MEDICLIN

ANNUAL REPORT 2017

MEDICLIN Aktiengesellschaft

MEDICLIN – A company of the Asklepios Group

MEDICLIN: KEY DATA ON BUSINESS DEVELOPMENT

	2017	2016	Change in %
Number of shares in millions	47.5	47.5	0.0
Number of cases (inpatient)	122,259	121,427	+0.7
Number of beds as of 31.12.	8,267	8,084	+2.3
Occupancy rates in %	88.2	87.9	
Number of full-time employees (annual average)	6,964	6,649	+4.7

In thousands of €	2017	2016	Change in %
Cash flow from operating activities	19,343	29,903	−35.3
Cash flow from operating activities per share in €	0.41	0.63	−35.3
Sales	609,083	580,344	+5.0
EBITDAR	94,230	89,309	+5.5
EBITDAR margin in %	15.5	15.4	
EBITDA	27,006	43,194	−37.5
EBITDA margin in %	4.4	7.4	
EBIT (operating result)	6,616	24,024	−72.5
EBIT margin in %	1.1	4.1	
Financial result	−2,360	−3,123	−24.4
Result attributable to shareholders of MEDICLIN AG	3,908	16,546	−76.4
Earnings per share in €	0.08	0.35	−76.4
Dividend per share in €	0.05[1]	–	
Gross capital expenditure	46,812	28,101	+66.6
Thereof subsidies	7,162	6,433	+11.3
Proportion of own funds in %	84.7	77.1	
Interest coverage factor (EBITDA / interest income)	11.4x	13.5x	

In thousands of €	31.12.2017	31.12.2016	Change in %
Balance sheet total	368,626	347,063	+6.2
Equity	185,260	181,564	+2.0
Equity ratio in %	50.3	52.3	
Return on equity in %[2]	2.1	9.1	
Financial liabilities (to banks)	47,491	48,796	−2.7
Cash and cash equivalents	26,907	41,648	−35.4
Net debt	20,583	7,149	+187.9
Net debt / EBITDA[3]	0.8x	0.2x	

[1] Proposed for 2017 by the Management and the Supervisory Board
[2] Group result in the last 12 months / equity
[3] 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.

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.

FURTHER INFORMATION

www.mediclin.de/en

Quarterly development of the Group in 2017

In millions of €	Q1	Q2	Q3	Q4
Sales	147.1	151.8	153.6	156.6
EBITDAR	16.2	23.0	30.9	24.1
EBITDAR margin in %	11.0	15.2	20.1	15.4
EBITDA	4.5	11.2	19.1	−7.8
EBITDA margin in %	3.0	7.4	12.4	−5.0
EBIT (operating result)	−0.5	6.1	13.7	−12.7
EBIT margin in %	−0.3	4.0	8.9	−8.1
Financial result	−0.5	−0.4	−0.6	−0.9
Result attributable to shareholders of MEDICLIN AG	−0.8	4.6	11.5	−11.4
Earnings per share in €	−0.02	0.10	0.24	−0.24
Cash flow from operating activities	−0.7	−0.3	11.9	8.4
Cash flow from operating activities per share	−0.01	−0.01	0.25	0.18
Equity ratio in %	51.7	53.3	54.6	50.3
Gross capital expenditure	11.2	9.4	15.3	10.9
Net financial debt	17.4	26.3	19.7	20.6
Number of cases (inpatient)	30,159	30,911	30,906	30,283
Number of beds (end of quarter)	8,084	8,268	8,267	8,267
Occupancy rates in %	88.2	89.1	88.4	87.1
Number of full-time employees (quarterly average)	6,800	6,921	7,014	7,123

Contents

About MEDICLIN

MEDICLIN owns 36 clinics, seven nursing care facilities, three home nursing care services and nine medical care centres. The Group has nearly 8,300 beds and a headcount of about 9,900.

With its strong network, MEDICLIN can offer its patients integrated care from the first visit to the doctor to surgery, post-operative rehabilitation and follow-up care at home. Doctors, therapists and nurses work together closely to achieve the best results. MEDICLIN plans the care of persons in need in accordance with their individual requirements and personal needs, either at home or in a nursing care facility.

VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,
Dear Shareholders,

2017 was a successful financial year for MEDICLIN. First, because we were able to once again increase sales and our result and, second, because we started to work a number of highly important topics. Topics in connection with the way our executives understand their roles as leaders, topics surrounding the issue of responsibility and the way our employees identify with the Company. To manage these issues is key to sustainable success.

We would like to thank our employees

It goes without saying that we would not have been nearly as successful in 2017 without the support of our employees. Therefore I and my colleagues on the Management Board would like to express our gratitude very much at the beginning of this foreword: we would like to thank all MEDICLIN's employees for their commitment and motivation, without it we would not have mastered the 2017 financial year so well.

Clear increase in Group sales

Group sales climbed year-on-year by 5.0 % by EUR 28.8 mill. to EUR 609.1 mill. in 2017, thereby clearly exceeding the EUR 600 mill. benchmark for the first time. The Group operating result (adjusted for the one-off provision that needed to be set aside at the end of the year) rose by EUR 2.7 mill. on the previous year, from EUR 24.0 mill. to EUR 26.7 mill. MEDICLIN thus met the upper end of the guidance for both Group sales and Group EBIT as published by the Management Board for 2017.

The provision that needed to be set aside at the end of 2017 refers to a debtor warrant due to rent reductions received between 2005 and 2007 for post-acute facilities pooled in a fund. The agreement includes a repayment obligation (debtor warrant) that is valid until the end of the term (31.12.2027) and is conditional on the achievement of certain economic performance parameters of all the clinics pooled in the fund. Based on the present planning and the lasting economic success of the post-acute facilities, it seems likely that these performance criteria will be reached. Accounting provisions thus require that a provision in the amount of EUR 20.1 mill. is set aside for future liabilities. Including the provision in the amount of EUR 20.1 mill., the Group operating result amounts to EUR 6.6 mill.

Acquisitions in the post-acute segment – effective measures in the acute segment

A look at our segments shows that the post-acute segment significantly exceeded its sales and earnings targets in the 2017 financial year (+5.0 %). Segment sales rose from EUR 351.0 mill. to EUR 373.2 mill. or by 6.3 %, respectively. Two post-acute clinics that were acquired in mid-year, i.e. AWO Rehabilitationsklinik Bad Münder and Fachklinik Zwieselberg GmbH in Freudenstadt, contributed EUR 3.7 mill. to the sales increase. AWO Rehabilitationsklinik has become an integral component of MediClin Deister Weser Kliniken, which are also located in Bad Münder. Fortunately we were able to maintain most of the roughly 100 jobs at AWO Rehabilitationsklinik Bad Münder. Fachklinik Zwieselberg has 20 employees and is specialised in treating specific addictions, allowing us to add another feature to our regional medical and therapeutic range of services. Without the new acquisitions, segment sales would have increased by 5.3 %. Since the debtor warrant refers to facilities in the post-acute segment, the provision impacts segment results. Without this one-off effect, the segment result would have amounted to EUR 20.8 mill., exceeding the prior-year value by EUR 2.3 mill.

The positive performance in our post-acute segment is also owed to the fact that 12 of our 28 rehabilitation clinics offer additional acute medical care services in the scope of an integrated care concept. Out patients and their relatives consider this to be an invaluable advantage as is reflected in the excellent occupancy rate of these clinics.

We assume that this segment will continue to perform well in 2018.

In the acute sector, the Group offers medical services in specialised facilities, such as the neurosurgery facility in Plau am See, the specialist orthopaedic clinic in Bad Düben and the two cardiac centres in Coswig and Lahr. In 2017 sales in the acute segment grew by EUR 6.0 mill. from EUR 210.6 mill. to EUR 216.6 mill. The performance in the course of the year shows that the measures initiated in 2017 are beginning to take effect. In the fourth quarter of 2017 sales rose considerably over the previous three quarters, while the segment result was positive following two quarters with a negative and one quarter with a break-even result. The result for the financial year amounts to EUR 2.3 mill., following EUR 5.8 mill. in the previous year.

We assume that sales will grow and that the segment result will improve moderately in 2018. Constant regulatory interventions will continue to pose challenges in the acute sector going forward. This refers, for instance, to the fix cost degression discount for additional services or lower remuneration for services with high cost of materials as in the field of cardiac medicine. Here we will need to set the course in such a way that these additional burdens have as little effect as possible.

Stable and successful – the nursing care business area

The nursing care business area continued to perform very well with the 2017 occupancy rate maintaining the high previous year's value. In the nursing care business area, sales climbed from EUR 14.7 mill. to EUR 15.2 mill.

High capital expenditure for hospital reconstructions and expansions

A gross amount of EUR 42.2 mill. was invested in property, plant and equipment in 2017, EUR 9.5 mill. of which referred to acquisitions and revaluation. A large share of capital expenditure (EUR 13.2 mill.) pertained to the reconstruction and expansion of clinics, whereas EUR 9.4 mill. was spent on medical equipment and accessories.

Some EUR 2.3 mill. was invested in the IT infrastructure. MEDICLIN's capital expenditure in 2017 was the highest ever. This illustrates that we are growing, enabling us to master the rising requirements we are facing. Therefore we will continue to expand capacities in strongly growing areas and make targeted additions to the range of services in 2018. Again, the Group plans capital expenditure of about EUR 40.0 mill.

How our executives understand their leading role and take on responsibility

The term executives can be defined as follows: executives are persons within a company who assume responsibility for defining and implementing targets and translating them into measurable results. Usually the parameters sales, profit as well as employee and customer satisfaction are used to measure success. Executives must have professional expertise and/or leadership qualities to meet these requirements. In this respect MEDICLIN is well-positioned.

Nevertheless we need to ask ourselves the following questions: What is our understanding of leadership? What is our leadership culture? Does this suffice to maintain our positive performance in the future? Will MEDICLIN be able to satisfy the demands of qualified staff with regard to their duties and working environment? Does the existing culture promote entrepreneurial, i.e. holistic, thinking within the Company?

In order to identify where we stand and were we can improve we initiated a process in 2017 where we and executives from all fields examine whether the distribution of tasks within the Group is sufficiently transparent and whether the structures within the Company allow our executives to assume the responsibility we wish them to bear in their respective roles. Assuming responsibility also means to be accountable for a manageable degree of consequences. We need to find out whether the distribution of tasks and the distribution of responsibility between headquarters and the clinics can be improved, what communication channels are used within the Group and how we should deal with errors in order to enhance the motivation and ambition of both our executives and our employees. We believe that the findings from this process will help to make working for MEDICLIN more efficient and attractive.

Identifying with the Company – MEDICLIN as a brand

Brand identity is playing an ever-increasing role in service companies, including companies in the healthcare sector. MEDICLIN has become a brand. The brand represents the Company in the public, but it also defines how employees identify with their employer and also their attitude towards the company.

Therefore we set up a working group in 2017 with selected medical employees to evaluate together with experts what the MEDICLIN brand stands for after some 18 years since the Company's formation, taking into account external and internal brand awareness. Internal awareness refers to the way employees identify with the Company, while external awareness refers to name recognition, public assessment of the quality and public perception of the Company's efficiency.

Our aim was to embark on a process that uses the strength of the MEDICLIN corporate respective umbrella brand to internally and externally present the Company in a way that benefits the locations and, in return, allows the corporate brand to benefit from the specialised skills of the respective locations.

This takes us back to leadership culture and responsibility, as the brand identity entails both expectations and values and, last but not least, it needs to be filled with life. The spirit of the brand can only be embodied by the employees who, by raising their brand awareness, will also identify with the brand and the associated values. By making this process transparent we create trust, loyalty and motivation.

MEDICLIN has prepared its first sustainability report

MEDICLIN attaches great importance to sustainability aspects. As a group within the health sector, MEDICLIN believes it should fulfil the needs of patients and employees to a degree that exceeds the scope prescribed by law and that it should treat nature and its resources with due care. Therefore, in addition to financial parameters, the Management Board has already been using 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.

Our corporate strategy: Integrated care across several sectors is the way to go

We are convinced that the future of successful healthcare lies in closely linking acute medicine, rehabilitation and nursing care as cross-sector care benefits our patients and makes an immeasurable contribution to affordable healthcare.

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. Our 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 12 of 28 post-acute clinics (rehabilitation facilities), meaning that patients arriving with an acute condition can stay on at the same facility for rehabilitation.

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. However, what we can do is to seize opportunities as they arise and to minimise the risks posed by the challenges inherent in the healthcare market. This is the responsibility of me and my Board colleagues. We will ensure 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

VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

JENS BREUER
CHIEF FINANCIAL OFFICER

ULF LUDWIG
MEMBER OF THE MANAGEMENT BOARD

Focus on sustainability

Our topics

Global Reporting Initiative – GRI

FURTHER INFORMATION

www.globalreporting.org

More and more companies place importance on the sustainability aspects of their business activities as the public increasingly expects long-term profitability to go hand in hand with social equality and environmental protection. These expectations will be heightened even further when investors, customers and other stakeholders discover the need to convert to truly sustainable business dealings.

The acronym GRI stands for Global Reporting Initiative, a charitable foundation headquartered in Amsterdam that defined in its GRI Standards which criteria and parameters must be met by sustainability reports. This standard has become globally accepted.

Sustainability reporting helps companies define targets, measure performance and implement changes in order to make their business activities more sustainable. Sustainability reports provide information on the effects of a company's dealings on mankind, the planet and the environment.

The future matters

FURTHER INFORMATION

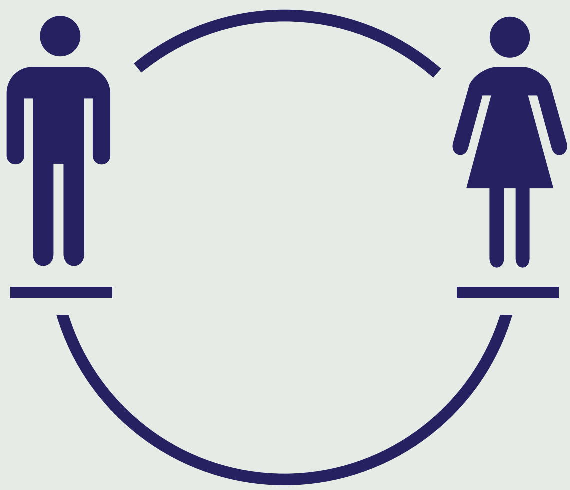
www.mediclin.de/Nachhaltigkeit

As a corporation in the healthcare sector, MEDICLIN believes that it is responsible for meeting its patients' needs even beyond the scope defined by law. With respect to our patients this means that we either cure them or, whenever this is impossible, we ease their burden in daily life. Our duties also include caring for old people and people in need of aid.

In order to continue providing the care level we believe adequate in the future, we need qualified and motivated staff. A team of employees with different skills and competencies is essential for fulfilling the manifold tasks in all our facilities.

Environmental aspects also play a great role at MEDICLIN. In this area, we concentrate on saving energy and reducing our CO_2 footprint.

Future means to maintain a healthy balance between family and work



Our staff is our most significant success factor, as the high quality of services that we have been constantly providing for years relies on the expertise, motivation and qualification of our employees.

We attach great importance to providing fair and reliable employment conditions, while demanding and promoting strong performance and commitment and expecting initiative and service orientation. Open and honest communication is part of our corporate culture, as are appreciative cooperation, quick decision processes and flat hierarchies.

Flexible working times, various part-time arrangements and concepts for combining work and family support our employees in finding an acceptable work-life balance.

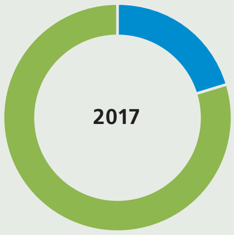
Facts and figures

Employees

As at 31 December 2017 MEDICLIN employed 9,858 persons in all of Germany. As is usual in the healthcare sector, the share of women is particularly high at MEDICLIN, amounting to nearly 80 % at the end of 2017.

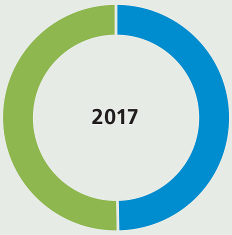
Various part-time arrangements help our employees to adjust their work load to their personal situation and to thus combine work and family.

Employees as at 31.12.2017



	In absolute terms	in %
Men	2,011	20.4
Women	7,847	79.6
Total	**9,858**	**100.0**

Employees as at 31.12.2017



	In absolute terms	in %
Full-time	4,085	49.9
Part-time	4,095	50.1
Total	**8,180**	**100.0**

Employees

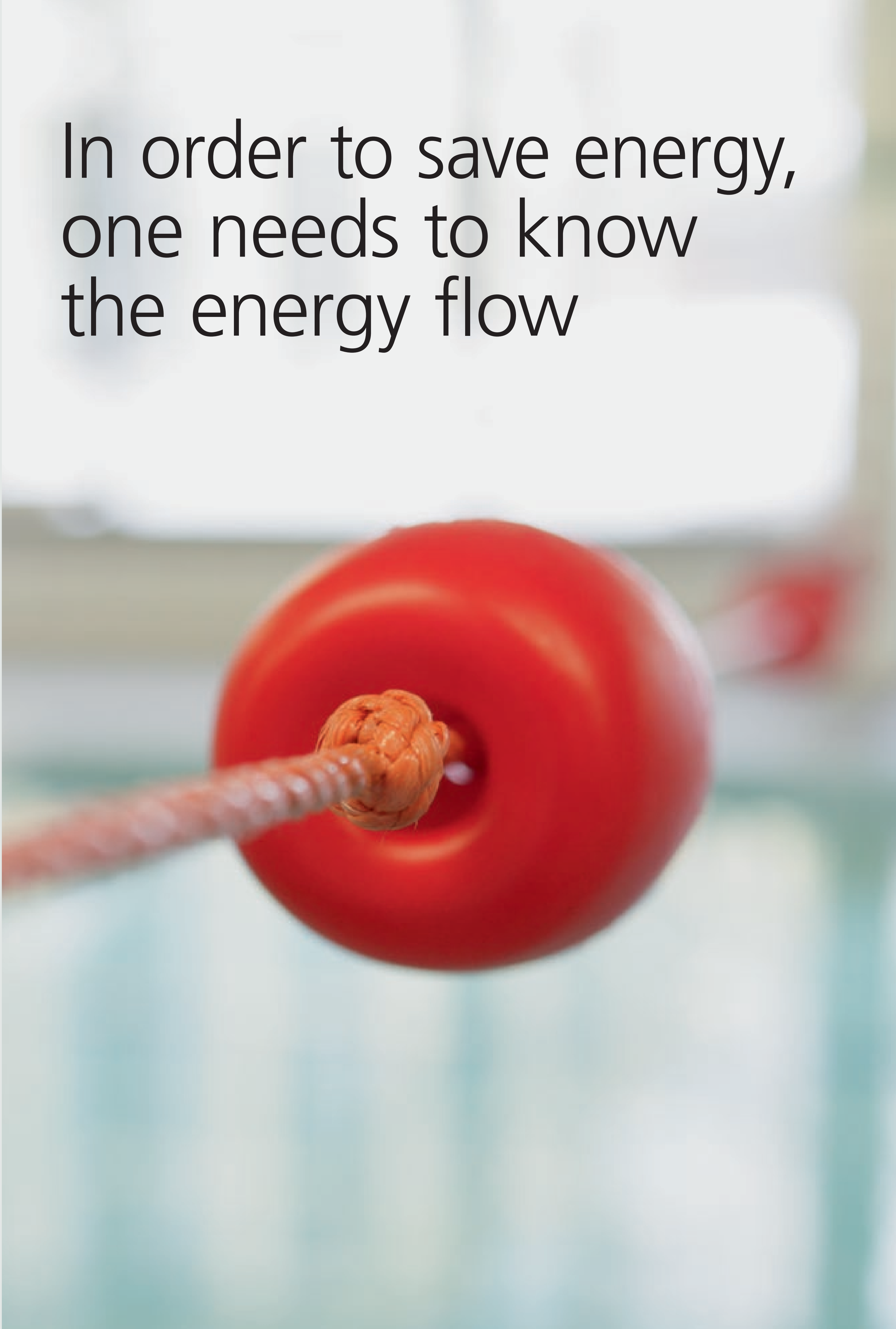
As at 31.12.2017	Men	in %	Women	in %	Total	in %
Full-time	1,237	76.1	2,847	43.4	4,085	49.9
Part-time	389	23.9	3,706	56.6	4,095	50.1
Total	**1,626**	**100.0**	**6,553**	**100.0**	**8,180**	**100.0**

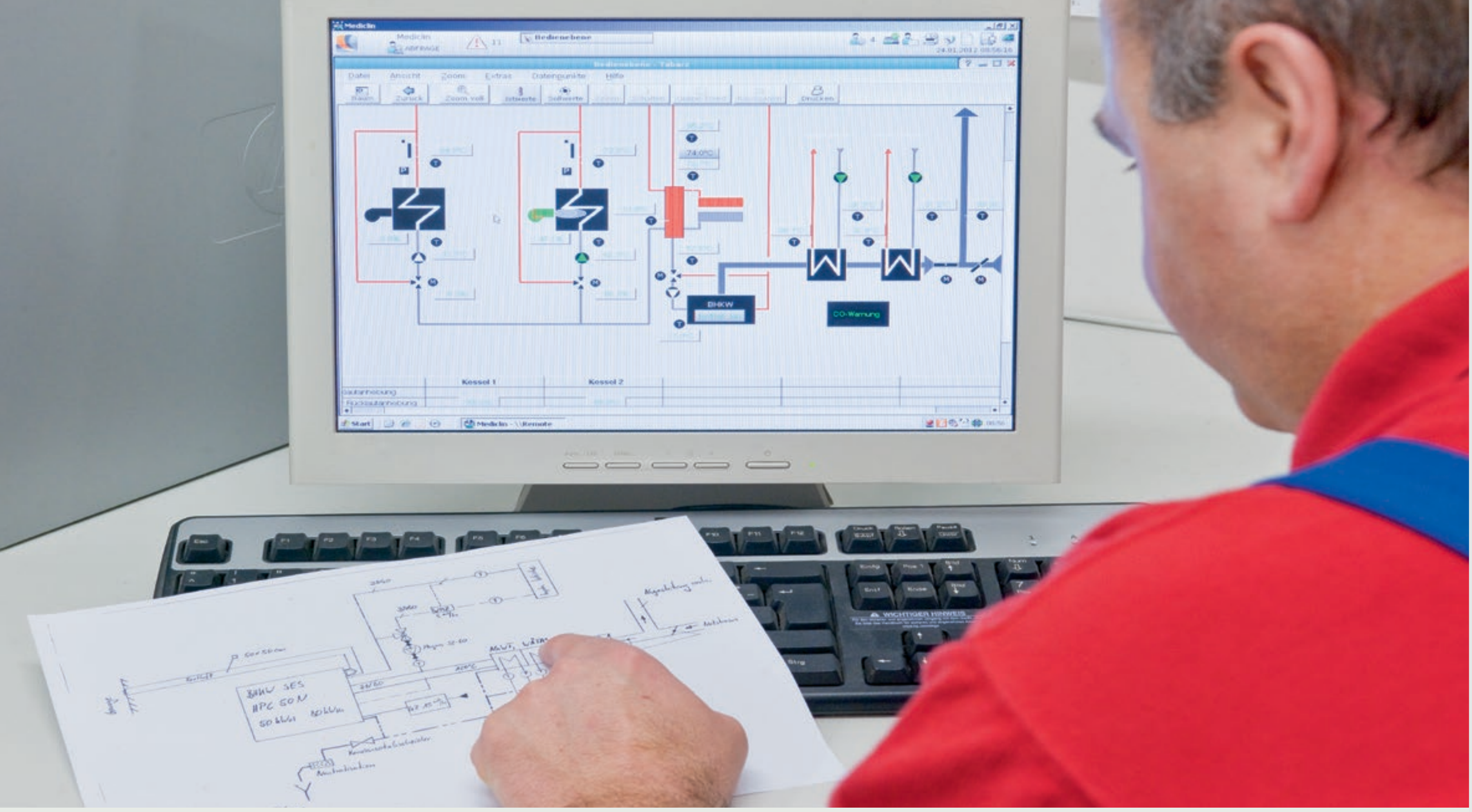
The age structure of MEDICLIN's staff is balanced, enabling MEDICLIN to ensure an efficient knowledge transfer between older and younger employees at an early stage. If a company lives a culture of esteem for each individual employee across all generations, it will attract and bind loyal staff.

