– 0.3
Nursing care	117,212	86,319	+ 35.8
Group	**2,172,126**	**2,133,096**	**+ 1.8**

The number of nursing days in the post-acute facilities rose by 9,139, while decreasing by 1,002 in the acute facilities due to shorter stays and an increase in outpatient treatment. The length of stay in this segment thus fell from 10.4 days in 2005, to 9.9 days in 2006. Not including patients in the psychiatric clinics in which significantly longer stays are common, the average amount of time spent in the acute facilities in 2006, was 8.2 days (previous year: 8.7 days).

The number of **cases** in the Group rose by 2,221. The number of cases in both the post-acute and acute segment is rising favourably. The nursing care segment is not included in this reporting.

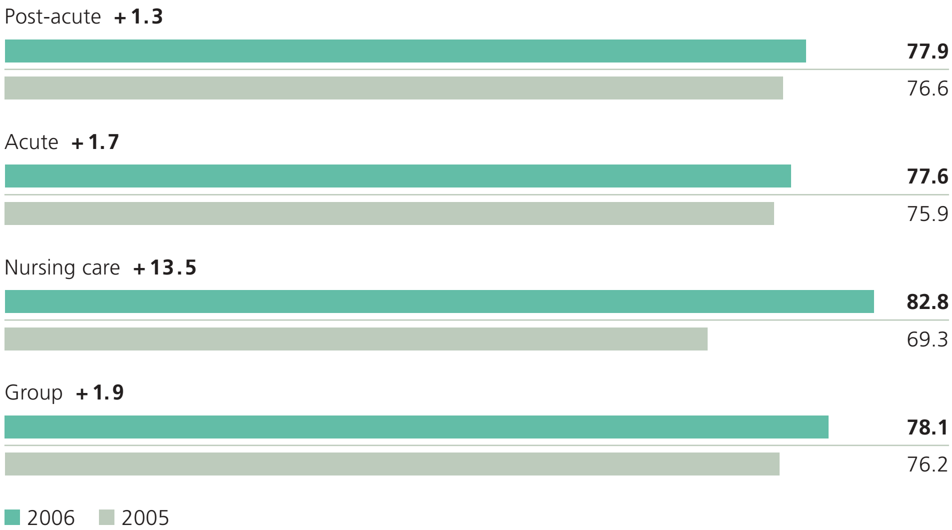
Cases in the Group and in the segments

In cases	**2006**	2005	Change in %
Post-acute	67,393	66,835	+ 0.8
Acute	37,665	36,002	+ 4.6
Group (without Nursing care)	**105,058**	**102,837**	**+ 2.2**

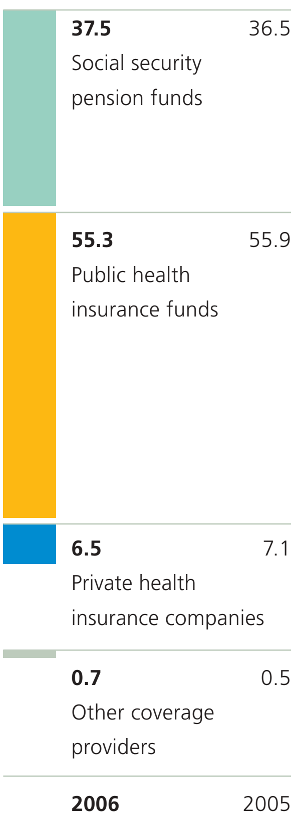
Capacity utilisation in the Group and the segments

Capacity utilisation in the Group continued to improve in all three segments in 2006.

Capacity utilisation in the Group and the segments
in %



Breakdown of occupancy days by coverage provider groups without nursing care in %



Development of the coverage provider structure

As in the previous year, social security pension funds and public health insurance funds accounted for more than 90 % of the total occupancy days.

The social security pension funds and the public health insurance funds are the two largest funding agencies for medical rehabilitation. 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 avoidance of early retirement. The goal of the public health insurance funds' services is to prevent disabilities and to reduce the need for nursing care, or to prevent deterioration of existing disabilities through rehabilitation measures.

The public health insurance funds are the main funding agencies in the acute segment.

Development of earnings in the Group and the segments

MediClin was able to further improve the **consolidated operating result** (earnings before interest and taxes), which totalled EUR 16.7 mill. in 2006, after EUR 16.1 mill. in the previous year. As in 2005, the result for the reporting year benefited from the rental expenses relief of approximately EUR 7.0 mill. annually agreed-on for the period from 2005 to 2007. Materials expenses, including the costs for energy, rose at a disproportionately high rate, as compared to revenues.

Group and segment results from operating activities

In millions of €	2006	2005
Post-acute	– 1.7	– 2.3
Acute	18.6	18.9
Nursing care	– 0.2	– 0.5
Group	**16.7**	**16.1**

The **post-acute segment** was able to further reduce its **segment loss**. Despite increased revenues, the **segment result for the acute segment** declined slightly by EUR 0.3 mill. due to the higher costs.

A **consolidated result** after minority interest of EUR 9.5 mill. was generated in 2006, after recording profits of EUR 7.7 mill. in the previous year.

Net assets, financial position and results of operation

Development of net assets

Balance-sheet structure

In millions of €	31.12.2006	in % of balance sheet total	31.12.2005	in % of balance sheet total
Assets				
Non-current assets	179.1	66.7	182.1	67.8
Current assets	89.3	33.3	86.5	32.2
	268.4	**100.0**	**268.6**	**100.0**
Equity and liabilities				
Equity	100.2	37.3	86.2	32.1
Non-current liabilities	112.8	42.0	121.5	45.2
Current liabilities	55.4	20.7	60.9	22.7
	268.4	**100.0**	**268.6**	**100.0**

The **balance sheet total** remained nearly constant, as compared to the previous year.

Non-current assets, including deferred tax assets, decreased by EUR 3.0 mill.

Intangible assets include software, licenses and goodwill from the acquisition of clinic operations. They decreased from EUR 47.6 mill. to EUR 46.1 mill. Goodwill totalled EUR 45.0 mill. (previous year: EUR 46.8 mill.), most of which is attributable to asset differences from consolidation of capital (EUR 41.0 mill.; previous year: EUR 42.9 mill.). The additions to goodwill relate to the doctors' practice value of MVZ Leipzig. The goodwill disposals result from the disposal of subsequent acquisition costs concerning the investments in the Hurrle Clinic Group acquired in 1998. The acquisition costs include the subsequent purchase price claims on the part of former limited partners of the Hurrle Clinic Group. Following the conclusion of composition arrangements with all those involved in the proceedings (with one exception) and the settlement of the claims that were the subject of the proceedings, the acquisition costs had to be adjusted accordingly. There was no need for impairment of value in the financial year.

Property, plant and equipment decreased by EUR 0.7 mill. to EUR 120.6 mill. (previous year EUR 121.3 mill.). The land, land rights and buildings included in property, plant and equipment related mainly to the Herz-Zentrum Coswig, Waldkrankenhaus Bad Düben, Krankenhaus Plau am See, Robert Janker Klinik, Rose Klinik, Reha-Zentrum Soltau, Krankenhaus am Crivitzer See, Müritz-Klinikum and the Fachklinik Rhein/Ruhr.

Additions to property, plant and equipment include EUR 2.2 mill. related to renovation measures in four clinics. EUR 1.0 mill. was spent on the modernisation and upgrading of the EDP and telecommunication systems. EUR 0.4 mill. was invested in the expansion of nursing care facilities and another EUR 0.4 mill. in the renovation of kitchens.

Subsidies and grants were largely related to purpose-bound funds granted pursuant to the Hospital Financing Act with a residual book value of EUR 87.6 mill. (previous year: EUR 83.6 mill.). Additions to subsidised assets amounted to EUR 10.4 mill. (previous year: EUR 2.1 mill.).

Deferred tax assets result from temporary differences between the balance sheet values according to IAS and the tax values applied for the assets and liabilities. They totalled EUR 11.4 mill. as of 31 December 2006 (previous year: EUR 12.9 mill.).

The Company calculated preliminary losses carried forward of EUR 37.1 mill. in 2006 (previous year: EUR 47.6 mill.). The resulting deferred tax assets are capitalised only to the extent that realisation is sufficiently certain. The amount of losses carried forward for which no deferred tax assets are reported was adjusted from EUR 15.8 mill. to EUR 10.7 mill., as a result of preliminary Company audit results and consumption of the financial year being taken into account.

Current assets rose by EUR 2.8 mill. to EUR 89.3 mill. (previous year: EUR 86.5 mill.). Inventories increased by EUR 0.2 mill. to EUR 4.7 mill. Trade receivables dropped by EUR 2.5 mill. to EUR 46.7 mill. (previous year: EUR 49.2 mill.). Other assets rose by EUR 3.1 mill. to EUR 8.9 mill. (previous year: EUR 5.8 mill.). The recognition of receivables pursuant to the hospital financing law is in accordance with the provisions of the Hospital Accounting Rules. As of 31 December 2006, receivables totalling EUR 4.3 mill. were reported, in accordance with the hospital financing law (previous year: EUR 2.6 mill.).

Cash and cash equivalents rose at a disproportionately low rate in the financial year, to EUR 29.1 mill. (previous year: EUR 27.0 mill.).

The equity of the MediClin Group, as of 31 December 2006, amounted to EUR 100.2 mill. (previous year: EUR 86.2 mill.). It included the subscribed capital of MediClin AG amounting to EUR 31.5 mill. as well as capital reserves of EUR 106.7 mill., which resulted, primarily, from MediClin AG's stock market flotation. 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 8.7 mill. to EUR 112.8 mill. (previous year: EUR 121.5 mill.), EUR 8.0 mill. of which was accounted for by liabilities to banks and insurance companies, which dropped to EUR 83.0 mill. (previous year: EUR 91.0 mill.). Liabilities to insurance companies totalling EUR 61.4 mill. remained constant, as compared to the previous year, and relate to liabilities to shareholder companies of MediClin AG. The MediClin Group's provisions amounted to EUR 26.3 mill. (previous year: EUR 26.4 mill.).

Current liabilities decreased by EUR 5.5 mill. to EUR 55.4 mill. (previous year: EUR 60.9 mill.). Trade payables rose by EUR 1.4 mill. to EUR 12.4 mill. (previous year: EUR 11.0 mill.). Other current liabilities include liabilities to banks and liabilities pursuant to the hospital financing law. They include EUR 11.8 mill. (previous year: EUR 11.3 mill.) of purpose-bound, unused fixed subsidies based on the local law provisions on hospital financing, and on compensation obligations under the Federal Patient Care Ordinance and the Hospital Compensation Act. Other liabilities decreased by EUR 12.2 mill. to EUR 19.5 mill. (previous year: EUR 31.7 mill.) primarily as a result of no longer containing the contributions for the final settlements with the former limited partners in connection with the takeover of the Hurrle Clinic Group. Tax liabilities amounting to EUR 2.9 mill. (previous year: EUR 4.1 mill.) include the amounts for corporation tax and the solidarity tax to be paid to the fiscal authorities. They cover the obligations for the current financial year and previous years.

Development of the financial position

The **cash flow from operating activities** decreased by EUR 10.0 mill. in 2006, to EUR 7.5 mill. (previous year: EUR 17.5 mill.). The development reflected the settlement payments to the former limited partners of the Hurrle Group made at the beginning of the year, which led to a corresponding decrease in current liabilities. The **cash flow from investing activities** totalled EUR – 8.4 mill. (previous year: EUR –14.1 mill.). The **cash flow from investing activities concerning property, plant and equipment** (CAPEX) was EUR –7.3 mill. (previous year: EUR –13.7 mill.).

The **cash flow from financing activities** in 2006, amounted to EUR 2.9 mill., composed of an inflow of funds resulting from the sale of treasury stock in early 2006, and an outflow of funds for repayment of loans.

Cash and cash equivalents at the end of the period improved by EUR 2.1 mill. to EUR 29.1 mill. (previous year: EUR 27.0 mill.).

Development of results of operations

MediClin was able to further improve its revenues and result in the reporting year. Revenues rose from EUR 370.4 mill. to EUR 378.5 mill., with revenue increasing in all three business segments. The operating result rose from EUR 16.1 mill. to EUR 16.7 mill., which corresponds to an EBIT margin (earnings before interest and taxes) of 4.4 %, after 4.3 % in the previous year.

Other operating income rose by EUR 1.4 mill. to EUR 8.9 mill. (previous year: EUR 7.5 mill.). The other operating income in the consolidated financial statements primarily consists of subsidies in accordance with the hospital financing law, public grants and off-period income from the release of provisions and rental income.

The raw materials and consumables used increased substantially in 2006. The costs of raw materials and supplies increased by 3.4 %, as compared to 2005, to EUR 47.7 mill. (previous year: EUR 46.2 mill.). The cost of purchased services, including energy costs, rose by 8.7 % to EUR 32.6 mill. (previous year: EUR 30.0 mill.).

Raw materials and consumables used

	2006	2005	Change in %
Raw materials and consumables used in millions of €	80.3	76.1	+ 5.5
Cost of materials ratio in %	21.2	20.6	

Staff costs also rose, although the staff costs ratio improved as a result of the increased revenues. The size of the workforce in 2006, as calculated in full-time employees, was four full-time employees above the average for 2005. The increase in costs is thus primarily attributable to an increase in wage costs.

Staff costs

	2006	2005	Change in %
Staff costs in millions of €	212.5	209.6	+ 1.4
Staff costs ratio in %	56.1	56.6	

Depreciation and amortisation increased to EUR 8.5 mill. (previous year: EUR 7.1 mill.). Depreciation and amortisation concerning immaterial matters (low-value depreciation and amortisation), within the meaning of IAS 1.29 to which the IFRS/IAS standards are not applied, totalled EUR 991 thou. (previous year: EUR 824 thou.).

The **financial result** of EUR – 5.6 mill. was EUR 0.9 mill. above the previous year's level (previous year: EUR – 6.5 mill.). EUR 4,240 thou. of interest expenses (previous year: EUR 4,239 thou.) concerns payments to related parties in accordance with IAS 24. An overview of future interest expenses is provided in the section on non-current liabilities in the notes.

The **consolidated result after minority interest** in 2006, was EUR 9.5 mill. (previous year: EUR 7.7 mill.). Undiluted earnings per share were EUR 0.30 (previous year: EUR 0.26). Diluted earnings per share were EUR 0.30 (previous year: EUR 0.25).

Capital expenditure

The item payments on account, and assets under construction, relates mainly to reconstruction and new construction of the Müritz-Klinikum in Waren.

Gross addition to property, plant and equipment

In thousands of €	**2006**	2005
Land, buildings	512	151
Technical equipment, EDP	551	359
Operating and office equipment	6,665	5,868
Payments on account and assets under construction	9,926	9,098
Total	**17,654**	**15,476**

The additions to property, plant and equipment include EUR 2.2 mill. related to reconstruction measures in four clinics. EUR 1.0 mill. was spent on modernisation and the upgrading of EDP and telecommunication systems. EUR 0.4 mill. was spent on the expansion of nursing care facilties and another EUR 0.4 on the renovation of kitchens.

Strategy

MediClin specialises in post-acute treatment and offers cross-sector services in connection with the acute treatment clinics and nursing care facilities belonging to the Group.

The Company's strategy has not changed. More so than ever before, the Company believes that only good, close cooperation between all partners in the health care sector enables service providers to operate in a profitable manner and offer optimum patient care. The Company's strategy, therefore, remains to:

- Create regional supply networks and thus to facilitate cooperation between its own clinics in the respective region, and registered physicians, hospitals and specialist clinics, thereby guaranteeing integrated medical care.
- Continue to improve cooperation and communication within the Group, in order to offer a Group-wide standard, which guarantees the best possible treatment and process quality.
- Cooperate closely with health insurance funds and insurance companies, in order to reduce costs and further improve the quality of patient care through new therapy methods and optimised cooperation between health insurance providers, insurance companies, clinics and doctors.
- Strengthen MediClin's position as a leading operator of clinics. In addition to internal growth, this also means increases in revenue and profitability through the acquisition of public and private clinics. A significant aspect in this process is that such acquisitions increase regional market penetration, enabling the Group to achieve its profit targets in the mid-term future.

In implementing its strategy, MediClin focuses on innovative treatment concepts in the high-volume indication areas, such as orthopaedics, neurology and psychosomatics, as well as on areas where the number of cases is increasing and treatment is cost-intensive, such as strokes, diabetes and tinnitus.

Organisation

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

As a Group holding company, MediClin AG 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, eight nursing care facilities and three medical care centres (MVZ).

The central administration office for the clinics, MediClin GmbH & Co. KG Offenburg (formerly Alphamed Klinik GmbH & Co KG), 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
- MediClin Immobilienverwaltung GmbH
  Real estate management, investment management, cost and income management in the real estate segment
- MC Catering GmbH (formerly Gesellschaft für Medizinvertrieb und Consulting mbH)
  Kitchen and cafeteria services

The background and business objectives of the organisational concentration of functions relate to the realisation of specialisation and cost benefits. MediClin achieves cost degression effects (economies of scale) through the cross-clinic integration of services in segments such as purchasing. This eases the strain on clinic management and leads to more efficient allocation of resources at the clinics.

Employees

The average number of employees, calculated on the basis of full-time staff, was 5,252 (previous year: 5,248 full-time staff).

Shown in full-time employees	2006	2005	Change
Post-acute	3,399	3,438	– 39
Acute	1,599	1,596	+ 3
Nursing care	121	89	+ 32
Administration	133	125	+ 8
Group	**5,252**	**5,248**	**+ 4**

In the reporting year, revenues per full-time employee rose by EUR 1,481, and thus, significantly more sharply than average staff costs per full-time employee (EUR + 523) and bed (EUR + 577).

In €	2006	2005
Sales per full-time employee	72,067	70,586
Staff costs per full-time employee	40,465	39,942
Staff costs per bed	27,803	27,226

The Group employed an average of 117 trainees in 2006 (previous year: 115 trainees).

