ANNUAL REPORT 2018

MEDICLIN Aktiengesellschaft

MEDICLIN – A company of the Asklepios Group

MEDICLIN

MEDICLIN: Key data on business development

	2018	2017	Change in %
Number of shares **in millions**	47.5	47.5	0.0
Number of cases (inpatient)	122,954	122,259	+ 0.6
Number of beds as of 31.12.	8,324	8,267	+ 0.7
Occupancy rates **in %**	89.1	88.2	
Number of full-time employees (annual average)	7,226	6,964	+ 3.8

In thousands of €	2018	2017	Change in %
Cash flow from operating activities	29,675	20,050	+ 48.0
Cash flow from operating activities per share **in €**	0.62	0.42	+ 48.0
Sales	645,106	609,083	+ 5.9
EBITDAR	85,245	94,230	– 9.5
EBITDAR margin **in %**	13.2	15.5	
EBITDA	37,348	27,006	+ 38.3
EBITDA margin **in %**	5.8	4.4	
EBIT (operating result)	15,063	6,616	+ 127.7
EBIT margin **in %**	2.3	1.1	
Financial result	– 3,200	– 2,360	– 35.6
Result attributable to shareholders of MEDICLIN AG	7,717	3,908	+ 97.5
Earnings per share **in €**	0.16	0.08	+ 97.5
Dividend per share[1] **in €**	0.05	0.05	
Gross capital expenditure	49,331	46,812	+ 5.4
Thereof subsidies	8,061	7,162	+ 12.6
Proportion of own funds **in %**	83.7	84.7	
Interest coverage factor (EBITDA / interest income)	11.5 x	11.4 x	

In thousands of €	31.12.2018	31.12.2017	Change in %
Balance sheet total	444,735	368,626	+ 20.6
Equity	191,404	185,260	+ 3.3
Equity ratio **in %**	43.0	50.3	
Return on equity[2] **in %**	4.1	2.1	
Financial liabilities (to banks)	75,683	47,491	+ 59.4
Cash and cash equivalents	33,829	26,907	+ 25.7
Net debt	41,854	20,583	+ 103.3
Net debt / EBITDA[3]	1.1 x	0.8 x	

[1] Proposed for 2018 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.

MEDICLIN

Health in view

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

NOTE
In order to improve readability, we refrain from stating both genders in the Annual Report. Whenever a gender-specific term is used, it should be understood as referring to both genders, unless explicitly stated. This does not entail any type of judgement whatsoever and no offense is intended.

Quarterly development of the Group in 2018

In millions of €	Q1	Q2	Q3	Q4
Sales	157.9	163.5	163.7	160.0
EBITDAR	18.0	23.0	28.9	15.3
EBITDAR margin in %	11.4	14.1	17.7	9.5
EBITDA	6.1	11.0	17.0	3.2
EBITDA margin in %	3.9	6.8	10.4	2.0
EBIT (operating result)	0.7	5.6	11.5	−2.7
EBIT margin in %	0.4	3.4	7.0	−1.7
Financial result	−0.6	−0.7	−1.2	−0.7
Result attributable to shareholders of MEDICLIN AG	0.2	3.8	7.6	−3.9
Earnings per share in €	0.00	0.08	0.16	−0.08
Cash flow from operating activities	5.2	−0.4	16.7	8.2
Cash flow from operating activities per share in €	0.11	−0.01	0.35	0.17
Equity ratio in %	44.2	44.8	44.8	43.0
Gross capital expenditure	9.5	10.2	12.5	17.1
Net financial debt	23.9	35.3	29.7	41.9
Number of cases (inpatient)	30,783	30,790	30,887	30,494
Number of beds (end of quarter)	8,281	8,290	8,321	8,324
Occupancy rates in %	88.4	90.8	89.7	87.2
Number of full-time employees (quarterly average)	7,138	7,193	7,267	7,306

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

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VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,
Dear Shareholders,

2018 was another successful financial year for our Company. We managed to raise Group sales to EUR 645.1 mill. and generated a Group operating result of EUR 15.1 mill. Therefore, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 29 May 2019 to pay out a dividend of EUR 0.05 per share.

The healthcare sector is facing more and more challenges

The fact that we were successful in 2018 is nothing that can be taken for granted. Although the ageing population and the resulting instances of multimorbidity as well as the increase in mental, neurological and chronical illnesses act as growth drivers for us, they also entail an ever-increasing price pressure within the healthcare system. As this price pressure is passed on to the service providers, i.e. hospitals, rehabilitation facilities and nursing care homes, we are forced to find solutions to enhance our efficiency. To us, efficiency means to offer more people access to high-quality, patient-oriented and cost-efficient healthcare. This, however, is not the only challenge we are and have been facing. In addition, the sector is suffering from a shortage of medical staff, therapists and nurses. These, in turn, are urgently needed to meet the requirements of the healthcare sector and actively shape the future.

However, we are prepared to take on these challenges. We will continue to invest in growth, our brand and in being an attractive employer.

Growth is driven by our integrated medical care concept

Group sales climbed 5.9 % year-on-year by EUR 36.0 mill. to EUR 645.1 mill. in 2018, meaning we reached our 2018 growth target.

Again, our sales growth was generated to a great extent by the post-acute facilities that, in addition to rehabilitation services, also offer acute medical care in the scope of our integrated medical care concept. Given the budget regulations that apply to the healthcare sector, capacity expansions are not immediately reflected in sales. In the acute segment, mandatory discounts on services mean that the full effect will only be felt after four years.

The Group operating result for the financial year was EUR 15.1 mill. We did not reach our profit target as staff costs, in particular, exceeded our expectations considerably.

High capital expenditure for hospital reconstruction and expansion

In the 2018 financial year we invested a gross amount of EUR 49.3 mill., up from EUR 46.8 mill. in the previous year.

Gross investments in property, plant and equipment totalled EUR 45.3 mill. (previous year: EUR 42.2 mill.). Approximately EUR 24.1 mill. was used for the reconstruction and expansion of clinics. Nearly all clinics are expanding or modernising their facilities, investing between EUR 0.2 mill. and EUR 1.5 mill. The largest investment of EUR 6.8 mill. pertains to the construction or expansion of three retirement homes.

Capital expenditure for IT infrastructure amounted to EUR 4.0 mill., EUR 8.2 mill. was invested in medical devices including accessories, and EUR 3.3 mill. was spent on furnishing patient and nurses' rooms and offices.

EUR 18.5 mill. (previous year: EUR 17.6 mill.) was spent additionally on maintenance and repairs.

In 2017 and 2018 we thus invested far more than in previous years, showing that we are consistently following and implementing our objective of growing and offering a broader service range. We have to do this in order to be able to compensate some of the rising costs in the healthcare sector with higher sales.

This means that we will continue to expand capacities in strongly growing areas and make targeted additions to the range of services in 2019. Again, the Group plans capital expenditure at the level of the two previous years.

Post-acute and acute segments meet their sales targets in financial year 2018

A look at our segments shows that the post-acute segment significantly exceeded its sales target in the 2018 financial year (target corridor: +6.0 % to +7.0 %). Segment sales rose from EUR 373.2 mill. to EUR 400.5 mill. or by 7.3 %, respectively. The positive performance in our post-acute segment is also due to the fact that 12 of our 28 rehabilitation clinics offer additional acute medical care services in the scope of our integrated care concept. Our patients and their relatives consider this to be an invaluable advantage as is reflected in the excellent occupancy rate of these clinics. The good result in the post-acute segment in the amount of EUR 20.5 mill. is mainly due to the positive sales development.

We assume that this segment will continue to perform well in 2019.

Sales growth of +3.5 % in the acute segment was within the target corridor of +3.0 % to +4.0 %. Segment sales rose by EUR 7.7 mill. from EUR 216.6 mill. to EUR 224.3 mill. However, the acute segment, which was still showing a EUR 1.6 mill. segment result in the first nine months of the 2018 financial year, suffered a sales dip in the fourth quarter, mainly in December, which weighed on the segment result. The segment result amounted to EUR −1.2 mill.

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.

We assume that sales will grow and that the segment result will improve moderately in 2019. 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. The requirements for staff numbers will also pose a challenge, as the additional costs will not be fully compensated despite the promise that costs will be reimbursed. Moreover, no remuneration will be paid for services rendered if the requirements are not met.

The nursing care business area continued to perform very well with the 2018 occupancy rate maintaining the high previous year's value. In the nursing care business area, sales climbed from EUR 15.2 mill. to EUR 15.5 mill.

We are investing in the MEDICLIN brand

Our Company seeks to be more than the sum of the services, image and values it represents. In order to achieve this, we need employees who identify with the Company and are fully committed to their work. Our role as a service provider in the healthcare sector means that we work very closely with people. This is only possible if those people have faith in our medical, therapeutic and nursing care competence, which, in turn, is established by our doctors, our therapists and our nursing care staff. The more our employees feel valued and recognised in their respective working environments, the better they will be able to demonstrate their competence.

Competence and trust are the crucial elements of a brand. If we succeed in creating a positive MEDICLIN brand experience at all levels, our brand will successfully manifest itself in people’s minds.

Within the Company, this process has started. In the future, the strength of MEDICLIN Group’s umbrella brand will be used in such a way that it promotes the individual locations, while the special competency profiles of the locations will help strengthen the umbrella brand.

We can only venture on this path together – with a collective understanding of our goals, values and the entrepreneurial future we are all working on. This enables us to communicate our high expectations of our brand within MEDICLIN, while at the same time creating a brand experience for the outside world.

We prepared a sustainability report in 2018, which shows that we take our social responsibility very seriously.

MEDICLIN is an attractive employer

In 2017 we initiated a process of verifying, together with the executives in all fields, whether the division of tasks within the Group is sufficiently transparent and whether the Company’s organisational structures allow our executives to take on the responsibility in their respective fields as planned.

This process is starting to bear fruit. Communication and interdisciplinary cooperation have increased. Nevertheless, we still need to further improve our division of tasks and responsibilities. This refers to both cooperation between the central services and the clinics as well as the collaboration among the different central services and the individual departments of the clinics.

Our aim is to create an attractive working environment that promotes the ambition and motivation of our executives and our employees. We believe that this process will make working for MEDICLIN more efficient and attractive.

In addition to offering jobs where employees can unfold their competence and are appreciated for their expertise, we also offer attractive part-time employment models and a wide variety of further training measures. So far this has helped us to recruit basically all the employees we needed to expand our range of services. We will do our utmost to ensure that this will be the same in the future.

Our business model is future-proof

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.

However, today this no longer suffices. We have decided to specialise in order to offer high-quality medical, therapeutic and nursing care services. Our focus lies on “heart, head and age”. These areas address issues of a high social relevance – demographics, multimorbidity, increase in mental and neurological illnesses – and allow us to exploit the resulting growth opportunities.

Additional challenges include social change, protection of the environment and resources, urbanisation and – last but not least – digitalisation. These topics will also have to be addressed in the future. The greater our success, the more we will be able to find or help to find solutions to these issues.

First, however, we will concentrate on further investing in stronger sales growth. As investments create new jobs, MEDICLIN has increased its average headcount, in terms of full-time employees, by about 577 full-time employees over the last three years. Given the current shortage of skilled professionals, finding the required amount of specialists will be one of our most important tasks.

We would like to thank our employees

We managed to achieve a lot in the 2018 financial year. However, we are still adjusting to future challenges, which we can only handle successfully if we have qualified and motivated staff we can rely on. We found that this is the case. Therefore, I would like to express my thanks, also on behalf of my colleagues on the Board. Without your commitment, we would not have been as successful in 2018. Let’s continue to make the most of the opportunities the future has to offer.