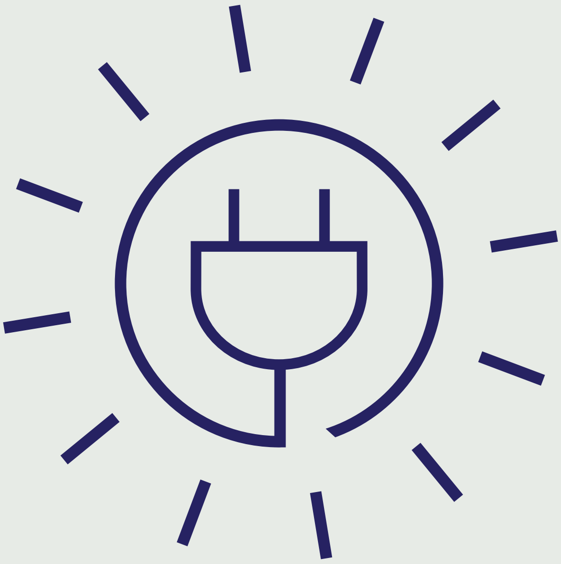
Age structure

As at 31.12.2017	Headcount	in %
Younger than 30	1,673	17
Between 30 and 50	4,389	45
Older than 50	3,795	39
Total	**9,857**	**100**

In order to save energy, one needs to know the energy flow







Efficient and sustainable energy consumption is an integral part of MEDICLIN's corporate strategy. This is illustrated by the 31 cogeneration units that generate nearly 43 % of MEDICLIN's energy need at 23 locations. The highly efficient combined generation of heat and power also reduces CO_2 emissions, from more than 40,000 tons in 2009 to less than 30,000 tons in 2017.

The aim of our energy management is to sustainably reduce energy consumption in the entire Group.

Facts and figures

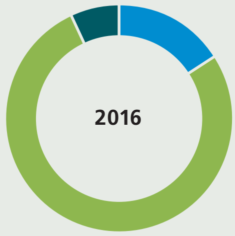
Energy

The prices for electricity and gas have been decreasing moderately since the economic and financial crisis. The cost of levies and taxes, in turn, is on the rise. Since 2009 the average electricity price, including all components, has risen from 14.3 ct/kWh to 20.4 ct/kWh, while the average price of gas fell from 5.9 ct/kWh to 4.3 ct/kWh. This means that the price of electricity was five times as high as the price of gas in 2016. The price is driven, in particular, by the levy pursuant to the German Renewable Energy Sources Act (EEG). Whereas the levy had amounted to 3.592 cent per kilowatt-hour in 2012, it climbed to 5.277 cent in 2013. In 2014 it increased further to 6.240 cent/kWh. Although it decreased by 0.07 cent to 6.17 cent/kWh in 2015, it climbed back to 6.350 cent/kWh in 2016. In 2017 the EEG levy reached a record high of 6.880 cent/kWh, followed by a moderate decline to 6.792 cent/kWh in 2018. Therefore the motivation to generate one's own electricity is still given despite a deterioration in the legal framework conditions (Renewable Energy Sources Act – EEG, Combined Heat and Power Act – KWK-G).

MEDICLIN was able to continuously lower its energy costs in the last few years. The aim of our energy management is to sustainably reduce energy consumption in the entire Group. In order to specify this target in more detail, the executives responsible for energy management determined together with the Management Board in November 2017 to reduce the energy consumption by 5 % within a period of five years, thereby also taking into account economic considerations.

MEDICLIN successfully introduced energy management in accordance with DIN ISO 50001 in 2016 and we are thus able to actively shape the energy transition in all of our facilities.

Energy procurement (without water) in kWh



	2016	in %
Electricity	22,644,251	16.0
Gas/oil	109,054,577	77.1
District heat	9,672,669	6.8
Total	**141,371,497**	**100.0**

Energy procurement

in kWh	2016	2009	Change in %
Electricity	22,644,251	36,116,574	–37.3
Gas/oil	109,054,577	100,212,062	+8.8
District heat	9,672,669	8,720,700	+10.9
Water in m^3	624,507	649,968	–3.9

Change in energy procurement through cogeneration units

in kWh	2016	2009
Electricity procurement	22,644,251	36,116,574
Internal consumption of electricity from cogeneration units	14,800,123	2,140,226
Share of internal consumption in %	39.5	5.6
Total consumption	**37,444,374**	**38,256,800**

Reduction in CO_2 emissions

in tons	2016	2009	Change in %
CO_2 emissions	30,584	40,777	–25.0

The MEDICLIN share

The MEDICLIN share

2017 was a record year at the stock exchange as the German DAX index climbed to more than 13,500 points for the first time in history. The index started at the beginning of the year at 11,426 points and closed the year at 12,918 points, corresponding to an increase of nearly 14 %.

While analysts had still been expecting rises to be moderate at the beginning of the year due to high share valuations and political risks, the good economy in Germany and the sound global economy put the high company valuations into perspective.

Experts assume that the German and the global economies will continue to grow. It is not expected that the ECB will raise the key interest rate in 2018. As there is a lack of alternative investments, the stock markets are likely to benefit from this situation, additionally supported by continuously rising company profits.

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 2017 at a price of EUR 6.25, exceeding the share price at the beginning of the year by 8.1 % (EUR 5.78). The yearly low in 2017 was EUR 5.50; the yearly high in December 2017 was EUR 6.88.

DZ Bank AG and Solventis Beteiligungen GmbH conduct research coverage on the MEDICLIN share. The recommendations on the basis of the figures after the first nine months of the 2017 financial year are "Hold".

Shareholder structure

The major shareholders of MEDICLIN AG are Asklepios Kliniken GmbH & Co. KGaA 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	2017	2016
Result[1] undiluted/diluted	0.08	0.35
Cash flow from operating activities	0.41	0.63
Book value[2] as of 31.12.	3.91	3.83
Year-end price	6.25	5.87
Annual high	6.88	6.01
Annual low	5.50	4.10
Market capitalisation (year-end price) in millions of €	296.9	278.8
Number of shares in millions	47.5	47.5

[1] Earnings per share without one-off effect EUR 0.44
[2] Equity less non-controlling interests
Sources: Deutsche Börse AG; Xetra

Summarised management report and Group management report of MEDICLIN Aktiengesellschaft for the 2017 financial year

CONTENTS

Basis of Group activities

Business model of the Group

The MEDICLIN Aktiengesellschaft Group (MEDICLIN) is a company 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 52 medical facilities throughout Germany; some of the locations also offer nursing care and outpatient services.

Focuses within the range of services are neuromedicine (neurology, neurological early rehabilitation, neurosurgery and neuroradiology), psychosomatics and psychiatry as well as orthopaedics. In the acute sector, the Group offers medical services in specialised facilities, such as neurosurgery in Plau am See, cardiac centres in Coswig and Lahr, neurological early rehabilitation in Lingen, Soltau and Plau am See or the specialist orthopaedic clinic in Bad Düben. 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 terms of its organisational structure, MEDICLIN pursues a regional concept. While complying with the applicable Group standards and Rules of Procedure, the executives that are responsible for a certain region are, together with clinic management teams, in charge of the operational and strategic development of the range of services and economic success 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 integrative patient care within a region and allows the establishment of a medical services offer that meets the specific needs within a region.

SUBSCRIBED CAPITAL, SHAREHOLDER STRUCTURE AND COMPANY BODIES

MEDICLIN Aktiengesellschaft (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 Asklepios Kliniken GmbH & Co. KGaA with 52.73 % and ERGO Versicherungsgruppe AG with 35.00 %; 12.2 % 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 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.

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 2017, MEDICLIN included 36 clinics, seven nursing care facilities and nine medical care centres nationwide. As before, eight of the 36 clinics are dedicated acute-care hospitals and 28 of the medical facilities are post-acute (rehabilitation) clinics. Twelve 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 7,836 beds and 431 nursing places as of the balance sheet date.

In the 2017 financial year the average number of employees was approximately 9,600; calculated on the basis of full-time staff, this corresponds to an average number of 6,964 full-time employees in the 2017 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. Specific acute services rendered in post-acute clinics 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 bed capacity in the Group has increased continuously in recent years. Capacity expansions or capacity changes within the facilities are carried out demand-driven according to the companys' strategy.

MEDICLIN's range of medical services is highly professional and certified. Medical focus areas are neurology, psychosomatics, psychiatry, orthopaedics and internal medicine. In terms of bed capacity, the share of neurology, psychosomatics and psychiatry amounts to 42.0 % (previous year: 40.8 %) of total beds available (not including nursing care).

Number of beds / nursing care places

As of 31.12.	2017	2016	2015	2014	2013
Post-acute	6,123	6,040	6,032	6,033	6,123
Acute	1,713	1,613	1,569	1,522	1,482
Nursing care	431	431	430	430	441
Group	**8,267**	**8,084**	**8,031**	**7,985**	**8,046**

Number of beds / places

As of 31.12.	2017	2016
Post-acute		
Neurology	1,498	1,441
Psychosomatics	960	934
Orthopaedics	1,700	1,768
Internal medicine	640	683
Cardiology	379	399
Oncology	395	347
Other	551	468
Total	**6,123**	**6,040**
Acute		
Neurology	281	231
Psychosomatics	225	189
Psychiatry	325	325
Surgery	231	231
Orthopaedics	196	196
Internal medicine	191	177
Other	264	264
Total	**1,713**	**1,613**
Nursing care	431	431
Group	**8,267**	**8,084**

DEVELOPMENT OF STAFF FIGURES

The number of medical and non-medical employees has continuously increased over the last few years allowing MEDICLIN to ensure high-quality treatment by well-trained staff. Thus, MEDICLIN has more than the personnel capacities that are required by the coverage providers based on indication and number of beds.

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.

Services in the acute sector are remunerated mainly via case-based lump sums within the scope of previously agreed budgets. When the demand for medical services is high and the budgets are thus exceeded, only 35 % of the

Development of the average number of employees without Management Board, managing directors and trainees

Shown in full-time employees	2017	2016	2015	2014	2013
Medical	853	808	814	822	800
Nursing care	2,147	2,061	2,018	1,984	1,977
Medical-technical	1,580	1,524	1,476	1,453	1,464
Functional	428	416	407	395	384
Medical services	**5,008**	**4,809**	**4,715**	**4,654**	**4,625**
Support functions	1,094	1,023	995	982	969
Technical	129	114	128	126	124
Administration	590	564	545	538	529
Other	47	50	48	50	46
Non-medical services	**1,860**	**1,751**	**1,716**	**1,696**	**1,668**

Development of the average number of employees with Management Board, managing directors and trainees

Shown in full-time employees	2017	2016	2015	2014	2013
Post-acute	3,639	3,489	3,398	3,303	3,258
Acute	2,055	1,979	1,964	1,994	2,005
Other activities	1,270	1,181	1,162	1,135	1,109
Thereof nursing care	205	192	183	175	176
Thereof service (including administration)	1,065	989	979	960	933
Group	**6,964**	**6,649**	**6,524**	**6,432**	**6,372**

additional work is paid for. If a year-on-year increase in services is agreed during the annual budget negotiations with the health insurance funds, the hospitals have to grant a discount. This so-called fix cost degression discount, which will be replacing the discount for additional services as from 1 July 2017, is determined for a period of three years. The discount is to counteract quantity-related cost advantages (fix cost degression). As it was the case with the discount for additional services, there are services that are exempt from the fix cost degression discount or services for which only 50 % of the applicable discount applies.

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 clinic operator.

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

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 post-discharge care 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.

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 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 at least 5.0 % 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 (at least 5.0 % 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 and helps to coordinate, plan, control and monitor 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 the public is informed 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.

Sustainability report

In order to improve readability, we refrain from stating both genders in the following declaration. Whenever a gender-specific term is used, it should be understood as referring to both genders, unless explicitly stated. This is done solely for the purpose of making the text easier to read, and no offense is intended.

As a group within the health sector, MEDICLIN believes it should fulfil the needs of patients and employees to a degree that exceeds the scope prescribed by law and that it should treat nature and its resources with due care. In addition to the financial control parameters, the Management Board therefore 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.

As MEDICLIN has already been paying great attention to these topics in the past, the Company was able to incorporate previous achievements in these fields into the inventory for the sustainability report to be prepared for the first time in 2017 and the Group's non-financial declaration pursuant to Sections 315b and 315c German Commercial Code (HGB).

Non-financial declaration pursuant to Sections 315b and 315c HGB

BUSINESS MODEL

Section 315b German Commercial Code (HGB) states that the non-financial group declaration should include a brief description of the corporation's business model. In this respect, we refer to the section on the Basis of Group activities on pages 28 ff.

The Management Board of MEDICLIN has decided pursuant to Section 289d German Commercial Code (HGB) to use the Sustainability Reporting Guidelines of the Global Reporting Initiative as a framework for preparing the non-financial Group declaration according to Sections 315b and 315c HGB.

MATERIALITY JUDGEMENT

Pursuant to the provisions of Section 315c German Commercial Code (HGB), reportable aspects include environmental issues, employee matters, social factors, respect for human rights and the fight against corruption and bribery. Pursuant to Section 289c (3) German Commercial Code (HGB), information on the reportable aspects is generally required only where this serves to better understand the business activities of the Group or the effects of the business activities on the reportable aspects pursuant to Section 289c (2).

In mid-2017 MEDICLIN set up a project team for sustainability reporting. The members of this interdisciplinary team (human resources, energy, finance, procurement, quality management, compliance, marketing, corporate communication and investor relations) used the Sustainability Reporting Guidelines to identify the ecological and social effects within their respective spheres of responsibility. In the initial phase of inventory-taking, those involved examined all the aspects to determine whether they are relevant to MEDICLIN. The second step was to determine which aspects could have material effects on MEDICLIN's performance. The following aspects were defined as being material: patient satisfaction (customer satisfaction), qualified and motivated staff, energy saving and emission reductions as well as compliance.

SUSTAINABILITY MANAGEMENT

Seeing that sustainability is an important part of corporate strategy and future reporting, the project team will form a working group that is allocated to a Management Board responsibility area. The future responsibility of the working group will be to support planning, target definition and implementation of sustainability activities and to document the progress made. The working group will act as consultants to all employees and departments in all matters surrounding sustainability. It will further collect data and results across the entire Group and be in charge of future sustainability reporting at MEDICLIN.

PATIENT SATISFACTION

Patient satisfaction is key to MEDICLIN's economic success, and thus an important aspect for systematically measuring and controlling the quality of our services.

The objective is to continuously improve patient satisfaction. Therefore all our clinics always constantly conduct extensive patient surveys. Patients are invited to evaluate overall as well as medical/therapeutic treatment and care and give their opinion with respect to the premises in general as well as care-related facilities. The surveys are anonymous and use an internal questionnaire that refers to the specific characteristics of the clinics (acute care, rehabilitation, indications). The questionnaires are evaluated by an external institute, which provides feedback to the clinics on a quarterly basis. In order to improve patient satisfaction, the results of the individual clinics are used within the group as a form of internal benchmarking. If a need for action becomes apparent, the corresponding measures are initiated by the management of the clinic and the quality management team and the success is measured systematically by means of follow-up surveys. The Management Board is informed regularly of these results. The German pension insurance (DRV) conducts external surveys in our rehabilitation clinics with regard to their specialisations. The clinic management passes the results on to the quality management department for incorporation into the internal benchmarking.

In 2017 patient satisfaction within the Group, in terms of the average referral rate, was 88.2 %. The overall satisfaction rate on the basis of patient surveys conducted by the German pension insurance in our rehabilitation clinics rose in 2017 by 0.6 % year-on-year.

EMPLOYEE MATTERS

Qualified and motivated employees are an essential asset for successful companies in the healthcare sector. Therefore, we regard our offer of qualification and further education options as an important factor for staff loyalty. The Management Board and the Group works council agreed in a Group works agreement to support further professional training.

The MEDICLIN Academy 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. A total of 175 seminars was held in 2017 and 1,293 employees participated in these seminars. In the previous year, we held 200 seminars with 1,950 participants.

The aim of the MEDICLIN Academy is to obtain a certificate pursuant to DIN EN ISO 9001/2015 by late 2018/ early 2019. This certificate serves to document that the MEDICLIN Academy's quality management system is part of the Group's strategic approach and that the quality policy and the quality-related objectives meet the participants' requirements for qualified further training and qualification.

In addition to personnel development, family-friendly working conditions are an important aspect for MEDICLIN to attract and keep qualified personnel. Despite the shortage of skilled professionals in the sector, MEDICLIN has been able to considerably increase its headcount in all staff groups, underlining MEDICLIN's attractiveness as an employer (please refer to the summarised management report and the Group management report, table: "The average number of employees excluding the Management Board, managing directors and trainees", page (28)).

As a codetermined company, MEDICLIN strongly respects the rights of its employees.

ENVIRONMENTAL ISSUES

Efficient and sustainable energy consumption is an integral part of MEDICLIN's previous corporate strategy. This is proven by the 31 cogeneration units that generate nearly 43 % of MEDICLIN's energy need at 23 locations. The highly efficient combined generation of heat and power also reduces CO_2 emissions, from more than 40,000 tons in 2009 to less than 30,000 tons in 2017.

Our energy management activities are bundled in a special company, MediClin Energie GmbH. Regular management reviews and an annual energy report keep the Management Board up to date with respect to the measures that have been adopted. In mid-2017, MediClin Energie GmbH provided its first comprehensive energy report for 2016 to all locations. The introduction of energy management is to enhance awareness for energy as a resource. In addition to listing consumption in absolute figures, a benchmarking for other MEDICLIN facilities is provided. Five clusters were determined (electricity, heat, water consumption, energy and water costs as well as CO2 emissions) in order to improve comparability of clinics with similar focus areas, size and year of construction. Together with the monthly electricity and gas reports, this report gives those responsible a better overview of their own facility, also in comparison with other facilities.

The aim of our energy management is to sustainably reduce energy consumption in the entire Group. In November 2017 a target was determined together with the Management Board to reduce energy consumption by 5 % within 5 years (base year 2016) without neglecting economic aspects. The relevant key figure in this respect is "primary energy consumption per care day". The energy report for 2017 is to be available by mid-2018.

The capacity of two cogeneration units was expanded in 2017, taking the share of energy produced in MEDICLIN's own facilities up from 40 % in the previous year to 43 %. CO2 emissions were reduced from 30,584 tons in 2016 to 29,396 tons in 2017.

MEDICLIN or its facilities, respectively, are certified in accordance with ISO 50001. The energy management documentation pursuant to DIN EN ISO 50001:2011 defines and stipulates the guidelines and involvement of the Group management. The certificate is valid from 19 December 2016 to 18 December 2019.

COMPLIANCE (FIGHT AGAINST CORRUPTION AND BRIBERY)

MEDICLIN's Compliance department ensures that laws and regulations as well as Group guidelines issued by MEDICLIN itself are observed throughout the Group. The Internal Audit policy determines the different responsibilities of compliance management, internal audit and the risk management system. The compliance concept serves as an internal control mechanism for the implementation and objectives of MEDICLIN's compliance activities. At present, a Code of Conduct is being adopted, which is published as part of the corporate governance declaration pursuant to Section 289f German Commercial Code (HGB).

According to its own assessment, MEDICLIN has an adequate compliance management system to address the Company's risks. MEDICLIN's Management Board has determined areas of responsibility and reporting duties with regard to compliance with applicable law and internal policies.

MEDICLIN has prepared internal rules of procedure defining specific requirements for impeccable legal and ethical behaviour. In addition, the Group issued binding requirements for employees in individual spheres of responsibility, for instance in connection with handling patient data, company information, cooperation with other partners in the healthcare sector and the industry, financial benefits and corruption, etc.

The Management Board instructed the compliance officer to report regularly on compliance matters and to prepare an annual report. Moreover, the Management Board regularly initiates random controls in the form of compliance audits.

MEDICLIN conducts annual compliance audits that also include embezzlement audits. The findings and any measures that might be required are compiled in the aforementioned report and presented to the Management Board and the Supervisory Board. Five compliance audits were conducted in 2017. There were no compliance violations in the year under review.

MEDICLIN employees are protected when they report violations against the law or policies or other misconduct to the Company. This information is passed on the compliance officer confidentially for further examination.

The Management Board, the Group's executives and employees have undertaken to comply with all the relevant legal requirements and the principle of ethical and moral integrity.

MATERIAL NON-FINANCIAL RISKS

Risks arising from a commercial perspective with regard to the aforementioned aspects are included in the risk and opportunity report (page 49) ff), which is part of the summarised management report and the Group management report. They refer to factors that could influence the economic performance of MEDICLIN as well as its market position, staff situation and the quality of current and future medical, therapeutic services and long-term care.

Given the business model of MEDICLIN, there are no material risks of an ecological or social nature that are likely to have serious negative effects.

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 statement on results of operations, financial position and net assets

In the 2017 financial year MEDICLIN generated Group sales of EUR 609.1 mill. at the upper end of the guidance, exceeding the previous year by EUR 28.7 mill. or 5.0 %, respectively.

A provision amounting to EUR 20.1 mill. had to be set aside for a debtor warrant at the end of 2017. The debtor warrant refers to rent reductions in 2005 to 2007 totalling EUR 21.0 mill. for post-acute facilities that were pooled in a fund. The agreement includes a repayment obligation (debtor warrant) until the end of the term (31.12.2027), which is conditional on the achievement of certain economic performance parameters of all the clinics pooled in the fund. Based on the present planning and the lasting economic success of the post-acute facilities, it seems likely that these performance criteria will be reached. Out of this reason, accounting provisions thus require that a provision in the amount of EUR 20.1 mill. is set aside for future liabilities. The provision has no effect on liquidity.

MEDICLIN's Group operating result as of 31 December 2017 is EUR 6.6 mill. (previous year: EUR 24.0 mill.). Without the aforementioned provision, the Group operating result would amount to EUR 26.7 mill., which is within the original guidance of EUR 25.0 mill. to EUR 27.0 mill.

SEGMENT PERFORMANCE

The post-acute segment significantly exceeded its sales and earnings targets in the 2017 financial year (+ 5.0 %). Segment sales rose from EUR 351.0 mill. to EUR 373.2 mill. or by 6.3 %. Two post-acute clinics acquired mid-year contributed EUR 3.7 mill. to sales growth. Without the new acquisitions, sales would have increased by 5.3 %. Since the debtor warrant refers to facilities in the post-acute segment, the provision impacts segment results. Without this one-off effect, the segment result would have amounted to EUR 20.8 mill. (previous year: EUR 18.5 mill.) with an EBIT margin of 5.6 % and would have thus met the target corridor. Accounting for the provision, the segment result amounts to EUR 0.7 mill.

In the acute segment sales rose on the previous year by EUR 6.0 mill. from EUR 210.6 mill. to EUR 216.6 mill, corresponding to an increase of 2.8 % and narrowly missing the forecast sales growth of 3.0 %. Medical care centre sales that are included in segment sales amounted to EUR 7.9 mill. (nine centres) in the period under review, down from EUR 8.5 mill. (eight centres) in the previous year. The analysis of quarterly figures shows that the measures initiated are taking effect. In the fourth quarter 2017 sales rose considerably over the previous quarters, while EBIT in the segment was positive following quarters with a negative or break-even result. The segment result was EUR 2.3 mill. (previous year: EUR 5.8 mill.), while the EBIT margin in the segment came out to 1.0 %.

The nursing care business area, which is allocated to the other activities segment, increased sales by EUR 0.5 mill. or 3.9 % to EUR 15.2 mill. in the reporting year.

SOUND FINANCIAL STRUCTURE AND STABLE RESULTS OF OPERATION

MEDICLIN's balance sheet and financial structures show that the Group is in a sound condition. In addition to cash and cash equivalents of EUR 26.9 mill., the Group has access to credit lines in the amount of EUR 30.8 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 50.3 % and net financial debt amounts to EUR 20.6 mill. The 2017 debt ratio was 0.8 x, which is still clearly below the maximum target level of 3.5 x.

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

STRONG ECONOMIC GROWTH IN GERMANY IN 2017

In 2017 the German economy grew significantly, driven by private consumption and increasing exports.

According to initial calculations by the Federal Statistical Office, the price-adjusted gross domestic product (GDP) was, on average, 2.2 % higher than in the previous year. Economic growth in 2017 thus outperformed both the previous years (2016: +1.9 % and 2015: +1.7 %).

The labour market remained highly stable in 2017 with an unemployment rate of 5.7 % (previous year: 6.1 %). The number of people in employment rose by 1.5 % to 44.3 million in 2017 (previous year: 43.4 million).

The provisional statements for the federal budget in 2017 published by the Federal Ministry of Finance in accordance with the Council Directive on budgetary frameworks show a financing surplus in the budgets of the federal republic, the federal states and the social security insurance. At federal level the surplus amounted to about EUR 5.0 bill., at state level to roughly EUR 14.2 bill. and at social security level to some EUR 6.3 bill.

In its 2017 pension insurance report, the German government forecasts that the social security pension funds will be able to set aside reserves in the amount of EUR 32.9 bill. at the end of 2017. A total amount of about EUR 90.9 bill. was paid out of the federal budget to the social security pension funds in 2017.

The Statutory Health Insurance (GKV) also benefited from the continuous employment growth. According to calculations by the GKV-Schätzerkreis, health insurance contributions grew by 4.4 % in 2017. The liquidity reserve of the German Health Fund is estimated at around EUR 8.5 bill. at the end of 2017. Available data also suggests that the financial reserves of the public health insurance funds amounted to about EUR 19.0 bill. at the end of 2017. The contribution by the federal government to the statutory health insurance in order to compensate for the expenses incurred in delivering services to the whole of society rose by another EUR 0.5 bill. year-on-year in 2017 to EUR 14.5 bill.