Segment reporting

MediClin was able to increase sales revenue in 2006 in all segments. The result improved in the post-acute and nursing care segments but dropped slightly below last year's level in the acute segment. The higher cost of materials and staff costs strained the result in all three segments. The share of sales in total revenue was allocated as follows: post-acute 56.8 % (previous year: 57.6 %), acute 40.9 % (previous year: 40.7 %) and nursing care 2.3 % (previous year: 1.7 %).

In millions of €	Sales			Segment result	
	2006	2005	Change in %	**2006**	2005
Post-acute	214.9	213.2	+ 0.8	– 1.7	– 2.3
Acute	154.9	150.8	+ 2.7	18.6	18.9
Nursing care	8.7	6.4	+ 35.9	– 0.2	– 0.5
Group	**378.5**	**370.4**	**+ 2.2**	**16.7**	**16.1**

Sales in the **post-acute segment** rose by 0.8 % or EUR 1.7 mill. The result improved by EUR 0.6 mill. to EUR – 1.7 mill. (previous year: EUR – 2.3 mill.). Sales in the post-acute segment include approximately EUR 1.0 mill. in revenues from the PlusPrograms developed for self-paying patients (previous year: approximately EUR 1.1 mill.).

In its **post-acute segment**, MediClin offers services in both the fields of 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	**2006**	2005	Change in %	Share 2006 in %
Subsequent nursing treatment	1,074,899	1,082,036	– 0.7	63.9
Curative treatment	513,588	503,491	+ 2.0	30.6
Other	93,007	86,828	+ 7.1	5.5
Post-acute segment	**1,681,494**	**1,672,355**	**+ 0.5**	**100.0**

The share of subsequent nursing treatment remained approximately constant at the same level as seen in 2005, with 64 % of all rehabilitative services in the post-acute segment. It accounts for the largest share of nursing days (previous year: 65 %).

Orthopaedics, neurology (including psychosomatics) and internal medicine are MediClin's three largest medical fields in the post-acute segment. Their share of the total average number of beds (5,922 beds) remained unchanged, in comparison to the previous year, at just under 82 %.

Yearly average of number of beds	2006	2005	Share 2006 in %
Orthopaedics	2,004	2,011	33.9
Neurology and psychosomatics	1,932	1,938	32.6
Internal medicine	913	933	15.4
Cardiology	454	454	7.7
Oncology	263	285	4.4
Other	356	367	6.0
Total	**5,922**	**5,988**	**100.0**

An annual average of 3,399 full-time staff was employed in the segment (previous year: 3,438 full-time staff). A total of EUR 6.5 mill. (previous year: EUR 4.4 mill.) was invested in the post-acute segment.

Sales in the **acute segment** rose by 2.7 % or EUR 4.1 mill. At EUR 18.6 mill., the result was slightly below the previous year's level (previous year: EUR 18.9 mill.).

Yearly average of number of beds	2006	2005	Share 2006 in %
Psychiatry	274	274	20.4
Orthopaedics	183	253	13.7
Internal medicine	203	206	15.2
Surgery	246	202	18.3
Other	435	433	32.4
Total	**1,341**	**1,368**	**100.0**

The medical psychiatry, surgery, internal medicine and orthopaedic departments are the largest units in the acute segment in terms of number of beds. They account for a 67.6 % share (previous year: 68.3 %). The acute segment is much more heterogeneous than the post-acute segment, with respect to its service offering.

An annual average of 1,599 full-time staff was employed in the acute segment (previous year: 1,596 full-time staff). A total of EUR 11.9 mill. (previous year: EUR 11.8 mill.) was invested in the segment.

In its second full financial year, the **nursing care segment** generated sales of EUR 8.7 mill. (previous year: EUR 6.4 mill.) and thus accounted for 2.3 % of consolidated sales. The segment result almost broke even at EUR – 0.2 mill.

An annual average of 121 full-time staff was employed in the nursing care segment (previous year: 89 full-time staff). Investments totalled EUR 0.4 mill. (previous year: EUR 0.3 mill.).

MediClin AG

The annual financial statements of MEDICLIN Aktiengesellschaft, Frankfurt am Main, were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch) and the special provisions of the German Stock Corporation Act (Aktiengesetz).

MediClin AG handles the functions arising in the Group within the framework of strategic corporate planning, strategic controlling, financing and acquisition and cooperation management. As a listed company, MediClin AG meets all the 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 for the reporting year. Other operating income of MediClin AG, totalling EUR 2.2 mill. (previous year: EUR 0.6 mill.), includes mainly capital gains from the sale of treasury stock amounting to EUR 1.6 mill. Other income relates to off-period income from the release of provisions (2006: EUR 0.4 mill.; 2005: EUR 0.2 mill.) as well as income from management services (2006: EUR 0.2 mill.; 2005: EUR 0.2 mill.). Staff costs decreased by EUR 0.1 mill. to EUR 1.9 mill. (previous year: EUR 2.0 mill.).

Other operating expenses to the amount of EUR 1.8 mill. (previous year: EUR 2.7 mill.) are mainly related to auditing and consultancy costs (2006: EUR 726 thou.; 2005: EUR 1,546 thou.), rent and leaseback (2006: EUR 268 thou.; 2005: EUR 307 thou.), insurance costs (2006: EUR 131 thou.; 2005: EUR 153 thou.), reporting and publication costs (2006: EUR 152 thou.; 2005: EUR 140 thou.), administration costs (2006: EUR 230 thou.; 2005: EUR 293 thou.) and other costs.

Income from participation amounting to EUR 9.8 mill. (previous year: EUR 14.0 mill.) relates mainly to advanced distribution concerning the annual results for 2006, of two subsidiaries.

Income from financial investments and similar income remained almost the same as the previous year at EUR 1.2 mill. (previous year: EUR 1.1 mill.), as did other interest and similar expenses of nearly EUR 5.5 mill. (previous year: EUR 5.5 mill.).

MediClin AG reported a net profit for the year of EUR 3.7 mill. in the 2006 financial year (previous year: EUR 3.2 mill.).

The number of staff was seven (calculated in full-time employees) on annual average (previous year: nine full-time staff).

Disclosures concerning the balance sheet and the schedule of fixed assets of MEDICLIN Aktiengesellschaft are provided in the annual financial statements and the notes to the annual financial statements of MEDICLIN Aktiengesellschaft.

Outlook

As in the previous years, the income structure of MediClin AG in 2007, will continue to depend on the economic development of the subsidiaries and thus also of the Group as a whole.

Report on compensation

The report on compensation is oriented towards the recommendations of the German Corporate Governance Codex and includes information which, pursuant to the requirements of the German Commercial Code extended by the Law on the Disclosure of Board Remuneration (VorstOG) 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, as from 1 January 2006. MediClin did not make use of the opting-out clause.

Management Board compensation

The General and Personnel committee is responsible for determining compensation for members of the Management Board and the annual profit-sharing bonus for the Management Board. In so doing, it orients itself to the enterprise's financial condition and the achievement of the defined goals.

The compensation of the Management Board is comprised of a fixed salary and a variable profit-sharing bonus determined by the General and Personnel committee, as well as shared-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 General and Personnel committee at the beginning of the financial year. Share-based compensation on the basis of a convertible bond was possible up to the end of November 2005. At present, there is no programme in place which permits shared-based compensation.

Compensation of the Management Board in the 2006 financial year totalled EUR 1.2 mill. (previous year: EUR 1.3 mill.) and was structured as follows:

In €	Dr. Ulrich Wandschneider	Frank Abele	**2006 Management Board (total)**	2005 Management Board (total)
Fixed remuneration	350,000	266,250	616,250	605,000
Variable remuneration inclusive change in provisions for variable remuneration	300,000	180,000	480,000	685,518
Share-based compensation	23,750	–	23,750	19,792
Pension commitment	17,000	17,000	34,000	34,000
Other remuneration components	9,104	10,046	19,150	1,523
Total	**699,854**	**473,296**	**1,173,150**	**1,345,833**

The Group also granted the Management Board shared-based compensation in the form of convertible bonds. The Management Board was given the right to acquire options to MEDICLIN Aktiengesellschaft shares within the context of the subscription of a convertible bond. The conversion rights granted are based on non-transferable convertible bonds of EUR 5.00 each, with a term of five years. Each convertible bond entitles the bond owner to conversion into five shares of stock for each EUR 5.00 convertible bond, at certain specified times of the year, following a 24-month waiting period. This entitlement is subject to the proviso that the share price upon conversion is at least 50 % above the defined conversion price. In addition, if the conversion right is exercised, a cash payment is to be made to the amount by which the shares' conversion price exceeds the prorated nominal amount of the bond to be converted.

The key data for the convertible bonds granted in 2005, as well as the accompanying option rights, are as follows:

Bond:	
Nominal interest	2.5 %
Term	22. 2. 2005 to 21. 2. 2010
Blocking period	22. 2. 2005 to 21. 2. 2007
Conversion price	EUR 1.88
of which cash payment	EUR 0.88
Price of MediClin share as of 31. 12. 2005	EUR 2.50
Price of MediClin share as of 31. 12. 2006	EUR 4.28 (closing price Xetra 29. 12. 2006)
Existing option rights as of 31. 12. 2006/2005	250,000
Exercisable option rights as of 31. 12. 2006/2005	0
Exercised option rights as of 31. 12. 2006/2005	0

Option:	
Expected volatility	38.60 %
Risk-free investment interest rate	2.00 %
Expected duration until execution	2 years
Present value per option right (5 ordinary shares each)	EUR 0.95
Total value	EUR 47,500.00

The Management Board received EUR 6 thou. (previous year EUR 5 thou.) in interest for the bond. The volatility of the shares on which it is based was calculated using the timeframe from 2003 to 2005. This resulted in a price range of between EUR 1.47 and EUR 2.70, with an average of EUR 1.95. The previous year was not included because of strong price fluctuations. Due to the share's low liquidity, weekly return intervals were applied.

The Management Board was granted a loan of EUR 250 thou. for purchasing the convertible bond. The loan is subject to 5.0 % interest p.a. and will be paid off upon conversion. It accrued interest of EUR 13 thou. (previous year: EUR 11 thou.).

MediClin assumes the social security pension fund policies concluded for the members of the Management Board as a result of corresponding retirement benefit guarantees. MediClin covers insurance payments of up to EUR 17 thou. respectively, including fees.

Other includes non-cash compensation from the provisioning of company cars, travel cost allowances and other reimbursement of costs incurred for job-related reasons.

The Management Board contracts do not contain an express guarantee of severance payment in the case of preliminary termination of the employment relationship. Severance payment may result from individual severance contracts, however.

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 Shareholders on 21 June 2000.

In addition to a fixed salary, compensation includes components linked to the Company's 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 not exceeding EUR 6,391.15. The Chairman of the Supervisory Board receives twice the amount of compensation. There is no additional compensation for the Vice Chairman, or for work performed within the scope of committees. Total compensation for 2006, including VAT, amounts to EUR 86,152.69 (previous year: EUR 87,558.66).

No performance-based (variable) compensation was paid in 2005 or 2006, since no dividends were distributed.

As in the 2005 financial year, there were no loans extended to members of the Supervisory Board in 2006. No advanced payments were made, nor were the members of the Supervisory Board paid for individual performance, in particular, consulting and mediation services, nor were they granted benefits.

Company risks

Risk factors and risk management

Under the provisions of the German Stock Corporation Act (AktG), the board of management of a stock corporation is required to set up an internal monitoring system.

Entrepreneurial activities are associated with risks. In order to minimise these risks, risk factors must be defined and a risk management system 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

Market

Demographic developments, such as a disproportionate number of old people and increased life-expectancy, and factors such as multi-morbidity, will have a decisive influence on future medical, technical and cost developments in the health care sector. Changes in the demands for stationary rehabilitative services are also to be expected. Curative procedures will continue to 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, case-based DRG rates and the financial deficit among the health insurance funds', will continue to have an impact on the further development of the health care system.

In the acute area, the case-based flat-fee system (DRG system) was introduced in 2003 and 2004, without any budget effects. Starting in 2005, basic case values specific to the individual clinics will be aligned to the basic case values of the federal states in a so-called conversion phase. The effects on MediClin's seven acute clinics 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 the German federal state level and rising competitive pressure, will lead to a change in the clinic market. MediClin is aligned to changing political conditions and legal requirements and is designing its health care structures concept accordingly.

Competition

The privatisation and consolidation process in the health care system will continue to accelerate and will lead to price pressure concerning the services offered.

MediClin's businss success mainly depends on whether the Company can react flexibly to legal changes, and actively adapt its 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 future. It also sees a possibility to achieve additional revenues and increases in income through services related to nursing care, self-payment programmes and the promotion of partnerships in connection with the integrated medical care model. This also applies to the clinics whose present earnings situation falls short of the defined targets. If, contrary to expectations, the noted improvements should not be realised, 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 only be offset through flexibilisation of internal operating procedures to a certain extent. MediClin has implemented a number of measures, which will reduce the break-even level of the individual clinics on the one hand, and increase occupancy rates through new service offers, on the other.

Risks resulting from the operation of clinics and the handling of patients are minimised through certified quality measures, and are an important element in risk provision and early identification of risks in the field of operation performance.

Financial risks

At present, there are no discernable currency risks or financing risks for the Group.

Risk management

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

Ensuring the quality of medical services and the optimisation of organisational structures are central functions of management. MediClin has introduced an extensive certification procedure at its clinics. This 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, which is continually reviewed to determine if updating is necessary. The risk inventory conducted in the 2006 financial year revealed no outstanding risks or agglomeration of individual risks.

Disclosures in accordance with Section 315 (4) and Section 289 (4) of the German Commercial Code (HGB)

MediClin AG's subscribed capital remained constant at 31,500,000 no-par value bearer shares. Provinzial Rheinland Lebensversicherung AG, ERGO Versicherungsgruppe AG and DKV Deutsche Krankenversicherung AG are direct participants in MediClin, with a share of over 10 %. There are no restrictions with regard to voting rights or transfer of shares. Ownership of shares is not associated with special rights or control entitlements. There was no authorisation to purchase treasury stock in 2006. The Management Board's scope of authority in regard to the issuing of shares is presented in detail in the notes under the section on equity. The provisions regarding the appointment and dismissal of members of the Management Board, as well as alteration of the Articles of Incorporation, correspond to the statutory regulations. There are no compensation agreements with the Management Board or the employees in the event of a change in control as the result of a takeover.

Events of special significance after the balance sheet date of 31 December 2006

There were no events of special importance after the balance sheet date.

Outlook

The findings of the ifo World Economic Survey (WES) from the first quarter of 2007, in cooperation with the International Chamber of Commerce (ICC) in Paris, indicate that the global economic climate improved in the first quarter of 2007, after slowing down slightly in the second half of 2006. It improved both in regard to assessment of the current economic situation as well as in terms of expectations for the next six months. The ifo World Economic Survey thus signalised that the global economy will remain robust in the first half of 2007. According to the survey, the current economic situation is viewed as more favourable in Germany, Austria and Belgium, in particular.

A positive mood attributable to good economic data could have a positive effect on the health care system in Germany, as long as the situation on the labour market improves as well. The health care reform, which will go into effect on 1 April 2007, will have only a marginal positive impact. The persistently strained budget situation of public budgets and coverage providers will continue fueling the consolidation process.

MediClin continued to improve its revenues and result in 2006. In terms of number of beds, the Group is one of the largest providers of rehabilitation services in Germany, and the only clinic operator to offer a relevant range of acute care facilities in addition to post-acute clinics. Moreover, the field of stationary nursing care has become an established supplementary business. The medical service offer is highly qualified, with emphasis on orthopaedics, psychosomatics/psychiatry and internal medicine, as well as special fields such as tinnitus or diabetes. The three medical care centres (Leipzig, Plau and Bad Düben) give MediClin access to the market for acute outpatient services and ensure occupancy of both acute and post-acute facilities at the sites.

The market for nursing care will continue to grow in importance due to the age structure developments in Germany. In the coming years, over 80-year-olds will be one of the most strongly growing population segments in Germany.

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

In 2007, the value added tax hike, the increase in staff costs as a result of the German Working Time Act (Arbeitszeitgesetz) and energy costs, which are expected to rise once again, will strain MediClin's earnings. The increase in costs can only be compensated for in part by the reduction of ancillary labour costs. We expect that the economy will continue its positive development in 2008. The result in 2008 will be strained by the increase in rental expenses, since the rental expenses relief is in effect from 2005 up to and including 2007. In addition, reorganisation measures for compensation of cost increases are being reviewed and could be associated with one-time expenditures in 2008.

The implementation of the planned corporate tax reform in 2008, would lead to non-cash tax expenses from the reassessment of deferred taxes in 2007. This would be offset, however, by lower tax expenses in the following years as a result of the lower tax rate.

In light of the general conditions and the framework established in the Group, MediClin believes that it is well equipped to capture additional market shares in the post-acute sector, and to facilitate external growth through acquisitions in the acute sector in the next two years. The nursing care segment will be expanded as opportunities arise, for instance when location optimisation is possible.

In 2007, we will focus, in particular, on opening up new sales channels, establishing attractive partnerships for integrated medical care and tapping the synergies in the Group. We will also continue to pursue the existing acquisition policy, oriented to networking and local market leadership.

For 2007, the Management Board expects to be able to achieve moderate growth in revenues and a result on a par with the 2006 financial year, despite budget cutbacks as a result of restructuring contribution in the acute segment and the expected cost increases in all areas.

MediClin AG

Frankfurt am Main, 1 March 2007

The Management Board

BERND SCHULZ Head of Group Controlling

GROUP CONTROLLING

Bernd Schulz has headed Group Controlling at MediClin since 2000, the year the Company made its IPO. Along with his staff he collects the figures of the individual facilities and the Group, and also processes the accumulated data in a continuous sequence of reports as well as for projects that need to be furnished at short notice.

AN ISOLATED FIGURE MEANS ABSOLUTELY NOTHING

What is the main job of controlling?
> In a nutshell: we make the Company transparent. Controlling supplies the corporate management with data, which facilitates running the Company. We interpret the results, advise the corporate managers and make sure that the figures from the individual facilities are prepared according to uniform standards. An isolated figure without any context does not mean anything all by itself. You need to know how it was generated and how it was computed. An ideal situation is if you can compare figures in the sense of benchmarking, or when developments can be observed over a period of several years. However, our tasks also include controlling without the "ling" – in other words, control. We see to it that the figures we receive and process are correct.