Dear shareholders: another thing we cannot change is the framework conditions in the healthcare system; this responsibility lies with the legislative authorities. What we can do, however, is to seize the opportunities on offer and minimise the risks. This is the responsibility of me and my Board colleagues. MEDICLIN is an attractive company that will continue to be deserving of the trust of its owners.

My colleagues and I would like to thank you for the faith you place in us.

Volker Hippler
Chairman of the Management Board

From left to right:

ULF LUDWIG
MEMBER OF THE MANAGEMENT BOARD

VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

TINO FRITZ
CHIEF FINANCIAL OFFICER

Experiencing the MEDICLIN brand

A brand is more than summing up its services, creating an image and sharing the same values. Strong brands have a specific asset: they are able to evoke feelings and form lasting impressions.

But which emotions does our MEDICLIN brand evoke? And how can we promote further trust in our brand? Is there a way to translate the specific "MEDICLIN feeling" into words? When we consider that 80 per cent of our decisions are driven purely by emotions, this question becomes even more important.

People usually perceive the brand MEDICLIN in a personal context. This happens in a wide variety of situations: as a patient, doctor, visitor, medical staff member, service provider, colleague, etc. If we succeed in creating a positive brand experience for MEDICLIN at all levels, our brand will successfully establish itself in people's minds. The initial contact can develop into an emotional bond with our brand. And on this basis in due course trust can develop. That's why we want our customers to experience our brand through "palpable" values rather than based on strategic interests. At all levels. As an emotional experience that remains feasible as a lasting memory. An experience that is authentic and (therefore) makes an impact.

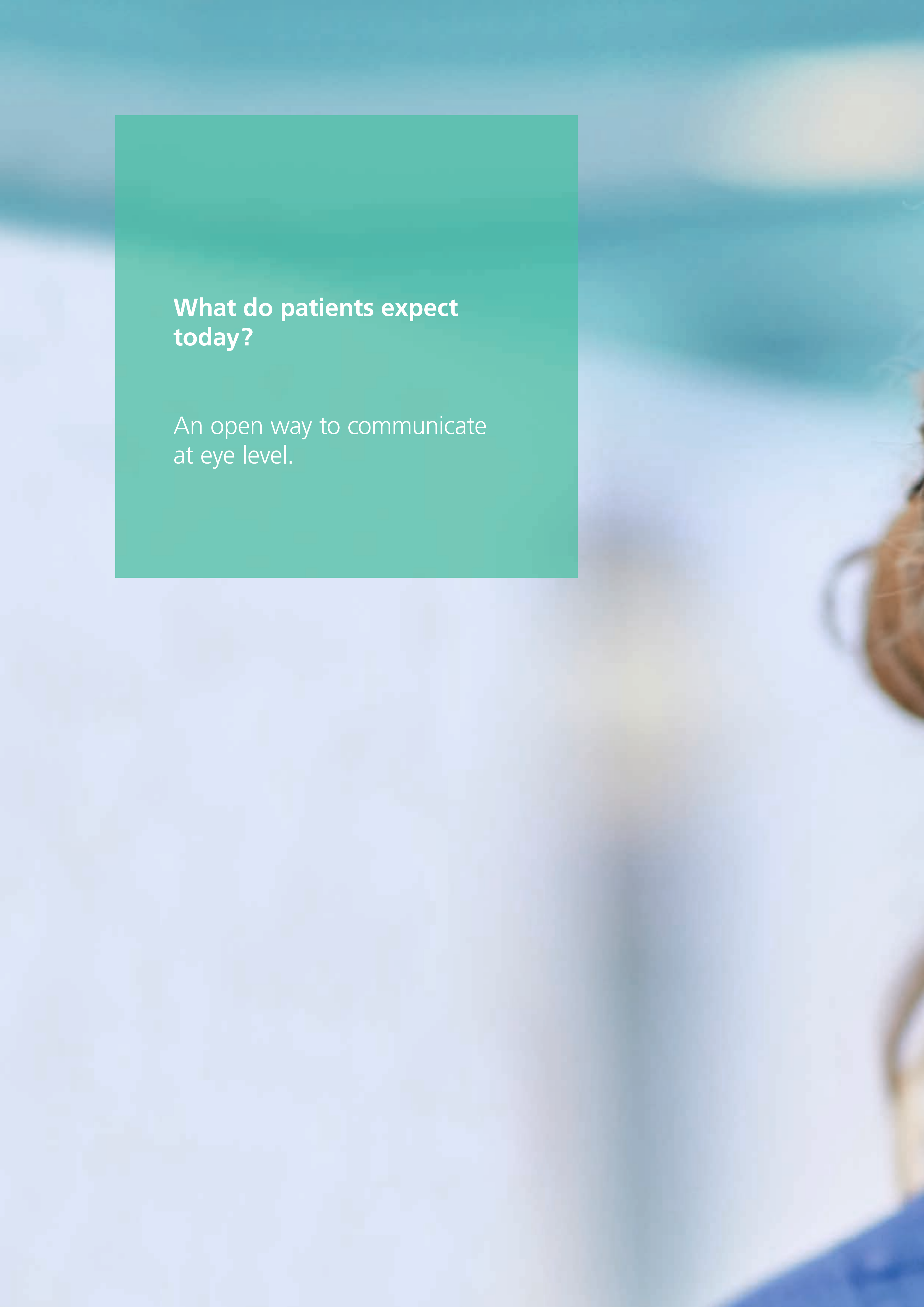
We can only proceed on this path together – with a collective understanding of our goals, values and the entrepreneurial future we all work for. This enables us to communicate our high expectations of our brand within MEDICLIN, while we simultaneously create and shape a perception of our brand for the outside world. With a tangible idea of what we can do here and now for MEDICLIN as a brand. And, vice versa, what the MEDICLIN brand can do for us – now and in the future. This is the only way to establish our clearly defined values as a guiding principle of our collective future. All of us who represent the MEDICLIN brand make it a feasible experience and can thus bring it into focus. Together we can enable our brand to develop its capabilities even further. Now and in the future. To ensure that trust will grow.

Committed to experience and trust? Or developing new ideas and a solid sense of innovation?

Yes, within the right team – working on it every day. And being part of a team in which everyone can develop their individual talents.

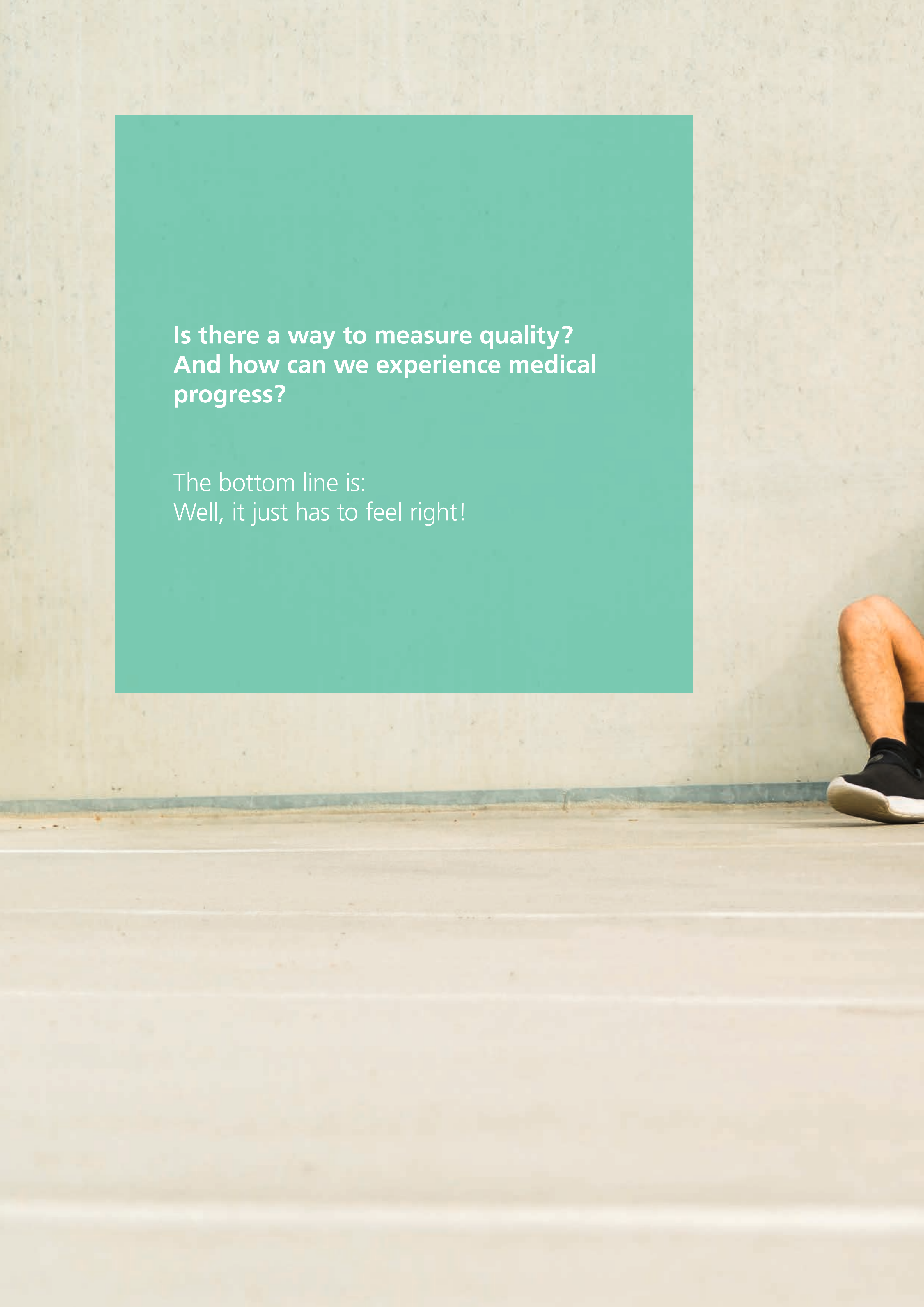
Feeling "infected by" enthusiasm?
Working on sustainable decisions?

Yes – each and every day.



What do patients expect today?

An open way to communicate at eye level.



**Is there a way to measure quality?
And how can we experience medical progress?**

The bottom line is:
Well, it just has to feel right!

Why does modern science need individual approaches to medical treatment?

Because every patient is unique.

Medicine, therapy and nursing care: how much communication is needed today?