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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. Between 2015 and 2016 expenditure climbed by 3.8 % to EUR 356.5 bill. This corresponds to 11.3 % of the GDP. The Federal Statistical Office forecasts a 4.9 % rise to EUR 374.2 bill. in 2017, caused by 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) that came into force on 1 January 2017.

Altogether, the expenditures are split among the coverage providers as follows (2017 forecasts):

In billions of €	2017	2016
Public health insurance funds	213.3	207.2
Private health insurance funds	29.9	31.0
Social nursing care insurance	41.2	29.4
Private households/organisations	48.6	47.4
Other payers[1]	41.2	41.5
Total	**374.2**	**356.5**

Source: Federal Statistical Office

[1] Statutory accident insurance/social security pension funds/public households/employers

MEDICLIN IS ONE OF THE MAJOR PRIVATE HOSPITAL GROUPS

The market of private hospital groups is heterogeneous with a small number of large providers in the acute sector. On the basis of the number of beds, private groups hold an overall market share of about 18.9 % (as per 2016). In the rehabilitation sector, MEDICLIN is one of the larger providers.

Acute sector

A study published by Roland Berger Consultants in October 2017 comes to the conclusion that the German hospital market is still in a consolidation phase, although the number of patients is on the upturn. Data from 2016 was compared to data from 2012.

The comparison reveals that the number of hospitals has decreased by about 3.3 %. Although the number of patients is growing, the number of inpatient beds has gone down by 0.4 % as the patients spend less time in hospital. All in all, the number of inpatients grew by 3.7 %.

The reduction in the length of stay by 3.9 % from 7.6 to 7.3 days is noteworthy, particularly in the view of the higher complexity of cases and multimorbidity. The occupancy rate rose by one percentage point to 78 %.

In September 2017 the Federal Statistical Office published the figures for 2016, which show that the cost of inpatient hospital care has climbed by 4.3 % from EUR 84.2 bill. to EUR 87.8 bill. Based on some 19.5 million patients who were treated in hospitals, the inpatient hospital costs per case averaged EUR 4,497 (2015: EUR 4,378), corresponding to a 2.7 % increase on 2015.

The total amount of hospital costs in 2016 was approximately EUR 101.7 bill. (2015: EUR 97.3 bill.). The share of staff costs in inpatient hospital costs amounts to 60.1 %, while the cost of materials accounts for 37.3 %. Staff costs in 2016 were 4.4 % and the cost of materials 4.7 % above the previous year.

In 2016 the average length of stay in MEDICLIN's acute clinics was 10.8 days (7.8 days without psychiatry/psychosomatics), while the occupancy rate stood at 79.5 %. The staff costs ratio was 53.0 %. In terms of beds, MEDICLIN accounts for 1.7 % of the market of private hospital operators.

In 2017 the average length of stay in MEDICLIN's acute clinics was 11.0 days (7.8 days without psychiatry/psychosomatics), while the occupancy rate stood at 78.0 %. The staff costs ratio was 56.5 %. In terms of beds, MEDICLIN's share of the market of private hospital operators is likely to have increased to 1.8 %.

Post-acute sector (rehabilitation)

The situation in the rehabilitation sector is similar. In the period covered by the study (2012–2016), the number of medical facilities has decreased by 5.2 % while the number of beds decreased by 2.2 %. The number of patients, however, has risen by 1.0 % while the number of nursing days went up by 0.2 %. The average length of stay declined moderately by 0.8 %, amounting to 25.3 days in 2016. The average occupancy rate was 83.0 %, up from 81.0 % in 2012.

According to public health reporting by the federal government, the expenditure for rehabilitation was EUR 9.3 bill. in 2015, 3.3 % more than in 2014. Assuming another increase of about 3.0 % p.a., the expenditure is likely to amount to some EUR 9.9 bill. in 2017.

In 2016 the average length of stay in MEDICLIN's post-acute clinics was 25.1 days and the occupancy rate 89.6 %. The staff costs ratio was 50.1 %. In terms of beds, MEDICLIN accounts for 3.7 % of the market of rehabilitation facilities.

In 2017, the average length of stay was 25.3 days, while the occupancy rate was 90.5 %. The staff costs ratio was 50.6 %. In terms of beds, MEDICLIN's share of the market of rehabilitation facilities is likely to remain stable.

Nursing care sector

Due to the demographic trend and the rising demand for inpatient and outpatient care, the supply of nursing care services is constantly on the increase. In the last few years (health reporting by the federal government publishes figures up to and including 2015), the supply has increased by about 5.5 % in total and by 8.0 % on the part of private providers.

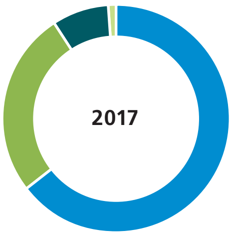
This translates into potential for MEDICLIN, although the market share in this growth market will probably remain below 1.0 % over the next few years.

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 %



	2017	2016
Public health insurance funds	65.0	65.8
Social security pension funds	26.8	26.1
Private health insurance companies	8.0	7.8
Other coverage providers	0.2	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 609.1 mill. in the 2017 financial year were EUR 28.7 mill. or 5.0 % 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 this refers to higher hospital care rates due to a changed and expanded range of services, and in the acute segment this refers to the annual adjustment of the base rates at state level.

Sales from outpatient healthcare services amounted to EUR 15.6 mill. (previous year: EUR 15.6 mill.); of this amount, EUR 7.6 mill. (previous year: EUR 8.1 mill.) was generated by the medical care centres.

At the end of the 2017 financial year, the Group operating result was impacted significantly by a provision of EUR 20.1 mill. to be set aside for a debtor warrant for rent reductions received between 2005 and 2007. Including a one-off effect from a company acquisition (EUR +5.7 mill.) and the effect from the aforementioned provision, MEDICLIN's Group operating result as of 31 December 2017 amounts to EUR 6.6 mill. (previous year: EUR 24.0 mill.). Without the provision, the Group operating result would have amounted to EUR 26.7 mill.

Group sales and Group operating result

In millions of €	2017		2016	
	Group sales	Group EBIT	Group sales	Group EBIT
1st quarter	147.1	−0.5	141.9	1.7
2nd quarter	151.8	6.1	147.3	7.4
3rd quarter	153.6	13.7	146.0	8.7
4th quarter	156.6	7.4	145.1	6.2
Financial year without one-off effect	**609.1**	**26.7**	**580.3**	**24.0**
One-off effect fourth quarter	**–**	**−20.1**	**–**	**–**
Year total	**609.1**	**6.6**	**580.3**	**24.0**

Development of expenses

Raw materials and consumables used increased by EUR 3.9 mill. or 3.6 % compared to the same period of the previous year, now amounting to EUR 112.6 mill. (previous year: EUR 108.7 mill.). Raw materials and supplies increased by EUR 1.3 mill. and purchased services by EUR 2.6 mill. Expenses for medical supplies account for the largest increase in expenditures (EUR +0.8 mill.) within the raw materials and supplies item. The larger range of services was one of the main 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 +2.2 mill.). The cost of materials ratio amounts to 18.5 % (previous year: 18.7 %).

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 28.4 mill. or 8.5 % to EUR 363.1 mill. (previous year: EUR 334.7 mill.). The main reasons for the increase in staff costs are wage increases and a higher number of employees (+315 full-time employees). MEDICLIN assumes that the rise in staff costs will range between 6.0 % and 8.0 % due to new hires and higher wages on the back of further sales growth.

Depreciation and amortisation totalled EUR 20.4 mill. (previous year: EUR 19.2 mill.), with EUR 1.9 mill. (previous year: EUR 1.2 mill.) attributable to intangible assets and EUR 18.5 mill. (previous year: EUR 17.9 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 20.9 mill. to a total of EUR 123.7 mill. (previous year: EUR 102.8 mill.). The largest item in other operating expenses is, with EUR 52.4 mill. (previous year: EUR 51.1 mill.), rental and leasing expenses for real estate, medical equipment, vehicles and office equipment. Of this amount, a total of EUR 44.2 mill. (previous year: EUR 43.4 mill.) is attributable to the rents for real estate rented over the long term and pertains primarily to the post-acute segment. In the reporting year other operating expenses include a one-off item amounting to EUR 20.1 mill. This item refers to provisions for additional rent payments due to rent reductions received between 2005 and 2007 for long-term real estate rents in the post-acute segment (debtor warrant). Otherwise, the increase is mainly due to legal, consultancy and audit costs (EUR +0.6 mill.). Reductions on the previous year's figures were achieved in particular with respect to expenses for maintenance and repairs (EUR –0.9 mill.), for allowances regarding the impairment of receivables (EUR –0.9 mill.) and for EDP and organisation (EUR –0.6 mill.). Please refer also to item (33) "Other operating expenses" in the notes.

Financial result and tax ratio

The financial result amounted to EUR –2.4 mill. at year-end (previous year: EUR –3.1 mill.). Interest and similar expenses decreased by EUR 0.7 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.

Total consolidated result

In the 2017 financial year, the result after tax attributable to shareholders of MEDICLIN AG was EUR 3.9 mill. (previous year: EUR 16.5 mill.). Without the extraordinary effect from the provision, the aforementioned total consolidated result would amount to EUR 20.9 mill. Undiluted earnings

Expenses

	2017	2016	Change in %
Raw materials and consumables used in millions of €	112.6	108.7	+3.6
Cost of materials ratio in %	18.5	18.7	
Staff costs in millions of €	363.1	334.7	+8.5
Staff costs ratio in %	59.6	57.7	
Depreciation and amortisation in millions of €	20.4	19.2	+6.4
Other operating expenses in millions of €	123.7	102.8	+20.3

and diluted earnings per average share outstanding as well as per participating share were EUR 0.08 (previous year: EUR 0.35).

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 utilised on 31 December 2017. 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 30.8 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 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	44.9	44.2
Remaining term 1–5 years	179.6	176.7
Remaining term more than 5 years	224.5	265.0
	449.0	**485.9**

By exercising a purchase right under a sale-and-leaseback agreement, the Group will buy back the real estate at financing value as at 30 November 2018. The overview below shows the resulting future payment obligations:

In millions of €	Nominal value 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	6.7	0.6
Remaining term 1–5 years	0.0	2.2
Remaining term more than 5 years	0.0	7.4
	6.7	**10.2**

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 lapsed and the two preceding financial years 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 2017 investments in non-current asset items totalled a gross amount of EUR 46.8 mill. (previous year: EUR 28.1 mill.).

Essential gross additions to non-current assets

In millions of €	2017	2016
Licences, concessions	4.3	3.0
Goodwill	0.3	0.1
Land, buildings	13.4	6.4
Technical equipment, EDP	3.7	1.7
Operating and office equipment	15.5	14.6
Payments on account and assets under construction	9.6	2.3
Total	**46.8**	**28.1**

Gross additions to property, plant and equipment totalled EUR 42.2 mill. in the 2017 financial year (previous year: EUR 25.0 mill.). EUR 9.5 mill. thereof pertains to acquisitions and revaluations, whereas some EUR 13.2 mill. was used for the reconstruction and expansion of clinics. Of this amount, EUR 2.2 mill. was used to build a new retirement home, EUR 1.9 mill. for the reconstruction of a clinic for neurological rehabilitation phase B and EUR 0.7 mill. for the reconstruction of a respiratory care unit. Capital expenditure for IT infrastructure amounted to EUR 2.3 mill., EUR 9.4 mill. was invested in medical devices including accessories, and EUR 3.3 mill. was spent on furnishing patient and nurses' rooms and offices.

The investment ratio was 21.8 % (previous year: 13.2 %). EUR 17.6 mill. (previous year: EUR 18.5 mill.) was spent on maintenance and repairs.

LIQUIDITY

The cash flow from operating activities fell by EUR 10.6 mill., from EUR 29.9 mill. to EUR 19.3 mill. This includes interest received and income from participations in the amount of EUR 0.2 mill. (previous year: EUR 0.1 mill.). Tax payments amounted to EUR 5.9 mill. net of tax refunds (previous year: EUR 4.7 mill.). The cash flow from investing activities totalled EUR –31.0 mill. (previous year: EUR –17.9 mill.). A gross amount of EUR 4.4 mill. (previous year: EUR 2.5 mill.) was spent on intangible assets. Gross investments in property, plant and equipment totalled EUR 31.3 mill. (previous year: EUR 23.7 mill.). Payments for Company acquisitions (less cash and cash equivalents acquired) amount to EUR 2.7 mill. (previous year: EUR 0.0 mill.). The gross investments were offset against the investment subsidies received, which totalled EUR 6.3 mill. (previous year: EUR 7.7 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 –3.0 mill. (previous year: EUR 0.1 mill.). This includes

Consolidated cash flow statement (abridged)

In millions of €	January–December 2017	January–December 2016
Cash flow from operating activities	19.3	29.9
Payments received from the disposal of fixed assets	1.2	0.5
Payments received from investment subsidies	6.3	7.7
Cash used for investments in fixed assets	–38.5	–26.1
Cash flow from investing activities	–31.0	–17.9
New financial liabilities	0.0	39.0
Repayment of financial liabilities	–1.8	–37.6
Interest payments	–1.2	–1.3
Cash flow from financing activities	–3.0	0.1
Cash flow for the period	–14.7	12.1
Cash and cash equivalents at the beginning of the period	41.6	29.5
Cash and cash equivalents at the end of the period	26.9	41.6

the repayment of existing loan obligations amounting to EUR 1.8 mill. (previous year: EUR 37.6 mill.) and interest payments amounting to EUR 1.2 mill. (previous year: EUR 1.3 mill.). In the previous year, this item also included new financial liabilities in the amount of EUR 39.0 mill. in connection with concluding the new syndicated loan at the end of July 2016.

Cash and cash equivalents at the end of the period thus decreased by EUR 14.7 mill. to EUR 26.9 mill. (previous year: EUR 41.6 mill.).

NET ASSETS

The balance sheet total increased by EUR 21.5 mill. In the non-current assets item (EUR +20.4 mill.) the increase was particularly pronounced in the goodwill and other intangible assets (EUR +2.7 mill.) and the property, plant and equipment (EUR +15.9 mill.) items. In the current assets item (EUR +1.1 mill.) the increase was particularly pronounced in the trade receivables item (EUR +12.9 mill.), whereas cash and cash equivalents recorded a decrease of EUR 14.7 mill. As such, the considerable expansion of the investment volume compared to the previous year had an effect on both non-current assets and cash and cash equivalents. On the equity and liabilities side of the balance sheet, equity was up by EUR 3.9 mill., mainly due to the Group's net profit. Non-current liabilities rose by EUR 12.0 mill., mainly due to a provision for additional rent payments amounting to EUR 20.1 mill. that had to be set aside on the balance sheet date. This increase in current liabilities (EUR +5.8 mill.) is due primarily to the fact that liabilities from finance leases in the amount of EUR 6.1 mill. that were previously allocated to non-current liabilities had been reclassified as current liabilities on the balance sheet date.

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

SEGMENT REPORTING

Sales

The share of the post-acute segment in Group sales was 61.3 % (previous year: 60.5 %), while the share of the acute segment was 35.6 % (previous year: 36.3 %) and the nursing care business area contributed 2.5 % (previous year: 2.5 %).

With a sales increase of EUR 22.1 mill., the post-acute segment contributed the largest share to Group sales growth (EUR 28.7 mill.). Especially the post-acute facilities that additionally offer acute medical services in the scope of their integrated care concept have continuously good occupancy rates.

Sales in the acute segment of EUR 216.6 mill. were EUR 6.0 mill. above the previous year's value. This includes outpatient sales (including the sales of the medical care centres) in the amount of EUR 13.2 mill. (previous year: EUR 13.3 mill.).

Balance sheet structure

In millions of €	31.12.2017	In % of balance sheet total	31.12.2016	in % of balance sheet total
Assets				
Non-current assets	239.7	65.0	219.3	63.2
Current assets	128.9	35.0	127.8	36.8
	368.6	**100.0**	**347.1**	**100.0**
Equity and liabilities				
Equity	185.3	50.3	181.6	52.3
Non-current liabilities	118.4	32.1	106.4	30.7
Current liabilities	64.9	17.6	59.1	17.0
	368.6	**100.0**	**347.1**	**100.0**

The other activities and reconciliation segment recorded sales of EUR 19.3 mill. (previous year: EUR 18.7 mill.) in 2017. The nursing care business area generated sales of EUR 15.2 mill. (previous year: EUR 14.7 mill.).

Expense items

In the post-acute segment, raw materials and consumables used showed a EUR 4.5 mill. or 6.4 % increase on the previous year. Additional expenses were incurred in particular in connection with medical supplies (EUR +0.5 mill.) and external medical services (EUR +1.8 mill.) as well as external operating supplies (EUR +1.8 mill.). In the acute segment, raw materials and consumables used were EUR 2.0 mill. or 3.6 % above the previous year's value. This increase is due primarily to higher expenditure for laboratory tests (EUR +0.7 mill.) and for external medical services (EUR +1.0 mill.).

Staff costs in the post-acute segment rose by EUR 13.0 mill.; the number of full-time employees increased by 150. In the acute segment, staff costs climbed by EUR 10.9 mill.; the number of full-time employees increased by 76.

Sales

In millions of €	2017	2016	Change in %
Post-acute	373.2	351.0	+6.3
Acute	216.6	210.6	+2.8
Other activities and reconciliation	19.3	18.7	+3.2
Thereof nursing care business area	15.2	14.7	+3.9
Group	**609.1**	**580.3**	**+5.0**

Raw materials and consumables used

	2017	2016	Change in %
Post-acute			
Raw materials and consumables used in millions of €	76.0	71.5	+6.4
Cost of materials ratio in %	20.4	20.4	
Acute			
Raw materials and consumables used in millions of €	59.5	57.5	+3.6
Cost of materials ratio in %	27.5	27.3	

Staff costs

	2017	2016	Change in %
Post-acute			
Staff costs in millions of €	188.9	175.9	+7.4
Staff costs ratio in %	50.6	50.1	
Acute			
Staff costs in millions of €	122.5	111.6	+9.7
Staff costs ratio in %	56.5	53.0	

Segment results

Due to the provision for additional rent payments of EUR 20.1 mill. to be set aside in 2017, the result in the post-acute segment was lower than in the previous year. The adjusted result was EUR 20.8 mill.

Despite an increase in sales over the year, the result in the acute segment was burdened by higher staff costs, taking it down below the prior-year figure.

The result of the other activities segment, specifically the service business area, includes EUR 5.7 mill. for the revaluation of assets from an acquisition.

Capital expenditure

In 2017 a total of EUR 46.8 mill. (gross amount) was invested in non-current assets. Capital expenditure was distributed among the segments as follows:

In millions of €	2017	2016
Post-acute	18.9	15.2
Acute	11.0	8.9
Other activities and reconciliation	16.9	4.0
Group	**46.8**	**28.1**

Segment results

In millions of €	2017	2017 Adjusted result	2016
Post-acute	0.7	20.8	18.5
Acute	2.3	2.3	5.8
Other activities and reconciliation	3.6	3.6	−0.3
Group	**6.6**	**26.7**	**24.0**

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

in %	Post-acute		Acute	
	2017	2016	2017	2016
Public health insurance funds	41.8	43.0	92.4	92.7
Social security pension funds	49.4	48.2	0.0	0.1
Private health insurance companies	8.6	8.5	7.4	6.9
Other coverage providers	0.3	0.3	0.2	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Without nursing care business area

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

Shown in full-time employees	2017	2016	Change
Post-acute	3,639	3,489	+150
Acute	2,055	1,979	+76
Other activities	1,270	1,181	+89
Thereof nursing care business area	205	192	+13
Thereof service business area (including administration)	1,065	989	+76
Group	**6,964**	**6,649**	**+315**

EMPLOYEES

The average number of employees in 2017, calculated on the basis of full-time employees, was 6,964 (previous year: 6,649 full-time employees). The number of full-time employees has increased by 315 or 4.7 % compared to the previous year. The average number of trainees was 280 in 2017 (previous year: 253 trainees).

Sales per full-time employee rose by EUR 179 or 0.2 % year-on-year in the reporting year, while the average staff costs per full-time employee increased by EUR 1,789 or 3.6 %.

Key data per full-time employee in the Group

in €	2017	2016
Sales per full-time employee	87,462	87,283
Staff costs per full-time employee	52,135	50,346

Forecast report

Actual results and target figures for control parameters

The targets for sales and the segment results in the Group and the post-acute segment were met or even outperformed in the 2017 financial year. In the acute segment, sales and the result were below the targets for 2017.

When presenting the figures as of 30 June 2017, the Management Board announced that the forecast sales growth and earnings in the acute segment could probably not be reached entirely.

On 21 November 2017 the Management Board issued an ad hoc notification informing the public that, based on its present planning, MEDICLIN had to set aside a provision for future liabilities resulting from rent reductions received between 2005 and 2007. During that period MEDICLIN was granted rent reductions totalling EUR 21.0 mill. for medical facilities that had been pooled in a fund. The agreement on the rent reduction includes a repayment obligation (debtor warrant) until the end of the term (31.12.2027), which is conditional on the achievement of certain economic performance parameters of all the clinics pooled in the fund. Planning revealed a high probability that these performance criteria will be reached, which is why accounting provisions require to set aside provisions for future liabilities.

	Actual results 2016	Forecast 2017	Updated as at 04.08.2017	Updated as at 21.11.2017	Actual results 2017 adjusted[1]	Actual results 2017	Forecast 2018
Sales growth in %							
Group	+4.5	+4.0 to +5.0	confirmed	n/a	+5.0	+5.0	+5.0 to +6.0
Post-acute segment	+6.1	+5.0	confirmed	n/a	+6.3	+6.3	+6.0 to +7.0
Acute segment	+1.9	+3.0 to +4.0	worse	n/a	+2.8	+2.8	+3.0 to +4.0
EBIT in millions of €							
Group	24	25 to 27	confirmed	5.5 to 7.5	26.7	6.6	26 to 28
EBIT margin in %							
Post-acute segment	5.3	5.0 to 6.0	confirmed	n/a	5.6	0.2	6.0 to 7.0
Acute segment	2.8	1.5 to 3.0	worse	n/a	1.0	1.0	1.0 to 2.0

[1] Adjusted by a provision (EUR 20.1 mill.) set aside due to a debtor warrant for rent reductions received

The amount of the provisions led to a downwards adjustment of the Group guidance.

Strong economic growth expected in 2018

In its monthly report for December 2017, Deutsche Bundesbank states that the German economy is showing a strong cyclical upturn. Rising exports and strong commercial investments led to healthy company growth, while private consumption and housing construction investments continued to benefit from the excellent labour market. Growth is not expected to slow down before 2019, when high capacity utilisation and labour shortages are anticipated to take their toll. The GDP forecast for 2018 is 2.5 %, while the GDP forecasts for 2019 and 2020 are 1.7 % and 1.5 %, respectively. Public finances are in good health, but Deutsche Bundesbank expects that additional burdens on the public budget will be decided after a new federal government has been formed, entailing a more expansive fiscal policy and the corresponding risks for economic growth.

In its annual report for 2018, the German government forecasts a 2.4 % increase in the price-adjusted gross domestic product in 2018 compared to 2017 (+2.2 %) and that the economic upturn will continue with the same momentum. The German government further expects unemployment to decrease in the course of 2018, taking the unemployment rate down to 5.3 %. Despite higher public consumption, the overall federal financing balance is supposed to remain positive in 2018.

However, the current positive economic outlook and the stable labour market give rise to the expectation that demand for medical services will not change in 2018 compared to the previous year.

New laws and regulations in the healthcare sector

The Federal Ministry of Health (Bundesgesundheitsministerium – BMG) is implementing several changes as at 1 January 2018. A new method for assessing the contributions of voluntary insured persons is to ensure as from 1 January 2018 that the public health insurance contributions of self-employed persons are based more strongly on their actual income. The new method for the assessment of contributions was adopted together with the Act on the Supply with Therapeutic Care and Devices (Heil- und Hilfsmittelversorgungsgesetz – HHVG).

Persons, who return to their homeland after the end of their employment and are therefore no longer subject to German social security law, can in future only be insured by the health insurance funds if the former member expressly declares that it wishes to join the statutory health insurance fund within a period of three months after the end of the employment and such member proves that it has a registered place of residence in Germany. At the same time, a new classification is introduced for seasonal workers. Employers must report seasonal workers to the health insurance funds to enable the latter to easily identify the affected members. The provisions were adopted together with the Act to Amend the Provisions on Blood and Tissue Preparations and to Amend further Regulations (Gesetz zur Fortschreibung der Vorschriften für Blut- und Gewebezubereitungen – BlGewVFG).

