MediClin integrates.

MEDICLIN

Health in View

ANNUAL REPORT 2016

MEDICLIN Aktiengesellschaft

MediClin – A company of the Asklepios Group

MediClin: key data on business development

	2016	2015	Change in %
Number of shares in millions	47.5	47.5	0.0
Number of cases (inpatient)	121,427	120,016	+1.2
Number of beds as of 31.12.	8,084	8,031	+0.7
Occupancy rates in %	87.9	87.3	
Number of full-time employees (annual average)	6,649	6,524	+1.9

In thousands of €	2016	2015	Change in %
Cash flow from operating activities	29,903	30,904	−3.2
Cash flow from operating activities per share in €	0.63	0.65	−3.2
Sales	580,344	555,348	+4.5
EBITDAR	89,309	87,853	+1.7
EBITDAR margin in %	15.4	15.8	
EBITDA	43,194	42,026	+2.8
EBITDA margin in %	7.4	7.6	
EBIT (operating result)	24,024	23,609	+1.8
EBIT margin in %	4.1	4.3	
Financial result	−3,123	−3,602	−13.3
Result attributable to shareholders of MediClin AG	16,546	16,536	+0.1
Earnings per share in €	0.35	0.35	+0.1
Dividend per share in €	–	–	
Gross capital expenditure	28,101	26,957	+4.2
Thereof subsidies	6,433	2,674	+140.6
Proportion of own funds in %	77.1	90.1	
Interest coverage factor (EBITDA/interest income)	13.5x	11.5x	

In thousands of €	31.12.2016	31.12.2015	Change in %
Balance sheet total	347,063	329,426	+5.4
Equity	181,564	169,139	+7.3
Equity ratio in %	52.3	51.3	
Return on equity in %[1]	9.1	9.8	
Financial liabilities (to banks)	48,796	46,546	+4.8
Cash and cash equivalents	41,648	29,532	+41.0
Net debt	7,149	17,014	−58.0
Net debt/EBITDA[2]	0.2x	0.4x	

[1] Group result in the last 12 months/equity
[2] EBITDA in the last 12 months

Due to arithmetical reasons, calculation differences of +/– one unit (€, %, etc.) may occur.
Percentage rates have been determined on the basis of € values.

MEDICLIN

Health in view

Listening to our patients and residents, understanding them, speaking their language and respectfully caring for them in every situation – this is our mission which we aim to fulfil in all respects.

FEEDBACK REGARDING THE ANNUAL REPORT

If you have feedback or want to make comments regarding our Annual Report, please send an email to: feedback.gb@mediclin.de.

We are looking forward to your input.

MEDICLIN – A VIDEO OF THE 2016 CONFERENCE

www.mediclin.de/film-tagung

FURTHER INFORMATION

www.mediclin.de/en

Quarterly development of the Group in 2016

In millions of €	Q1	Q2	Q3	Q4
Sales	141.9	147.3	146.0	145.1
EBITDAR	17.9	23.6	25.0	22.8
EBITDAR margin in %	12.6	16.0	17.2	15.7
EBITDA	6.4	12.0	13.5	11.3
EBITDA margin in %	4.5	8.2	9.3	7.8
EBIT (operating result)	1.7	7.4	8.7	6.2
EBIT margin in %	1.2	5.0	6.0	4.3
Financial result	−0.7	−0.7	−0.8	−0.9
Result attributable to shareholders of MediClin AG	0.9	5.4	6.2	4.0
Earnings per share in €	0.02	0.11	0.13	0.08
Cash flow from operating activities	3.9	1.1	15.7	9.2
Cash flow from operating activities per share in €	0.08	0.02	0.33	0.19
Equity ratio in %	49.0	50.0	49.0	52.3
Gross capital expenditure	7.1	6.6	4.5	9.9
Net financial debt	18.6	21.8	8.6	7.1
Number of cases (inpatient)	29,779	31,061	30,694	29,893
Number of beds (end of quarter)	8,050	8,050	8,050	8,084
Occupancy rates in %	86.2	90.3	88.7	86.5
Number of full-time employees (quarterly average)	6,558	6,587	6,666	6,785

ABOUT MEDICLIN

MediClin is a nationwide operator of hospitals and a large provider in the areas of the neurosciences and psychological sciences as well as orthopaedics.

With 34 hospital operations, seven nursing care facilities and eight medical care centres in 11 German federal states, MediClin has a total capacity of approximately 8,100 beds.

The hospitals are acute-care hospitals providing basic, standard and specialised care, as well as specialist clinics for medical rehabilitation.

MediClin had approximately 9,300 employees at year-end.

VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,
Dear Shareholders,

I have been heading MediClin as Chairman of the Management Board since April last year. The last 12 months have shown me that I am at the helm of a company whose medical and therapeutic offerings and nursing care services focus on delivering optimal care to our patients. When it comes to the quality of care, it is the employees – all of our employees – who ensure the patients' well-being.

Therefore my colleagues on the Management Board and I would like to use this opportunity to express our thanks: we are grateful for your commitment and motivation, which made the 2016 financial year successful.

Marked increase in sales and earnings in line with the forecast

Group sales climbed by EUR 25.0 mill. to EUR 580.3 mill. in the 2016 financial year, or 4.5 % compared with the previous year's value. The post-acute segment accounted for the largest share in sales growth, some EUR 20.1 mill. The Group operating result showed a moderate improvement of EUR 0.4 mill. from EUR 23.6 mill. to EUR 24.0 mill.

The strong sales increase in the post-acute segment meant that the segment exceeded its sales and earnings targets in the 2016 financial year. Clinics that, in addition to their rehabilitation services, offer medical services in acute neurology and acute psychosomatics in the scope of their integrated care concept contributed considerably to this excellent performance. Although the acute segment also generated sales growth, the rise did not suffice to compensate for higher expenses, which is why the segment result was below the previous year. The nursing care business area continued to perform very well with the 2016 occupancy rate climbing above the high previous year's value.

High capital expenditure for hospital reconstructions and expansions

All in all, we invested some EUR 28.1 mill. in 2016 (gross), EUR 1.1 mill. more than in the previous year. A total of EUR 14.7 mill. was spent on the reconstruction and expansion of hospitals and equipment for patient rooms, treatment rooms and office space. EUR 5.1 mill. was invested in medical equipment including accessories. The largest purchase, for instance, was a magnetic resonance tomograph (MRT) for our clinic in Waren, which will be supplemented by a new computer tomograph (CT) in 2017. A new CT for MediClin Krankenhaus Plau am See went into operation at the end of 2016.

In addition to the investments, we spent about EUR 18.5 mill. on maintenance and repairs in the 2016 financial year. Capital expenditure in 2017 will be about the same as in 2016.

We will continue to grow in our areas of expertise in 2017

Our areas of expertise are neurology, cardiology, orthopaedics and psychosomatic and psychiatric conditions. In these specialist fields we offer first-rate medical services for certain treatments, which we have bundled under the term "excellence". Patients and their relatives as well as coverage providers can thus easily obtain information on our specific medical and therapeutic expertise on www.mediclin-exzellenz.de.

And we intend to use the advantages resulting from a closer cooperation between acute medicine and rehabilitation for the benefit of the Group and will continue to build on these advantages in the future. These will be the main considerations when it comes to expanding capacity and further developing locations. Some current examples:

Around EUR 4.3 mill. will be invested in MediClin Waldkrankenhaus and Reha-Zentrum Bad Düben in various expansion, reconstruction and modernisation measures. The hospital is among Germany's most efficient orthopaedic clinics today. The rehabilitation centre bundles the specialist clinics for orthopaedics, cardiology and neurology under one roof. Planned measures include an expansion of bed capacity in the rehabilitation centre and the acquisition of state-of-the-art medical equipment. An MRT and a CT will be put into operation in the first half of 2017 to support diagnostics. The reconstruction of rooms will allow for more efficient procedures and offer more comfort for patients and staff.

The bed capacity at MediClin Reha-Zentrum Reichshof will likewise be increased. At this clinic, 20 acute places, i.e. 20 beds for neurological early rehabilitation, are to be added to the neurology department which currently has 132 beds. One ward at the clinic is being renewed entirely and will house an intensive care unit. In order to be able to offer patients diagnostics as needed on-site, the radiology unit will be equipped with a CT, which also benefits the oncology and pneumology units.

We are planning to build a new hospital for psychosomatic medicine at the location of the MediClin Seepark Klinik in Bad Bodenteich. The new premises can host more patients and offer innovative treatment concepts. As soon as the new building is available, the rehabilitation unit in the existing building will be enlarged, adding further treatment options.

At our Bad Tabarz location, the demand for nursing care places is rising. Currently, the nursing home MediClin Seniorenpflegeeinrichtung Rennsteigblick shares the premises of the clinic MediClin Klinik am Rennsteig and cannot be further expanded. Therefore, we will invest about EUR 7.8 mill. in the construction of a new nursing care facility. Another EUR 3.0 mill. will be spent on developing the location, including new services in neurology.

We assume that the majority of capacity expansions will be completed in 2017 and will contribute positively to sales and earnings after the initial start-up phase.

MediClin needs dedicated staff

MediClin intends to and will continue to grow. We are determined to participate in the growing healthcare market in fields where we have our strengths and are able to implement our corporate strategy. Therefore, we need to offer innovative treatment and therapies and nursing care tailored to our residents' requirements. We need to transfer knowledge within the Group and face internal and external competition. We can only achieve this with the help of dedicated and highly qualified employees. Employees, who enjoy working for us and identify with the Company. For this, we need to accomplish two things: "Bind employees to MediClin" and "win employees for MediClin". In this respect, we will increase our efforts. We will define clearly, both internally and externally, what the MediClin brand stands for. What promise we as MediClin give our patients, staff and colleagues when it comes to performance and commitment. This includes the attitude towards our work and leadership style, both important elements of corporate culture. The following must be true: it is worthwhile working for MediClin, because the working conditions are right – for every single one of us.

Integrated medical care serves the patients

MediClin's strength is its cross-sector range of services. Our corporate strategy of integrated patient-oriented care is the way to go in the future. The aim is to accompany patients on the road to recovery, irrespective of whether the patient is in hospital, a rehabilitation clinic or is receiving outpatient treatment. We plan to exercise better control over this process. We already offer specific acute services in 11 of 26 post-acute clinics (rehabilitation facilities), meaning that patients arriving with an acute condition can stay on at the same facility for rehabilitation. We are planning to invert this approach and build up rehabilitation capacity in our acute hospitals for the corresponding indications, especially in specialist cardiology clinics. In our view, a closer link between acute medicine and rehabilitation and even nursing care would make a considerable contribution to affordable healthcare going forward.

Dear shareholders, an aging population and the rising cost of the healthcare system are factors that we cannot change. Another thing we cannot change is the framework conditions in the healthcare system; this responsibility lies with the legislative authorities. What we can and will do, however, is to take up the challenges the healthcare market is facing. My colleagues on the Management Board and I will make sure that MediClin keeps up its sound and successful growth.

I would like to extend my thanks, also in the name of my colleagues, for your trust today and in the future.

Volker Hippler
Chairman of the Management Board

ULF LUDWIG
MEMBER OF
THE MANAGEMENT BOARD

VOLKER HIPPLER
CHAIRMAN OF
THE MANAGEMENT BOARD

JENS BREUER
CHIEF FINANCIAL OFFICER

Getting together

Growth

1

2

3

Teamwork

MediClin – a video of the 2016 Conference
www.mediclin.de/film-tagung

Growing together

4 Integration

5 Innovation

Getting together

Getting together

MediClin has locations across the nation. A personal conversation is still the best way to share knowledge, communicate and learn new things – at MediClin's manager conference.

1 Getting together
2 Teamwork
3 Growth
4 Integration
5 Innovation

Teamwork

Solutions that are found when topics are discussed as a team in a workshop benefit everyone: managers in day-to-day work, employees and patients.

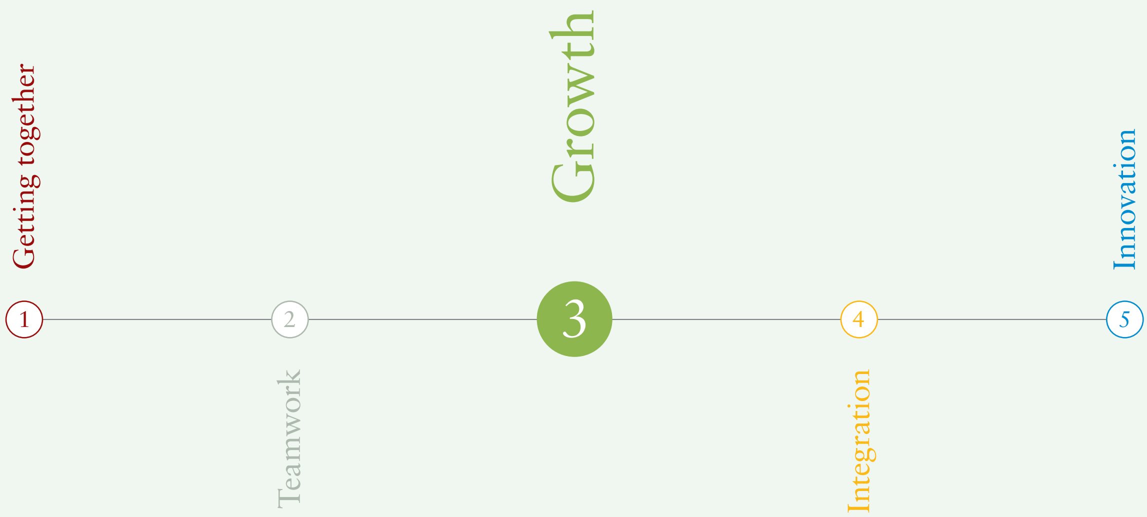
1 Getting together

2 Teamwork

3 Growth

4 Integration

5 Innovation



MediClin has a record of achievements and is well established in the market. All managers generally agreed that MediClin has to grow in order to continue providing good medical, therapeutic and nursing care services.

Growth

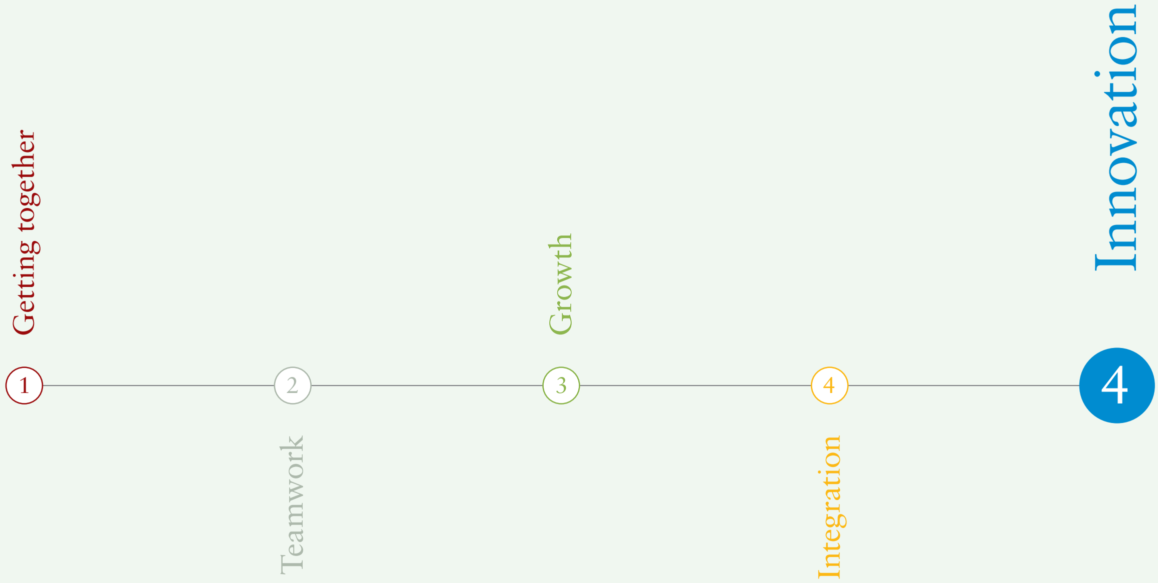

MediClin – gemeinsam wachsen!
MEDICLIN


MEDICLIN
Die Präsenz der MediClin

Integration

Acute treatment, rehabilitation, nursing care – outpatient or inpatient treatment. The crucial factor is a smooth transition for patients from one phase to the next. MediClin excels at this. MediClin knows how to do this. And MediClin is constantly striving to get even better – one of the items on the conference agenda.

1 Getting together
2 Teamwork
3 Growth
4 Integration
5 Innovation



Innovation

Innovation is no end in itself. New medical, therapeutic and nursing care measures are implemented following thorough reflection, always with the ultimate goal in mind – this is our managers' preferred approach.

The MediClin share

The MediClin share

For 2016 the experts at banks, investment and insurance companies had predicted rising share prices with high volatility over the year. They had anticipated higher company profits on the back of low raw material prices, a stabilisation in private spending and stronger exports fuelled by a weak euro.

On the whole the stock exchange performance confirmed these assumptions despite concerns over China's growth at the start of the year, despite the BREXIT vote in the summer and the election of Donald Trump as next president of the United States at the end of the year. However, it must be noted that the DAX – with very few downward breakaways – remained within a range of between 10,500 and 10,800 points between early August and early December. It only started climbing to just under 11,500 points after the Wall Street surge following the election.

The DAX closed on 30 December 2016 at 11,481 points (opening price 04.01.2016: 10,486 points). In 2016 it failed to reach the all-time high of 12,390 points seen in April 2015.

According to a survey by the German newspaper Frankfurter Allgemeine Zeitung (FAZ) among 24 banks, investment companies and insurers, the stock exchange will show only moderate increases in 2017. Based on the status at the beginning of the year, analysts expect to see an average increase of 2.0 per cent, i.e. a rise in the DAX to about 11,700 points.

Detailed investor information is available on our website

The Investor Relations section on MediClin's website provides all the information relevant for private and institutional investors, such as the financial calendar, key company data, press releases, annual and interim reports and information on the Annual General Meeting; this includes current data and information referring to previous years.

The MediClin share (Xetra) closed 2016 at a price of EUR 5.87, about 38 % higher than the share price at the beginning of the year (EUR 4.25). The yearly low in January 2016 was EUR 4.10; the yearly high was EUR 6.01 in August 2016.

DZ Bank AG, Frankfurt, continually follows and evaluates the business development of MediClin. Its recommendation, provided in the context of commentary on the 2016 nine-month figures published in August 2016, was "buy (previously buy)". The current fair value given by DZ Bank AG for the share is EUR 6.30 (previously EUR 6.10).

Shareholder structure

The major shareholders of MediClin AG are the Asklepios Group with 52.73 % and ERGO Versicherungsgruppe AG with 35.00 %. 12.27 % of the shares are in free float.

Share indicators

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

In € per share	2016	2015
Result undiluted/diluted	0.35	0.35
Cash flow from operating activities	0.63	0.65
Book value[1] as of 31.12.	3.83	3.57
Year-end price	5.870	4.150
Annual high	6.010	4.430
Annual low	4.100	3.405
Market capitalisation (year-end price) in millions of €	278.8	197.1
Number of shares in millions	47.5	47.5

[1] Equity less non-controlling interests

Sources: Deutsche Börse AG; Xetra

Summarised management report and Group management report of MEDICLIN Aktiengesellschaft
for the 2016 financial year

Contents

Basis of Group activities

Business model of the Group

The MEDICLIN Aktiengesellschaft Group (MediClin) is a hospital operator active in Germany in the legal form of an Aktiengesellschaft (stock corporation). The Group offers professional medical services in the fields of acute care and rehabilitation at 49 medical facilities throughout Germany; some of the locations also offer nursing care services.

Focuses within the range of services are neuromedicine (neurology, neurological early rehabilitation, neurosurgery and neuroradiology), psychosomatics and psychiatry, and orthopaedics. Furthermore, certain locations have special competencies in the areas of ENT (tinnitus, cochlea implants), oncology (radiotherapy) and internal medicine (cardiology, pneumology, endocrinology).

Its cross-sector presence enables MediClin to pursue a business model that allows offering its patients integrated medical care. The network of outpatient and inpatient medical services across sector boundaries increases the efficiency of healthcare while guaranteeing a high-quality standard along the entire treatment chain. The usual interruptions in treatment between sectors can be avoided within the Group through integrated medical care at individual locations and at a regional and national level. This enables patient-oriented treatment as well as efficiency enhancements at the individual clinics through synergies and standardisation.

In order to provide integrated medical care at a regional and national level, MediClin has adopted a regional concept. While complying with the applicable Group standards and Rules of Procedure, the executives that are responsible for a certain region are in charge of the operational and strategic development of the range of services in their respective regions. Location development includes establishing regional networks among Group companies and between in-house and third-party medical facilities by way of cooperation, regional sales activities and the implementation of projects across several locations. MediClin's regional concept enhances the integrative patient care within a region and allows the establishment of a medical services offer that meets the specific needs within a region.

MEDICLIN Aktiengesellschaft (MediClin AG) is a holding company and handles the functions arising in the Group within the framework of corporate planning, financing and cooperation management. As a listed company, it meets all the requirements of the capital market and can use the latter for capital procurement.

Subscribed capital, shareholder structure and company bodies

MediClin AG has its registered office in Offenburg, Baden-Württemberg. The Group’s subscribed capital amounts to EUR 47.5 mill. and is split up in 47,500,000 no-par-value bearer shares. MediClin AG’s main shareholders are the Asklepios Group with 52.73 % and ERGO Versicherungsgruppe AG with 35.00 %; 12.27 % of the shares are in free float.

The Supervisory Board acts as the highest controlling and supervisory body and is subject to the provisions of the German codetermination law (MitbestG). It consists of 12 members, six of which are elected by the shareholders and six by the employees. The Supervisory Board appoints the members of the Management Board and supervises its management of the Group. The members of the Supervisory Board have formed several committees to which the Board delegated advisory functions as well as decision-making authorities to the extent that this is legally admissible.

Group structure

MediClin AG acts as a Group holding company. The medical services are rendered by the medical facilities, who are thus responsible for generating operating business locally. Service functions for these medical facilities, like finance and accounting, personnel and social benefits, purchasing and technology, quality management and organisation, are bundled by MediClin GmbH & Co. KG, Offenburg. In order to efficiently allocate resources and achieve cost degression effects (economies of scale), the following subsidiaries perform certain services on behalf of the entire Group:

- Cortex Software GmbH
  Installation of network technology, user support, training
- MediClin Immobilien Verwaltung GmbH
  Real estate management, investment management, cost and income management in the real estate segment
- MediClin à la Carte GmbH
  Operation of the catering and cafeteria segment, quality and hygiene management
- MC Service GmbH
  Maintenance and cleaning services, optimisation of cleaning procedures
- MediClin Therapie GmbH
  Organisation, analysis and evaluation of therapies, development of therapy concepts
- MediClin Energie GmbH
  Power trade, operation and maintenance of power engineering equipment and cable systems, development of power concepts

As of 31 December 2016, MediClin included 34 clinics, seven nursing care facilities and eight medical care centres nationwide. As in the previous year, eight of the 34 clinics are dedicated acute-care hospitals and 26 of the medical facilities are post-acute (rehabilitation) clinics. Eleven post-acute clinics provide specific acute services in addition to medical rehabilitation measures.

The nursing care facilities offer full-time and short-term nursing care. These facilities are located at the same sites as the post-acute clinics, and can thus benefit from the latter's infrastructure.

Services offered by the medical care centres mainly pertain to the outpatient acute market.

MediClin has a total capacity of 7,653 beds and 431 nursing places as of the balance sheet date.

In the 2016 financial year the number of employees was approximately 9,300; calculated on the basis of full-time staff, this corresponds to an average number of 6,649 full-time employees in the 2016 financial year.

Segments and business areas

The reportable operating segments of MediClin are the post-acute, acute and other activities segments. This last segment encompasses the nursing care business area and the service business area. Post-acute clinics that offer specific acute services are allocated to the post-acute segment, because it is impossible to make a clear business-related distinction between the rehabilitation services that are primarily rendered in the facilities and acute medical services as they jointly use the existing infrastructure. Sales and results of the medical care centres are assigned to the acute segment.

Range of services

The Group's bed capacity over the last few years was about 7,611 on average, plus an average of nearly 435 nursing places. Capacity expansions and adjustments within the facilities are performed on the basis of demand in line with the corporate strategy.

Number of beds/nursing care places

As of 31.12.	2016	2015	2014	2013	2012
Post-acute	6,040	6,032	6,033	6,123	6,181
Acute	1,613	1,569	1,522	1,482	1,461
Nursing care (places)	431	430	430	441	441
Group	**8,084**	**8,031**	**7,985**	**8,046**	**8,083**

MediClin's range of medical services is highly professional and certified, with services in the fields of neurology and psychosomatics, psychiatry, orthopaedics and internal medicine. Due to the expansion and reclassification of bed capacity in previous years, especially in the fields of neurology and psychosomatics (post-acute) and psychiatry (acute), the share of this specific medical range of services now accounts for 37.7 % (previous year: 37.0 %) of the entire available bed capacity (without the nursing care sector).

Number of beds/places

As of 31.12.	2016	2015
Post-acute		
Neurology and psychosomatics	2,375	2,337
Orthopaedics	1,768	1,790
Internal medicine	1,429	1,460
Thereof cardiology	399	396
Thereof oncology	347	357
Other	468	445
Total	**6,040**	**6,032**
Acute		
Psychiatry	514	478
Surgery	231	231
Orthopaedics	196	200
Internal medicine	177	177
Other	495	483
Total	**1,613**	**1,569**
Nursing care	431	430
Group	**8,084**	**8,031**

Development of staff figures

MediClin has continuously increased its headcount in line with company growth, thus ensuring high-quality treatment by well-trained staff, and has more than the personnel capacities that are required by the coverage providers based on indication and number of beds.

The average number of employees, on the basis of full-time employees and excluding the Management Board, managing directors and trainees, developed as follows in the medical and non-medical service areas:

Shown in full-time employees	2016	2015	2014	2013	2012
Medical	808	814	822	800	786
Nursing care	2,061	2,018	1,984	1,977	1,941
Medical-technical	1,524	1,476	1,453	1,464	1,436
Functional	416	407	395	384	380
Medical services	**4,809**	**4,715**	**4,654**	**4,625**	**4,543**
Support functions	1,023	995	982	969	938
Technical	114	128	126	124	121
Administration	564	545	538	529	525
Other	50	48	50	46	50
Non-medical services	**1,751**	**1,716**	**1,696**	**1,668**	**1,634**

The average number of employees, on the basis of full-time employees and including the Management Board, managing directors and trainees, developed as follows in the individual segments:

Shown in full-time employees	2016	2015	2014	2013	2012
Post-acute	3,489	3,398	3,303	3,258	3,189
Acute	1,979	1,964	1,994	2,005	2,005
Other activities	1,181	1,162	1,135	1,109	1,062
Thereof nursing care	192	183	175	176	169
Thereof service (including administration)	989	979	960	933	893
Group	**6,649**	**6,524**	**6,432**	**6,372**	**6,256**

External factors that could influence the business performance

(New) legal regulations can have a major impact on MediClin's business performance. Legal regulations in the healthcare sector mainly affect expenditure and thus the compensation for medical and healthcare services rendered. The macroeconomic development in Germany has an indirect effect on MediClin's business performance, especially with regard to its impact on the labour market. A stable labour market and secure jobs have a positive effect on the demand for medical services, as treatments are not postponed and there is an increased readiness to use rehabilitation and prevention services. Moreover, falling unemployment figures and a high proportion of dependent employees improve the financial situation of social security and pension funds.

In the acute sector, the financing system provides for various premiums and discounts in addition to the case-based lump sum remuneration. The applicable provisions in the acute sector stipulate that additional services are not fully compensated where there is strong demand for medical services with the corresponding budget overruns. The settlement of additional services is agreed between the hospitals and health insurance funds at local level, as is the adjustment of any deficiencies in proceeds if the budget is not met. Usually, however, the health insurance funds will only reimburse additional services and no deficiencies in proceeds until the new capacities are ready or the additionally agreed budgets are met.

In the rehabilitation sector, the scope of services is agreed individually with the cost bearers; here there is no adjustment for deficiency in proceeds if the budget as approved by the cost bearers is not met. Maintaining the required capacities is therefore largely at the risk of the hospital operator.

Other external factors affecting the business performance are the demographic development in Germany, progress in medical technology and the personnel situation in the sector.

Objectives and strategy

Integrated medical care across sector limits

In the context of its integrated medical care concept, MediClin strives to link up the locations in the outpatient, inpatient and subsequent-inpatient sectors so as to ensure high-quality medical services within the community and, for specific medical indications, achieve close nationwide cooperation with own or other medical facilities. This is to facilitate single-source patient care and to prevent interruptions in the care chain between sectors at regional and national level. This corporate strategy is reflected in the company motto "MediClin integrates".

In order to reach this strategic objective, MediClin actively explores the circumstances within the Group and the local market for suitable cooperation partners. Potential partners are hospitals, but also registered physicians or coverage providers. The Group already maintains close networks on the basis of both location and indication.

MediClin also aims to increase the efficiency of its medical facilities. The range of services thus places special emphasis on certain indications, focusing on medically sophisticated curative treatment (e.g. neurosurgery, cardiology, oncology, geriatrics) as well as medical fields and therapies that are on the increase due to demographic and lifestyle trends (e.g. neurology, internal medicine and psychosomatics).

The consistent implementation of the strategic objectives secures the future of the facilities and generates organic growth. This is supported by an investment policy that creates additional capacities at locations with high growth potential. The long-term average organic sales growth target of the Group is 3.0 % p.a.

Corporate controlling

The Management Board of MediClin manages the Group on the basis of strategic and financial targets. The financial control parameter "sales growth" is determined once a year in the scope of Group and segment planning and takes into account the Group's strategic target figure for sustainable sales growth (3.0 % p.a.). The operating result (EBIT) and the EBIT margin are further financial target ratios and control parameters that serve to measure the Group's and the segments' earning power.

The financial control parameters for the Group and the segments are summarised in a financial report and monitored on a monthly basis. In addition, the Management Board also uses performance measures, such as occupancy and nursing day statistics that are recorded on a weekly basis as well as the monthly DRG reports. This data provides current information on clinic efficiency, supporting the coordination, planning, control and monitoring of the operating processes.

At Group level, the debt ratio (net debt/EBITDA) is another important control parameter. The debt ratio shows to what extent a company is able to meet its payment obligations. The maximum debt ratio may not exceed 3.5.

Additional corporate key figures such as the equity ratio or the interest coverage ratio are performance indicators that refer to the Group's rating and are material in the relation to banks when granting loans (covenants).

Once a year the clinics, in close coordination with the Group's controlling department, draw up planning for the future business development of the Group for the three upcoming financial years (bottom-up approach). During the year MediClin uses the monthly and quarterly results to regularly review the business forecast and to analyse any deviations. If required, the forecast is adjusted to the new business performance and published accordingly.

In addition to the financial control parameters, the Management Board also uses non-financial performance indicators, such as quality assurance, health and safety at work, patient surveys, personnel development and subjects surrounding energy and the environment, to promote the Group's sustainable development.

Quality management and quality assurance
Internal quality management in the MediClin facilities is based on the current requirements of the international DIN EN ISO 9001:2015 quality management standard and the agreement on internal quality management of the German Working Group for Rehabilitation (Bundesarbeitsgemeinschaft für Rehabilitation e.V. – BAR) pursuant to Section 20 (2)a of the German Social Security Code IX (SGB). Moreover, certifications have been obtained for specific indications in the fields of orthopaedics, oncology and neurology. These evidence that high standards are observed in applying certain treatment methods or surgical procedures. The MediClin post-acute hospitals additionally fulfil and document the quality criteria prescribed by the IQMP-Reha quality management programme approved pursuant to Section 20 (2)a of the German Social Security Code IX (SGB).

Every MediClin clinic carries out annual audits according to DIN EN ISO 9001. These audits are usually conducted by a qualified auditor from another MediClin facility together with the clinic's quality manager. About 10 to 15 such internal audits are currently carried out per year and clinic across the MediClin Group. Moreover, quality levels are regularly reviewed by third parties.

Health and safety at work

With regard to health and safety at work, the clinics run by MediClin implement the strict health and safety requirements stated in the "qu.int.as" integrated quality management programme issued by the institution for statutory accident insurance and prevention for the healthcare and welfare sector (Berufsgenossenschaft Gesundheitsdienst und Wohlfahrtspflege – BGW).

Patient surveys

The service quality is systematically measured on the basis of patient satisfaction. Therefore the individual clinics always ask their patients to provide feedback. Patients are asked to anonymously fill in questionnaires that are analysed by an external institute, who reports back to the facilities every six months. The results of the clinics are compared within the MediClin Group and used as internal benchmarking to improve the quality of care. The results of the analyses are published in the Group-wide intranet. If these analyses identify a need for action, the corresponding measures are initiated and their success is measured systematically by means of follow-up surveys.

Transparency

MediClin has undertaken to disclose comprehensive data on the quality of medical care and treatments. Once a year the MediClin acute and post-acute hospitals thus voluntarily publish easily understandable quality indicators for up to five quality dimensions on the www.qualitätskliniken.de clinic portal. These contain evaluations of the quality of medical services, patient safety as well as the satisfaction of patients and the referring doctors. In the field of medical rehabilitation, MediClin was one of the initiators of the independent clinic portal.

Personnel development

Family-friendly working conditions and personnel development are important aspects for MediClin to attract and keep qualified personnel. The MediClin Academy therefore supports the competences and motivation of employees through systematic personnel development and focused training and skills-enhancement programmes. Offers range from subject-specific topics to seminars imparting core personal qualifications.