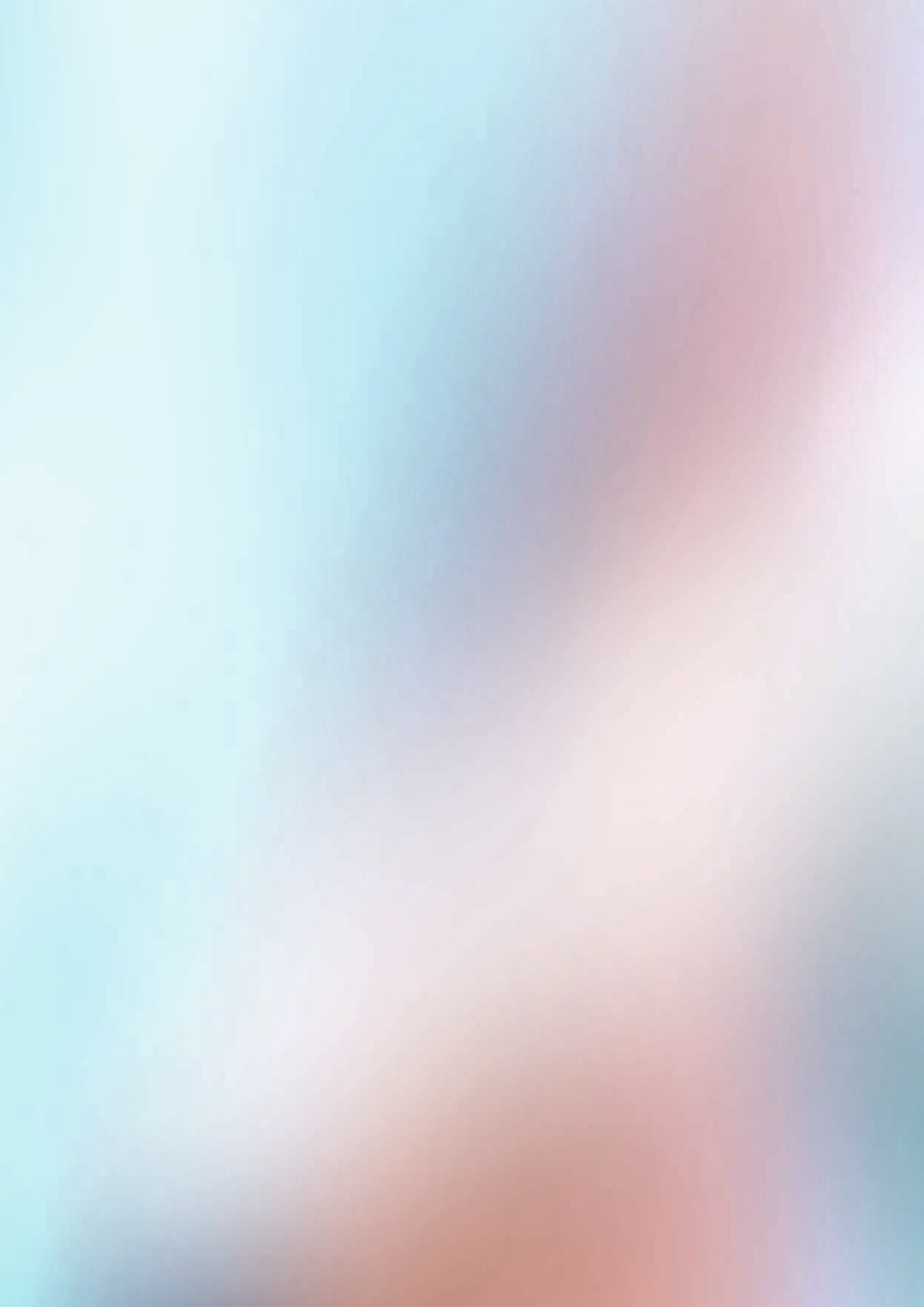
Exactly the dose each individual patient needs.

How can competence maximize trust?

Through natural empathy, for instance.

Medicine according to the principle “faster, further, better”?
Or “closer, more personal and honest”?

For us, it is not a contradiction but our collective effort.



The MEDICLIN share

The MEDICLIN share

Following the record stock exchange performance in 2017, 2018 proved a disappointment to many investors. The more so as the investment experts' forecasts for 2018 had been largely positive and the German leading DAX index reached a historical high of 13,597 points at the beginning of the year.

However, in the second half of the year, the German stock market and the DAX saw a downturn. At the end of the year, the DAX had lost some 18 % compared to the beginning of the year. The share price losses of German technology companies, which are listed in the Tec-DAX, were not as pronounced.

Over the course of the year particularly the recurring trade disputes between the United States of America and the rest of the world and, towards the end of the year, the first warnings of a weakening economy weighed on the stock exchange.

On 23 January 2018 the DAX reached 13,597 points to drop to 10,279 points on 27 December 2018 – a two-year low.

According to a survey published on 3 January 2019 and conducted by the German newspaper Frankfurter Allgemeine Zeitung among two dozen banks, fund management companies and insurers on behalf of the DAX index, the forecasts for 2019 vary widely. The forecasts range between 10,000 points, implying a 5 % drop, and 13,400 points, which would correspond to a 27 % rise. The average forecast for 2019 implies an increase by 13 % to almost 12,000 points.

Detailed investor information is available on our website

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

The MEDICLIN share (Xetra) closed 2018 at a price of EUR 5.75, which was 8.7 % below the share price at the beginning of the year (EUR 6.30). The yearly low was EUR 5.55 (21.12.2018); the yearly high was EUR 6.50 (06.03.2018).

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" and "Buy".

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	2018	2017
Result undiluted/diluted	0.16	0.08
Cash flow from operating activities	0.63	0.42
Book value[1] as of 31.12.	4.03	3.91
Year-end price	5.75	6.25
Annual high	6.50	6.88
Annual low	5.55	5.50
Market capitalisation (year-end price) **in millions of €**	273.1	296.9
Number of shares **in millions**	47.5	47.5

[1] Equity less non-controlling interests
Sources: Deutsche Börse AG; Xetra

Summarised management report and Group management report of MEDICLIN Aktiengesellschaft for the 2018 financial year

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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 55 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 at 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 line with its business model, MEDICLIN pursues a regional concept. Together with the local clinic management teams, the executives that are responsible for a certain region are in charge of the operational and strategic orientation of the medical facilities and the development of the range of services at their locations, thus ensuring the economic success of the clinics within their region.

MEDICLIN's regional concept promotes the establishment of a medical services offer that meets the specific needs within a region and enhances integrative patient care in the vicinity of the patients' homes.

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 %; 12.27 % of the shares are in free float.

The Supervisory Board acts as the highest controlling and supervisory body and is subject to the provisions of the German Codetermination Act (MitbestG). In the reporting period, it consisted 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.

As the number of employees will presumably rise to about 10,000, the Management Board took the necessary steps in October 2018 to increase the Supervisory Board to a total of 16 members, eight to represent the staff and eight to represent the shareholders in accordance with Section 101 (1), Sentence 1 German Stock Corporation Act (AktG) in conjunction with Section 1 (1), Section 7 (1) Sentence 1 No. 2 German Codetermination Act (MitbestG). The new Supervisory Board members will be introduced and, in the case of the shareholder representatives, elected at the Annual General Meeting in May 2019.

GROUP STRUCTURE

MEDICLIN AG is a holding company and the ultimate parent company of the MEDICLIN Group. 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, accounting, controlling, taxes, internal audit, compliance, personnel and social benefits, purchasing, construction and technology, quality management, organisation and corporate communication, 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:

- MediClin-IT 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 Energie GmbH
  Power trade, operation and maintenance of power engineering equipment and cable systems, development of power concepts

As of 31 December 2018, MEDICLIN included 36 clinics, seven nursing care facilities, three home nursing care services and nine medical care centres nationwide. Eight of the 36 clinics are dedicated acute-care hospitals and 28 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 had total capacity of 7,893 beds and 431 nursing places on the balance sheet date. Bed capacity within the Group increased continuously over the last few years. Capacity expansions and adjustments within the facilities are performed on the basis of demand in line with the corporate strategy and the business model.

In the 2018 financial year the average number of employees was nearly 10,000; calculated on the basis of full-time staff, this corresponds to an average number of 7,226 full-time employees.

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

MEDICLIN's range of medical services is highly professional and certified. Medical focus areas are neurology, psychosomatics and psychiatry. All in all, bed capacity for these indications increased by 95 beds or 2.9 % in 2018. As such, the share of neurology, psychosomatics and psychiatry amounts to 42.9 % (previous year: 42.0 %) of total beds available at the end of the year (not including nursing care). Further focus areas are orthopaedics, internal medicine and geriatrics. Based on the increase in demand, capacity for geriatric patients was increased by another 110 beds. The additional capacity was created through construction measures and by expanding existing capacities, in particular in the fields of orthopaedics and internal medicine, to include additional geriatric expertise.

Number of beds/places

As of 31.12.	2018	2017
Post-acute		
Neurology	1,583	1,498
Psychosomatics	932	960
Orthopaedics	1,629	1,700
Internal medicine	565	640
Cardiology	399	379
Oncology	371	395
Geriatrics	324	214
Other	339	337
Total	**6,142**	**6,123**
Acute		
Neurology	296	281
Psychosomatics	244	225
Psychiatry	329	325
Surgery	231	231
Orthopaedics	196	196
Internal medicine	191	191
Other	264	264
Total	**1,751**	**1,713**
Nursing care	431	431
Group	**8,324**	**8,267**

Development of the average number of employees by service (without Management Board, managing directors and trainees)

Shown in full-time employees	2018	2017
Medical	867	853
Nursing care	2,226	2,147
Medical-technical	1,609	1,580
Functional	470	428
Medical services	**5,172**	**5,008**
Support functions	1,159	1,094
Technical	134	129
Administration	618	590
Other	43	47
Non-medical services	**1,954**	**1,860**

Development of the average number of employees by segment (with Management Board, managing directors and trainees)

Shown in full-time employees	2018	2017
Post-acute	3,877	3,639
Acute	2,099	2,055
Other activities	1,250	1,270
Thereof nursing care	212	205
Thereof service (including administration)	1,038	1,065
Group	**7,226**	**6,964**

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. The staff increases were most pronounced in the nursing care, medical-technical and support functions services areas.

MEDICLIN increased staff numbers in all segments as well as the central support services for the clinics. The post-acute segment saw the strongest rise in employee numbers. This is in line with the clear increase in demand for therapeutic and medical services and the corresponding capacity and service range expansions over the last few years.

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 mostly affect the cost side and usually refer to stricter requirements for organisational and staff resources and/or restrictions regarding the remuneration paid for medical, therapeutic and nursing care services.

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 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 replaced the discount for additional services 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 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 hospital operator.

In the nursing care sector, inpatient care comprises patients who receive full-time, part-time or short-term nursing care. Nursing care services may only be charged to the public nursing care insurance if they are rendered by an approved facility that concluded a supply contract with the nursing care insurance fund. For outpatient care, the regional associations of the nursing care insurance funds conclude framework agreements with the providers of outpatient care for each of the German federal states. The German Health Insurance Medical Service (MDK), the working committee of the local social insurance carriers and the Association of Private Health Insurances are also involved in this process. These framework agreements are binding for the nursing care insurance funds and the approved nursing care service providers. The risk of creating capacity for this type of services also lies with the operators of nursing care homes.

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

Objectives and strategy

INTEGRATED MEDICAL CARE ACROSS SECTOR LIMITS

In the context of its integrated medical care concept, MEDICLIN strives to link up the locations in the outpatient, inpatient and 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 capacity 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 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. 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 x.

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.

The key figures are explained in the Investor Relations section of the MEDICLIN website.

Sustainability report

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 the due care. In addition to the financial control parameters, the Management Board therefore also uses non-financial performance indicators, such as patient surveys, quality assurance, personnel development, health and safety at work and subjects surrounding energy and the environment to promote the Group's overall 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 Group's non-financial declaration pursuant to Sections 315b and 315c German Commercial Code (HGB) to be prepared for the first time in 2017. This year's declaration was updated and is included in the sustainability report. The non-financial declaration comprises the following section as well as the section on the Group's business model in the summarised management report and the Group management report of the 2018 Annual Report, pages 32ff.