In 2018 the public health insurance and nursing care insurance funds are further expanding their activities in preventive and health-enhancing measures. A total amount of about EUR 552 mill. (EUR 7.65 per insured, of which EUR 0.31 for preventive measures benefiting the inhabitants of nursing care facilities) is provided for preventive and health-enhancing measures (pursuant to Section 20 of the German Social Security Code V (SGB) and Section 5 SGB XI). This corresponds to an increase over the previous year of some EUR 12 mill. The substitutional health insurance funds (the largest group of insurance providers) have earmarked nearly EUR 212.0 mill. for preventive and health-enhancing measures to benefit persons insured with them. The promotion of health-related self-help will also receive further support in 2018. The public health insurance funds have earmarked EUR 79.5 mill. for support groups, organisations and contact points for self-help offers (EUR 1.10 per insured person). This is EUR 2.4 mill. more (EUR 1.08 per insured person) than in 2017. The substitutional health insurance funds are the main financiers of these self-help measures (EUR 30.7 mill.).

Under certain circumstances, hospitals will as from 2018 be able to provide patients with psychiatric care in their homes. The new provisions stipulate that hospitals may commission medical service providers to perform part of the treatment, for instance if this is beneficial in terms of vicinity to the home or treatment continuity. This may refer to contracted physicians, psychiatric outpatient departments, or medical care centres. The legal basis for the new treatment at home (Act for Further Developing Care and Remuneration in connection with Psychiatric and Psychosomatic Services – PsychVVG) came into force in 2017. These services can be established by hospitals in the course of 2018. At present it is not yet foreseeable how many hospitals will offer such services.

The average additional contribution to the Statutory Health Insurance determined by the Federal Ministry of Health for 2018 is lowered to 1.0 % (previous year: 1.1 %). The amount of this additional contribution is determined every year on the basis of the difference between the income and the expenditure of the Statutory Health Insurance as forecast by the Schätzerkreis for the year to come.

MEDICLIN will continue to grow in 2018

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 2018.

As in 2017, 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 2018 to achieve a disproportionately low increase in raw materials and consumables used compared to Group sales growth. Due to new hires and higher wages, staff costs are expected to increase in the range of 6.0 % to 8.0 % in 2018.

In total, a (gross) sum of EUR 46.8 mill. was invested in 2017. EUR 9.5 mill. thereof pertains to acquisitions and revaluations, whereas 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 2018 MEDICLIN will continue to expand capacities in strongly growing areas and make targeted additions to the range of services. The Group plans capital expenditure of about EUR 40.0 mill.

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 Group's business performance in 2018 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 2018 the Management Board forecasts sales growth of 5.0 % to 6.0 % and a Group operating result (Group EBIT) in the range of EUR 26.0 mill. to EUR 28.0 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 6.0 % to 7.0 % sales growth and a segment EBIT between 6.0 % and 7.0 %. Sales in the acute segment are supposed to rise along with a moderate improvement in earnings. Sales growth is expected to range between 3.0 % and 4.0 % and the EBIT margin between 1.0 % and 2.0 %.

The good occupancy rates and the development of case numbers in January 2018 are indications of a good start into the 2018 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 a risk 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 addition to relevant legal risk management requirements, MEDICLIN sees its risk and opportunity management as a tool for optimising risk control. The approach is standardised across the Group and defined in MEDICLIN's risk management manual (version 3.0 as at May 2017). Since 2017 MEDICLIN has been using the risk management software copa.ris to help with the risk inventories. The software covers all steps required in the scope of risk management. The main aspects of every risk are documented and assessed in the risk management software by the respective risk owner. The risk inventory comprises all acute, rehabilitation and nursing care facilities, the service enterprises and medical care centres as well as the central MEDICLIN tasks and departments.

The annual risk inventory is performed by the auditing department.

The handling of 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.

In addition to providing a guideline for conducting the risk inventory, the risk management manual also illustrates the design of MEDICLIN's risk management system. It contains:

- a description of the legal framework and the objectives for establishing and further developing the risk management system,
- all the features and aspects of the risk management system that are specific to MEDICLIN, and
- a description of the current allocation of tasks and responsibilities in connection with the risk management process.

The risk management manual further names and describes MEDICLIN's main principles with respect to its risk policy.

In addition to the manual, the Group has a risk management guideline (version 3.0 as at May 2017) to help with implementing the risk inventory in the various parts of the Group, and a risk management report that details the results of the last risk inventory. This summary report is prepared once a year and adopted by the Management Board. Its main objectives are to provide information on potential risks within the Group, and to communicate and manage such risks.

The summary report contains the risks and opportunities identified and risk evaluations from a Group perspective in aggregate form. With this report, the Management Board of MEDICLIN fulfils its duties to inform the Supervisory Board and the shareholders about the Company's risks and opportunities. MEDICLIN thus sees its summary report on risk management as an important component of active corporate governance.

Further risk management instruments

The risk inventory as a central instrument of the risk management process is supplemented by an array of further instruments for risk identification and risk prevention. In the operational area these include in particular:

- In relation to patient-oriented risk management:
  - Systematic complaint management
  - Ongoing patient satisfaction polls
  - Software-supported platform for recording critical incidents (CIRS in cooperation with Assekuranz AG) in defined clinics
  - Group-wide data protection policy
- In relation to employee-oriented risk management:
  - Systematic implementation of vocational safety requirements (MAAS BGW[1]), and the related certification at MEDICLIN's facilities
  - Critical incident reporting system (CIRS)
  - Systematic employee surveys
  - Internally developed instruments for minimising risks
  - Group guidelines for handling medical devices
  - Disaster and evacuation planning/pandemic planning
  - Group guidelines for the prevention of legionella contamination
  - Systematic error management (in the framework of the internal QMS)
  - Group guidelines for collaboration with other partners in healthcare and in the industry
  - Uniform and process-oriented quality management system (QMS)
  - Internal controls of central core processes (ICS)
  - Reporting and benchmark systems in the operating business (e.g. half-yearly reports on central rehabilitation quality indicators, capacity utilisation reporting for rehabilitation therapists), reports how long it takes to issue discharge summaries, monitoring of external quality assurance data, etc.)

The central safety objectives for risk management concerning MEDICLIN's IT systems are:

- Safety of patients, users and third parties
- Effectiveness of medical data processing for curative measures
- Data and system security to prevent data/system confidentiality, availability and integrity from being compromised

In order to reach these objectives, MEDICLIN's IT infrastructure is designed to meet the criteria set forth in the IT-Grundschutz Catalogues of the Federal Office for Information Security (BSI). The following instruments, among others, are used to implement the objectives of minimising the number and impact degree of disturbances:

- Defining and implementing binding Group-wide IT standards. These are set forth in the "IT Standards for MEDICLIN AG Facilities" and the supplementing documents. The implementation requires the standardisation of working places, applications and processes.
- Concentration of services such as "Central Directory Service", "Archive" and "Financial Accounting" in a central computer centre that provides a high-quality, safe, cost-efficient and largely standardised IT infrastructure.

[1] 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)

- Centrally managed and controlled security updates of IT systems (patch management), central processes and policies for user management (directory service) and central access control for the entire network traffic in MEDICLIN's network (firewall protection).

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 2017 financial year did not reveal any risks threatening the 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 of more than 60 % and a financial impact of more than 10 % of an internally defined profit margin.

Corporate risks exist in the following areas:

- Environment and sector risks
  - Legal requirements and changes in legal or tax provisions
  - Changes in the competitive situation
  - Changes in the structure of referring physicians (dependency)
- Operating risks
  - Business and process risks
- Financial risks
  - Default, changes in interest rates and liquidity risks
  - Real estate risk
- Infrastructure risks
  - Personnel risks (shortage of skilled professionals)

ENVIRONMENT AND 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 this 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.

As health insurance funds merge and social security pension funds cooperate more closely, the dependency on individual coverage providers also becomes greater. Additionally, the regional market differentiation strategies of individual coverage providers (e.g. AOK) could lead to risks in connection with the minimum occupancy requirements in individual clinics. This also includes risks resulting from the decline of certain curative treatments at individual locations. Regarding the structure of referring physicians and coverage providers, MEDICLIN seeks to maintain a heterogeneous structure in order to limit the dependency on individual coverage providers.

OPERATING RISKS

Business risks and process risks result from the provision of services and the corresponding working procedures in the clinics. Business 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.

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).

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. The syndicated loan has a total volume of EUR 60.0 mill., consisting of a bullet loan for EUR 30.0 mill. and a revolving working capital loan for EUR 30.0 mill., EUR 9.0 mill. of which were utilised on 31 December 2017. In the 2017 financial year the first of two agreed renewal options was exercised and the original five-year term of the syndicated loan was extended 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 rents totalled EUR 44.2 mill. in the reporting year (previous year: EUR 43.4 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.

INFRASTRUCTURE RISKS

Infrastructure risks refer to labour market issues. The sector is still experiencing a shortage of qualified staff in the market for healthcare professionals. 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.

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 arise in different areas concerning the following topics:

- 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 at least 5.0 % p.a. through organic growth and to use appropriate cost structures to secure the earnings power in the long term. 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-oriented 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 2017 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 2018 financial year (forecast period) and that might lead to deviations in the sales and earnings performance are assessed as follows:

	Impact	Probability
Environment and sector risks		
Legal requirements and changes in legal or tax provisions	low	improbable
Changes in the competitive situation	medium	probable
Operating risks		
Business and process risks	low	improbable
Financial risks		
Default, changes in interest rates and liquidity risks	low	improbable
Real estate risk	low	improbable
Infrastructure risks		
Personnel risks (shortage of skilled professionals)	medium	probable

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 MEDICLIN AG's and the Group's results of operations, financial position and net assets in the context of financial accounting disclosure requirements.

Other disclosures

Disclosures pursuant to Section 315a (1) and Section 289a (1) 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 71 b German Stock Corporation Act – AktG). The Management Board is not aware of any contractual restrictions relating to the voting right or transfer of shares. A direct holding in MEDICLIN Aktiengesellschaft of more than 10 % is held by Asklepios Kliniken GmbH & Co. KGaA and indirect holdings are held by Asklepios Kliniken Management GmbH as the personally liable partner and Broermann Holding GmbH as the limited partner of Asklepios Kliniken GmbH & Co. KGaA. ERGO Versicherungsgruppe AG (ERGO) and DKV Deutsche Krankenversicherung AG (DKV) also each hold direct holdings of more than 10 %. Another indirect holding is held by Münchener Rückversicherungs-Gesellschaft AG via its subsidiaries ERGO and DKV. 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. No resolution to authorise the buy-back of MEDICLIN shares was submitted to the Annual General Meeting in the 2017 financial year.
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 289f HGB

This declaration contains all the corporate governance disclosures required as per Section 289f 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 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 2017 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

The balance sheet total as shown in the balance sheet structured according to maturity is EUR 2.9 mill. higher than on the previous year's reporting date. Non-current assets declined by EUR 0.7 mill. due to the scheduled repayment of loans to affiliated companies. Current assets, in turn, rose by EUR 3.6 mill. They pertain primarily to receivables from affiliated companies (EUR +9.0 mill.) and cash and cash equivalents (EUR –5.2 mill.).

The result took equity up EUR 8.2 mill. compared to the previous year's reporting date. On the liabilities side of the balance sheet, deferred tax liabilities decreased by EUR 4.9 mill., mainly due to the netting of deferred tax assets in the amount of EUR 3.1 mill. recognised in connection with the provision for additional rent payments.

Balance sheet structure

In millions of €	31.12.2017	In % of balance sheet total	31.12.2016	In % of balance sheet total
Assets				
Non-current assets	328.5	89.9	329.2	90.8
Current assets	37.1	10.1	33.5	9.2
	365.6	**100.0**	**362.7**	**100.0**
Equity and liabilities				
Equity	303.8	83.1	295.6	81.5
Non-current liabilities	45.9	12.6	50.9	14.0
Current liabilities	15.9	4.3	16.2	4.5
	365.6	**100.0**	**362.7**	**100.0**

Development of results of operation

MEDICLIN AG does not record sales revenues from operating business. Since the 2016 financial year MEDICLIN AG charges part of its expenses to the subsidiaries in the form of a Group contribution.

Sales

In thousands of €	2017	2016
Sales from Group contribution	2,139	2,063
Sales from management services	174	146
Other sales	26	27
	2,339	**2,236**

Other operating income

In thousands of €	2017	2016
Income from the release of provisions	200	33
Other income	11	8
	211	**41**

Other operating expenses

In thousands of €	2017	2016
Auditing and consultancy costs	1,211	1,245
Other administrative expenses	406	375
Thereof remuneration of the Supervisory Board	238	205
Thereof costs of the Annual General Meeting	85	85
Thereof incidental costs of monetary transactions	83	83
Advertising and public relations	95	109
Insurance costs	102	106
Other expenses	335	235
	2,149	**2,070**

The financial result also includes amounts from an advance distribution of 2017 net profit and from the revenue reserve of a subsidiary in the amount of EUR 7.0 mill. (previous year: EUR 10.0 mill.). In addition, it also includes interest income from affiliated companies in the amount of EUR 1.3 mill. (previous year: EUR 1.3 mill.). The interest expenses amounting to EUR 0.7 mill. refer primarily to the syndicated loan (EUR 0.4 mill.; previous year: EUR 0.5 mill.).

The number of employees was one on annual average (previous year: one employee). 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. Due to higher reversals of provisions, sales and net profit were slightly higher than last year's forecast.

A letter of comfort was issued on behalf of the subsidiaries in view of the exemptions set forth in Section 264 (3) German Commercial Code (HGB). It is not expected that this letter of comfort will be drawn on.

Outlook

As in the previous years, the income structure of MEDICLIN AG in 2018 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 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 2017 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 Board 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) 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 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 actual 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 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 1.8 mill. in the 2017 financial year (previous year: EUR 1.9 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 shall only receive 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 2017 and 2016 no performance-based (variable) remuneration was paid out.

The Supervisory Board remuneration amounted to a total of EUR 175 thou. in the 2017 financial year (previous year: EUR 168 thou.).

In the 2017 financial year, as in 2016, there were no loans to members of the Supervisory Board.

MEDICLIN Aktiengesellschaft

Offenburg, 15 March 2018

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 2017 financial year

CONTENTS

Please click here to download the Annual Financial Statements of MEDICLIN Aktiengesellschaft (German version)
www.mediclin.de/jahresabschlussag2017

Consolidated balance sheet as of 31 December 2017

ASSETS

	Appendix	31.12.2017 in €	Previous year in thou. of €
NON-CURRENT ASSETS			
Goodwill and other intangible assets	(1)		
Concessions, licences		3,592,693	2,103
Goodwill		48,830,073	48,574
Payments on account		2,484,785	1,500
		54,907,551	**52,177**
Property, plant and equipment	(2)		
Land, land rights and buildings including buildings on third-party land		112,883,545	106,217
Technical equipment and machines		12,710,813	12,069
Operating and office equipment		39,125,676	38,527
Payments on account and assets under construction		12,786,089	4,798
		177,506,123	**161,611**
Financial assets	(3)		
Investment in stock of subsidiaries		64,600	65
Reinsurance cover		859,803	1,171
Other financial investments		2,056	2
		926,459	**1,238**
Deferred tax assets	(4)	**6,416,040**	**4,303**
		239,756,173	**219,329**
CURRENT ASSETS			
Inventories	(5)	**7,294,541**	**6,270**
Trade receivables	(6)	**84,003,387**	**71,138**
Current income tax claims		**5**	**75**
Other financial assets			
Receivables pursuant to hospital financing law	(7)	3,788,756	3,362
Other current financial assets	(8)	5,535,188	4,006
		9,323,944	**7,368**
Other assets	(9)	**1,341,132**	**1,235**
Cash and cash equivalents	(10)	**26,907,218**	**41,648**
		128,870,227	**127,734**
		368,626,400	**347,063**

EQUITY AND LIABILITIES

	Appendix	31.12.2017 in €	Previous year in thou. of €
EQUITY			
Shares MEDICLIN Group			
Subscribed capital	(11)	47,500,000	47,500
Capital reserve	(12)	129,391,829	129,392
Revenue reserve	(13)	−22,440,157	−22,172
Consolidated balance sheet result	(14)	31,079,507	27,172
		185,531,179	**181,892**
Non-controlling interests	(15)	**−270,751**	**−328**
		185,260,428	**181,564**
NON-CURRENT LIABILITIES			
Financial liabilities			
Liabilities to banks	(16)	37,355,940	38,521
		37,355,940	**38,521**
Liabilities from finance leases	(17)	**97,230**	**6,508**
Pensions and similar commitments	(18)	**55,236,955**	**55,147**
Other provisions	(19)	**22,689,210**	**3,086**
Other financial liabilities	(20)	**381,581**	**515**
Other payables	(21)	**2,648,304**	**2,590**
		118,409,220	**106,367**
CURRENT LIABILITIES			
Trade payables		**13,716,846**	**12,993**
Financial liabilities			
Liabilities to banks	(22)	10,134,684	10,276
		10,134,684	**10,276**
Liabilities from finance leases	(23)	**6,357,676**	**294**
Other provisions	(24)	**5,982,879**	**5,525**
Current income tax liabilities	(25)	**139,368**	**2,697**
Other financial liabilities			
Liabilities pursuant to hospital financing law	(26)	1,869,820	5,031
Other liabilities	(27)	6,132,291	4,123
		8,002,111	**9,154**
Other payables	(28)	20,623,188	18,193
		64,956,752	**59,132**
		368,626,400	**347,063**

Consolidated profit and loss account

for the financial year from 1 January to 31 December 2017

	Appendix	Jan.–Dec. 2017 in €	Previous year in thou. of €
Sales	(29)	609,083,168	580,344
Other operating income	(30)	17,325,894	9,105
Total operating performance		**626,409,062**	**589,449**
Raw materials and consumables used	(31)		
a) Cost of raw materials and supplies		–64,539,519	–63,161
b) Cost of purchased services		–48,070,012	–45,514
		–112,609,531	**–108,675**
Staff costs	(32)		
a) Wages and salaries		–308,180,068	–284,780
b) Social security, pension and retirement		–54,884,989	–49,968
		–363,065,057	**–334,748**
Other operating expenses	(33)	–123,728,037	–102,832
Result before interest, taxes, depreciation and amortisation / EBITDA		**27,006,437**	**43,194**
Depreciation and amortisation	(34)	–20,390,586	–19,171
Operating result / EBIT		**6,615,851**	**24,023**
Financial result	(35)		
a) Income from participations		0	82
b) Interest and similar income		202,203	31
c) Interest and similar expenses		–2,562,304	–3,236
		–2,360,101	**–3,123**
Result before tax		**4,255,750**	**20,900**
Taxes on income	(36)	–295,405	–4,299
Total consolidated result		**3,960,345**	**16,601**
Thereof attributable to shareholders of MEDICLIN AG		3,907,950	16,546
Thereof attributable to the non-controlling interests		52,395	55
Total consolidated result attributable to shareholders of MEDICLIN AG per share	(37)		
Undiluted in €		0.08	0.35
Diluted in €		0.08	0.35

Consolidated statement of comprehensive income

for the financial year from 1 January to 31 December 2017

	Appendix	Jan.–Dec. 2017 in €	Previous year in thou. of €
Total consolidated result		**3,960,345**	**16,601**
Other comprehensive income	(38)		
Revaluation from defined benefit plans and similar obligations		–313,181	–4,962
Taxes on income		49,561	785
Additions to value adjustments that are not reconciled to the total consolidated result		**–263,620**	**–4,177**
Thereof attributable to shareholders of MEDICLIN AG		–268,506	–4,143
Thereof attributable to non-controlling interests		4,886	–34
Additions to value adjustments that are reconciled to the total consolidated result		**0**	**0**
Group comprehensive income		**3,696,725**	**12,424**
Thereof attributable to shareholders of MEDICLIN AG		3,639,444	12,403
Thereof attributable to the non-controlling interests		57,281	21

Consolidated cash flow statement

	Jan.–Dec. 2017 in €	Previous year in thou. of €
Total consolidated result	**3,960,345**	**16,601**
Result of finance activities	2,360,101	3,123
Result of income taxes	295,405	4,299
Operating result (EBIT)	**6,615,851**	**24,023**
Depreciation on fixed asset items	20,390,586	19,171
Result before interest, taxes, depreciation and amortisation / EBITDA	**27,006,437**	**43,194**
Change in deferred taxes	–3,154,046	–592
Change in non-current provisions	18,509,386	2,772
Change in current provisions	447,363	304
Result from the disposal of fixed asset items	–141,161	–57
Result from other non-cash items	–6,048,759	–4,177
Changes in non-current income tax claims	126	71
Changes in current income tax claims	74,813	5
Changes in other non-current financial assets	0	700
Changes in other current assets	–15,204,336	–4,965
Changes in other non-current liabilities	26,673	118
Changes in other current liabilities	3,508,946	–2,896
Payments received from interest and participations	199,974	110
Income taxes paid	–5,882,617	–4,684
Cash flow from operating activities	**19,342,799**	**29,903**
Payments received from the disposal of fixed assets	**1,169,468**	**515**
From the disposal of property, plant and equipment	1,169,468	515
Payments received from investment subsidies	**6,267,185**	**7,736**
Cash used for investments	**–38,462,152**	**–26,156**
from company acquisition less cash and cash equivalents acquired	–2,719,175	0
In intangible assets	–4,414,742	–2,485
In property, plant and equipment	–31,306,796	–23,669
In financial assets	–21,439	–2
Cash flow from investing activities	**–31,025,499**	**–17,905**
New financial liabilities	0	39,000
Repayment of financial liabilities	–1,816,412	–37,620
Interest paid	–1,241,230	–1,262
Cash flow from financing activities	**–3,057,642**	**118**
Cash flow for the period	**–14,740,342**	**12,116**
Cash and cash equivalents at the beginning of the period	41,647,560	29,532
Cash and cash equivalents at the end of the period	**26,907,218**	**41,648**

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 01.01.2016	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**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Shares MEDICLIN Group	Non-controlling interests	Total equity
As of 01.01.2017	47,500,000	129,391,829	−22,171,651	27,171,557	181,891,735	−328,032	181,563,703
Total consolidated result	–	–	–	3,907,950	3,907,950	52,395	3,960,345
Other comprehensive income	–	–	−268,506	–	−268,506	4,886	−263,620
Group comprehensive income	**–**	**–**	**−268,506**	**3,907,950**	**3,639,444**	**57,281**	**3,696,725**
As of 31.12.2017	**47,500,000**	**129,391,829**	**−22,440,157**	**31,079,507**	**185,531,179**	**−270,751**	**185,260,428**

Notes

Basic information

General

MEDICLIN Aktiengesellschaft (MEDICLIN AG) is active as a nationwide hospital operator. With 36 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 8,300 beds. The clinics are divided into acute-care hospitals for basic, standard and specialised care, as well as specialist clinics for medical rehabilitation, some of which also offer acute medical 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 Broermann Holding GmbH, Königstein im Taunus (previously 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 2017 financial year. On 15 March 2018 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 consolidated management report are published in the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements as of 31 December 2017 were prepared in accordance with Section 315 e (1) of the German Commercial Code (HGB), pursuant to the regulations of the International Financial Reporting Standards (IFRSs), 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 adopted 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 international standards

The following amended international standards were applicable for the first time in the period under review. They were published in the Official Journals of the EU of 6 November 2017 and 7 February 2018 and must be applied retrospectively for periods beginning on or after 1 January 2017.

Standard	Adopted into EU law by Commission Regulation
Amendments to IAS 12 "Income Taxes; Recognition of Deferred Tax Assets for Unrealised Losses"	(EU) No. 2017/1989 of 6 November 2017
Amendments to IAS 7 "Statement of Cash Flows; Disclosure Initiative"	(EU) No. 2017/1990 of 6 November 2017
Amendments to IFRS 12 "Disclosure of Interests in Other Entities"	(EU) No. 2018/182 of 7 February 2018

Commission Regulation (EU) No. 2017/1989 of 6 November 2017 covers amendments to **IAS 12 "Income Taxes"** published by the International Accounting Standards Board (IASB) on 19 January 2016. The amendments refer to the recognition of deferred tax assets for unrealised losses. The amendments clarify, in particular, several issues regarding the recognition of deferred tax assets for unrealised losses resulting from fair value adjustments to debt instruments and are recognised in other income.

Commission Regulation (EU) No. 2017/1990 of 6 November 2017 refers to the amendments to **IAS 7 "Statement of Cash Flows"** published by the International Accounting Standards Board (IASB) on 29 January 2016. 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,
- changes in fair values and
- other changes.

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. These amendments have no material effects on the consolidated financial statements of MediClin.

Commission Regulation (EU) No. 2018/182 of 7 February 2018 covers the Annual Improvements to IFRSs 2014–2016 Cycle published by the International Accounting Standards Board (IASB) on 8 December 2016. The amendment to IFRS 12 "Disclosure of Interests in Other Entities" is to clarify that the disclosure requirements in the standard, except for those in paragraphs B10–B16 of IFRS 12, also apply to interests to which IFRS 5 applies. These amendments will have no material effects on the consolidated financial statements of MediClin.