Energy and environment

Efficient and sustainable energy consumption is an integral part of MediClin's corporate strategy. In order to economically operate hospitals it is important to have control over energy costs and to consume resources in an environmentally friendly way.

Therefore MediClin has defined the following strategic objectives for its energy policy:

- Sustainable reduction in specific energy consumption under economic aspects
- Compliance with legal regulations/prescriptions
- Increasing employee and patient awareness of efficient energy consumption, by making energy flows and the dependencies of the material processes, equipment and accompanying procedures on such energy flows transparent

In order to achieve these objectives, the following operating targets were defined:

- Increase the in-house production of electricity
- Operate equipment in line with the needs
- Reduce the energy consumption for illumination
- Reduce consumption by optimising measurement and control technology
- Heat recovery
- Create transparency of energy flows
- Use high-efficiency motors
- Make the relevant laws, regulations and policies transparent
- Conclude contracts to ensure compliance with laws, regulations and policies
- Inform employees with regard to energy issues
- Public relations work
- Procure energy-efficient products and services

Here MediClin mainly relies on energy efficiency and energy consumption solutions that pay off after a short period of time. Local cogeneration units, for instance, generate energy and heat at the same time. Three new in-house power generation plants were built in 2016, meaning that 29 cogeneration units at 23 locations are now generating about 40 % of MediClin's entire power consumption, corresponding to some 15.3 million kilowatt hours. The highly efficient combined generation of heat and power also reduces CO_2 emissions. MediClin has managed in the last seven years to reduce CO_2 emissions by about 6,000 tons per year.

MediClin has introduced an energy management system in accordance with DIN EN ISO 50001 that was certified in the year under review. This energy management is aimed at establishing systems and processes that will further improve the energy-related performance by exploiting previously unused energy efficiency potential, reducing energy costs and lowering the emissions of greenhouse gases and other environmental damage due to energy consumption.

Research and development

MediClin supports scientific projects

MediClin supports the ongoing development of medical services and their measurability by participating in scientific projects regarding medical care. In addition to research projects conducted in individual clinics, which are usually financed via third-party funds, some clinics also participate in clinical studies on the evaluation and further development of medical and therapeutic services.

Report on the economic position

General

In the 2016 annual financial statements the method for charging the facilities for Group contributions and the amounts thereof were changed. This has an effect on the segment results in segment reporting. In the following, the previous year's figures were adjusted for the change in Group contributions to improve the comparability of figures.

General statement on results of operations, financial position and net assets

In the 2016 financial year MediClin generated Group sales of EUR 580.3 mill., exceeding the previous year by EUR 25.0 mill. or 4.5 %, respectively. The post-acute segment accounted for the largest share in sales growth, some EUR 20.1 mill. The Group operating result showed a moderate improvement of EUR 0.4 mill. from EUR 23.6 mill. to EUR 24.0 mill.

Segment performance

The post-acute segment exceeded its sales and earnings targets in the 2016 financial year. Segment sales increased by EUR 330.9 mill. to EUR 351.0 mill., while the segment result rose by EUR 4.6 mill. from EUR 13.9 mill. to EUR 18.5 mill., corresponding to an EBIT margin of 5.3 % for the segment. Clinics that, in addition to their rehabilitation services, offer medical services in acute neurology and acute psychosomatics in the scope of their integrated care concept contributed considerably to this performance.

In the acute segment sales rose on the previous year by EUR 3.9 mill. from EUR 206.7 mill. to EUR 210.6 mill. Sales from outpatient healthcare decreased by EUR 0.5 mill. to EUR 15.6 mill. The eight medical care centres generated sales in the amount of EUR 8.5 mill. (previous year: eight medical care centres; EUR 8.9 mill.). Due to higher expenses, the segment result shrank by EUR 2.9 mill. from EUR 8.7 mill. to EUR 5.8 mill. with a segment EBIT margin of 2.8 %.

Sound financial structure and stable results of operation

MediClin's balance sheet and financial structures show that the Group is in a sound position. In addition to cash and cash equivalents of EUR 41.6 mill., the Group has access to credit lines in the amount of EUR 31.0 mill. The cash position is therefore strong enough to support capacity expansions in MediClin's medical focus areas as well as generate additional sales growth.

The equity ratio is 52.3 % and net financial debt amounts to EUR 7.1 mill. The 2016 debt ratio was 0.2x, which is still clearly below the maximum target level of 3.5x.

Based on the general positive economic conditions, the Management Board assumes that demand for MediClin's offering of medical treatment, therapy and nursing care will remain at least at the level of 2016 in the 2017 financial year. The Management Board describes MediClin's results of operations as secure and the financial position and net assets as sound.

The macroeconomic and sector-specific environment

Stable economy in 2016

According to calculations by the Federal Statistical Office, the price-adjusted gross domestic product (GDP) grew by 1.9 % in 2016 (previous year: 1.7 %)[1]. The labour market remained highly stable in 2016 with an unemployment ratio of 6.1 % (previous year: 6.4 %). The number of people in employment rose by 0.5 % to more than 43.5 million in 2016 (2015: 43.1 million).

The stable economic performance had a positive effect on tax revenues and the main cyclical expenditure items, and the Federal Republic of Germany thus managed to achieve a balanced budget with no new debt. In the preliminary statements for the 2016 federal budget published by the German Federal Ministry of Finance (Bundesfinanzministerium – BMF) on 12 January 2017, total revenue amounted to EUR 317.4 bill., EUR 289.0 bill. of which pertained to tax revenue. Expenditure totalled EUR 311.2 bill. The resulting budget surplus of EUR 6.2 bill. will be used to repay debts, pending approval by the German Federal Parliament (Bundestag). The financial situation of the social security insurance also improved with the financial deficit dropping to EUR 2.2 bill. in the first to third quarter of the 2016 financial year (down from EUR 6.7 bill. in the previous year). This was due in particular to a 4.6 % increase in revenue to EUR 442.8 bill. with a simultaneous increase in expenditure by 3.4 % to EUR 445.0 bill.

[1] GDP 2016: EUR 3,133.9 bill. (previous year: EUR 3,032.8 bill.)

The healthcare market is a growth market

The healthcare industry is one of the large sectors of the German economy and is a driver of growth and employment. An ageing population, greater health awareness and medical-technological progress have been boosting demand for medical and rehabilitation services for years. While this acts as a guarantor for growth, it also pushes up expenditures in the healthcare sector. In 2015 the share of healthcare expenditures in the gross domestic product (GDP) was 11.3 % (2014: 11.3 %), while healthcare expenditures per capita amounted to EUR 4,213 in 2015 (2014: EUR 4,065).

Altogether, the expenditures are split among the coverage providers as follows:

In billions of €	2015	2014
Public health insurance funds	200.0	191.8
Private health insurance funds	30.5	29.1
Social nursing care insurance	28.0	25.5
Statutory accident insurance/statutory pension insurance	9.8	9.5
Private households/organisations/employers	60.6	58.5
Public budgets	15.2	14.8
Total	**344.1**	**329.2**

Source: Federal Statistical Office

MediClin is one of the major private hospital operators

The market of private hospital operators is heterogeneous with a small number of large providers in the acute sector. On the basis of the number of beds, private hospital operators hold an overall market share of about 18.25 % (as per 2015). In the rehabilitation sector, MediClin is one of the larger providers.

Compared to previous years, the market did not see any material changes in 2016.

Selected sector figures for all of Germany

	2015	2014	2013
Preventive care and rehabilitation facilities			
Facilities	1,152	1,158	1,187
Beds	164,466	165,657	166,889
Cases	1,963,754	1,972,853	1,953,636
Length of stay in days	25.3	25.3	25.3
Occupancy rates in %	82.8	82.4	81.2
Hospitals			
Facilities	1,956	1,980	1,996
Beds	499,351	500,680	500,671
Cases	19,239,574	19,148,626	18,787,168
Length of stay in days	7.3	7.4	7.5
Occupancy rates in %	77.5	77.4	77.3

Source: Federal Statistical Office

MediClin share in 2015

	Facilities	Beds	Cases
Preventive care and rehabilitation facilities			
Total	1,152	165,013	1,970,595
MediClin share in %	2.3	3.6	3.9
Owned by private operators	623	108,710	1,279,174
MediClin share in %	4.1	5.5	6.0
Hospitals			
Total	1,956	499,351	19,239,574
MediClin share in %	0.4	0.3	0.2
Owned by private operators	700	91,132	3,217,415
MediClin share in %	1.3	1.7	1.3

Source: Federal Statistical Office and our own calculations

Development of occupancy rates

In %	2015	2014	2013
Preventive care and rehabilitation facilities			
Total	82.8	82.4	81.2
Owned by private operators	80.3	79.6	77.9
MediClin	88.5	88.4	84.7
Hospitals			
Total	77.5	77.4	77.3
Owned by private operators	75.4	75.6	75.6
MediClin	80.7	81.4	80.9

Source: Federal Statistical Office and our own calculations

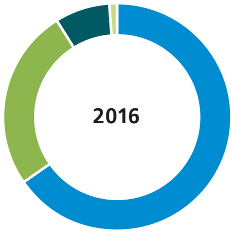
Business development

Development of the coverage provider structure

The statutory social security pension funds and the public health insurance funds are the two largest funding agencies for medical rehabilitation (post-acute segment). In the acute sector, the public health insurance funds are the main funding agencies. On the whole, the Group generated more than 90 % of sales with these two coverage providers.

Breakdown of sales by coverage provider groups without nursing care in %

	2016	2015
Public health insurance funds	**65.8**	65.8
Social security pension funds	**26.1**	26.2
Private health insurance companies	**7.8**	7.7
Other coverage providers	**0.3**	0.3



Results of operation, financial position and net assets

Results of operation

Sales development and performance of the Group operating result
Group sales of EUR 580.3 mill. in the 2016 financial year were EUR 25.0 mill. or 4.5 % higher than in the previous year. As in the previous year, the post-acute segment accounted for the largest share in sales growth. Sales include price effects; in the post-acute segment due to higher hospital rates based on the changed and expanded range of services, and in the acute segment due to the annual adjustment of the base rates at state level.

Group sales and Group operating result

In millions of €	2016		2015	
	Group sales	Group EBIT	Group sales	Group EBIT
1st quarter	141.9	1.7	136.6	1.6
2nd quarter	147.3	7.4	137.6	5.0
3rd quarter	146.0	8.7	140.2	10.8
4th quarter	145.1	6.2	140.9	6.2
Year total	**580.3**	**24.0**	**555.3**	**23.6**

Sales from outpatient healthcare services amounted to EUR 15.6 mill. (previous year: EUR 16.1 mill.); of this amount, EUR 8.1 mill. (previous year: EUR 8.9 mill.) was generated by the medical care centres.

Expenses

Raw materials and consumables used increased by EUR 5.6 mill. or 5.4 % compared to the same period of the previous year, now amounting to EUR 108.7 mill. (previous year: EUR 103.1 mill.). Raw materials and supplies increased by EUR 3.3 mill. and purchased services by EUR 2.3 mill. Implants and blood bags account for the largest increase in expenditures (EUR +2.2 mill.) within the raw materials and supplies item. The shortage in the acquisition of professionals was one of the reasons why the expenses for external medical services, i.e. medical services performed by external professionals, within the cost of purchased services item increased (EUR +3.6 mill.). Thanks to MediClin's energy management, the expenses for energy and fuel dropped by EUR 1.0 mill. The cost of materials ratio amounts to 18.7 % (previous year: 18.6 %).

As is typical of the sector, **staff costs** are the largest expense item for the Group. Compared to the same period of the previous year, they increased by EUR 14.9 mill. or 4.7 % to EUR 334.7 mill. (previous year: EUR 319.8 mill.). The main reasons for the increase in staff costs are wage increases and a higher number of employees (+125 full-time employees). MediClin assumes that staff costs will rise by at least 3 % p.a. in the future, which is also a result of higher wages due to the shortage of skilled professionals.

	2016	2015	Change in %
Raw materials and consumables used in millions of €	108.7	103.1	+5.4
Cost of materials ratio in %	18.7	18.6	
Staff costs in millions of €	334.7	319.8	+4.7
Staff costs ratio in %	57.7	57.6	
Depreciation and amortisation in millions of €	19.2	18.4	+ 4.1
Other operating expenses in millions of €	102.8	97.2	+5.8

Depreciation and amortisation totalled EUR 19.2 mill. (previous year: EUR 18.4 mill.), with EUR 1.2 mill. (previous year: EUR 1.2 mill.) attributable to intangible assets and EUR 17.9 mill. (previous year: EUR 17.2 mill.) to property, plant and equipment. The depreciation and amortisation ratio is 3.3 % (previous year: 3.3 %).

Compared to the previous year's period, **other operating expenses** climbed EUR 5.6 mill. to a total of EUR 102.8 mill. (previous year: EUR 97.2 mill.). The largest item in other operating expenses is, with EUR 51.1 mill. (previous year: EUR 50.7 mill.), rental and leasing expenses for real estate, medical equipment, vehicles and office equipment. Of this amount, a total of EUR 43.4 mill. (previous year: EUR 43.3 mill.) is attributable to real estate rented over the long term and pertains primarily to the post-acute segment. The other main increases pertain to expenses for EDP and organisation (EUR +2.2 mill.), maintenance and repairs (EUR +1.8 mill.), other miscellaneous expenses (EUR +1.0 mill.) and insurance (EUR +0.5 mill.). Please refer also to item (36) "Other operating expenses" in the notes.

The **financial result** amounted to EUR –3.1 mill. at year-end (previous year: EUR –3.6 mill.). Interest and similar expenses decreased by EUR 0.5 mill.

The **tax ratio** in the main Group segments was 15.825 % (corporation tax, solidarity surcharge). A change to the tax rate is not expected.

In the 2016 financial year, the **result after tax attributable to shareholders of MediClin AG** was EUR 16.5 mill. (previous year: EUR 16.5 mill.). Undiluted and diluted earnings per average share outstanding as well as per participating share were EUR 0.35 (previous year: EUR 0.35).

Segment reporting

Sales and segment results

In the post-acute segment, 48.2 % (previous year: 47.9 %) of segment sales were attributable to the statutory social security pension funds in 2016 and 43.0 % (previous year: 43.4 %) were attributable to the public health insurance funds. In the acute segment, the share of segment sales attributable to the public health insurance funds was 92.7 % (previous year: 92.7 %).

Breakdown of sales by coverage provider groups and segments[1]

In %	Post-acute		Acute	
	2016	2015	**2016**	2015
Public health insurance funds	43.0	43.4	92.7	92.7
Social security pension funds	48.2	47.9	0.1	0.0
Private health insurance companies	8.5	8.3	6.9	7.0
Other coverage providers	0.3	0.4	0.3	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Without nursing care business area

The share of the post-acute segment in Group sales was 60.5 % (previous year: 59.6 %), the share of the acute segment was 36.3 % (previous year: 37.2 %) and the nursing care business area contributed 2.5 % (previous year: 2.5 %).

Sales

In millions of €	**2016**	2015	Change in %
Post-acute	351.0	330.9	+6.1
Acute	210.6	206.7	+1.9
Other activities and reconciliation	18.7	17.7	+5.2
Thereof nursing care business area	14.7	14.1	+3.9
Group	**580.3**	**555.3**	**+4.5**

With a sales increase of EUR 20.1 mill., the post-acute segment contributed the largest share to Group sales growth of EUR 25.0 mill. Especially the post-acute facilities that additionally offer acute medical services in the scope of their integrated care concept had continuously good occupancy rates.

Sales in the acute segment of EUR 210.6 mill. were EUR 3.9 mill. above the previous year’s value. This includes outpatient sales (including the sales of the medical care centres) in the amount of EUR 15.6 mill. (previous year: EUR 16.1 mill.).

The other activities and reconciliation segment recorded sales of EUR 18.7 mill. (previous year: EUR 17.7 mill.) in 2016. The nursing care business area generated sales of EUR 14.7 mill. (previous year: EUR 14.1 mill.).

In the post-acute segment the increase in expenses was offset by higher sales, whereas sales growth in the acute segment did not suffice to compensate for higher costs.

Segment results

In millions of €	2016	2015	2015 pro forma
Post-acute	18.5	19.5	13.9
Acute	5.8	11.8	8.7
Other activities and reconciliation	–0.3	–7.7	1.0
Group	**24.0**	**23.6**	**23.6**

Expense items

In the post-acute segment, raw materials and consumables used showed a EUR 3.1 mill. or 4.5 % increase on the previous year. Additional expenses were incurred in particular in connection with medical supplies (EUR +0.3 mill.) and external medical services (EUR +2.8 mill.). The drop in energy and fuel costs (EUR –0.8 mill.) was able to compensate for a large portion of the other increased expenses.

Raw materials and consumables used in the acute segment were EUR 4.1 mill. or 7.6 % above the previous year's value. This increase is due primarily to higher expenditure for implants and blood bags (EUR +2.2 mill.), for medicines (EUR +0.8 mill.) and for external medical services (EUR +1.3 mill.).

Raw materials and consumables used

	2016	2015	Change in %
Post-acute			
Raw materials and consumables used in millions of €	71.5	68.4	+4.5
Cost of materials ratio in %	20.4	20.7	
Acute			
Raw materials and consumables used in millions of €	57.5	53.4	+7.6
Cost of materials ratio in %	27.3	25.8	

Staff costs in the post-acute segment rose by EUR 11.7 mill., while the number of full-time employees increased by 91. In the acute segment, staff costs climbed by EUR 2.5 mill. while the number of full-time employees increased by 15.

Staff costs

	2016	2015	Change in %
Post-acute			
Staff costs in millions of €	175.9	164.2	+7.1
Staff costs ratio in %	50.1	49.6	
Acute			
Staff costs in millions of €	111.6	109.1	+2.4
Staff costs ratio in %	53.0	52.8	

Capital expenditure

In 2016 a total of EUR 28.1 mill. (gross amount) was invested in non-current assets. Capital expenditure was distributed among the segments as follows:

In millions of €	2016	2015
Post-acute	15.2	18.7
Acute	8.9	6.8
Other activities and reconciliation	4.0	1.5
Group	**28.1**	**27.0**

Financial position

MediClin covers its capital requirements from operating cash flow, from investment subsidies and primarily from taking out bank loans in the form of a syndicated loan.

At the end of July 2016, the previous syndicated loan with a volume of EUR 60.0 mill., consisting of a redeemable loan of originally EUR 50.0 mill. and a revolving credit line for a further EUR 10.0 mill., was prematurely redeemed with the help of a new syndicated loan. The new syndicated loan again has a total volume of EUR 60.0 mill., consisting of a bullet loan for EUR 30.0 mill. that was used to repay the remaining amount under the previous redeemable loan and a revolving working capital loan for EUR 30.0 mill., EUR 9.0 mill. of which were utilized on 31 December 2016. The syndicated loan has a term of five years, including two options to renew the loan by another year. Both loan components are subject to a variable interest rate composed of the Euribor for the relevant interest period and an agreed margin.

All in all, the Group has free credit lines amounting to EUR 31.0 mill.

Financing is complemented by operating lease agreements for properties rented on a long-term basis. The underlying rental contracts have a term until 31 December 2027. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer price index – the maximum, however, is 2 % p.a.

In all, the future liabilities from these operating lease agreements are as follows:

In millions of €	**Nominal value 31.12.2016**	Nominal value 31.12.2015
Remaining term up to 1 year	44.2	43.4
Remaining term 1–5 years	176.7	173.8
Remaining term more than 5 years	265.0	304.1
	485.9	**521.3**

In addition, one further clinic is financed on the basis of a sale-and-leaseback agreement until 2028. The overview below shows the resulting future payment obligations:

In millions of €	**Nominal value 31.12.2016**	Nominal value 31.12.2015
Remaining term up to 1 year	0.6	0.6
Remaining term 1–5 years	2.2	2.2
Remaining term more than 5 years	7.3	7.9
	10.1	**10.7**

This financing mix provides sufficient financial resources to maintain the required liquidity at all times.

MediClin's liquidity management secures the availability of sufficient financing resources and the required degree of financing flexibility. A further measure to cover these risks is the Group-wide liquidity supply through central cash pool management. Available cash and cash equivalents are invested in the form of short-term time deposits.

Dividend payouts are determined on the basis of the economic and balance-sheet-related key figures from the previous year and the further planned development of the Group. Depending on these figures, the Management Board makes a dividend proposal to the Supervisory Board, and the proposal is then made jointly to the Annual General Meeting.

Capital expenditure

In 2016 investments were made in non-current asset items totalling a gross amount of EUR 28.1 mill. (previous year: EUR 27.0 mill.).

Essential gross additions to non-current assets

In millions of €	2016	2015
Licences, concessions	3.0	1.2
Goodwill	0.1	0.0
Land, buildings	6.4	2.8
Technical equipment, EDP	1.7	1.7
Operating and office equipment	14.6	12.4
Payments on account and assets under construction	2.3	8.9
Total	**28.1**	**27.0**

Gross additions to property, plant and equipment amounted to EUR 25.0 mill. in the 2016 financial year (previous year: EUR 25.7 mill.). Some EUR 10.8 mill. was used for the reconstruction and expansion of clinics (previous year: EUR 12.1 mill.). EUR 1.7 mill. thereof was used to build an emergency unit, EUR 1.0 mill. to expand the neurology capacities and EUR 0.6 mill. to reconstruct an artificial respiration unit. EUR 0.9 mill. was invested in cogeneration units (previous year: EUR 1.3 mill.). Capital expenditure for IT infrastructure amounted to EUR 3.2 mill., which is in line with the previous year. EUR 5.1 mill. was invested in medical equipment including accessories, and EUR 3.9 mill. was spent on furnishing patient and treatment rooms and offices.

The total investment ratio was 13.2 % (previous year: 13.0 %). EUR 18.5 mill. (previous year: EUR 16.7 mill.) was spent on maintenance and repairs.

Liquidity

Consolidated cash flow statement (abridged)

In millions of €	January – December 2016	January – December 2015
Cash flow from operating activities	29.9	30.9
Payments received from the disposal of fixed assets	0.5	0.5
Payments received from investment subsidies	7.7	6.4
Cash used for investments in fixed assets	–26.1	–25.9
Cash flow from investing activities	–17.9	–19.0
New financial liabilities	39.0	0.0
Repayment of financial liabilities	–37.6	–7.5
Interest payments	–1.3	–1.2
Cash flow from financing activities	0.1	–8.7
Cash flow for the period	12.1	3.2
Cash and cash equivalents at the beginning of the period	29.5	26.3
Cash and cash equivalents at the end of the period	41.6	29.5

The **cash flow from operating activities** fell by EUR 1.0 mill., from EUR 30.9 mill. to EUR 29.9 mill. This includes interest received and income from participations in the amount of EUR 0.1 mill. (previous year: EUR 0.1 mill.). Tax payments amounted to EUR 4.7 mill. net of tax refunds (previous year: EUR 0.6 mill.).

The **cash flow from investing activities** totalled EUR –17.9 mill. (previous year: EUR –19.0 mill.). A gross amount of EUR 2.5 mill. (previous year: EUR 1.1 mill.) was spent on intangible assets. Gross investments in property, plant and equipment totalled EUR 23.7 mill. (previous year: EUR 24.8 mill.). The gross investments were offset against the investment subsidies received, which totalled EUR 7.7 mill. (previous year: EUR 6.4 mill.).

The investment subsidies received referred primarily to MediClin Müritz-Klinikum, MediClin Hedon Klinik, MediClin Krankenhaus Plau am See, MediClin Seepark Klinik and MediClin Herzzentrum Coswig.

The **cash flow from financing activities** amounted to EUR 0.1 mill. (previous year: EUR –8.7 mill.). This includes the repayment of existing loan obligations in the total amount of EUR 37.6 mill. (previous year: EUR 7.5 mill.) and new financial liabilities amounting to EUR 39.0 mill. (previous year: EUR 0.0 mill.) as well as interest payments of EUR 1.3 mill. (previous year: EUR 1.2 mill.). The new financial liabilities refer to the conclusion of a new syndicated loan at the end of July 2016. The remaining balance of the previous syndicated loan in the amount of EUR 30.0 mill. was repaid, while taking out a new syndicated loan with a total volume of EUR 60.0 mill.

Cash and cash equivalents at the end of the period thus increased by EUR 12.1 mill. to EUR 41.6 mill. (previous year: EUR 29.5 mill.).

Net assets

Balance sheet structure

In millions of €	31.12.2016	In % of balance sheet total	31.12.2015	In % of balance sheet total
Assets				
Non-current assets	219.3	63.2	217.4	66.0
Current assets	127.8	36.8	112.0	34.0
	347.1	**100.0**	**329.4**	**100.0**
Equity and liabilities				
Equity	181.6	52.3	169.1	51.3
Non-current liabilities	106.4	30.7	103.8	31.5
Current liabilities	59.1	17.0	56.5	17.2
	347.1	**100.0**	**329.4**	**100.0**

The balance sheet total increased by EUR 17.7 mill. In the non-current assets item (EUR +1.9 mill.) goodwill and other intangible assets showed an increase (EUR +1.8 mill.), which was particularly pronounced in the payments on account (EUR +1.3 mill.) and property, plant and equipment (EUR +0.4 mill.) items. In the current assets item (EUR +15.8 mill.) trade receivables and cash and cash equivalents showed particularly strong increases by EUR 3.8 mill. and EUR 12.1 mill., respectively. On the equity and liabilities side of the balance sheet, equity was up by EUR 12.5 mill., mainly due to the Group's net profit. Non-current liabilities climbed by EUR 2.6 mill., in particular due to higher pensions and similar obligations (EUR +4.9 mill.). The rise in current liabilities (EUR +2.6 mill.) was mainly caused by an increase in liabilities to banks (EUR +3.7 mill.).

For further explanations, also regarding the individual balance sheet items, please refer to the corresponding items in the notes to the consolidated financial statements.

Employees

The average number of employees in 2016, calculated on the basis of full-time employees, was 6,649 (previous year: 6,524 full-time employees). The number of full-time employees has increased by 125 or 1.9 % compared to the previous year. The average number of trainees was 253 in 2016 (previous year: 252 trainees).

Yearly average of number of employees in the Group and in the segments

Shown in full-time employees	2016	2015	Change
Post-acute	3,489	3,398	+91
Acute	1,979	1,964	+15
Other activities	1,181	1,162	+19
Thereof nursing care business area	192	183	+9
Thereof service business area (including administration)	989	979	+10
Group	**6,649**	**6,524**	**+125**

Sales per full-time employee rose by EUR 2,159 or 2.5 % year-on-year in the reporting year, while the average staff costs per full-time employee increased by EUR 1,328 or 2.7 %.

Key data per full-time employee in the Group

In €	2016	2015
Sales per full-time employee	87,283	85,124
Staff costs per full-time employee	50,346	49,017

Forecast report

Actual results and target figures for control parameters

Sales and the segment result in the post-acute segment were better than anticipated. Clinics that, in addition to their rehabilitation services, offer medical services in acute neurology and acute psychosomatics in the scope of their integrated care concept contributed considerably to this performance. In the acute segment, sales and the result were below the targets for 2016.

When presenting the figures as of 30 June 2016, the Management Board confirmed the sales and earnings targets for the Group and for the post-acute segment. In the acute segment, the Management Board assumed that the forecasted sales growth would be reached and that the segment result would be at the lower end of the forecast range due to higher expenses.

When presenting the figures as of 30 September 2016, the Management Board lifted the forecast for the Group's sales growth to 4.5 % and confirmed that Group EBIT would be in line with the forecasts. It assumed that the post-acute segment would outperform its sales and earnings targets, whereas the acute segment would miss these targets.

	Actual results 2015	Actual results 2015[1]	Forecast 2016[1]	Updated as at 30.06.2016	Updated as at 30.09.2016	Actual results 2016	Forecast 2017
Sales growth in %							
Group	+3.2	+3.2	+3.0	+3.0	+4.5	+4.5	+4.0 to +5.0
Post-acute segment	+5.2	+5.2	+5.0 to +6.0	confirmed	better	+6.1	+5.0
Acute segment	−0.3	−0.3	+4.0 to +5.0	confirmed	worse	+1.9	+3.0 to +4.0
EBIT in millions of €							
Group	23.6	23.6	24 to 26	confirmed	confirmed	24.0	25 to 27
EBIT margin in %							
Post-acute segment	5.9	4.2	3.9 to 4.4	confirmed	better	5.3	5.0 to 6.0
Acute segment	5.7	4.2	4.1 to 4.6	worse	worse	2.8	1.5 to 3.0

[1] Segment EBIT and the segment EBIT guidance have been recalculated based on the change in Group contribution.

Stable economy fosters economic growth

In its monthly report for December 2016, Deutsche Bundesbank states that the German economy is showing a strong cyclical upturn. A favourable labour market and higher incomes are fuelling private consumption and thus domestic demand. In 2017, the Bundesbank anticipates a moderate decline in private consumption, mainly because rising energy prices are set to dampen consumer purchasing power. Deutsche Bundesbank forecasts 1.8 % economic growth in 2017, thus exceeding the GDP growth forecast by other economic institutes who assume GDP growth between 1.1 % and 1.7 % (forecasts issued in December 2016).

In its annual report for 2017, the German government forecasts a 1.4 % increase in the gross domestic product compared to 2016 (+1.9 %). However, the German government states that the weaker growth rate results almost entirely from a lower number of working days than in 2016. Adjusted for this effect, the GDP is forecast to grow by 1.6 %. Growth is driven by stable private consumption as well as public expenditure, not least due to the expenses incurred in dealing with the inflow of refugees and the expansion of nursing care benefits. Public capital expenditure is also set to increase substantially. The German government states, though, that negative foreign trade trends and changes in the corresponding frameworks may pose a risk to the lasting positive economic performance in Germany.

However, the further positive economic outlook and the stable labour market give rise to the expectation that demand for medical services will not change in 2017 compared to the previous year.

New laws and regulations in the healthcare sector

In September 2016 the Federal Ministry of Health (Bundesministerium für Gesundheit – BMG) published an increase in the basic wage rate of 2.50 % for 2017 (2016: 2.95 %). Likewise in September 2016, the Federal Statistical Office published the so-called orientation rate that reflects the real cost trend in hospitals. It amounts to 1.54 %. If the orientation rate is lower than the basic wage rate (rate by which the earnings subject to contribution payments of all members of public health insurance funds change), hospitals automatically receive the higher amount as per the basic wage rate.

At the end of November 2016, the German Federal Council (Bundesrat) approved the Act for Further Developing Care and Remuneration in Connection with Psychiatric and Psychosomatic Services (Gesetz zur Weiterentwicklung der Versorgung und der Vergütung für psychiatrische und psychosomatische Leistungen – PsychVVG) in the course of which new provisions concerning the Act for the Structure of Hospital Care (Krankenhausstrukturgesetz – KHSG) were also included in the act.

According to the provisions of the new PsychVVG, and starting from next year, certain hospitals are no longer obliged to adjust their individual prices to a uniform price level applicable in the respective federal state. Psychiatric and psychosomatic clinics remain entitled to individually negotiate their budgets, meaning they are better able to account for structural particularities of the range of services in the hospital budget. The remuneration is calculated on the basis of the services rendered. This, however, is tied to the condition that certain minimum personnel requirements are met. The act furthermore obliges the German Hospital Federation (Deutsche Krankenhausgesellschaft), the National Association of the Statutory Health Insurance (Spitzenverband der gesetzlichen Krankenversicherung – GKV) and the Association of Private Health Insurance (Verband der privaten Krankenversicherung) to prepare a performance-related hospital ranking. This performance-related comparison is supposed to create transparency and a performance-oriented approach. When preparing their budgets, medical facilities can use this comparison to negotiate amounts that best represent their specific range of services. Cross-sector care will be improved by introducing psychiatric treatment at home as a hospital service. In addition to service providers of outpatient care, the act stipulates that psychiatric hospitals with psychosomatic units may in future treat outpatients requiring care in psychosomatic outpatient units. The effective date of the act is 1 January 2017. As from 2018, hospitals are obliged to introduce the new payment system.

The Act for the Structure of Hospital Care (Krankenhausstrukturgesetz – KHSG) promised hospitals a nursing surcharge of EUR 500 mill. that will be distributed among hospitals in line with the cost for nursing care staff. This is supposed to motivate hospitals to provide for sufficient staff. The Act for Further Developing Care and Remuneration in Connection with Psychiatric and Psychosomatic Services (PsychVVG) now clarifies that the calculations of the nursing surcharge for hospitals that applies as from 2017 shall also include nursing personnel that is not directly employed by the hospitals.

At the moment it is not foreseeable whether and in what way these new regulations will affect MediClin’s business performance.

On 1 January 2017 the Second Act to Strengthen Nursing Care and to Amend Further Regulations (Zweites Gesetz zur Stärkung der pflegerischen Versorgung und zur Änderung weiterer Vorschriften – PSG II) came into force. The core element of this new act is the new definition of the term “in need of care” and the corresponding transition from a system with three levels of care (Pflegestufe), plus the additional consideration of any limitation in the ability to cope with everyday problems, to a system with five degrees of care (Pflegegrad). The transition also requires that the remuneration is adjusted to the degrees of care. Whereas the portion to be paid for inpatient care by the persons in need previously depended on the level of care and increased the higher the level, all the patients of the same nursing care facility will in future have to pay an identical portion themselves that is determined individually for each facility, and this portion no longer depends on the benefits granted by the nursing care insurance fund in accordance with the degree of care.