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

Section 315b German Commercial Code (HGB) states that the non-financial statement should include a brief description of the corporation's business model. The business model of MEDICLIN is to establish a network of outpatient and inpatient medical services across sector boundaries. This increases the efficiency of healthcare while guaranteeing a high quality standard along the entire treatment chain. The business model is described in the section on the Group's business model in the summarised management report and the Group management report of the 2018 Annual Report, pages 32ff.

MEDICLIN's sustainability reporting and choice of material topics to be covered by the non-financial declaration is based on the standards issued by the Global Reporting Initiative (GRI).

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was commissioned to perform an audit to achieve limited assurance in accordance with the ISAE 3000 audit standard.

MATERIALITY JUDGEMENT

In mid-2017 MEDICLIN set up a project team for sustainability reporting. The members of this interdisciplinary project and working group (human resources, energy, finance, procurement, catering, quality management, compliance, marketing, corporate communication and investor relations) use the GRI standards to identify the ecological and social effects within their respective spheres of responsibility. As a first step, the working group applied the GRI standards to identify relevant sustainability issues. The second step was to analyse whether these relevant issued could impact the efficiency of MEDICLIN. No material issues were detected in the "respect for human rights" category. In addition to profitability, the following issues were defined as being material:

- Patient satisfaction (social factors)
- Employee satisfaction (employee matters)
- Energy, emission reduction (environmental issues)
- Corporate governance and compliance (anti-corruption and bribery)

In 2018 the working group updated the analysis of material topics and found that the definition of material topics remains unchanged.

SUSTAINABILITY MANAGEMENT

Since sustainability is an integral element of the corporate strategy and of reporting, the working group reports directly to the Chairman of the Management Board. The responsibility of the working group is to support the business units with planning, target definition and implementation of sustainability activities and to document the progress made. The working group acts as consultant to all employees and departments in all matters surrounding sustainability. It further collects data and results across the entire Group and is in charge of sustainability reporting at MEDICLIN.

PATIENT SATISFACTION (SOCIAL FACTORS)

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

The objective is to continuously improve patient satisfaction.

In order to achieve this objective, all our clinics always conduct extensive patient surveys. Patients are invited to evaluate overall as well as medical/therapeutic treatment and care and give their opinion in writing with respect to the premises in general as well as care-related facilities. The answers are evaluated by an external institute, which provides feedback to the clinics on a quarterly basis. In order to improve patient satisfaction within the Group as a whole, the results of the individual clinics are used 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 targeted surveys. The Management Board is informed regularly of these results.

In 2018 patient satisfaction within the Group, in terms of the average referral rate, was 84 %[1].

The German pension insurance (DRV) conducts external surveys in our rehabilitation clinics with regard to their specialisations. These are also reflected in the internal benchmarking. The overall satisfaction rate in our rehabilitation clinics rose in 2018 from 69.5 quality points to 71.0 quality points, corresponding to a 2.2 % increase on 2017.

EMPLOYEE SATISFACTION (EMPLOYEE MATTERS)

The recovery and satisfaction of patients depends strongly on employees that have the required medical expertise, motivation and empathy when treating and looking after the patients and their relatives. In order to achieve this it is crucial that the employees are satisfied with their working environment and the career prospects. Qualified and motivated staff is an essential asset for successful companies in the healthcare sector.

Therefore, MEDICLIN offers qualification and further training measures which it believes will bind employees to the Group. 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 139 seminars was held in 2018 (previous year: 175 seminars) and 1,342 employees participated in these seminars (previous year: 1,293 employees).). In the view of MEDICLIN, this shows that the further professional training offered by MEDICLIN Academy is still very popular. More than 13 % of MEDICLIN's employees used what the Academy offers in 2017 and 2018.

MEDICLIN Academy intends to obtain a certificate pursuant to DIN EN ISO 9001:2015 by mid-2020. This serves to document that the Academy offers participants qualified further training measures and that the qualification is embedded in the strategic orientation of the Group.

In addition to personnel development, family-friendly working conditions are an important aspect for MEDICLIN to attract and keep qualified personnel. This includes, for instance, flexible working times and various part-time working models. About 51 % of MEDICLIN's staff worked part-time as at the reporting date on 31 December 2018.

Despite the shortage of skilled professionals in the sector, MEDICLIN was able to considerably increase its headcount in all staff groups in 2018, underlining MEDICLIN's attractiveness as an employer (please refer to table: "Average number of employees excluding the Management Board, managing directors and trainees" in the section of the Group's business model in the summarised management report and the Group management report, page 35).

[1] The calculation method was changed in 2018, which is why there are no comparable prior-year figures.

ENERGY, EMISSION REDUCTION (ENVIRONMENTAL ISSUES)

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 five years (base year 2016) without neglecting economic aspects. The relevant key figure in this respect will be “primary energy consumption per care day”.

Efficient and sustainable energy consumption is an integral part of MEDICLIN's corporate strategy. In 2017 31 cogeneration units at 23 locations generated 41.2 % of MEDICLIN's entire electricity need (2016: 29 cogeneration units at 23 locations generated 39.5 %).

The findings in the 2017 energy report show that, given basically stable electricity consumption (2017: 37,401,721 kWh; 2016: 37,444,373 kWh), the share of electricity generated by cogeneration units and consumed by the Group rose by 4.0 % or 592,714 kWh to 15,392,837 kWh. Total heat consumption, in turn, dropped by 5.0 % in 2017 compared to the previous year (2017: 80,164,062 kWh; 2016: 84,381,302 kWh). The share of heat energy generated by the cogeneration units and consumed by Group facilities rose by 0.7 % or 197,357 kWh to 28,948,025 kWh.

The highly efficient combined generation of power and heat also reduces CO_2 emissions, from 30,584 tons in 2016 to 30,338 tons in 2017.

Two additional cogeneration units were commissioned in 2018, leading to expect another reduction of energy consumption and CO_2 emissions in 2018. The figures for CO_2 emissions in 2018 will be available in September 2019.

Looking at the effects from the perspective of 2009 when the first cogeneration unit started operations, CO_2 emissions were reduced from more than 40,777 tons in 2009 by about 25.6 % until 2017.

Our energy management activities are bundled in a special company, MediClin Energie GmbH. In mid-2017 MediClin Energie GmbH provided its first comprehensive energy report for 2016 to all locations. Since then, this report is prepared on an annual basis. The introduction of energy management is to enhance awareness for energy as a resource. In addition to listing consumption in absolute figures, benchmarking for other MEDICLIN facilities is provided. 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. Regular management reviews and an annual energy report keep the Management Board up to date with respect to the measures that have been adopted.

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. Recertification is scheduled for 2019.

CORPORATE GOVERNANCE AND COMPLIANCE (ANTI-CORRUPTION AND BRIBERY)

The Management Board, the Group's executives and employees use the Code of Conduct included in the corporate governance declaration as a guideline for compliance with all the relevant legal requirements and the principle of ethical and moral integrity.

The responsibility of MEDICLIN's Compliance department is to ensure that laws and regulations as well as Group guidelines issued by MEDICLIN itself are observed throughout the Group. The compliance concept serves as an internal control mechanism for the implementation and objectives of MEDICLIN's compliance activities. The concept encompasses the implementation of compliance processes, the identification, inventory and monitoring of compliance risks, advice in compliance-related issues, the establishment and maintenance of a whistleblower system and staff training in compliance issues as well as the preparation of a rotational compliance report.

MEDICLIN's 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.

MEDICLIN has prepared internal rules of procedure for its employees 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 and 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.

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. MEDICLIN is not aware of any compliance violations in the 2018 reporting year.

MATERIAL NON-FINANCIAL RISKS

The Group has not identified any material non-financial risks of an ecological or social nature that are highly 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

CONSIDERABLE SALES GROWTH AT GROUP LEVEL, WHILE THE GROUP OPERATING RESULT IS BURDENED BY ONE-OFF EFFECTS

In the 2018 financial year MEDICLIN generated Group sales of EUR 645.1 mill. at the upper end of the guidance, exceeding the previous year by EUR 36.0 mill. or 5.9 %, respectively. The Group operating result of EUR 15.1 mill. (previous year: EUR 6.6 mill.), however, did not reach the guidance.

One-off effects weighed on the Group operating result in the reporting year and the previous year. Without these one-off effects, the Group operating result would have amounted to EUR 22.6 mill. in the 2018 financial year and EUR 21.0 mill. in the previous year. In the previous year a company acquisition raised the result by EUR 5.7 mill., while provisions in connection with a debtor warrant reduced the result by EUR 20.1 mill. The one-off effect in the year under review was caused by additional expenses and provisions for staff and ancillary staff costs in the amount of EUR 7.5 mill. For further explanations, please refer to the Business development and Results of operation sections, pages 45ff.

SALES INCREASES IN THE ACUTE AND POST-ACUTE SEGMENTS AND THE NURSING CARE BUSINESS AREA

The post-acute segment significantly exceeded its sales and earnings targets in the 2018 financial year. Segment sales rose from EUR 373.2 mill. to EUR 400.5 mill. or by 7.3 %, respectively. In the acute segment sales rose on the previous year by EUR 7.7 mill. or 3.5 % from EUR 216.6 mill. to EUR 224.3 mill. and were thus in line with the guidance. The sales of the nine medical care centres included in segment sales amounted to EUR 8.9 mill. in the 2018 financial year, up from EUR 7.9 mill. in the previous year.

Adjusted for the respective prorated one-off effect, the results in the acute and the post-acute segment were in line with the guidance or slightly lower. The post-acute segment generated a result of EUR 20.5 mill. (previous year: EUR 0.7 mill.). The segment's adjusted result is EUR 24.7 mill. (previous year: EUR 20.8 mill.).

The result in the acute segment amounts to EUR –1.2 mill. (previous year: EUR 2.3 mill.). Adjusted for the one-off effect, the segment result is EUR 1.6 mill.

The nursing care business area, which is allocated to the other activities segment, increased sales by EUR 0.3 mill. or 1.5 % to EUR 15.5 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 position. In addition to cash and cash equivalents of EUR 33.8 mill. (previous year: EUR 26.9 mill.), the Group has access to credit lines in the amount of EUR 20.8 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 was 43.0 % (31.12.2017: 50.3 %) while the net financial debt amounted to EUR 41.9 mill. (31.12.2017: EUR 20.6 mill.) on the reporting date. As at 31 December 2018 the debt ratio was 1.1x (31.12.2017: 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

GERMAN ECONOMY SHOWS LESS MOMENTUM IN 2018

The German economy grew in 2018, albeit less strongly than in 2017 and 2016. Following a strong first half of the year and a decline in the third quarter, signs of a slight recovery became apparent towards the end of the year.

According to preliminary calculations by the Federal Statistical Office, the price-adjusted gross domestic product (GDP) was, on annual average, 1.5 % higher in 2018 than in the previous year. In the two preceding years, the price-adjusted GDP had grown by 2.2 % p.a. However, the growth rate of +1.5 % was still above the average seen in the last ten years (+1.2 %).

The labour market is highly robust. On average, the German economic output is generated by 44.8 million people in 2018 who are employed in Germany (previous year: 44.3 people in employment). According to preliminary calculations, this figure increased by some 562,000 persons year-on-year. This 1.3 % increase is due primarily to an increase in employment with mandatory social security contributions, which, in turn, increased by 1.6 % on average or 638,000 persons to about 40.6 million persons in comparison with the previous year. The number of self-employed persons including helping family members, in contrast, dropped by 76,000 persons (–1.8 %) to 4.2 million during the same period. Immigration of workers from other countries managed to partly compensate for the age-related demographic changes. The unemployment rate was 5.2 % in 2018 (previous year: 5.7 %), meaning that the rate of employment has been rising uninterruptedly for 13 years.