Other standards and interpretations published by the EU Commission, adopted into EU law and applicable in the future

Standard	Adopted into EU law by Commission Regulation	Must be applied as from
IFRS 9 "Financial Instruments"	Commission Regulation (EU) No. 2016/2067	01.01.2018
IFRS 15 "Revenue from Contracts with Customers"	Commission Regulation (EU) No. 2016/1905	01.01.2018
IFRS 16 "Leases"	Commission Regulation (EU) No. 2017/1986	01.01.2019
Amendments to IFRS 15 "Revenue from Contracts with Customers"	Commission Regulation (EU) No. 2017/1987	01.01.2018
Amendments to IFRS 4 "Insurance Contracts"	Commission Regulation (EU) No. 2017/1988	01.01.2018
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Commission Regulation (EU) No. 2018/182	01.01.2018
Amendments to IAS 28 "Investments in Associates and Joint Ventures"	Commission Regulation (EU) No. 2018/182	01.01.2018

Commission Regulation (EU) No. 2017/1986 of 31 October 2017 covers International Financial Reporting Standard **(IFRS) 16 "Leases"** published by the International Accounting Standards Board (IASB) on 13 January 2016. The adoption of IFRS 16 requires amendments to the following standards or interpretations of standards: IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13, IFRS 15, International Accounting Standard (IAS) 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41, Interpretations of the International Financial Reporting Interpret-ations Committee (IFRIC) 1, IFRIC 12, Interpretations of the Standing Interpretations Committee (SIC) 29 and SIC 32.

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 sheet as lease liability with corresponding right-of-use asset. 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, 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 52.3 mill. per year, nearly EUR 44.2 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 a corresponding effect on the financial position and net assets and thus 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 intensified 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. At MediClin, IFRS 16 will be first adopted in 2019, and MediClin will use the modified retrospective approach when applying the new lease requirements.

In May 2014 the IASB and the Financial Accounting Standards Board (FASB) published their converged IFRS 15 accounting standard on "Revenue Recognition". IFRS 15 was adopted into EU law on 22 September 2016 and must first be applied for financial years beginning on or after 1 January 2018. Premature adoption is permitted. The standard must be applied using either a fully retrospective approach or a modified retrospective approach.

The approaches for revenue recognition vary significantly between the different sectors. The specific characteristics of the respective business model (B2B or B2C) must be accounted for within the different sectors, but ultimately the specific business model of the company decides how revenue is recognised.

Core principle:

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 (IFRS 15.2).

This core principle is delivered in a five-step model framework (IFRS 15.IN7):

1. Identification of the contract(s) with a customer
2. Identification of the separate performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the individual performance obligations in the contract
5. Revenue recognition when a performance obligation is satisfied

Revenue recognition is based mainly on a comparison of performance and consideration under a contract **(asset-liability approach)**: a performance rendered creates an asset, whereas consideration received creates a liability. A performance is deemed to have been rendered when control over an asset passes to the customer. This point in time or time period may (but does not have to) coincide with the time the risks and rewards related to such assets are passed. Treatment contracts between a hospital or rehabilitation facility and patients or their health insurance funds are classified as service contracts pursuant to Section 630a et seqq. of the German Civil Code (BGB). Irrespective of who will bear future payments, the patient is generally regarded as the customer. The scope of performance obligations of hospital treatments is defined primarily by legal provisions. The prices to be charged to coverage providers are governed by numerous laws and regulations. The amount of the daily hospital rate in the field of rehabilitation is agreed separately for each facility between the (leading) rehabilitation coverage provider and the operator of the facility. IFRS 15 does not lead to any changes in the recognition and classification of hospital and rehabilitation services.

The patient receives and utilises the benefit at the time the performance is rendered. As such, control is passed, and revenue is recognised over time. Revenue is recognised period-based as the performance is rendered in accordance with the progress towards satisfaction of the performance obligation.

Corrections with regard to revenue, for instance following a review by the German Health Insurance Medical Service, are already performed on the basis of various parameters.

Furthermore additional disclosures in MEDICLIN's notes to the consolidated financial statements are required. The objective of IFRS 15 is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The IASB granted entities preparing financial statements a certain amount of discretion when determining the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements.

Commission Regulation (EU) No. 2017/1987 of 31 October 2017 covers amendments to International Financial Reporting Standard **(IFRS) 15 "Revenue from Contracts with Customers"** published by the International Accounting Standards Board (IASB) on 12 April 2016. The amendments serve to clarify several provisions of IFRS 15 and to simplify the transition to the new standard.

The clarifications refer to the following issues:

- identification of the performance obligations in a contract,
- assessment whether a company is the principal or agent under a business transaction, and
- assessment whether revenue from licences 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, the financial position or results of operation. MediClin will first adopt the changes from 1 January 2018 and will apply the cumulative effect method.

IFRS 9 "Financial Instruments" was adopted into EU law by **Commission Regulation (EU) No. 2016/2067** of 22 November 2016 and published in the Official Journal of 29 November 2016. On 24 July 2014 the IASB had 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. For MediClin this means that trade receivables must generally be allocated to the business model "Hold to collect". They are thus recognised at amortised cost which, due to the short terms, equals the nominal value. Given the short terms (< 12 months), the expected loss in the next twelve months equals the residual term of the receivable. As such, transfers from level 1 to level 2 are not relevant. Pursuant to IFRS 9 an impairment needs to be recognised as soon as a receivable is booked. MediClin already applies this approach, and also allocates bank balances to the "Hold to collect" business model. This does not change if the interest rate is zero percent or negative and the debtor is obliged to pay a fee. In principle, the general impairment model is also applied to bank balances. At MediClin, the likelihood of impairment is considered very low as bank balances can be called at any time and the creditworthiness of banking counterparties is monitored. The market value of financial liabilities (in particular liabilities to banks) depends strongly on the creditworthiness of the debtor. In the past, a deterioration in the debtor's creditworthiness led to gains from the financial liabilities' decreasing market value that were recognised through profit or loss. Improvements in the debtor's creditworthiness, in turn, led to losses due to rising market values. Under IFRS 9 future fluctuations in market value based on an entity's own creditworthiness are recognised directly in equity. Only effects from interest rate fluctuations are recognised through profit or loss. Given the good business performance, MediClin does not expect any effects in this respect. In general, MediClin does not expect the introduction of IFRS 9 to have any significant effects on the consolidated financial statements. MediClin will first adopt the standard in the 2018 financial year.

Commission Regulation (EU) No. 2017/1988 of 31 October 2017 covers amendments to the existing Standard **IFRS 4 "Insurance Contracts"** published by the International Accounting Standards Board (IASB) on 12 September 2016. 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 volatilities in results 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. These amendments are of no relevance to MediClin.

Commission Regulation (EU) No. 2018/182 of 7 February 2018 covers the Annual Improvements to IFRSs 2014–2016 Cycle published by the International Accounting Standards Board (IASB) on 8 December 2016. The amendments that are applicable from 1 January 2018 refer to the following:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": deletion of the remaining short-term exemptions in IFRS 1 Appendix E (IFRS 1.E3-E7) for first-time adopters.

- 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 are of no relevance to MediClin.

Amended standards and interpretations that were published by the IASB in 2017, but are not yet binding

In 2017 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

Standard	Published on
IFRS 17 "Insurance Contracts"	18.05.2017
IFRIC 23 "Uncertainty over Income Tax Treatments"	07.06.2017
IAS 28 "Investments in Associates and Joint Ventures"	12.10.2017
IFRS 9 Financial Instruments "Prepayment Features with Negative Compensation"	12.10.2017
"Annual Improvements to IFRSs 2015-2017 Cycle"	12.12.2017

On 18 May 2017 the International Accounting Standards Board (IASB) published **IFRS 17 "Insurance Contracts"**. The standard deals with the recognition of assets and liabilities resulting from insurance contracts in IFRS financial statements. IFRS 17 applies to insurance contracts and reinsurance contracts issued as well as any reinsurance contracts held. The other assets and liabilities of insurers are subject to the relevant standards to be applied under IASs/IFRSs. IFRS 17 aims at making the financial statements of insurers more transparent and comparable. IFRS 17 does not apply to the accounting of the insured parties. The standard must be applied for the first time for financial years beginning on or after 1 January 2021. The standard is of no relevance to MediClin.

On 7 June 2017 the International Financial Reporting Interpretations Committee (IFRIC) published **IFRIC 23 "Uncertainty over Income Tax Treatments"**. The treatment of certain circumstances and transactions under tax law may depend on the future recognition by the fiscal authorities or court. IAS 12 "Income Taxes" governs the accounting of actual and deferred taxes. IFRIC 23 supplements the provisions in IAS 12, clarifying how to treat uncertainties over the income tax treatment of circumstances and transaction. IFRIC 23 must be first applied for financial years beginning on or after 1 January 2019 Premature adoption is admissible. IFRIC 23 will have no material effects on the consolidated financial statements of MediClin.

On 12 October 2017 the IASB published amendments to **IAS 28 "Investments in Associates and Joint Ventures"** as well as amendments to **IFRS 9 Financial Instruments "Prepayment Features with Negative Compensation"**. The amendments to IAS 28 clarify that IFRS 9 must be applied to long-term interests in associates or joint ventures to which the equity method is not applied. The amendments become effective retrospectively for reporting periods beginning on or after 1 January 2019. Premature application is permitted. The amendments are currently of no relevance to MediClin. On 7 November 2017 the International Accounting Standards Board (IASB) published editorial corrections that all relate to the amendments to IAS 28 published in October 2017. Editorial corrections do not change the meaning or application of pronouncements, but instead correct inadvertent errors. The proposed amendments to IFRS 9 refer to certain adjustments to the relevant assessment criteria for classifying financial assets. Under certain circumstances, financial assets that have prepayment features with negative compensation may be measured at amortised cost or fair value through other comprehensive income rather than being measured at fair value through profit or loss. These amendments to IAS 28 and IFRS 9 will have no material effect on the consolidated financial statements of MediClin.

On 12 December 2017 the IASB published the **"Annual Improvements to IFRSs 2015–2017 Cycle"**. The "Annual Improvements to IFRSs (2015–2017)" entail amendments to four IFRSs. The amendments were as follows:

- IFRS 3 "Business Combinations"
  When an entity obtains control of a business that is a joint operation, the principles for step acquisitions must be applied. The interests in that business previously held by the acquirer therefore must be remeasured (IFRS 3.42A)
- IFRS 11 "Joint Arrangements"
  When an entity obtains joint control of a business that is a joint operation, previously held interests in that business don't have to be remeasured (IFRS 11.B33CA)
- IAS 12 "Income Taxes"
  All income tax consequences of dividends must be recognised in the same way as the income that gave rise to the dividends. This means they must be recognised in profit or loss, unless the dividends are based on income that is recognised directly in comprehensive income or other equity (IAS 12.57A)
- IAS 23 "Borrowing Costs"
  If an entity borrows funds for acquiring qualifying assets, the cost of borrowings taken out specifically in connection with acquiring qualifying assets are not considered when calculating the capitalisation rate on borrowings until the related asset is ready for its intended use or sale (IAS 23.14)

The must be applied as from 1 January 2019. Premature adoption is permitted. These amendments will have no material effect on the consolidated financial statements of MediClin.

New national standards applicable to MediClin

The German Accounting Amendment Standard 8 (DRÄS 8) was adopted by the German Accounting Standards Committee (Deutsches Rechnungslegungs Standards Committee – DRSC) on 22 September 2017 and published by the German Federal Ministry of Justice and Consumer Protection in the Federal Law Gazette (Bundesgesetzblatt) on 4 December 2017. DRÄS 8 amends the German accounting standard DRS 20 "Group Management Report" to account for the new German Act for Strengthening the Disclosure of Non-Financial Company Information in Management and Group Management Reports (Gesetz zur Stärkung der nichtfinanziellen Berichterstattung der Unternehmen in ihren Lage- und Konzernlageberichten – CSR-RUG) that came into force on 19 April 2017.

The main objectives of CSR-RUG are to include a non-financial statement in group management reports and to include disclosures on the companies' diversity policy in corporate governance declarations. Large company groups with an annual average of more than 500 employees and a capital market-oriented parent company as well as banks and insurance companies must include a non-financial statement in their group management reports, containing information relating to at least the five aspects of environmental matters, social and employee-related matters, respect for human rights and anti-corruption and bribery matters. The statement must contain disclosures that help to understand the business development, the results and the situation of the group as well as the consequences of the group's business activities with respect to those matters.

Large listed parent companies and large parent companies that have issued securities other than shares on an organised market and whose shares are traded via a multilateral trading system must further expand their corporate governance declaration by information on the diversity policy. Such reporting may rely on recognised national, Union-based or international frameworks, while covering the minimum contents defined by the Act. The report must also specify which framework the company relied on or provide an explanation if no framework was relied on. The provisions of the Act must be applied primarily to consolidated management reports for financial years beginning after 31 December 2016.

MediClin observed the provisions when preparing the Annual Report for the 2017 financial year and included the required disclosures in its management report.

Directive published in 2017 by the European Parliament and the Council to be adopted into German law

On 20 May 2017 the Directive amending the Shareholder Rights Directive (Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement) was published in the Official Journal of the EU. The Directive establishes requirements in relation to the exercise of certain shareholder rights attached to voting shares in relation to general meetings of companies which have their registered office in a member state and the shares of which are admitted to trading on a regulated market situated or operating within a member state.

The main subject matters of the Amending Directive are:

- Better shareholder oversight over the remuneration policy (say-on-pay principle): it prescribes that the remuneration policy for members of the company management (executive and supervisory board) shall be submitted to a vote by the general meeting at every material change and in any case every four years. This vote shall generally be binding. In addition, it states that the annual general meeting should be granted the right to hold an advisory vote on the company's remuneration report yearly.
- Stricter control of related parties transactions: material transactions with related parties are to be approved by the general meeting or by the supervisory body of the company.
- Stricter transparency requirements for institutional investors, asset managers and proxy advisors: institutional investors and asset managers should disclose their engagement policy once per year (including their monitoring of investees and exercise of voting rights or other shareholder rights). Proxy advisors shall base their activities on a code of conduct and disclose certain principles underlying their activities (such as methods and main sources of information).
- More shareholding transparency: companies shall be authorised to identify their shareholders. Financial intermediaries should be required, upon the request of the company, to communicate to the company the information regarding shareholder identity (including name and contact details).

The member states are required to implement this Directive by 10 June 2019.

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, 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 from the company 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, Offenburg, 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 Broermann Holding GmbH, Königstein im Taunus, 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 risks of the investment's fluctuations in commercial success, has the rights to such successes 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, i.e. 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, which is being liquidated. 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 12 thou. in 2016 (2015: EUR 66 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 2016 amounted to EUR 9 thou., while the profits attributable to MediClin in 2015 totalled EUR 5 thou. The prorated equity of MediClin that was carried forward amounted to EUR –48 thou. as of 31 December 2016 (31.12.2015: EUR –57 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. MediClin exercised its purchase right as agreed in the lease agreement and will buy back the land and buildings of Rehabilitationszentrum Gernsbach / Schwarzwald GmbH & Co. KG at the agreed residual book value of approximately EUR 6.2 mill. in November 2018.

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. The table also shows to what extent the respective companies have refrained from preparing a management report/notes and from disclosing their annual financial statements pursuant to the options provided in Section 264 (3) German Commercial Code (HGB) and Section 264b HGB. Also listed in a table are the 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 more detail 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

Change of company name

The shareholder meeting on 4 September 2017 resolved to change the name of MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig with registered office in Essen into MediClin Fachklinik Rhein/Ruhr Therapie & Pflege GmbH.

Liquidation

The shareholder meeting on 15 March 2017, convened by the only shareholder Fachklinik Rhein/Ruhr für Herz/Kreislauf und Bewegungssystem GmbH & Co. KG authorised to participate and to vote in such meeting, resolved to liquidate the company MediServ GmbH, Essen, as at 31 May 2017 (end of day). The liquidation was published in the German Federal Gazette (Bundesanzeiger) of 21 August 2017.

Corporate acquisitions

MediClin acquired all shares in Fachklinik Zwieselberg GmbH in Freudenstadt, a clinic specialised in addictive disorders. The acquisition took effect on 1 May 2017. The specialist clinic has 38 therapy places and 20 employees. This takeover supplements MediClin’s regional offering with a specialist clinic for treating specific addictions. The acquisition was recognised using the purchase method of accounting. Pursuant to IFRS 3.53, the costs associated with the acquisitions were booked as expenses. The acquisition price also includes the company results from 1 January 2017 until 1 May 2017.

From May to December 2017, the specialist clinic generated total revenue of about EUR 550 thou. and a result close to break-even. If the clinic had been consolidated from 1 January 2018, it would have generated total revenue of EUR 848 thou. and a result close to break-even. The clinic is allocated to the post-acute segment. The fair values of the identifiable assets and liabilities break down as follows at the time of acquisition:

In thousands of €	01.05.2017
Acquired assets	
Property, plant and equipment	26
Inventories	3
Trade receivables	63
Cash and cash equivalents	31
Other assets	7
	130
Acquired liabilities	
Provisions	26
Trade payables	8
Other liabilities	7
	41
Net assets	89
plus goodwill	61
Acquisition price	150
less acquired cash and cash equivalents	31
Outflow of cash and cash equivalents from the transaction	119

The assets and liabilities were acquired at their carrying amount. No adjustments were required. Goodwill from the acquisition primarily represents opportunities for generating revenue as well as the expected cost savings from synergy effects.

Another acquisition became effective on 1 May 2017, i.e. the acquisition of **AWO Rehabilitationsklinik Bad Münder**, the facilities of which are located directly next to the MediClin Deister Weser Kliniken and the MediClin Seniorenresidenz Deister Weser retirement home. MediClin thus acquired a modern clinic covering the specialist fields of oncology (head and neck cancer) as well as urology and nephrology. The clinic will in future be run as an independent operating location under the name of "Haus Deister". It has 140 beds and currently 53 employees. The acquisition benefits both facilities at the Bad Münder site. The Company expects savings from shared services (e.g. site management and energy supply) as well as synergy effects resulting from the transfer of resources and know-how. The acquisition was effected by way of an asset deal. MediClin Betriebs GmbH, Offenburg, acquired all the intangible assets and movable property, plant and equipment and took over operations. The clinic is managed as a separate operating location. The real estate required for operational purposes was acquired by MediClin GmbH & Co. KG, Offenburg, who lets them to MediClin Betriebs GmbH. No receivables and liabilities were acquired except for vacations, flexitime and anniversary provisions relating to staff taken over with the clinic. Between May and December 2017 Haus Deister generated revenue amounting to about EUR 3.1 mill. and a small loss of EUR 0.2 mill. Income and expenses are included in the total consolidated result. The clinic is allocated to the post-acute segment.

A valuation report was commissioned in order to determine the fair value of the company premises, which had been completed on the reporting date. The fair values of the identifiable assets and liabilities break down as follows at the time of acquisition:

In thousands of €	Carrying amount at the time of initial consolidation	Adjustment amount	Fair value
Acquired assets			
Intangible assets	6	–1	5
Land	226	1,114	1,340
Buildings and outdoor facilities	9,413	–1,453	7,960
Operating and office equipment	116	–21	95
Inventories	9	0	9
	9,770	**–361**	**9,409**
Acquired liabilities			
Provisions (vacations/flexitime/anniversaries)	–105		–105
Net assets	**9,665**	**–361**	**9,304**
Deferred tax liabilities			–1,041
less badwill			–5,663
Acquisition price = outflow of cash and cash equivalents			**2,600**

Intangible assets refer to software. The fair values of land, buildings and outdoor facilities were measured on the basis of a recent valuation report. The allocation of fair value to land, buildings and outdoor facilities was performed in line with the figures in the valuation report. The incidental acquisition costs in the amount of EUR 0.2 mill. (land transfer tax, notary and other legal consultancy costs) were recognised as expenses.

Operating and office equipment is recognised at acquisition costs. Most of the inventories relate to expendable medical items. Provisions refer to vacations, flexitime and anniversary provisions for staff taken over with the clinic. The calculation of deferred tax liabilities is based on a tax rate of 15.825 %.

Pursuant to IFRS 3.34, badwill resulting from the acquisition was recognised as income in the profit and loss account in the “Other operating income” item. AWO Rehabilitationsklinik Bad Münder, a former operating location of AWO Gesundheitsdienste gGmbH, Hanover, entered into insolvency proceedings under its own management on 1 August 2015.

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		Section 264 (3) HGB and/or Section 264b HGB
	31.12.2017	31.12.2016	
MEDICLIN Aktiengesellschaft, Offenburg			
Cortex Software GmbH, Offenburg	100.000[1]	100.000[1]	yes
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	100.000	100.000	yes
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	100.000[2]	100.000[2]	yes
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs-Gesellschaft mit beschränkter Haftung, Essen	100.000[2]	100.000[2]	yes
Fachklinik Zwieselberg GmbH, Freudenstadt	100.000[2]	100.000[2]	yes
Herzzentrum Lahr/Baden GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]	yes
KB Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Essen	100.000	100.000	yes
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Essen	100.000	100.000	yes
Kraichgau-Klinik Aktiengesellschaft, Bad Rappenau	94.485	94.485	no
Kraichgau-Klinik Bad Rappenau GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]	yes
MC Kliniken Geschäftsführungs-GmbH, Offenburg	94.485[3]	94.485[3]	no
MC Service GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin à la Carte GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin Betriebs GmbH, Offenburg (formerly MediClin MVZ Südbaden GmbH), Offenburg	100.000[2]	100.000[2]	yes
MediClin Energie GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin Fachklinik Rhein / Ruhr Therapie & Pflege GmbH (formerly MPS Medizinische Personal- und Servicegesellschaft mbH Kettwig), Essen	100.000[2]	100.000[2]	yes
MediClin Geschäftsführungs-GmbH, Offenburg	100.000	100.000	yes
MediClin GmbH & Co. KG, Offenburg	100.000	100.000	yes
MediClin Immobilien Verwaltung GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin Krankenhaus am Crivitzer See GmbH, Crivitz	100.000	100.000	yes
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin Pflege GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin Therapie GmbH, Offenburg	100.000[2]	100.000[2]	yes
MVZ MediClin Bonn GmbH, Bonn	100.000[2]	100.000[2]	yes
MVZ-Müritz GmbH, Waren	100.000[2]	100.000[2]	yes
Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, Bad Rappenau	94.485[3]	94.485[3]	yes

[1] Thereof 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	
	2016	2015	2016	2015	2016	2015
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz[1]	10,655.49	10,344.25	46,267.79	65,612.30	69.231[3]	69.231[3]
MediServ GmbH i.L., Essen[1,6]	178,245.85	57,115.04	285,327.58	167,081.73	51.000[3,5]	51.000[3]
Medusplus GmbH, Essen[1]	−7,114.63	−550.65	44,793.45	51,908.08	51.000[3]	51.000[3]
Müritz-Klinikum Service GmbH, Waren[1]	24,097.09	72,225.39	110,220.50	156,123.41	51.000[3]	51.000[3]
VR-LEASING ABYDOS GmbH & Co. Immobilien KG, Eschborn[1]	57,013.64	47,249.62	−65,578.99[4]	−85,685.13[4]	44.408[2,3]	44.408[2,3]

[1] 2017 annual financial statements not yet available
[2] Including atypical silent participation
[3] Indirect participation
[4] Taxable equity
[5] 49.0 % have been held by the Company itself since September 2016
[6] Dissolved as at 31 May 2017

Accounting and valuation principles

The companies included in the consolidated financial statements applied 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 recognised 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 asset, 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 assets. No write-ups are performed in the case of goodwill. Development and research costs are only capitalised as an intangible asset if an intangible asset that has a future economic benefit can be identified and if the cost of this asset can be determined with certainty. Moreover, only the costs that pertain to development and fully meet the criteria of IAS 38.57 are eligible for capitalisation.

Property, plant and equipment is recognised at amortised costs. 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 primarily calculated on the basis of 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 per 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 (for instance 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 always 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 depreciation 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 capital expenditure 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 costs 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 2017 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, other fixed-interest securities, 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 pensions and similar commitments 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, **other 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 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 unable, 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 insurance agencies via budget agreements. 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 either on the basis of daily rates or case-based lump sums, which can be translated into fictitious daily rates. The approach for recognising sales and measuring receivables from services not yet invoiced basically corresponds to the requirements under IFRS 15. Therefore the implementation of IFRS 15 is not expected to lead to any significant effects on the consolidated financial statements of MediClin.

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 disposal 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 result of operation. 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 Group 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 numerous 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 either 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 commitments. 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 4.7 mill., or 8.3 %. A reduction in the discount rate by 0.5 percentage points from 1.8 % to 1.3 %, in turn, increases the DBO by EUR 5.4 mill., or 9.5 %. 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 that these performance citeria will be reached is regarded as high. Accounting provisions thus require that a provison is set aside for future liabilities in the amount of EUR 20.1 mill. If the assessment of probability of occurrence for the aforementioned performance criteria changes in the future, the provision will be adjusted accordingly. At the end of May 2016 MediClin initiated civil proceedings before the district court of Offenburg to review the appropriateness of the rents on which the reductions with debtor warrant were granted. To date, no conciliation hearing or first oral hearing has taken place.