On the same date the Third Act to Strengthen Nursing Care and to Amend Further Regulations (Drittes Gesetz zur Stärkung der pflegerischen Versorgung und zur Änderung weiterer Vorschriften – PSG III) came into force. In addition to establishing the new "in need of care" definition in the German Social Security Code XI (SGB), this act focuses on increasing the control and planning competence of municipalities with regard to nursing care. The objective of the act is to improve local conditions to enable persons in need of care to live at home for as long as possible. One measure is to improve counselling for persons in need of care and their relatives near their homes and to enable municipalities to contribute to establishing and expanding the range of services to provide support in everyday needs, also in the form of human or material resources. The public health insurance funds are granted a systematic audit right to enable them to fight billing fraud.

MediClin will continue to grow in 2017

Since no material changes to the general economic environment and the situation of the healthcare sector are visible at the moment, the Management Board assumes that the Group's positive business performance will continue in 2017.

As in 2016, sales growth is to be generated by expanding capacities in indications with strong demand. Strong focus is placed on promoting locations with growth potential and the expansion of certain medical, therapeutic and nursing care services. This also includes the establishment of specific centres of excellence in both the post-acute and acute segment and the nursing care business area. The clinic network within the regions is supported by innovative care concepts, i.e. cooperation with acute-care hospitals, in order to strengthen the occupancy rates and to promote integrated care concepts between acute medicine and rehabilitation.

Central procurement and strict cost management are supposed to help in 2017 to achieve a disproportionately low increase in raw materials and consumables used compared to Group sales growth. Staff costs are anticipated to rise by at least 3.0 % in 2017.

In total, a (gross) sum of EUR 28.1 mill. was invested in 2016. A large share of the capital expenditure was channelled into the modernisation and expansion of buildings as well as into medical equipment and accessories. In 2017 MediClin will continue to expand capacities in strongly growing areas and make targeted additions to the range of services. The Group plans capital expenditure at a similar level as in the reporting year.

The financing of the internal growth is guaranteed and will derive primarily from the cash flow.

Summary and outlook

Given the good economy and the demographic trend, the demand for medical, therapeutic and nursing care services will continue to rise. Therefore, the Management Board assumes with regard to the MediClin Group's business performance in 2017 that demand for the range of services provided by the acute and the post-acute segments and the nursing care business area will reach at least the prior-year level. The same applies to the Group's earnings situation, provided that the coverage providers do not change their spending behaviour significantly.

For 2017 the Management Board forecasts sales growth of 4.0 % to 5.0 % and a Group operating result (Group EBIT) in the range of EUR 25 mill. to EUR 27 mill.

In the post-acute segment sales growth and earnings are expected to remain on the high prior-year level, especially in the medical facilities that additionally offer specific acute services. Here the post-acute segment is assumed to generate about 5.0 % sales growth and a segment EBIT between 5.0 % and 6.0 %. Sales in the acute segment are supposed to rise moderately along with an improvement in earnings. Sales growth is expected to range between 3.0 % and 4.0 % and the EBIT margin between 1.5 % and 3.0 %.

The good occupancy rates and the development of case numbers in January 2017 are indications of a good start into the 2017 financial year.

Risk and opportunity report

MediClin operates its own medical facilities, where it offers medical and therapeutic services. The health and well-being of patients are obligations that set high standards for handling risks and ensuring their minimisation. Given its many years of experience as a hospital operator and its leading market position in the rehabilitation sector, MediClin is able to realistically assess operational and entrepreneurial risks. Regarding the exploitation of opportunities, MediClin's integrated medical care business model and the regional concept mean the Company is in a good position to use the various growth possibilities in the healthcare sector. However, it is generally true that the achievement of financial success and the associated exploitation of business opportunities always bears risks as well.

Risk and opportunity management

The aim of risk and opportunity management is to identify and control the main risks to which the Group and the individual medical facilities are exposed and to identify opportunities that arise for the Group or individual medical facilities. In order to establish a procedure, organisational rules were adopted and instruments implemented that are valid for the entire Group and ensure that current and future risks and opportunities are detected as early as possible. The approach for handling potential risks and opportunities, as well as the regulations governing the risk analysis workflow management, are obligatory for the employees in all MediClin facilities and segments. The responsibilities and communication channels are clearly defined.

The risk management report that illustrates the findings of the annual risk and opportunity inventory serves to document and communicate potential risks, to identify them at an early stage and to control them. The risk inventory summary report contains the risks identified and risk evaluations from a Group perspective and the economic opportunities in aggregate form. As it is prepared before the annual economic planning, it is an important element of MediClin's risk and opportunity management strategy in addition to the internal monitoring and control systems.

The risk inventory is supplemented by a number of additional instruments for risk identification and risk prevention. In the operational area these include:

- in relation to patient-oriented risk management:
  - the systematic complaint management,
  - permanent patient satisfaction polls,
  - the software-supported platform for recording critical incidents (CIRS[1]) in cooperation with Assekuranz AG in defined clinics, and
  - the Group-wide data protection policy,
- in relation to employee-oriented risk management:
  - the systematic implementation of vocational safety requirements (MAAS-BGW[2]), and the related certification at MediClin's facilities,
  - a critical incident reporting system (CIRS), and
  - systematic employee surveys,
- in relation to IT system risk management:
  - observation of the basic IT safety requirements set forth in the IT-Grundschutz Catalogues of the Federal Office for Information Security (BSI),
  - definition and implementation of binding Group-wide IT standards,
  - concentration of services in a central computer centre that provides a high-quality, safe and largely standardised IT infrastructure,
  - centrally managed and controlled security updates of IT systems (patch management), central processes and policies for user management (directory service), and
  - central access protection for the entire traffic into the MediClin network (firewall protection),

[1] CIRS: Critical Incident Reporting System
[2] MAAS-BGW: Management requirements on work safety issued by the statutory accident insurance and prevention for the healthcare and welfare sector (Berufsgenossenschaft Gesundheitsdienst und Wohlfahrtspflege – BGW)

- other instruments for minimising risks:
  - the Group guidelines for handling medical devices,
  - the disaster and evacuation planning/pandemic planning,
  - the Group guidelines for the prevention of legionella contamination,
  - a systematic error management (in the framework of the internal QMS[3]),
  - the Group guidelines for collaboration with other partners in the healthcare service and in the industry,
  - a uniform and process-oriented quality management system (QMS),
  - internal controls of central core processes (ICS[4]), and
  - reporting and benchmark systems in the operational area.

The Management Board of MediClin AG carries the overall responsibility for the risk management system. It delegates the individual duties within the framework of the risk management of the Group to the central risk manager (quality, organisation and auditing department) and to the persons in charge of risk policies in the MediClin facilities as well as the heads of the central specialist areas and departments. The responsibilities are thus linked to the respective fields of specialisation.

Risks

The following section lists the risks resulting directly from the annually conducted risk and opportunity inventory as well as general risks.

The risk and opportunity inventory for the 2016 financial year did not reveal any risks to survival of the Group or individual medical facilities as a going concern; this also refers to the forecast period. Risks pertaining to the Company's survival are defined as risks with a probability of occurrence that is classified as "very probable" (≥ 50 %) and the impact of which is classified as "high" at Group level (≥ 10 % of Group sales).

[3] QMS: Quality management system
[4] ICS: Internal control system

Corporate risks exist in the following areas:

- Sector risks:
  - legal requirements and changes in legal or tax provisions,
  - changes in the competitive situation.
- Risks associated with the operating business:
  - operating and process risks,
  - personnel risks.
- Financial risks:
  - default, changes in interest rates and liquidity risks,
  - real estate risk.

Sector risks

Since the healthcare sector and its financing are regulated by law, changes in legislation, particularly with respect to the reimbursement of the cost of medical, therapeutic and nursing care services, can impact the business performance of MediClin. MediClin closely monitors legislative action and, in the context of its risk and opportunity management system, analyses the risks and opportunities that could entail with regard to the Group's results.

The competition environment of individual medical facilities may be influenced by changes in the range of services offered by competitors. It may also be influenced by changes in the cooperation or partnerships with registered physicians. Although some competitors are planning to expand their range of services at individual locations, MediClin does not expect any major effects that would adversely impact its respective sales. The regional concept enables MediClin to react to regional changes and to successfully support its locations.

Risks associated with the operating business

Operating risks and process risks result from the provision of services and the corresponding working procedures in the clinics. Operating risks are posed primarily by high fixed costs that can only be offset through flexibilisation of internal operating procedures to a certain extent. MediClin has implemented a number of measures which reduce the break-even point 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 structured internal quality management. Internal quality management is an important element in risk provision and early identification of risks in the field of operation performance.

Personnel risks relate to the current shortage of qualified staff in the market for healthcare professions. This shortage causes rising staff costs, while the lack of qualified personnel may lead to occupancy and sales declines in individual clinics. MediClin pursues an active personnel management approach and is deemed an attractive employer.

Financial risks

Financial risks may arise in connection with default, changes in interest rates and liquidity risks. The Group has receivables vis-à-vis social insurance coverage providers under the Hospital Compensation Act (KHEntgG). The risk exposure from potential bad debts is controlled by means of active claims management. In order to prevent default risks, the Group set aside appropriate specific bad debt allowances and a lump sum allowance for bad debts. Provisions were also set aside for risks resulting from inspections by the association of the German Health Insurance Medical Service (MDK).

At the end of July 2016, the previous syndicated loan with a volume of EUR 60.0 mill., consisting of a redeemable loan of originally EUR 50.0 mill. and a revolving credit line for a further EUR 10.0 mill., was prematurely redeemed with the help of a new syndicated loan. The new syndicated loan again has a total volume of EUR 60.0 mill., consisting of a bullet loan for EUR 30.0 mill. that was used to repay the remaining amount under the previous redeemable loan and a revolving working capital loan for EUR 30.0 mill., EUR 9.0 mill. of which were utilised on 31 December 2016. The syndicated loan has a term of five years, including two options to renew the loan by another year. Both loan components are subject to a variable interest rate composed of the Euribor for the relevant interest period and an agreed margin. Financing risks are not discernible at present. Foreign exchange risks do not exist.

MediClin financed most of the real estate in the post-acute segment in a sale-and-leaseback transaction. The Group’s total expenditure arising from these lease contracts totalled EUR 43.4 mill. in the reporting year (previous year: EUR 43.3 mill.), which is a considerable cost item. The underlying rental contracts have a term until 31 December 2027. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer pricing index (i.e. a maximum of 2 % p.a.). Strategic measures and measures relating to operating business at the post-acute locations are supposed to lead to sales and earnings improvements at the clinics with the result that the burdens from rents (including rent increases) have no negative impact on the Group. To date, this was achieved by means of additional services in the nursing care sector, sales from self-payment programmes and the restructuring of the range of medical and therapeutic services combined with capacity reclassifications or expansions.

Macroeconomic risk

From today’s point of view, the current German economic performance, and in particular the stable labour market, lead us to expect a sound economic situation and rising demand for medical, therapeutic and nursing care services. Due to its specific range of services, MediClin is set to participate in this growth. At present, macroeconomic risks are not discernible.

Opportunities

The following section lists the opportunities resulting directly from the annually conducted risk and opportunity inventory as well as general opportunities.

Opportunities were identified in the following areas:

- Opportunities for sales and earnings growth:
  - opportunities arising from the expansion of the portfolio at the facility level (horizontal diversification),
  - opportunities arising from the expansion of the range of services (vertical diversification) and the optimisation of the range of services, for example by specialisation,
  - opportunities arising from building up and expanding bed capacities.
- opportunities from the optimisation of operational procedures.

Opportunities for sales and earnings growth

The corporate strategy of MediClin aims to raise Group sales by 3.0 % p.a. through organic growth in the long term and to use appropriate cost structures to sustainably secure the earnings power. This is based on the expansion of capacities in indications with strong demand in the post-acute segment, the optimisation of internal structures in the acute segment and demand-driven capacity expansions in the nursing care business area.

MediClin enhances the efficiency of patient care by placing a focus on certain indications and by offering integrated medical care across different locations and at a regional and national level. The synergies from the networks and the Group's focus on certain services could yield savings potential.

Opportunities from the optimisation of operational procedures

The centralisation of certain tasks and services within the Group will also lead to more efficient cost structures. A cooperation with Asklepios in the field of procurement means that larger orders are placed, leading to savings in raw materials and consumables used.

Opportunities in hiring staff

The personnel policy of MediClin is based on a broad offer of further education and a staff-oriented design of workplaces. As an attractive employer MediClin promotes staff loyalty, giving the Group a certain degree of independence with regard to shortages on the labour market.

Financial opportunities

Through the stock exchange listing the Group can raise funds for reducing debt levels or financing growth on the capital market, allowing it to invest in capacity expansions.

General market opportunities

MediClin assumes that growth in the healthcare market will be primarily driven by demographics. Additionally, due to the general economic condition and the situation on the labour market, the working lifetime will become longer in the next few years. This means that the demand for qualified services in medical rehabilitation which preserve a person's capacity and ability to work will increase. MediClin is adjusting its range of services to these market changes.

Other opportunities and risks

In the 2014 financial year the Management Board of MediClin AG was presented a legal opinion that had been commissioned by a shareholder and states that the rents paid by MediClin to the OIK-Fonds for the clinics that were pooled in a real estate fund and rented back are considered too high. Furthermore, the legal opinion points out that claims might arise and illustrates the special situation in that the shareholders of the fund simultaneously are or were direct or indirect shareholders of MediClin AG. MediClin filed a suit with the District Court of Offenburg in mid-2016 asserting claims for repayment of rental payments above the usual market rate.

MediClin carefully weighed up the opportunities and risks of the suit in view of the fact that the subject matter of the legal dispute is highly complex, especially with regard to the evaluation whether rents conform to usual market rates, and that some of the very difficult questions of law involved have not yet been decided by the highest courts.

Evaluation and summary of current risks and opportunities

MediClin's risk portfolio consists of risks that the Company is unable to control, such as economy, legislation and the budget policy of coverage providers. The Company regularly monitors and analyses the situation in these areas. Operating risks are risks that can be influenced by MediClin and can be avoided if the corresponding monitoring and control systems identify them at an early stage.

There were no material changes overall to risks and opportunities in the 2016 financial year compared to the previous year. MediClin is well hedged against both external and internal risks. Potential risks and their effects are known as well as the corresponding measures to be taken. Potential opportunities are analysed and their exploitation is initiated if feasible.

Risks that might arise in the 2017 financial year (forecast period) and that might lead to deviations in the sales and earnings performance are assessed as follows:

	Impact	Probability
Sector risks		
Legal requirements and changes in legal or tax provisions	low	improbable
Changes in the competitive situation	medium	probable
Risks arising from the operating business		
Operating and process risks	low	improbable
Personnel risks	low	probable
Financial risks		
Default, interest rate and liquidity risks	low	improbable
Real estate risk	low	improbable

From today's point of view, there are no risks for the future development of MediClin that could significantly impact the Group's results of operations, financial position and net assets.

Internal control system and risk management system for the Group accounting process

Under the provisions of Section 91 (2) of the German Stock Corporation Act (AktG), the board of management of a stock corporation has to ensure that appropriate actions are taken, particularly the set-up of a monitoring system, in order to provide for the early detection of developments that could jeopardise the long-term survival of the Company as well as to guarantee short-term solvency. This is the purpose of the internal control system as related to the financial accounting process. On the one hand, it guarantees an efficient financial reporting process, and on the other, it serves to detect and adequately assess the risks which are associated with entrepreneurial activities so as to be able to permit an early response to the risks identified.

An important element of the internal control system is the centralisation of services at the corporate headquarters in Offenburg. Centralised areas include financial accounting, Group controlling, Group accounting, personnel management, payroll processing, quality management, insurance management as well as service and portfolio management.

Uniform financial reporting is ensured through the use of corporate guidelines and a uniform accounts structure applied throughout the Group. The data processing systems used in the financial reporting departments are protected against unauthorised access through appropriate safeguards and security features. The data from the individual companies is centrally consolidated and, among other things, compared in detail with intra-Group balances. The staff involved in financial matters and accounting all possess the necessary qualifications. Functions are separated for tasks where this is relevant. Controls, including IT-based controls, were installed for all the processes that are relevant to financial reporting. The four eyes principle is adhered to. The consolidated financial statements and the separate financial statements are prepared by the Group accounting department.

Invoicing is carried out promptly in a decentralised manner. The claims management, dunning process and liquidity monitoring are carried out centrally.

Through the centralisation of the accounting department at the corporate headquarters in Offenburg, MediClin guarantees that financial reporting in the clinics is uniform, and that it also adheres to legal regulations, the principles of proper accounting, international accounting standards and the Group's internal guidelines. At the same time, the infrastructure of human and material resources for accounting tasks is assured. The financial accounting process provides the public with accurate and reliable information about the Company's and Group's results of operations, financial position and net assets in the context of financial accounting disclosure requirements.

Other disclosures

Disclosures pursuant to Section 315 (4) and Section 289 (4) of the German Commercial Code (HGB)

The subscribed capital of MEDICLIN Aktiengesellschaft consists of 47,500,000 no-par bearer shares. Restrictions on the voting rights of the shares may arise on the basis of the regulations of the German Stock Corporation Act (AktG). For example, under certain conditions, shareholders are prohibited from voting (Section 136 German Stock Corporation Act – AktG). Furthermore, the Company has no voting rights from its own shares (Section 71b German Stock Corporation Act – AktG). The Management Board is not aware of any contractual restrictions relating to the voting right or transfer of shares. Those with a direct shareholding in MEDICLIN Aktiengesellschaft of larger than 10 % are Asklepios Kliniken Verwaltungsgesellschaft mbH, ERGO Versicherungsgruppe AG (ERGO) and DKV Deutsche Krankenversicherung AG (DKV). Those with an indirect shareholding are Münchener Rückversicherungs-Gesellschaft AG through its subsidiaries ERGO and DKV, Asklepios Kliniken Gesellschaft mit beschränkter Haftung through Asklepios Kliniken Verwaltungsgesellschaft mbH and Dr. Bernard große Broermann through Asklepios Kliniken Gesellschaft mit beschränkter Haftung. Shares with privileges that grant powers of authorisation do not exist. Employees who participate in MediClin’s capital exercise their control rights like other shareholders. In 2016 no resolution to authorise the buy-back of MediClin shares was submitted at the Annual General Meeting. The regulations regarding the appointment and withdrawal of members of the Management Board are in accordance with the statutory regulations. The same applies to the information on amendments to the Articles of Incorporation. There are no material agreements that are contingent on a change in control following a takeover offer and the Company has concluded no compensation agreements with members of the Management Board or employees that would apply in such cases.

Corporate Governance Declaration pursuant to Section 289 a HGB

This declaration contains all the corporate governance disclosures required as per Section 289a of the German Commercial Code (HGB).

The Management Board is convinced that good corporate governance is crucial for sustainable business success. Good corporate governance strengthens the trust that investors, business partners and employees place in MediClin.

The corporate governance declaration is available on the MediClin website at www.mediclin.de/corporate-governance.

Declaration of the Management Board pursuant to Section 312 (3) AktG

“We declare that the Company received appropriate compensation for all legal transactions in the 2016 financial year listed in this report, on relations with affiliated companies according to the circumstances known to the Management Board at the time at which the legal transactions were undertaken. No measures were taken which put the Company at a disadvantage and which would need to be reported here.”

MediClin AG (short version)

The annual financial statements of MEDICLIN Aktiengesellschaft, Offenburg, were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch) and the special provisions of the German Stock Corporation Act (Aktiengesetz) as in the previous year. As a listed company, MediClin AG meets all the requirements of the capital market and can use the latter for capital procurement.

Development of net assets and the financial position

Balance sheet structure

In millions of €	31.12.2016	In % of balance sheet total	31.12.2015	In % of balance sheet total
Assets				
Non-current assets	329.2	90.8	233.4	91.1
Current assets	33.5	9.2	22.7	8.9
	362.7	**100.0**	**256.1**	**100.0**
Equity and liabilities				
Equity	295.6	81.5	207.7	81.1
Non-current liabilities	50.9	14.0	36.8	14.4
Current liabilities	16.2	4.5	11.6	4.5
	362.7	**100.0**	**256.1**	**100.0**

The balance sheet total as shown in the balance sheet structured according to maturity is EUR 106.6 mill. higher than in the previous year. Here non-current assets surged by EUR 95.8 mill. due to a write-up or impairment reversal respectively of EUR 96.4 mill. relating to the original cost of acquiring interests in MediClin GmbH & Co. KG, Offenburg, Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Essen and Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn. The write-up increased equity by EUR 81.2 mill. (reversal of impairment less deferred tax liabilities associated therewith). All in all, equity increased by EUR 87.9 mill.

Current assets pertain primarily to receivables from affiliated companies, which increased by EUR 8.3 mill., as well as cash and cash equivalents. These increased by EUR 2.3 mill.

On the liabilities side, liabilities to banks rose by EUR 3.8 mill., liabilities to affiliated companies by EUR 2.4 mill. and deferred tax liabilities – mainly due to the aforementioned write-up – by EUR 14.1 mill.

Development of results of operation

MediClin AG does not record sales revenues from operating business. In the annual financial statements for 2016, MediClin AG for the first time charged part of its expenses to the subsidiaries in the form of a Group contribution.

Sales

In thousands of €	2016	2015
Sales from Group contribution	2,063	0
Sales from management services	146	0
Other sales	27	0
	2,236	**0**

Due to the new treatment of sales in accordance with Section 277 (1) German Commercial Code (HGB), income from management services (EUR 146 thou.) and income from taxable non-cash benefits in connection with company cars (EUR 27 thou.) are no longer recognised in other operating income but in sales.

Other operating income

In thousands of €	2016	2015
Income from management services	0	146
Income from the release of provisions	33	80
Other income	8	26
	41	**252**

Other operating expenses

In thousands of €	2016	2015
Auditing and consultancy costs	1,245	1,328
Other administrative expenses	375	356
Thereof remuneration of the Management Board	205	203
Thereof costs of the Annual General Meeting	85	87
Thereof incidental costs of monetary transactions	83	64
Advertising and public relations	109	132
Insurance costs	106	101
Other expenses	235	166
	2,070	**2,083**

The number of employees was one on annual average (previous year: two employees). 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.

Statement on MediClin AG's net assets, financial position and results of operations

The Management Board assesses the results of operations of MediClin AG as secure and the financial position and net assets as sound.

Outlook

As in the previous years, the income structure of MediClin AG in 2017 will continue to depend on the economic development of the subsidiaries and thus also of the Group as a whole. The Management Board assumes that, adjusted for the extraordinary write-up in 2016, sales and net profit will be at the previous year's level.

Remuneration report

MediClin's remuneration policy promotes sustainable company development, compensating Management and Supervisory Board work with performance-oriented remuneration that is composed of fixed and variable components.

The remuneration of the Management Board is disclosed in the 2016 Annual Report in accordance with the statutory requirements and with the Annual General Meeting's opting-out decision of 25 May 2016. According to this decision, the Company does not need to disclose individual Management Board remuneration for financial years 2016 through 2020. The Supervisory and the Management Board are of the opinion that individual disclosure of Management Board remuneration affects the privacy of its members and contravenes the interests of the company in terms of competition aspects. During this period, MediClin will also refrain from following the recommendations of the German Corporate Governance Code (DCGK) regarding the presentation of management board remuneration. The conformity declaration includes the corresponding information.

Management Board remuneration

Pursuant to the requirements under the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code (DCGK), the remuneration consists of fixed and variable components. It comprises fixed remuneration (the fixed salary) and a variable profit-sharing bonus approved by the Supervisory Board that consists of a short-term incentive (STI), paid as annual bonus, and a remuneration component that is earned over a longer vesting period, the so-called long-term incentive (LTI), the amount of which is based on the improvement in the operating result. The payment of variable remuneration is calculated on the basis of the audited consolidated financial statements of MediClin pursuant to IFRSs.

The STI is based on the improvement of MediClin's operating result. The calculation of the STI is based relevantly on the achievement of a Group EBITDAR target for the respective financial year, which is determined in accordance with certain criteria and the degree to which the target was achieved. In its first meeting in the new financial year, the General and Personnel Committee of MediClin determines to what degree the criteria for the profit-sharing bonus were achieved in the past financial year and makes a proposal to the Supervisory Board on the determination of the amount of the profit-sharing bonus payment. The General and Personnel Committee further discusses the profit-sharing bonus criteria for the upcoming year in the same meeting and makes a proposal for a resolution to the Supervisory Board. The STI is payable within one month after the annual financial statements of the respective previous year were approved.

The amount of the LTI is calculated in accordance with the achievement of EBITDAR targets set for a three-year assessment period. The final amount is determined by the Supervisory Board at the end of the three-year vesting period. The LTI is payable within one month after it was determined whether the targets for the relevant three-year period were achieved. In the event that an employment commences or ends during the course of a financial year, the variable remuneration is paid pro rata temporis.

The annual fixed salary is determined for the entire employment term and paid out in 12 monthly instalments. At present there are no pension commitments to members of the Management Board. The members of the Management Board are entitled by contract to ancillary benefits in the form of a rental car for private and business-related use. The members of the Management Board must include such benefits in their tax returns as non-cash benefits.

The Management Board remuneration amounted to a total of EUR 1.9 mill. in the 2016 financial year (previous year: EUR 1.2 mill.).

Supervisory Board remuneration

Pursuant to Section 113 (1) Sentence 3 of the German Stock Corporation Act (AktG), the remuneration of Supervisory Board members must be in proportion to the work performed and the company's financial situation. In addition to being reimbursed for cash expenses, the Supervisory Board members receive remuneration consisting of a fixed and a dividend-based variable component. The Chairman of the Supervisory Board receives twice these amounts and the Vice Chairman receives one and a half times the amounts. Supervisory Board members who are part of a committee further receive additional remuneration for their work in such committees. If a member of the Supervisory Board simultaneously holds several committee positions for which increased remuneration is granted, he or she only receives the remuneration for the highest-paying position.

The currently applicable provisions on Supervisory Board remuneration and the amount thereof were stipulated by the Annual General Meeting on 26 May 2010, thereby considering the recommendation of the German Corporate Governance Code. They are also part of the Articles of Incorporation (Article 12).

In 2016 and 2015 no performance-based (variable) remuneration was paid out.

The Supervisory Board remuneration amounted to a total of EUR 168 thou. in the 2016 financial year (previous year: EUR 169 thou.).

In the 2016 financial year, as in 2015, there were no loans to members of the Supervisory Board.

MEDICLIN Aktiengesellschaft

Offenburg, 3 March 2017

The Management Board

Forward-looking statements
This report contains forward-looking statements that are based on management's current expectations. Words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "can/could", "plan", "project", "should" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that are based on the current assumptions and forecasts of MediClin AG management. Should any of these risks and uncertainties materialise, or if the assumptions underlying any of the forward-looking statements prove incorrect, then the actual results may be materially different from those expressed or implied by such statements. MediClin AG does not intend or assume any obligation to continuously update these forward-looking statements, so as to adapt them to events or developments that occur after the release of this annual report.

Consolidated financial statements of MEDICLIN Aktiengesellschaft
for the 2016 financial year

Contents

Consolidated balance sheet as of 31 December 2016

ASSETS

	Appendix	31.12.2016 in €	Previous year in thou. of €
NON-CURRENT ASSETS			
Goodwill and other intangible assets	(1)		
Concessions, licences		2,103,405	1,677
Goodwill		48,573,841	48,484
Payments on account		1,499,910	235
		52,177,156	**50,396**
Property, plant and equipment	(2)		
Land, land rights and buildings including buildings on third-party land		106,217,381	102,297
Technical equipment and machines		12,069,229	11,081
Operating and office equipment		38,527,071	37,857
Payments on account and assets under construction		4,798,115	9,929
		161,611,796	**161,164**
Financial assets	(3)		
Investment in stock of subsidiaries		64,600	66
Reinsurance cover		1,170,743	1,334
Other financial investments		2,056	2
		1,237,399	**1,402**
Other financial assets	(4)	**0**	**700**
Non-current income tax claims	(5)	**126**	**71**
Deferred tax assets	(6)	**4,302,618**	**3,711**
		219,329,095	**217,444**
CURRENT ASSETS			
Inventories	(7)	**6,270,529**	**6,154**
Trade receivables	(8)	**71,137,771**	**67,326**
Current income tax claims	(9)	**74,813**	**80**
Other financial assets			
Receivables pursuant to hospital financing law	(10)	3,361,997	4,770
Other current financial assets	(11)	4,005,671	3,191
		7,367,668	**7,961**
Other assets	(12)	**1,235,274**	**929**
Cash and cash equivalents	(13)	**41,647,560**	**29,532**
		127,733,615	**111,982**
		347,062,710	**329,426**

EQUITY AND LIABILITIES

	Appendix	31.12.2016 in €	Previous year in thou. of €
EQUITY			
Shares MediClin Group			
Subscribed capital	(14)	47,500,000	47,500
Capital reserve	(15)	129,391,829	129,392
Revenue reserve	(16)	–22,171,651	–18,029
Consolidated balance sheet result	(17)	27,171,557	10,625
		181,891,735	**169,488**
Non-controlling interests	(18)	**–328,032**	**–349**
		181,563,703	**169,139**
NON-CURRENT LIABILITIES			
Financial liabilities			
Liabilities to banks	(19)	38,520,427	39,962
		38,520,427	**39,962**
Liabilities from finance leases	(20)	**6,508,157**	**6,783**
Pensions and similar commitments	(21)	**55,147,287**	**50,271**
Other provisions	(22)	**3,086,003**	**3,713**
Other financial liabilities	(23)	**515,106**	**646**
Other payables	(24)	**2,589,658**	**2,471**
		106,366,638	**103,846**
CURRENT LIABILITIES			
Trade payables		**12,993,398**	**12,018**
Financial liabilities			
Liabilities to banks	(25)	10,275,986	6,584
		10,275,986	**6,584**
Liabilities from finance leases	(26)	**293,726**	**265**
Other provisions	(27)	**5,525,036**	**5,221**
Current income tax liabilities	(28)	**2,696,903**	**3,309**
Other financial liabilities			
Liabilities pursuant to hospital financing law	(29)	5,030,573	7,413
Other liabilities	(30)	4,123,519	4,268
		9,154,092	**11,681**
Other payables	(31)	**18,193,228**	**17,363**
		59,132,369	**56,441**
		347,062,710	**329,426**

Consolidated profit and loss account

for the financial year from 1 January to 31 December 2016

	Appendix	Jan.–Dec. 2016 in €	Previous year in thou. of €
Sales	(32)	580,343,617	555,348
Other operating income	(33)	9,105,171	6,734
Total operating performance		**589,448,788**	**562,082**
Raw materials and consumables used	(34)		
a) Cost of raw materials and supplies		–63,160,713	–59,871
b) Cost of purchased services		–45,514,004	–43,196
		–108,674,717	**–103,067**
Staff costs	(35)		
a) Wages and salaries		–284,780,164	–270,984
b) Social security, pension and retirement		–49,968,188	–48,804
		–334,748,352	**–319,788**
Other operating expenses	(36)	–102,831,865	–97,201
Result before interest, taxes, depreciation and amortisation / EBITDA		**43,193,854**	**42,026**
Depreciation and amortisation	(37)	–19,170,348	–18,417
Operating result / EBIT		**24,023,506**	**23,609**
Financial result	(38)		
a) Income from participations		81,969	60
b) Interest and similar income		30,868	31
c) Interest and similar expenses		–3,236,204	–3,693
		–3,123,367	**–3,602**
Result before tax		**20,900,139**	**20,007**
Taxes on income	(39)	–4,298,966	–3,410
Total consolidated result		**16,601,173**	**16,597**
Thereof attributable to shareholders of MediClin AG		16,545,944	16,536
Thereof attributable to the non-controlling interests		55,229	61
Total consolidated result attributable to shareholders of MediClin AG per share	(40)		
Undiluted (in €)		0.35	0.35
Diluted (in €)		0.35	0.35

Consolidated statement of comprehensive income

for the financial year from 1 January to 31 December 2016

	Appendix	Jan.–Dec. 2016 in €	Previous year in thou. of €
Total consolidated result		**16,601,173**	**16,597**
Other comprehensive income	(41)		
Revaluation from defined benefit plans and similar obligations		–4,962,106	–1,669
Taxes on income		785,254	264
Additions to value adjustments that are not reconciled to the total consolidated result		**–4,176,852**	**–1,405**
Thereof attributable to shareholders of MediClin AG		–4,142,715	–1,385
Thereof attributable to non-controlling interests		–34,137	–20
Additions to value adjustments that are reconciled to the total consolidated result		**0**	**0**
Group comprehensive income		**12,424,321**	**15,192**
Thereof attributable to shareholders of MediClin AG		12,403,229	15,151
Thereof attributable to the non-controlling interests		21,092	41

Consolidated cash flow statement

	Jan.–Dec. 2016 in €	Jan.–Dec. 2015 in thou. of €
Operating result (EBIT)	**24,023,506**	**23,609**
Result of finance activities	–3,123,367	–3,602
Result of income taxes	–4,298,966	–3,410
Total consolidated result	**16,601,173**	**16,597**
Depreciation on fixed asset items	19,170,348	18,417
Interest expenses/interest income/income from participations	3,123,367	3,602
Taxes on income	4,298,966	3,410
Change in deferred taxes	–591,559	–412
Change in non-current provisions	2,772,049	432
Change in current provisions	304,425	38
Result from the disposal of fixed asset items	–57,135	–26
Result from other non-cash items	–4,176,853	–1,405
Changes in non-current income tax claims	70,705	70
Changes in current income tax claims	4,996	6
Changes in other non-current financial assets	700,000	1,000
Changes in other current assets	–4,965,393	–9,722
Changes in other non-current liabilities	118,445	126
Changes in other current liabilities	–2,895,629	–730
Payments received from interest and participations	109,839	85
Income taxes paid	–4,684,556	–584
Cash flow from operating activities	**29,903,188**	**30,904**
Payments received from the disposal of fixed assets	**514,478**	**544**
From the disposal of property, plant and equipment	514,478	544
Payments received from investment subsidies	**7,736,220**	**6,418**
Cash used for investments in fixed assets	**–26,155,751**	**–25,955**
In intangible assets	–2,484,626	–1,107
In property, plant and equipment	–23,669,543	–24,817
In financial assets	–1,582	–31
Cash flow from investing activities	**–17,905,053**	**–18,993**
New financial liabilities	39,000,000	0
Repayment of financial liabilities	–37,619,805	–7,537
Interest paid	–1,262,754	–1,189
Cash flow from financing activities	**117,441**	**–8,726**
Cash flow for the period	**12,115,576**	**3,185**
Cash and cash equivalents at the beginning of the period	29,531,984	26,347
Cash and cash equivalents at the end of the period	**41,647,560**	**29,532**

The cash and cash equivalents at the end of the period correspond to the balance sheet item "cash and cash equivalents" and encompass only cash in hand and current bank credit balances.