Which figures especially require interpretation?
> With data that refer to the past interpretation it is not difficult. Determining and explaining those figures that refer to the future is trickier. For example, we have to consider the likely cost development and occupancy of a hospital in our calculations. This presents a special challenge for me as controller. When I have forecast a positive development in a certain area and it actually happens, then this is both a success for the Company and for my staff and me.

What else makes working in controlling appealing?
> The reason that there are always new forms of questions alone makes controlling exciting. To be sure, many general conditions remain the same, for instance, when it comes to preparing a balance sheet. However, a company that wants to expand needs answers to very different questions than a company that is in the process of consolidating.

What are the highlights in the working year of a controller?
> In addition to the year-end report, this is the annual general meeting, that is to say, the work in the back office. You can never predict what questions the shareholders are going to ask us. We prepare for all kinds of questions beforehand so we are ready for anything.

Consolidated financial statements of MEDICLIN Aktiengesellschaft
for the 2006 financial year

Contents

Consolidated balance sheet as of 31 December 2006

ASSETS

	Appendix		31. 12. 2006 in €	Previous year in thousands of €
NON-CURRENT ASSETS				
Intangible assets	(1)			
Concessions, licences		1,022,570		648
Goodwill		45,014,226		46,764
Payments on account		66,462		150
			46,103,258	**47,562**
Property, plant and equipment	(2)			
Land, land rights and buildings including buildings on third-party land		89,981,087		92,228
Technical equipment and machines		4,145,535		3,942
Other equipment, operating and office equipment		12,562,272		11,720
Payments on account and assets under construction		13,947,806		13,386
			120,636,700	**121,276**
Other financial assets	(3)			
Investment in stock of subsidiaries		49,891		37
Other loans		278,219		266
			328,110	**303**
Other assets	(4)		**560,000**	**0**
Deferred tax assets	(5)		**11,425,301**	**12,938**
			179,053,369	**182,079**
CURRENT ASSETS				
Inventories	(6)		**4,658,814**	**4,530**
Trade receivables	(7)		**46,709,668**	**49,188**
Other assets				
Prepaid expenses		824,028		1,000
Receivables pursuant to hospital financing law	(8)	4,294,431		2,604
Other assets	(9)	3,795,435		2,179
			8,913,894	**5,783**
Cash and cash equivalents	(10)		**29,063,438**	**26,991**
			89,345,814	**86,492**
			268,399,183	**268,571**

EQUITY AND LIABILITIES

	Appendix		31. 12. 2006 in €	Previous year in thousands of €
EQUITY				
Subscribed capital	(11)	31,500,000		31,500
Capital reserve	(12)	106,679,586		105,020
			138,179,586	**136,520**
Revenue reserve	(13)	303,089		3,103
Consolidated balance sheet loss	(14)	– 40,043,498		– 52,353
Treasury stock	(15)	0		– 2,800
			– 39,740,409	**– 52,050**
Minority interests	(16)		1,786,500	1,680
			100,225,677	**86,150**
NON-CURRENT LIABILITIES				
Non-current liabilities				
Liabilities to banks and insurance companies	(17)	82,978,644		91,022
Bond issues	(18)	250,000		250
Other liabilities	(19)	1,999,618		2,337
			85,228,262	**93,609**
Provisions				
Provisions for pensions and similar commitments	(20)	15,597,527		14,425
Other provisions	(21)	10,730,251		12,019
			26,327,778	**26,444**
Deferred tax liabilities	(22)		**1,239,499**	**1,449**
			112,795,539	**121,502**
CURRENT LIABILITIES				
Trade payables			**12,392,928**	**10,971**
Other current liabilities				
Liabilities to banks	(23)	7,175,043		661
Liabilities pursuant to hospital financing law	(24)	11,804,240		11,345
Other liabilities	(25)	19,456,409		31,729
			38,435,692	**43,735**
Provisions	(26)		**1,657,500**	**2,144**
Tax liabilities	(27)		**2,891,847**	**4,069**
			55,377,967	**60,919**
			268,399,183	**268,571**

Consolidated profit and loss account

for the financial year from 1 January to 31 December 2006

	Appendix		Jan. – Dec. 2006 in €	Previous year in thousands of €
Sales	(28)	378,497,533		370,434
Other operating income	(29)	8,892,983		7,497
Total operating performance			**387,390,516**	**377,931**
Raw material and consumables used	(30)			
a) Cost of raw materials and supplies		– 47,745,884		– 46,179
b) Cost of purchased services		– 32,565,573		– 29,963
			– 80,311,457	**– 76,142**
Staff costs	(31)			
a) Wages and salaries		– 177,395,992		– 174,748
b) Social security, pension and retirement		– 35,127,555		– 34,868
			– 212,523,547	**– 209,616**
Depreciation and amortisation	(32)		– 8,530,571	– 7,077
Other operating expenses	(33)		– 69,301,714	– 69,000
Operating result			**16,723,227**	**16,096**
Financial result	(34)			
a) Other financial revenues		677,112		459
b) Other financial costs		– 6,228,870		– 6,925
			– 5,551,758	**– 6,466**
Result before tax			**11,171,469**	**9,630**
Taxes on income	(35)		– 1,555,711	– 1,854
Result after tax			**9,615,758**	**7,776**
Result attributable to minority interests			– 106,576	– 109
Result attributable to shareholders of MediClin			**9,509,182**	**7,667**
Earnings per share	(36)			
Earnings per share undiluted (in €)			0.30	0.26
Earnings per share diluted (in €)			0.30	0.25

Statement of changes in equity

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Treasury stock	Shares MediClin Group	Minority interests	Total equity
As of 1.1. 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 of 31.12. 2004	**31,500,000**	**105,000,000**	**3,102,817**	**– 60,019,859**	**– 2,799,728**	**76,783,230**	**1,570,686**	**78,353,916**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Treasury stock	Shares MediClin Group	Minority interests	Total equity
As of 1.1. 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 consolidation scope	–	–	–	–	–	–	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 of 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**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Treasury stock	Shares MediClin Group	Minority interests	Total equity
As of 1.1. 2006	31,500,000	105,019,792	3,102,817	– 52,352,408	– 2,799,728	84,470,473	1,679,924	86,150,397
Sale of treasury stock	–	1,636,044	– 2,799,728	2,799,728	2,799,728	4,435,772	–	4,435,772
Allocation to reserves for option rights	–	23,750	–	–	–	23,750	–	23,750
Total consolidated result	–	–	–	9,509,182	–	9,509,182	106,576	9,615,758
As of 31.12. 2006	**31,500,000**	**106,679,586**	**303,089**	**– 40,043,498**	**0**	**98,439,177**	**1,786,500**	**100,225,677**

Consolidated cash flow statement

	Jan. – Dec. 2006 in €	Jan. – Dec. 2005 in €
Operating result (EBIT)	**16,723,227**	**16,096,350**
Result of finance activities	– 5,551,758	– 6,465,977
Result of income taxes	– 1,555,711	– 1,854,470
Depreciation on fixed asset items	8,530,571	7,076,716
Change in non-current provisions	1,833,326	– 10,341,827
Change in current provisions	– 486,486	366,589
Result from the disposal of fixed asset items	– 39,875	– 38,608
Other non-cash income	23,750	19,792
Change in non-current assets (excl. fixed assets)	953,221	0
Change in current assets	– 780,870	– 1,732,231
Change in non-current liabilities	– 547,960	3,396,291
Change in current liabilities	– 11,568,558	11,001,515
Cash flow from operating activities	**7,532,877**	**17,524,140**
Payments received from the disposal of fixed assets	154,376	335,834
Payments received from investment subsidies	10,296,355	2,078,102
Cash used for investments in fixed assets	– 18,818,152	– 16,514,904
Cash flow from investing activities	**– 8,367,421**	**– 14,100,968**
Change in minority interests	0	785
Sales of treasury stock	4,435,772	0
Change in non-current finance liabilities	– 8,042,983	4,759,957
Change in current finance liabilities	6,514,474	626,992
Cash flow from financing activities	**2,907,263**	**5,387,734**
Cash flow for the period	**2,072,719**	**8,810,906**
Cash and cash equivalents at beginning of period	26,990,719	18,179,813
Cash and cash equivalents at end of period	**29,063,438**	**26,990,719**

Basics and methods

Basic information

MEDICLIN Aktiengesellschaft (MediClin) is active as a nationwide clinics operator. With 30 clinics, eight long-term care facilities and three medical care centres in eleven German federal states, MediClin currently offers an overall capacity of approximately 7,400 beds. The clinics are divided into acute-care hospitals for basic, standard and specialised care, as well as specialised clinics for medical rehabilitation. MediClin operates exclusively on the domestic market. The Company is registered in Germany and has been listed on the stock exchange since December 2000 (official market/Prime Standard). The place of business of the Company is in Frankfurt am Main. The head office of the clinics is at Okenstrasse 27, 77652 Offenburg.

The present notes were prepared for the consolidated financial statements of MEDICLIN Aktiengesellschaft, Frankfurt am Main, for the 2006 financial year. The underlying consolidated financial statements were approved by the Management Board on 1 March 2007. The consolidated financial statements and the consolidated management report have been published in the electronic German Federal Gazette (www.ebundesanzeiger.de; Bundesanzeiger Verlagsgesellschaft mbH, Cologne), pursuant to the German Law on the Electronic Commercial Register and the Company Register (EHUG).

The present consolidated financial statements were prepared in accordance with Section 315a (1) of the German Commercial Code (HGB), pursuant to the regulations of the International Accounting Standards Board (IASB) as valid in the EU on the balance sheet date, as well as the supplementary commercial provisions. The present consolidated financial statements were also prepared in accordance with the International Financial Reporting Standards (IFRS) as valid on the balance sheet date, including the International Accounting Standards (IAS) still in force and the supplementary interpretations of the International Financial Reporting Interpretation Committee (IFRIC) – formerly Standing Interpretations Committee (SIC). Standards and interpretations of the IASB, which were not yet obligatory for the 2006 financial year, have not been utilised.

As of 1 January 2006, new IFRS and revised IAS regulations, as well as new interpretations (IFRIC), are to be utilised:

- IFRS 1 (amended): First-time Adoptation of International Financial Reporting Standards
- IFRS 4 (amended): Insurance Contracts
- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IAS 19 (amended): Employee Benefits
- IAS 21 (amended): The Effects of Changes in Foreign Exchange Rates

- IAS 39 (amended): Financial Instruments: Recognition and Measurement
- IFRIC 4: Determining Whether an Arrangement Contains a Lease
- IFRIC 5: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitaton Funds
- IFRIC 6: Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

In the present financial statements, the Company has utilised the relevant standards and interpretations (IAS 19, 39, IFRIC 4), applicable from 1 January 2006. Otherwise, the same financial accounting standards have been used as in the 2005 consolidated financial statements. No substantial effects or changes in the accounting principles have resulted from the application of the new and existing revised IAS standards and interpretations.

With the application of the reporting and evaluation methods stated by the IFRS and IFRIC, the Company was forced to make numerous **estimates** and **assumptions,** which relate to future business and, naturally, do not necessarily correspond with the conditions that will occur at a later date. All underlying estimates and assumptions undertaken in the context of the reporting and evaluation will, however, be re-examined on a regular basis and are based either on historical experiences and/or on expectations regarding the occurrence of future events, which appear reasonable from a commercial viewpoint under the given circumstances.

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 the present point of view, changes in 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 receivables pursuant to the Hospital Financing Law, the active deferred taxes on loss carried forward, 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.

The financial and assets position of MediClin AG is subject to risks and uncertainties. All factors that influence the future financial and assets position, and thereby could possibly cause a divergence from expectations, include, among other factors: changes to the legal framework conditions, budget cuts or changes in the hospital requirements planning within social insurance agencies, cost increases in the area of personnel and materials, the entrance of new competitors or consolidation processes with existing competitors, decreases in patient occupancy rates due to seasonal fluctuations, and substantial legal proceedings, as well as further structural changes in the health care market.

All assumptions and estimates are based on the conditions and assessments as of the balance sheet date. Moreover, expectations regarding future business development have taken into account assumptions of future developments of the economic environment in the industry sector as well as the regions in which the Group is engaged, which appeared to be realistic at the 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 were expected. Accordingly, from the present point of view, no significant adjustment to the book values of reported assets and debts is to be expected for the 2007 financial year.

The consolidated financial statements are prepared in euro currency. All amounts are stated in thousand euros (EUR thou.) to the extent not otherwise specified. Within the individual components of the consolidated financial statements, as well as for data specified in the notes, rounding-off differences may result due to figures with decimal places. The designated amounts correspond in each case to the rounded-off amount.

Derivative financial instruments do not exist. 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.

Consolidation principles

Consolidated companies

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 the 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.

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, Müritz-Klinikum Service GmbH and Medusplus GmbH. The three companies were not consolidated and they were not valued at equity due to their immaterial importance for the Group. The three companies continue to be reported at their acquisition costs.

Medusplus GmbH was founded in December 2006. The share capital amounts to EUR 25,000.00, of which EUR 12,750.00 (51.0 %) is allotted to MediClin.

The fully consolidated subsidiaries included in the consolidated financial statements are listed together with their respective participation quota under the table "Shareholdings 2006".

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, audit and publish their annual financial statements in accordance with the provisions defined for corporations and certain commercial partnerships.

Shareholdings 2006

Companies included in the consolidated financial statements	Percentage of shares held
MediClin AG, Frankfurt a. M.	
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	100.000
Reha-Klinik GmbH & Co. KG Soltau, Soltau	100.000
Krankenhaus am Crivitzer See GmbH, Crivitz	69.000
Alphamed Klinik GmbH & Co KG, Offenburg	100.000
Müritz-Klinikum GmbH, Waren	94.020
MVZ-Müritz GmbH, Waren	94.020[1]
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co KG, Essen	100.000[1]
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen	100.000[1]
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	100.000[1]
KB Krankenhausbeteiligungsgesellschaft mbH & Co KG, Essen	100.000
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Essen	100.000
MediClin Pflege GmbH, Offenburg	100.000[1]
MediClin GmbH, Offenburg	100.000
Cortex Software GmbH, Offenburg	100.000[2]
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	100.000[1]
MC Catering GmbH, Offenburg (formerly Gesellschaft für Medizinvertrieb und Consulting mbH, Offenburg)	100.000[1]
MediLog GmbH, Offenburg	100.000[1]
MC Pharma GmbH, Bonn	100.000
MediClin Immobilien Verwaltung GmbH, Offenburg	100.000[1]

Companies not included in the consolidated financial statements	Percentage of shares held
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz	47.769[1]
Medusplus GmbH, Essen	51.000[1]
Müritz-Klinikum Service GmbH, Waren	47.950[1]

Other investment in stock of subsidiaries	Percentage of shares held
Institut für Tinnitus Forschung und Therapie GmbH	12.500[1]

[1] Indirect participation
[2] Of which indirect participation 62.353 %

Consolidation principles

The consolidation of investment in subsidiaries is carried out based on the purchase method, in which MEDICLIN Aktiengesellschaft sets off the acquisition values of shares in affiliated companies against the equity capital shares attributable to it at the date of acquisition. The debit balances resulting from these settlements are stated as goodwill on the assets side if the subsidiary's current value is greater than the book value. Goodwill resulting from initial consolidations is reported as intangible assets. 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 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", pursuant to IAS 36. Goodwill resulting from the purchase of further shares in already fully consolidated subsidiaries is also reported as intangible assets.

Receivables and liabilities between consolidated Group companies, as well as expenses and income from mutual service and supply transactions, were eliminated. Transactions with companies in which a minority stake exists are treated as transactions with parties external to the Group.

Accounting and valuation principles

The companies included in consolidated financial statements 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 regulations.

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).

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 form the previous HGB accounts and reviewed with respect to impairment at that date. Goodwill regularly amortised under HGB regulations has been carried forward as of 1 January 2004, pursuant to the IFRS 1 transition regulations, by deducting the accumulated depreciation from the previous acquisition costs, and the regular amortisation has been terminated.

The value of goodwill is reviewed every year as of 31 December, based on the underlying cash-generating units (CGU) using the discounted cash flow method. CGUs are regularly defined as business premises (clinics/facilities) that use a separate company code.

In this process, the expected cash flows from the latest management planning are used as a basis, adjusted for assumptions on the development of the business results and discounted with the capital costs of the unit, allowing for an alternative interest charges of 8.5 %. Based on a detailed planning for one year, a projection is carried out for the following two years. Starting from the fourth subsequent year, it is assumed that the composition of the profit and loss calculation for these years is no longer predictable in detail. The calculation of cash values is based on the formula of perpetuity, in which a typical composition is based on the projected profit and loss calculation. The interest rate remains unchanged for this process. Indications of a depreciation in value are taken into account by recording respective, non-scheduled amortisation on the recoverable amount. This planning is based on past experience as well as on expectations concerning future market development. This procedure is utilised for all the business premises.

Property, plant and equipment, as well as intangible assets, are stated at acquisition costs plus non-deductible value added tax, net of acquisition cost deductions and less scheduled depreciation and amortisation. Borrowing costs are not capitalised.

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

Concessions, industrial property rights 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

Depreciation concerning technical equipment and machines, as well as business and office equipment, is based on the useful life expectancy under application of the straight line method. Contrary to this method, for technical equipment and machines, designated medical technology equipment is depreciated using the declining balance method, if the projected respective amounts are in excess of those achieved when applying the straight line method.

Non-scheduled depreciation and 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. A verification of the recoverability will be carried out upon good cause shown.

In contrast to IAS 16, property, plant and equipment with acquisition costs up to a value of EUR 410.00 in each individual case are fully depreciated for the year of acquisition and not over the useful life expectancy. The amount of such depreciations at MediClin is negligible. These amounts are disclosed in the notes to the profit and loss account under depreciation and amortisation.