The provisional statements for the federal budget in 2018 published by the Federal Ministry of Finance in accordance with the Council Directive on budgetary frameworks show a financing surplus of EUR 59.2 bill. (previous year: EUR 34.0 bill.) in the budgets of the federal republic, the federal states and the social security insurance. The financing surplus at federal level rose to EUR 20.3 bill. in 2018 (previous year: EUR +6.1 bill.). The federal states generated a surplus of EUR 10.3 bill. (previous year: EUR +8.3 bill.). The municipalities' surplus amounted to EUR 13.6 bill. (previous year: EUR +9.5 bill.). The social security insurance achieved a financing surplus of EUR 14.9 bill. in 2018, taking the social security insurance's financing balance up by EUR 4.8 bill. on the previous year.

In 2018 state revenue rose by 4.7 % year-on-year to a total of EUR 1,543.2 bill. Together with net social contributions, taxes, which were 4.5 % above the previous years' values, make up the state's largest source of revenue. Expenditure totalled EUR 1,484.1 bill. (+3.1 %).

In its 2018 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 38.0 bill. (previous year: EUR 33.4 bill.) at the end of 2018. According to preliminary calculations, revenue in 2018 totalled about EUR 306.3 bill., while expenditure amounted to approximately EUR 302.3 bill.

The Statutory Health Insurance (GKV) also benefited from continuous employment growth. The calculations made by the Schätzerkreis of the Statutory Health Insurance in October 2018 revealed that the earnings subject to contribution payments increased by EUR 55.7 bill. or 4.1 % to EUR 1,405.8 bill. (previous year: EUR 1,350.1 bill.) in 2018.

The Schätzerkreis further assumes that the income of the German Health Fund rose by 3.8 % or EUR 8.2 bill. to EUR 222.8 bill. in 2018. As in the previous year, the federal government made a contribution of EUR 14.5 bill. to compensate for expenses incurred in delivering services to the whole of society. The liquidity reserve of the German Health Fund is estimated at around EUR 9.3 bill. at the end of 2018 (previous year: EUR 9.1 bill.).

The calculations show that the expenditure of the Statutory Health Insurance will climb by 3.8 % or EUR 8.6 bill. to EUR 234.2 bill. in 2018. As such, the allocatable expenditure of the health insurance funds would show a short cover of about EUR 11.5 bill., which would result in an average additional contribution of 0.82 %. The Federal Ministry of Health (Bundesgesundheitsministerium – BMG) had determined on 26 October 2017 that the average additional contribution for 2018 should amount to 1.0 %.

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.

German healthcare expenditures are mainly financed by the state, private households and companies. In 2016 the largest financing sources were employee social insurance contributions of EUR 112.4 bill, employer social insurance contributions of EUR 81.6 bill. and state transfer payments amounting to EUR 51.8 bill.

In mid-February 2018 the Federal Statistical Office forecast an increase by 4.9 % (2016: +3.8 %) to EUR 374.2 bill. for 2017 (newer data are not yet available). This means that healthcare expenditures for the first time exceed the EUR 1 bill. threshold per day in 2017. The significant increase is also deemed to be due to 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.

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 18.7 % (as per 2017). In the rehabilitation sector, MEDICLIN is one of the larger providers.

Acute sector

Current figures for 2018 are not yet available for the acute sector, but the trend seen in previous years largely continued in the reporting year.

The Federal Statistical Office stated in November 2018 that there were 1,942 hospitals in Germany in 2017. This is nine hospitals less than in 2016. 560 hospitals were run by state institutions, 662 by non-profit organisations and 720 by private operators. This means that about 37 % of all hospitals are private facilities that account for nearly 19 % of beds and treat about 17 % of all the patients that are treated in a year. The private facilities employ about 135,000 full-time employees, i.e. more than 15 % of all the full-time employees employed in hospitals.

The Federal Statistical Office further stated in November 2018 that the cost of inpatient hospital care amounted to approximately EUR 91.3 bill. in 2017, up 3.9 % on the previous year (2016: EUR 87.8 bill.).

Together with the expenditure for ambulatory services (for instance, outpatient units, scientific research and teaching) in the amount of EUR 14.5 bill., the total amount of hospital costs amounted to EUR 105.7 bill. in 2017 (2016: EUR 101.7 bill.). They mainly consist of staff costs of EUR 63.8 bill. (+4.5 % on 2016) and cost of materials amounting to EUR 39.1 bill. (+3.1 %) and account for about 97 % of total costs.

Based on some 19.4 million patients who were treated in hospitals in 2017, the inpatient hospital costs per case averaged EUR 4,695 and were thus up 4.4 % on the previous year (EUR 4,497). The average costs per case were the lowest in Brandenburg at EUR 4,235 and the highest in Hamburg at EUR 5,408. In Baden-Württemberg, Berlin and Bremen, the average costs per case also exceeded the EUR 5,000 threshold for the first time. Regional differences also have structural reasons: they are influenced by the services on offer and the type and severity of the illnesses treated. The largest increase in inpatient costs per case as compared to the previous year were seen in Hessen and Rheinland-Pfalz at +5.3 % each. Mecklenburg-Vorpommern experienced the lowest increase at +2.9 %. The average length of stay in hospitals was 7.3 days (2016: 7.3 days), while the occupancy rate stood at 77.8 % (2016: 77.9 %).

In 2017 MEDICLIN treated 42,657 inpatients. The average length of stay was 7.8 days (not including patients in the psychosomatic/psychiatric units) and the occupancy rate 78.9 %. The staff costs ratio was 56.5 %. In terms of beds, MEDICLIN accounts for 1.8 % of the market of private hospital operators.

In 2018 MEDICLIN treated 42,358 inpatients. The average length of stay was 8.2 days (not including patients in the psychosomatic/psychiatric units) and the occupancy rate 78.9 %. The staff costs ratio was 58.6 %. In terms of beds, MEDICLIN's share of the market of private hospital operators is likely to have increased moderately.

Post-acute sector (rehabilitation)

The situation in the rehabilitation sector is similar and it can also be assumed that the trends seen in 2017 continued in 2018.

The number of rehabilitation facilities decreased moderately in 2017 compared to 2016.

All in all, there were 1,142 medical facilities (2016: 1,149 facilities) with a total of 164,266 beds (2016: 165,223 beds). The share of private suppliers in this field is 53.3 % in terms of facilities and 65.5 % in terms of beds. In 2017 the number of patients rose by 0.5 % year-on-year to 1,974,248 patients, while the number of nursing days shrunk by 0.2 % from about 50.2 million days to about 50.1 million days. The average length of stay in 2017 was 25.4 days (2016: 25.3 days). The average occupancy rate was 83.6 % (2016: 83.0 %).

In 2017 the average length of stay in MEDICLIN's post-acute clinics was 25.3 days and the occupancy rate 90.5 %. The staff costs ratio was 50.6 %. MEDICLIN accounts for 3.7 % of the market of rehabilitation facilities in terms of beds and 4.0 % in terms of cases.

In 2018 the average length of stay was 25.5 days, while the occupancy rate was 91.8 %. The staff costs ratio was 52.2 %. In terms of beds, MEDICLIN's share of the market of rehabilitation facilities is likely to have increased moderately.

According to public health reporting by the federal government, the expenditure for rehabilitation rose by 1.8 % in 2016 compared to the previous year and amounted to EUR 9.5 bill. (2015: EUR 9.3 bill.).

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 rise. Current statistical data are not available for the nursing care sector either, but MEDICLIN assumes that the performance in 2018 will be similar to the previous years.

In 2017 there were 14,480 nursing care homes with 952,367 places in Germany. 11,241 facilities, i.e. 77.6 % of all nursing homes, offer full-time inpatient nursing care. In terms of places, full-time inpatient nursing care accounts for 92.1 %. Private nursing care homes have a market share of 42.6 % in terms of facilities, while they provide 39.7 % of all places.

Some 3.4 million people needing nursing care services in 2017. Nursing care homes looked after 921,878 persons in need of care, 85.9 % or 792,342 of which received full-time inpatient nursing care.

Compared to 2015, the number of nursing care homes increased by 6.5 % or 885 facilities. The number of homes with private operators increased by 430 facilities to 6,167 homes.

According to public health reporting by the federal government, the expenditure for outpatient nursing care rose by 8.4 % in 2016 compared to the previous year and amounted to EUR 18.0 bill. (2015: EUR 16.6 bill.), while the expenditure for full-time and part-time inpatient care rose by 4.3 % to EUR 30.9 bill. (2015: EUR 29.6 bill.).

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

Results of operation, financial position and net assets

RESULTS OF OPERATION

Sales development and performance of the Group operating result
Group sales of EUR 645.1 mill. in the 2018 financial year were EUR 36.0 mill. (previous year: EUR 28.7 mill.) or 5.9 % (previous year: 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 rates based on the 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 16.7 mill. (previous year: EUR 15.6 mill.); of this amount, EUR 8.1 mill. (previous year: EUR 7.6 mill.) was generated by the medical care centres. MEDICLIN's Group operating result including one-off effects as of 31 December 2018 is EUR 15.1 mill. (previous year: EUR 6.6 mill.). Without the provision, the Group operating result would amount to EUR 22.6 mill.

The Group operating result was heavily influenced by additional expenses and provisions for staff and ancillary staff costs of EUR 7.5 mill. at the end of the 2018 financial year and an occupancy rate that fell short of expectations, especially in December 2018.

During an internal audit conducted by MEDICLIN itself, the Company found that individual salary components were not calculated accurately in certain circumstances, thus causing the aforementioned provisions. This refers to remuneration payments during sick leave and vacations for employees that are not covered by a collective wage agreement. MEDICLIN initiated a correction of this mistake in January 2019 in order to ensure that these components are calculated correctly in the future. MEDICLIN will recalculate the remuneration during vacations and sick leave for the full year 2018 and ensure that any resulting differences are paid out retroactively.

The prior-year Group operating result includes a EUR +5.7 mill. one-off effect from a company acquisition and a EUR 20.1 mill. provision for a debtor warrant referring to a rent reduction totalling EUR 21.0 mill. for the period 2005 to 2007 in connection with post-acute facilities that were incorporated 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. The planning for the upcoming financial years as at the balance sheet date renders it likely that the agreed performance parameters will be reached in the future.

Group sales and Group operating result

In millions of €	2018		2017	
	Group sales	Group EBIT	Group sales	Group EBIT
1st quarter	157.9	0.7	147.1	−0.5
2nd quarter	163.5	5.6	151.8	6.1
3rd quarter	163.7	11.5	153.6	13.7
4th quarter	160.0	−2.7	156.6	−12.7
Year total	**645.1**	**15.1**	**609.1**	**6.6**

Development of expenses

Raw materials and consumables used increased by EUR 6.8 mill. or 6.0 % compared to the same period of the previous year, now amounting to EUR 119.4 mill. (previous year: EUR 112.6 mill.). Raw materials and supplies increased by EUR 5.9 mill. and purchased services by EUR 0.9 mill.

In the raw materials and supplies item, expenses for kitchen/cafeteria increased particularly strongly (EUR +1.9 mill.) as the number of persons that were catered for and the procurement prices rose. The expenses for medical supplies (EUR +1.6 mill.) and for laboratory supplies (EUR +0.7 mill.) also went up due to the higher sales volumes.