Statement of changes in equity

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	**Shares MediClin Group**	Non-controlling interests	**Total equity**
As of 01.01.2015	47,500,000	129,391,829	–16,644,320	–5,910,245	154,337,264	–390,064	153,947,200
Total consolidated result	–	–	–	16,535,858	16,535,858	61,589	16,597,447
Other comprehensive income	–	–	–1,384,616	–	–1,384,616	–20,649	–1,405,265
Group comprehensive income	**–**	**–**	**–1,384,616**	**16,535,858**	**15,151,242**	**40,940**	**15,192,182**
As of 31.12.2015	**47,500,000**	**129,391,829**	**–18,028,936**	**–10,625,613**	**169,488,506**	**–349,124**	**169,139,382**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	**Shares MediClin Group**	Non-controlling interests	**Total equity**
As of 01.01.2016	47,500,000	129,391,829	–18,028,936	10,625,613	169,488,506	–349,124	169,139,382
Total consolidated result	–	–	–	16,545,944	16,545,944	55,229	16,601,173
Other comprehensive income	–	–	–4,142,715	–	–4,142,715	–34,137	–4,176,852
Group comprehensive income	**–**	**–**	**–4,142,715**	**16,545,944**	**12,403,229**	**21,092**	**12,424,321**
As of 31.12.2016	**47,500,000**	**129,391,829**	**–22,171,651**	**27,171,557**	**181,891,735**	**–328,032**	**181,563,703**

Notes

Basic information

General

MEDICLIN Aktiengesellschaft (MediClin AG) is active as a nationwide hospital operator. With 34 clinics, seven nursing care facilities and currently eight medical care centres in 11 German federal states, the MediClin Group (MediClin) has an overall capacity of approximately 8,100 beds. The clinics are divided into acute-care hospitals for basic, standard and specialised care, as well as specialist clinics for medical rehabilitation which partly additional offer acute care services. 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). It is registered in the commercial register at the local court of Freiburg i. Br. under HRB 703905 and has its headquarters at Okenstrasse 27, 77652 Offenburg. The MediClin Group has been included at full consolidation in the consolidated financial statements of Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg (Asklepios), since September 2011. Asklepios has a stake in MediClin which amounts to a total of 52.73 %.

The present notes were prepared for the consolidated financial statements of MediClin AG for the 2016 financial year. On 3 March 2017 the Management Board approved the underlying consolidated financial statements for presentation to the Supervisory Board. The annual financial statements of MediClin AG, the consolidated financial statements of MediClin AG and the summarised management report and Group management report are published in the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements as of 31 December 2016 were prepared in accordance with Section 315a (1) of the German Commercial Code (HGB), pursuant to the regulations of the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, and the interpretations of the IFRS Interpretation Committee (IFRS IC), as valid on the cut-off date and admitted by the European Union. The financial statements were prepared on a going-concern basis. Accounting is generally based on amortised cost. The consolidated profit and loss account was prepared on the basis of the total cost method.

The consolidated financial statements are prepared in euros. All amounts are stated in thousands of euros (EUR thou.) unless otherwise specified. Within the individual components of the consolidated financial statements, as well as for data specified in the notes, rounding differences may result due to figures with decimal places. The amount shown is rounded according to standard commercial practice. Unless otherwise stated, the amounts shown for the previous year were calculated using the same accounting and valuation principles, in order to ensure the comparability of the disclosed data.

Applicable standards

The following new or amended standards are applicable for the first time in the period under review:

Standard	Adopted into EU law by Commission Regulation
IAS 19 "Employee Benefits"	(EU) No. 2015/29 of 17.12.2014
"Annual Improvements to IFRSs 2010–2012 Cycle"	(EU) No. 2015/28 of 17.12.2014
IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"	(EU) No. 2015/2113 of 23.11.2015
IFRS 11 "Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations"	(EU) No. 2015/2173 of 24.11.2015
IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"	(EU) No. 2015/2231 of 02.12.2015
"Annual Improvements to IFRSs 2012–2014 Cycle"	(EU) No. 2015/2343 of 15.12.2015
IAS 1 "Presentation of Financial Statements"	(EU) No. 2015/2406 of 18.12.2015
IAS 27 "Separate Financial Statements"	(EU) No. 2015/2441 of 18.12.2015
Amendments to IFRS 10, IFRS 12 and IAS 28	(EU) No. 2016/1703 of 22.09.2016

Apart from the amendments to IFRS 10, IFRS 12 and IAS 28 ((EU) No. 2016/1703 of 22.09.2016) described below, the amendments to the standards are described in detail in the 2014 and 2015 Annual Reports, which is why we refrain from providing another detailed description here. The above amendments did not lead to any significant effects on the consolidated financial statements of MediClin.

Commission Regulation (EU) No. 2016/1703 of 22 September 2016

In the Official Journal of 23 September 2016, the EU published and thus formally adopted into EU law amendments to IFRS 10, IFRS 12 and IAS 28 that address issues in connection with applying the consolidation exception for investment entities.

The publication refers to the amendments to **IFRS 10 "Consolidated Financial Statements"** and **IFRS 12 "Disclosure of Interests in Other Entities"** and to **IAS 28 "Investments in Associates and Joint Ventures"** published by the International Accounting Standards Board (IASB) on 18 December 2014 under the title **"Investment Entities: Applying the Consolidation Exception"**.

The amendments clarify the accounting requirements for investment entities and are aimed at clarifying in particular the following aspects:

- A company may apply the exemption from preparing consolidated financial statements for investment entities, even if its parent company measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor which is an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value has to provide the disclosures relating to investment entities required by IFRS 12.

The above amendments are of no relevance to MediClin.

Standards and interpretations published by the EU Commission in 2016, adopted into EU law and applicable in the future

Commission Regulation (EU) No. 2016/1905 of 22 September 2016

In the Official Journal of 29 October 2016, the EU published and thus formally adopted into EU law **IFRS 15 "Revenue from Contracts with Customers"**. IFRS 15 was published by the IASB in May 2015 and aims to improve the financial reporting of revenue and to improve comparability of the top line in financial statements globally. In September 2015 the IASB issued an amendment to IFRS 15 that defers the effective date from 1 January 2017 to 1 January 2018.

The objective of IFRS 15 is to unite a multitude of provisions previously contained in various standards and interpretations. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework. The model defines that revenue is recognised as control is passed replacing the previous risk and reward model (transfer of risks and rewards). In addition, the standard requires a larger scope of disclosures in the notes. The new provisions of the standard must be applied retrospectively for financial years beginning on or after 1 January 2018. Premature adoption is permitted. MediClin provides medical, therapeutic and nursing care services, mostly to patients with public health insurance. An internal analysis revealed that IFRS 15 has hardly any effects on the amount and time of revenue recognition of these treatment contracts that usually have short terms. The Group intends to apply the cumulative effect method, meaning the cumulative effects of applying the standard are recognised in equity in the year of first-time adoption. The corresponding changes and difference amounts are explained in the notes to the consolidated financial statements. On the whole, these amendments will have no material effects on the consolidated financial statements of MediClin.

Commission Regulation (EU) No. 2016/2067 of 22 November 2016

In the Official Journal of 29 November 2016, the EU published and thus formally adopted into EU law IFRS 9 "Financial Instruments". On 24 July 2014 the IASB published the fourth and final version of the new IFRS 9 "Financial Instruments". The standard aims to improve the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 responds to the G20's call to move to a more forward-looking model for the recognition of expected losses on financial assets.

The new standard includes revised requirements for the classification and measurement of financial assets, including an impairment model, and supplements the new rules for hedge accounting published in 2013. In addition to an extensive enhancement of disclosure requirements, the changes primarily pertain to the new model for calculating impairment (especially for expected credit losses). The "incurred loss model" that was used in the past recognised credit losses on loans after they were incurred, which was too late, and the amount was insufficient. This model has now been replaced by the "expected loss model". This model recognises losses in a more timely manner as it recognises both losses already incurred and losses expected in the future. "Measurement at fair value through other comprehensive income (FVTOCI)" was introduced as a new category for financial assets. The new category is primarily applicable to the business models of banks and certain capital investment portfolios held by insurances, where assets are held both for sale and to generate cash flow. Adoption of IFRS 9 implies, by way of consequence, amendments to International Accounting Standard (IAS) 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, Interpretation 2 of the International Financial Reporting Interpretations Committee (IFRIC), IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19 and interpretation of the Standing Interpretations Committee (SIC) 27 in order to ensure consistency between international accounting standards. In order to ensure consistency with Union law, a consequential amendment to IAS 39, related to fair value hedge accounting, has not been effected in this Regulation. Furthermore, IFRS 9 repeals IFRIC 9.

The new provisions must be applied for financial years beginning on or after 1 January 2018. These amendments will have no material effects on the consolidated financial statements of MediClin.

Standards that have been published by the IASB, but are not yet binding

In 2016 the IASB published a series of amendments to existing IFRSs and IASs and new interpretations which are not yet binding as they have yet to be endorsed by the EU:

On 13 January 2016 the International Accounting Standards Board (IASB) published the accounting standard IFRS 16 "Leases". The main idea of the new standard is to generally recognise all leases and associated contractual rights and obligations on the lessee's balance sheet. Thus, the distinction between finance and operating leases as required under IAS 17 "Leases" is no longer required for the lessee. The new standard replaces IAS 17 and the accompanying interpretations IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

According to IFRS 16, leases are in future defined as contracts that convey the right to use an asset for a period of time in exchange for consideration.

The standard shall apply to all leases for all types of assets, except for:

- contracts for the exploration of minerals, oil, natural gas and similar non-regenerative resources,
- rights held under licensing agreements within the scope of IAS 38 "Intangible Assets" for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights,
- "leases of biological assets within the scope of IAS 41 "Agriculture" held by a lessee,
- contracts within the scope of IFRIC 12 "Service Concession Arrangements", and
- licences of intellectual property within the scope of IFRS 15 "Revenue from Contracts with Customers".

The lessee is most affected by the changes compared to the previous lease accounting provisions. Whereas the differentiation between finance leases and operating leases continues to exist with regard to the lessor, this classification is no longer performed with regard to the lessee. This means that lessees will in future recognise leases – more or less in line with the previous provisions on finance leases – on their balance sheets as lease liabilities with corresponding right-of-use assets. This does not apply to leases for low-value assets and short-term leases (up to one year) if the lessee opts for this exemption.

The standard provides for another simplification for lessees, i.e. the so-called portfolio approach. This means that under certain conditions two or more contracts that were concluded with the same contracting partner at the same time may be treated as one lease.

This will have far-reaching effects on the consolidated financial statements of MediClin as a lessee. The rental expenses of MediClin amount to about EUR 51.1 mill. per year, nearly EUR 43.4 mill. of which pertain to 21 clinics rented on a long-term basis. The underlying contracts have terms until the end of 2027. From today's point of view, the consolidated balance sheet total will nearly double due to the present value or the right-of-use asset to be recognised and this will have corresponding effects on the financial position and net assets and the related key figures.

In the short to medium term, this will also impact the Group result due to the actuarial adjustments to the lease liabilities. Since the lease liability has the highest value at the beginning of its term, higher interest expenses are incurred at the beginning of the lease term and, together with the linear depreciation of the rights of use for the leased items, this will lead to a so-called "front-loading effect". This means that higher expenses will be incurred at the beginning of the term and lower expenses towards the end as compared to the previously applied straight-line accounting of rental expenses. After about half of the term, the effect is reversed, meaning that the lower interest component will lead to an improvement in the Group result. This will also entail changes to deferred taxes.

Another effect on the presentation of results of operation is that the operating result will improve at the cost of the financial result, because the rental expenses that were previously recognised in other operating expenses will now be divided into a depreciation and an interest component and will be shown in the income statement accordingly.

Additionally, the changes will affect the presentation of cash flows and lead to extended requirements for disclosures in the notes.

IFRS 16 must first be adopted for financial years beginning on or after 1 January 2019. Premature adoption is, in principle, admissible but subject to the condition that IFRS 15 "Revenue from Contracts with Customers" is also fully applied.

On 19 January 2016 the IASB published amendments to **IAS 12 "Income Taxes"**. The amendments refer to the recognition of deferred tax assets for unrealised losses. The amendments serve to clarify several issues regarding the recognition of deferred tax assets for unrealised losses resulting from fair value adjustments to debt instruments and recognised in other income.

The amendments to IAS 12 must be applied for reporting periods beginning on or after 1 January 2017. Premature adoption is permitted. These amendments will have no material effects on the consolidated financial statements of MediClin.

On 29 January 2016 the IASB published amendments to **IAS 7 "Statement of Cash Flows"** in the scope of its disclosure initiative. The amendments aim at improving the presentation of changes in company debts. The amendments provide that entities must disclose information on changes to financial liabilities, the cash flows of which are shown in cash flow from financing activities in the cash flow statement. The corresponding financial assets must also be included in the information (e.g. assets from hedge transactions).

The following information must be disclosed:

- changes in cash flows,
- changes arising from the acquisition or disposal of entities,
- the effect of changes in foreign exchange rates, and
- changes in fair values.

The IASB proposes to present the information as reconciliation between the amounts in the opening and the amounts in the closing balance sheet, but also allows other forms of presentation.

The amendments must be applied for financial years beginning on or after 1 January 2017. Premature adoption is admissible. There is no need to state comparison figures for the previous year in the year of first-time adoption. These amendments will have no material effects on the consolidated financial statements of MediClin.

On 12 April 2016 the International Accounting Standards Board (IASB) published amendments to **IFRS 15 "Revenue from Contracts with Customers"**.

The amendments serve to clarify several provisions of IFRS 15 and simplify the transition to the new standard.

The clarifications refer to the following issues:

- identifying the performance obligations in the contract;
- assessing whether a company is the principal or agent under a business transaction; and
- assessing whether revenue from licenses granted is collected in relation to a point in time or time period.

In addition to the clarifications, the amendments also include two further simplifications aimed at reducing the complexity and cost of transition to the new standard. These refer to options regarding the accounting of contracts that were either completed at the beginning of the earliest period presented or that have been modified before the beginning of the earliest period presented.

The amendments and IFRS 15 itself are applicable for the first time as at 1 January 2018. MediClin does not expect the aforementioned amendments to have any significant effects on net assets, financial position or results of operation.

On 20 June 2016 the International Accounting Standards Board (IASB) published amendments to **IFRS 2 "Share-Based Payment"**. The amendments refer to the classification and measurement of share-based payment transactions in the following fields:

- inclusion of vesting conditions (service conditions, market conditions and other performance conditions) in the measurement of cash-settled share-based payment models,
- classification of share-based payment transactions to be settled net of tax withholdings, and
- accounting for modifications to the conditions if the modifications require a reclassification of the payment from "cash-settled" to "equity-settled".

The amendments must be applied to payments that commence, are granted or modified in financial years beginning on or after 1 January 2018. Premature adoption is permitted. Retroactive adoption is only permitted if an entity has all of the necessary information and if the information is available without the use of hindsight. At present, these amendments are of no relevance to MediClin.

On 12 September 2016 the International Accounting Standards Board published amendments to the existing **IFRS 4 Standard "Insurance Contracts"**. The amendments refer to the first-time adoption of IFRS 9 by insurers. Given different effective dates of IFRS 9 and the forthcoming new insurance contracts standard, increased earnings volatilities and double implementation costs would arise without these amendments. The amendments provide two options:

- The affected entities may continue to apply IAS 39 instead of IFRS 9 for financial years beginning before 1 January 2021 if they apply IFRS 4 to existing insurance contracts. This only applies if they have not previously applied IFRS 9.
- Entities that apply IFRS 4 to existing insurance contracts may reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets, so that the result recognised through profit or loss as per IFRS 9 equals the result as per IAS 39.

The amendments must be applied for financial years beginning on or after 1 January 2018. At present, the amendments are of no relevance to MediClin.

On 8 December 2016 the IASB published **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**, an amendment to **IAS 40 "Investment Property"** and the Annual Improvements to IFRSs 2014–2016 Cycle.

IFRIC 22 deals with a question on how to apply **IAS 21 "The Effects of Changes in Foreign Currency Rates"**, clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation clarifies that for the purpose of determining the exchange rate to be used for the initial recognition of the relevant asset, expense or income the date shall be used on which an entity initially recognised the non-monetary asset or non-monetary debt arising from the advance consideration. The interpretation must be applied as from 1 January 2018; premature adoption is permitted.

The amendment to IAS 40 aims to clarify in what cases the classification of a property as "Investment Property" commences or ends if such property is still under construction or development. The previously exhaustive list provided in IAS 40.57 had failed to clearly provide for the classification of properties not yet completed. The list is now explicitly deemed to be non-exhaustive to include properties not yet completed into the existing rule. The amendment must be applied as from 1 January 2018. Premature adoption is permitted.

The Annual Improvements to IFRSs 2014–2016 Cycle entail amendments to three IFRSs. The amendments were as follows:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards"
  Deletion of the remaining temporary exemptions in IFRS 1.Appendix E (IFRS 1.E3–E7) for first-time adopters.
- IFRS 12 "Disclosure of Interests in Other Entities"
  Clarification that the disclosure requirements in the standard, except for those in paragraphs B10–B16 of IFRS 12, apply also to interests to which IFRS 5 applies.
- IAS 28 "Investments in Associates and Joint Ventures"
  Clarification that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis.

The amendments to IFRS 12 must be applied as from 1 January 2017, while the amendments to IFRS 1 and IAS 28 must be applied as from 1 January 2018. Premature adoption is permitted.

IFRIC 22 and the amendments to the IASs and IFRSs will have no material effect on the consolidated financial statements of MediClin.

Consolidation principles

The first-time recognition of acquired subsidiaries is based on the purchase method of accounting. The cost of the acquisition corresponds to the fair value of the assets given and the liabilities incurred or assumed at the transaction date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date, irrespective of the extent of any non-controlling interests. Intangible assets are recognised separately from goodwill if they are separable or arise from contractual or other legal rights, and are individually disposable. The excess of the cost of the acquisition over the Group's share in the net assets measured at fair value is recognised as goodwill, which is reported in intangible assets. In accordance with IAS 36, existing goodwill is subject to an impairment test at least once a year. The impairment test may lead to a devaluation requirement (impairment-only approach). Within this context, the individual permanent facilities are defined as "cash-generating units", pursuant to IAS 36.

Receivables and liabilities between companies included in the consolidated financial statements, as well as expenses and income from mutual service and supply transactions, were eliminated.

Non-controlling interests are shown in equity, but separately from the equity of the owners of the parent company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent company and to the non-controlling interests. Comprehensive income is attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (IAS 27; 2009).

The non-controlling interests within the MediClin Group refer to 5.515 % (corresponding to 1,274 shares) of shares in Kraichgau-Klinik AG, Bad Rappenau, that are in free float. This is immaterial for the Group. The profit and loss attributable thereto and their share in Group equity are stated directly in the consolidated profit and loss account, the consolidated statement of comprehensive income and the consolidated balance sheet.

Consolidated companies

The listed company MEDICLIN Aktiengesellschaft is the parent company of the MediClin Group. The consolidated financial statements and the summarised management report and the Group management report for the smallest group of companies are published in the German Federal Gazette (Bundesanzeiger). The Group under the umbrella of MEDICLIN Aktiengesellschaft is included in the consolidated financial statements of Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg, which represents the largest group of companies. The consolidated financial statements and the Group management report are disclosed in the German Federal Gazette (Bundesanzeiger).

All companies under the control of MEDICLIN Aktiengesellschaft as parent company qualify as subsidiaries of MediClin, i.e. companies where MediClin has the power of disposition for the investment company, bears the risk of the investment's fluctuations in commercial success, has the right to such success and has the possibility of influencing the degree of this success by exercising its power of disposition over the investment company. The power of disposition is deemed to exist if the parent has rights to determine activities of the investment company with a significant impact on the company's commercial success. Several factors are considered in determining who has the power of disposition, such as existence and effects of potential voting rights that are currently exercisable or convertible and rights to appoint, exchange or remove members of the subsidiary's management.

In accordance with the principles of full consolidation, the consolidated financial statements include, in addition to the parent company MEDICLIN Aktiengesellschaft, all subsidiaries where MediClin holds the majority of capital in addition to the aforementioned economic control. Exceptions are KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Müritz-Klinikum Service GmbH, Medusplus GmbH and MediServ GmbH. These four companies were not consolidated due to their single and common immaterial importance for the Group. The profit pertaining to the "non-controlling interests" of these subsidiaries totalled EUR 66 thou. in 2015 (2014: EUR 53 thou.). The interests in these companies continue to be recognised at their acquisition costs.

Structured entities are consolidated when the economic view of the relationship between a consolidated subsidiary and a special-purpose entity indicates that the special-purpose entity is actually controlled by the consolidated subsidiary. VR-LEASING ABYDOS GmbH & Co. Immobilien KG is a structured company with the company purpose of performing the sale-and-leaseback transactions for the land and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG. The profits of this company that were attributable to MediClin in 2015 amounted to EUR 5 thou., while the profits attributable to MediClin in 2014 totalled EUR 1 thou. The prorated equity of MediClin that was carried forward amounted to EUR –57 thou. as of 31 December 2015 (31.12.2014: EUR –62 thou.). This is explained in more detail in the notes on item (2), "Property, plant and equipment".

VR-LEASING ABYDOS GmbH & Co. Immobilien KG was not consolidated as a structured company, since MediClin has no power of disposition of this company and has no right to influence the returns of VR-LEASING ABYDOS GmbH & Co. Immobilien KG. Furthermore, the largest part of VR-LEASING ABYDOS GmbH & Co. Immobilien KG's assets are already shown in the consolidated financial statements of MediClin in connection with the accounting of the aforementioned sale-and-leaseback transactions concerning the land and buildings of Rehabilitationszentrum Gernsbach as finance leases.

Due to the charitable object and purpose of its Articles of Association and the associated exemption from corporation, trade, inheritance, gift and real estate taxes, MediClin Krankenhaus am Crivitzer See GmbH is, except for its taxable business activities, subject to a statutory restriction on profit distribution.

The fully consolidated subsidiaries included in the consolidated financial statements are listed together with their respective participation percentage in the "Shareholdings" table. Also listed in a table are companies not included in the consolidated financial statements, together with the most recently disclosed annual results and equity as well as the participation percentage.

The activities of the Group are explained in the "Segment reporting" section.

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

MediClin GmbH & Co. KG and MediClin Medizinisches Versorgungszentrum GmbH, Offenburg, concluded a control and profit transfer agreement. Notwithstanding a right of termination for cause, the contract has a term until 31 December 2018. Unless terminated in writing half a year before the expiry date, the contract is renewed automatically by another year each time the expiry date is reached. MediClin Medizinisches Versorgungszentrum GmbH, Offenburg, makes use of the option pursuant to Section 264 (3) HGB to refrain from disclosing its annual financial statements.

Changes in consolidation scopes

MediClin MVZ Südbaden GmbH, Offenburg, changed its name to MediClin Betriebs GmbH, Offenburg. Otherwise, the consolidation scopes remained unchanged compared to the previous year.

Affiliated companies

With the exception of VR-LEASING ABYDOS GmbH & Co. Immobilien KG, the group of companies affiliated with MediClin also includes the aforementioned companies that are not included in the consolidation scopes. Since the MediClin Group is included as a subgroup in the consolidated financial statements of the Asklepios Group in accordance with the full consolidation regulations, the group of companies affiliated with MediClin also includes the companies belonging to the Asklepios Group.

Shareholdings

Affiliated companies included in the consolidated financial statements	Percentage of shares held	
	31.12.2016	31.12.2015
MEDICLIN Aktiengesellschaft, Offenburg		
Cortex Software GmbH, Offenburg	100.000[1]	100.000[1]
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	100.000	100.000
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	100.000[2]	100.000[2]
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	100.000[2]	100.000[2]
Herzzentrum Lahr/Baden GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]
KB Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Essen	100.000	100.000
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Essen	100.000	100.000
Kraichgau-Klinik Aktiengesellschaft, Bad Rappenau	94.485	94.485
Kraichgau-Klinik Bad Rappenau GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]
MC Service GmbH, Offenburg	100.000[2]	100.000[2]
MC Kliniken Geschäftsführungs-GmbH, Offenburg	94.485[3]	94.485[3]
MediClin à la Carte GmbH, Offenburg	100.000[2]	100.000[2]
MediClin Betriebs GmbH, Offenburg (formerly MediClin MVZ Südbaden GmbH, Offenburg)	100.000[2]	100.000[2]
MediClin Energie GmbH, Offenburg	100.000[2]	100.000[2]
MediClin Geschäftsführungs-GmbH, Offenburg	100.000	100.000
MediClin GmbH & Co. KG, Offenburg	100.000	100.000
MediClin Immobilien Verwaltung GmbH, Offenburg	100.000[2]	100.000[2]
MediClin Krankenhaus am Crivitzer See GmbH, Crivitz	100.000	100.000
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	100.000[2]	100.000[2]
MediClin Pflege GmbH, Offenburg	100.000[2]	100.000[2]
MediClin Therapie GmbH, Offenburg	100.000[2]	100.000[2]
MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig, Essen	100.000[2]	100.000[2]
MVZ MediClin Bonn GmbH, Bonn	100.000[2]	100.000[2]
MVZ-Müritz GmbH, Waren	100.000[2]	100.000[2]
Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]

[1] Of which indirect participation 62.353 %
[2] Indirect participation
[3] Indirect participation, wholly owned by Kraichgau-Klinik AG

Companies not included in the consolidated financial statements in €	Results		Total equity		Percentage of shares held	
	2015	2014	2015	2014	2015	2014
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz[1]	10,344.25	13,813.86	65,612.30	69,081.91	69.231[3]	69.231[3]
MediServ GmbH, Essen[1]	57,115.04	23,890.32	167,081.73	183,856.69	51.000[3]	51.000[3]
Medusplus GmbH, Essen[1]	−550.65	25,573.78	51,908.08	77,458.73	51.000[3]	51.000[3]
Müritz-Klinikum Service GmbH, Waren[1]	72,225.39	49,678.61	156,123.41	133,898.02	51.000[3]	51.000[3]
VR-LEASING ABYDOS GmbH & Co. Immobilien KG, Eschborn[1]	47,249.62	37,898.34	−85,685.13[4]	−96,485.10[4]	44.408[2,3]	44.408[2,3]

[1] 2016 annual financial statements not yet available
[2] Including atypical silent participation
[3] Indirect participation
[4] Taxable equity

Accounting and valuation principles

The companies included in the consolidated financial statements apply the same consistent accounting and valuation principles in accordance with the provisions of IFRS as in the previous year.

To the extent that, as a result of specific regulations of the Hospital Accounting Rules (Krankenhausbuchführungsverordnung – KHBV), receivables, liabilities and special or compensating items of consolidated subsidiaries are to be reported in conformity with the hospital financing law (Krankenhausfinanzierungsrecht – KHG), these are eliminated at Group level as far as they do not meet IFRSs.

Acquisition and manufacturing costs of assets, inventories, goods and services normally include the non-deductible value added tax, net of acquisition cost deductions. These costs also include the estimated costs for restoration obligations assumed. If property, plant and equipment consist of meaningful, identifiable and significant components, these are accounted for as separate units and depreciated accordingly. Maintenance and repair costs are recorded as an expense.

Intangible assets with finite useful lives are recognised at amortised cost and are amortised according to a scheduled time frame of three to five years on a straight-line basis. A non-scheduled depreciation is recognised for an intangible asset if there are indications of impairment and the recoverable amount of the asset is less than its carrying amount. If the reason for a non-scheduled depreciation recognised in prior years has ceased to exist, a write-up is performed on the respective assets, whereby the increased carrying amount resulting from the write-up may not exceed the amortised cost.

Intangible assets with indefinite useful lives and **goodwill** are tested for impairment annually, and additionally if at other points in time indications exist of a possible decline in value (impairment indicator). If the recoverable amount of an asset is less than its carrying amount, an impairment will be accounted for immediately affecting net income. The recoverable amount is the higher of fair value less costs of disposal and value in use. If the reason for the non-scheduled depreciation ceases to exist, a write-up is performed on the respective asset. No write-ups are performed in the case of goodwill.

Property, plant and equipment is recognised at amortised cost. Scheduled depreciation related to technical equipment and machines, as well as operating and office equipment, is based on the useful life expectancy under application of the straight-line method. Contrary to this method, designated medical technology equipment and machines are depreciated to a minimal extent using the declining balance method if this better represents the anticipated future utility.

Most of the **financial assets** are reinsurance policies that serve to cover risks from pension obligations. Claims from reinsurance policies that are pledged to the beneficiaries of pensions are offset directly against the pension obligations. They classify as qualifying insurance policies as defined in IAS 19. Reinsurance policies that have not been pledged are recognised as plan assets when calculating the amount of pension obligations. Reinsurance policies are measured at fair value; this corresponds with the asset value that is determined by the insurance companies. Investments are measured at amortised cost.

Foreign currency transactions are valued at the exchange rate at the time of initial recognition. Monetary assets and debts in foreign currency are valued on the reporting date at the rate valid at such date. Gains and losses from currency fluctuations up to the balance sheet date are generally recognised through profit or loss.

Depreciation of property, plant and equipment is calculated based on the following useful lives: buildings 25 to 50 years, technical equipment and machines 6 to 30 years, and operating and office equipment 3 to 15 years.

In addition to scheduled depreciation, the carrying amounts of property, plant and equipment and intangible assets are reviewed at least once a year for indications of impairment **(impairment indicator).** If such indications are identified, the recoverable amount of the asset will be estimated in order to determine the size of any impairment loss. If the recoverable amount cannot be determined for the individual asset (e.g. an intangible asset), an estimate is made instead for the recoverable amount at the level of the cash-generating unit (CGU) to which the asset belongs. The assignment is made to the individual CGUs or the smallest CGU group on a fair and constant basis. CGUs are regularly defined as operating locations (clinics/facilities) that use a separate company code. If the reason for a non-scheduled depreciation recognised in prior years has ceased to exist, a write-up is performed, whereby the increased carrying amount resulting from the write-up may not exceed the amortised cost. Upon sale or retirement, the acquisition or manufacturing costs and related accumulated depreciation of the asset are written off the balance sheet and any profit or loss is recognised in income or expenses.

In the case of impairment losses related to CGUs that carry goodwill, the carrying amount of any goodwill allocated to the CGU is reduced first. If the amount of impairment losses exceeds the carrying amount of goodwill, the difference is generally allocated proportionally to the remaining non-current assets of the CGUs to reduce their carrying amounts accordingly. If, following recognition of an impairment loss, the recoverable amount of the asset or the CGU increases at a later time, the value is written up again with the maximum being the recoverable amount. The reversal of the impairment may not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any write-ups to be performed are recognised as income. However, impairment losses of goodwill may not be reversed and are therefore not reversed by MediClin.

When determining the **value in use**, the estimated future cash flows are discounted using the pre-tax market interest rate. As a general principle, the expected earnings values from the latest management planning are used as a basis of this process, adjusted for assumptions on the development of the earnings performance and discounted with the capital costs of the unit, allowing for an alternative interest charge. This detailed planning that is carried out for a period of three years is based on past experience as well as on expectations concerning future market developments. The perpetuity is calculated on the basis of the plan figures for the third year, pricing in an appropriate discount if required. The discount rate is determined on the basis of the weighted average cost of capital before tax (WACC before tax), taking the following variables into account: a risk-free interest rate, a market risk premium (multiplied by a beta coefficient), a growth discount in the perpetuity, borrowing costs before taxes and the capital structure, on the basis of a peer-group analysis. Indications of impairment in value are taken into account by recording respective non-scheduled depreciations on the carrying amount of the CGU/asset up to the recoverable amount. For its planning, the Company assumes moderate rates of change regarding the earnings expectations and considers these assumptions to be reasonable. Alternate scenarios will only be calculated should concrete signs of change occur.

The **fair value** is determined by applying a suitable valuation model. This is based on the working capital of the CGU concerned, allowing for any disclosed hidden reserves and operational cash on hand and any other available indicators for the fair value.

The option of using the revaluation method for intangible assets and for property, plant and equipment is not exercised in the MediClin Group.

Public grants mainly relate to grants received in accordance with the hospital financing law (Krankenhausfinanzierungsgesetz – KHG) and under respective state hospital regulations. They are recognised as receivables pursuant to the hospital financing law at fair value if it can be reasonably assumed that the grants will be awarded. This is generally recognised at the time the subsidy grant notification is received. Grants which have not yet been adequately used are recognised as current liabilities in other financial liabilities.