State allocations mainly relate to grants received in accordance with the Hospital Financing Act (KHG) and under respective state hospital regulations. They are reported as receivables pursuant to the Hospital Financing Act at the actual cash value, if it can be reasonably assumed that the allocations will be granted. This is generally recorded at the time of the incoming subsidy grant notification. Allocations which have not yet been adequately used are recorded under other current liabilities.

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, for example, from the refinancing of formerly self-financed investments from pervious years, is not netted with depreciation in the profit and loss account, but disclosed under other operating income. **Subsidies for running costs** are included in accordance with the accruals concept.

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.

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. On the basis of criteria in accordance with IAS 17.10 and IAS 17.11, an examination of the real estate leased on a long-term basis from a real estate company led to the result that no financing leasing is currently in effect. Finance leasing is assumed, among other situations, if the cash 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. A present value test concerning the real estate leased 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 on a straight line basis. Reductions in the rent, or the waiving of rent granted by lessor, 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. In accordance with IAS 17.33, a deviation from the method of straight line lease payments over the entire contract term was possible, because another systematic distribution was more appropriate and suitable for the lessee.

To the extent that 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.

Financial instruments encompass, first and foremost, liquid assets, receivables and current and non-current liabilities. Loans and receivables are non-derivative financial assets with fixed or assignable payments, which are not listed on an active market. They develop once the Company makes money, goods or services directly available to a debtor, without the intention of negotiating on these receivables. They are assigned to current assets, in as far as their maturity does not lie any more than twelve months after the balance sheet date. The latter are recorded as non-current assets. The book values of the current financial assets and the current liabilities essentially correspond to their present values.

Receivables are specified as the respective amounts at the current market value; due to their short-term nature, receivables are evaluated as non-interest bearing at depreciated acquisition costs. When uncertainty about collectability arises, a lump-sum allowance for bad debts is recorded; the respective amounts are recorded as an expense, rather than as an adjustment of the amount of revenue originally recognised.

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 account credits drawn upon are disclosed under short-term debt as liabilities to banks.

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.

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 normally recorded for temporary differences between the values according to IFRS and tax values. 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. Under consideration of the current business results and company planning, these are only capitalised to the extent that their realisation seems secured. The tax rate applied for deferred tax assets and tax liabilities is 26.375 % (25 % corporation tax plus 5.5 % solidarity surcharge). Tax accruals and deferrals on the assets side and on the liabilities side are recorded as separate entries.

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. 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. 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.

Operating expenses are charged to expenditure at the time of the provision of services or their cause. In essence, 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, losses from the sale of non-current assets and other off-period expenses are recorded under **other operating expenses.**

Notes to the consolidated cash flow statement

The consolidated cash flow statement was prepared using the indirect method, in accordance with IAS 7, and broken down in to three main sections: 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. During the financial year, the statement of the cash flow from investing activities was changed from the net to the gross method. This means that investment subsidies accrued in the reporting year will be completely booked as net cash and set against the full investments. The previous year's figures have been adjusted to this method of reporting.

The cash flow from operating activities decreased by EUR 10.0 mill., from EUR 17.5 mill. in 2005, to EUR 7.5 mill. in the reporting year. This is due to settlement payments at the beginning of the year to the former limited partners of the Hurrle Group, which led to a corresponding reduction of current liabilities. The increase in the non-current provisions includes EUR 1.2 mill. for the allocation of the provisions for pensions and similar commitments. Furthermore, this includes interest received totalling EUR 0.7 mill. and interest paid totalling EUR 6.2 mill. Tax payments amounted to EUR 2.2 mill. following tax refunds.

The cash flow from investing activities decreased by EUR 5.7 mill. to EUR – 8.4 mill. (previous year: EUR –14.1 mill.). The investments of EUR 8.4 mill. remaining after the deduction of subsidies could be fully financed from the depreciation and amortisation of EUR 8.5 mill. The remaining net cash used in investing activities relates to EUR 1.1 mill. net cash used for the acquisition of intangible assets, as well as EUR 7.3 mill. net cash used for the acquisition of property, plant and equipment.

The cash flow from financing activities amounted to EUR 2.9 mill. in 2006. This inflow of funds is primarily a result of net cash provided by the sale of treasury stock at the beginning of 2006 (EUR 4.4 mill.) and by net loan repayments (EUR 1.2 mill.). The changes of non-current and current liabilities include EUR 6.8 mill. for the reclassification of redemption payments expected in the coming twelve months from non-current to current.

Cash and cash equivalents at the end of the period improved by EUR 2.1 mill. to EUR 29.1 mill. (previous year: EUR 27.0 mill.).

Segment reporting

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 in IAS 14, the segment is to be defined as a primary reporting format, which mainly influences the risk and return on equity of a company.

MediClin AG provides services in the field of medical rehabilitation (subsequent nursing treatment and curative treatment), hospital services and nursing care services and has, therefore, 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 AG.

In all, the following companies are subsumed under the administrative area: Alphamed Klinik GmbH & Co KG, Offenburg Branch, MediClin GmbH, Cortex Software GmbH, MC Catering GmbH (formerly Gesellschaft für Medizinvertrieb und Consulting mbH), MediLog GmbH and MediClin Immobilien Verwaltung GmbH, MediClin AG.

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. 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 millions of €	January – December 2006				January – December 2005			
	Post-acute	**Acute**	**Nursing care**	**Total**	Post-acute	Acute	Nursing care	Total
Sales	214.9	154.9	8.7	**378.5**	213.2	150.8	6.4	**370.4**
Thereof total sales	218.5	157.3	8.8	**384.7**	216.4	152.8	6.4	**375.6**
Thereof internal sales	3.7	2.4	0.0	**6.2**	3.2	2.0	0.0	**5.2**
Segment result	**– 1.7**	**18.6**	**– 0.2**	**16.7**	**– 2.3**	**18.9**	**– 0.5**	**16.1**
There of non-cash items:								
Scheduled depreciations/write-ups	4.7	9.7	0.4	**14.8**	4.5	10.2	0.4	**15.1**
Unscheduled depreciations/write-ups	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
Release of special item	0.0	– 6.3	0.0	**– 6.3**	0.0	– 8.1	0.0	**– 8.1**
Allowance	0.2	0.2	0.0	**0.4**	0.1	0.4	0.0	**0.5**
Allocation of provisions/liabilities	6.4	5.2	0.2	**11.8**	6.9	6.5	0.1	**13.5**
Release of provision	1.9	1.7	0.0	**3.6**	0.7	0.4	0.0	**1.1**
Operational assets	102.6	124.6	0.7	**227.9**	134.6	93.5	0.6	**228.7**
Non-operational assets	–	–	–	**40.5**	–	–	–	**39.9**
Assets	**102.6**	**124.6**	**0.7**	**268.4**	**134.6**	**93.5**	**0.6**	**268.6**
Operational liabilities	50.3	22.9	0.4	**73.6**	58.0	26.6	0.4	**85.0**
Non-operational liabilities	–	–	–	**94.6**	–	–	–	**97.4**
Liabilities	**50.3**	**22.9**	**0.4**	**168.2**	**58.0**	**26.6**	**0.4**	**182.4**
Gross capital expenditure	6.5	11.9	0.4	**18.8**	4.4	11.8	0.3	**16.5**

Therefrom investments in the post-acute sector of EUR 0.3 mill. (previous year: EUR 0.2 mill.) were financed by subsidies and in the acute sector EUR 10.0 mill. (previous year: EUR 1.9 mill.) respectively.

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 solely on the German market which, due to uniform legal regulations that are valid for all federal states, presents a 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 met.

Notes to the MEDICLIN AG consolidated balance sheet

Non-current assets

(1) Intangible assets

In thousands of €	Concessions, licenses	Goodwill	Payments on account	Total
Acquisition costs as at 1.1.2005	6,485	79,828	117	**86,430**
Additions	56	245	47	**348**
Reclassifications	38	0	– 14	**24**
Disposals	0	5,107	0	**5,107**
Acquisition costs as at 31.12.2005	**6,579**	**74,966**	**150**	**81,695**
Cumulated depreciation as at 1.1.2005	5,304	28,157	0	**33,461**
Change in value because of revaluation	0	45	0	**45**
Scheduled depreciation	627	0	0	**627**
Disposals	0	0	0	**0**
Cumulated depreciation as at 31.12.2005	**5,931**	**28,202**	**0**	**34,133**
Balance sheet value 31.12.2005	**648**	**46,764**	**150**	**47,562**
Acquisition costs as at 1.1.2006	6,579	74,966	150	**81,695**
Additions	683	200	208	**1,091**
Reclassifications	291	0	– 291	**0**
Disposals	103	1,950	0	**2,053**
Acquisition costs as at 31.12.2006	**7,450**	**73,216**	**67**	**80,733**
Cumulated depreciation as at 1.1.2006	5,931	28,202	0	**34,133**
Change in value because of revaluation	0	0	0	**0**
Scheduled depreciation	600	0	0	**600**
Disposals	103	0	0	**103**
Cumulated depreciation as at 31.12.2006	**6,428**	**28,202**	**0**	**34,630**
Balance sheet value 31.12.2006	**1,022**	**45,014**	**67**	**46,103**

Internally developed intangible assets are not in existence.

Of the goodwill disclosed, a total of EUR 41.0 mill. (previous year: EUR 42.9 mill.) is attributable to debit differences from capital consolidation. The additions to goodwill relate to the doctors' practice value of the MVZ Leipzig medical supply centre. The goodwill disposals result from the disposal of subsequent acquisition costs concerning the investment in the Hurrle Clinic Group in 1998. The 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 agreements 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 significant book values of the goodwill assigned to the cash-generating units (permanent establishments) are related to four acute clinics. There was no need for an impairment of value in the financial year.

(2) Property, plant and equipment

In thousands of €	Land, land rights including buildings on third party land	Technical equipment and machines	Other equipment, operating and office equipment	Payments on account and assets under construction	**Total**
Acquisition costs as at 1.1.2005	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**
Acquisition costs as at 31.12.2005	**117,495**	**17,291**	**84,813**	**13,398**	**232,997**
Cumulated depreciation as at 1.1.2005	23,285	13,209	70,132	12	**106,638**
Change in value because of revaluation	0	0	0	0	**0**
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 31.12.2005	**92,228**	**3,942**	**11,720**	**13,386**	**121,276**
Acquisition costs as at 1.1.2006	117,495	17,291	84,813	13,398	**232,997**
Additions	651	177	4,683	1,828	**7,339**
Reclassifications	442	519	301	– 1,262	**0**
Disposals	0	292	1,396	4	**1,692**
Acquisition costs as at 31.12.2006	**118,588**	**17,695**	**88,401**	**13,960**	**238,644**
Cumulated depreciation as at 1.1.2006	25,267	13,349	73,093	12	**111,721**
Change in value because of revaluation	0	0	0	0	**0**
Scheduled depreciation	3,340	492	4,098	0	**7,930**
Disposals	0	292	1,352	0	**1,644**
Cumulated depreciation as at 31.12.2006	**28,607**	**13,549**	**75,839**	**12**	**118,007**
Balance sheet value 31.12.2006	**89,981**	**4,146**	**12,562**	**13,948**	**120,637**

Additions to property, plant and equipment relate to extensive reconstruction measures in four clinics totalling EUR 2.2 mill. Expenditures of EUR 1.0 mill. were made for the modernisation and extension of IT and telecommunication facilities. EUR 0.4 mill. was invested in the extension of nursing care facilties and in the renewal of kitchens, respectively.

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 and amortisation. The item largely relates to purpose-bound funds granted pursuant to the Hospital Financing Act; the depreciated book value is EUR 87.6 mill. (previous year: EUR 83.6 mill.). Additions to subsidised assets amount to EUR 10.4 mill. (previous year: EUR 2.1 mill.). Depreciation and amortisation were reduced by the deduction of subsidies totalling EUR 6.3 mill. (previous year: EUR 9.0 mill.) of the acquisition costs. Circumstances do not exist which would give rise to the repayment of subsidies.

(3) Other financial assets

Other financial assets primarily relate to receivables from related parties totalling EUR 273 thou. (previous year: EUR 261 thou.).

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 item relates to a loan extended to the Management Board (EUR 250 thou.) and interest accrued up to the balance sheet date (EUR 23 thou.; previous year: EUR 11 thou.). 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 fair value of the loan.

The **investments in stock of subsidiaries** relate to shareholdings in the Institut für Tinnitus Forschung und Therapie GmbH (EUR 6 thou.), the KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH (EUR 18 thou.), the Müritz-Klinikum Service GmbH (EUR 13 thou.) and the Medusplus GmbH (EUR 13 thou.).

(4) Other assets

This item relates to the discounted receivable from the payment of the remaining corporation tax credit, resulting due to the switch from the imputation system to the “half-income” rule. In accordance with the German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules (SEStEG), the receivables from the credit are to already be capitalised in the annual financial statement to 31.12. 2006. The payment of the corporation tax credit occurs over a payment period from 2008 to 2017, using a discount rate of 4.25 %.

(5) Deferred tax assets

Deferred tax assets 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 tax assets are not to be discounted. The relevant tax rate is 26.375 % (corporation tax, solidarity surcharge).

They result from:

In thousands of €	Difference		Tax	
	31.12. 2006	31.12. 2005	**31.12. 2006**	31.12. 2005
Pension obligation	15,399	14,196	4,061	3,744
Tax loss carried forward	26,351	31,780	6,950	8,382
Interim profits of non-current assets	1,425	1,110	376	293
Current liabilities	144	1,970	38	520
			11,425	**12,939**

The Company calculated preliminary losses carried forward of EUR 37.1 mill. in 2006 (previous year: EUR 47.6 mill.). The resulting deferred tax assets are capitalised only to the extent that realisation is sufficiently certain. The amount of losses carried forward for which no deferred tax assets are reported was adjusted from EUR 15.8 mill. to EUR 10.7 mill., as a result of preliminary Company audit results and consumption of the financial year being taken into account.

Current assets

(6) Inventories

Raw materials and supplies totalling EUR 3.7 mill. (previous year: EUR 3.5 mill.) are largely attributable to inventories concerning medical supplies.

(7) Trade receivables

In thousands of €	31.12.2006	31.12.2005
Receivables stock	49,388	52,184
Allowance	– 2,678	– 2,996
Disclosure	**46,710**	**49,188**
thereof from receivables not yet charged	13,518	13,391
thereof from related-party disclosures	0	0

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. Receivables not yet charged relate to work in process on patients whose treatment was not yet invoiced to the cut-off date.

(8) Receivables pursuant to hospital financing law

In thousands of €	31.12. 2006	31.12. 2005
Receivables stock	5,043	3,214
Allowance	– 749	– 610
Disclosure	**4,294**	**2,604**

Receivables in terms of the hospital financing law relate to claims according to the hospital financing law 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 a total of EUR 18.4 mill. (previous year: EUR 25.0 mill.) associated with promised investment grants, pursuant to Section 9 of the hospital financing law, were set off against the corresponding liabilities.

(9) Other assets

In thousands of €	31.12. 2006	31.12. 2005
Receivables stock	3,795	2,179
Allowance	0	0
Disclosure	**3,795**	**2,179**
thereof from related-party disclosures	1,095	40

This item discloses financial assets, which are stated at depreciated acquisition costs. Value adjustments to account for recognisable risks were not accumulated. The residual term of the receivables is less than one year. The amounts reported are approximately equal to the present value. Receivables from related companies and parties relate to repayment claims against Oppenheim Immobilien KAG, from the preliminary financing of clinic expansions through MediClin AG.

(10) Cash and cash equivalents

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

Equity

(11) 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 and is paid up in full.

Authorised capital
By resolution of the Annual General 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 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 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 Annual General 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 up to EUR 7,875,000.00, through the one-time or repeated issuance of up to 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 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 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 than 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 Annual General 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 EUR 5.00 per convertible bond, entitle the holder to purchase five shares in the Company per convertible bond. In order to purchase as 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.

In the 2005 financial year, 50,000 convertible bonds were issued. Following a two-year blocking period, these convertible bonds entitle their holders to purchase 250,000 MediClin AG no-par value bearer shares. In accordance with Section 9 (2) of the issuing terms, the conversion right may also be exercised through treasury stock rather than through the issue of new shares.

(12) Capital reserve

In thousands of €	31.12.2006	31.12.2005
Capital reserve pursuant to Sect. 272 (2) No. 1 HGB and Sect. 150 AktG	105,000	105,000
Reserve pursuant to IFRS 2	44	20
Gains from the sale of treasury stock	1,636	0
	106,680	**105,020**

The capital reserve includes the amount achieved beyond the nominal amount of shares issued. The increase in equity capital from the issue of a convertible bond was added in accordance with IFRS 2. Additional details concerning the benchmark data on the convertible bond and options rights are in the chapter on 'Other disclosures' under 'Report on compensation'. The sale of treasury stock was recorded in the first quarter of 2006.

(13) Revenue reserve

The consolidated revenue reserves are structured as follows:

In thousands of €	31.12.2006	31.12.2005
Legal reserve pursuant to Sect. 150 AktG	2,045	2,045
– Result of the first IAS consolidation	– 1,742	– 1,742
+ Reserve for treasury stock pursuant to Sect. 272 (4) HGB	0	2,800
	303	**3,103**

Following the sale of treasury stock at the beginning of 2006, the reserve for treasury stock was released.

(14) Consolidated balance sheet loss

The consolidated balance sheet loss developed as follows:

In thousands of €	31.12.2006	31.12.2005
Loss carried forward	– 52,352	– 60,019
Release of reserve for treasury stock	2,800	0
Result after tax	9,509	7,667
Consolidated balance sheet loss	**– 40,043**	**– 52,352**

(15) Treasury stock

Treasury stock was sold at the beginning of the year. The resulting earnings were added to the capital reserve.