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 2018 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, sight deposits at banks and fixed-interest securities) 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 flows from interest received and income from participations 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 10.6 mill., from EUR 29.9 mill. to EUR 19.3 mill. It includes interest received totalling EUR 200 thou. (previous year: EUR 28 thou.; income from participations: EUR 82 thou.). Tax payments amounted to EUR 5.9 mill. net of tax refunds (previous year: EUR 4.7 mill.).

EUR 20.1 mill. of the change in non-current provisions totalling EUR 18.5 mill. (previous year: EUR 2.8 mill.) refers to new provisions for a performance-related repayment obligation under rent reductions received in the years 2005 to 2007. The deferred tax assets recognised with respect to these provisions led amongst other things to a EUR 3.2 mill. change in the deferred tax item. Provisions for pensions and other non-current provisions were reduced by a total of EUR 1.5 mill. Current provisions, adjusted for non-cash items, remain largely unchanged. EUR 12.9 mill. of the change in other current assets is attributable to an increase in trade receivables (previous year: EUR +3.8 mill.), mainly due to the continued rise in sales. The unfinished services included in this item were increased by EUR 3.9 mill.

EUR 5.7 mill. of the result from other non-cash items refers to a revaluation of assets from the asset deal completed in 2017. The deferred tax liabilities recognised with respect to this revaluation led amongst other things to a EUR 1.0 mill. change in the deferred tax item.

A gross amount of EUR 4.4 mill. (previous year: EUR 2.5 mill.) was spent on intangible assets. Gross investments in property, plant and equipment totalled EUR 31.3 mill. (previous year: EUR 23.7 mill.). Cash and cash equivalents in the amount of EUR 2.7 mill. were used to finance two company acquisitions. The gross investments were offset against the investment subsidies received, which totalled EUR 6.3 mill. (previous year: EUR 7.7 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 –31.0 mill. (previous year: EUR –17.9 mill.).

The cash flow from financing activities amounted to EUR –3.1 mill., down from EUR 0.1 mill. in the previous year. It includes payments for the repayment of financial liabilities in the amount of EUR 1.8 mill. (previous year: EUR 37.6 mill.) and EUR 1.2 mill. in interest payments (previous year: EUR 1.3 mill.). In the previous year this item further included payments received worth EUR 39.0 mill. in connection with the new syndicated loan taken out at the end of July 2016.

Cash and cash equivalents at the end of the period thus decreased by EUR 14.7 mill. (previous year: EUR +12.1 mill.) to EUR 26.9 mill. (previous year: EUR 41.6 mill.).

The changes in liabilities from financing activities break down as follows:

In thousands of €	As of 01.01.2017	Cash items	Non-cash items		As of 31.12.2017
			Interest accrual	Maturity reclassification	
Current liabilities to banks	10,276	–174	32	0	10,134
Non-current liabilities to banks	38,520	–1,164	0	0	37,356
Current finance lease liabilities	294	–77	0	6,141	6,358
Non-current finance lease liabilities	6,508	–270	0	–6,141	97
Current other financial liabilities	176	2	0	0	178
Non-current other financial liabilities	515	–133	0	0	382
	56,289	**–1,816**	**32**	**0**	**54,505**

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 2017 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 includes all medical measures required to facilitate the healing process and return the patient to a functioning state immediately after acute care treatment. 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.

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. As it seems likely that the performance-related criteria will be reached, the segment result is burdened by a EUR 20.1 mill. provision set aside for this repayment.

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 IFRS (IFRS 8.16 "Quantitative Thresholds"). MediClin offers full-time and short-term nursing care as well as outpatient nursing care in the nursing care facilities of MediClin Pflege GmbH. 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, including facility management for the clinics provided by employees of MediClin GmbH & Co. KG. Altogether, the following companies belong to 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.

The segment result includes a one-off effect in the amount of EUR +5.7 mill. from the acquisition of AWO Rehabilitationsklinik Bad Münder (asset deal). The real estate required for operational purposes was acquired by MediClin GmbH & Co. KG, Offenburg, who lets them to MediClin Betriebs 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 rec-onciliation 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 the 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 major customers"), an entity is required to disclose information on the degree of 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 generated with coverage providers are monitored and controlled on a monthly basis. The public health insurance funds make up 41.8 % (previous year: 43.0 %) of the demand for services in the post-acute segment, while the social security pension funds make up 49.4 % (previous year: 48.2 %) of the demand for services in this segment. In the acute segment, 92.4 % (previous year: 92.7 %) of the services demanded are attributable to the public health insurance funds.

Sectoral segmenting

In millions of €	January–December 2017					
	Post-acute	Acute	Other activities	Subtotal	Reconciliation	Total
Sales	373.2	216.6	73.2	**663.0**	–53.9	**609.1**
Total sales	378.7	217.9	77.1	**673.7**	0.0	**673.7**
Internal sales	5.5	1.3	3.9	**10.7**	53.9	**64.6**
Raw materials and consumables used	–76.0	–59.5	–27.6	**–163.1**	50.5	**–112.6**
Staff costs	–188.9	–122.5	–50.6	**–362.0**	–1.1	**–363.1**
Other operating expenses	–106.8	–30.4	–14.5	**–151.7**	28.0	**–123.7**
Segment result incl. one-off effect	**0.7**	**2.3**	**5.2**	**8.2**	**–1.6**	**6.6**
Extraordinary effect (rent provisions)	20.1	0.0	0.0	**20.1**	0.0	**20.1**
Segment result excl. one-off effect	**20.7**	**2.3**	**5.2**	**8.2**	**–1.6**	**26.70**
Thereof non-cash items:						
Scheduled depreciations/ write-ups	–11.8	–15.1	–2.4	**–29.3**	0.0	**–29.3**
Non-scheduled depreciations/ write-ups	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Release of special item	1.3	7.6	0.0	**8.9**	0.0	**8.9**
Allowances	–0.5	0.3	0.0	**–0.2**	0.0	**–0.2**
Allocation of provisions/ liabilities	–29.8	–8.9	–3.2	**–41.9**	–1.4	**–43.3**
Release of provisions/ liabilities	1.3	1.5	0.3	**3.1**	0.2	**3.3**
Financial revenues	0.4	0.1	0.3	**0.8**	–0.6	**0.2**
Financial costs	–0.9	–1.3	–2.2	**–4.4**	1.8	**–2.6**
Financial result	**–0.5**	**–1.2**	**–1.9**	**–3.6**	**1.2**	**–2.4**
Taxes on income	**–0.1**	**–0.2**	**–2.1**	**–2.4**	**2.1**	**–0.3**
Assets	**149.8**	**175.6**	**11.4**	**336.8**	**31.8**	**368.6**
Liabilities	**22.7**	**16.8**	**96.7**	**136.2**	**47.2**	**183.4**
Gross capital expenditure	18.9	11.0	16.9	**46.8**	0.0	**46.8**

In millions of €	January–December 2016					
	Post-acute	Acute	Other activities	Subtotal	Reconciliation	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**

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 01.01.2016	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**
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**
Acquisition costs as at 01.01.2017	21,385	74,853	1,500	**97,738**
Additions	3,142	256	1,178	**4,576**
Reclassifications	198	0	–193	**5**
Disposals	–13	0	0	**–13**
Acquisition costs as at 31.12.2017	**24,712**	**75,109**	**2,485**	**102,306**
Cumulated depreciation as at 01.01.2017	19,282	26,279	0	**45,561**
Scheduled depreciation	1,850	0	0	**1,850**
Reclassifications	0	0	0	**0**
Disposals	–13	0	0	**–13**
Cumulated depreciation as at 31.12.2017	**21,119**	**26,279**	**0**	**47,398**
Balance sheet value 31.12.2017	**3,593**	**48,830**	**2,485**	**54,908**

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

Of the goodwill disclosed, a total of EUR 45.1 mill. (previous year: EUR 45.0 mill.) refers to differences from capital consolidation.

The EUR 256 thou. additions to goodwill refer to the acquisition of a doctor's practice at MediClin's medical care centre in Offenburg, the acquisition of a doctor's practice at MediClin's medical care centre in Soltau and the takeover of Fachklinik Zwieselberg GmbH in Freudenstadt, a hospital specialised in the treatment of addictive disorders.

Goodwill is allocated to six cash-generating units (CGUs), seven of which belong to the acute segment and two to the post-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 48.8 mill. on 31 December 2017 (31.12.2016: EUR 48.6 mill.). The carrying amounts of the CGUs totalled EUR 109.2 mill. (31.12.2016: EUR 98.0 mill.). Nearly 47 % of goodwill and 35 % of the carrying amount referred to one CGU (similar 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 5.06 % before tax was determined for short and medium term planning in the reporting period (previous year: 4.09 %). 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 %	31.12.2017	31.12.2016
Risk-free interest rate	1.25	0.50
Market risk premium	6.50	6.50
Beta coefficient (on the basis of a peer-group analysis)	0.62	0.58
Growth discount to the perpetuity	0.25	0.25
Borrowing costs (before taxes)	2.39	1.58
Tax shield	0.38	0.25
Capital structure (equity/borrowed capital) (on the basis of a peer-group analysis)	69.35/30.65	71.00/29.00

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	0.0	0.8	0.0	0.0
Change in EBIT	5.0 %	0.0	0.0	0.1	0.0	0.0
Change in EBIT	10.0 %	0.0	0.0	0.0	0.0	0.0
Change in EBIT	– 5.0 %	0.0	0.0	1.7	0.0	0.0
Change in EBIT	– 10.0 %	0.0	0.6	2.6	0.0	0.0

The analysis revealed a need for write-downs totalling a maximum of EUR 2.6 mill. within the context of the parameter changes, which corresponds to 2.4 % 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 01.01.2016	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**
Acquisition and manufacturing costs as at 01.01.2017	238,559	38,381	172,883	4,798	**454,621**
Clinic addition	0	47	51	0	**98**
Additions	13,356	2,347	9,791	9,461	**34,955**
Reclassifications	924	211	333	–1,473	**–5**
Disposals	–558	–159	–2,608	0	**–3,325**
Acquisition and manufacturing costs as at 31.12.2017	**252,281**	**40,827**	**180,450**	**12,786**	**486,344**
Cumulated depreciation as at 01.01.2017	132,342	26,311	134,356	0	**293,009**
Clinic addition	0	36	36	0	**72**
Scheduled depreciation	7,077	1,928	9,535	0	**18,540**
Disposals	–21	–159	–2,603	0	**–2,783**
Cumulated depreciation as at 31.12.2017	**139,398**	**28,116**	**141,324**	**0**	**308,838**
Balance sheet value 31.12.2017	**112,883**	**12,711**	**39,126**	**12,786**	**177,506**

Gross additions to property, plant and equipment before deduction of special items totalled EUR 42.2 mill. in the 2017 financial year (previous year: EUR 25.0 mill.). EUR 9.5 mill. thereof pertain to acquisitions and revaluations.

Some EUR 13.2 mill. was used for the reconstruction and expansion of clinics. Of this amount, EUR 2.2 mill. was used to build a new retirement home, EUR 1.9 mill. for the reconstruction of a clinic for neurological rehabilitation phase B and EUR 0.7 mill. for the reconstruction of a respiratory care unit.

Capital expenditure for IT infrastructure amounted to EUR 2.3 mill., EUR 9.4 mill. was invested in medical devices including accessories, and EUR 3.3 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 69.2 mill. (previous year: EUR 71.1 mill.). The additions of subsidised assets amount to EUR 7.2 mill. (previous year: EUR 6.4 mill.). Depreciation and amortisation was reduced by the deduction of subsidies totalling EUR 8.9 mill. (previous year: EUR 8.1 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 finance leases 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 6.3 mill. (previous year: EUR 6.4 mill.). The Group exercised a contractual purchase option as at 30 November 2018. In addition, there is another finance lease contract (previous year: three) pertaining to the medical and technical equipment at one clinic. The contract has a term until 2022. The net carrying amounts of the assets at the balance sheet date total EUR 0.1 mill. (previous year: EUR 0.3 mill.). More detailed explanations are provided in item (17) "Finance lease liabilities".

(3) FINANCIAL ASSETS

Financial assets refer primarily to reinsurance policies for pension obligations totalling EUR 860 thou. (previous year: EUR 1,171 thou.). Two further reinsurance policies with a coverage volume of EUR 462 thou. (previous year: EUR 403 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) 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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deferred tax assets				
Pension obligations	49,915	49,732	7,899	7,870
Provision for additional rent payments	20,146	0	3,188	0
Tax loss carried forward	3,382	2,780	535	440
Anniversary obligations/provisions for partial retirement	724	1,070	114	169
Others	1,476	1,408	234	223
			11,970	**8,702**
Deferred tax liabilities				
Intangible assets	18,099	18,007	2,864	2,850
Property, plant and equipment	16,316	9,071	2,582	1,435
Others	684	722	108	114
			5,554	4,399
Balance sheet recognition			**6,416**	**4,303**

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 9.5 mill. (previous year: EUR 8.3 mill.), no deferred tax assets were recognised.

Current assets

(5) INVENTORIES

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

In thousands of €	31.12.2017	31.12.2016
Medical supplies	5,284	4,319
Operating supplies	1,707	1,622
Administrative supplies	303	329
	7,294	**6,270**

(6) TRADE RECEIVABLES

In thousands of €	31.12.2017	31.12.2016
Receivables stock	89,094	76,159
Allowance	–5,091	–5,021
Disclosure	**84,003**	**71,138**
Receivables not yet invoiced	29,361	21,457
Invoiced trade receivables	54,642	49,681

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 €	31.12.2017	31.12.2016
Allowance as of 01.01.	5,021	5,423
Additions to general bad debt allowances	1,132	1,459
Consumption	– 169	– 1,526
Release	– 893	–335
Allowance as of 31.12.	**5,091**	**5,021**

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 0.2 mill. during the 2017 financial year (previous year: expenses totalling EUR 1.7 mill.).

In thousands of €	31.12.2017	31.12.2016
Expenses for full write-off of receivables	–1,105	– 2,033
Recoveries of written-off receivables	908	337
	– 197	**–1,696**

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 31.12.2017	54,642	35,482	6,388	1,308	876	1,988	2,612	5,988
As of 31.12.2016	49,681	33,973	5,549	1,422	756	1,517	2,424	4,040

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.

(7) RECEIVABLES PURSUANT TO THE HOSPITAL FINANCING LAW

In thousands of €	31.12.2017	31.12.2016
Receivables stock	3,789	3,362

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 31.12.2017	3,789	3,789	0	0	0	0	0	0
As of 31.12.2016	3,362	3,362	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.

(8) OTHER CURRENT FINANCIAL ASSETS

In thousands of €	31.12.2017	31.12.2016
Receivables stock	5,535	4,006

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.

(9) OTHER ASSETS

This item refers to prepaid expenses including insurance accruals.

(10) CASH AND CASH EQUIVALENTS

In the reporting year, cash and cash equivalents include cash, bank credit balances and other fixed-interest securities.

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.

In thousands of €	From subsequent measurement		From disposal	Net result	
	at fair value	value adjustments		2017	2016
Loans and receivables	0	–1,105	908	–197	–1,696
	0	**–1,105**	**908**	**–197**	**–1,696**

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.

- Level 2: measurement criteria other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (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 31.12.2017	Balance sheet recognition in accordance with IAS 39	Fair value 31.12.2017
				Amortised costs	
ASSETS					
Non-current assets					
Investment in stock of subsidiaries		AfS	65	65	–
Reinsurance policies		LaR	860	860	860
Other financial assets		HtM	2	2	2
Interest rate hedge		FAHfT	0	–	0
Current assets					
Trade receivables		LaR	84,003	84,003	84,003
Receivables pursuant to hospital financing law		LaR	3,789	3,789	3,789
Other current financial assets		LaR	5,535	5,535	5,535
Prepaid expenses		LaR	1,341	1,341	1,341
Cash and cash equivalents		LaR	26,907	26,907	26,907
EQUITY AND LIABILITIES					
Non-current liabilities					
Liabilities to banks		FLAC	37,356	37,356	37,356
Liabilities from finance leases		FLAC	97	97	97
Other financial liabilities		FLAC	382	382	382
Current liabilities					
Trade payables		FLAC	13,717	13,717	13,717
Liabilities to banks		FLAC	10,135	10,135	10,135
Liabilities from finance leases		FLAC	6,358	6,358	6,358
Other provisions (partial amount)		FLAC	409	409	409
Liabilities pursuant to hospital financing law		FLAC	1,870	1,870	1,870
Other liabilities (partial amount)		FLAC	4,941	4,941	4,941
Other payables		FLAC	20,623	20,623	20,623
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IAS 39					
Loans and Receivables (LaR)	**Total**	**LaR**	**122,435**	**122,435**	**122,435**
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**	**95,888**	**95,888**	**95,888**

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**

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 (AktG). 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. The syndicated loan has a total volume of EUR 60.0 mill., consisting of a bullet loan for EUR 30.0 mill. and a revolving working capital loan for EUR 30.0 mill., EUR 9.0 mill. of which were utilised on 31 December 2017. In the 2017 financial year the first of two agreed renewal options was exercised and the original five-year term of the syndicated loan was extended 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.

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 €	31.12.2017	31.12.2016
Equity	185,260	181,564
Non-current liabilities	118,409	106,367
Current liabilities incl. tax liabilities	64,957	59,132
Balance sheet total	368,626	347,063
Net financial debt	20,583	7,149
Equity ratio in %	50.3	52.3
Debt ratio in %	49.7	47.7

Adjustments effects from the calculation of pension obligations pursuant to IAS 19 “Employee Benefits” in the amount of EUR –0.3 mill. that are recognised directly in equity and the total consolidated result in the amount of EUR 4.0 mill. expanded equity by EUR 3.7 mill. A stronger increase in the balance sheet total as compared to the previous year's reporting date reduced the equity ratio by two percentage points to 50.3 %. The return on equity after tax is 2.1 % (previous year: 9.1 %). The rise in non-current liabilities totalling EUR 12.0 mill. is due primarily to a rise in other non-current provisions of EUR 19.6 mill. and a simultaneous decrease in non-current finance lease liabilities in the amount of EUR 6.4 mill. and liabilities to banks of EUR 1.2 mill. Current liabilities were EUR 5.8 mill. above the previous year's figure on 31 December 2017. This increase is due primarily to the fact that liabilities from finance leases in the amount of EUR 6.1 mill. that were previously allocated to non-current liabilities were recognised in current liabilities on the balance sheet date.

(11) SUBSCRIBED CAPITAL

In thousands of €	31.12.2017	31.12.2016
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.

(12) CAPITAL RESERVE

In thousands of €	31.12.2017	31.12.2016
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.

(13) REVENUE RESERVES

The consolidated revenue reserves are structured as follows:

In thousands of €	31.12.2017	31.12.2016
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	–22,457	–22,189
	–22,440	**–22,172**

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 reserves. 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).

Since 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.

(14) CONSOLIDATED BALANCE SHEET RESULT

The consolidated balance sheet result is structured as follows:

In thousands of €	31.12.2017	31.12.2016
Profit/loss carryforward	27,172	10,626
Result attributable to shareholders of MediClin AG	3,908	16,546
	31,080	**27,172**

APPROPRIATION OF THE ANNUAL RESULT OF MEDICLIN AKTIENGESELLSCHAFT

In the 2017 financial year no dividends were distributed for the 2016 financial year. In the Annual General Meeting of 31 May 2017, the Group resolved to carry net profit as of 31 December 2016 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.

For the 2017 financial year, the Group intends to distribute a partial amount of net profit in the amount of EUR 44,258,866.10 as recognised in the separate financial statements of MEDICLIN Aktiengesellschaft prepared in accordance with the German Commercial Code (HGB) to the shareholders, such distribution amounting to EUR 2,375,000.

(15) 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 2017 (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

(16) LIABILITIES TO BANKS

Non-current liabilities to banks are as follows:

In thousands of €	31.12.2017	31.12.2016
Syndicated loans	29,867	29,830
Other bank loans	7,489	8,690
	37,356	**38,520**

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

SYNDICATED LOANS

In thousands of €	31.12.2017	31.12.2016
Syndicated loans	38,858	38,827
less short-term ratio (facility B incl. interest accrual)	8,991	8,997
	29,867	**29,830**

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 was granted as a EUR 30.0 mill. bullet loan and serves to replace the original syndicated loan. Facility B was granted as a revolving credit line of up to EUR 30.0 mill. Since 29 July 2016 EUR 30.0 mill. of Facility A and EUR 9.0 mill. of Facility B have been drawn. Given its short-term nature, Facility B is shown in current liabilities (please refer also to item (22) "Liabilities to banks").

Originally, the syndicated loan had a term of five years, including two options to renew the loan by another year. One renewal option was exercised in the reporting year, extending the final maturity date to 25 July 2022. 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.

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). If the reference rate is negative, a value of 0 % is assumed. Interest totalling EUR 0.4 mill. was paid for the syndicated loans with the total amount of EUR 39.0 mill. in the reporting year (previous year: EUR 0.5 mill.). This corresponds to an average interest rate of 1.07 % p.a. (previous year: 1.38 %).

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

In thousands of €	2017	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]		29,867	–28	–28	29,923	0

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	29,904	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. The amount shown under "3 to 5 years" includes a repayment amount of EUR 30,000 thou. and the pro-rated write-up.

OTHER BANK LOANS

In thousands of €	31.12.2017	31.12.2016
Other bank loans	8,633	9,969
less repayments due in the short term	1,144	1,279
	7,489	**8,690**

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. Two of the loans were repaid in the reporting year. The residual book value of the remaining loan amounts to EUR 0.14 mill. (previous year: EUR 0.21 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 2017 amounting to EUR 11 thou. (previous year: EUR 27 thou.).

Of the other bank loans, EUR 8.5 mill. (previous year: EUR 9.5 mill.) is secured through real property liens (carrying amount: EUR 17.8 mill.; previous year: EUR 19.4 mill.). All in all, the average interest rate for liabilities to banks is 3.16 % p.a. (previous year: 4.69 %). 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 will reduce 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 €	2017	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest		1,143	252	220	474	197
Repayment		7,489	–[1]	1,175	4,622	1,692

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

[1] Shown under current liabilities (item (22) "Liabilities to banks")

(17) LIABILITIES FROM FINANCE LEASES

In thousands of €	31.12.2017	31.12.2016
Leases for real estate	–	6,334
Leases for movable property	97	174
	97	**6,508**

FINANCE LEASING

Assets for which the MediClin Group has signed finance lease contracts 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 6.3 mill. (previous year: EUR 6.4 mill.).

Given the strong change in the market interest rate since the contract was concluded, MediClin declared vis-à-vis the lessor that it wishes to exercise a contractual purchase option as at 30 November 2018. Therefore the residual liability from real estate leases amounting to EUR 6,334 thou. is recognised in current liabilities. The previous year is as follows:

In thousands of €	31.12.2016	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment		9,595	–[1]	2,216	7,379
Interest component		–3,261	–[1]	–1,394	–1,867
Present value		**6,334**	**–**[1]	**822**	**5,512**

[1] Shown under current liabilities (item (23) "Finance lease liabilities")

In addition, there is one (previous year: three) more finance lease agreement pertaining to monitoring equipment, which will end in 2022. This contract is based on an interest rate of 2.9 % p.a. The net carrying amounts at the balance sheet date totals EUR 0.1 mill. (previous year: EUR 0.3 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 tables:

In thousands of €	31.12.2017	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment		103	–[1]	103	0
Interest component		–6	–[1]	–6	0
Present value		**97**	**–**[1]	**97**	**0**

In thousands of €	31.12.2016	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment		187	–[1]	164	23
Interest component		–13	–[1]	–12	–1
Present value		**174**	**–**[1]	**152**	**22**

[1] Shown under current liabilities (item (23) "Finance lease liabilities")

(18) PENSIONS AND SIMILAR COMMITMENTS

In thousands of €	2017	2016
Mitarbeiterunterstützungskasse der vereinigten Klinikbetriebe – MAUK and five individual benefit commitments	44,437	43,992
Kraichgau-Klinik Group	10,800	11,155
	55,237	**55,147**

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 and five individual benefit commitments. 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:

	31.12.2017	31.12.2016
Active employees	1,348	1,441
Departed employees with vested rights	789	754
Pensioners	818	752
	2,955	**2,947**

In the year under review, the share of persons entitled to pensions amounts to 72.3 % (previous year: 74.5 %) and the share of recipients of pensions to 27.7 % (previous year: 25.5 %).

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 excess 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 2017 amounted to EUR 11.4 mill. (31.12.2016: EUR 10.9 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 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 2017	MAUK 2016	Kraichgau-Klinik Group 2017	Kraichgau-Klinik Group 2016
Discount rate	1.80	1.80	1.80	1.80
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 week, and not based on salary-related criteria. Pursuant to Section 16 (3) Item 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 German Law on Retirement Pensions (BetrAVG).