If the subsidies are not disbursed in one lump sum, but rather through annual payments the disbursements of which vary in schedule, the entitlement to the aid is not established until the notification of subsidy for the respective financial year is received. Therefore only the amount of the annual payment is recognised in receivables pursuant to the hospital financing law.

Subsidies for investments are deducted directly from acquisition costs. In accordance with the reduction of acquisition costs of the subsidised property, plant and equipment, the depreciations 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 previous years, is not netted with depreciation in the consolidated 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 basically all the risks and opportunities incident to ownership of an asset to the lessee according to the terms of the lease. They are capitalised at the commencement of the lease term at the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are only of immaterial importance for the Group. Capitalised leased property is depreciated over the useful life expectancy according to the depreciable assets under ownership of the Group. The interest rate underlying the lease agreement is used as the discount rate for calculating the present value of the minimum lease payments. Lease payments are apportioned between borrowing costs and the redemption of the outstanding liability. A finance lease thus gives rise to depreciation expense for the capitalised assets as well as borrowing costs for each accounting period.

If the economic ownership of the leased asset remains with the lessor **(operating leases)**, the leased property is recognised in the balance sheet of the lessor. The leasing expenses thus incurred are generally recognised as leasing or rental expenses over the term of the contract.

As the MediClin Group is a provider of healthcare services, **inventories** are only of minor importance and are only subject to slight changes in their value and composition. These are recognised according to the average cost method at acquisition cost and do not include borrowing costs.

Financial instruments refer mainly to cash and cash equivalents, receivables and current and non-current liabilities. Receivables are non-derivative financial assets with fixed or assignable payments, which are not listed on an active market. They accrue when the Company makes money, goods or services directly available to a debtor, without the intention of trading such receivables. They are generally recognised as of the settlement date and are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Receivables which mature in more than 12 months are recognised as non-current assets. The carrying amounts of the current financial assets and the current liabilities essentially correspond to their fair values. Foreign currency transactions are negligible and there are no foreign exchange risks.

Borrowing costs which are directly connected with the purchase, construction or production of a qualified asset must be capitalised as part of the acquisition or manufacturing costs of this asset. As in previous years, there were no borrowing costs which were connected with construction measures in the 2016 financial year. All other borrowing costs are recognised as expenses for the period in which they accrue.

Receivables are initially recognised at fair value and subsequently carried at amortised cost without bearing interest due to their short-term nature. Specific bad debt allowances that are determined on a flat-rate basis are made for doubtful receivables; uncollectible receivables are written off.

Cash and cash equivalents encompass cash, sight deposits, other short-term, highly liquid financial assets with original terms of no more than three months, and current account balances. Current account credits drawn upon are disclosed in current financial liabilities as liabilities to banks. Cash and cash equivalents as well as current financial liabilities are valued at amortised cost.

Current and non-current liabilities are initially recognised at acquisition cost on the liabilities side and stated at their repayment amounts in the following periods provided that they are not measured at amortised cost using the effective interest method. Loans are initially recognised at their acquisition costs which correspond to the fair value of the consideration received less the cost incurred in taking out the loan. Current liabilities are recognised at fair value, which corresponds approximately to the repayment amount. Profits and losses are recognised in the period result when the liabilities are derecognised. As far as the discharge of a debt or repayments will occur within 12 months after the balance sheet date, the corresponding amounts are reclassified as current liabilities. Liabilities from finance lease agreements are measured at the present value of the minimum leasing rates when the leased property is capitalised and, depending on the term of the lease, are recognised in non-current or current liabilities from finance leases.

The MediClin Group has both defined benefit plans and defined contribution plans.

The **pension obligations** result from the **defined benefit plans** and are stated using the projected unit credit method in consideration of future salary and pension developments, as well as using current biometric probabilities in accordance with IAS 19.

The service period components (service cost and past service cost, effects from amendments, curtailments and settlements) are shown in staff costs. (Net) interest expense/income relating to the net liabilities recognised in the balance sheet is recognised in the financial result. Remeasurements are recognised in other comprehensive income (OCI), i.e. without an effect on net profit or loss. They encompass all the actuarial profits and losses of the pension obligations and plan assets accrued within a year that were not taken into account in the interest component, less any deferred taxes attributable thereto. They are shown in equity in the revenue reserve. The interest rate used for discounting is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with fixed interest rates.

Payments for **defined contribution plans** are recognised as expense as they fall due and shown in staff costs. Payments for government pension plans are treated like payments for defined contribution plans. Other than paying the contributions, the Group has no further obligations.

In accordance with IAS 37, **remaining provisions** are recognised to the extent that present obligations from past events exist vis-à-vis third parties which will probably lead to an outflow of funds and which can be reliably estimated. In case of legal disputes, the management has to exercise a considerable judgement in order to assess whether a past event entails a current obligation as at the reporting date, whether a future outflow of funds is probable and whether the amount of such obligation can be reliably estimated. Judgement is also needed to assess whether provisions are required or need to be adjusted when new circumstances arise in ongoing proceedings. Usually external lawyers are called in to help with such judgement. Provisions are recognised for discernible risks and contingent liabilities in the amount of their probable occurrence. They are not offset against recourse claims. The settlement value 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. Provisions are reversed when the outflow of funds that is associated with an economic benefit is no longer probable. This is reviewed on every balance sheet date. Income from the reversal of provisions that are not (or no longer) needed is offset against the expense item from which the addition originates.

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

Deferred tax assets and deferred tax liabilities are determined using the balance sheet liability method in accordance with IAS 12. Accordingly, the differences between the carrying amounts of assets and liabilities as recognised in the consolidated financial statements and the amounts used for taxation purposes are recognised as probable future tax reliefs and charges in the balance sheet. The deferred tax assets also include tax deduction claims resulting from the expected utilisation of existing losses carried forward in subsequent years, but only where it is sufficiently probable that the taxable income will be available in the future to enable the tax loss carryforwards to be utilised. As far as issues which result in a change of deferred tax are taken directly to equity, the change of deferred tax is also recognised in equity. The tax rate applied for deferred tax assets and tax liabilities was unchanged at 15.825 % for the main Group divisions (corporation tax, solidarity surcharge). Deferred taxes are netted in accordance with IAS 12.74. This resulted in a deferred tax asset surplus.

Contingent liabilities are possible obligations to third parties or existing obligations that are unlikely, but not impossible, to lead to an outflow of funds or the amount of which cannot be measured with certainty. Contingent liabilities are not recognised in the balance sheet unless they are assumed in connection with a business combination; instead, they are disclosed in the notes.

Most of the **sales** of MediClin are subject to legally standardised compensation regulations such as the Hospital Compensation Act (KHEntgG) and the Federal Directive on Nursing Care Rates/Federal Nursing Rate Regulation (BPflV) for inpatient hospital services, or Book Nine of the Social Security Code (SGB IX) for rehabilitation services. All services are compensated prospectively by the social funds via budget agreements. Very often the underlying budget negotiations are only concluded in the course of the year or even after the close of the budget year, leading to uncertainties regarding the agreed service volumes and/or compensation to be paid for such services.

Sales encompass the fair value received for the sale of merchandise and services excluding value added tax, rebates and price deductions, and after elimination of intra-Group sales. Sales resulting from the sale of services are recognised in accordance with the stage of performance relative to the service already provided and the overall service to be provided in the financial year in which the services are provided. As a general rule, sales are realised when the respective service is provided. Sales from flat-rate payments are recognised 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 on the basis of either daily rates or case-based lump sums, which can be translated into fictitious daily rates.

Operating expenses are charged to expenditure at the time the service is rendered or caused. As basically no pre-tax deduction is applied, the expenses mainly include the statutory value added tax.

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

Non-scheduled depreciation, losses from the sale of non-current assets and other off-period expenses are recognised in **other operating expenses**.

Exercise of judgement in applying accounting and valuation principles

The recognition and measurement of assets and liabilities are partly based on the exercise of judgement by the management as shown in the following. All the assumptions are made in good faith in order to give a true and fair view of the net assets, financial position and profit or loss. Any differences between the actual circumstances and the assumptions will have an effect on the recognition and measurement of assets and liabilities. Depending on the situation, such differences might also have an effect on the result. This is particularly the case in the following circumstances:

- Financial assets are to be classified under the categories "held-to-maturity investments", "loans and receivables", "available-for-sale financial assets" and "financial assets at fair value through profit or loss".
- With respect to assets that are to be sold, it must be determined whether the assets can be sold in their present condition and whether their sale is highly probable. If both of these conditions apply, the assets and any associated liabilities are recognised and measured as "assets or liabilities held for sale".
- Where leased items of property, plant and equipment are used, it must be determined whether all material risks and opportunities incident to ownership have been transferred and thereby meet or meet not the criteria for classification as a finance lease as set out in IAS 17.
- Structured companies and other investment companies must be consolidated where a parent company has the decision-making power over the investment company, bears the risk of the investment's fluctuations in commercial success, has the right to such success and has the possibility of influencing the degree of this success by exercising its decision-making powers over the investment company.
- The impairment test for goodwill is carried out on the assumption that the time frame used for the calculation (detailed planning for three years; calculation of perpetuity on the basis of the figures for the third year, pricing in an appropriate discount if required) is adequate to determine the value in use. Further assumptions are stable occupancy rates as well as a commensurate development of personnel expenses across the Group. Special assumptions must be made regarding the development of state base rates as well as the prospective budget development and, in the post-acute segment, regarding the prospective development of the main occupancy providers and the future remuneration development. The management also exercises judgement in defining the scope of cash-generating units.

Estimates and assessments made by management

The application of accounting policies and valuation methods prescribed by IFRSs and the IFRS IC requires estimates and assumptions to be made about the future which, as a matter of course, may differ from actual events. All underlying estimates and assumptions made in the context of the accounting and valuation are re-examined on a regular basis and are based 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 to, among other things, the accounting and valuation of provisions and liabilities. Estimates are also particularly needed to recognise tax liabilities, whereby the amount and timing of future taxable income could be subject to uncertainty due to the interpretation of complex tax regulations.

In addition to the pension trend and the probability of death, the discount rate represents a significant estimation factor for provisions for pensions and similar obligations. The discount rate for pension obligations is determined on the basis of yields on senior, fixed-rate corporate bonds on the financial markets as of the balance sheet date. A rise in the discount rate results in a reduction in the present value of the pension obligations and thereby an increase in equity, whereas a reduction in the discount rate leads to the reverse effects. Thus, an increase in the discount rate by 0.5 percentage points from 1.8 % to 2.3 % lowers the present value of the defined benefit obligation (DBO) by EUR 4.8 mill., or 8.5 %. A reduction in the discount rate by 0.5 percentage points from 1.8 % to 1.3 %, in turn, increases the DBO by EUR 5.5 mill., or 9.8 %. However, following deduction of deferred taxes, this would be reflected in other comprehensive income.

In order to determine whether the goodwill of a certain cash-generating unit (CGU) has been impaired, the value in use of the unit to which such goodwill is allocated must be measured. To determine the value in use, the estimated future cash flows from the CGU are discounted to present value using an adequate discount rate, whereby the assumptions utilised for this process are uniformly determined for all CGUs carrying goodwill.

Furthermore, the valuation adjustments of receivables, including the receivables pursuant to the hospital financing law as well as the assessment of recoverability of deferred tax liabilities and assets – here, in particular, for losses carried forward – are based on adequate assumptions and estimates by management and were determined using the latest available and reliable information.

Assets held for sale and disposal groups are valued at the lower of carrying amount or fair value less costs of disposal. In determining the fair value less costs of disposal the management also exercised judgement regarding recoverability.

Some subsidiaries of the MediClin Group are involved in legal disputes. The management regularly analyses the current findings in these legal disputes and sets aside provisions for obligations that are likely to arise and the estimated legal costs. Lawyers advise the management in forming its judgement. When deciding whether it is necessary to set aside provisions, the management considers the likelihood of an adverse outcome of the dispute and its ability to estimate the amount of the obligation to a reasonably reliable degree. The fact that an action is brought forward against a MediClin company or that claims are formally asserted does not necessarily mean that provisions must be set aside for the corresponding risk.

Most of MediClin's sales from inpatient hospital services and rehabilitation services are based on budget negotiations that are regularly held in the course of the respective financial year and are often even concluded after the close of the financial year. Therefore the agreed service volumes and/or the compensation to be paid for the services are subject to uncertainty. Here the management makes reasonable estimates.

The useful lives of depreciable assets are determined on the basis of the asset's anticipated usability for the Company. This is estimated based on empirical values for comparable assets.

In 2005 to 2007, rent deductions totalling approximately EUR 21.0 mill. were received from the landlord for a portion of the leased real estate. In conjunction with this rent reduction, a performance-related repayment until 31 December 2027 was agreed, which is dependent upon the achievement of economic performance criteria by the clinics included in the fund. This agreement constitutes a waiver of claims with a debtor warrant, which in accordance with IFRS regulations (IAS 39.39, 40) is treated as a repayment of the original debt and the recognition of a new financial liability. The recognition of such a liability is based on anticipated future discounted payments for the debtor warrant. Based on the present planning, the probability of occurrence is estimated to be unlikely, so that no financial liability was recognised. If the assessment of probability of occurrence for the aforementioned performance criteria changes in the future, a financial liability will be recognised.

All assumptions and estimates are based on the conditions and assessments as of the balance sheet date. Moreover, assumptions concerning the future business performance are based on the assumed future development of the economic environment in the healthcare sector and in the regions in which the Group operates as is realistic at the time the assumptions are made. 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 carrying amounts of the assets and liabilities 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 carrying amounts of reported assets and liabilities is to be expected for the 2017 financial year.

Notes to the consolidated cash flow statement

The consolidated cash flow statement was prepared in accordance with IAS 7, and broken down into three sections: operating, investing and financing activities. The definition of cash and cash equivalents is limited to those means of payment (cash and sight deposits at banks) that correspond to the cash and cash equivalents item disclosed on the balance sheet. The cash flow from operating activities is prepared using the indirect method and comprises cash flow from interest received and income from participation as well as income taxes. The cash flow from investing activities is stated using the gross method. This means that investment subsidies accrued in the reporting year are completely booked as cash inflow and set against the full investments.

The cash flow from operating activities fell by EUR 1.0 mill., from EUR 30.9 mill. to EUR 29.9 mill. This includes interest received totalling EUR 28 thou. (previous year: EUR 25 thou.) and income from participations totalling EUR 82 mill. (previous year: EUR 60 mill.). Tax payments amounted to EUR 4.7 mill. net of tax refunds (previous year: EUR 0.6 mill.).

The change in non-current provisions totalling EUR 2.8 mill. (previous year: EUR 0.4 mill.) results primarily from the allocation of provisions for pensions and similar obligations. Other non-current provisions, adjusted for non-cash items, remain largely unchanged. EUR 3.8 mill. of the change in other current assets is attributable to an increase in trade receivables (previous year: EUR +5.4 mill.), mainly due to the continued rise in sales.

A gross amount of EUR 2.5 mill. (previous year: EUR 1.1 mill.) was spent on intangible assets. Gross investments in property, plant and equipment totalled EUR 23.7 mill. (previous year: EUR 24.8 mill.). The gross investments were offset against the investment subsidies received, which totalled EUR 7.7 mill. (previous year: EUR 6.4 mill.).

The investment subsidies received referred primarily to MediClin Müritz-Klinikum, MediClin Hedon Klinik, MediClin Krankenhaus Plau am See, MediClin Seepark Klinik and MediClin Herzzentrum Coswig.

This results in a net cash flow from investing activities totalling EUR –17.9 mill. (previous year: EUR –19.0 mill.).

Compared to the same period of the previous year, the cash flow from financing activities increased significantly by EUR 8.8 mill. to EUR 0.1 mill. (previous year: EUR –8.7 mill.). This includes the repayment of existing loan obligations in the total amount of EUR 37.6 mill. (previous year: EUR 7.5 mill.) and new financial liabilities amounting to EUR 39.0 mill. (previous year: EUR 0.0 mill.) as well as interest payments of EUR 1.3 mill. (previous year: EUR 1.2 mill.). The new financial liabilities refer to the conclusion of a new syndicated loan at the end of July 2016. The remaining balance of the previous syndicated loan in the amount of EUR 30.0 mill. was repaid, while taking out a new syndicated loan with a total volume of EUR 60.0 mill., EUR 39.0 mill. of which had been drawn on the reporting date 31 December 2016.

Cash and cash equivalents at the end of the period thus increased by EUR 12.1 mill. (previous year: EUR +3.2 mill.) to EUR 41.6 mill. (previous year: EUR 29.5 mill.).

Segment reporting

The reportable operating segments of the MediClin Group are the post-acute, acute and other activities segments. Changes in the segmentation or the assignment of individual clinics to segments did not take place in the 2016 financial year. The division into operating segments corresponds to that used for the internal controlling and reporting of the Group. This segmentation is not based on regional aspects, as MediClin only operates in Germany and regional characteristics are deemed to be irrelevant for the management of the Company.

In its **post-acute segment**, MediClin offers services in the fields of subsequent nursing treatment and curative treatment. Subsequent nursing treatment starts immediately after acute care treatment and includes all medical measures required to facilitate the healing process and return the patient to a functioning state. Curative treatment includes prophylactic measures against the occurrence of (possible) illnesses or reoccurrence of illnesses. Some of the post-acute hospitals also offer services in acute neurology and acute psychosomatics.

The **acute segment** encompasses medical offerings with a focus on neurology and neurological early rehabilitation as well as psychosomatic medicine, psychiatry and orthopaedics and internal medicine. Furthermore, at certain locations, special expertise is offered in the areas of cardiology, oncology and ENT. The services of the medical care centres primarily encompass acute outpatient services and are included in this segment.

The **other activities segment** consists of the nursing care and service business areas, which are disclosed together due to non-fulfilment of quantitative thresholds pursuant to an IFRS (IFRS 8.16 "Quantitative Thresholds"). The nursing care facilities of MediClin Pflege GmbH offer full-time and short-term nursing care as well as outpatient nursing care. The service business area consists of the central services, including EDP administration provided by Cortex Software GmbH, accounting and controlling activities, quality assurance, PR activities, capex management and purchasing, and facility management for the clinics provided by employees of MediClin GmbH & Co. KG. Altogether, the following companies are subsumed under the service business area: MediClin GmbH & Co. KG (Offenburg branch office), MediClin Geschäftsführungs-GmbH, Cortex Software GmbH, MediClin à la Carte GmbH, MC Service GmbH, MediClin Therapie GmbH, MediClin Immobilien Verwaltung GmbH, Kraichgau-Klinik Aktiengesellschaft, MC Kliniken Geschäftsführungs-GmbH and MediClin Energie GmbH.

As the management holding company, MEDICLIN Aktiengesellschaft only generates internal sales. It is disclosed within the reconciliation column, in which the Group's cross-segment intra-Group sales are also neutralised. The reconciliation column primarily includes income and expense eliminations for the individual items of the profit and loss account, as well as operational assets and liabilities of the holding company MediClin AG and consolidation items.

Intra-Group sales are also disclosed within the segment reporting. Clinics that offer services of both segments are assigned to the post-acute segment. The carrying amounts of goodwill are assigned to the cash-generating units (operating locations) and are only applicable to the acute segment.

All business transactions between segments are conducted at normal market conditions which customarily apply among third parties, with euros as the functional currency. Segment data was calculated in accordance with the financial accounting standards uniformly applied in the consolidated financial statements.

Segment assets and segment liabilities include all assets and liabilities that are attributable to operations – excluding financial assets, financial liabilities and income taxes. The segment assets item also includes goodwill.

After reconciliation, the result accords with the operating result in the profit and loss account as part of the consolidated statement of comprehensive income.

Gross capital expenditure refers to gross additions to non-current assets.

Pursuant to IFRSs (IFRS 8.34 "Information about Transactions with Major Customers"), an entity is required to disclose information on the degree of its dependency on major customers. As the MediClin Group is a nationwide operator of hospitals, statutory social security pension funds and public health insurance funds account for around 90 % of the total service demand. Sales are monitored and controlled on a monthly basis. The public health insurance funds make up 43.0 % (previous year: 43.4 %) of the demand for services in the post-acute segment, while the social security pension funds make up 48.2 % (previous year: 47.9 %) of the demand for services in this segment. In the acute segment, 92.7 % (previous year: 92.7 %) of the services demanded are attributable to the public health insurance funds.

Sectoral segmenting

In millions of €	January–December 2016					
	Post-acute	Acute	Other activities	Subtotal	Reconcili-ation	Total
Sales	351.0	210.6	68.6	**630.2**	–49.9	**580.3**
Total sales	355.1	212.4	72.0	**639.5**	0.0	**639.5**
Internal sales	4.1	1.8	3.4	**9.3**	49.9	**59.2**
Raw materials and consumables used	–71.5	–57.5	–26.4	**–155.4**	46.7	**–108.7**
Staff costs	–175.9	–111.6	–45.7	**–333.2**	–1.5	**–334.7**
Other operating expenses	–83.8	–31.3	–13.3	**–128.4**	25.6	**–102.8**
Segment result	**18.5**	**5.8**	**1.5**	**25.8**	**–1.8**	**24.0**
Thereof non-cash items:						
Scheduled depreciations/ write-ups	–11.0	–14.8	–1.5	**–27.3**	0.0	**–27.3**
Non-scheduled depreciations/ write-ups	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Release of special item	0.8	7.3	0.0	**8.1**	0.0	**8.1**
Allowances	–0.3	–1.4	0.0	**–1.7**	0.0	**–1.7**
Allocation of provisions/ liabilities	–9.1	–7.8	–7.0	**–23.9**	–0.9	**–24.8**
Release of provisions/ liabilities	1.0	2.1	0.5	**3.6**	0.0	**3.6**
Financial revenues	0.2	0.2	0.0	**0.4**	–0.3	**0.1**
Financial costs	–0.9	–1.7	–1.8	**–4.4**	1.2	**–3.2**
Financial result	**–0.7**	**–1.5**	**–1.8**	**–4.0**	**0.9**	**–3.1**
Taxes on income	**0.0**	**–0.3**	**–0.1**	**–0.4**	**–3.9**	**–4.3**
Assets	**137.2**	**153.7**	**11.6**	**302.5**	**44.6**	**347.1**
Liabilities	**20.4**	**19.5**	**75.3**	**115.2**	**50.3**	**165.5**
Gross capital expenditure	15.2	8.9	4.0	**28.1**	0.0	**28.1**

In millions of €	January–December 2015[1]					
	Post-acute	Acute	Other activities	Subtotal	Reconcili-ation	Total
Sales	330.9	206.7	66.9	**604.5**	– 49.2	**555.3**
Total sales	334.5	208.6	71.5	**614.6**	0.0	**614.6**
Internal sales	3.6	1.9	4.6	**10.1**	49.2	**59.3**
Raw materials and consumables used	– 68.4	– 53.4	– 27.6	**–149.4**	46.3	**– 103.1**
Staff costs	–164.2	–109.1	– 44.7	**– 318.0**	–1.9	**–319.9**
Other operating expenses	– 74.0	– 26.3	–10.4	**–110.7**	13.5	**–97.2**
Segment result	**19.5**	**11.8**	**– 4.2**	**27.1**	**–3.5**	**23.6**
Change in Group contributions	–5.6	– 3.1	6.6	**–2.1**	2.1	**0**
Segment result (pro forma)	**13.9**	**8.7**	**2.4**	**25.0**	**1.4**	**23.6**
Thereof non-cash items:						
Scheduled depreciations/ write-ups	– 9.8	–15.2	–1.4	**– 26.4**	0.0	**– 26.4**
Non-scheduled depreciations/ write-ups	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Release of special item	0.6	7.4	0.0	**8.0**	0.0	**8.0**
Allowances	– 0.3	– 0.4	0.0	**– 0.7**	0.0	**– 0.7**
Allocation of provisions/ liabilities	– 8.9	– 7.3	– 3.5	**–19.7**	– 1.0	**– 20.7**
Release of provisions/ liabilities	0.7	1.0	0.3	**2.0**	0.1	**2.1**
Financial revenues	0.2	0.1	0.3	**0.6**	– 0.5	**0.1**
Financial costs	–1.1	–1.6	– 2.1	**– 4.8**	1.1	**–3.7**
Financial result	**– 0.9**	**–1.5**	**–1.8**	**– 4.2**	**0.6**	**–3.6**
Taxes on income	**– 0.1**	**– 0.1**	**– 0.3**	**– 0.5**	**– 2.9**	**– 3.4**
Assets	**131.8**	**157.9**	**7.9**	**297.6**	**31.8**	**329.4**
Liabilities	**20.6**	**21.0**	**69.6**	**111.2**	**49.1**	**160.3**
Gross capital expenditure	18.7	6.8	1.5	**27.0**	0.0	**27.0**

[1] In the 2016 annual financial statements the method for charging the facilities for Group contributions and the amounts thereof were changed. This has an effect on the segment results in the segment reporting. For reasons of comparability, the change in the Group contribution and the segment result are shown on a pro forma basis in the above table.

Notes to the consolidated balance sheet

Non-current assets

(1) Goodwill and other intangible assets

In thousands of €	Concessions, licences	Goodwill	Payments on account	**Total**
Acquisition costs as at 01.01.2015	18,785	74,868	192	**93,845**
Additions	1,023	0	158	**1,181**
Reclassifications	115	0	–115	**0**
Disposals	–168	–105	0	**–273**
Acquisition costs as at 31.12.2015	**19,755**	**74,763**	**235**	**94,753**
Cumulated depreciation as at 01.01.2015	17,020	26,279	0	**43,299**
Scheduled depreciation	1,225	0	0	**1,225**
Non-scheduled depreciation	0	0	0	**0**
Reclassifications	0	0	0	**0**
Disposals	–167	0	0	**–167**
Cumulated depreciation as at 31.12.2015	**18,078**	**26,279**	**0**	**44,357**
Balance sheet value 31.12.2015	**1,677**	**48,484**	**235**	**50,396**
Acquisition costs as at 01.01.2016	19,755	74,763	235	**94,753**
Additions	1,643	90	1,339	**3,072**
Reclassifications	30	0	–30	**0**
Disposals	–43	0	–44	**–87**
Acquisition costs as at 31.12.2016	**21,385**	**74,853**	**1,500**	**97,738**
Cumulated depreciation as at 01.01.2016	18,078	26,279	0	**44,357**
Scheduled depreciation	1,243	0	0	**1,243**
Non-scheduled depreciation	0	0	0	**0**
Reclassifications	0	0	0	**0**
Disposals	–39	0	0	**–39**
Cumulated depreciation as at 31.12.2016	**19,282**	**26,279**	**0**	**45,561**
Balance sheet value 31.12.2016	**2,103**	**48,574**	**1,500**	**52,177**

Capitalised, internally developed intangible assets do not exist. Licences and concessions pertain nearly exclusively to software.

Of the goodwill disclosed, a total of EUR 45.0 mill. (previous year: EUR 45.0 mill.) is attributable to debit differences from capital consolidation.

The EUR 90 thou. additions to goodwill refer to the acquisition of a doctor’s practice at the MediClin medical care centre in Plau am See.

As in the previous year, goodwill encompasses six cash-generating units (CGUs) in the acute segment. The medical care centres are each summarised with the CGUs on a location basis if physically separate facilities exist at one location.

As in the previous year, the mandatory annual impairment test for goodwill revealed no impairment loss in the reporting year, because the recoverable amounts (according to the plan parameter) exceeded the carrying amounts. Goodwill amounted to EUR 48.6 mill. on 31 December 2016 (31.12.2015: EUR 48.5 mill.). The carrying amounts of the CGUs totalled EUR 98.0 mill. (31.12.2015: EUR 99.0 mill.). Nearly 50 % of goodwill and 40 % of the carrying amount referred to one CGU (as in the previous year).

The recoverable amount of a CGU is determined by calculating the value in use with the discounted cash flow method (DCF) using the same assumptions for all CGUs carrying goodwill. The calculations are based on EBIT forecasts from the bottom-up annual planning as adopted and approved by the Management Board of MediClin AG. The Company’s three-year detailed planning is based on the management’s experience with regard to the respective unit and takes into account the legal framework for the healthcare sector. The perpetuity is calculated on the basis of the plan figures for the third year, pricing in an appropriate discount if required. To calculate the present value of perpetuity, an equity risk premium of 0.25 % is factored in. A discount rate of 4.09 % (previous year: 4.24 %) before tax was determined for short and medium term planning in the reporting period. The discount rate is calculated with the help of external information sources. It is determined on the basis of weighted average cost of capital before tax (WACC before tax), taking certain variables into account.

In %	**31.12.2016**	31.12.2015
Risk-free interest rate	0.50	1.50
Market risk premium	6.50	6.50
Beta coefficient (on the basis of a peer-group analysis)	0.58	0.49
Growth discount to the perpetuity	0.25	0.25
Borrowing costs (before taxes)	1.58	2.02
Tax shield	0.25	0.32
Capital structure (equity/borrowed capital) (on the basis of a peer-group analysis)	71.00/29.00	64.50/35.50

In the context of the impairment test, an additional sensitivity analysis was conducted, which primarily examined the effects of change in the underlying EBIT (+/– 5 %; +/– 10 %) and the discount rate (+/– 0.5 %; +/– 1.0 %).

In millions of €		Change in discount rate				
		0.0 %	0.5 %	1.0 %	– 0.5 %	– 1.0 %
Change in EBIT	0.0 %	0.0	0.4	1.3	0.0	0.0
Change in EBIT	5.0 %	0.0	0.1	1.0	0.0	0.0
Change in EBIT	10.0 %	0.0	0.0	0.7	0.0	0.0
Change in EBIT	– 5.0 %	0.0	0.8	2.6	0.0	0.0
Change in EBIT	– 10.0 %	0.1	1.1	5.6	0.0	0.0

The analysis revealed a need for write-downs totalling a maximum of EUR 5.6 mill. within the context of the parameter changes, which corresponds to 5.7 % of the carrying amount.

(2) Property, plant and equipment

In thousands of €	Land, land rights and buildings including buildings on third-party land	Technical equipment and machines	Operating and office equipment	Payments on account and assets under construction	**Total**
Acquisition and manufacturing costs as at 01.01.2015	224,867	34,799	161,557	2,392	**423,615**
Additions	2,700	1,586	10,080	8,705	**23,071**
Reclassifications	513	373	120	–1,006	**0**
Disposals	0	–189	–2,603	–162	**–2,954**
Acquisition and manufacturing costs as at 31.12.2015	**228,080**	**36,569**	**169,154**	**9,929**	**443,732**
Cumulated depreciation as at 01.01.2015	119,752	23,741	124,587	0	**268,080**
Scheduled depreciation	6,031	1,934	9,226	0	**17,191**
Disposals	0	–187	–2,516	0	**–2,703**
Cumulated depreciation as at 31.12.2015	**125,783**	**25,488**	**131,297**	**0**	**282,568**
Balance sheet value 31.12.2015	**102,297**	**11,081**	**37,857**	**9,929**	**161,164**
Acquisition and manufacturing costs as at 01.01.2016	228,080	36,569	169,154	9,929	**443,732**
Additions	4,575	1,517	10,158	2,344	**18,594**
Reclassifications	5,904	1,363	79	–7,346	**0**
Disposals	0	–1,068	–6,508	–129	**–7,705**
Acquisition and manufacturing costs as at 31.12.2016	**238,559**	**38,381**	**172,883**	**4,798**	**454,621**
Cumulated depreciation as at 01.01.2016	125,783	25,488	131,297	0	**282,568**
Scheduled depreciation	6,559	1,888	9,480	0	**17,927**
Disposals	0	–1,065	–6,421	0	**–7,486**
Cumulated depreciation as at 31.12.2016	**132,342**	**26,311**	**134,356**	**0**	**293,009**
Balance sheet value 31.12.2016	**106,217**	**12,070**	**38,527**	**4,798**	**161,612**

Gross additions to property, plant and equipment before deduction of special items totalled EUR 25.0 mill. in the 2016 financial year (previous year: EUR 25.7 mill.).

Around EUR 10.8 mill. was used for the reconstruction and expansion of clinics. Of this amount EUR 1.7 mill. pertain to the construction of an emergency unit, EUR 1.8 mill. to the expansion of a hospital building, EUR 0.8 mill. to the refurbishment of patient rooms and EUR 0.4 mill. to the construction of a new nursing care facility. EUR 0.9 mill. was invested in cogeneration units.

Capital expenditure for IT infrastructure amounted to EUR 3.2 mill., EUR 5.1 mill. was invested in medical equipment and devices including accessories and EUR 3.9 mill. was spent on furnishing patient and nurses' rooms and offices.

Subsidies and grants for financing investments are deducted directly from the acquisition or manufacturing costs of the subsidised assets pursuant to IAS 20 and thus reduce the basis of assessment for the ongoing depreciation expense. This item mainly refers to adequately used subsidies pursuant to the hospital financing law with an amortised amount of EUR 71.1 mill. (previous year: EUR 72.8 mill.). The additions of subsidised assets amount to EUR 6.4 mill. (previous year: EUR 2.7 mill.). Depreciation and amortisation was reduced by the deduction of subsidies totalling EUR 8.1 mill. (previous year: EUR 8.0 mill.) from the acquisition or manufacturing costs. There were no circumstances that would give rise to a repayment of subsidies.

Assets for which the MediClin Group has signed finances are disclosed in the property, plant and equipment item. This refers in particular to a sale-and-leaseback agreement for the properties and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald. The leased property was added to non-current assets at the beginning of the lease agreement with the present value of the minimum lease payments of EUR 7.6 mill., EUR 2.7 mill. of which is for land and EUR 4.9 mill. for the buildings. The net carrying amount at the balance sheet date totals EUR 6.4 mill. (previous year: EUR 6.6 mill.). In addition, there are three more (previous year: two) finance lease contracts pertaining to the medical and technical equipment of two clinics. The contracts have terms until 2016 and 2022. The net carrying amounts of the assets at the balance sheet date total EUR 0.3 mill. (previous year: EUR 0.4 mill.). More detailed explanations are provided in item (20) "Finance lease liabilities".