(16) Minority interests

Interests of other shareholders totalling EUR 1.8 mill. (previous year: EUR 1.7 mill.) include shares of outside parties in the equity capital of the following consolidated subsidiaries:

Percentage of minority interests

In %	31.12.2006	31.12.2005
Krankenhaus am Crivitzer See GmbH, Crivitz	31.000	31.000
Müritz-Klinikum GmbH, Waren	5.080	5.080

Non-current liabilities

(17) Liabilities to banks and insurance companies

In thousands of €	31.12. 2006	31.12. 2005
Liabilities to banks	21,624	29,667
Liabilities to insurance companies	61,355	61,355
	82,979	**91,022**
thereof to related companies and parties	61,355	61,355

Liabilities to banks are as follows:

In thousands of €	31.12. 2006	31.12. 2005
Liabilities to banks	28,421	29,667
less current repayment share	6,797	–
	21,624	**29,667**

Loan repayments that are expected to be due in the next 12 months were allocated to current liabilities to banks.

Of the liabilities to banks, a total EUR 17,254 thou. (previous year: EUR 18,888 thou.) is secured through real property liens (book value: EUR 38,318 thou.). Interest rates were between 0.8 % and 7.10 %. Based on the full loan amount, interest paid totalled EUR 1,307 thou. (previous year: EUR 1,455 thou.), which averages out to an annual interest rate of 4.5 % (previous year: 5.3 %).

Liabilities to insurance companies represent maturity loans with fixed-interest rates to three insurance companies, which themselves are shareholders or subsidiaries of shareholders of the Company. Collateral for these loans exist in the form of a pledge of shares in an affiliated company (book value: EUR 161,971 thou.). 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 paid totalled EUR 4,233 thou. (previous year: EUR 4.233 thou.).

Interest and loan repayments on non-current liabilities are as follows:

In thousands of €	Total	1 year or less	more than 1 year
Interest on bank loans	6,603	1,258	5,345
Interest on insurance loans	6,704	4,234	2,470
	13,307	**5,492**	**7,815**
Thereof to related companies and parties	6,704	4,234	2,470

In thousands of €	Total	1 year or less[1]	more than 1 year
Bank loan repayments	28,421	6,797	21,624
Insurance loan repayments	61,355	0	61,355
	89,776	**6,797**	**82,979**

[1] For information only

(18) 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 EUR 250 thou., the amount does not significantly deviate from the fair value, despite the lower rate of interest. This item represents a liability to related parties.

(19) Other liabilities

In thousands of €	31.12. 2006	31.12. 2005
Loans from social insurance for occupational accidents	226	334
Loans from public corporations	1,773	2,003
	1,999	**2,337**

This item relates to five loans granted by the employers' liability insurance companies and two loans extended by public corporations. Interest paid totalled EUR 64 thou. (previous year: EUR 58 thou.).

Other liabilities are as follows:

In thousands of €	31.12.2006	31.12.2005
Other liabilities	2,174	2,337
Less current repayment share		
Loans from social insurance for occupational accidents	55	0
Loans from public corporations	120	0
	1,999	**2,337**

Future interest and loan repayments resulting from these are as follows:

In thousands of €	Total	1 year or less	more than 1 year
Interest on loans from social insurance for occupational accidents	31	11	20
Interest on loans from public corporations	303	38	265
	334	**49**	**285**

In thousands of €	Total	1 year or less[1]	more than 1 year
Repayments on loans from social insurance for occupational accidents	281	55	226
Repayments on loans from public corporations	1,893	120	1,773
	2,174	**175**	**1,999**

[1] For information only

Provisions

(20) Provisions for pensions and similar commitments

In thousands of €	31.12. 2006	31.12. 2005	31.12. 2004
Provident fund	15,342	14,164	13,189
Others	256	261	258
	15,598	**14,425**	**13,447**

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 pensions 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 discount rate of 4.25 % (2005: 4.25 %; 2004: 4.75 %). The annual rate of pension increases at the companies is assumed to be 1.5 %. Expected income from plan assets is determined by applying an interest rate of 4.19 % (2005: 3.38 %; 2004: 2.72 %). These interest rates are estimated at the beginning of the year, whereby the real income of the previous year of MAUK is accounted for. 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 time (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, fair value of plan assets and net pension provision:

In thousands of €	2006	2005	2004
Actuarial defined benefit obligation as at 31.12.	23,795	23,130	19,239
Plan assets as at 31.12.	– 1,384	– 1,598	– 1,754
Funded status	**22,411**	**21,532**	**17,485**
Unamortised net loss	– 7,069	– 7,368	– 4,296
Defined benefit liability as at 31.12.	**15,342**	**14,164**	**13,189**

The table below shows the change in the present value of the total commitment in the years 2005 and 2006:

In thousands of €	2006	2005	2004
Actuarial defined benefit obligation as at 1.1.	23,130	19,239	14,275
Interest cost	983	914	856
Benefit payments	– 218	– 196	– 189
Settlement rate of benefit payments	– 4	– 4	– 6
Actuarial result from non-disclosure	– 96	3,177	4,303
Market value of the defined benefit obligation as at 31.12.	**23,795**	**23,130**	**19,239**

The pertaining plan assets developed as follows:

In thousands of €	2006	2005	2004
Plan assets at fair value as at 1.1.	1,598	1,754	1,885
Expected return	67	60	51
Benefit payments	– 218	– 196	– 189
Expected value of assets	**1,447**	**1,618**	**1,747**
Actuarial result of fiscal year according to assets	– 63	– 20	7
Market value of assets as at 31. 12.	**1,384**	**1,598**	**1,754**

The actual benefit payments were EUR 258 thou. in 2006 (2005: EUR 228 thou.; 2004: EUR 194 thou.).

Pursuant to Section 12 of the Byelaws of MAUK e.V., the assets are to be invested profitably. Interest received totalled EUR 47 thou. (2005: EUR 43 thou.; 2004: EUR 57 thou.).

Overview of the composition of the plan assets to the cut-off date:

In %	31. 12. 2006	31. 12. 2005
Real estate funds	5.20	4.50
Fixed income funds	15.00	20.70
Money market funds	6.70	13.10
Equity funds	4.30	6.50
Umbrella funds	5.60	4.90
Fixed interest securities	23.60	23.70
Fixed deposits	21.70	18.80
Current accounts	17.90	7.80
Plan assets	**100.00**	**100.00**

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

In thousands of €	2006	2005	2004
Settlement rate of current service cost	0	0	0
Interest cost	983	914	856
Return of plan assets	– 67	– 60	– 51
Expected settlement rate of benefit payments	– 4	– 4	– 6
Amortisation cost of actuarial result	266	125	0
	1,178	**975**	**799**

The total pension expense is posted to personnel expenses.

Other pension commitments

In thousands of €	as at 1. 1. 2006	Additions	Consumption	Reversal	as at 31. 12. 2006
Other pension provisions	374	43	25	0	392
Claim from reinsurance cover	– 113	– 23	0	0	– 136
	261	**20**	**25**	**0**	**256**

Other pension provisions relate to pension commitments for six other individuals, two of whom are already recipients of retirement benefits. The respective amount was EUR 25 thou. in the reporting year (previous year: EUR 25 thou.).

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 11.1 years. The present value of the total commitment calculated according to this method totals EUR 225 thou. (previous year: EUR 122 thou.). A total of EUR 43 thou. (previous year: EUR 48 thou.) was added. Of this, a total of EUR 136 thou. (previous year: EUR 113 thou.) was deducted as an insurance claim from reinsurance cover. There are no substantial unrealised insurance-based gains or losses.

The fair value of a pension commitment, which has not been calculated in accordance with IAS principles, is EUR 167 thou. (previous year: EUR 185 thou.).

As a contribution-oriented pension commitment, MediClin pays an annual contribution totalling EUR 200.00 into a pension scheme (basic retirement benefit) for active employees up to the 65th year of age, who have served the Company for five years (cut-off date 31 December of the respective year) and who have completed their 28th year of age. The amount is adjusted to the rising cost of living (by an annual maximum of 1.5 %). Furthermore, MediClinRent offers entitled employees the possibility to build up a private pension (additional retirement benefit) consisting of portions of their gross salary (maximum EUR 2,496.00 per year).

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 annual amount of EUR 100.00), 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 totalled EUR 628 thou. (previous year: EUR 565 thou.).

Employees at the Krankenhaus am Crivitzer See GmbH are entitled to retirement benefits (additional pension benefits) from the Federal Pension Fund (VBL). Pursuant 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 pension fund to former employees of the member companies are not contingent on the amounts paid in. As 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. Contribution payments to VBL total approximately EUR 25 thou. (previous year: EUR 28 thou.). If membership in the VBL continues, upon payment of current contributions, no further commitments arise respecting the Krankenhaus am Crivitzer See GmbH.

(21) Other provisions

In thousands of €	as at 1. 1. 2006	Addition	Consumption	Reversal	as at 31. 12. 2006
Provisions for partial retirement	1,044	141	202	47	936
Provisions for anniversary grants	1,039	105	15	0	1,129
Provisions for renewal of lease agreements and archival storage	2,150	457	0	0	2,607
Provisions for insurance and other risk costs	7,786	484	2,212	0	6,058
	12,019	**1,187**	**2,429**	**47**	**10,730**

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. An anticipated total of EUR 293 thou. will be drawn upon in 2007, and the remaining EUR 643 thou. in the two subsequent years.

Of the provisions for anniversary bonuses, an anticipated total of EUR 69 thou. will be consumed in the 2007 financial year, and EUR 1,060 thou. in the subsequent years.

The provision for the renewal of lease agreements relates to the costs for the commitment concerning the renewal as well as the maintenance and repair of a clinic's leased items and premises. The outflow of resources is anticipated following the expected expiration of the long-term rental contracts in 2011 – unless future contract extensions occur. Additions totalled EUR 27 thou. in 2006. The remaining additions relate to the accrued costs for the legal obligation to retain business records. These will not be discounted, as the legal obligation to retain business records begins with the creation of these records, and thus, from the outset, there is no time period for which a discount is to be applied. On balance, consumption of this provision is not anticipated for the 2007 financial year, or the subsequent years, as consumption and new additions will total about the same amount.

It is not anticipated that the remaining provisions will be consumed in the coming year.

(22) Deferred tax liabilities

The relevant tax rate for determining the deferred tax liabilities remained unchanged at 26.375 % (corporation tax, solidarity surcharge).

They result from:

In thousands of €	Difference		Tax	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Allowances of anniversary pensions	102	99	27	26
Tax goodwill depreciation	4,495	4,877	1,185	1,286
Elimination cost provisions	102	519	27	137
			1,239	**1,449**

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 substantially correspond to the present values.

Other current liabilities

In thousands of €	31.12.2006	31.12.2005
To banks	7,175	661
Pursuant to the hospital financing law	11,804	11,345
Other	19,457	31,729
	38,436	**43,735**
thereof to related companies and parties	0	0

(23) Liabilities to banks

Current liabilities to banks relate to EUR 6,797 thou. from the reclassification, in the reporting year, of redemption payments expected in the coming 12 months, from non-current to current.

(24) Liabilities pursuant to the hospital financing law

Liabilities pursuant to the hospital financing law relate to flat rate subsidiaries, pursuant to the local provisions on hospital financing, which have not yet been used for this purpose, as well as compensation obligations pursuant to the Federal Nursing Rate Regulation or the Hospital Compensation Act. Liabilities from a pending contract involving a total of EUR 18.4 mill. (previous year: EUR 25.0 mill.) associated with promised investment grants, pursuant to Section 9 of the hospital financing law, were set off against the corresponding receivables.

(25) The other liabilities mainly relate to the following:

In thousands of €	**31.12. 2006**	31.12. 2005
Staff costs	7,271	10,563
Rent accrual	5,224	4,656
Wage and value-added taxes payable	2,247	2,464
Public charges and fees	798	792
Energy costs	212	892
Payments received	111	192
Restructured loan repayments	175	–
Other liabilities	3,418	12,170
	19,456	**31,729**

The decline in the staff costs is due to the settlement date for December's social contributions being moved forward. Thereafter, starting on 1.1. 2006, the contributions have to be settled by the third to last work day of the current month (previously by the 15th of the following month).

(26) Current provisions

In thousands of €	as at 1. 1. 2006	Addition	Consumption	Reversal	as at 31. 12. 2006
Other current provisions					
Provisions for costs of annual financial statement	865	767	668	116	848
Provisions for billing risks and litigation	1,129	394	213	501	809
Others	150	0	150	0	0
	2,144	**1,161**	**1,031**	**617**	**1,657**

Provisions for costs incurred for the annual financial statements take into account the anticipated costs (auditing, printing and publication costs) of the Group and the subsidiaries.

Provisions for billing risks and litigation are due to, among other things, inspections by the Medical Review Board of the Statutory Health Insurance Funds, pursuant to Section 275 of the German Social Security Code V (SGB) and Section 275 of the Hospital Financing Act.

(27) Tax liabilities

Tax liabilities totalling EUR 2.9 mill. (previous year: EUR 4.1 mill.) include corporation tax and solidarity surcharge payable to the tax authorities. They cover the commitments of the current financial year and of the previous years.

Notes to the consolidated profit and loss account

(28) Sales

All sales of the Group were generated domestically. They are distributed among the individual segments as follows:

In millions of €	2006	2005
Post-acute	196.7	194.5
Acute	142.4	139.5
Nursing care	8.7	6.4
Others	30.7	30.0
Sales revenues	**378.5**	**370.4**
thereof against related parties	0.4	0.4

The increase in other sales is due primarily to the increase in outpatient treatment. The resulting proceeds were EUR 8.2 mill. for the 2006 financial year (previous year: EUR 7.5 mill.).

In addition to revenues from services, other sales include revenues from the sale of medical goods and pharmacy merchandise totalling EUR 3.2 mill. (previous year: EUR 3.1 mill.), from private accommodation totalling EUR 7.3 mill. (previous year: EUR 8.0 mill.) and from cafeterias, kiosks and meals totalling EUR 3.9 mill. (previous year: EUR 3.5 mill.).

Revenues from related parties relate to compensation for the real estate management of rented clinics.

(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, off-period income from the release of provisions totalling approximately EUR 0.7 mill. (previous year: EUR 0.3 mill.) and rental income. Rental income from related parties totalled EUR 0 thou. (previous year: EUR 25 thou.).

(30) Raw material and consumables used

Costs concerning raw materials and supplies used increased by 3.4 %, in comparison with 2005. Costs of purchased services rose by 8.7 %. Overall, costs were up 5.5 % on the previous year's total. The ratio is 21.2 %, in comparison to 20.6 % in the previous year.

(31) Staff costs

Staff costs of EUR 212.5 mill. increased by 1.3 % higher as compared to the previous year's total of EUR 209.6 mill. The ratio improved to 56.1 %, following 56.6 % in the previous year. Pension expenses, including contribution payments to external provider facilities, totalled EUR 2.6 mil. (previous year: EUR 2.5 mill.).

(32) Depreciation and amortisation

Depreciation and amortisation includes EUR 600 thou. (previous year: EUR 672 thou.) for intangible assets and EUR 7,930 thou. (previous year: EUR 5,478 thou.) for property, plant and equipment, of which the depreciation and amortisation concerning immaterial items (low-value assets) within the meaning of IAS 1.29, to which the IFRS/IAS standards are not applied, totalled EUR 991 thou. (previous year: EUR 824 thou.).

(33) Other operating expenses

Of other operating expenses, a total of EUR 31.5 mill. (previous year: EUR 30.6 mill.) relates to services provided to related parties pursuant to IAS 24, whereby EUR 30.8 mill. (previous year: EUR 30.1 mill.) concern rental payments for 21 clinics transferred to a real estate fund and leased back during the years 1999 and 2002. EUR 0.8 mill. (previous year: EUR 0.7 mill.) are attributable to real estate management. An overview of future rental payments is presented under other financial obligations.

Other operating expenses increased by EUR 0.3 mill. to EUR 69.3 mill. as compared to the previous year's total of EUR 69.0 mill., which corresponds to the increase from the adustment of rents for the clinics in 2006. In addition to rental costs of EUR 36.7 mill. (previous year: EUR 35.9 mill.), the other operating expenses include primarily maintenance and repair costs totalling EUR 11.9 mill. (previous year: EUR 12.1 mill.), insurance expenses totalling EUR 2.6 mill. (previous year: EUR 4.1 mill.), legal and advisory costs totalling EUR 2.8 mill. (previous year: EUR 2.9 mill.) as well as other expenses totalling EUR 15.3 mill. (previous year: EUR 14.0 mill.).

(34) Financial result

The financial result is structured as follows:

In thousands of €	2006	2005
Other financial revenues	677	459
Other financial costs	– 6,229	– 6,925
	– 5,552	**– 6,466**

Of interest expenses, a total EUR 4,240 thou. (previous year: EUR 4,239 thou.) concerns payments to related parties in accordance with the IAS 24. An overview of future interest expenses are described under non-current liabilities.

(35) Taxes on income

This item is structured as follows:

In thousands of €	2006	2005
Actual taxes on income	252	2,252
Tax accrual and deferral	1,304	– 397
	1,556	**1,855**

Actual expenses for taxes on income decreased by EUR 2.0 mill. to EUR 0.3 mill. in the financial year and comprises income totalling EUR 0.9 mill. from previous years, including corporation tax credit pursuant to SEStEG (previous year’s expenses: EUR 1.9 mill.). With respect to deferred taxes, the reporting year saw expenses for taxes totalling EUR 1.3 mill. (previous year: credit of EUR 0.4 mill.).

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

In thousands of €	2006	2005
Result before tax	11,171	9,630
thereof calculational tax charge	2,946	2,540
Tax effect of:		
Corporation tax credit SEStEG	– 560	0
Change in loss carryforwards not set off	+ 629	– 1,509
Non-deductible expenses	+ 94	+ 13
Taxes of previous years and others	– 1,553	811
Actual tax expenses	**1,556**	**1,855**

(36) Earnings per share

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

	2006	2005
Result attributable to equality holders (in thousands of €)	9,509	7,668
Average number of shares issued (in thousands of €)	31,371	29,950
Earnings per share undiluted (in €)	0.30	0.26

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.