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

A discount rate of 1.80 % (previous year: 1.80 %) 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 were 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 %)	+5,380	+2,601	−2,437	−4,721
Salary trend[1] (2.50 %)	−36	−18	+19	+38
Pension trend[1] (2.00 %)	−638	−326	+340	+695

[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 mortality was reduced by 10 %. At the end of the financial year, these longer life expectancies would have led to a EUR 6.0 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 remeasurement. In the profit and loss account, the service cost is recognised under staff costs and the net interest in the financial result. Remeasurement is 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 55.2 mill. (previous year: EUR 55.1 mill.) with plan assets of EUR 1.7 mill. (previous year: EUR 1.4 mill.).

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

In thousands of €	31.12.2017	31.12.2016
Development of recognition in the balance sheet		
Present value of the DBO	56,908	56,526
Fair value of plan assets	–1,671	–1,379
Net defined benefit liability at the end of the financial year	**55,237**	**55,147**
Reconciliation of the carrying amount		
Net defined benefit liability at the end of the preceding financial year	55,147	50,271
Service cost	469	76
Net interest expense on the reported net obligation	969	1,087
Remeasurements recognised in other comprehensive income	313	4,962
Employer contributions	–1,149	–745
Benefits paid directly by the employer	–512	–504
Carrying amount: net defined benefit liability at the end of the financial year	**55,237**	**55,147**

The present value of the DBO showed the following development:

In thousands of €	31.12.2017	31.12.2016
DBO at the end of the preceding financial year	56,526	51,709
Current service cost	82	76
Interest expense on DBO	994	1,149
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	321	16
Actuarial profit (–)/loss (+) due to changes in financial assumptions	0	4,820
Benefits paid from plan assets	–889	–740
Benefits paid directly by the employer	–512	–504
Past service costs	386	0
Pension obligations at the end of the financial year	**56,908**	**56,526**

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

In thousands of €	31.12.2017	31.12.2016
Fair value of plan assets at the end of the preceding financial year	1,379	1,438
Income from plan assets calculated with the discount rate	25	62
Amount by which the actual income of the plan assets in the current financial year exceed/undercut of the income calculated with the discount rate	7	–126
Employer contributions	1,149	745
Benefits	–889	–740
Fair value of plan assets at the end of the financial year	**1,671**	**1,379**

The plan assets comprise the following:

In %	31.12.2017	31.12.2016
Bond funds		
With generally mixed maturities	8.1	9.9
With generally short-term maturities	6.0	7.2
Fixed interest securities	9.0	10.9
Cash and cash equivalents	49.2	42.8
Reinsurance policies	27.7	29.2
	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 1.7 mill. (previous year: EUR 6.2 mill.), of which EUR 1.4 mill. (previous year: EUR 1.2 mill.) are recognised in profit and loss and EUR 0.3 mill. (previous year: EUR 5.0 mill.) are recognised in other comprehensive income.

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

In thousands of €	2017	2016
Consolidated profit and loss account		
Current service cost	83	76
Past service costs due to plan amendments	386	0
Net interest expense (/income) on the reported net defined benefit liabilities (/assets)	969	1,142
Pension costs, recognised in consolidated profit and loss account	**1,438**	**1,218**
Other comprehensive income		
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	320	16
Actuarial profit (–)/loss (+) due to changes in actuarial assumptions (on the obligation side)	0	4,820
Actuarial profit (–)/loss (+) accrued in the course of the financial year	**320**	**4,836**
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	–7	126
Remeasurements recognised in other comprehensive income	**313**	**4,962**
Total pension costs	**1,751**	**6,180**

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 2018 employer contributions to the plan assets are expected at EUR 0.8 mill., benefits paid directly by the employer at EUR 1.5 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 2018	1,532
Expected benefit payments for the year 2019	1,580
Expected benefit payments for the year 2020	1,651
Expected benefit payments for the year 2021	1,723
Expected benefit payments for the year 2022	1,791
Expected benefit payments for the year 2023 to 2027	10,073

The following figure of 18.0 years represents the Macaulay duration of the entire pension portfolio and describes the weighted (in terms of payment and interest) average term to maturity of the pension obligations.

Pension obligations and plan assets will presumably develop as follows in 2018:

In thousands of €	
Pension obligations as of 31.12.2017	56,908
Current service cost	74
Interest expense on the DBO	1,011
Expected benefits	–1,532
Estimated pension obligations as of 31.12.2018	**56,461**
Estimates of plan assets	
Fair value of plan assets as of 31.12.2017	1,671
Income expected from the plan assets	28
Expected employer contributions	757
Expected benefits	–946
Estimated fair value of plan assets as of 31.12.2018	**1,510**
Estimated net pension obligation	
Estimated pension obligations as of 31.12.2018	56,461
Estimated fair value of plan assets as of 31.12.2018	–1,510
	54,951

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 0.8 mill. (previous year: EUR 0.7 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 0.7 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.

(19) OTHER PROVISIONS

In thousands of €	31.12.2017	31.12.2016
Provisions for renewal of lease agreements	174	169
Provisions for archival storage	1,293	1,293
Provisions for insurance	1,076	1,624
Provisions for additional rent payments	20,146	0
	22,689	**3,086**

The provision for the renewal of lease agreements relates to future reinstatement costs in connection with the leasing of the MediClin medical care centre in Leipzig. Additions to this item in 2017 only refer to interest adjustments in the amount of EUR 5 thou. The provisions for archival storage cover accrued costs for external archiving pursuant to the legal obligation to retain business records. The provisions for insurances are related to the risks under liability insurance (KSA Kommunaler Schadensausgleich) for two hospitals.

New provisions were set aside in the 2017 financial year for additional rent payments in the amount of EUR 20.1 mill. This obligation is related to the rent reductions received in 2005 to 2007 in the approximate amount of EUR 21.0 mill. for ten of the 21 clinic properties that were pooled in OIK-Immobilienfonds and rented back. The agreement on the rent reduction includes a repayment obligation up to the amount of the rent reductions granted, which is conditional on the achievement of certain economic performance parameters of all the clinics pooled in the fund (debtor warrant). As the planning for the upcoming financial years as at the balance sheet date renders it likely that the agreed performance parameters will be reached, the corresponding provisions were set aside.

It is not anticipated that the provisions for the renewal of lease agreements recognised as of 31 December 2017 will be consumed in the coming year.

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

In thousands of €	As of 01.01.2017	Additions	Interest	Consumption	Reversal	As of 31.12.2017
Provisions for renewal of lease agreements	169	0	5	0	0	174
Provisions for archival storage	1,293	86	0	86	0	1,293
Provisions for insurance	1,624	0	240	27	761	1,076
Provisions for additional rent payments	0	20,146	0	0	0	20,146
	3,086	**20,232**	**245**	**113**	**761**	**22,689**

(20) OTHER FINANCIAL LIABILITIES

In thousands of €	31.12.2017	31.12.2016
Loan from a public corporation	515	646
less current repayment share	133	131
	382	**515**

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 € 2017	Total	1 year or less	1 to 2 years	3 to 5 years	More than 5 years
Interest	22	10	7	5	0
Repayment	515	133[1]	136	246	0

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

[1] For information only

(21) OTHER PAYABLES

In thousands of €	31.12.2017	31.12.2016
Anniversary obligations	1,992	2,481
Partial retirement obligations	65	109
Other long-term obligations	591	0
	2,648	**2,590**

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 1.50 % (previous year: 1.30 %). 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 (1.50 %)	+56	+28	−27	−53

Of the provisions for anniversary obligations, an estimated EUR 237 thou. will be used in the 2018 financial year, and EUR 1,755 thou. in the subsequent years. The interest component totalled EUR 31 thou. in the 2017 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. At the reporting date, two (previous year: two) partial retirement agreements are in force (one block-time and one part-time model). The two remaining agreements will expire in 2019.

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.

(22) LIABILITIES TO BANKS

In thousands of €	31.12.2017	31.12.2016
Syndicated loan	8,991	8,997
Other loans	1,144	1,279
	10,135	**10,276**

In the year under review, syndicated loans refers to Facility B measured in accordance with the effective interest method (EUR 8,960 thou.; previous year EUR 8,949 thou.) and accrual interest (EUR 31 thou.; previous year: EUR 48 thou.).

Other loans refers to loan repayments to be made in the upcoming year (please refer also to item (16) "Liabilities to banks").

(23) FINANCE LEASE LIABILITIES

In thousands of €	31.12.2017	31.12.2016
Leases for real estate	6,334	177
Leases for movable property	24	117
	6,358	**294**

This table shows loan repayments and interest payments for liabilities from finance leases due in the short term. In the period under review, this table includes the finance lease liability under the sale-and-leaseback transaction for the land and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, because the purchase option will be exercised as at 30 November 2018 and the liability is therefore classified as current liabilities. The amount reclassified from non-current liabilities pertains to the present value of the payments for one year totalling EUR 6,141 thou.

The following table shows a breakdown of liabilities under real estate lease:

In thousands of €	31.12.2017	31.12.2016
Minimum lease payment	9,375	554
Interest component	–3,041	–377
	6,334	**177**

The following table shows a break-down of liabilities under movable property lease:

In thousands of €	31.12.2017	31.12.2016
Minimum lease payment	27	123
Interest component	–3	–6
	24	**117**

More details are available in item (17) "Finance lease liabilities"

(24) OTHER PROVISIONS

In thousands of €	31.12.2017	31.12.2016
Provisions for billing risks and litigations	5,210	4,691
Provisions for reimbursements to coverage providers	339	435
Provisions for Supervisory Board	70	40
Remaining provisions	364	359
	5,983	**5,525**

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). If the MDK determines during this review that services rendered were not invoiced correctly, the invoice will be 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 01.01.2017	Addition	Consumption	Reversal	As of 31.12.2017
Provisions for billing risks and litigations	4,691	1,774	1,029	226	5,210
Provisions for reimbursements to coverage providers	435	225	75	246	339
Provisions for Supervisory Board	40	70	40	0	70
Remaining provisions	359	88	83	0	364
	5,525	**2,157**	**1,227**	**472**	**5,983**

(25) CURRENT INCOME TAX LIABILITIES

The current income tax liabilities amounting to EUR 0.1 mill. (previous year: EUR 2.7 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.

(26) LIABILITIES PURSUANT TO HOSPITAL FINANCING LAW

In thousands of €	31.12.2017	31.12.2016
Liabilities pursuant to hospital financing law	725	2,858
Liabilities pursuant to the National Ordinance on Hospital Rates/Hospital Compensation Act	1,145	2,173
	1,870	**5,031**

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.

(27) OTHER LIABILITIES

Miscellaneous liabilities pertain to the following circumstances:

In thousands of €	31.12.2017	31.12.2016
Costs of annual financial statement	1,191	1,376
Other procurement of materials	837	554
Legal and consultancy costs	765	215
Liabilities from third-party funds	370	393
Liabilities to health insurance funds and other public coverage providers	262	258
Charges and fees	87	187
Liabilities from doctors' invoices	185	199
Administration costs	202	202
Energy and water supply	164	238
Other loans	134	131
Miscellaneous	1,935	370
	6,132	**4,123**

(28) OTHER PAYABLES

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

In thousands of €	31.12.2017	31.12.2016
Staff costs	15,632	13,603
Payroll tax to be paid	4,266	3,814
Value added tax to be paid	272	306
Payments received	224	193
Deferred income	229	277
	20,623	**18,193**

Other liabilities from staff costs mainly consist of the following:

In thousands of €	31.12.2017	31.12.2016
Vacation and flexitime entitlements	6,348	5,569
Profit-sharing bonus payments	5,171	4,708
Wage supplements	1,646	1,447
Bonus payments	551	545
Severance payments	283	308
Contributions to statutory accident insurance and prevention	878	701
Other staff costs	755	325
	15,632	**13,603**

Notes to the consolidated profit and loss account

(29) SALES

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

In millions of €	2017	2016
Post-acute	298.4	285.1
Acute	255.4	242.9
Nursing care	15.2	14.7
Other sales	40.1	37.6
Sales	**609.1**	**580.3**

Significantly 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 15.6 mill.). Furthermore, in addition to service revenues, other sales include revenues from the sale of pharmacy merchandise totalling EUR 4.2 mill. (previous year: EUR 3.3 mill.), from private accommodation totalling EUR 3.8 mill. (previous year: EUR 3.5 mill.) and from cafeterias, kiosks and meals totalling EUR 7.3 mill. (previous year: EUR 6.4 mill.).

(30) OTHER OPERATING INCOME

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

In millions of €	2017	2016
Subsidies	1.5	1.3
Rental income	0.9	0.9
Services to staff	0.3	0.4
Other income	14.6	6.5
Other operating income	**17.3**	**9.1**

Pursuant to IFRS 3.34, badwill resulting from the acquisition of AWO Rehabilitationsklinik Bad Münder in the amount of EUR 5.7 mill. was recognised as income in the “Other income” item. 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 2017 this amounts to EUR 3.2 mill. (previous year: EUR 3.6 mill.).

(31) RAW MATERIALS AND CONSUMABLES USED

Raw materials and consumables used rose by EUR 3.9 mill. to EUR 112.6 mill. (previous year: EUR 108.7 mill.). Raw materials and supplies increased by EUR 1.3 mill. and purchased services by EUR 2.6 mill. The cost of materials ratio amounts to 18.5 % (previous year: 18.7 %).

In millions of €	2017	2016
Operating supplies	19.7	19.0
Medical supplies	46.2	45.0
Other raw materials and supplies incl. price deductions/bonuses/cash discounts	–1.4	–0.8
Raw materials and supplies	**64.5**	**63.2**
Energy/water/sewage	11.9	11.9
Third-party housekeeping and facility services	11.9	12.1
External medical services	21.3	18.4
Other third-party services	3.0	3.1
Purchased services	**48.1**	**45.5**
Raw materials and consumables used	**112.6**	**108.7**

(32) STAFF COSTS

Staff costs of EUR 363.1 mill. were 8.5 % higher than in the previous year (previous year: EUR 334.7 mill.). The staff costs ratio for the 2017 financial year was 59.6 % (previous year: 57.7 %).

In thousands of €	2017	2016
Wages and salaries	308,180	284,780
Social security, pensions and retirement	54,885	49,968
Thereof pension costs	2,211	1,710
Staff costs	**363,065**	**334,748**

Pension expenses incurred in addition to those for statutory pension insurance, including contribution payments to external provider facilities, totalled EUR 2.2 mill. (previous year: EUR 1.7 mill.). They concern the following:

In thousands of €	2017	2016
Contributions to		
Defined benefit plans	587	251
Defined contribution plans	1,542	1,447
Other pension-related expenses	82	12
	2,211	**1,710**

As for the calculation of pension provisions, the interest share accounts for about 67 % 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 0.8 mill. (previous year: EUR 0.7 mill.) refers to MediClinRent and EUR 0.7 mill. (previous year: EUR 0.7 mill.) to contributions to three supplementary pension or relief funds.

(33) OTHER OPERATING EXPENSES

Other operating expenses of EUR 123.7 mill. are EUR 20.9 mill. higher than the previous year's value (previous year: EUR 102.8 mill.).

The largest item in other operating expenses is, with EUR 72.5 mill., rental and lease expenses for real estate and medical equipment (previous year: EUR 51.1 mill.). EUR 45.1 mill. (previous year: EUR 44.3 mill.) thereof concerns payments to related parties pursuant to IAS 24, of which EUR 44.2 mill. (previous year: EUR 43.4 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.). In the reporting year, other operating expenses also include a one-off item amounting to EUR 20.1 mill. This item refers to a provision for additional rent payments due to rent reductions received between 2005 and 2007 for the above mentioned long-term real estate rents (debtor warrant). An overview of future rental payments is presented under other financial obligations.

In millions of €	2017	2016
Rents and leases	72.5	51.1
Maintenance and repairs	17.6	18.5
EDP and organisation	5.0	5.5
Legal and consultancy costs	5.4	4.7
Insurance costs	4.1	3.8
Contributions, fees, levies	1.5	1.4
Other miscellaneous expenses	17.6	17.8
Other operating expenses	**123.7**	**102.8**

(34) DEPRECIATION AND AMORTISATION

In the 2017 financial year depreciation and amortisation totalled EUR 20.4 mill. (previous year: EUR 19.2 mill.), with EUR 1,850 thou. (previous year: EUR 1,243 thou.) attributable to intangible assets and EUR 18,540 thou. (previous year: EUR 17,927 thou.) to property, plant and equipment.

(35) FINANCIAL RESULT

The financial result is structured as follows:

In thousands of €	2017	2016
Income from participations	0	82
Interest and similar income	202	31
Interest and similar expenses	–2,562	–3,236
Financial result	**–2,360**	**–3,123**

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 €	2017	2016
Interest income from receivables	11	14
Interest income from deposits at banks	0	1
Other interest-related income	191	16
Interest and similar income	**202**	**31**

Interest and similar expenses

In thousands of €	2017	2016
Interest on current accounts	0	0
Interest on loans	309	1,025
Interest on pension provision	969	1,096
Interest on finance leases	383	397
Other interest-related expenses	901	718
Interest and similar expenses	**2,562**	**3,236**

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

(36) TAXES ON INCOME

The taxes on income are structured as follows:

In thousands of €	2017	2016
Actual taxes on income	3,400	4,105
Deferred taxes on income	–3,104	194
	296	**4,299**

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

In thousands of €	2017	2016
Consolidated result before tax	4,256	20,900
Resultant calculational tax charge (15.825 %)	673	3,307
Tax effect on profit/loss from		
Income tax expenses from previous years	0	315
Non-capitalisable losses in the financial year	537	271
Valuation differences between the tax and the consolidated balance sheet	–1,015	–76
Trade tax expenses in the financial year	51	120
Non-deductible expenses	20	17
Only tax-related depreciation and amortisation	0	270
Others	30	75
Actual tax expenses	**296**	**4,299**

(37) TOTAL CONSOLIDATED 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.

	2017	2016
Result after tax attributable to shareholders of MediClin AG **in thousands of €**	3,908	16,546
Average number of shares issued **in thousands**	47,500	47,500
Undiluted earnings per share **in €**	0.08	0.35

(38) OTHER COMPREHENSIVE INCOME

The amounts recognised in other 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	2017	2016	Change
Medical	853	808	+45
Nursing care	2,147	2,061	+86
Medical-technical	1,580	1,524	+56
Functional	428	416	+12
Medical services	**5,008**	**4,809**	**+199**
Support functions	1,094	1,023	+71
Technical	129	114	+15
Administration	590	564	+26
Other	47	50	−3
Non-medical services	**1,860**	**1,751**	**+109**
	6,868	**6,560**	**+308**

Contingencies and other financial obligations

The Group's total obligations arising from rental and lease contracts, as well as fixed incidental expenses, totalled EUR 51.0 mill. in the reporting year (previous year: EUR 49.8 mill.). Of this amount, a total of EUR 44.2 mill. (previous year: EUR 43.4 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 (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 (2018: EUR 0.9 mill.; 2019 to 2022: EUR 3.6 mill.; 2023 to 2027: EUR 4.5 mill.). The expenses for other rents and leases totalled EUR 3.0 mill. (previous year: EUR 2.8 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 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	47.1	46.8
Remaining term 1–5 years	186.4	184.3
Remaining term more than 5 years	230.5	272.4
	464.0	**503.5**

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.

Based on the present planning, the probability that these performance criteria will be reached is regarded as high. Accounting provisions thus require that a provision is set aside for future liabilities in the amount of EUR 20.1 mill.

Lease expenses relating to movable property, such as vehicles, office equipment and medical technology, totalled EUR 3.0 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 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	2.0	2.0
Remaining term 1–5 years	2.8	3.0
Remaining term more than 5 years	0.0	0.0
	4.8	**5.0**

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

In millions of €	Nominal value 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	6.7	0.7
Remaining term 1–5 years	0.1	2.4
Remaining term more than 5 years	0.0	7.4
	6.8	**10.5**

The finance lease agreements totalling EUR 6.7 mill. (previous year: EUR 10.2 mill.) primarily concern the lease agreement for the real estate of Rehabilitationszentrum Gernsbach. A contractual purchase option will be exercised, and the real estate will be repurchased as at 30 November 2018 at the residual value of the financing at that time. The remaining minimum lease payments amounting to EUR 0.1 mill. refer to the technical equipment in one clinic.

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 the locations – 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 an expected 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 has 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 31.12.2017	Nominal value 31.12.2016
Remaining term up to 1 year	1.1	1.1
Remaining term 1–5 years	3.6	3.9
Remaining term more than 5 years	0.0	0.9
	4.7	**5.9**

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 cooling supply, and other maintenance agreements.

Contractual obligations totalling approximately EUR 10.4 mill. existed in connection with the acquisition of property, plant and equipment as of 31 December 2017 (previous year: approximately EUR 11.3 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.

To ensure the loan for financing 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.

In order to exercise the option pursuant to Section 264 (3) German Commercial Code (HGB) for several subsidiaries, MediClin AG declared its willingness to guarantee for the obligations entered into by these subsidiaries until the reporting date on 31 December 2017, such guarantee being valid for the subsequent year.

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 initial 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 was granted as a EUR 30.0 mill. bullet loan and served to replace the existing syndicated loan. Facility B was granted as 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. 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. One renewal option was exercised in the reporting year, extending the final maturity date to 25 July 2022. 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 2017 financial year interest for the loan totalled EUR 407 thou. As the 6-month Euribor was negative all-the-year, it was set to 0 % in the interest calculation. The annual average was – 0.2600 %.

At the annual average of – 0.2600 %, 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	– 293
Change in 6-month Euribor	+ 50	– 95
Change in 6-month Euribor	+ 25	+/– 0[1]
Change in 6-month Euribor	+ 10	+/– 0[1]
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] No effect as Euribor is negative

Supervisory Board in the 2017 financial year

Dr. Ulrich Wandschneider (Chairman), Hamburg
Independent Business Consultant
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Chairman of the Supervisory Board of

- Asklepios Kliniken Verwaltungsgesellschaft mbH, Hamburg (until 28 December 2017)
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg (since 29 December 2017)
- Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Königstein im Taunus (until 23 October 2017)
- Broermann Holding GmbH, Königstein im Taunus (from 24 October 2017 until 31 December 2017)

Member of the Supervisory Board of

- Asklepios Kliniken Hamburg GmbH, Hamburg (until 4 December 2017)
- Vanguard AG, Berlin
- MPH Health care AG, Berlin (since 22 September 2017)

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

Michael Bock, Leverkusen
Managing Director of REALKAPITAL Vermögensmanagement GmbH, Leverkusen
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of

- DIC Asset AG, Frankfurt am Main

[1] Employee representative on the Supervisory Board

Dr. Bernard große Broermann, Königstein-Falkenstein
Entrepreneur

Barbara Brosius, Kronberg im Taunus (since 31 May 2017)
Former Vice Chairwoman and Managing Director of UBS Deutschland AG
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of

- Asklepios Kliniken Verwaltungsgesellschaft mbH, Hamburg (until 28 December 2017)
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg (since 29 December 2017)
- Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Königstein im Taunus (until 23 October 2017)
- Broermann Holding GmbH, Königstein im Taunus (from 24 October 2017 until 31 December 2017)

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
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:

- Member of the Supervisory Committee of Ärzteversorgung Sachsen-Anhalt

Irmtraut Gürkan, Heidelberg (until 31 May 2017)
Business Director and Vice Chairwoman of Universitätsklinikum Heidelberg, Heidelberg
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:

- Member of the Board of Governors of Rheinisch-Westfälische Technische Hochschule Aachen (RWTH Aachen), Aachen (until November 2017)
- 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 and memberships in comparable domestic and foreign bodies:
Chairman of the Supervisory Board of

- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt am Main (until 17 November 2017)

Member of the Supervisory Board of

- Asklepios Kliniken Verwaltungsgesellschaft mbH, Hamburg (until 28 December 2017)
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg (since 29 December 2017)
- Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Königstein im Taunus (until 23 October 2017)
- Broermann Holding GmbH, Königstein im Taunus (from 24 October 2017 until 31 December 2017)

Non Executive Board Member

- REG Overseas Holding B.V., Amsterdam (since 26 April 2017)
- REG International Trading & Commodities B.V., Amsterdam (since 19 December 2017)

[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
Head of Group Internal Audit of Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Supervisory Board Committees

In the 2017 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
Rainer Laufs
Thomas Müller

Audit Committee
Michael Bock (Chairman)
Eleonore Seigel
Matthias H. Werner
Cornelia Wolf

Nomination Committee
Dr. Ulrich Wandschneider (Chairman)
Michael Bock
Cornelia Wolf

Mediation Committee pursuant to Section 27 MitbestG
Dr. Ulrich Wandschneider (Chairman)
Hans Hilpert (Vice Chairman)
Walburga Erichsmeier
Cornelia Wolf

Management Board

Volker Hippler, Chairman of the Management Board, Olpe

Jens Breuer, Chief Financial Officer, Hamminkeln

Ulf Ludwig, Member of the Management Board, Hamburg

[1] Employee representative on the Supervisory Board

Management remuneration

Total remuneration granted to the Management Board in the period under review for board activities totalled EUR 1,809 thou. (previous year: EUR 1,873 thou.). It is comprised of fixed remuneration amounting to EUR 840 thou. (previous year: EUR 718 thou.), a variable remuneration component of EUR 915 thou. (previous year: EUR 645 thou.) for one year and a variable remuneration component of EUR 30 thou. (previous year: EUR 42 thou.) for several years. Ancillary benefits amounting to EUR 24 thou. (previous year: EUR 20 thou.) refer to payments in kind for the provision of company cars.