(3) Financial assets

Financial assets refer primarily to reinsurance policies for pension obligations totalling EUR 1,171 thou. (previous year: EUR 1,334 thou.). Two further reinsurance policies with a coverage volume of EUR 403 thou. (previous year: EUR 370 thou.) have been pledged to the insurance beneficiaries and will be deducted from the pension provisions. Gains and losses from reinsurance policies that have not been pledged are posted in staff costs. They are of only minor importance to MediClin.

The investments relate to shareholdings in KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH (EUR 18 thou.), Müritz-Klinikum Service GmbH (EUR 13 thou.), Medusplus GmbH (EUR 13 thou.), MediServ GmbH (EUR 13 thou.), VR-LEASING ABYDOS GmbH & Co. Immobilien KG (EUR 2 thou.) and Kur und Tourismus GmbH Bad Peterstal-Griesbach (EUR 6 thou.).

(4) Other financial assets

The figure shown under this item in the previous year related exclusively to outstanding subsidies pursuant to the hospital financing law of Mecklenburg-Vorpommern for the measure "Expansion of Psychiatry at the Röbel location".

(5) Non-current income tax assets

This item consists of the discounted receivable from the payment of the remaining corporation tax credit, resulting from the conversion of 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 were already capitalised in the annual financial statements as of 31 December 2006. The corporation tax credit is paid out over a payment period from 2009 to 2017. A discount rate of 4.25 % was applied.

(6) Deferred tax assets

Deferred tax assets result from temporary differences between the balance sheet values according to IASs and the tax values applied for the assets and liabilities. Pursuant to IAS 12.53, deferred tax assets are not to be discounted. A relevant tax rate of 15.825 % (corporation tax, solidarity surcharge) was generally applied.

In thousands of €	Difference		Tax	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deferred tax assets				
Pension obligations	49,732	44,797	7,870	7,089
Tax loss carried forward	2,780	2,854	440	452
Interim profits of non-current assets	0	3	0	1
Anniversary obligations/ provisions for partial retirement	1,070	990	169	157
Others	1,408	891	223	141
			8,702	**7,840**
Deferred tax liabilities				
Intangible assets	18,007	17,821	2,850	2,820
Property, plant and equipment	9,071	7,557	1,435	1,196
Others	722	714	114	113
			4,399	**4,129**
Balance sheet recognition			**4,303**	**3,711**

MediClin recognised deferred taxes for tax losses carried forward, if the Group assumes that sufficient positive taxable income will be available in the next five years for realising the deferred tax assets due to the restructuring measures already performed or to be performed in the future. For loss carryforwards amounting to EUR 8.3 mill. (previous year: EUR 7.8 mill.), no deferred tax assets were recognised.

Current assets

(7) Inventories

Inventories are only of minor importance for MediClin as a service corporation, and are largely composed as follows:

In thousands of €	31.12.2016	31.12.2015
Medical supplies	4,319	4,280
Operating supplies	1,622	1,523
Administrative supplies	329	351
	6,270	**6,154**

(8) Trade receivables

In thousands of €	31.12.2016	31.12.2015
Receivables stock	76,159	72,749
Allowance	–5,021	–5,423
Disclosure	**71,138**	**67,326**
Receivables not yet invoiced	21,457	19,937
Invoiced trade receivables	49,681	47,389

The residual term of the receivables is less than one year.

Trade receivables are non-interest bearing and are measured at amortised costs, which correspond to the nominal value less an adequate estimated amount for bad debts. Additions to the value adjustments during the financial year are disclosed in the consolidated profit and loss account in other operating expenses; releases and write-ups are disclosed in other operating income. Write-ups (reinstatement of original values) are recorded when the reason for the individual value adjustment no longer applies. The Company is of the opinion that the carrying amount of trade receivables and other receivables corresponds approximately to their fair value. Receivables not yet invoiced relate to work in process on patients whose treatment was not yet invoiced on the balance sheet date.

The valuation adjustments of trade receivables developed as follows:

In thousands of €	2016	2015
Allowance as of 01.01.	5,423	4,727
Additions to general bad debt allowances	1,459	1,050
Consumption	–1,526	–14
Release	–335	–340
Allowance as of 31.12.	**5,021**	**5,423**

General bad debt allowances are made on the basis of the age structure and taking into account various discount rates. Specific bad debt allowances are made for specific foreseeable default risks.

The balance from expenses resulting from the full write-off of receivables, as well as income from the recoveries of written-off receivables, resulted in expenses totalling EUR 1.7 mill. during the 2016 financial year (previous year: expenses totalling EUR 0.7 mill.).

In thousands of €	2016	2015
Expenses for full write-off of receivables	–2,033	–1,030
Recoveries of written-off receivables	337	350
	–1,696	**–680**

The following table presents information about delinquent receivables for which a valuation adjustment is not yet required:

Invoiced trade receivables

In thousands of €	Book value	Thereof neither value adjusted nor delinquent to the cut-off date	Thereof not value adjusted but delinquent for the following time frames to the cut-off date					
			less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
As of 31.12.2016	49,681	33,973	5,549	1,422	756	1,517	2,424	4,040
As of 31.12.2015	47,389	32,388	6,494	1,327	597	1,381	2,507	2,695

Concerning receivables that are neither value adjusted nor delinquent, there is no information at hand indicating that the parties liable to pay will not satisfy their obligations.

(9) Current income tax assets

The current income tax assets item includes the portion of the receivables disclosed in item (5) “Non-current income tax assets” which will accrue to the Group in 2017.

(10) Receivables pursuant to hospital financing law

In thousands of €	31.12.2016	31.12.2015
Receivables stock	3,362	4,770

Receivables pursuant to the hospital financing law relate to claims under the hospital financing law and compensation claims stipulated in the Federal Directive on Nursing Care Rates (Bundespflegesatzverordnung) or the Hospital Compensation Act (Krankenhausentgeltgesetz), respectively.

The following table provides information on delinquent receivables pursuant to the hospital financing law:

Receivables pursuant to hospital financing law

In thousands of €	Book value	Thereof neither value adjusted nor delinquent to the cut-off date	Thereof not value adjusted but delinquent for the following time frames to the cut-off date					
			less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
As of 31.12.2016	3,362	3,362	0	0	0	0	0	0
As of 31.12.2015	4,770	4,770	0	0	0	0	0	0

Concerning receivables that are not value adjusted, the Company assumes that the debtors will satisfy their obligations to pay.

(11) Other current financial assets

In thousands of €	**31.12.2016**	31.12.2015
Receivables stock	4,006	3,191

This item discloses financial assets which are recognised at amortised cost. Value adjustments to account for recognisable risks were not to be carried out. The residual term of the receivables is less than one year. The amounts reported are approximately equal to the fair value. The receivables are not delinquent, and there is no information at hand that indicates that the parties liable to pay will not satisfy their obligations.

(12) Other assets

This item refers to prepaid expenses including insurance accruals.

(13) Cash and cash equivalents

In the reporting year, cash and cash equivalents only include cash and bank credit balances.

Additional information on financial instruments

Net gains/losses from financial instruments

The net result of subsequent measurement of loans and receivables comprises income and expenses for the value adjustment of trade receivables. Income from disposal refers to the subsequent receipt of receivables that had already been written off. The hedge transaction that was measured at fair value in the previous year refers to write-ups and write-downs on the fair value of the interest hedge transaction.

In thousands of €	From subsequent measurement		From disposal	Net result	
	at fair value	value adjustments		2016	2015
Loans and receivables	0	–2,034	338	–1,696	–680
Interest rate hedge measured at fair value	0	0	0	0	–1
	0	**–2,034**	**338**	**–1,696**	**–681**

Fair value measurement

Starting in the 2013 financial year, IFRS 13 defines a single framework for measuring fair value and the disclosures about fair value measurements, if such measurements are required or permitted by another IFRS.

The fair value hierarchy levels and how they are applied to the financial assets and liabilities of MediClin are described in the following:

- Level 1: quoted prices in active markets for identical assets or liabilities

  The fair value of financial instruments that are traded in active markets is based on the market price quoted on the balance sheet date. A market is deemed active if quoted prices are available from an exchange, a trader, an industry group, a pricing service or a regulatory authority easily and regularly and these prices reflect current and recurring market transactions in accordance with the arm's length principle.

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- Level 2: measurement criteria other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices)

  The fair value of financial instruments not traded in an active market is measured on the basis of a valuation technique. The fair value is thus estimated based on the results of a valuation technique that relies on market data as far as possible and company-specific data as little as possible. If all the data required for measuring the fair value is observable, the instrument is classified as level 2.

- Level 3: measurement factors for assets or liabilities that are not based on observable market data are classified as level 3.

The following tables show the carrying amounts of the fair values of financial instruments as reported in the balance sheet by valuation categories (IAS 39). No information is disclosed on the fair value of financial assets and financial liabilities as these are not measured at fair value because the carrying amount is a reasonable approximation of fair value (IFRS 7.29a).

Investments are measured at acquisition cost, as reliable measurement of the fair value is impossible. Investments are non-listed financial instruments without an active market. There are no intentions at present to dispose of investments that were measured at acquisition cost.

Due to the short terms of these instruments, the fair values of cash and cash equivalents, of trade receivables and payables with a remaining maturity of up to 12 months and of the other current assets and liabilities correspond approximately to their carrying amounts. Receivables are recognised accounting for an adequate estimated amount for bad debts. On the basis of this measurement, MediClin carries out value adjustments on the aforementioned receivables. The fair value of liabilities to banks and other financial liabilities is determined by discounting expected future cash flows with interest rates currently applicable to financial liabilities with comparable conditions and maturities.

No transfers were made from one level to another.

In thousands of €	Category in accordance with IAS 39	Book value 31.12.2016	Balance sheet recognition in accordance with IAS 39	Fair value 31.12.2016
			Amortised costs	
ASSETS				
Non-current assets				
Investment in stock of subsidiaries	AfS	65	65	–
Reinsurance policies	LaR	1,171	1,171	1,171
Other financial assets	HtM	2	2	2
Interest rate hedge	FAHfT	0	–	0
Current assets				
Trade receivables	LaR	71,138	71,138	71,138
Receivables pursuant to hospital financing law	LaR	3,362	3,362	3,362
Other current financial assets	LaR	4,006	4,006	4,006
Prepaid expenses	LaR	1,235	1,235	1,235
Cash and cash equivalents	LaR	41,648	41,648	41,648
EQUITY AND LIABILITIES				
Non-current liabilities				
Liabilities to banks	FLAC	38,520	38,520	38,520
Liabilities from finance leases	FLAC	6,508	6,508	6,508
Other financial liabilities	FLAC	515	515	515
Current liabilities				
Trade payables	FLAC	12,993	12,993	12,993
Liabilities to banks	FLAC	10,276	10,276	10,276
Liabilities from finance leases	FLAC	294	294	294
Other provisions (partial amount)	FLAC	476	476	476
Liabilities pursuant to hospital financing law	FLAC	5,031	5,031	5,031
Other liabilities (partial amount)	FLAC	2,747	2,747	2,747
Other payables	FLAC	18,193	18,193	18,193
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IAS 39				
Loans and Receivables (LaR)	**Total LaR**	**122,560**	**122,560**	**122,560**
Held-to-Maturity Investments (HtM)	**Total HtM**	**2**	**2**	**2**
Available-for-Sale Financial Assets (AfS)	**Total AfS**	**65**	**65**	**0**
Financial Assets Held for Trading (FAHfT)	**Total FAHfT**	**0**	**0**	**0**
Financial Liabilities Measured at Amortised Cost (FLAC)	**Total FLAC**	**95,553**	**95,553**	**95,553**

In thousands of €	Category in accordance with IAS 39	Book value 31.12.2015	Balance sheet recognition in accordance with IAS 39	Fair value 31.12.2015
			Amortised costs	
ASSETS				
Non-current assets				
Investment in stock of subsidiaries	AfS	66	66	–
Reinsurance policies	LaR	1,334	1,334	1,334
Other financial assets	HtM	2	2	2
Interest rate hedge	FAHfT	0	–	0
Other financial assets	LaR	700	700	700
Current assets				
Trade receivables	LaR	67,326	67,326	67,326
Receivables pursuant to hospital financing law	LaR	4,770	4,770	4,770
Other current financial assets	LaR	3,191	3,191	3,191
Prepaid expenses	LaR	929	929	929
Cash and cash equivalents	LaR	29,532	29,532	29,532
EQUITY AND LIABILITIES				
Non-current liabilities				
Liabilities to banks	FLAC	39,962	39,962	39,962
Liabilities from finance leases	FLAC	6,783	6,783	6,783
Other financial liabilities	FLAC	646	646	646
Current liabilities				
Trade payables	FLAC	12,018	12,018	12,018
Liabilities to banks	FLAC	6,584	6,584	6,584
Liabilities from finance leases	FLAC	265	265	265
Other provisions (partial amount)	FLAC	400	400	400
Liabilities pursuant to hospital financing law	FLAC	7,413	7,413	7,413
Other liabilities (partial amount)	FLAC	3,142	3,142	3,142
Other payables	FLAC	17,363	17,363	17,363
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IAS 39				
Loans and Receivables (LaR)	**Total LaR**	**107,782**	**107,782**	**107,782**
Held-to-Maturity Investments (HtM)	**Total HtM**	**2**	**2**	**2**
Available-for-Sale Financial Assets (AfS)	**Total AfS**	**66**	**66**	**–**
Financial Assets Held for Trading (FAHfT)	**Total FAHfT**	**0**	**–**	**0**
Financial Liabilities Measured at Amortised Cost (FLAC)	**Total FLAC**	**94,576**	**94,576**	**94,576**

Equity

Capital management

The primary objective of the capital management of MediClin is to ensure that the Group's ability to pay back its debts and its financial substance are preserved in future, and that the capital structure continues to adequately meet the business risk. MediClin AG is not subject to any external capital requirements or capital requirements as per the Articles of Association except the minimum capital requirements pursuant to the German Stock Corporation Act (Aktiengesetz). Financial security is essentially measured using the key figures equity ratio and debt ratio. Components of these key figures are the balance sheet total in the consolidated financial statements, the equity recorded in the consolidated balance sheet and loans from banks in the form of a syndicated loan. At the end of July 2016, the previous syndicated loan with a volume of EUR 60.0 mill., consisting of a redeemable loan of originally EUR 50.0 mill. and a revolving credit line for a further EUR 10.0 mill., was prematurely redeemed with the help of a new syndicated loan. The new syndicated loan again has a total volume of EUR 60.0 mill., consisting of a bullet loan for EUR 30.0 mill. that was used to repay the remaining amount under the previous redeemable loan and a revolving working capital loan for EUR 30.0 mill., EUR 9.0 mill. of which were utilised on 31 December 2016. The syndicated loan has a term of five years, including two options to renew the loan by another year. Both loan components are subject to a variable interest rate composed of the Euribor for the relevant interest period in addition with an agreed margin.

The equity ratio is used as an important key figure vis-à-vis investors, analysts, banks and rating agencies. The capital structure is managed by way of the dividend disbursement policy, the issuance of new shares, liquidity optimisation through sale-and-leaseback transactions and the option of acquiring treasury shares if authorised by the Annual General Meeting.

Capital management key figures

In thousands of €	31.12.2016	31.12.2015
Equity	181,564	169,139
Non-current liabilities	106,367	103,846
Current liabilities incl. tax liabilities	59,132	56,441
Balance sheet total	347,063	329,426
Net financial debt	7,149	17,014
Equity ratio (in %)	52.3	51.3
Debt ratio (in %)	47.7	48.7

Due to the adjustment effects from the calculation of pension obligations pursuant to IAS 19 "Employee Benefits" in the amount of EUR –4.2 mill. that are recognised directly in equity and the result after tax in the amount of EUR 16.6 mill., equity increased by EUR 12.4 mill. The EUR 17.6 mill. increase in the balance sheet total still led to an increase in the equity ratio of one percentage point to 52.3 %. The return on equity after tax is 9.1 % (previous year: 9.8 %). The rise in non-current liabilities totalling EUR 2.5 mill. is due primarily to a rise in pension provisions of EUR 4.9 mill. and a simultaneous decrease in liabilities to banks in the amount of EUR 1.4 mill. and in other non-current provisions of EUR 0.6 mill.

(14) Subscribed capital

In thousands of €	**31.12.2016**	31.12.2015
Subscribed capital	47,500	47,500

The subscribed capital (capital stock) of the parent company, MEDICLIN Aktiengesellschaft, is split up into 47,500,000 (previous year: 47,500,000) no-par-value bearer shares and is paid up in full. MediClin is not subject to any external minimum capital requirements.

(15) Capital reserve

In thousands of €	**31.12.2016**	31.12.2015
Capital reserve pursuant to Sec. 272 (2) No. 1 HGB and Sec. 150 AktG	127,708	127,708
Reserve pursuant to IFRS 2	48	48
Gains from the sale of treasury stock	1,636	1,636
	129,392	**129,392**

The capital reserve pursuant to Section 272 (2) No. 1 of the German Commercial Code (HGB) and Section 150 of the German Stock Corporation Act (AktG) contains amounts which were achieved above the nominal value of the issued shares.

(16) Revenue reserve

The consolidated revenue reserves are structured as follows:

In thousands of €	31.12.2016	31.12.2015
Legal reserve pursuant to Sec. 150 AktG	2,045	2,045
Result of the first IFRS consolidation	–1,742	–1,742
Negative non-controlling interests Kraichgau-Klinik AG	–695	–695
Adjustment of the negative non-controlling interests Kraichgau-Klinik AG	409	409
Reserve pursuant to IAS 19	–22,189	–18,046
	–22,172	**–18,029**

The legal reserve was added to MediClin AG in 1999 and equalled 10 % of the subscribed capital at that time.

Due to the insolvency of the companies, the initial consolidation of the Kraichgau-Klinik Group resulted in a negative share of non-controlling interests, which in accordance with IAS 27.35 (2008) was offset against the consolidated revenue reserve. A charge or credit to the consolidated statement of comprehensive income through the reporting of a non-controlling interest did not occur unless a positive minority interest would come about, which would then be presented separately in the consolidated balance sheet within equity.

Pursuant to IAS 27.28 (revised 2009), non-controlling interests must be disclosed within the equity, but separately from the equity of the shareholders of MediClin AG from the 2010 financial year onwards. The result allocations also have to be performed if this results in the non-controlling interests having a deficit balance. Due to a transitional regulation (IAS 27.45 (a) revised 2009), a company may not adjust profit or loss allocations for reporting periods which occurred before the application of IAS 27 (revised 2009).

As of 2012, the actuarial losses/gains from calculating the pension provisions in accordance with IAS 19, shown in the other comprehensive income, are reported in the revenue reserves.

(17) Consolidated balance sheet result

The consolidated balance sheet result is composed as follows:

In thousands of €	31.12.2016	31.12.2015
Profit/loss carryforward	10,626	–5,910
Result attributable to shareholders of MediClin AG	16,546	16,536
	27,172	**10,626**

Appropriation of the annual result of MEDICLIN Aktiengesellschaft

In the 2016 financial year no dividends were distributed for the 2015 financial year. In the Annual General Meeting of 25 May 2016, the Group resolved to carry net profit as of 31 December 2015 in the amount of EUR 29,325,811.12 as recognised in the separate financial statements of MEDICLIN Aktiengesellschaft prepared in accordance with the German Commercial Code (HGB) forward to new account.

For the 2016 financial year, the Group likewise intends to carry net profit in the amount of EUR 36,107,443.99 as recognised in the separate financial statements of MEDICLIN Aktiengesellschaft prepared in accordance with the German Commercial Code (HGB) forward to new account.

(18) Non-controlling interests

The disclosed amount concerns the pro rata result allocation for the shares of the existing shareholders of Kraichgau-Klinik Aktiengesellschaft, Bad Rappenau, as of 31 December 2016 (unchanged at 5.515 %). In the consolidated statement of comprehensive income, the result is recorded as a prorated figure in the item "Group comprehensive income – thereof attributable to the non-controlling interests".

Non-current liabilities

(19) Liabilities to banks

Non-current liabilities to banks are as follows:

In thousands of €	31.12.2016	31.12.2015
Syndicated loans	29,830	29,992
Other bank loans	8,690	9,969
	38,520	**39,961**

Repayments that are expected to be due in the next 12 months are shown in current liabilities to banks.

Syndicated loans

In thousands of €	31.12.2016	31.12.2015
Syndicated loans	38,827	35,153
Less repayments due in the short term	8,997	5,161
	29,830	**29,992**

In July 2016 the Company agreed on a new syndicated loan totalling EUR 60.0 mill. with a consortium of banks in order to repay an existing syndicated bullet loan for EUR 60.0 mill. maturing on 31 January 2017 (residual value as of 29.07.2016: EUR 32.5 mill.).

The contract consists of two facilities (A, B) amounting to EUR 30.0 mill. each. Facility A is granted as a EUR 30.0 mill. bullet loan and serves to replace the existing syndicated loan. Facility B is a revolving credit line of up to EUR 30.0 mill. On 29 July 2016 EUR 30.0 mill. of Facility A and EUR 9.0 mill. of Facility B had been drawn. Given its short-term nature, Facility B is shown in current liabilities (please refer also to item (25) "Liabilities to banks").

The syndicated loan has a term of five years, including two options to renew the loan by another year. Being a bullet loan, Facility A must be repaid at the end of the agreed term. Facility B is repaid at the end of a six-month interest period. Until the end of the agreed term, any amounts drawn at the end of an interest period may also be rolled over. Any amounts repaid at the end of an interest period may be drawn again as required.

The interest rate consists of a margin and a reference rate. The reference rate is the Euribor for the respective interest period (6-month Euribor). Interest totalling EUR 0.5 mill. was paid for the syndicated loans in the reporting year (previous year: EUR 0.7 mill.) which corresponds to an average interest rate of 1.38 % p.a. (previous year: 1.97 %). The new syndicated loan accounted for EUR 0.2 mill. of the interest expenses.

The following table shows future interest payments as well as repayments and additions associated with the syndicated loans:

In thousands of €	2016	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest		1,534	335	335	864	0
Repayment/additions (–)[1]		29,830	–37	–37	–96	30,000

In thousands of €	2015	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest		621	575	46	0	0
Repayment/additions (–)[1]		29,992	–8	30,000	0	0

[1] The loan is initially recognised at the amount booked to revenue. In order to ensure that the repayment amount is shown at the end of the loan term, a continual compounding of the booked amount with the effective interest rate is carried out.

Other bank loans

In thousands of €	31.12.2016	31.12.2015
Other bank loans	9,969	11,392
less repayments due in the short term	1,279	1,423
	8,690	**9,969**

Three annuity loans with a total volume of EUR 2.5 mill. were taken out in 2012 to finance a linear accelerator and a magnetic resonance tomograph as well as a cogeneration unit. The residual book value of these loans totaled EUR 0.4 mill. (previous year: EUR 0.9 mill.) at the balance sheet date. The interest rates of the loans are between 3.60 % and 4.05 % p.a., with interest paid in 2016 amounting to EUR 27 thou. (previous year: EUR 45 thou.). For two of the loans, the ownership title of the financed equipment has been assigned as security (carrying amounts of EUR 0.9 mill.; previous year: EUR 1.1 mill.). These loans have terms until 2017.

Of the other bank loans, EUR 9.5 mill. (previous year: EUR 10.5 mill.) is secured through real property liens (carrying amount: EUR 19.4 mill.; previous year: EUR 20.7 mill.).

All in all, the average interest rate for liabilities to banks is 4.69 % p.a. (previous year: 4.66 %). New fixed interest terms were agreed for one loan as of 1 February 2017 to account for the currently favourable interest level for the remaining five-year term. This reduced the future interest burden by about EUR 0.6 mill. compared to the original terms.

The future loan repayments and interest payments for the other loans are as follows:

In thousands of € 2016	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest	1,442	299	252	568	323
Repayment	8,690	–[1]	1,101	3,482	4,107

In thousands of € 2015	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest	3,146	1,076	485	993	592
Repayment	9,969	–[1]	1,336	3,455	5,178

[1] Recognised in other current liabilities (item (25) "Liabilities to banks")

(20) Finance lease liabilities

In thousands of €	31.12.2016	31.12.2015
Leases for real estate	6,334	6,511
Leases for movable property	174	272
	6,508	**6,783**

Finance leasing

Assets for which the MediClin Group has signed finances are disclosed in the property, plant and equipment item. In 2008 a sale-and-lease-back agreement totalling an investment of EUR 7.6 mill. was signed for the properties and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG. The lease payments for the first ten years are EUR 554 thou. p.a., and afterwards they are calculated at a preliminary amount of EUR 621 thou. p.a. The underlying finance interest rate for the first ten years is 5.85 % p.a. After this fixed-interest period has expired, the interest will be renegotiated.

The leased property was added to non-current assets at the beginning of the lease agreement with the present value of the minimum lease payments of EUR 7.6 mill., EUR 2.7 mill. of which is for land and EUR 4.9 mill. for the buildings. The net carrying amount at the balance sheet date totals EUR 6.4 mill. (previous year: EUR 6.6 mill.).

The payments due in future from finance leases, the shares of interest contained therein and the present values of future lease payments are disclosed in the following table:

In thousands of € **31.12.2016**	**Total**	**1 year or less**	**1 to 5 years**	**More than 5 years**
Minimum lease payment	10,149	554	2,216	7,379
Interest component	–3,638	–377	–1,394	–1,867
Present value	**6,511**	**177**	**822**	**5,512**

In thousands of € 31.12.2015	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment	10,703	554	2,216	7,933
Interest component	–4,025	–387	–1,441	–2,197
Present value	**6,678**	**167**	**775**	**5,736**

In addition, there are three more (previous year: two) finance lease contracts pertaining to the medical and technical equipment of three clinics. A short-term contract with a term of one year was concluded in the reporting year. One of the other contracts is also due to expire in 2017, while the second contract ends in 2022. The underlying interest rates for the longer-term contracts are 2.6 % p.a. and 2.9 % p.a. The net carrying amounts at the balance sheet date totals EUR 0.3 mill. (previous year: EUR 0.4 mill.). The payments due in future from finance leases, the shares of interest contained therein and the present values of future lease payments are disclosed in the following table:

In thousands of € **31.12.2016**	**Total**	**1 year or less**	**1 to 5 years**	**More than 5 years**
Minimum lease payment	310	123	164	23
Interest component	–19	–6	–12	–1
Present value	**291**	**117**	**152**	**22**

In thousands of € 31.12.2015	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment	392	106	237	49
Interest component	–23	–9	–13	–1
Present value	**369**	**97**	**224**	**48**

The present values of lease payments up to one year are disclosed in item (27) "Finance lease liabilities".

(21) Pensions and similar obligations

In thousands of €	**2016**	2015
Mitarbeiterunterstützungskasse der vereinigten Klinikbetriebe (MAUK)	43,992	39,648
Kraichgau-Klinik Group	11,155	10,623
	55,147	**50,271**

The Group promised part of its employees the payment of regular pension benefits for the time after their retirement in the scope of the Company's retirement benefit plan; these are defined benefit and defined contributions-based commitments for old age, invalidity and surviving dependants' pensions. The fund assets of **Mitarbeiterunterstützungskasse der Vereinigten Klinikbetriebe e.V. (MAUK)** and two reinsurance policies that are pledged to the insurance beneficiaries are considered in the computation of the pension obligations.

Defined benefit obligations

The defined benefit obligations concern two pension plans which are meanwhile closed, **MAUK** and the pension schemes of the **Kraichgau-Klinik Group** pension plan. Both pension plans are closed, which means that in principle no new benefit obligations will be added. The number of persons covered by these plans who are entitled to or in receipt of benefits developed as follows:

	31.12.2016	31.12.2015
Active employees	1,441	1,526
Departed employees with vested rights	754	742
Pensioners	752	687
	2,947	**2,955**

The share of persons entitled to pensions amounts to 74.5 % (previous year: 76.8 %) and the share of recipients of pensions to 25.5 % (previous year: 23.2 %).

MAUK is a relief fund into which lump sum endowments are paid for appropriation as tax-exempt special assets to cover employee benefit entitlements. MAUK is an incorporated pension fund with no legal redress to the benefits provided for by the benefit plan. These benefits are financed through the contributions of MediClin to MAUK. At the MediClin level, the benefits constitute, depending on certain conditions and to a limited extent, deductible business expenses (Section 4d German Income Tax Act – EStG). As a social institution pursuant to Section 5 (1) No. 3 Letter e Corporation Tax Act (KStG) and Section 6 (6) Corporation Tax Act (KStG), the relief fund is exempt from taxation. Section 4d Income Tax Act restricts this tax exemption to the assets permissible under tax regulations. If the amount of the assets permissible under tax regulations is exceeded by more than 25 %, the relief fund must pay tax on that part of the exceeding amount. The assets permissible under tax regulations are derived by multiplying eightfold the permissible contributions for relevant beneficiaries and the premium reserve for the current benefits pursuant to Annex 1 Income Tax Act. The assets permissible under tax regulations thus amount to approximately two annual pensions per beneficiary. The assets permissible under tax regulations of MAUK as of 31 December 2016 amounted to EUR 10.9 mill. (31.12.2015: EUR 10.5 mill.). No minimum endowment obligation exists.

As of 31 December 2001 the defined benefit plan was replaced by a defined contribution plan. The retirement benefits of the active employees accumulated at MAUK up to that time point were in effect frozen. Under the terms of the benefit plan, lifelong or time-limited benefits are paid out in the form of a retirement pension, a premature retirement pension or a disability pension. The pension amounts to between EUR 5.00 and

EUR 10.00 per month per eligible service year depending on the average working time per week. In the case of premature use (i.e. before completion of the 65th year), the vested entitlement is reduced by 0.5 % for each month of premature use of the retirement pension. The current pension payments, with the exception of two of the individual obligations, are made from the assets of MAUK. MAUK receives sufficient funds from MediClin AG for this purpose. The assets of MAUK are made up of voluntary contributions from MediClin as well as income from investing the assets. Pursuant to Section 12 of the constitution of MAUK, the assets of the association are to be invested profitably and may only be used for the purposes of the association and administration costs. The granting of loans may be permitted to the sponsoring company at an appropriate interest rate; however, no use is made of this possibility.

The pension provisions of the Kraichgau-Klinik Group result from the acquisition of the majority of shares in Kraichgau-Klinik AG in 2008. The pension benefits paid in accordance with the pension statute of Kraichgau-Klinik AG are a retirement pension or premature retirement pension and a deferred disability pension. The monthly retirement pension amounts to 0.5 % per year of service – but no more than 12 % – of the average monthly salary received in the last 12 months prior to the insured event. In the event of premature retirement, the pension thus calculated is lowered by 0.5 % per month of the premature retirement commenced before the retirement age is reached. In the event of premature retirement due to invalidity, a deferred invalidity pension is paid until the retirement age is reached. The calculation of this amount is based on the retirement pension, but with account only taken of the employee’s years of service until the invalidity event. The age limit for employees who commenced employment on or before 31 December 1994 is 60 years for women and 65 years for men. For employees who commenced employment after 31 December 1994, the age limit is 65 years for women and for men. Since August 1997 no new beneficiaries have been added to this scheme.

In addition, an individual obligation exists to a former executive staff member of Kraichgau-Klinik AG. This person’s entitlement to retirement benefit is made up of a basic claim of 32.55 % and linear increases of 0.9 % of the annual pensionable salary. Increases have only been taken into account from 1 April 2000. The maximum claim is 48.75 % of the pensionable salary. This person’s entitlement to invalidity benefit is 100 % of the retirement pension entitlement. In the event of the beneficiary’s death, the surviving wife receives a widows’ pension of 60 % of the pension to which the beneficiary was entitled or would have been entitled at the time of his death if he had become an invalid. The age limit is the completion of the 65th year.

The pension obligations are fully endowed and were revalued for the purpose of preparing the IFRS balance sheet. The Group's obligations encompass both current pensions as well as future pension entitlements. Pension provisions are subject to actuarial assessment using the projected unit credit method in accordance with IAS 19, taking future developments into account. The current service cost is computed using the projected unit credit method which is calculated at the beginning of the financial year and which pays interest until the end of the financial year. The defined benefit obligation (DBO) at the balance sheet date is the present value of the benefits vested in preceding accounting periods calculated by means of the projected unit credit method. For assigning the benefits to the periods of service, the same method must be used as for determining the current service cost. Pursuant to IAS 19, remeasurements carried out in the financial year resulting from actuarial gains and losses are recognised in other comprehensive income.

The amounts reported in other comprehensive income are items which in future will not be reclassified in the profit and loss account (IAS 19 82A (a)).

Due to the fact that in the above-mentioned pension plans no new beneficiaries are added to the schemes, meaning that only the existing benefit claims are to be settled from these obligations, no additional risks can be identified at the moment which would result in a future risk concentration. No risk concentrations can be noted from investing the defined planned assets since most of the investments of the defined planned assets of MAUK are short term.

The essential parameters which are decided at the beginning of the financial year and which determine the part of the pension costs to be taken into account in the profit and loss account are shown in the following table:

In %	**MAUK 2016**	MAUK 2015	**Kraichgau-Klinik Group 2016**	Kraichgau-Klinik Group 2015
Discount rate	1.80	2.30	1.80	2.30
Salary trend	–	–	2.50	2.50
Pension trend	1.00	1.00	2.00	2.00

No salary trend has been determined for MAUK, as the pension amount is fixed, based on the eligible service years and average working time, and not based on salary-related criteria. Pursuant to Section 16 (3) Sentence 1 of the German Law on Retirement Pensions (BetrAVG), the employer committed in 2013 to upwardly adjust MAUK pensions by 1% p.a. starting from 2002. In previous years as well as in the case of the Kraichgau-Klinik Group, the calculation of pension obligations was based on the inflation rate in accordance with Section 16 (2) Item 1 of the BetrAVG.