The cost of purchased services item includes expenses for external medical services, i.e. medical services performed by external professionals. As a result of a successful recruiting policy, the use of external professionals was continuously reduced cutting de facto expenses by about EUR 1.6 mill. on the previous year. The reported figure of EUR 19.1 mill. is higher than in the previous year (EUR 16.2 mill.), because it includes additional expenses from the one-off effect in the amount of EUR 4.5 mill. Without this one-off effect, raw materials and consumables used would have increased by 2.1 %. The cost of materials ratio amounts to 18.5 %; the adjusted figure comes out to 17.8 % (previous year: 18.5 %).

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 28.2 mill. or 7.8 % to EUR 391.3 mill. (previous year: EUR 363.1 mill.). The main reasons for the increase in staff costs are wage increases and a higher number of employees (+262 full-time employees). The item also includes additional staff and ancillary staff costs in connection with the one-off effect in the amount of EUR 2.9 mill. Without this one-off effect, staff costs would have increased by 7.0 %.

The staff costs ratio amounts to 60.7 %; the adjusted figure comes out to 60.2 % (previous year: 59.6 %).

MEDICLIN assumes that the planned expansion of services and the stricter legal requirements will lead to the need for more staff and that the staff costs will rise between 6.0 % and 8.0 % per year.

Depreciation and amortisation totalled EUR 22.3 mill. (previous year: EUR 20.4 mill.), with EUR 2.3 mill. (previous year: EUR 1.9 mill.) attributable to intangible assets and EUR 20.0 mill. (previous year: EUR 18.5 mill.) to property, plant and equipment. The depreciation and amortisation ratio is 3.5 % (previous year: 3.3 %).

In the previous 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). Without this one-off effect, the other operating expenses rose by EUR 3.3 mill. from EUR 103.6 mill. in 2017 to EUR 106.9 mill. The expenses for IT and organisation (EUR +0.5 mill.), for maintenance and repairs (EUR +0.9 mill.) and for advertising and public relations (EUR +1.0 mill.), for instance, increased, while the expenses for legal, consultancy and audits decreased (EUR –1.3 mill.). Please refer also to item (35) “Other operating expenses” in the notes, page 138.

Expenses

	2018	2017	Change in %
Raw materials and consumables used in millions of €	119.4	112.6	+6.0
Cost of materials ratio in %	18.5	18.5	
Staff costs in millions of €	391.3	363.1	+7.8
Staff costs ratio in %	60.7	59.6	
Depreciation and amortisation in millions of €	22.3	20.4	+9.3
Other operating expenses in millions of €	106.9	123.7	– 13.6

Financial result and tax ratio

The financial result amounted to EUR –3.2 mill. at year-end (previous year: EUR –2.4 mill.). Interest and similar expenses amount to EUR 3.5 mill. (previous year: EUR 2.6 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.

The actual tax expense was EUR 4.1 mill. in the year under review; it mainly included income tax expenses for the 2018 financial year and previous years as well as losses in the 2018 financial year that could not be capitalised.

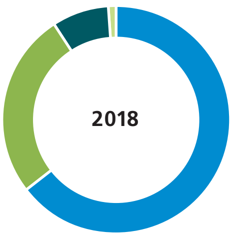
Total consolidated result

In the 2018 financial year, the result after tax attributable to shareholders of MEDICLIN AG was EUR 7.7 mill. (previous year: EUR 3.9 mill.). Basic earnings and diluted earnings per average share outstanding as well as per participating share were EUR 0.16 (previous year: EUR 0.08).

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. 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 %



	2018	2017
Public health insurance funds	64.8	65.0
Social security pension funds	26.8	26.8
Private health insurance companies	8.2	8.0
Other coverage providers	0.2	0.2

FINANCIAL POSITION

MEDICLIN covers its capital requirements from operating cash flow, investment subsidies and 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. 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 19.0 mill. of which were utilised on 31 December 2018. The syndicated loan has a term of five years (2016 until 2021), including two options to renew the loan by another year, which have both been exercised. 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 20.8 mill.

Financing is complemented by operating lease agreements for properties rented on a long-term basis. Except for one contract, the underlying rental contracts have a term until 31 December 2027. One contract was extended by another 20 years in 2018. 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.

On 30 November 2018 the Group exercised the purchase right and bought back the real estate (Rehabilitationszentrum Gernsbach/Schwarzwald) at financing value (EUR 6.2 mill.).

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

In millions of €	Nominal value 31.12.2018	Nominal value 31.12.2017
Remaining term up to 1 year	45.7	44.9
Remaining term 1–5 years	182.6	179.6
Remaining term more than 5 years	253.2	224.5
	481.5	**449.0**

The disclosure of lease liabilities will change in 2019 as IFRS 16 "Leases" becomes mandatory from 1 January 2019. As from this date the contractual rights and obligations must be recorded in the balance sheet. The Basic information section in the notes on pages 78ff describes in detail which effects this will have on net assets, financial position and results of operation.

MEDICLIN has 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

Gross investments in property, plant and equipment totalled EUR 49.3 mill. in 2018 (previous year: EUR 46.8 mill.).

Essential gross additions to non-current assets

In millions of €	2018	2017
Licences, concessions	4.0	4.3
Goodwill	0.0	0.3
Land, buildings	6.2	13.4
Technical equipment, EDP	2.3	3.7
Operating and office equipment	15.9	15.5
Payments on account and assets under construction	20.9	9.6
Total	**49.3**	**46.8**

A gross amount of EUR 4.0 mill. (previous year: EUR 4.6 mill.) was invested in intangible assets. Gross investments in property, plant and equipment totalled EUR 45.3 mill. (previous year: EUR 42.2 mill.)

Approximately EUR 24.1 mill. was used for the reconstruction and expansion of clinics. Nearly all clinics are expanding or modernising their facilities, investing between EUR 0.2 mill. and EUR 1.5 mill. The largest investment of EUR 6.8 mill. pertains to the construction or expansion of three retirement homes.

Capital expenditure for IT infrastructure amounted to EUR 4.0 mill., EUR 8.2 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 21.1 % (previous year: 21.8 %). EUR 18.5 mill. (previous year: EUR 17.6 mill.) was spent on maintenance and repairs.

LIQUIDITY

The cash flow from operating activities increased by EUR 9.7 mill., from EUR 20.0 mill. to EUR 29.7 mill.

The cash flow from investing activities rose by EUR 8.9 mill., from EUR –37.3 mill. to EUR –46.2 mill. A gross amount of EUR 3.7 mill. (previous year: EUR 4.4 mill.) was spent on intangible assets. Gross payments for property, plant and equipment totalled EUR 42.8 mill. (previous year: EUR 31.3 mill.).

The cash flow from financing activities amounted to EUR 23.4 mill., up from EUR 2.6 mill. in the previous year. This change refers to the EUR 20.0 mill. annuity loan taken out in connection with the subsidies for a new clinic to be built in Lingen and another EUR 10.0 mill. drawdown on the credit facility. EUR 6.2 mill. of the repayment of financial liabilities in the total amount of EUR 8.3 mill. (previous year: EUR 1.8 mill.) refers to the buy-back of a clinic building in Gernsbach/Schwarzwald. Payments for interests amounted to EUR 2.1 mill. (previous year: EUR 1.2 mill.). EUR 1.0 mill. thereof are attributable to back payments in connection with the external tax audit. The cash flow from dual hospital financing amounted to EUR 6.2 mill. (previous year: EUR 5.6 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.

Cash and cash equivalents at the end of the period thus increased by EUR 6.9 mill. (previous year: EUR –14.7 mill.) to EUR 33.8 mill. (previous year: EUR 26.9 mill.).

Consolidated cash flow statement (abridged)

In millions of €	January – December 2018	January – December 2017
Cash flow from operating activities	**29.7**	**20.0**
Payments received from the disposal of fixed assets	0.3	1.2
Cash used for investments in fixed assets	–46.5	–38.5
Cash flow from investing activities	**–46.2**	**–37.3**
Dividend payout	–2.4	0.0
Cash flow from dual hospital financing	6.2	5.6
New financial liabilities	30.0	0.0
Repayment of financial liabilities	–8.3	–1.8
Interest payments	–2.1	–1.2
Cash flow from financing activities	**23.4**	**2.6**
Cash flow for the period	6.9	–14.7
Cash and cash equivalents at the beginning of the period	26.9	41.6
Cash and cash equivalents at the end of the period	33.8	26.9

NET ASSETS

The balance sheet total increased by EUR 76.1 mill. since 31 December 2017. Both the equity and liabilities sides of the balance sheet thus show MEDICLIN's high capital expenditure.

On the asset side of the balance sheet, non-current assets increased by EUR 56.5 mill. Property, plant and equipment (EUR +17.0 mill.) and, in particular, payments on account and assets under construction (EUR +12.3 mill.) rose, particularly due to new construction in the nursing care business area. In the other financial assets item the receivables pursuant to the hospital financing law increased (EUR +37.6 mill.) due to subsidised new construction. This refers to the new clinic for neurology, neurointensive care and neurophysiology at the location of MediClin Hedon Klinik in Lingen, which received subsidies amounting to EUR 20.0 mill. plus the interest for debt service and the new clinic for child and youth psychiatry at MediClin Müritz-Klinikum in Röbel. The subsidies for this project total EUR 14.5 mill.

In the current assets item (EUR +19.6 mill.), trade receivables (EUR +9.1 mill.) and cash and cash equivalents (EUR +6.9 mill.) showed particularly strong increases.

On the equity and liabilities side of the balance sheet, equity was up by EUR +5.3 mill., mainly due to the Group's net profit.

Non-current liabilities rose by EUR 46.9 mill. EUR 17.5 mill. thereof pertain to an increase in liabilities to banks and EUR 30.7 mill. to non-current liabilities pursuant to hospital financing law. The latter refer to the subsidies for the aforementioned clinics under construction. EUR 17.9 mill. thereof pertain to the new clinic at MediClin Hedon Klinik in Lingen whereas EUR 12.8 mill. refer to subsidies for the new construction at MediClin Müritz-Klinikum in Röbel.

The rise in current liabilities (EUR 23.1 mill.) is due primarily to higher drawdowns on the syndicated loan (EUR +10.0 mill.) and an increase in liabilities pursuant to hospital financing law (EUR 6.8 mill.) for individual subsidies that have not yet been spent in accordance with their designated purpose.

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

Balance sheet structure

In millions of €	31.12.2018	In % of balance sheet total	31.12.2017	In % of balance sheet total
Assets				
Non-current assets	296.2	66.6	239.7	65.0
Current assets	148.5	33.4	128.9	35.0
	444.7	**100.0**	**368.6**	**100.0**
Equity and liabilities				
Equity	191.4	43.0	185.3	50.3
Non-current liabilities	165.3	37.2	118.4	32.1
Current liabilities	88.0	19.8	64.9	17.6
	444.7	**100.0**	**368.6**	**100.0**

SEGMENT REPORTING

Sales

The share of the post-acute segment in Group sales was 62.1 % (previous year: 61.3 %), while the share of the acute segment was 34.8 % (previous year: 35.6 %) and the nursing care business area contributed 2.4 % (previous year: 2.5 %).

With a sales increase of EUR 27.3 mill., the post-acute segment contributed the largest share to Group sales growth (EUR 36.0 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 224.3 mill. were EUR 7.7 mill. above the previous year's value.

The other activities and reconciliation segment recorded sales of EUR 20.3 mill. (previous year: EUR 19.3 mill.) in the 2018 financial year. The nursing care business area generated sales of EUR 15.5 mill. (previous year: EUR 15.2 mill.).