The remuneration for the Supervisory Board in the reporting year totalled EUR 175 thou. (previous year: EUR 168 thou.). In the 2017 financial year, as in 2016, there were no loans to members of the Supervisory Board.

Disclosures pursuant to Section 314 (1) No. 6 a 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 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 consideration of the Annual General Meeting's opting-out decision of 25 May 2016. Here, the Annual General Meeting 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 GmbH & Co. KGaA, Hamburg.

In the 2017 financial year, MediClin AG's Management Board included the Chairman of the Management Board Volker Hippler, Chief Financial Officer Jens Breuer as well as Ulf Ludwig.

Several members of the Supervisory Board of MediClin AG have or had executive functions within the Asklepios Group in the 2017 financial year. The Chairman of the Supervisory Board Dr. Ulrich Wandschneider is or was the Chairman of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA, Hamburg (formerly Asklepios Kliniken Verwaltungsgesellschaft mbH, Königstein im Taunus) and of Broermann Holding GmbH, Königstein im Taunus (formerly Asklepios Kliniken Gesellschaft mit beschränkter Haftung, Hamburg). Furthermore, he is a member of the Supervisory Board of Asklepios Kliniken Hamburg GmbH, Hamburg, and of Vanguard AG, Berlin, with whom MediClin has concluded service agreements for the supply of sterile goods.

Rainer Laufs is or was a member of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA, Hamburg, and of Broermann Holding GmbH, Königstein im Taunus.

Cornelia Wolf is Head of Group Internal Audit of Asklepios Kliniken GmbH & Co. KGaA, Hamburg.

Dr. Bernard große Broermann, the sole shareholder of Broermann Holding GmbH, Königstein im Taunus, is a member of the Supervisory Board of MediClin AG.

On 31 May 2017 the Annual General Meeting of MediClin AG appointed Barbara Brosius to the Supervisory Board. She is or was a member of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA, Hamburg, and of Broermann Holding GmbH, Königstein im Taunus.

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 recognised provisions for remuneration for key management personnel are due within the time frame of one year, with the exception of EUR 48 thou. (previous year: EUR 72 thou.).

Related parties (companies)

Asklepios Kliniken GmbH & Co. KGaA, Hamburg, 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 Broermann Holding GmbH 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. In 2017 Asklepios increased its participation in Rhön-Klinikum AG to 25.10 % and can thus exercise considerable influence over Rhön-Klinikum AG. Rhön-Klinikum AG and its subsidiaries are thus classified as related parties, too.

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 management. 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 (18) "Pensions and similar commitments".

Business relations to related parties amount to the following:

In millions of €	2017	2016
Income		
Sales from post-acute, acute and nursing care services	1.8	2.0
Real estate management income	0.4	0.4
Pension payments of MAUK	0.9	0.8
Service contracts	0.5	0.3
Expenses		
Lease expenses[1]	44.8	44.1
Real estate management costs	0.9	0.9
Insurance premiums	1.6	1.5
Service contracts	7.9	8.3
Remuneration for key management personnel	2.5	2.6
Payments to MAUK	1.0	0.7
EDP services	2.6	2.5
Other purchased goods and services	0.2	0.6

In millions of €	31.12.2017	31.12.2016
Receivables		
Repayment claims from preliminary financing of clinic expansion and building measures	0.3	0.2
Receivables from post-acute, acute and nursing care services	0.2	0.2
Liabilities		
Service contracts	0.2	0.1
Provisions for insurance payments	0.0	0.1
Provisions for remuneration for key management personnel	1.0	0.6

[1] Lease expenses include EUR 44.2 mill. (previous year: EUR 43.4 mill.) in rental payments to OIK-Immobilienfonds; for more details see page 143.

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.

1.0 % of the annual rent is paid for the facility management of the special real estate asset OIK-Fonds MediClin.

Sales from service contracts consist primarily of remuneration for the payroll accounting of several Asklepios facilities performed by MediClin GmbH & Co. KG (2017: EUR 457 thou.; 2016: EUR 285 thou.).

Lease expenses refer to rents paid to OIK-Immobilienfonds (2017: EUR 44.2 mill.; 2016: EUR 43.4 mill.) and lease payments for the land and buildings of Rehabilitationszentrum Gernsbach (2017: EUR 0.7 mill.; 2016: EUR 0.7 mill.). The cost of real estate management amounts to 2.0 % of annual rents paid to OIK-Immobilienfonds.

Insurance premiums refer to payments resulting from various insurance agreements with subsidiaries of ERGO Versicherungsgruppe (2017: EUR 0.8 mill.; 2016: 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 0.8 mill. in 2017 (previous year: EUR 0.7 mill.).

Service contracts consist of:

In millions of €	31.12.2017	31.12.2016
Supply of sterile goods (Vanguard AG)	0.6	0.6
Laboratory services, pharmacy sales, others (Asklepios)	2.7	1.8
Services from non-consolidated MediClin service enterprises	4.6	5.9
	7.9	**8.3**

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. In the previous year the payments also included sums amounting to EUR 448 thou. for the termination of employment. 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 48 thou. (previous year: EUR 72 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.

OIK-Immobilienfonds

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

The suit was filed against current and former shareholders of the Company, who hold shares of the real estate fund into which the hospitals have been sold and rented back between 1999 and 2001.

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 289f of the 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	2017	2016
Annual audit	375	383
Other attestation services	2	15
Other services	5	57
	382	**455**

Subsequent events

Since 1 January 2018 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, 15 March 2018

Volker Hippler Jens Breuer Ulf Ludwig

Independent auditor's report

To MEDICLIN Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the combined management report and group management report

Opinions

We have audited the consolidated financial statements of MediClin Aktiengesellschaft, Offenburg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2017, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report and group management report of MediClin Aktiengesellschaft for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement contained in the combined management report and group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and
- the accompanying combined management report and group management report as a whole provide an appropriate view of the Group's position. In all material respects, this combined management report and group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report and group management report does not cover the content of the group non-financial statement contained in the combined management report and group management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the combined management report and group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and combined management report prepared in German audit of the consolidated financial statements and of the combined management report and group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Testing goodwill for impairment

Reasons why the matter was determined to be a key audit matter

Significant goodwill is recognized in the consolidated financial statements of MediClin AG. Goodwill is tested for impairment by the Company as of 30 September of the fiscal year. In doing so, the recoverable amount of a cash-generating unit is determined and compared with the respective carrying amount. The value in use is determined on the basis of the strategic budgets and forecasts available for the respective clinics and medical facilities. The figures used in the budgets and forecasts are necessarily based on many assumptions by the executive directors, which means that the determination of the recoverable amounts is subject to uncertainty.

Given the complexity of the valuation and the judgement exercised, the impairment testing of goodwill was considered to be a key audit matter.

Auditor's response

Assumptions on future cash flows were verified through comparison with the current development of business figures and by asking the executive directors about the major assumptions on growth and business development.

The appropriateness of the other major assumptions, such as the discount rate and the long-term growth rate, was assessed with the involvement of our valuation experts and in connection with an analysis of the general market indicators.

We verified the forecast of the Group's budgets and forecasts underlying the impairment test performed by the executive directors by analysing the basis used to prepare the forecast of the cash flows and the underlying assumptions taking into account the reliability of past forecasts.

We verified the method and calculations underlying the valuation models.

We also considered the estimates of the executive directors with regard to whether a sufficiently possible change in the major assumptions would lead to an impairment of goodwill.

Our audit procedures did not lead to any reservations regarding the assessment of the impairment of goodwill.

Reference to related disclosures

The disclosures on the accounting and valuation methods applied as well as on the judgement exercised by the management board and sources of estimating uncertainties are contained in the sections "Accounting and valuation principles" as well as "Exercise of judgement in applying accounting and valuation principles".

2. Assessment of the claims to repay the portion of rental payments above the customary market rate as well as contingent rental repayments

Reasons why the matter was determined to be a key audit matter

From 1999 to 2001, the Company sold the majority of its properties to special funds in which former and current shareholders have shareholdings, and leased them back in a sale-and-lease-back transaction.

MediClin AG filed an action with Offenburg regional court mid-2016 in order to assert claims to repay the portion of rental payments above the customary market rate. As a result of this action, the executive directors must assess the accounting implications.

The assessment of the subject matter is extremely complex and contains legal issues, some that have not yet been answered by the supreme court as well as valuation issues that entail considerable judgement.

For the years 2005 to 2007, rent reductions totalling EUR 21.0m were granted for certain properties. The agreement with the lessor contains a full repayment obligation, which is dependent on economic success parameters being met for all clinics in the special fund. The amount of the additional rental payment is 50% of the amount by which the EBIT total of the clinics in the fund of the respective fiscal year exceeds a critical value. The provision that has been recognised is based on the plan for the coming fiscal years.

Given the complexity as well as the judgement exercised, the assessment of the accounting and valuation of the claims to repay the portion of rental payments above the customary market rate as well as the inclusion of the contingent rental repayments in the balance sheet were considered to be a key audit matter.

Auditor's response

To assess the subject matter, we reviewed all legal opinions that the Company received from its advisors as well as from the counterparty and discussed them with the executive directors.

We interviewed the executive directors, the Company's tax advisor as well as employees in the finance department on the ongoing legal proceedings and examined the relevant correspondence as well as the minutes of the meetings held by the audit committee, the supervisory board and the management board. During audit committee meetings over the course of the year, we discussed the issues with the audit committee and agreed on the current status of proceedings.

We obtained lawyers' confirmations from external legal counsels and included our tax experts in the assessment of the assumptions and methods used by the Company. We verified and reviewed the assumptions made by the executive directors.

We verified the forecast of the success parameters of the clinics affected, upon which the determination of the provision with regard to the contingent rental repayment is based; this was done by analysing the basis used to prepare the forecast of the success parameters and the underlying assumptions taking into account the reliability of past forecasts.

Assumptions on future success parameters were verified through comparison with the current development of business figures and by asking the executive directors about the major assumptions on growth and business development.

We also assessed the clerical accuracy of the provisioning model applied by the executive directors.

Our audit procedures did not lead to any reservations regarding the assessment of the claims to repay the portion of rental payments above the customary market rate as well as with regard to determining the provision.

Reference to related disclosures

For information on judgement exercised by the executive directors in connection with the claims to repay the portion of rental payments above the customary market rate, we refer to section “Other opportunities and risks” in the group management report; for information in the group management report in section “OIK-Immobilienfonds” regarding the disclosures on other provisions, we refer to the disclosure in the notes to the consolidated financial statements in section “Notes to the consolidated balance sheet”, note 19 as well as in section “Contingencies and other financial obligations”.

3. Completeness and measurement of pension provisions

Reasons why the matter was determined to be a key audit matter

The MediClin Group has granted retirement benefits to a portion of its employees in connection with the company pension scheme; these benefits relate to defined benefit and defined contribution plans to retirement, invalidity and surviving dependants’ pensions. The defined benefit plans relate to two concluded pension plans.

This subject matter was in our opinion a key audit matter as it involves a pension provision of EUR 55.2m and is thus a key item in the consolidated balance sheet. The calculation is also based on numerous assumptions (e.g., interest rate, future salary increases, future pension increases), and requires a high degree of technical expertise.

Auditor’s response

We used the work of the actuary commissioned by the Company for our audit of the recognition of the pension provisions. We assessed the competence, capabilities and objectivity of the expert, gained an understanding of the expert’s work and assessed the suitability of that work as audit evidence for the relevant assertion.

We verified the assumptions underlying the valuation, such as the interest rate, future pension increases, employee turnover or salary development, by comparing them with generally available market data. We determined that these lie within an appropriate range. We also assessed the completeness and correctness of the data reported to the actuaries on a sample basis.

Our audit procedures did not lead to any reservations regarding the valuation and completeness of the pension provisions.

Reference to related disclosures

For information on the accounting and valuation methods applied regarding the pension provisions, we refer to the disclosure in the notes to the consolidated financial statements in section “Accounting and valuation principles”, for information on the related disclosures on the judgement exercised by the management board and sources of estimating uncertainties we refer to the disclosure in the notes to the consolidated financial statements in section "Estimates and assessments made by management" and for information on pension and similar obligations we refer to the disclosure in the notes to the consolidated financial statements in section "Notes to the consolidated balance sheet", note 18.

Other information

The supervisory board is responsible for the supervisory board report. In all other respects, the executive directors are responsible for the other information. The other information comprises the group non-financial statement contained in the combined management report and group management report and the group statement on corporate governance published on the Company's website as well as additional reporting sections in the annual report, of which we received a copy of by the time this independent auditor's report was issued, in particular the disclosures made in sections "Foreword by the chairman of the management board", "Sustainability in view", "The MediClin share" as well as "Further information".

Our opinions on the consolidated financial statements and the combined management report and group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, combined management report and group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the combined management report and group management report

The executive directors are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report and group management report that, as a whole, provide an appropriate view of the Group's position and are, in all material respects, consistent with the consolidated financial statements, comply with German legal requirements, and appropriately present the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report and group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report and group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report and group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report and group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report and group management report as a whole provide an appropriate view of the Group's position and, in all material respects, are consistent with the consolidated financial statements and the knowledge obtained in the audit, comply with the German legal requirements and appropriately present the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report and group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report and group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report and group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report and group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report

and group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report and group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report and group management report with the consolidated financial statements, their conformity with [German] law, and the view of the Group's position they provide.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report and group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 31 May 2017. We were engaged by the supervisory board on 31 October 2017. We have been the group auditor of MediClin AG without interruption since fiscal year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

We rendered the following services for companies of the Group for fiscal year 2017:

Company, registered office	Type of service
MediClin GmbH & Co. KG, Offenburg	Statutory audit of the financial statements
Dr. Hoefer-Janker GmbH & Co. Klinik KG, Bonn	Statutory audit of the financial statements
MediClin Krankenhaus am Crivitzer See GmbH, Crivitz	Statutory audit of the financial statements
Kraichgau Klinik AG, Bad Rappenau	Voluntary audit of the financial statements
Kraichgau Klinik AG Abhängigkeitsbericht, Bad Rappenau	Voluntary audit of the financial statements
Herzzentrum Lahr/Baden GmbH & Co. KG, Bad Rappenau	Statutory audit of the financial statements
Kraichgau-Klinik Bad Rappenau GmbH & Co. KG, Bad Rappenau	Statutory audit of the financial statements
Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, Bad Rappenau	Statutory audit of the financial statements
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG, Essen	Statutory audit of the financial statements
MediClin Fachklinik Rhein/Ruhr Therapie & Pflege GmbH, Essen	Review
Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem Verwaltungs GmbH, Essen	Review
KB Krankenhausbeteiligungsgesellschaft mbH & Co. KG, Essen	Review
KB Krankenhausbeteiligungsverwaltungsgesellschaft mbH, Essen	Review
MediClin Pflege GmbH, Offenburg	Statutory audit of the financial statements
MVZ MediClin Bonn GmbH, Bonn	Review
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	Voluntary audit of the financial statements
Cortex Software GmbH, Offenburg	Review
MediClin Therapie GmbH, Offenburg	Review
MediClin à la Carte GmbH, Offenburg	Statutory audit of the financial statements
MC Service GmbH, Offenburg	Review
MediClin Immobilien Verwaltung GmbH, Offenburg	Review
MediClin Geschäftsführungs-GmbH, Offenburg	Review
MediClin AG, Offenburg	Statutory audit of the financial statements
MediClin AG Abhängigkeitsbericht, Offenburg	Statutory audit
MC Kliniken Geschäftsführungs-GmbH, Offenburg	Review
MediClin Energie GmbH, Offenburg	Review
MVZ-Müritz GmbH, Waren	Review
MediClin Betriebs GmbH, Offenburg	Review
Fachklinik Zwieselberg GmbH, Freudenstadt	Review

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Marco Koch.

Stuttgart, 15 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Koch	Fleck
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Further information

CONTENTS

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, 15 March 2018

Volker Hippler | Jens Breuer | Ulf Ludwig

DR. ULRICH WANDSCHNEIDER
CHAIRMAN OF THE SUPERVISORY BOARD

Report of the Supervisory Board

Dear Shareholders,

In the 2017 financial year the Supervisory Board of MEDICLIN Aktiengesellschaft (MEDICLIN) took great care to fulfil 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. The Supervisory Board approved the investment and acquisition projects requiring its approval as presented by the Management Board in the corresponding meetings. 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. The Supervisory Board received regular updates from the Management Board or the legal advisors regarding the status of the law suit in connection with the amount of rents for clinics bound by rental contract. In June 2016 MEDICLIN had filed an action with the District Court (Landgericht) of Offenburg, asserting claims for repayment of excessively high rental payments for the period 2005 to 2015.

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 significant 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 58 ff of the 2017 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

In the reporting year, the Supervisory Board held four rotational meetings with personal attendance. One member excused themself for one meeting and submitted their vote in writing. 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.

On 29 March 2017, the Supervisory Board discussed the annual financial statements and the consolidated financial statements for 2016, which had already been audited by the Audit Committee, 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 31 May 2017 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 2017 financial year; the statement of independence from the intended auditor had been received. The Supervisory Board also followed the recommendation of the General and Personnel Committee with respect to the provisions regarding the variable remuneration component and bonuses to the Management Board. The entire Board discussed and approved the updated conformity declaration and the report by the Supervisory Board for the 2016 financial year. When preparing the conformity declaration, the Nomination Committee adjusted the previous objectives regarding the composition of the Supervisory Board to account for the recommendations of the German Corporate Governance Code as amended on 7 February 2017. The Supervisory Board approved this adjustment. The entire Board further dealt with the agenda for the Annual General Meeting on 31 May 2017.

In the Supervisory Board meeting held after the Annual General Meeting on 31 May 2017, the Chairman of the Supervisory Board, the Deputy Chairman and committee members had to be redetermined, following a new election of employee representatives on 10 May 2017. All employee representatives were re-elected. Dr. Ulrich Wandschneider was re-elected as the Chairman of the Supervisory Board and Hans Hilpert as his deputy. The shareholder representative Irmtraut Gürkan resigned from the Supervisory Board and the resignation became effective at the end of the Annual General Meeting. The

Annual General Meeting elected Barbara Brosius as a new Supervisory Board member. Following the election of the Chairman and his deputy, the members of the committees were elected. After the voting, the Supervisory Board further dealt with the current business development of the Group in the first quarter of 2017, 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. Since the maximum limit of the initial deadline for the share of women on the Management Board pursuant to Section 25 (1) Introductory Act to the German Stock Corporation Act (EGAktG) was 30 June 2017, the Supervisory Board resolved to maintain the target of 0 % until 30 June 2020. The Supervisory Board wants to be able to select the members of the Management Board on the basis of competencies without having to adhere to binding ratios.

In the meeting on 11 September 2017 the Management Board informed the Supervisory Board about the business development in the first half-year of 2017. In addition, the Supervisory Board received the comments of the Audit Committee with regard to half-year reporting. The Supervisory Board extensively discussed the compliance system as presented, the measures taken in this respect and the corresponding results.

In the meeting on 21 November 2017 the Management Board explained the business performance of MEDICLIN in the first nine months of the 2017 financial year; here, too, the Audit Committee rendered additional comments. The Management Board presented its business planning for 2018 to 2020 as well as the associated general conditions and measures. Following careful deliberation, the Supervisory Board finally acknowledged and approved the planning, assumptions and target figures presented and the accompanying explanations of the Management Board. The German Act for Strengthening the Disclosure of Non-Financial Company Information in Management and Group Management Reports (Gesetz zur Stärkung der nichtfinanziellen Berichterstattung der Unternehmen in ihren Lage- und Konzernlageberichten, CSR-RUG) that implements the European CSR Directive came into force on 19 April 2017. The Act does not prescribe a mandatory audit of the contents of the non-financial declaration or the separate non-financial report by a third party, only a verification of the formal requirements by the auditor pursuant to Section 317 (2) Sentence 4 German Commercial Code (HGB) as amended. This means that the Supervisory Board is responsible for reviewing the contents. It may, however, commission an external auditor, although this does not discharge the Supervisory Board from its obligation to conduct its own review. The Supervisory Board resolved to commission Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to perform a review.

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 one conference call and four meetings with personal attendance, in which all members participated. In a meeting on 22 February 2017 the Audit Committee discussed the preliminary financial statements for 2016, the preliminary consolidated financial statements for 2016 and the preliminary figures for 2016 with the Management Board and the auditors. In the meeting with personal attendance on 29 March 2017 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 2016, the consolidated financial statements for 2016, 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 2016 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 2017 as auditor. The independence certification was examined, and the independence confirmed.

In the conference call on 5 May 2017, the conference call on 4 August 2017 and the meeting on 8 November 2017 the Audit Committee had extensive discussions with the Management Board regarding the business performance and the financial information for the corresponding reporting period. In the meeting on 8 November 2017 the Audit Committee also talked about the key points for the 2017 audit with the attending auditors of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft 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 and the report on the internal audit 2017. Internal audit planning for 2018 was talked through.

The General and Personnel Committee convened once in the 2017 financial year. In its meeting on 29 March 2017, the Committee prepared its recommendations to the Supervisory Board for the 2016 Management Board variable remuneration component and the bonus provisions for 2017. The meeting was attended by all members.

The Nomination Committee convened on 22 February 2017 and on 6 March 2017. It dealt with the recommendations of the German Corporate Governance Code as amended on 7 February 2017 in order to adjust the Supervisory Board's previous objective for its composition to the new recommendations. As such, the Nomination Committee determined concrete targets for the composition of the Board and a competency profile for the entire Supervisory Board. The Committee further strove to meet the requirement of the Annual General Meeting and to propose a suitable successor for Irmtraut Gürkan who was planning to resign from office at the end of the Annual General Meeting on 31 May 2017.

The Mediation Committee did not convene in the 2017 reporting year.

Changes in the Supervisory Board and the Management Board

Irmtraut Gürkan resigned from the Supervisory Board, effective as at 31 May 2017. On 31 May 2017 the Annual General Meeting elected Barbara Brosius onto the MEDICLIN Supervisory Board.

There were no changes to the Management Board in the year under review.

Annual financial statements and consolidated financial statements

The annual financial statements of MEDICLIN AG and the consolidated financial statements for the 2017 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 2017 financial year at the Annual General Meeting on 31 May 2017 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 2017 annual financial statements of MEDICLIN AG and the 2017 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 22 March 2018 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. In the context of the examination the Supervisory Board also examined the non-financial declaration, contained in the summarised management report and Group management report, and they came to the conclusion that the non-financial declarationen meets the existing requirements and that there are no objections to raise.

Following careful deliberation of the allocation of unappropriated profit, the Supervisory Board followed the recommendation by the Management Board to pay out a dividend for the 2017 financial year. The Supervisory Board further adopted the report of the Supervisory Board, the corporate governance declaration and the corporate governance report, the remuneration report and the non-financial declaration as well as its proposals for resolutions regarding the items on the agenda of the ordinary Annual General Meeting 2018.

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
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 22 March 2018. 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, 22 March 2018

On behalf of the Supervisory Board

Dr. Ulrich Wandschneider
Chairman of the Supervisory Board

Financial calendar

22 February 2018
Disclosure of the preliminary figures for the 2017 financial year

23 March 2018
Annual press and analysts' conference for the 2017 financial year

7 May 2018
Publication of the interim report from 1 January 2018 to 31 March 2018

29 May 2018
Annual General Meeting

2 August 2018
Publication of the interim report from 1 January 2018 to 30 June 2018

5 November 2018
Publication of the interim report from 1 January 2018 to 30 September 2018

Addresses and imprint

MEDICLIN Aktiengesellschaft
Okenstrasse 27
77652 Offenburg
Germany
Phone +49(0)781/488-0
Fax +49(0)781/488-133
E-mail info@mediclin.de
www.mediclin.de

Public Relations
Gabriele Eberle
Phone +49(0)781/488-180
Fax +49(0)781/488-184
E-mail gabriele.eberle@mediclin.de

Investor Relations
Alexandra Mühr
Phone +49(0)781/488-326
Fax +49(0)781/488-184
E-mail alexandra.muehr@mediclin.de

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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: Akutklinik Somatik
▲ Asklepios: Fachklinik Psychiatrie
● Asklepios: Postakut-/Rehaklinik
○ Asklepios: Sonstige Gesundheitseinrichtung
(u.a. Tagesklinik, Psychiatrische Institutsambulanzen (PIA), Gesundheitszentrum, Pflegeeinrichtung)
* Einrichtung unter Management

● MediClin: Akutklinik Somatik
▲ MediClin: Fachklinik Psychiatrie
● MediClin: Postakut-/Rehaklinik
○ MediClin: Sonstige Gesundheitseinrichtung
(u.a. Tagesklinik, Gesundheitszentrum, Pflegeeinrichtung)

As of March 2018