For the biometric calculations, the mortality tables of Klaus Heubeck (Richttafel 2005 G) were used.

A discount rate of 1.80 % (previous year: 2.30 %) was applied to the pension obligations. In accordance with IAS 19.83, the discount rate is to be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with fixed interest rates. The reference yields used to determine the discount rate are based on at least AA-rated corporate bonds.

A change in the main actuarial parameters used leads to the following changes to the present value of the DBO:

In thousands of €	−0.50 %	−0.25 %	+0.25 %	+0.50 %
Discount rate (1.80 %)	+5,509	+2,661	−2,490	−4,821
Salary trend[1] (2.50 %)	−42	−21	+22	+43
Pension trend[1] (2.00 %)	−635	−324	+339	+693

[1] only Kraichgau-Klinik Group

As noted above, the MAUK pension is not based on salary and takes into account a fixed pension trend of 1 %, which is why these factors have no impact on MAUK. Besides, a change in the underlying mortality rates or life expectancies is conceivable. In order to estimate the longevity risk, the underlying mortality tables were adjusted and by a reduction of mortability by 10 %. At the end of the financial year, these longer life expectancies would have led to a EUR 2.4 mill. increase in pension obligations.

According to the regulations of IAS 19, the entire defined benefit obligation (DBO) must be shown in the balance sheet minus external plan assets. For the plan assets, instead of recognising the expected return including possible value increases in the profit and loss account, a standard rate of interest is used based on the same interest rate as that used for the calculation of the pension obligations.

The expense is broken down into the components service cost, net interest and remeasurements. In the profit and loss account, the service cost is recognised under staff costs and the net interest in the financial result. Remeasurements are directly recognised in equity and in other comprehensive income. Valuation changes to be accounted for in other comprehensive income result from experience-based demographic adjustments, from the definition of an asset ceiling, from changes in the financial assumptions (i.e. the discount rate) and from the accompanying deviation of the actual income of the plan assets from the returns calculated using the discount rate.

The net pension obligation of the financial year amounts to EUR 55.1 mill. (previous year: EUR 50.3 mill.) with plan assets of EUR 1.4 mill. (previous year: EUR 1.4 mill.).

The values recognised in the balance sheet show the following development:

In thousands of €	31.12.2016	31.12.2015
Development of recognition in the balance sheet		
Present value of the DBO	56,526	51,709
Fair value of plan assets	–1,379	–1,438
Net defined benefit liability at the end of the financial year	**55,147**	**50,271**
Reconciliation of the carrying amount		
Net defined benefit liability at the end of the preceding financial year	50,271	48,166
Service cost	76	72
Net interest expense on the reported net obligation	1,087	1,189
Remeasurements recognised in other comprehensive income	4,962	1,669
Employer contributions	–745	–333
Benefits paid directly by the employer	–504	–492
Carrying amount: net defined benefit liability at the end of the financial year	**55,147**	**50,271**

The present value of the DBO showed the following development:

In thousands of €	31.12.2016	31.12.2015
DBO at the end of the preceding financial year	51,709	49,615
Current service cost	76	72
Interest expense on DBO	1,149	1,197
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	16	170
Actuarial profit (–)/loss (+) due to changes in financial assumptions	4,820	1,814
Benefits paid from plan assets	–740	–666
Benefits paid directly by the employer	–504	–493
DBO at the end of the financial year	**56,526**	**51,709**

The fair value of the plan assets thereby developed as follows:

In thousands of €	31.12.2016	31.12.2015
Fair value of plan assets at the end of the preceding financial year	1,438	1,449
Income from plan assets calculated with the discount rate	62	8
Amount by which the actual income of the plan assets in the current financial year falls short of the income calculated with the discount rate	–126	315
Employer contributions	745	332
Benefits	–740	–666
Fair value of plan assets at the end of the financial year	**1,379**	**1,438**

The plan assets comprise the following:

In %	31.12.2016	31.12.2015
Bond funds		
With generally mixed maturities	9.9	9.5
With generally short-term maturities	7.2	6.9
Fixed interest securities	10.9	10.5
Cash and cash equivalents	42.8	47.4
Reinsurance policies	29.2	25.7
	100.0	**100.0**

With the exception of the reinsurance policies, the plan assets relate to MAUK. The shares in the bond funds are listed and can be sold at any time. The reinsurance policies are valued at their fair value.

Total pension costs of the defined benefit obligations during the reporting year amount to EUR 6.2 mill. (previous year: EUR 2.9 mill.), of which EUR 1.2 mill. (previous year: EUR 1.3 mill.) are recognised in profit and loss and EUR 5.0 mill. (previous year: EUR 1.7 mill.) are recognised in other comprehensive income.

The development of the pension cost is illustrated in the chart below:

In thousands of €	2016	2015
Consolidated profit and loss account		
Current service cost	76	72
Net interest expense(/income) on the reported net defined benefit liabilities(/assets)	1,142	1,189
Pension costs, recognised in consolidated profit and loss account	**1,218**	**1,261**
Other comprehensive income		
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	16	170
Actuarial profit (–)/loss (+) due to changes in actuarial assumptions (on the obligation side)	4,820	1,814
Actuarial profit (–)/loss (+) accrued in the course of the financial year	**4,836**	**1,984**
Amount by which the actual income of the plan assets in the current financial year falls short of the income calculated with the discount rate	126	–315
Remeasurements recognised in other comprehensive income	**4,962**	**1,669**
Total pension costs	**6,180**	**2,930**

The expected benefits for the coming year are forecast at EUR 1.5 mill., while the current service cost for the expected pension obligations is estimated at EUR 0.1 mill. and net interest expense at EUR 1.0 mill.

For the year 2017 employer contributions to the plan assets are expected at EUR 0.7 mill., benefits paid directly by the employer at EUR 0.6 mill. and benefits to be paid from the plan assets at EUR 0.9 mill.

The following benefit payments are forecast for the coming years:

In thousands of €	
Expected benefit payments for the year 2017	1,483
Expected benefit payments for the year 2018	1,557
Expected benefit payments for the year 2019	1,643
Expected benefit payments for the year 2020	1,725
Expected benefit payments for the year 2021	1,824
Expected benefit payments for the years 2022 to 2026	10,732

The following figures represent the Macaulay duration of the entire pension portfolio and describe the weighted (in terms of payment and interest) average term to maturity of the pension obligations:

In years	2016	2015
MAUK	19.55	19.85
Kraichgau-Klinik Group	13.46	13.23

Pension obligations and plan assets will presumably develop as follows in 2017:

In thousands of €	
Pension obligations as of 31.12.2016	56,583
Current service cost	82
Interest expense on the DBO	986
Expected benefits	–1,483
Estimated pension obligations as of 31.12.2017	**56,112**
Estimates of plan assets	
Fair value of plan assets as of 31.12.2016	1,379
Income expected from the plan assets	25
Expected employer contributions	745
Expected benefits	–904
Estimated fair value of plan assets as of 31.12.2017	**1,245**
Estimated net pension obligation	
Estimated pension obligations as of 31.12.2017	56,112
Estimated fair value of plan assets as of 31.12.2017	–1,245
	54,867

Defined contribution plans

As a defined contribution plan, MediClin pays an annual contribution into MediClinRent as a pension insurance scheme (basic care) for its active employees up to the age of 65 who have served the Company for at least five years (cut-off date: 31.12 of the respective year) and who have completed their 28th year of age. The amount is adjusted to meet the rising cost of living (by an annual maximum of 1.5 %). The basic care encompasses a monthly pension or, alternatively, a one-time lump sum payment. The pension automatically increases by 1 % annually and is guaranteed for at least ten years. Furthermore, MediClinRent offers eligible employees the possibility to build up a private pension by allocating a portion of their gross salary. MediClin transfers these amounts directly to MediClin-Unterstützungskasse e.V. (MUK e.V.). MUK e.V. is a welfare organisation of the MediClin AG hospital operating carriers and administrative units that use this relief fund to fully or partly execute their company retirement benefit measures. The exclusive and unalterable purpose of this association is to operate this relief fund. The association must observe the provisions in Sections 1 to 3 Corporation Tax Implementing Regulations (KStDV) as amended. To this end, the association concludes reinsurance policies as per the benefit plan on the lives of the beneficiaries in order to guarantee financing of the agreed benefits.

Based on the works agreements from 12 December 2012 and 2 February 2013, pension commitments were made towards the employees of MediClin Reha-Zentrum Gernsbach, MediClin Kraichgau Klinik and MediClin Herzzentrum Lahr/Baden with regard to a company pension plan, on the basis of which employees can obtain pension entitlements from MUK e.V. The legal basis for these entitlements is formed by the constitution of MUK e.V. Employees first obtain vested entitlements to benefits financed by the employer after five years of service, counted from the moment the pension commitment was made.

These defined contribution plans do not involve the formation of a provision. The respective expenses in the reporting year totalled EUR 0.7 mill. (previous year: EUR 0.9 mill.).

Due to collective bargaining agreements, employer-financed relief fund benefit plans exist at a further three hospitals for part of the employees; these relief funds are Unterstützungskasse für Krankenhäuser in Mecklenburg-Vorpommern e.V. (UMVK), Unterstützungskasse zur Förderung der betrieblichen Altersversorgung e.V. (ufba) and Rheinische Zusatzversorgungskasse (RZVK). EUR 0.7 mill. (previous year: EUR 0.8 mill.) was spent on this in the reporting year. Current contribution payments are recognised as pension provision expenses in the operating result for the respective years. With the payment of current contributions for continuous membership in the relief funds, no further benefit commitments arise.

(22) Other provisions

In thousands of €	31.12.2016	31.12.2015
Provisions for renewal of lease agreements	169	160
Provisions for archival storage	1,293	1,293
Provisions for insurance	1,624	2,260
	3,086	**3,713**

The provisions for renewal of lease agreements relate to future reinstatement costs in connection with the leasing of the MediClin medical care centre in Leipzig. Additions to this item in 2016 only refer to interest adjustments in the amount of EUR 9 thou. The future reinstatement costs were discounted with an interest rate of 5.5 % and capitalised as incidental acquisition costs.

The provisions for archival storage relate to accrued costs for external archiving pursuant to the legal obligation to retain business records.

The provisions for insurance are related to the risks under liability insurance (KSA Kommunaler Schadensausgleich) for two hospitals.

It is not anticipated that the provisions for the renewal of lease agreements recognised as of 31 December 2016 will be consumed in the coming year.

The following overview shows the development of provisions in the reporting year:

In thousands of €	As of 01.01.2016	Additions	Interest	Consumption	Reversal	As of 31.12.2016
Provisions for renewal of lease agreements	160	0	9	0	0	169
Provisions for archival storage	1,293	86	0	86	0	1,293
Provisions for insurance	2,260	0	405	112	929	1,624
	3,713	**86**	**414**	**198**	**929**	**3,086**

(23) Other financial liabilities

In thousands of €	31.12.2016	31.12.2015
Loan from a public corporation	646	774
less current repayment share	131	128
	515	**646**

The loan granted by a public corporation has a term until 2021 and an interest rate of 2.0 % p.a.

Future loan repayments and interest payments are as follows:

In thousands of € 2016	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest	35	12	10	13	0
Repayment	646	131[1]	133	382	0

In thousands of € 2015	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest	49	15	12	21	1
Repayment	774	128[1]	131	409	106

[1] For information only

(24) Other liabilities

In thousands of €	31.12.2016	31.12.2015
Anniversary obligations	2,481	2,313
Partial retirement obligations	109	158
	2,590	**2,471**

The provisions for anniversary obligations concern other non-current payable benefits pursuant to IAS 19. The provisions have been calculated according to the projected unit credit method taking as a basis an interest rate of 1.30 % (previous year: 2.00 %). If the interest rate increases or decreases by 0.50 % or 0.25 %, provisions change as follows:

In thousands of €	−0.50 %	−0.25 %	+0.25 %	+0.50 %
Discount rate (1.30 %)	+91	+45	−43	−85

Of the provisions for anniversary obligations, an estimated EUR 139 thou. will be used in the 2017 financial year, and EUR 2,342 thou. in the subsequent years. The interest component totalled EUR 29 thou. in the 2016 reporting year.

The top-up amounts relating to provisions for partial retirement are recognised in liabilities at the time of the agreement in the amount of their utilisation. The amounts claimed within the scope of the block model are accrued during the employment phase and carried as a liability in the amount of the discounted amount not yet paid out. On the balance sheet date a total of two (previous year: three) partial retirement agreements existed (one block and one part-time model). One agreement expired in 2016 and the other two will expire in 2019. An anticipated total of EUR 33 thou. will be drawn upon in 2017, and the rest in 2018 to 2019. The interest component totalled EUR 1 thou. in the 2016 reporting year.

Current liabilities

The current liabilities disclosed in this item are due in less than one year and are recognised at their repayment amount or amortised costs, which substantially correspond to the fair values.

(25) Liabilities to banks

In thousands of €	31.12.2016	31.12.2015
Syndicated loan	8,997	5,161
Other loans	1,279	1,423
	10,276	**6,584**

In the year under review, syndicated loans refers to Facility B measured in accordance with the effective interest method (EUR 9,949 thou.) and accrual interest (EUR 48 thou.). In the previous year, this item showed reclassified short-term repayments measured in accordance with the effective interest method (EUR 4,881 thou.) and interest accrual (EUR 280 thou.).

Other loans refers to loan repayments to be made in the upcoming year (please refer also to item (19) “Liabilities to banks”).

(26) Finance lease liabilities

In thousands of €	31.12.2016	31.12.2015
Leases for real estate	177	167
Leases for movable property	117	97
	294	**264**

Please refer also to item (20) “Finance lease liabilities”.

(27) Other provisions

In thousands of €	31.12.2016	31.12.2015
Provisions for billing risks and litigations	4,691	4,169
Provisions for reimbursements to coverage providers	435	363
Provisions for Supervisory Board	40	37
Remaining provisions	359	652
	5,525	**5,221**

EUR 361 thou. of the provisions for invoicing risks and legal disputes are attributable to legal disputes. The provision for invoicing risks refers to the German Health Insurance Medical Service's (MDK) review of hospital services rendered pursuant to Section 275 of the German Social Security Code V (SGB V). If the MDK determines during this review that services rendered were not invoiced correctly, the invoice is adjusted. When the financial statements are prepared, the risk of potential MDK adjustments is assessed and accounted for by means of provisions.

The following overview shows the development of provisions in the reporting year:

In thousands of €	As of 01.01.2016	Addition	Consump-tion	Reversal	As of 31.12.2016
Provisions for billing risks and litigations	4,169	1,388	650	216	4,691
Provisions for reimbursements to coverage providers	363	176	64	40	435
Provisions for Supervisory Board	37	40	37	0	40
Remaining provisions	652	150	8	435	359
	5,221	**1,754**	**759**	**691**	**5,525**

(28) Current income tax liabilities

The current income tax liabilities amounting to EUR 2.7 mill. (previous year: EUR 3.3 mill.) primarily concern corporation tax, the solidarity surcharge and other taxes payable to the fiscal authorities. They cover liabilities from the reporting year and previous years.

(29) Liabilities pursuant to hospital financing law

In thousands of €	31.12.2016	31.12.2015
Liabilities pursuant to hospital financing law	2,858	5,254
Liabilities pursuant to national ordinance on hospital rates	2,173	2,159
	5,031	**7,413**

Liabilities pursuant to hospital financing law relate to lump-sum not yet adequately used subsidies, pursuant to state law provisions on hospital financing, as well as compensation obligations pursuant to the National Ordinance on Hospital Rates or the Hospital Compensation Act.

(30) Miscellaneous liabilities

Miscellaneous liabilities pertain to the following circumstances:

In thousands of €	31.12.2016	31.12.2015
Costs of annual financial statement	1,376	1,127
Other procurement of materials	554	728
Legal and consultancy costs	215	405
Liabilities from third-party funds	393	379
Liabilities to health insurance funds and other public coverage providers	258	282
Charges and fees	187	269
Liabilities from doctors' invoices	199	236
Administration costs	202	202
Energy and water supply	238	179
Other loans	131	128
Miscellaneous	370	333
	4,123	**4,268**

(31) Other liabilities

Including payroll tax yet to be paid, other liabilities refer primarily to staff costs.

In thousands of €	31.12.2016	31.12.2015
Staff costs	13,603	13,043
Payroll tax to be paid	3,814	3,431
Value added tax to be paid	306	289
Payments received	193	282
Deferred income	277	318
	18,193	**17,363**

Other liabilities from staff costs mainly consist of the following:

In thousands of €	31.12.2016	31.12.2015
Vacation and flexitime entitlements	5,569	4,542
Profit-sharing bonus payments	4,708	4,630
Wage supplements	1,447	1,510
Bonus payments	545	611
Severance payments	308	238
Contributions to statutory accident insurance and prevention	701	718
Other staff costs	325	794
	13,603	**13,043**

Notes to the consolidated profit and loss account

(32) Sales

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

In millions of €	2016	2015
Post-acute	285.1	272.7
Acute	242.9	231.5
Nursing care	14.7	14.1
Other sales	37.6	37.0
Sales	**580.3**	**555.3**

Far more than 95 % of sales refer to the rendering of services. The development of sales is presented in the summarised management report and Group management report.

Other sales include revenues from outpatient services, which total EUR 15.6 mill. (previous year: EUR 16.1 mill.). Furthermore, in addition to service revenues, other sales include revenues from the sale of pharmacy merchandise totalling EUR 3.3 mill. (previous year: EUR 2.7 mill.), from private accommodation totalling EUR 3.5 mill. (previous year: EUR 3.4 mill.) and from cafeterias, kiosks and meals totalling EUR 6.4 mill. (previous year: EUR 6.1 mill.).

(33) Other operating income

Other operating income in the consolidated financial statements is structured as follows:

In millions of €	2016	2015
Subsidies	1.3	1.1
Rental income	0.9	0.9
Services to staff	0.4	0.4
Other income	6.5	4.3
Other operating income	**9.1**	**6.7**

As from the 2013 financial year, income from the release of provisions and liabilities is offset against the expenses for which the provisions were set aside. In 2016 this amounts to EUR 3.6 mill. (previous year: EUR 2.1 mill.).

(34) Raw materials and consumables used

Raw materials and consumables used rose by EUR 5.6 mill. to EUR 108.7 mill. (previous year: EUR 103.1 mill.). Raw materials and supplies increased by EUR 3.3 mill. and purchased services by EUR 2.3 mill. The cost of materials ratio amounts to 18.7 % (previous year: 18.6 %).

In millions of €	2016	2015
Operating supplies	19.0	18.7
Medical supplies	45.0	41.5
Other raw materials and supplies incl. price deductions/bonuses/cash discounts	–0.8	–0.3
Raw materials and supplies	**63.2**	**59.9**
Energy/water/sewage	11.9	12.7
Third-party services	12.1	12.6
External medical services	18.4	14.8
Other third-party services	3.1	3.1
Purchased services	**45.5**	**43.2**
Raw materials and consumables used	**108.7**	**103.1**

(35) Staff costs

Staff costs of EUR 334.7 mill. were 4.7 % higher than in the previous year (previous year: EUR 319.8 mill.). The staff costs ratio for the 2016 financial year was 57.7 % (previous year: 57.6 %).

In thousands of €	2016	2015
Wages and salaries	284,780	270,984
Social security, pensions and retirement	49,968	48,804
Thereof pension costs	1,710	2,345
Staff costs	**334,748**	**319,788**

Pension expenses incurred in addition to those for statutory pension insurance, including contribution payments to external provider facilities, totalled EUR 1.7 mill. (previous year: EUR 2.3 mill.). They concern the following:

In thousands of €	2016	2015
Contributions to		
Defined benefit plans	251	608
Defined contribution plans	1,447	1,646
Other pension-related expenses	12	91
	1,710	**2,345**

As for the calculation of pension provisions, the interest share accounts for more than 90 % of the pension costs to be reported in the consolidated profit and loss account and shown in the financial result, contributions to the defined benefit plans are correspondingly low. Of the contributions to defined contribution plans, EUR 0.7 mill. (previous year: EUR 0.9 mill.) refers to MediClinRent and EUR 0.7 mill. (previous year: EUR 0.7 mill.) to contributions to three supplementary pension or relief funds.

(36) Other operating expenses

Other operating expenses of EUR 102.8 mill. are EUR 5.6 mill. higher than the previous year's value (previous year: EUR 97.2 mill.).

The largest item in other operating expenses is, with EUR 51.1 mill., rental and lease expenses for real estate and medical equipment (previous year: EUR 50.7 mill.). EUR 44.3 mill. (previous year: EUR 44.2 mill.) thereof concerns payments to related parties pursuant to IAS 24, of which EUR 43.3 mill. (previous year: EUR 43.3 mill.) relates to rental payments for 21 clinics transferred to a real estate fund in the years 1999 until 2002 and leased back. Real estate management services for the properties account for EUR 0.9 mill. (previous year: EUR 0.9 mill.). An overview of future rental payments is presented under other financial obligations.

In millions of €	2016	2015
Rents and leases	51.1	50.7
Maintenance and repairs	18.5	16.7
EDP and organisation	5.5	3.3
Legal and consultancy costs	4.7	5.0
Insurance costs	3.8	3.3
Contributions, fees, levies	1.4	1.4
Other miscellaneous expenses	17.8	16.8
Other operating expenses	**102.8**	**97.2**

(37) Depreciation and amortisation

In the 2016 financial year depreciation and amortisation totalled EUR 19.2 mill. (previous year: EUR 18.4 mill.), with EUR 1,243 thou. (previous year: EUR 1,225 thou.) attributable to intangible assets and EUR 17,927 thou. (previous year: EUR 17,191 thou.) to property, plant and equipment.

(38) Financial result

The financial result is structured as follows:

In thousands of €	2016	2015
Income from participations	82	60
Interest and similar income	31	31
Interest and similar expenses	–3,236	–3,693
Financial result	**–3,123**	**–3,602**

The underlying financial instruments for interest income and interest expenses are evaluated at amortised costs and assigned to the category "Loans and Receivables" (LaR) or "Financial Liabilities Measured at Amortised Cost" (FLAC) pursuant to IAS 39.

Interest and similar income

In thousands of €	2016	2015
Interest income from receivables	14	14
Interest income from deposits at banks	1	1
Income from derivatives	0	0
Other interest-related income	16	16
Interest and similar income	**31**	**31**

Interest and similar expenses

In thousands of €	2016	2015
Interest on current accounts	0	1
Interest on loans	1,025	1,317
Interest on pension provision	1,096	1,197
Interest on finance leases	397	408
Expenses for derivatives	0	1
Other interest-related expenses	718	769
Interest and similar expenses	**3,236**	**3,693**

An overview of future interest expenses is presented in the section on non-current liabilities.

(39) Taxes on income

The taxes on income are structured as follows:

In thousands of €	2016	2015
Actual taxes on income	4,105	3,558
Deferred taxes on income	194	–148
	4,299	**3,410**

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

In thousands of €	2016	2015
Consolidated result before tax	20,900	20,008
Resultant calculational tax charge (15.825 %)	3,307	3,166
Tax effect on profit/loss from		
Income tax expenses from previous years	315	–175
Non-capitalisable losses in the financial year	271	109
Valuation differences between the tax and the consolidated balance sheet	–76	29
Trade tax expenses in the financial year	120	63
Corporation tax credit SEStEG	0	–1
Non-deductible expenses	17	28
Non-deductible depreciation and amortisation	270	89
Others	75	102
Actual tax expenses	**4,299**	**3,410**

(40) Result per share attributable to shareholders of MediClin AG

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

	2016	2015
Result after tax attributable to shareholders of MediClin AG in thousands of €	16,546	16,536
Average number of shares issued in thousands	47,500	47,500
Undiluted earnings per share in €	0.35	0.35

(41) Consolidated statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income are remeasurements pursuant to IAS 19 resulting from a change in parameters used for the valuation of pension provisions at the end of the reporting period, such as discount rate and salary or pension trends, compared to the parameters assumed at the beginning of the reporting period. The resulting amount is then offset directly against equity or the revenue reserve in consideration of the respective deferred taxes. It is not possible to reclassify these to the profit and loss account at a later date.

Other disclosures

Number of employees by area of activity

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

Shown in full-time employees	2016	2015	Change
Medical	808	814	–6
Nursing care	2,061	2,018	+43
Medical-technical	1,524	1,476	+48
Functional	416	407	+9
Medical services	**4,809**	**4,715**	**+94**
Support functions	1,023	995	+28
Technical	114	128	–14
Administration	564	545	+19
Other	50	48	+2
Non-medical services	**1,751**	**1,716**	**+35**
	6,560	**6,431**	**+129**

Contingencies and other financial obligations

The Group's total obligations arising from rental and lease contracts, as well as fixed incidental expenses, totalled EUR 49.8 mill. in the reporting year (previous year: EUR 49.5 mill.). Of this amount, a total of EUR 43.4 mill. (previous year: EUR 43.3 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 have a term until 31 December 2027. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer pricing index (i.e. a maximum of 2 % p.a.). The obligation under the real estate management agreements concluded together with the rental contracts totalled EUR 0.9 mill. in the financial year (2017: EUR 0.9 mill.; 2018 to 2021: EUR 3.5 mill.; 2022 to 2027: EUR 5.3 mill.). The expenses for other rents and leases totalled EUR 2.8 mill. (previous year: EUR 2.7 mill.) in the reporting year.

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

In millions of €	Nominal value 31.12.2016	Nominal value 31.12.2015
Remaining term up to 1 year	46.8	45.6
Remaining term 1–5 years	184.3	180.0
Remaining term more than 5 years	272.4	311.8
	503.5	**537.4**

From 2005 to 2007, rental reductions of approximately EUR 7 mill. p.a. were granted for ten of the leased properties. In connection with these rent reductions, performance-based repayment (rental allowance) was agreed upon which is contingent on achieving certain economic performance parameters on the part of the clinics included in the fund. The performance parameter is the sum total of audited operating results 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 about EUR 21 mill.

Leasing expenses relating to movable property, such as vehicles, office equipment and medical technology, totalled EUR 2.7 mill. (previous year: EUR 2.7 mill.) in the financial year. The terms of these lease agreements are between one and a maximum of five years. As the agreements are renewed on a revolving basis, MediClin assumes that the Group will incur total obligations from these rental and lease agreements at respective comparable amounts in the coming years.

It is estimated that existing obligations on the balance sheet date will develop as follows:

In millions of €	Nominal value 31.12.2016	Nominal value 31.12.2015
Remaining term up to 1 year	2.0	1.6
Remaining term 1–5 years	3.0	1.8
Remaining term more than 5 years	0.0	0.0
	5.0	**3.4**

Leasing liabilities related to finance lease agreements feature the following payment structure for minimum lease payments:

In millions of €	Nominal value 31.12.2016	Nominal value 31.12.2015
Remaining term up to 1 year	0.7	0.6
Remaining term 1–5 years	2.4	2.5
Remaining term more than 5 years	7.4	8.0
	10.5	**11.1**

The finance lease agreements totalling EUR 10.2 mill. (previous year: EUR 10.7 mill.) primarily concern the lease agreement for the real estate of Rehabilitationszentrum Gernsbach. In the leasing instalments for the property leasing contract, a tenant loan will be accumulated over the last ten years, which will have to be repaid towards the end of the contract. The repayment of the loan totalling approximately EUR 2.0 mill. as well as the annual contribution to administrative expenses totalling about EUR 36 thou. are taken into account in the presentation of the payment structure. The presentation of the payment flow is structured under the premise that the purchase option for the real estate will be exercised at the end of the contract period. The remaining minimum lease payments (EUR 0.3 mill.; previous year: EUR 0.4 mill.) pertain to medical and technical equipment in two clinics.

In the next few years, MediClin will expand its hospital information system (HIS) and introduce a One-HIS strategy ensuring that only one HIS is operated for all the types of clinics – including the outpatient units at one location – encompassing both the administrative and the medical electronic patient record. The previously implemented software for rehabilitation, invoicing and Group reporting is integrated into the overall HIS and will be further developed. In order to realise this plan, MediClin concluded two longer-term project and development agreements with a software provider with a total volume of EUR 5.7 mill. The majority of these expenses refers to capital expenditure to be capitalised, which will only be charged as a depreciation expense once the project is completed. To this, the cost for adjusting the infrastructure and procuring the required hardware and software must be added. The investment plan states capital expenditure of about EUR 9.1 mill. for this project within the next three years.

In the context of this project, MediClin also concluded a service and maintenance contract with the software company. The maintenance contract commenced in 2016 and had an initial term of seven years with two renewal options for three and two years, respectively. Some of the remuneration for this contract is sales-related.

Subject to future changes due to the sales-related cost component, the costs resulting from the maintenance contract will probably be incurred as follows:

In millions of €	**Nominal value 31.12.2016**	Nominal value 31.12.2015
Remaining term up to 1 year	1.1	1.1
Remaining term 1–5 years	3.9	4.1
Remaining term more than 5 years	0.9	1.8
	5.9	**7.0**

Furthermore, the individual clinics have customary obligations from laboratory, pharmaceutical, cleaning and catering contracts, as well as from contracts for medicine and sterile products supply, for laundry service and supply, for energy, heating and air-conditioning, and other maintenance agreements.

As of 31 December 2016, the contractual obligations in connection with the acquisition of property, plant and equipment amounted to approximately EUR 11.3 mill. (previous year: approximately EUR 6.5 mill.). There were no other significant contingencies or financial obligations as of the cut-off date.

Declarations of surety

MediClin AG issued a payment guarantee vis-à-vis the acquirer and lessor concerning the rental payments plus operating costs relating to 21 real estate properties that are leased until 31 December 2027.

In association with the lease agreement between Rehabilitationszentrum Gernsbach and the lessor VR-LEASING ABYDOS GmbH & Co. Immobilien KG, MediClin AG has submitted a declaration on subrogation, obligating itself to enter into the lease agreement in the event that the lessee's financial situation deteriorates to an extent that endangers the fulfilment of the agreement.

In order to finance the loan for the acquisition of MediClin Rose Klinik, a joint and several surety was entered into by MediClin AG in the amount of EUR 7.6 mill.

To authorise a medical care centre in the form of a legal entity under private law, one condition is that the partners submit directly liable suretyships for receivables of the associations of statutory health insurance physicians and health insurance funds to the medical care centre for services performed by statutory health service physicians. MediClin GmbH & Co. KG submitted the required suretyships for the medical care centres it operates.

Financial risk management

Within the framework of its business activities, the Group is primarily exposed to a **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 social security pension funds as well as with public 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 resources of liquid assets 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. Sufficient liquid assets are available to strengthen the liquidity position as well as provide sufficient financing resources for organic growth. 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 supply through central cash pool management. In addition, there is an **interest rate risk** due to the potential changes in market interest rates. Given the current low interest rate level, a new risk might arise from the fact that banks are paying hardly any interest on deposits; instead, more and more banks are passing on any punitive interests imposed on sight deposits by the ECB to their customers in the form of "negative interests on deposits". MediClin counters this risk by checking sight deposits at banks on a daily basis to prevent excessively high deposits with banks incurring negative interests.

The **maximum exposure to default risk** is represented by the carrying amount of each financial asset as reported in the balance sheet. Because the counterparties to the receivables are prime financial institutions, the Group expects them 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 balance sheet date.

Syndicated loan

In July 2016 the Company took out a new syndicated loan amounting to a total of EUR 60.0 mill. with a consortium of banks in order to refinance the existing syndicated loan of originally EUR 50.0 mill. from 13 February 2012 that was increased to EUR 60.0 mill. on 25 April 2012 (residual value as of 29.07.2016: EUR 30.0 mill.). The contract consists of two facilities (A, B) amounting to EUR 30.0 mill. each. Facility A is granted as a EUR 30.0 mill. bullet loan and serves to replace the existing syndicated loan. Facility B is a revolving credit line of up to EUR 30.0 mill. As at 29 July 2016 EUR 30.0 mill. of Facility A and EUR 9.0 mill. of Facility B had been drawn. The initial term of the loan is five years after signing the loan agreement with two options to extend the loan by one year each. Being a bullet loan, Facility A must be repaid at the end of the agreed term. Facility B is repaid at the end of every six-month interest period. Until the end of the agreed term, any amounts drawn at the end of an interest period may also be rolled over. Any amounts repaid at the end of an interest period may be drawn again as required. Any drawdown on Facility B must amount to at least EUR 3.0 mill., whereby any other integer multiple of EUR 1.0 mill. exceeding such amount is also possible. The interest rate consists of a margin and a reference rate. The reference rate is the Euribor for the respective interest period. If the reference rate is zero or below zero, the interest rate is zero. The margins for Facility A and B depend on the leverage ratio (average net financial debt/EBITDA) shown in the MediClin Group's last four quarterly reports. A commitment fee of 35 % of the applicable margin is charged on any amounts not drawn under Facility B. Furthermore, a utilisation fee is charged for Facility B depending on the amount drawn. In the 2016 financial year interest for the loan totalled EUR 176 thou. As the 6-month Euribor was negative on the last two interest dates, it was set to 0 % in the interest calculation.