In thousands of €	**2006**	2005
Result attributable to equity holders	9,509	7,668
Interests of convertible bond	6	6
Current or rather deferred taxes on interests	– 2	– 2
Result to define earnings per share diluted	**9,513**	**7,672**
Average number of shares issued	31,371	29,950
Stock option	250	250
Adjustment for assumed conversion of convertible bond	250	208
Average number of shares for the earnings per share diluted	31,621	30,158
Earnings per share diluted (in €)	0.30	0.25

Other disclosures

The registered company name Medilog GmbH was changed to MC Service GmbH on 1 February 2007, also changing the nature and purpose of the business and increasing the stock capital by EUR 47 thou. to EUR 200,000.00.

On 6 February 2007, whilst maintaining the conditions stipulated under company law, the registered company name Alphamed Klinik GmbH & CO KG was changed to MediClin GmbH & CO. KG and MediClin GmbH into MediClin Geschäftsführungs-GmbH.

Number of employees

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

Shown in full-time employees	**2006**	2005	Change
Medical	581	578	3
Nursing care	1,668	1,645	23
Medical-technical	1,214	1,228	– 14
Functional	287	284	3
Medical services	**3,750**	**3,735**	**15**
Support functions	799	811	– 12
Technical	175	176	– 1
Administrative	418	419	– 1
Other	58	59	– 1
Non-medical services	**1,450**	**1,465**	**– 15**
	5,200	**5,200**	**0**

Contingencies and other financial obligations

The Group's total obligations arising from rental and leasing contracts, as well as fixed incidental expenses, totaled EUR 36.2 mill. in the reporting year (previous year: EUR 35.4 mill.). Of this amount, a total of EUR 30.8 mill. (previous year: EUR 30.1 mill.) is attributable to real estate rented over the long term. Due to contractual design, the respective 21 long-term leasing contracts qualify as operating leases pursuant to IAS 17. The underlying rental contracts are due to expire on 31. 12. 2027. The annual leasing payments, as stipulated in the respective contracts, totalled EUR 37.8 mill. (unreduced) in the reporting year. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer pricing index for Germany (i.e. a maximum of 2 % per year). Up to 2007, rental reductions of approximately EUR 7 mill. p.a. are granted for the ten leased properties. In connection with these rent reductions, 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. 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 year exceeds a critical value. In all, the maximum potential rental allowance is limited to rent reductions of EUR 21 mill. MediClin AG issued a payment guarantee, vis-à-vis the acquirer and lessor, concerning the rental payments plus operating costs relating to these rental contracts, which were initially concluded by the subsidiaries up to 2024, and extended by another three years up to 31. 12. 2007. The obligation in connection with the land-use management agreements made in the rental contracts totalled EUR 0.8 mill. in the financial year (2007: EUR 0.8 mill.; 2008 – 2011: EUR 3.1 mill.; 2012 – 2027: EUR 12.3 mill.).

The expenses for other rentals and leases totalled EUR 2,593 thou. (previous year: EUR 2,448 thou.).

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

In millions of €	**Nominal value 31. 12. 2006**	Nominal value 31. 12. 2005
Remaining term up to 1 year	33.2	32.3
Remaining term 1 – 5 years	160.1	148.5
Remaining term > 5 years	612.9	631.3
	806.2	**812.1**

Leasing expenses relating to movable property, such as vehicles, office equipment and medical technology, totalled EUR 2,013 thou. (previous year: EUR 2,110 thou.) in the financial year. The terms of leasing agreements are between two and a maximum of five years. As 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.

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, a total of EUR 10 mill. 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 mill. The realisation of the investment project was commenced in 2004.

Should the option right be exercised, issuance of the convertible bond involves an obligation to deliver up to 250,000 ordinary shares at EUR 1.88 each by 21. 2. 2010, at the latest. The obligation concerning the convertible bond interest totals EUR 6 thou. per year (2.5 % annual interest rate).

There were no other significant contingencies or financial obligations as of the cut-off date.

External tax audit

An external tax audit for the time period 1999 – 2003 related to corporation and trade tax, as well as separate determination and value-added tax, was mostly completed in the 2006 financial year. Administrative decisions have not yet been rendered. A final conference will not take place, because agreement was reached on all substantial issues. Adequate provisions have been made for the anticipated additional taxes plus interest.

Financial risk management

Within the framework of it business activities, the Group is primarily exposed to **credit risk,** 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. As MediClin generates almost all of its sales (approximately 98 %) with pension 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. Prudent liquidity management comprises maintaining sufficient liquid assets resources, in addition to an adequate volume of approved lines of credit, as well as, in the medium term, the ability to issue securities on the market.

As the business environment in which the Group operates has seen increased dynamics in the past years, management aims to retain the required flexibility in financing capacity through an adequate volume of unused lines of credit. 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. In addition, there exists an **interest rate risk** due to the potential changes in market interest rates. This risk is counteracted by purchasing appropriate maturities. Derivative financial instruments, such as those in the form of interest rate swaps, are not employed.

The **maximum exposure to default risk** is represented by the book value of each financial asset as reported in the balance sheet. Because the counterparties to the receivables are prime finanical institutions, the Group does not expect any counterparties to fail to meet their obligations. Consequently, the Group considers that its maximum exposure to default risk is reflected by the amount of trade receivables and other current assets, net of valuation adjustments, recognised as of the cut-off date.

Supervisory Board

The follow persons were members of the Supervisory Board during the 2006 financial year:

Günter Schlatter, Cologne (Chairman)
Former Chairman of the Management Board of Provinzial Rheinland Versicherung AG, Düsseldorf
Managing Director of ProAtlanta Beteiligungs- und Grundbesitzgesellschaft mbH, Düsseldorf
Supervisory Board mandates:
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
Member of the Management Board of Provinzial Rheinland Versicherung AG
Supervisory Board mandates:
Member of the Supervisory Board
- KDV Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG, Düsseldorf
- DIC Asset AG, Frankfurt am Main
- DIC Capital Partners Beteiligungs GmbH, Munich
- MUK Kapitalbeteiligungsgesellschaft mbH, Cologne

Dr. Daniel von Borries, Munich
Member of the Management Board of ERGO Versicherungsgruppe AG
Supervisory Board mandates:
Chairman of the Supervisory Board
- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board
- BHS tabletop AG, Selb
- MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich
- VICTORIA Volksbanken AG, Vienna
- GFKL Financial Services AG, Essen
- iii Internationales Immobilieninstitut GmbH, Munich
- Jenoptik AG, Jena
- KarstadtQuelle Bank AG, Neu-Isenburg
- Österreichische Volksbanken AG, Vienna

[1] Employee representative on the Supervisory Board

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 Klinikums Plau am See

Peter Erni[1], Mannheim
Trade Union Secretary at the Baden-Württemberg Regional Office of ver.di

Carsten Heise, Neuss
Lawyer and Managing Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Member of the Advisory Board:
- Institut für Vermögensaufbau (IVA) GmbH, Munich

Member of the Creditor's Committee:
- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt am Main
- WCM Beteiligungs- und Verwaltungs GmbH & Co KG, Frankfurt am Main
- WCM Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main

Dr. Jochen Messemer, Cologne
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, Munich
- MedWell Gesundheits-AG, Cologne

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

Member of the Advisory Board
- MEDCOM GmbH, Montabaur

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

[1] Employee representative on the Supervisory Board

Klaus Müller[1], Oberthal
Sports and Recreational Therapist, Bosenberg Kliniken

Dr. Hans Rossels, Kall
Managing Director of Kreiskrankenhaus Mechernich
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

Gero Schlagelambers[1], Andervenne
Nurse, Hedon Klinik, Lingen

Supervisory Board Committees

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

Mediation Committee 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

[1] Employee representative on the Supervisory Board

Advisory Board

The Advisory Board of MediClin deals with questions concerning development in the health care sector, in particular, relating to future health policy and the economic organisation of medical care in acute-care hospitals and medical rehabilitation facilities. The Advisory Board, which was newly constituted in 2006, is made up of seven members.

Dr. Jörg W. Knorn (Chairman)

Prof. Dr. Axel Ekkernkamp, Medical Director and Managing Director of the Unfall-krankenhaus Berlin

Irmtraut Gürkan, Business Director of the Universitätsklinikum Heidelberg

Dr. Brigitte Mohn, Managing Board Chairwoman of the Stiftung Deutsche Schlaganfallhilfe

Prof. Dr. Werner Müller-Fahrnow, Chair for Supply System Research and Fundamentals of Quality Assurance in Rehabilitation, Humboldt-Universität zu Berlin

Prof. Dr. Günter Neubauer, Director of the Institute for Health Economics, Universität der Bundeswehr, Munich

Dr. Andreas Tecklenburg, Vice-President and Member of the Presidium responsible for the Division of Patient Care at the Medizinische Hochschule Hanover

Board of Management

The following persons were members of the MediClin Board of Management during the 2006 financial year:

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

Frank Abele, Gerlingen, Chief Financial Officer

Management remuneration

In the 2006 financial year, remuneration for the Board of Management totalled EUR 1,173 thou. (previous year: EUR 1,346 thou.), for the Supervisory Board EUR 86 thou. (previous year: EUR 88 thou.) and for the Adivisory Board EUR 75 thou. (previous year: EUR 0). Within the scope of a convertible bond subscription, the Board of Management is also entitled to acquire options for up to 250,000 ordinary shares at EUR 1.88 each (EUR 0.88 thereof as a cash payment) until 21. 2. 2010, at the latest. The fair value of the option rights at the time they were granted totalled EUR 47,500.

Disclosures pursuant to Section 314 (1) No. 6a Sent. 5 – 9 of the German Commercial Code (HGB), and further disclosures on management remuneration and loans to members of the Board of Management and Supervisory Board, as well as the structure of the remuneration system and individual remuneration, are presented in the 'Summarised management report and group management report of MediClin AG' under 'Report on compensation'.

Participations in MEDICLIN Aktiengesellschaft notified to the Company pursuant to Section 21 (1) Securities Trading Act (WpHG)

No such notifications were received in 2006.

Report concerning related parties pursuant to IAS 24

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 made, as well as two contracts for land-use management and real estate management.

The respective sales revenues are processed at normal market conditions and totalled:

In millions of €	2006	2005
Leasing expenses	30.8	30.1
Land-use management costs	0.8	0.7
Real estate management income	0.4	0.4

In addition, MediClin retains repayment claims against Oppenheim Immobilien-KAG mbH from the preliminary financing of clinic expansions (EUR 1,095 thou.; previous year: EUR 40 thou.).

The respective expenses and income are posted in the profit and loss account under other operating expenses or sales; liability items still open are posted in the balance sheet under trade payables or trade receivables and other assets.

The Supervisory Board members, Dr. Daniel von Borries, Member of the Management Board of ERGO Versicherungsgruppe AG, and Dr. Jochen Messemer, Member of the Management Board of DKV Deutsche Krankenversicherung AG, are executive officers of subsidiaries of Münchner Rückversicherungs-Gesellschaft AG, which hold indirect voting rights in MediClin AG. Financial and credit relationships with the subsidiaries of Münchner Rückversicherungs-Gesellschaft AG exist at normal market conditions.

The Supervisory Board members, Günter Schlatter, Chairman of the Management Board of Provinzial Rheinland Versicherung AG (up to 31. 3. 2006), and Michael Bock, Member of the Management Board of Provinzial Rheinland Versicherung AG, are executive officers of the Provinzial Rheinland Versicherung AG, which holds direct voting rights in MediClin AG. Financial and credit relationships with Provinzial Rheinland Versicherung AG exist at normal market conditions.

Interest expense recorded in the profit and loss account totalled EUR 4,233 thou. (previous year: EUR 4,233); the corresponding liability items are posted in the balance sheet under non-current financial liabilities.

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. No disclosable transactions were reported in 2006.

Conformity declaration concerning the German Corporate Governance Codex in accordance with Section 161 AktG

The conformity declaration of MediClin AG, pursuant to Section 161 AktG, is accessible to the shareholders on a permanent basis in the respective updated version on the Company's website.

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:

In thousands of €	2006	2005
Annual audit	496	464
Other attestation or validation services	0	0
Tax consulting services	0	0
Other services	41	0
	537	**464**

Proposed appropriation of earnings

It is proposed that the balance sheet loss of MediClin AG as at 31. 12. 2006, to the amount of EUR 1,715,363.85, be carried forward to the new accounting period.

Frankfurt am Main, 1 March 2007

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 1 January 2006 to 31 December 2006. 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, 2 March 2007

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

(Philipp)	(ppa. Wieckenberg)
Wirtschaftsprüfer	Wirtschaftsprüfer

DR. ALFONS MEYER Chief Neurologist

NEUROLOGY

Dr. Alfons Meyer is the chief neurologist at the MediClin clinical care centre in Soltau. After studying medicine in Heidelberg and Mannheim, Dr. Meyer also worked in anaesthesia, internal medicine, intensive medicine and psychiatry, in addition to neurology. In 1992, he started his career at MediClin, where he has taken advantage of all the opportunities a large provider of medical services can offer.

MY GOAL HAS ALWAYS BEEN TO HAVE A GOOD GRASP OF ALL FORMS OF NEUROLOGICAL CARE – ACUTE, REHABILITATION AND EMERGENCY CARE

What decided your joining the MediClin Bosenberg hospitals?
> In the Saarland I was offered the opportunity of completing my neurological training and, above all, to learn concomitant diagnostics and neurophysiology. This would not have been so easily possible at other locations – you typically first had to serve a few years before you were allowed to begin working in diagnostics. In 1994, came the offer from Plau am See. I was there first as a senior physician in neurological rehabilitation for four years and then in acute neurology for another four years.

What part did the Company play in your professional development?
> The paths in a group of companies are more direct; my colleagues knew me and I was informed about the opportunities within MediClin. In 2002, the Group offered me the position of chief physician in Soltau, one of the goals being to restructure the clinic's acute area. What appealed to me at Soltau was the extraordinarily wide range of tasks. Here I can contribute my experience in both rehabilitation and acute care. With the neurological outpatient division, the medical care of patients across different sectors is becoming a reality: from outpatient care, to acute medicine and rehabilitation, to aftercare. I don't need to pass my patients on to someone else and can accompany them through all phases of their treatment. For a physician who also regularly works with chronic disease patterns, this is an ideal situation.

How would you characterise yourself?
> First of all, I am a family man through and through. Therefore it has been absolutely crucial for me that my family has accompanied me to the individual stations. Plus, I am used to being a team worker. I come from a large family with many siblings and am used to treating other people as equals – even though one person obviously has to have the last word. In a broader sense, I also regard the other hospitals in the area, with which we cooperate closely and well, as part of our team.

Annual financial statements of MEDICLIN Aktiengesellschaft
for the 2006 financial year

Contents

Balance sheet of the MEDICLIN Aktiengesellschaft as of 31 December 2006

ASSETS

		31. 12. 2006 in €	Previous year in thousands of €
A. FIXED ASSETS			
I. Intangible assets			
Concessions, industrial rights, licenses		**1,136**	**3**
II. Property, plant and equipment			
Other equipment, operating and office equipment		**73,708**	**129**
III. Financial assets			
1. Shares in affiliated companies	206,927,705		208,887
2. Other loans	273,219		261
		207,200,924	**209,148**
		207,275,768	**209,280**
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Receivables from affiliated companies	9,939,952		4,952
2. Other assets	576,782		71
		10,516,734	**5,023**
II. Securities			
Treasury stock		**0**	**2,800**
III. Cash on hand, bank balances		**617,285**	**1,200**
		11,134,019	**9,023**
C. PREPAID EXPENSES		**16,288**	**18**
		218,426,075	**218,321**

EQUITY AND LIABILITIES

		31.12.2006 in €	Previous year in thousands of €
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	0		2,800
		2,045,167	**4,845**
IV. Balance sheet profit/loss		**1,715,364**	**– 4,807**
		140,260,531	**136,538**
B. PROVISIONS			
1. Provisions for taxes	2,123,013		2,342
2. Other provisions	5,879,562		8,134
		8,002,575	**10,476**
C. LIABILITIES			
1. Bond issues	250,000		250
2. Liabilities to banks and insurance companies	61,355,026		61,955
3. Trade payables	392,142		261
4. Liabilities to affiliated companies	8,099,912		1,237
5. Other liabilities	65,889		7,604
		70,162,969	**71,307**
		218,426,075	**218,321**

Profit and loss account of the MEDICLIN Aktiengesellschaft for the financial year from 1 January to 31 December 2006

		1. 1. to 31. 12. 2006 in €	Previous year in thousands of €
1. Other operating income	2,240,114		573
Total operating performance		**2,240,114**	**573**
2. Staff costs			
a) Wages and salaries	– 1,779,690		– 1,871
b) Social security, pension and retirement, thereof retirement: € 40,782 (previous year: € 45 thou.)	– 135,794		– 143
		– 1,915,484	**– 2,014**
3. Depreciation on intangible assets and on property, plant and equipment		**– 33,157**	**– 45**
4. Other operating expenses		**– 1,761,814**	**– 2,727**
Operating result		**– 1,470,341**	**– 4,213**
5. Income from participations, thereof from affiliated companies: € 9,783,350 (previous year: € 13,995 thou.)		**9,783,350**	**13,995**
6. Income from financial investments and similar income, thereof from affiliated companies: € 1,134,456 (previous year: € 1,028 thou.)		**1,150,513**	**1,143**
7. Other interests and similar expenses, thereof from affiliated companies: € 747,835 (previous year: € 564 thou.)		**– 5,470,782**	**– 5,540**
8. Result from ordinary activities		**3,992,740**	**5,385**
9. Taxes on income		**– 268,000**	**– 2,193**
10. Other taxes		**– 1,860**	**– 2**
11. Result for the year		**3,722,880**	**3,190**
12. Loss carried forward from previous year		– 4,807,244	– 7,988
13. Transfers to / release of reserve for treasury stock		2,799,728	– 9
14. Balance sheet profit/loss		**1,715,364**	**– 4,807**