Sales

In millions of €	2018	2017	Change in %
Post-acute	400.5	373.2	+7.3
Acute	224.3	216.6	+3.5
Other activities and reconciliation	20.3	19.3	+5.5
Thereof nursing care business area	15.5	15.2	+1.5
Group	**645.1**	**609.1**	**+5.9**

Raw materials and consumables used

	2018	2017	Change in %
Post-acute			
Raw materials and consumables used in millions of €	78.1	76.0	+2.8
Cost of materials ratio in %	19.5	20.4	
Acute			
Raw materials and consumables used in millions of €	60.2	59.5	+1.2
Cost of materials ratio in %	26.9	27.5	

Staff costs

	2018	2017	Change in %
Post-acute			
Staff costs in millions of €	209.0	188.9	+10.6
Staff costs ratio in %	52.2	50.6	
Acute			
Staff costs in millions of €	131.3	122.5	+7.2
Staff costs ratio in %	58.5	56.5	

Expense items

In the post-acute and acute segment, raw materials and consumables used showed a EUR 2.1 mill. or 0.7 % increase on the corresponding previous year's values. Adjusted for the prorated one-off effect, raw materials and consumables used were each lower than the expenses in the previous year as the external medical services were reduced. Staff costs rose in line with expectations in both segments. The increases are mainly due to a higher number of staff and higher wages and salaries.

Segment results

The good result in the post-acute segment is mainly due to the positive sales development. The acute segment, in contrast, which was still showing a EUR 1.6 mill. segment result in the first nine months of the 2018 financial year, suffered a sales dip in the fourth quarter, mainly in December, which weighed on the segment result.

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

Segment results

In millions of €	2018	2017
Post-acute	20.5	0.7
Acute	– 1.2	2.3
Other activities and reconciliation	– 4.2	3.6
Group	**15.1**	**6.6**

Yearly average of number of employees in the segments

Shown in full-time employees	2018	2017	Change
Post-acute	3,877	3,639	+ 238
Acute	2,099	2,055	+ 44
Other activities	1,250	1,270	– 20
Thereof nursing care business area	212	205	+ 7
Thereof service business area (including administration)	1,038	1,065	– 27
Group	**7,226**	**6,964**	**+ 262**

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

In %	Post-acute		Acute	
	2018	2017	2018	2017
Public health insurance funds	41.7	41.8	91.5	92.4
Social security pension funds	49.9	49.4	0.1	0.0
Private health insurance companies	8.2	8.5	8.2	7.4
Other coverage providers	0.2	0.3	0.2	0.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Without nursing care business area

Capital expenditure

In 2018 a total of EUR 49.3 mill. (gross amount) was invested in non-current assets. Capital expenditure was distributed among the segments as follows:

In millions of €	2018	2017
Post-acute	25.5	18.9
Acute	12.2	11.0
Other activities and reconciliation	12.1	16.9
Group	**49.3**	**46.8**

EMPLOYEES

The average number of employees in 2018, calculated on the basis of full-time employees, was 7,226 (previous year: 6,964 full-time employees). The number of full-time employees has increased by 262 or 3.8 % compared to the previous year. On average, this means that MEDICLIN employs 406 more persons than in the comparable prior-year period. The overall headcount is nearly 10,000. The average number of trainees was 304 in 2018 (previous year: 280 trainees).

Sales per full-time employee rose by EUR 1,814 or 2.1 % year-on-year in the reporting year, while the average staff costs per full-time employee increased by EUR 2,015 or 3.9 %.

Key data per full-time employee in the Group

In €	2018	2017
Sales per full-time employee	89,276	87,462
Staff costs per full-time employee	54,150	52,135

Forecast report

Actual results and target figures for control parameters

The sales targets for the Group and the segments were reached in the 2018 financial year. The targets for the Group operating result and results in the acute and post-acute segments, in contrast, were not reached.

On 22 January 2019 the Management Board issued an ad hoc notification informing the public that the preliminary Group operating result at operating level will amount to EUR 22–23 mill. and that the preliminary Group operating result, which is impacted by one-off effects, will amount to EUR 14.5–15.5 mill.

The main reason for this decline in earnings is additional expenses and provisions for staff and ancillary staff costs (one-off effect) in the amount of EUR 7.5 mill. as well as sales at operating level that missed the expectations in December, mainly in the acute segment.

Slightly weaker growth momentum expected in 2019

In its annual economic report for 2019, which was published on 30 January 2019, the German government expects that the German economy will continue to grow in 2019, albeit with less momentum than in 2018. In the current year it anticipates a 1.0 % increase in the price-adjusted gross domestic product (GDP).

The German government further assumes that the unemployment rate will decline to 4.9 % in 2019 and that the number of persons in employment will rise to 45.2 million. Above all, the government sees opportunities for a more favourable economic performance within the domestic German market. Private incomes will continue to rise noticeably; net salaries and wages per employee are estimated to grow by 4.8 %. This could fuel private consumption more strongly than previously anticipated.

However, despite the positive impulses for the German economy, risks will also increase. The main risks are attributable to the global environment. Protectionist tendencies in global trade are currently deemed to be a serious risk to the German trading sector and the value chains in the manufacturing industry. BREXIT is another risk. Depending on the leave scenario, the United Kingdom might experience a noticeable economic downturn, which – in addition to affecting German exports to the UK – could also impact growth in Europe.

The German government assumes that public consumption will rise more strongly in 2019 than in 2018. The national budget generated a surplus of 1.7 % in relation to the nominal gross domestic product in 2018 and is expected to remain positive on balance in 2019 as well.

However, the generally positive economic outlook and the stable labour market give rise to the expectation that demand for medical services will not change in 2019 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 2019. The Fifth Law Amending the German Social Security Code XI (Contribution Adjustment SGB XI), for instance, increases the contribution rate for the social nursing care insurance by 0.5 percentage points to 3.05 % and, for people without children older than 23, to 3.30 %.

The Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) has also come into force. This Act provides for changes in hospital financing in connection with nursing care services. According to the Federal Ministry of Health (Bundesgesundheitsministerium – BMG), the nursing care emergency program is a first important step towards improving nursing care services. In future, hospitals will receive financing for each additional nursing job and each nursing position with additional hours. Collectively agreed wage increases of nurses are to be fully refinanced by the coverage providers. This contribution will be made retroactively as from 2018. The financing provided by the coverage providers for both trainee salaries and the hospitals' higher need for nursing personnel is to be improved. Starting in 2020, the financing of the hospitals' nursing staff costs will convert to a new remuneration system that does not rely on case-based lump sums and is individually adjusted for each hospital.

In the field of geriatric care, each inpatient nursing care facility shall receive additional nursing personnel that will be fully financed by the health insurance providers on the basis of a lump sum. This takes better account of the work involved in providing medical treatments and care. In order to relieve the nursing personnel's workload, the nursing care insurance will pay an allowance to promote digitalisation in inpatient and outpatient geriatric care. Binding cooperation agreements are introduced to strengthen the cooperation between registered physicians and inpatient nursing care facilities, while a technical standard for digital communication is being developed.

Furthermore, the Act expands the scope of application for video visits to the doctor. Family carers shall receive better access to medical rehabilitation services.

The enactment of the Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) continues to oblige the health insurance funds to spend more than EUR 70 mill. per year on workplace health promotion in hospitals and nursing care facilities. As such, the statutory minimum expenditure for this type of service is raised from EUR 2.15 per insured and year by one euro to EUR 3.15. This measure addresses the extremely high strain to which nurses are exposed. On the whole, the requirements under this emergency programme were created to improve the work situation in hospitals and nursing homes. The minimum measures prescribed by the Act are a first step towards reaching better staffing levels and working conditions in hospitals and nursing homes. The concerted action plan titled Nursing Care Measures (Konzertierte Aktion Pflege Maßnahmen) serves to develop and discuss additional steps that can improve the situation in long-term care in line with the needs.

From 1 January 2019 it will become easier for family carers to receive treatment in rehabilitation clinics at the health insurance funds' cost. The previously applicable rule, according to which they were supposed to use mainly outpatient services, no longer applies. This means that they are entitled to inpatient rehabilitation measures even if outpatient treatment would suffice from a medical viewpoint. Nevertheless, the basic requirement that a doctor needs to certify the medical need for rehabilitation measures, continues to apply if the health insurance fund is to bear the cost.

Under the new Act the person in need of care can now be placed in the same clinic as the carer for the duration of the rehabilitation measure. However, as was the case under the old legislation, the person in need of care can also be placed in another facility (for instance short-term nursing care near their home or near the rehabilitation clinic). For this placement in a home, the family carers can receive benefits under the short-term (Kurzzeitpflege) or the substitute (Verhinderungspflege) care schemes.

The aim of the Act to Relieve the Insured (Versichertenentlastungsgesetz – GKV-VEG), which also came into force on 1 January 2019, is to ensure that contributions to the statutory health insurance scheme are equally borne by employers and insured persons. The contributions of self-employed persons with low incomes are reduced noticeably. Contribution debts from unclear memberships will be adjusted. Some of the surpluses and financial reserves that the health insurance funds generated with contributions will be used to reduce contributions and improve service so that they ultimately benefit the payees. This can lead to contribution reductions of about EUR 8 bill. per year.

The Act for faster Appointments and Better Care (Terminservice- und Versorgungsgesetz – TSVG) is supposed to come into force on 1 April 2019. The Act shall ensure that all persons insured under the statutory health insurance scheme receive equal access to outpatient medical care by reducing waiting times for doctors' appointments, expanding surgery times and improving the remuneration of approved doctors. Another objective is to improve the care provided in rural and structurally weak regions by further developing the fundamental principles of requirements planning and by expanding the promotion and supply security instruments of the Association of Statutory Health Insurance Physicians. The claims of the insured persons to medical and dental care are to be expanded in individual areas, while patients are to be given better opportunities to actually make use of the digitalisation in the healthcare sector in their health matters. This means that approved doctors are forced to offer persons insured under the statutory health insurance scheme longer surgery times as from 2019. The minimum surgery time is increased from 20 to 25 hours per week. House calls can be offset.

The Fifteenth Law Amending the German Social Security Code V (Act to Equip the Electronic Health Insurance Card with a Contactless Interface) is supposed to come into force on 19 December 2019. The Act obliges health insurance funds to issue electronic health insurance cards with a contactless interface. These contactless interfaces are a technology that is open for new applications and therefore flexible. Many mobile devices (like smartphones or tablets) already use contactless interfaces.

MEDICLIN will continue to grow in 2019

Since no material changes to the general economic environment are visible at the moment, the Management Board assumes that the Group's positive business performance will continue in 2019. The situation of the healthcare sector will be affected by an even stronger shortage of skilled professionals in 2019. This is due to the increasing demand for health services and legislative requirements for minimum staff resources of facilities. Although the health insurance funds will take over part of the additional staff costs incurred by the increase in staff numbers, the staff costs of the individual providers will nevertheless increase considerably.

As in 2018, MEDICLIN will expand 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 2019 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 2019.

In total a (gross) sum of EUR 49.3 mill. was invested in 2018. 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 2019 MEDICLIN will continue to expand capacities in strongly growing areas and make targeted additions to the range of services. The Company always examines whether the planned addition to the range of services is eligible for subsidies before making such investments. The Group plans capital expenditure at a similar level as in the reporting year.

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

Summary and outlook

Given the good economy and the demographic trend, the demand for medical, therapeutic and nursing care services will continue to rise.