A change in the 6-month Euribor in the range between +/– 100 basis points would have led to the following changes in the financial result:

In thousands of €	Basis points	Financial result
Change in 6-month Euribor	+100	–313
Change in 6-month Euribor	+50	–174
Change in 6-month Euribor	+25	–84
Change in 6-month Euribor	+10	–13
Change in 6-month Euribor	–10	+0[1]
Change in 6-month Euribor	–25	+0[1]
Change in 6-month Euribor	–50	+0[1]
Change in 6-month Euribor	–100	+0[1]

[1] This has no effect as the Euribor is negative

Supervisory Board in the 2016 financial year

Dr. Ulrich Wandschneider (Chairman), Hamburg
Managing Director of Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg (until 30 April 2016)
Chairman of the Corporate Management of the Asklepios Group, Hamburg (until 30 April 2016)
Vice President of Bundesverbands Deutscher Privatkliniken e.V., Berlin (until 30 June 2016)
Supervisory Board mandates:
Chairman of the Supervisory Board of
- Asklepios Kliniken Verwaltungsgesellschaft mbH, Königstein
- Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg

Member of the Supervisory Board of
- Asklepios Kliniken Hamburg GmbH, Hamburg
- Vanguard AG, Berlin

Hans Hilpert[1] (Vice Chairman), Kirkel
Sports Therapist, MediClin GmbH & Co. KG, Blieskastel branch

[1] Employee representative on the Supervisory Board

Michael Bock, Leverkusen
Managing Director of REALKAPITAL Vermögensmanagement GmbH, Leverkusen
Supervisory Board mandates:
Member of the Supervisory Board of
- DIC Asset AG, Frankfurt am Main
- DICP Capital SE, Munich

Dr. Bernard große Broermann, Königstein-Falkenstein
Entrepreneur

Walburga Erichsmeier[1], Blomberg
Deputy District Manager at ver.di trade union for the district of Herford-Minden-Lippe

Dr. Tom Giesler[1], Stahnsdorf
Director of Klinik für Kardiologie und Angiologie, MediClin GmbH & Co. KG, Coswig branch
Member of the Supervisory Committee of Ärzteversorgung Sachsen-Anhalt

Irmtraut Gürkan, Heidelberg
Business Director and Vice Chairwoman of Universitätsklinikum Heidelberg, Heidelberg
Member of the Board of Governors of Rheinisch-Westfälische Technische Hochschule Aachen (RWTH Aachen), Aachen
Member of the Administrative Board of Universitätsspital Basel, Basel
Member of the Supervisory Board of DRK-Blutspendedienst Baden-Württemberg – Hessen gemeinnützige Gesellschaft mit beschränkter Haftung, Frankfurt am Main
Member of the Board of Deutsche Stiftung Organtransplantation, Frankfurt am Main

Rainer Laufs, Kronberg im Taunus
Independent Business Consultant
Supervisory Board mandates:
Chairman of the Supervisory Board of
- Petrotec AG, Düsseldorf (until 31 December 2016)
- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt am Main

Member of the Supervisory Board of
- Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg
- Asklepios Kliniken Verwaltungsgesellschaft mbH, Königstein im Taunus

Stephan Leonhard, Oberursel (until 22 January 2016)
Managing Director of Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg (until 22 January 2016)
Vice Chairman of the Corporate Management of the Asklepios Group, Hamburg (until 22 January 2016)
Supervisory Board mandates:
Member of the Supervisory Board of
- Asklepios Kliniken Hamburg GmbH, Hamburg (until 22 January 2016)

[1] Employee representative on the Supervisory Board

Thomas Müller[1], Neunkirchen
ver.di Union Representative for the Saar-Trier district

Eleonore Seigel[1], Offenburg
Medical-Technical Assistant, MediClin GmbH & Co. KG,
Durbach branch

Matthias H. Werner[1], Biberach (Baden)
Social Pedagogue (BA)/Adventure Pedagogue, MediClin Klinik an der Lindenhöhe,
Offenburg

Cornelia Wolf, Leverkusen (since 13 April 2016)
Head of Group Internal Audit and Risk Management of Asklepios Kliniken
Gesellschaft mit beschränkter Haftung, Hamburg

Supervisory Board Committees

In the 2016 financial year, the committees consisted of the following members:

General and Personnel Committee
Dr. Ulrich Wandschneider (Chairman)
Hans Hilpert (Vice Chairman)
Dr. Bernard große Broermann
Dr. Tom Giesler
Stephan Leonhard (until 22 January 2016)
Thomas Müller
Rainer Laufs (since 22 March 2016)

Audit Committee
Michael Bock (Chairman, since 22 March 2016)
Stephan Leonhard (Chairman, until 22 January 2016)
Eleonore Seigel
Matthias H. Werner
Cornelia Wolf (since 13 April 2016)

Nomination Committee
Dr. Ulrich Wandschneider (Chairman)
Michael Bock
Stephan Leonhard (until 22 January 2016)
Cornelia Wolf (since 13 April 2016)

Mediation Committee pursuant to Section 27 MitbestG
Dr. Ulrich Wandschneider (Chairman)
Hans Hilpert (Vice Chairman)
Walburga Erichsmeier
Stephan Leonhard (until 22 January 2016)
Cornelia Wolf (since 13 April 2016)

[1] Employee representative on the Supervisory Board

Management Board

Volker Feldkamp, Chairman of the Management Board, Aachen (until 31 March 2016)

Volker Hippler, Chairman of the Management Board, Olpe (since 1 April 2016)

Jens Breuer, Chief Financial Officer, Hamminkeln

Ulf Ludwig, Member of the Management Board, Hamburg (since 1 July 2016)

Management remuneration

Total remuneration granted to the Management Board in the period under review for board activities totalled EUR 1,873 thou. (previous year: EUR 1,240 thou.). It is comprised of fixed remuneration amounting to EUR 718 thou. (previous year: EUR 605 thou.), a variable remuneration component of EUR 645 thou. (previous year: EUR 552 thou.) for one year and a variable remuneration component of EUR 42 thou. (previous year: EUR 67 thou.) for several years. Ancillary benefits amounting to EUR 20 thou. (previous year: EUR 16 thou.) refer to payments in kind for the provision of company cars. The Company further granted severance payments in the amount of EUR 448 thou.

The remuneration for the Supervisory Board in the reporting year totalled EUR 168 thou. (previous year: EUR 169 thou.). In the 2016 financial year, as in 2015, there were no loans to members of the Supervisory Board.

Disclosures pursuant to Section 314 (1) No. 6a of the German Commercial Code (HGB) and further disclosures on remuneration paid to members of governing bodies as well as the structure of the remuneration system and remuneration paid to individual members of the Supervisory Board are presented in the summarised management report and Group management report of MEDICLIN Aktiengesellschaft in the section “Remuneration Report”. The remuneration of the Management Board is disclosed in accordance with the statutory requirements and in accordance with the Annual General Meeting’s opting-out decision of 25 May 2016. Here, the shareholders of the Company resolved to exercise the option as per Section 286 (5), Section 314 (3) Sentence 1, Section 315a (1) of the German Commercial Code (HGB) to refrain from disclosing individual Board remuneration amounts. Therefore, the Company will not publish the information required as per Section 285 No. 9 (a) Sentences 5 to 8 and Section 314 (1) No. 6 (a) Sentences 5 to 8, Section 315a (1) of the German Commercial Code (HGB) in the annual and consolidated financial statements for the financial years 2016 until 2020.

Report concerning related parties pursuant to IAS 24

Related parties are defined as individuals or legal entities which either control or can exert a substantial influence over MediClin AG as a reporting entity, or one of its subsidiaries. Moreover, related parties include individuals or legal entities which are either controlled by MediClin AG or one of its subsidiaries, or upon which MediClin AG or one of its subsidiaries can exert substantial influence, either directly or indirectly. This also includes remuneration.

Related parties (individuals)

Individuals and legal entities, which either control or can exert a substantial influence over the MediClin Group or are controlled or substantially influenced by the Group are deemed related parties of the MediClin Group as defined in IAS 24. This includes active members of the Management and Supervisory Boards of MediClin AG and its majority shareholder, Asklepios Kliniken Verwaltungsgesellschaft mbH (AKV), Königstein im Taunus, as well as the latter's sole shareholder Dr. Bernard große Broermann.

In the 2016 financial year, the Management Board included the Chairmen of the Management Board Volker Feldkamp (until 31 March 2016) and Volker Hippler (since 1 April 2016), Chief Financial Officer Jens Breuer as well as Ulf Ludwig (since 1 July 2016).

Several members of the Supervisory Board of MediClin AG have executive functions within the Asklepios Group. Until the end of April 2016 the Chairman of the Supervisory Board Dr. Ulrich Wandschneider was the Managing Director of Asklepios Kliniken Gesellschaft mit beschränkter Haftung (AKG), Hamburg, and Chairman of the Corporate Management of the Asklepios Group; since June 2016 he is the Chairman of the Supervisory Boards of AKG and AKV. Furthermore, he is a member of the Supervisory Board of Asklepios Kliniken Hamburg GmbH (AKH), Hamburg, and of Vanguard AG, Berlin, with whom MediClin has concluded service agreements for the supply of sterile goods.

Rainer Laufs is a member of the Supervisory Board of MediClin AG and of the Supervisory Boards of AKG and AKV.

AKG's sole shareholder, Dr. Bernard große Broermann, is a member of the Supervisory Board of MediClin AG.

On 25 May 2016 the Annual General Meeting of MediClin AG appointed Cornelia Wolf, Head of Group Internal Audit and Risk Management of AKG, to the Supervisory Board.

Irmtraud Gürkan is the Business Director and Vice Chairwoman of Universitätsklinikum Heidelberg and a Supervisory Board member of DRK-Blutspendedienst Baden-Württemberg – Hessen gemeinnützige Gesellschaft mit beschränkter Haftung (a blood donation charity). To a small extent, MediClin also has business relations with these companies.

Payments made to the Management Board and the Supervisory Board are shown as "Remuneration for key management personnel" in the following table. The payments include the remuneration for activities in the Management Board and the Supervisory Board as well as a summary of the salary payments for the employee representatives on the Supervisory Board. The payments also include sums amounting to EUR 448 thou. for the termination of employment (previous year: EUR 0).

The recognised provisions for remuneration for key management personnel are due within the time frame of one year, with the exception of EUR 72 thou. (previous year: EUR 129 thou.).

Related parties (companies)

AKV holds 52.73 % of MediClin AG's share capital. Since the MediClin Group is included as a subgroup in the consolidated financial statements of the Asklepios Group, the subsidiaries of AKG and the other entities in which Dr. Bernard große Broermann holds a controlling interest also classify as related parties in addition to MediClin's own subsidiaries. At the end of 2015 Asklepios acquired a 40 % interest in the IT service provider MEIERHOFER AG, which is now deemed a related party.

The companies of ERGO Versicherungsgruppe, the second-largest shareholder of MediClin AG with a share of 35.0 %, are also defined as related parties. ERGO Versicherungsgruppe is a subgroup of Münchener Rückversicherungs-Gesellschaft AG (Munich RE).

Furthermore, the special real estate asset OIK-Fonds MediClin is included in related parties as this special asset is controlled by ERGO Versicherungsgruppe in terms of IFRS 10 and included in the latter's consolidated financial statements. MediClin and OIK-Fonds concluded comprehensive lease transactions and two associated contracts concerning real estate administration. In addition to lease payments, MediClin also has repayment claims vis-à-vis the fund from the advance financing of clinic expansions and other construction measures in the scope of these contracts. A detailed presentation of the lease transactions is disclosed in contingencies and other financial obligations.

In addition to business relationships with fully consolidated companies included in the consolidated financial statements, relationships exist with five companies of MediClin AG which, in line with the materiality principle, are not included in the consolidated financial statements of MediClin AG. These companies are local service enterprises, which were founded by four clinics to outsource specific services such as catering, cleaning and administration tasks, as well as medical services.

A finance lease contract with VR-LEASING ABYDOS GmbH & Co. Immobilien KG has been in place since December 2008; it was concluded in the scope of a sale-and-leaseback agreement concerning land and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG. Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG holds a capital share of 47 % in VR-LEASING ABYDOS GmbH & Co. Immobilien KG.

Within the scope of its normal business activities, MediClin has had business relationships with Vanguard AG, Berlin, for several years. Dr. Ulrich Wandschneider is a member of the supervisory board of Vanguard AG, meaning this company also classifies as related party.

Pursuant to IAS 24.9 (b) (v), a related party is an entity that is related to the reporting entity if the entity has a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. This definition applies to Mitarbeiterunterstützungskasse der Vereinigten Klinikbetriebe (MAUK). MAUK is an incorporated pension fund providing pension benefits to entitled former employees. These benefits are financed through the contributions of MediClin to MAUK. Please find a detailed description of MAUK in the notes on item (21) “Pensions and similar obligations”.

One of the Managing Directors of the Group company MediClin Therapie GmbH simultaneously acts as Managing Director of another company that supplies physiotherapy services to MediClin.

Business relations to related parties amount to the following:

In millions of €	2016	2015
Income		
Sales from post-acute, acute and nursing care services	2.0	1.8
Real estate management income	0.4	0.4
Pension payments of MAUK	0.8	0.7
Service contracts	0.3	0.2
Expenses		
Lease expenses[1]	44.1	44.0
Real estate management costs	0.9	0.9
Insurance premiums	1.5	1.7
Service contracts	8.3	8.0
Remuneration for key management personnel	2.6	2.0
Payments to MAUK	0.7	0.7
EDP services	2.5	0.0
Other purchased goods and services	0.6	0.7

In millions of €	31.12.2016	31.12.2015
Receivables		
Repayment claims from preliminary financing of clinic expansion and building measures	0.1	0.1
Receivables from post-acute, acute and nursing care services	0.2	0.2
Liabilities		
Service contracts	0.1	0.3
Provisions for insurance payments	0.6	0.2
Provisions for remuneration for key management personnel	0.6	0.9

[1] Lease expenses include EUR 43.4 mill. (previous year: EUR 43.3 mill.) in rental payments to OIK-Immobilienfonds; for more details see page 163.

Sales in the post-acute, acute and nursing care segments refer to three private health insurance companies which are also part of ERGO Versicherungsgruppe. These sales represent less than 0.4 % of sales.

0.1 % of the annual rent is paid for the facility management of the special real estate asset OIK-Fonds MediClin.

Income from services consists primarily of remuneration for the payroll accounting of several Asklepios facilities performed by MediClin GmbH & Co. KG (2016: EUR 285 thou.; 2015: EUR 164 thou.).

Lease expenses refer to rents paid to OIK-Immobilienfonds (2016: EUR 43.4 mill.; 2015: EUR 43.3 mill.) and lease payments for the land and buildings of Rehabilitationszentrum Gernsbach (2016: EUR 0.7 mill.; 2015: EUR 0.7 mill.).

The cost of real estate management amounts to 0.2 % of annual rents paid to OIK-Immobilienfonds.

Insurance premiums refer to payments resulting from various insurance agreements with subsidiaries of ERGO Versicherungsgruppe (2016: EUR 0.8 mill; 2015: EUR 0.8 mill.). MediClin-Unterstützungskasse e.V. (MUK) has further taken out a reinsurance policy with Victoria Lebensversicherung AG, a wholly owned subsidiary of ERGO Versicherungsgruppe AG, Düsseldorf, as part of a Group reinsurance contract to protect the company pension scheme of MediClin, MediClinRent. The contributions for this totalled EUR 0.7 mill. in 2016 (previous year: EUR 0.9 mill.).

Service contracts consist of:

In millions of €	**31.12.2016**	31.12.2015
Supply of sterile goods (Vanguard AG)	0.6	0.7
Laboratory services, pharmacy sales, others (Asklepios)	1.8	1.6
Services from non-consolidated MediClin service enterprises	5.9	5.7
	8.3	**8.0**

Remuneration for key management personnel refers to payments made to the Management Board and the Supervisory Board. The payments include the remuneration for activities in the Management Board and the Supervisory Board as well as a summary of the salary payments for the employee representatives on the Supervisory Board. The payments also include sums amounting to EUR 448 thou. for the termination of employment (previous year: EUR 0). The provisions for remuneration for key management personnel recognised in the liabilities item are due within the time frame of one year, with the exception of EUR 72 thou. (previous year: EUR 129 thou.).

The contributions to MAUK serve to refinance pensions paid by MAUK.

EDP services consist of service and software maintenance fees paid to MEIERHOFER AG and project and development services rendered by MEIERHOFER AG.

Physiotherapy services account for EUR 0.3 mill. (previous year: EUR 0.3 mill.) and blood bags for EUR 0.3 mill. (previous year: EUR 0.4 mill.) of the other purchased goods and services item.

OIK-Immobilienfonds

MEDICLIN Aktiengesellschaft (MediClin) filed a suit with the District Court of Offenburg asserting claims for repayment of rental payments above the usual market rate. The Company assumes that the aggregate rents paid for the period 2005 to 2015 were higher than the usual market rents in this period.

The suit was filed against existing and former shareholders of the Company, who hold shares of the real estate fund into which the hospitals acquired and rented back between 1999 and 2001 were incorporated.

MediClin carefully weighed up the opportunities and risks of the suit in view of the fact that the subject matter of the legal dispute is highly complex, especially with regard to the evaluation whether rents conform to usual market rates, and that some of the very difficult questions of law involved have not yet been decided by the highest courts.

Therefore, the Management Board is of the opinion that no changes to the balance sheet are required in this respect.

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

The conformity declaration of MEDICLIN Aktiengesellschaft, pursuant to Section 161 German Stock Corporation Act (AktG), has been, and continues to remain, accessible on a permanent basis in the respective updated version on the Company's website. The current conformity declaration is also included in the corporate governance declaration, pursuant to Section 289a German Commercial Code (HGB), which is also accessible on the Company's website.

Auditor's fees

The total fee invoiced by the Group Auditor for the financial year consists of the following amounts:

In thousands of € excluding VAT	**2016**	2015
Annual audit	383	345
Other attestation services	15	10
Other services	57	–
	455	**355**

Subsequent events

Since 1 January 2017 there have been no occurrences or events of particular significance which MediClin believes could have a material impact on the Group's net assets, financial position and results of operations.

Offenburg, 3 March 2017

Volker Hippler Jens Breuer Ulf Ludwig

Responsibility statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of MEDICLIN Aktiengesellschaft give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report and Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Offenburg, 3 March 2017

Volker Hippler   Jens Breuer   Ulf Ludwig

Auditor's report

We have audited the consolidated financial statements prepared by MEDICLIN Aktiengesellschaft, Offenburg, comprising the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the combined management and group management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 books and records, the annual financial statements and the 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 the entities to be included in consolidation, the determination of the 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 as well as the additional requirements of German commercial law pursuant to Sec. 315a (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 Company's and the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 3 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(Koch)	(Fleck)
Wirtschaftsprüfer	Wirtschaftsprüfer

Translation of the German audit opinion concerning the audit of the consolidated financial statements and combined management report prepared in German

Further information

Contents

DR. ULRICH WANDSCHNEIDER
CHAIRMAN OF THE SUPERVISORY BOARD

Report of the Supervisory Board

Dear Shareholders,

In the 2016 financial year the Supervisory Board of MEDICLIN Aktiengesellschaft (MediClin) took great care in fulfilling its duties completely and as mandated by law, the Articles of Incorporation and the Rules of Procedure.

The Supervisory Board regularly provided counsel to the Management Board and consistently supported and monitored its management of the company. We have convinced ourselves of the legality, expediency and regularity of corporate management as well as the efficiency and profitability of the organisation.

The Management Board reported regularly, promptly and comprehensively to the Supervisory Board, both verbally and in writing, on company planning, the economic situation and the development of the Group as well as on key business transactions. It also informed us on all relevant issues in connection with the corporate strategy, the risk situation, risk management and compliance. In the scope of the reporting by the Management Board, the Supervisory Board discussed the current business development of the Group, the segments and individual selected facilities in detail and intensively in all Supervisory Board meetings. Upcoming or currently implemented investment projects were also considered against the backdrop of the Group's cash flow performance. Any deviations in business development from the budgets and goals were discussed between the Management Board and the Supervisory Board. Overall, the Supervisory Board was directly involved in all decisions of material importance.

Following careful review and consultations, the Supervisory Board approved the Management Board's proposals for resolutions. The Supervisory Board did not exercise the option of using its inspection right according to Section 111 (2) of the German Stock Corporation Act (AktG), as the reporting of the Management Board gave no reason to do so.

Outside of the meetings, the Management Board kept us informed in writing and verbally about important events. Moreover, important topics and upcoming decisions were dealt with in regular discussions between the Chairman of the Management Board and the Chairman of the Supervisory Board. The Chairman of the Management Board regularly informed the Chairman of the Supervisory Board about significant events outside of the meetings.

Corporate governance

The Management Board and the Supervisory Board issued a conformity declaration in the year under review that is permanently available to shareholders on MediClin's website.

Together with the Management Board, the Supervisory Board reports on corporate governance in the corporate governance report. This report is published on the English version of the website together with MediClin's corporate governance declaration. The remuneration report, which provides information on how the remuneration of the Management Board and Supervisory Board is structured, can be found on pages 63 ff of the 2016 Annual Report. The remuneration of the Management Board is disclosed in accordance with the statutory requirements and in accordance with the Annual General Meeting's opting-out decision of 25 May 2016. According to the latter, the Company may, pursuant to Section 286 (5) Sentence 1 and Section 314 (3) Sentence 1 of the German Commercial Code (HGB) refrain from disclosing individual Management Board remuneration amounts in the annual and consolidated financial statements of the Company to be prepared for financial years 2016 up to and including 2020. In line with the Management Board remuneration, Supervisory Board remuneration is also disclosed as a sum total. The conformity declaration includes additional notes and explanations in this respect.

Meetings and resolutions of the Supervisory Board

The Supervisory Board held four rotational meetings and one extraordinary meeting with personal attendance in the year under review. Five members excused themselves for one meeting each, while another member was absent from more than half the meetings. Supervisory Board members who had an excuse for not attending a meeting participated in the resolutions by written vote. In the Supervisory Board meetings, the chairpersons of the committees regularly provided the Supervisory Board with detailed information on the work in their respective committees.

In the extraordinary Supervisory Board meeting on 26 February 2016, the Supervisory Board nominated Volker Hippler (as from 1 April 2016) and Ulf Ludwig (as from 1 July 2016) to the Management Board and appointed Volker Hippler Chairman of the Management Board as proposed by the General and Personnel Committee.

On 22 March 2016, the Supervisory Board discussed the annual financial statements and the consolidated financial statements for 2015, which had already been audited by the Audit Committee, in detail with the Management Board and the auditors, and subsequently approved them. In so doing, it followed the corresponding recommendation of the Audit Committee. The annual financial statements were thereby approved. The annual financial statements, the consolidated financial statements and the summarised management report and the Group management report were approved for publication. Following careful review of the Management Board's proposal for the appropriation of net profit, the Supervisory Board approved the proposal, which had previously already been approved by the Audit Committee. Given the fact that the defined internal key figures for a dividend payout were only partially met and to strengthen the internal financing power, the Supervisory Board decided to propose to the Annual General Meeting on 25 May 2016 to carry the net profit of MEDICLIN Aktiengesellschaft forward to new account. The Supervisory Board further followed the Audit Committee's recommendation to propose to the Annual General Meeting that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, be appointed as auditor and Group auditor for the 2016 financial year; the statement of independence from the intended auditor had been received. The entire Board further discussed the updated conformity declaration and the report by the Supervisory Board for the 2015 financial year, as well as the agenda for the Annual General Meeting on 25 May 2016. Due to the fact that Stephan Leonhard left the Supervisory Board as of 22 January 2016, new members had to be elected to the Supervisory Board committees. In addition, the Board considered Management Board matters and MediClin's medical strategy.

At the Supervisory Board meeting following the Annual General Meeting on 25 May 2016, the Supervisory Board dealt with the current business development of the Group in the first quarter of 2016 using the Management Board's and the Audit Committee's reporting as a basis. The Management Board presented a comprehensive analysis of key data illustrating the Group's business performance. Following careful consideration of the opportunities and risks, the Supervisory Board consented to bring action and commence litigation in connection with the rent amounts for clinics tied under rental agreements. MediClin subsequently filed an action with the District Court (Landgericht) of

Offenburg in June 2016. The action asserts claims for repayment of excessively high rental payments for the period 2005 to 2015. After thoroughly reviewing and discussing the terms and conditions, the Supervisory Board further approved the conclusion of a new syndicated loan. Following Cornelia Wolf's election to the Supervisory Board by the Annual General Meeting, she was elected to the Audit and the Nomination Committee. Based on a proposal by the shareholder representatives, she was also appointed to the Mediation Committee.

In the meeting on 9 September 2016 the Management Board informed the Supervisory Board about the business development in the first half-year of 2016. In addition, the Supervisory Board received the comments of the Audit Committee with regard to half-year reporting. The Management Board informed the Supervisory Board about the current status of the action in connection with rent amounts for clinics tied under rental agreements. The Supervisory Board was updated on the new provisions of the EU Market Abuse Regulation. The Supervisory Board further dealt with the issue of compliance, in particular the compliance guideline, as well as internal audit and risk management matters. Due to the fact that the Management Board now consists of three members, a new responsibility schedule was adopted for the Management Board.

In the meeting on 21 November 2016 the Management Board explained the business performance of MediClin in the first nine months of the 2016 financial year; here, too, the Audit Committee rendered additional comments. The Management Board presented its business planning for 2017 to 2019 as well as the associated general conditions and measures. Following careful deliberation, the Supervisory Board finally acknowledged the planning, assumptions and target figures presented and the accompanying explanations of the Management Board and gave its consent to various capital expenditure measures. The Supervisory Board further resolved to perform its periodic efficiency review. The findings are to be presented at the Supervisory Board meeting in March 2017.

The Supervisory Board continuously examines questions of possible conflicts of interest of the Management Board and Supervisory Board members during the financial year. No possible conflicts of interest arose for the members of the Management Board or Supervisory Board in the reporting year. Where such conflicts of interest do occur, they must be disclosed immediately to the Supervisory Board and reported at the Annual General Meeting.

Work in the committees of the Supervisory Board

In order to perform its tasks, the Supervisory Board set up a total of four committees, i.e. the Audit Committee, General and Personnel Committee, Nomination Committee and Mediation Committee, which effectively support the work of the full board. In particular, the committees prepared the resolutions of the Supervisory Board. In individual cases, the decision authorities of the Supervisory Board can be transferred to the committees if this is permitted by law. This division of responsibilities promotes the efficiency of the Supervisory Board's working methods and has proved to be effective in practice. With the exception of the Audit Committee, the Chairman of the Supervisory Board presides over all the committees.

In the year under review the Audit Committee held three conference calls and two meetings with personal attendance at which all members participated except for one member who excused themself for one meeting. In a conference call on 19 February 2016 the Audit Committee discussed the preliminary financial statements for 2015, the preliminary consolidated financial statements for 2015 and the preliminary figures for 2015 with the Management Board and the auditors. In the meeting with personal attendance on 22 March 2016 the auditors reported to the Audit Committee on their audit of the annual financial statements including the audit of the internal control system and the system for early risk identification. The Audit Committee intensively conferred with the Management Board and the auditors about the final annual financial statements for 2015, the consolidated financial statements for 2015, the summarised management report and the Group management report, and resolved to recommend approving the annual financial statements to the Supervisory Board. Following its own review of the matter, the Audit Committee also resolved to approve the Management Board's proposal for the allocation of unappropriated profit and to recommend to the Supervisory Board to follow the proposal of the Management Board and to carry forward the profit for the 2015 financial year to new account. The Audit Committee further decided in this meeting to recommend that the Supervisory Board propose Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to the Annual General Meeting 2016 as auditor. The independence certification was examined and the independence confirmed.

In the conference call on 12 May 2016, the meeting with personal attendance on 5 August 2016 and the conference call on 10 November 2016 the Audit Committee had extensive discussions with the Management Board, in particular with regard to the business performance and the financial information for the corresponding reporting period. In the meeting on 10 November 2016 the Audit Committee also talked about the key points for the 2016 audit with the attending auditors and approved them. The auditors were engaged to audit the annual financial statements. Further topics of discussion were the risk management report including the annual risk inventory, the internal audit report 2016 and the compliance management report. Audit planning for 2017 was talked through.

The General and Personnel Committee convened twice in the 2016 financial year. All members attended the meetings except for one member who excused themself for one meeting. In the extraordinary meeting on 26 February 2016 the Committee resolved to propose Volker Hippler and Ulf Ludwig to the Supervisory Board as members of the Management Board and Volker Hippler as Chairman of the Management Board. The meeting on 22 March 2016 dealt with staff and remuneration issues.

The Nomination Committee did not convene in 2016. In the scope of bilateral talks with the Chairman of the Supervisory Board, the entire Supervisory Board approved the Management Board's request to have Cornelia Wolf appointed as Stephan Leonhard's successor by the court. The corresponding application was submitted to the court of registry in Freiburg i. Br. on 9 February 2016. The court issued the appointment of Cornelia Wolf on 13 April 2016 and the Annual General Meeting on 25 May 2016 elected her as a member of MediClin's Supervisory Board.

The Mediation Committee did not convene in the 2016 reporting year.

Changes in the Supervisory Board and the Management Board

Stephan Leonhard left the Supervisory Board with effect on 22 January 2016 and Cornelia Wolf was appointed by the court on 13 April 2016 and elected to MediClin's Supervisory Board by the Annual General Meeting on 25 May 2016.

Volker Feldkamp left the Management Board of MediClin as of 31 March 2016. Volker Hippler was nominated to the Management Board and appointed Chairman of the Management Board as of 1 April 2016. As of 1 July 2016 Ulf Ludwig was appointed as a member of MediClin's Management Board.

Annual financial statements and consolidated financial statements

The annual financial statements of MediClin AG and the consolidated financial statements for the 2016 financial year, including the accounting records and the summarised management report and the Group management report of the Company as prepared by the Management Board, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The Group auditor was elected as auditor of the annual financial statements and the consolidated financial statements for the 2016 financial year at the Annual General Meeting on 25 May 2016, and commissioned with the audit by the Supervisory Board. The auditor of the annual financial statements and consolidated financial statements issued an unqualified auditor's report on the 2016 annual financial statements of MediClin AG and the 2016 consolidated financial statements, as well as on the summarised management report and Group management report. The consolidated financial statements and the summarised management report and Group management report were prepared in accordance with the International Financial Reporting Standards (IFRSs), as valid in the EU, as well as the commercial law provisions that are additionally applicable pursuant to Section 315a (1) of the German Commercial Code (HGB). The audit documents and the reports of the auditor of the annual financial statements and consolidated financial statements, as well as the reports of the Audit Committee and the Management Board's proposal for the appropriation of the net profit, were presented to all the members of the Supervisory Board for inspection in a timely manner.

In its meeting on 29 March 2017 the Supervisory Board intensively discussed and examined the annual financial statements of MediClin AG, the consolidated financial statements and the summarised management report and Group management report issued by the Management Board, under consideration of the results of the Audit Committee. The auditors attesting to the report as signatories attended the Supervisory Board meeting and reported on significant audit findings and confirmed that there were no weaknesses in the internal control system or the risk management system. They were available for questions and supplementary information. On the basis of their own examination, the Audit Committee and the Supervisory Board concurred with the results of the audit issued by the auditor of the annual financial statements and consolidated financial statements, with respect to the annual financial statements of MediClin AG and the consolidated statements. They did not raise any objections on the basis of the final result of their own examination. The Supervisory Board endorsed the individual and consolidated financial statements, the summarised management report and the Group management report prepared by the Management Board. The annual financial statements are thereby approved.

The Supervisory Board discussed in detail the Management Board's proposal to carry forward the net profit of MediClin AG for the 2016 financial year totalling EUR 36,107,443.99 to new account to strengthen the internal financing power and for investments in organic growth. Following its own review, the Supervisory Board agreed with the proposal of the Management Board.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, also examined the report prepared by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG) on relationships with affiliated companies ("dependency report"). The auditor of the annual financial statements and consolidated financial statements reported on the results of the audit and issued the following unrestricted audit opinion:

"Following the completion of our obligatory audit, we confirm that:

1. the information contained in this report is correct, and
2. the compensation paid by the Company with respect to the transactions listed in the report was not inappropriately high."

The dependency report and the audit report prepared by the auditor of the annual financial statements and consolidated financial statements were provided to the Supervisory Board in good time. The Supervisory Board examined in detail the dependency report and the audit report in its meeting on 29 March 2017. It did not raise any objections against the concluding declaration of the Management Board contained in the dependency report or against the result of the audit conducted by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart.

The Supervisory Board would like to thank the Management Board and all MediClin employees for the work they performed and their great personal commitment.

Hamburg, 29 March 2017

On behalf of the Supervisory Board

Dr. Ulrich Wandschneider
Chairman of the Supervisory Board

Financial calendar

22 February 2017
Disclosure of the preliminary figures for the 2016 financial year

30 March 2017
Annual press and analysts' conference for the 2016 financial year

5 May 2017
Publication of the interim report from 1 January 2017 to 31 March 2017

31 May 2017
Annual General Meeting

4 August 2017
Publication of the interim report from 1 January 2017 to 30 June 2017

8 November 2017
Publication of the interim report from 1 January 2017 to 30 September 2017

Addresses and imprint

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Publisher:
MEDICLIN Aktiengesellschaft,
Offenburg

This Annual Report is also available in German.
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.

Concept, design and media design
Designerwerk/Janine Weise,
Frankfurt am Main

Present nationwide

● Asklepios: acute-care somatic hospital
▲ Asklepios: psychiatric clinic
● Asklepios: post-acute/rehabilitation hospital
○ Asklepios: other healthcare facility
(including day hospital, psychiatric outpatient institutions, healthcare centre, nursing care facility)
* Facility under management

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As of March 2017