Shareholdings 2006

In €	Results for 2006	Total equity	Percentage of shares held
Alphamed Klinik GmbH & Co KG, Offenburg	15,148,648	46,734,001	100.000
Cortex Software GmbH, Offenburg	234	209,042	100.000[2]
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	350,218	11,557,288	100.000
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	– 935,880	586,432	100.000[1]
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	– 1,228	30,098	100.000[1]
MC Catering GmbH, Offenburg (vormals Gesellschaft für Medizinvertrieb und Consulting mbH, Offenburg)	– 2,178	265,594	100.000[1]
KB Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Essen	31,748	6,095,111	100.000
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Essen	– 476	29,372	100.000
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz (as at 31. 12. 2005)	4,242	34,002	47.769[1]
Krankenhaus am Crivitzer See GmbH, Crivitz	– 45,423	2,164,026	69.000
MC Pharma GmbH, Bonn	– 79,794	568,192	100.000
MediClin GmbH, Offenburg	22,681	1,331,914	100.000
MediClin Immobilien Verwaltung GmbH, Offenburg	3,725	115,385	100.000[1]
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	– 299,243	526,662	100.000[1]
MediClin Pflege GmbH, Offenburg	107,438	126,373	100.000[1]
MediLog GmbH, Offenburg	15,393	331,868	100.000[1]
Medusplus GmbH, Essen	0	25,000	51.000[1]
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen	39,818	115,231	100.000[1]
Müritz-Klinikum GmbH, Waren	2,385,254	18,835,261	94.020
Müritz-Klinikum Service GmbH, Waren	51,460	25,000	47.950[1]
MVZ-Müritz GmbH, Waren	0	24,984	94.020[1]
Reha-Klinik GmbH & Co. KG Soltau, Soltau	1,437,566	5,237,938	100.000

[1] Indirect participation
[2] Of which indirect participation 62.353 %

Schedule of fixed assets of the MEDICLIN Aktiengesellschaft

In €	Development of acquisition costs			
	As at 1. 1. 2006	Additions	Disposals	**As at 31. 12. 2006**
I. Intangible assets				
Concessions, industrial rights and similar rights, as well as licenses for such rights	**15,998**	**0**	**0**	**15,998**
II. Property, plant and equipment				
Other equipment, operating and office equipment	**479,077**	**9,202**	**– 63,393**	**424,886**
III. Financial assets				
Shares in affiliated companies	318,196,778	14,875	– 2,754,802	315,456,851
Other loans	260,719	12,500	0	273,219
	318,457,497	**27,375**	**– 2,754,802**	**315,730,070**
Total fixed assets	**318,952,572**	**36,577**	**– 2,818,195**	**316,170,954**

	Development of depreciations				Book value 31. 12. 2006	Book value 31. 12. 2005 in thousands of €
	As at 1. 1. 2006	Additions	Disposals	As at 31. 12. 2006		
	13,102	**1,760**	**0**	**14,862**	**1,136**	**3**
	349,930	**31,397**	**– 30,149**	**351,178**	**73,708**	**129**
	109,309,431	0	– 780,285	108,529,146	206,927,705	208,887
	0	0	0	0	273,219	261
	109,309,431	**0**	**– 780,285**	**108,529,146**	**207,200,924**	**209,148**
	109,672,463	**33,157**	**– 810,434**	**108,895,186**	**207,275,768**	**209,280**

General

MEDICLIN Aktiengesellschaft, Frankfurt am Main, is registered in the Commercial Register of the Frankfurt am Main local court under HRB 42420. The annual financial statements and the management report have been published in the electronic German Federal Gazette (www.ebundesanzeiger.de; Bundesanzeiger Verlagsgesellschaft mbH, Cologne) pursuant to the German Law on the Electronic Commercial Register and the Cooperative Society Register, as well as the Company Register (EHUG).

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. The Company was not engaged in foreign currency transactions. Purchased intangible fixed assets are stated as acquisition costs on the balance sheet and, if subject to wear and tear, are depreciated according to their service life by scheduled depreciation over the expected service life. Property, plant and equipment were stated at acquisition or manufacturing costs, net of scheduled depreciation. Small-scale capital assets up to a value of EUR 410.00 are fully depreciated for the year of acquisition. Financial assets are stated at acquisition cost, or the lower fair value, due to the expected sustained earnings power. Receivables, miscellaneous assets, credits at banks and accrued items are stated at nominal values. Tax provisions and other provisions take into account all recognisable risks and contingent liabilities; they were set up at the amounts of their probable utilisation. Liabilities are recorded at the amounts repayable. The expenditure format was used for the profit and loss account. The profit and loss account was expanded to include the item “operating result”.

Notes to the balance sheet

Fixed assets

The development of fixed assets in the period from 1 January 2006 to 31 December 2006, is reflected in the separate schedule of fixed assets.

Financial assets

Shares in affiliated companies concern the companies listed in the table shareholdings 2006.

The other loans relate to a loan (EUR 250 thou.) granted to the Management Board and interest accrued up to the balance sheet date (EUR 23 thou.; previous year: EUR 11 thou.). 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 from open accounts.

Of the other assets, EUR 560 thou. have been allotted for receivables with discounted interest from the disbursement of the remaining corporate tax credit balance, which arose as a result of the change from the tax credit method to the half income procedure. Pursuant to the law regarding tax measures accompanying the introduction of the European Company and the modification of other fiscal provisions (SEStEG), the receivables from the credit balance are to be booked as assets already in the annual financial statements, as of 31 December 2006. The paying out of the corporate income tax credit balance will be undertaken over a payment period from 2008 to 2017. The claim was discounted for interest at 4.25 %. Receivables and other assets with a value of EUR 560 thou. have a remaining time to maturity of more than one year.

Equity

Subscribed capital

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

Authorised capital

By resolution of the Annual General Meeting on 25 May 2005, the Management Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by an amount up to a total of EUR 7,875,000.00, 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. With the approval of the Supervisory Board, however, the Management Board is authorised 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, as well as details concerning the execution of capital increases from the Authorised Capital I.

By resolution of the Annual General Meeting on 25 May 2005, the Management Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by an amount up to a total of EUR 7,875,000.00 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 contributions 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 than 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

At the Annual General Meeting of 13 November 2000, the shareholders passed a resolution on a conditional increase of the Company's share capital by up to EUR 3,150,000.00 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 EUR 5.00 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 in cash 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 the 2005 financial year, 50,000 convertible bonds were issued. Following a two-year blocking period, these convertible bonds entitle the bearer to the purchase of 250,000 MediClin AG no-par value bearer shares. In accordance with Section 9 (2) of the issuing terms, the conversion right may also be exercised through treasury stock rather than through the issue of new shares.

Capital reserves

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

At the Annual General Meeting on 27 May 2004, pursuant to Section 71 (1) No. 8 AktG, the shareholders authorised MediClin AG to acquire treasury stock with a proportion of share capital amounting to EUR 3,150,000.00 (10 % of the existing share capital, as of the date of the passing of the resolution) attributable to these shares through the single 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 % of the capital stock), which were evaluated at acquisition costs of EUR 2,800 thou. Pursuant to Section 272 (4) HGB, a reserve for this amount of treasury stock was established. In January 2006, all the shares were sold, thereby dissolving the reserve. The gains amounting to EUR 1.6 mill. were booked as income under other operating income.

Balance sheet profit/loss

The balance sheet profit/loss has been recorded follows:

In thousands of €	**2006**	2005
Balance sheet loss 2005	– 4,807	0
Balance sheet loss 2004	0	– 7,988
Loss carried forward	– 4,807	– 7,988
Release/transfer of reserve for treasury stock	2,799	– 9
Net profit for the year	3,723	3,190
Balance sheet profit/loss	**1,715**	**– 4,807**

Other provisions

The other provisions relate mainly to personnel costs, interest on expected additional tax due to tax auditing, 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:

In thousands of €	Remaining term			
	Total	up to 1 year	1–5 years	over 5 years
Bond issues	250	0	250	0
Previous year	250	0	250	0
Liabilities to banks and insurance companies	61,355	0	61,355	0
Previous year	61,955	600	61,355	0
Trade payables	392	392	0	0
Previous year	261	261	0	0
Liabilities to affiliated companies	8,100	8,100	0	0
Previous year	1,237	1,237	0	0
Other liabilities	66	66	0	0
Previous year	7,604	7,604	0	0
Total	**70,163**	**8,558**	**61,605**	**0**
Previous year	71,307	9,702	61,605	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 it 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 EUR 61,355 thou. (previous year: EUR 61,355 thou.) 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 EUR 4,233 thou. in the reporting year (previous year: EUR 4,233 thou.).

The liabilities to affiliated companies are mainly attributable to liabilities from open accounts.

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

Notes to the profit and loss account

Other operating income

In the 2006 financial year, the other operating income of MediClin AG, amounting to EUR 1,642 thou. mainly includes income from the sale of capital stock. This income also includes other accounting periods for revenues from the release of provisions (EUR 369 thou.; previous year: EUR 224 thou.) and income from management services provided (EUR 150 thou.; previous year: EUR 150 thou.).

Other operating expenses

The other operating expenses primarily concern audit and consulting costs (EUR 726 thou.; previous year EUR 1,546 thou.), rent and leases (EUR 268 thou.; previous year: EUR 307 thou.), insurance (EUR 131 thou.; previous year: EUR 153 thou.), cost of reporting and publication (EUR 152 thou.; previous year: EUR 140 thou.), administration costs (EUR 230 thou.; previous year: EUR 293 thou.), and other costs.

Income from participations

The income from participations relates, above all, to profit distribution affecting the 2006 annual results for two subsidiaries.

Taxes from income and revenue

Pursuant to the SEStEG, the accounted tax expenses are reduced by tax refund claims from the capitalisation of the corporate income tax credit balance (EUR 560 thou.). In addition, the tax expense contains additional taxes due to tax auditing (EUR 408 thou.) and tax for the result of the 2006 financial year.

Other disclosures

Number of employees

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

Change of registered company names

The registered company name Medilog GmbH was changed to MC Service GmbH on 1 February 2007, also changing the nature and purpose of the business and increasing the stock capital by EUR 47 thou. to EUR 200,000.00.

On 6 February 2007, whilst maintaining the conditions stipulated under company law, the registered company name Alphamed Klinik GmbH & CO KG was changed to MediClin GmbH & CO. KG and MediClin GmbH into MediClin Geschäftsführungs-GmbH.

Contingencies and other financial obligations

The other financial obligations relate to rental contracts for the Company's office rooms. The annual rent amounts to EUR 184 thou. The rental contract is due to expire middle of 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 EUR 37.8 mill. (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 EUR 7 mill., concerning ten 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 EUR 21 mill., 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 Müritz-Klinikum GmbH, the seller was guaranteed continuation by MediClin AG. In addition, MediClin AG agreed that it would pay the seller EUR 10 mill., 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 EUR 6 mill. in 2002. The investment project was commenced in 2004.

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

External audit

A tax audit for the years 1999 to 2003, concerning corporate income tax and trade tax including special declarations, as well as value-added tax, was completed for the most part during the 2006 financial year. Official notifications have not yet been issued. A concluding discussion will not take place, since agreement was reached concerning all the essential circumstances. Adequate provisions have been made for the anticipated additional taxes including interest.

Supervisory Board

The following persons were members of the Supervisory Board during the 2006 financial year:

Günter Schlatter, Cologne (Chairman)
Former Chairman of the Board of Provinzial Rheinland Versicherung AG, Düsseldorf
Chief Executive of ProAtlanta Beteiligungs- und Grundbesitzgesellschaft mbH, 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
Member of the Management Board of 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
- DIC Capital Partners Beteiligungs GmbH, Munich
- MUK Kapitalbeteiligungsgesellschaft mbH, Cologne

[1] Supervisory Board member of employee representatives

Dr. Daniel von Borries, Munich
Member of the Management Board of ERGO Versicherungsgruppe AG
Supervisory Board mandate:
Chairman of the Supervisory Board
- Ideenkapital AG, Düsseldorf

Member of the Supervisory Board
- BHS tabletop AG, Selb
- MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich
- VICTORIA Volksbanken AG, Vienna
- GFKL Financial Services AG, Essen
- iii Internationales Immobilieninstitut GmbH, Munich
- Jenoptik AG, Jena
- KarstadtQuelle Bank AG, Neu-Isenburg
- Österreichische Volksbanken AG, Vienna

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

Carsten Heise, Neuss
Lawyer and Managing Director at Deutsche Schutzvereinigung für Wertpapierbesitz e. V.
Member of the Advisory Board
- Institut für Vermögensaufbau (IVA) GmbH, Munich

Member of the Creditor's Committee
- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt am Main
- WCM Beteiligungs- und Verwaltungs GmbH & Co KG, Frankfurt am Main
- WCM Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main

[1] Supervisory Board members of employee representatives

Dr. Jochen Messemer, Cologne
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, Munich
- MedWell Gesundheits-AG, Cologne

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

Member of the Advisory Board
- MEDCOM GmbH, Montabaur

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

Klaus Müller[1], Oberthal
Sports and Recreational Therapist, Bosenberg Kliniken

Dr. Hans Rossels, Kall
Managing Director of Kreiskrankenhaus Mechernich
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

Gero Schlagelambers[1], Andervenne
Nursing Assistant, Hedon Klinik, Lingen

Supervisory Board Committees

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

[1] Supervisory Board members of employee representatives

Mediation Committee 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

Advisory Board

The Advisory Board of MediClin deals with questions concerning development in the health care sector, in particular, relating to future health policy and the economic organisation of medical care in acute-care hospitals and medical rehabilitation facilities. The Advisory Board, which was newly constituted in 2006, is made up of seven members.

Dr. Jörg W. Knorn (Chairman)

Prof. Dr. Axel Ekkernkamp, Medical Director and Managing Director of the Unfallkrankenhaus Berlin

Irmtraut Gürkan, Business Director of the Universitätsklinikum Heidelberg

Dr. Brigitte Mohn, Chairwoman of the Management Board of the Stiftung Deutsche Schlaganfallhilfe

Prof. Dr. Werner Müller-Fahrnow, Chair for Supply System Research and Fundamentals of Quality Assurance in Rehabilitation, Humboldt Universität zu Berlin

Prof. Dr. Günter Neubauer, Director of the Institute for Health Economics, Universität der Bundeswehr, Munich

Dr. Andreas Tecklenburg, Vice-President and Member of the Presidium responsible for the Division of Patient Care at the Medizinische Hochschule Hanover

Management Board

For the 2006 financial year, the members of the Management Board of MEDICLIN AG were:

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

Frank Abele, Gerlingen, Chief Financial Officer

Management remuneration

Remuneration for the Management Board during the 2006 financial year, amounted to EUR 1,173 thou. (previous year: EUR 1,346 thou.). For the Supervisory Board, remuneration amounted to EUR 86 thou. (previous year: EUR 88 thou.). For the Advisory Board, remuneration amounted to EUR 75 thou. (previous year: EUR 0). Furthermore, an option right for one member of the Management Board evolves from the issue of a convertible bond to purchase up to 250,000 ordinary shares, at a price of EUR 1.88 per share (EUR 0.88 of which to be a cash payment) – by 21 February 2010, at the latest. The applicable value of this option right was EUR 47,500 at the time of granting.

The data according to Section 285 (1) no 9a Sent. 5 – 9 HGB, as well as further data concerning management remuneration and credits for members of the Management Board and the Supervisory Board, as well as the structure of the remuneration systems and the individual payments, are presented in the summarised management report and the Group management report of MEDICLIN Aktiengesellschaft, under 'Report on compensation'.

Participation in MEDICLIN Aktiengesellschaft notified to the Company, pursuant to Section 21 (1) Securities Trading Act (WpHG)

No such notifications were received in 2006.

Directors' dealings

The members of the Supervisory Board and the Management Board, 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 2006, no transactions in this respect were reported to MediClin AG.

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.

Auditor's fees

The fees paid to the commissioned and authorised auditing firm for financial statement auditing activities and other services were recorded as an expense at the following amounts:

In thousands of €	2006	2005
Annual audit	139	113
Other attestation or validation	0	0
Tax consulting services	0	0
Other services	0	0
Total	**139**	**113**

Proposed appropriation of earnings

It is proposed that the balance sheet profit as at 31 December 2006, amounting to EUR 1,715,363.85, be carried forward to the new accounting period.

Frankfurt am Main, 1 March 2007

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 1 January 2006 to 31 December 2006. The maintenance of the books and records and the preparation of the annual financial statements and combined management report and Group management report in accordance with German commercial law (and supplementary provisions of the shareholder agreement/articles of incorporation), are the responsibility of the Company’s management. 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 § (Article) 317 HGB (Handelsgesetzbuch: German Commercial Code) 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 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 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 combined management report and Group management report, are examined primarily on a test basis within the framework of the audit. The audit includes assessing of the accounting principles used and 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 supplementary provisions of the shareholder agreement/ articles of incorporation) 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 suitably presents the opportunities and risks of future development.

Frankfurt, 2 March 2007

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

(Philipp)	(ppa. Wieckenberg)
Wirtschaftsprüfer	Wirtschaftsprüfer


THOMAS SCHEID Head Cook

KITCHEN

Thomas Scheid has worked in the MediClin Bosenberg clinics in St. Wendel since 1988. As head cook, he is in charge of putting together the menu, buying the groceries, allocating the kitchen staff and, not least, for preparing three meals a day. Together with his team, Scheid takes care of up to 260 people a day.

IF SOMETHING IS WRONG WITH BREAKFAST, THEN THE DAY IS ALREADY RUINED



What predestines you for your work in a rehabilitation clinic?

> My background is the hotel business, where I cooked for up to 1,000 guests per day together with about 20 cooks. So, working in a large kitchen was not new territory for me, I am what they call a "brigade cook" – working as the sole cook in a restaurant never held appeal for me. I always wanted to work for large outfits with a complete crew around me. And I benefit from my experience in the hotel business to this day: I am, for instance, already familiar with the buffet system we use in the clinic from various hotels.

Are patients more demanding than hotel guests?

> Certainly not, but the needs are more diverse – especially when it comes to our neurological patients. We consider their needs, of course, and use low-cholesterol foods, for example, indicate the relevant bread units of a dish for diabetics and also prepare vegetarian meals. Patients who have an allergic reaction to certain foods receive a special diet from us. I also work closely with our diet assistant who, among other tasks, prepares the meals for patients with swallowing disorders. Their food is pureed and liquefied with a little bit of cream or sauce.

Have the demands on a cook changed over the past few years?

> Purchasing and selecting food has become considerably more demanding; the market is highly diverse. I spend more time testing new products and comparing quality and prices than I used to.

What significance does food have for the overall well-being of patients?

> Let me put it this way: if something is wrong with breakfast, then the day is already ruined for many patients. Then therapists and doctors can do whatever they want. I, at any rate, find out very quickly if someone is dissatisfied – after all, the kitchen staff eats together with the patients in the dining room. But I also approach the patients and ask them if they like the food.

Report of the Supervisory Board

GÜNTER SCHLATTER
Chairman of the
Supervisory Board

Dear Shareholders,

In the 2006 financial year, the Management Board regularly provided the members of the Supervisory Board 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 five meetings, the Management Board reported in detail about the course of business in the individual quarters, about finance, investment and human resources planning and also growth concepts and 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. There were no desicisions made with written consent in lieu of a meeting.

We did not exercise the option of using our inspection right according to §11 paragraph 2 Stock Corporation Act (AktG) as the reporting of the Management Board gave no reason to do so.

In particular, during the 2006 reporting year, the Supervisory Board dealt with measures that were introduced in order to lead to capacity utilisation at the clinics. The Board supports all the measures introduced, particularly as they will significantly increase the transparency and efficiency of the individual clinics and the affiliated Group.

In addition, together with the Management Board, the Supervisory Board has reviewed, in detail, the future development of the industry and the resulting growth prospects at MediClin.

In addition to the meetings, the Chairman of the Management Board regularly informed the Chairman of the Supervisory Board about corporate development and significant events.

All members of the Supervisory Board took part at a minimum of half of the meetings, with the average attendance being 90 %. The Supervisory Board has reviewed the efficiency of its work.

Changes in the Supervisory Board and the Management Board

During the 2006 reporting year, no changes in the Supervisory Board of the Management Board took place.

Corporate governance

In March 2007, we once again adopted the compliance statement in accordance with clause 161 of the German Stock Companies Act for the 2006 financial year, including the statement on the 12 June 2006 version of the German Corporate Governance Code, valid from 24 July 2006. The current compliance statement is published on the MediClin website, as are all previous compliance statements.

Work of the committees

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 authorised to reach decisions 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 2006, it held intensive consultations with the Management Board concerning the preliminary financial statements for 2005 and, in November 2006, planned the audit of the Company's annual financial statements for 2006.

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

The Mediation Committee (Vermittlungsausschuss) did not convene in the year under review.

The statements are made according to Section 315 (4) and Section 289 (4) of the German Commercial Code (HGB)

The capital stock remains unchanged at 31,500,000 no-par bearer shares. Those with a direct shareholding in MediClin, of larger than 10 %, are the Provinzial Rheinland Lebensversicherung AG, the ERGO Versicherungsgruppe AG and the DKV Deutsche Krankenversicherung AG. Ownership of the shares is not connected with any privileges or powers of authorisation. In 2006, the option to purchase own shares was not authorised. The regulations regarding the appointment and withdrawal of members of the Management Board is in accordance with the law. There are no compensation agreements in existance in the case of a change in control following a takeover, neither with the Management Board members nor with the employees.

Annual financial statements and consolidated financial statements

The annual financial statements of MediClin AG and the consolidated financial statements prepared by the Management Board for the 2006 financial year, 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 at the Annual General Meeting on 30 May 2006, and 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 2006.

The audit documents and the auditor's 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 Group management report issued by the Management Board. 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 combined management report and Group management report prepared by the Management Board. The annual financial statements are thereby approved and released for publication. The Supervisory Board is following the Management Board's proposal on the allocation of the unappropriated profits. It will propose to carry forward the profit of EUR 1,715,363.85 by 31 December 2006.

The year 2006, although not an easy one for MediClin AG, has been brought to a successful close. We would like to thank the Management Board and all the employees for their commitment and performance during the past financial year.

Düsseldorf, 23 March 2007

On behalf of the Supervisory Board

Günter Schlatter
Chairman of the Supervisory Board

Corporate governance

Corporate governance is of high priority to both the Supervisory Board and the Management Board at MediClin. For this reason, the Company complies with the recommendations issued by the German Corporate Governance Code ("Code"), with one exception.

Conformity declaration

At their meeting on 23 March 2007, the Management Board and Supervisory Board of MediClin adopted the following Declaration of Conformity concerning the Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG):

The MEDICLIN Aktiengesellschaft complies with the recommendations of the 12 June 2006 version of the "Government Commission: German Corporate Governance Code", valid from 24 July 2006, with the following exceptions:

- 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).

Management and controlling bodies of MediClin

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

Independence 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 maintained business relationships during 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.

There is more information about business connections in the notes to the consolidated annual financial statement under disclosures, which reports about links to other persons in accordance with IAS 24.

Tasks of the Supervisory Board

The Supervisory Board supervises and regularly advises the Management Board on management of the enterprise and periodically discusses the Company's business development, business planning, strategy and their implementation with the Management Board. 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 establishment of three committees. However, the Supervisory Board may set up additional committees and define their authorisations.

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

The Mediation 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 employees' representatives on the basis of a majority vote. The committee is headed by the Chairman of the Supervisory Board.

General and Personnel Committee (Präsidialausschuss)

The General and Personnel Committee comprises the Chairman of the Supervisory Board, the Vice Chairman, and respectively one member elected by recommendation of the shareholders' representatives and one member elected by recommendation of the employees' representatives. The General and Personnel Committee is headed by the Chairman of the Supervisory Board. The General and Personnel Committee prepares personnel-related decisions for the Supervisory Board.

Audit Committee

The Audit Committee comprises at least two members of the Supervisory Board, elected by recommendation of the shareholders' representatives and the employees' representatives. The Audit Committee need not necessarily be appointed on an equal representation basis. The Chairman of the Audit Committee is elected by recommendation of the shareholders' representatives.

In particular, the Audit Committee is 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 Management Board 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 15a of the Securities Trading Act (WpHG), to disclose the acquisition or sale of securities of MEDICLIN Aktiengesellschaft if the value of the transactions performed by the members or a related party achieves or exceeds the amount of EUR 5,000 within one calendar year.

In the 2006 financial year, there were no transactions reported.

Communication with shareholders

In its quarterly reports, MediClin reports on 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 financial statements press and analysts' conference. MediClin also complies with new regulations under the Transparency Guidelines Implementation Law (TUG) and the Law on Electronic Trade, Cooperative, Partnership and Association Registers (EHUG). Information regarding this is also available on the homepage www.mediclin.de in German and English. Within the framework of investor relations activities, individual talks are held with investors and Company presentations are conducted.

Convertible bonds

At the Annual General Meeting on 13 November 2000, a programme was adopted governing the issue of convertible bonds. The respective authorisation was valid for five years and expired in November 2005. A new programme has not been presented to the shareholders to date.

At the beginning of the 2005 financial year, 50,000 convertible bonds were subscribed for by the Chairman of the Management Board, Dr. Ulrich Wandschneider. These entitle to the subscription of 250,000 MediClin AG shares following a 2-year blocking period, and with the provision 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. A comprehensive account to the convertible bond key data, and the respective option rights, can be found in the notes under Executive Body Remuneration.

Treasury stock

As of 2 February 2006, MediClin no longer holds any treasury stock. On 16 November 2005, MediClin reported that it would sell the treasury stock, amounting to 1,550,000 shares (4.92 % of the share capital) on the stock exchange. The shares were sold at an average price of EUR 2.86 per share (average price of purchase: EUR 1.81 per share).

Report on compensation

The report on compensation is oriented on 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 on 1 January 2006. For these financial statements, which will be published in spring 2007, the shareholders could make use of the opting-out clause in the annual meeting of the 2006 season, and abandon the publication of the disclosure of the individualised management remunerations for a maximum of five years.

As a major part of the information to be disclosed is already shown in the notes to the MediClin AG annual financial statement, and in the notes to the MEDICLIN Aktiengesellschaft under Executive Body Remuneration, another account is forgone at this stage.

The main features of the remuneration system for the Supervisory Board are presented in the 'Summarised management report and Group management report' in the details under 'Report on compensation'. The individual remuneration of the Supervisory Board members, pursuant to Section 5.4.7 (3) Sent. 1 of the German Corporate Governance Codex, was as follows in the 2006 financial year:

In €	2006
Günter Schlatter, Chairman	14,827.46[1]
Hans Hilpert (Vice Chairman)	6,391.15
Gerd Dielmann	6,391.15
Prof. Dr. Erich Donauer	6,391.15
Peter Erni	6,391.15
Dr. Jochen Messemer	6,391.15
Klaus Müller	6,391.15
Gero Schlagelambers	6,391.15
Dipl.-Kfm. Michael Bock	6,391.15
Dr. Daniel von Borries	7,413.73[1]
Carsten Heise	6,391.15
Dr. Hans Rossels	6,391.15
	86,152.69

[1] Including value-added tax

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 on behalf of the Company's interest. The insurance covers the 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 the members of the Management Board, and of EUR 15,000.00 for the members of the Supervisory Board.

Remuneration of the Advisory Board

The MediClin Advisory Board is enganged in matters concerning development in the health care sector, in particular, regarding the future design of the medical supply in acute-care hospitals and post-acute facilities, in terms of health policy and economy. Seven members belong to the Advisory Board that was founded in 2006. The Advisory Board's attendance fees were agreed in the Management Board meeting on 8 June 2006, at EUR 10,000 per year and per member. Furthermore, all expenses occuring from executing the mandate and also the VAT payable for the fees are being compensated. The allowance accounted for EUR 74,800 in the past financial year.

HEIKE STOKE Quality Manager

QUALITY MANAGEMENT

At the MediClin Hedon clinic, Heike Stoke functions not only as therapist in the Neuropsychological Division, she also works as a quality manager. She spends one half of the day attending to waking coma patients and their relatives, and the other half coordinating and communicating suggestions and measures for improving individual processes.

AS QUALITY MANAGER I FACE THEORETICAL AND PRACTICAL CHALLENGES



How did you, as a therapist, get into quality management?
> Through my involvement in the workers' council I was first introduced to quality management, as a quality coordinator. After my predecessor left, I was offered the post of quality manager by the hospital management. It is important to me to achieve something for patients on the conceptual level, and the area of quality management offers great opportunities in this respect.

What specific improvements have been achieved?
> As part of the certification process we put together a comprehensive catalogue of measures. It also includes the introduction of a structured complaint management. We now actively approach patients as early as during admission and point out to them that there is an office hour for complaints. How feedback to the patient is handled, who handles it and how much time there is allotted to it, is clearly defined.

Does "Heike Stoke, the quality manager" profit from the "Heike Stoke, the therapist"?
> Very much so. Since as a therapist I work personally with the instruments I develop as quality manager, I quickly notice which parts I actually use and those I have no use for. Plus, the fact that I have got to know many departments in the hospital as a therapist and as a nursing aid in my daily work while I was still a student, greatly facilitates my work. It is certainly important to the other staff members that I know, for instance, how to nurse and wash patients. In addition, as an elected member of the workers' council I have the support of the staff. Therefore, I consider myself the "elected quality manager" appointed by the staff.

What else should a quality manager bring to the job?
> Assertiveness, strong communication skills and a great deal of patience – which I find difficult sometimes, though. Quality management is not an office job. I am constantly consulting with other staff members and the hospital management. Often my role is that of a mediator.

Corporate decision-making bodies

Management Board

Dr. Ulrich Wandschneider
Chairman of the Management Board

Frank Abele
Chief Financial Officer

Supervisory Board

Günter Schlatter
Chairman
Former Chairman of the Management Board of Provinzial Rheinland Versicherung AG
Director of the ProAtlanta Beteiligungs- und Grundbesitzgesellschaft mbH

Hans Hilpert[1]
Vice-Chairman
Sports Therapist, Bliestal Kliniken

Dipl.-Kfm. Michael Bock
Member of the Management Board of Provinzial Rheinland Versicherung AG

Dr. Daniel von Borries
Member of the Management 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 at the regional office of Baden-Württemberg at ver.di

Carsten Heise
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 employee representatives

Dr. Hans Rossels
Managing Director of the Kreiskrankenhaus Mechernich

Gero Schlagelambers[1]
Nursing Assistant

Advisory Board

Dr. Jörg W. Knorn
Chairman

Prof. Dr. Axel Ekkernkamp
Medical Director and Managing Director of the Unfallkrankenhaus Berlin

Irmtraut Gürkan
Business Director of the Universitätsklinikum Heidelberg

Dr. Brigitte Mohn
Managing Board Chairwoman of the Stiftung Deutsche Schlaganfallhilfe

Prof. Dr. Werner Müller-Fahrnow
Chair for Supply System Research and Fundamentals of Quality Assurance in Rehabilitation, Humboldt-Universität zu Berlin

Prof. Dr. Günter Neubauer
Director of the Institute for Health Economics, Universität der Bundeswehr, Munich

Dr. Andreas Tecklenburg
Vice-President and Member of the Presidium responsible for the division of Patient Care at the Medizinische Hochschule Hannover

Members of Management Boards of affiliated companies

Dr. Ulrich Wandschneider
MediClin Geschäftsführungs-GmbH
MediClin Pflege GmbH
MediClin Medizinisches Versorgungszentrum GmbH

Frank Abele
MediClin Geschäftsführungs-GmbH
MC Service GmbH (formerly MediLog GmbH)
Cortex Software GmbH
MediClin Medizinisches Versorgungszentrum GmbH
MC Catering GmbH (formerly Gesellschaft für Medizinvertrieb und Consulting mbH)

[1] Supervisory Board member of employee representatives

Mario Biewers
MediClin Immobilien Verwaltung GmbH

Uwe Hektor
MC Catering GmbH
(formerly Gesellschaft für Medizinvertrieb und Consulting mbH)

Frank Horn
MediClin Geschäftsführungs-GmbH
Krankenhaus am Crivitzer See GmbH
Müritz-Klinikum GmbH
Müritz-Klinikum Service GmbH
MVZ-Müritz GmbH

Christine Neu
MediClin Geschäftsführungs-GmbH (until 31 January 2007)

Irmgard Raschka-Halberstadt
MediClin Geschäftsführungs-GmbH

Joachim Richter
MC Pharma GmbH

Christian Röhrl
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem
Verwaltungsgesellschaft mbH

Dirk Schmitz
MediClin Geschäftsführungs-GmbH

Bernd Schulz
MC Catering GmbH
(formerly Gesellschaft für Medizinvertrieb und Consulting mbH)
MediClin Immobilien Verwaltung GmbH

Hermann Steppe
Cortex Software GmbH

Dr. Hans Heinrich Uhlmann
Krankenhaus am Crivitzer See GmbH

Glossary

Terms of the health care sector

Cases
Number of treated patients

Curative procedures
Outpatient, partly in-patient, or fully in-patient rehabilitaion 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 services providers draw up stand-alone agreements about medical services, which are spanned over different service sectors or which are interdisciplinary.

Medical Care Centre (MVZ)
A Medical Care Centre 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 centre 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 deceloped 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 outpatient rehabilitation services immediately or soon after hospital treatment.

The health sector
The health sector 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 emloyees in Germany; this accounts for 13 % of the total number of jobs. Sales revenues are estimated at EUR 500 billion, which represents one 10 % of the gross domestic product.

Therapeutic offers
Medical treatments which enable patients to master again 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 taxes 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.

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) starting in 2003.

IASB
International Accounting Standards Board

IASC
International Accounting Stadards Committee; founded 1973.

IFRIC
International Financial Reporting Interpretations Committee; succeeeded 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 have 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.

SEStEG
German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules.

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

Undiluted earnings per share
The undiluted earnigs 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

26 February 2007	Presentation of the interim figures for the 2006 financial year
26 March 2007	Financial statements press and analysts' conference
10 May 2007	Publication of the interim report for the 1st quarter 2007
25 May 2007	Annual General Meeting
10 August 2007	Publication of the interim report 1st half-year 2007
9 November 2007	Publication of the interim report for the 1st – 3rd quarter 2007

Addresses and imprint

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Dieser Geschäftsbericht liegt auch in deutscher Sprache vor.

This is a translation of the German Annual Report.
In case of divergence from the German version, the German version shall prevail.

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Frankfurt am Main

Development of nursing days, cases and occupancy rates

Nursing days	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Year total
Post-acute	403,416	426,836	428,973	422,269	1,681,494
Acute	95,914	91,865	94,550	91,091	373,420
Nursing care	26,180	28,507	30,646	31,879	117,212
Group	**525,510**	**547,208**	**554,169**	**545,239**	**2,172,126**

Nursing days	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Year total
Post-acute	395,836	430,009	437,310	409,200	1,672,355
Acute	97,046	94,933	92,021	90,422	374,422
Nursing care	14,819	20,299	25,289	25,912	86,319
Group	**507,701**	**545,241**	**554,620**	**525,534**	**2,133,096**

Cases	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Year total
Post-acute	16,154	17,137	17,044	17,058	67,393
Acute	9,632	9,333	9,632	9,068	37,665
Group (without Nursing care)	**25,786**	**26,470**	**26,676**	**26,126**	**105,058**

Cases	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Year total
Post-acute	15,831	17,290	17,356	16,358	66,835
Acute	9,361	9,124	8,890	8,627	36,002
Group (without Nursing care)	**25,192**	**26,414**	**26,246**	**24,985**	**102,837**

Occupancy rates in %	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Year total
Post-acute	75.5	79.2	78.9	77.8	77.9
Acute	80.2	78.8	78.3	75.2	77.6
Nursing care	79.0	81.1	84.6	87.9	82.8
Group	**76.5**	**79.2**	**79.0**	**77.8**	**78.1**

Occupancy rates in %	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Year total
Post-acute	73.7	79.1	79.4	74.4	76.6
Acute	79.6	77.0	74.0	73.0	75.9
Nursing care	52.7	64.1	79.0	79.5	69.3
Group	**74.0**	**78.1**	**78.5**	**74.4**	**76.2**

MEDICLIN

The presence of MediClin

www.mediclin.de

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