Therefore, the Management Board assumes with regard to the Group's 2019 business performance that demand for the range of services provided by the post-acute and the acute segments and the nursing care business area will reach at least the prior-year level. As such, the Group expects sales growth in the range of 5 % and 6 % at Group level in 2019. The sales growth in the post-acute and acute segments is expected to amount to 4 % to 6 % and 2 % to 3 %, respectively.

The earnings situation of the Group will be affected by a clear increase in staff costs (between +6 % and +8 %) due to the shortage of skilled professionals and the resulting competition for qualified staff.

This means that the Group operating result will range between EUR 22 mill. and EUR 28 mill. In the post-acute segment the segment EBIT margin will amount to 5 % to 6 %; in the acute segment it will amount to 1 % to 2 %.

The introduction of IFRS 16 "Leases" as at 1 January 2019 will have a positive effect on the 2019 Group operating result of presumably nearly EUR 4.4 mill.

The good occupancy rates and the development of case numbers at the beginning of the year are indications of a good start into the 2019 financial year.

	2018 financial year	2019 targets
GROUP TARGETS		
Sales, growth	EUR 645.1 mill.	+5 % to +6 %
EBIT	EUR 15.1 mill.	EUR 22 to 28 mill.
SEGMENT TARGETS		
Post-acute		
Sales, growth	EUR 400.5 mill.	+4 % to +6 %.
EBIT margin	5.1 %	5 % to 6 %
Acute		
Sales, growth	EUR 224.3 mill.	+2 % to +3 %
EBIT margin	−0.5 %	1 % to 2 %

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

OBJECTIVES AND APPROACH

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. The risk inventory is the central tool within Group risk management to identify and assess potential corporate risks. It is described in the guideline for conducting risk inventories. The manual and the guideline both help to systematically detect economic risks and opportunities early on. In addition to the internal monitoring and control systems, they are important elements of MEDICLIN's risk management strategy.

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 MEDICLIN's main risk policy principles as well as:

- all the features and aspects of the risk management system that are specific to MEDICLIN,
- the current allocation of tasks and responsibilities in connection with the risk management process, and
- the legal framework.

MEDICLIN uses 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 biannual risk inventory is performed by the auditing department.

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 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 the manual and the guideline, the Group has a risk management report that details the results of the last risk inventory. This summary report is prepared twice 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 as an important component of active corporate governance.

Further risk management instruments

The risk inventory as a central instrument of the MEDICLIN 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 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
- Other 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).

Risk assessment and risk classification

The main aspects of every risk are documented and assessed in the risk management software copa.ris by the respective risk owner.

Together with the responsible person in central services, the local risk owner assesses the identified risks together with their damage amount and probability of occurrence. They also allocate the risks to risk categories.

Four risk classes have been defined to assess the risk situation and each of these risk classes requires a different response. Risk classes:

- Existential – expected damage of more than EUR 10 mill.
- Action required – expected damage between EUR 5 mill. and EUR 10 mill.
- Monitoring required – expected damage between EUR 1 mill. and EUR 5 mill.
- Acceptable – expected damage of up to EUR 1 mill.

The list below names the risk areas that could pose risks to individual facilities or the Group as a whole:

- Environment and sector risks
  - Legal requirements
  - Markets (shortage of skilled professionals)
  - Competition
  - Dependency (on referring physicians)
- Strategic risks
  - Reputation
  - Capital expenditure
- Financial risks
  - Liquidity risks
  - Real estate risk
- Operating risks
  - Process risks
  - Quality risks
- Infrastructure risks
  - Information technology
  - Personnel risks (shortage of skilled professionals)
  - Data protection
  - Construction risks
  - Environment

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.

At present, the healthcare market is suffering from a shortage of skilled professionals with respect to both nurses and physicians. The lack of qualified staff can negatively impact MEDICLIN's medical, therapeutic and nursing care performance and lead to declines in the occupancy rates and sales of individual clinics. In addition, the shortage may lead to rising staff costs. MEDICLIN has managed to establish itself as an attractive employer and will continue to build up this reputation.

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 and adequately 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, individual coverage providers (e.g. AOK) pursue regional market differentiation strategies that could lead to risks in connection with lower occupancy rates in individual clinics. 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.

STRATEGIC RISKS

Risks that could endanger the reputation of MEDICLIN are primarily associated with patient satisfaction. The Group conducts regular patient surveys and actively approaches patients to avoid this risk.

Unplanned maintenance measures that have to be implemented at short notice, investments that do not deliver the desired results, the expansion of existing business areas and tapping into new business areas can pose additional risks, which can be minimised by strict maintenance and investment management and a detailed analysis of the opportunities and risks associated with new business areas or the expansion of existing business areas.

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 this key data are the consolidated balance sheet total, the equity recorded in the consolidated balance sheet and loans from banks.

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 44.9 mill. in the reporting year (previous year: EUR 44.2 mill.), which is a considerable cost item. Except for one contract, the underlying rental contracts have a term until 31 December 2027. One contract was extended by another 20 years in 2018. 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.

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 prevention and early identification of risks in the field of operation performance.

INFRASTRUCTURE RISKS

Infrastructure risks mainly focus on the risk fields of information technology and personnel. Information technology risks pertain to the reliability of important systems and data safety. The expertise of MEDICLIN's subsidiary MediClin-IT GmbH ensures that the Group is well protected in both these fields.

The dependency on external personnel (outsourcing) and the loss of key personnel are also considered infrastructure risks. These risks could intensify, because the healthcare market is experiencing a severe shortage of qualified personnel as was already described in the sections on environment and sector risks. MEDICLIN pursues an active personnel management approach and is deemed an attractive employer.

Data protection is governed by the Group-wide data protection policy and is one of the central responsibilities of MediClin-IT GmbH.

Risks resulting from delays in construction or renovation measures could have a negative impact on MEDICLIN's sales and earnings situation. The responsible central departments closely monitor these projects in order to minimise these risks.

MEDICLIN is not exposed to any environmental risks. Please also refer to the non-financial declaration pursuant to Sections 315b and 315c HGB in this respect.

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

MEDICLIN also defined areas and classes for opportunities in line with the risk approach. Opportunity classes:

- Very high expectations – opportunity expected to be more than EUR 10 mill.
- High expectations – opportunity expected to be between EUR 5 mill. and EUR 10 mill.
- Medium expectations – opportunity expected to be between EUR 1 mill. and EUR 5 mill.
- Low expectations – opportunity expected to be up to EUR 1 mill.

The list below names the opportunity areas that could result in opportunities for individual facilities or the Group as a whole:

- Strategic opportunities
- Opportunities resulting from the environment and the market
- Financial opportunities
- Operational opportunities
- Infrastructural opportunities

STRATEGIC OPPORTUNITIES

This area comprises all opportunities resulting from long-term global trends and developments, including investment projects, improving the Company's reputation, the use of new treatment methods and tapping into new business areas.

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.

MEDICLIN continuously examines opportunities resulting from both acquisitions and from expanding the existing range of services.

OPPORTUNITIES RESULTING FROM THE ENVIRONMENT AND THE MARKET

This opportunity area refers to opportunities resulting from political and economic trends and also includes opportunities resulting from the competitors' actions.

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.

MEDICLIN continuously observes the market and the behaviour of competitors and regularly examines opportunities resulting from both acquisitions and from expanding the existing range of services. Please also refer to the section on strategic opportunities in this respect.

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.

OPERATIONAL OPPORTUNITIES

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. In general, this area refers to all opportunities resulting from the operating business, for instance by improving the quality or processes.

INFRASTRUCTURAL OPPORTUNITIES

Infrastructural opportunities can have a direct positive impact on the services rendered, but do not constitute operational opportunities. Examples include the introduction of a new IT system or better staff training.

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.

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. The first oral hearing took place on 16 November 2018 at the District Court (Landgericht) of Offenburg.

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. MEDICLIN regularly monitors and analyses the situation in these areas to be able to react to potential changes. In order to avoid and mitigate risks that can be influenced by MEDICLIN, the monitoring and control systems identify them at an early stage. Potential opportunities are also closely monitored.

Overall, the risks and opportunities are slightly different in the 2019 financial year (forecast period) compared to the previous year. The risks in connection with attracting qualified personnel have increased and have been considered in the guidance for the sales and earnings performance in the 2019 financial year. In general, the Group is well hedged against both external and internal risks.

Risks that might arise in the 2019 financial year and that might lead to deviations in the sales and earnings performance are assessed as follows:

	Impact	Probability
Environment and sector risks		
Legal requirements	low	improbable
Dependency (on referring physicians)	medium	probable
Financial risks		
Liquidity risk	low	improbable
Real estate risk	low	improbable
Operating risks		
Process risks	low	improbable
Quality risks	low	improbable
Infrastructure risks		
Personnel risks (shortage of skilled professionals)	medium	probable
Data protection	low	improbable
Construction risks	low	improbable

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.

The risk inventories conducted in the 2018 financial year did not reveal any existential risks or risks that require action for the forecast period or the 2019 financial year.

From today's point of view, there are thus 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 revenue 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 shareholding in MEDICLIN Aktiengesellschaft of more than 10 % is held by Asklepios Kliniken GmbH & Co. KGaA. Indirect shareholdings are held by Asklepios Kliniken Management GmbH as the general partner and Broermann Holding GmbH as the limited partner and by Dr. Bernard große Broermann via the two aforementioned companies. 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 2018 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 on the MEDICLIN website at www.mediclin.de/corporate-governance.

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

"We declare that the Company received appropriate compensation for all legal transactions in the 2018 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 results of operation

Consolidated profit and loss account

In thousands of €	2018	2017
Sales	2,462	2,339
Other operating income	261	211
Total operating performance	2,723	2,550
Staff costs	–1,740	–1,950
Other operating expenses	–2,137	–2,149
Result before interest, taxes, depreciation and amortisation / EBITDA	–1,154	–1,549
Depreciation of fixed assets	–9	–6
Operating result / EBIT	–1,163	–1,555
Financial result	–10,918	7,629
Income taxes	113	2,078
Profit after tax	–11,968	8,152
Other taxes	–1	–1
Net loss / profit	**–11,969**	**8,151**

Sales

In thousands of €	2018	2017
Sales from Group contribution	2,259	2,139
Sales from management services	174	174
Other sales	29	26
	2,462	**2,339**

MediClin AG charged part of its expenses to the subsidiaries in the form of a Group contribution.

Other operating income

In thousands of €	2018	2017
Income from the release of provisions	247	200
Other income	14	11
	261	**211**

Other operating expenses

In thousands of €	2018	2017
Auditing and consultancy costs	918	1,211
Other administrative expenses	468	406
Thereof remuneration of the Supervisory Board	253	238
Thereof costs of the Annual General Meeting	82	85
Thereof incidental costs of monetary transactions	83	83
Thereof staff recruitment costs	50	0
Advertising and public relations	51	95
Insurance costs	104	102
Other expenses	596	335
	2,137	**2,149**

In 2018 the other expenses include VAT back payments for previous years in the amount of EUR 296 thou.

The financial result includes a EUR 25.7 mill. impairment loss on the carrying amount of the investment in a subsidiary (full write-off) and income from participations in connection with an advance payout on the 2018 net income of a subsidiary.

Development of net assets and the financial position

The balance sheet total as shown in the balance sheet structured according to maturity is EUR 5.5 mill. lower than on the previous year's reporting date. Non-current assets decreased by EUR 20.4 mill., mainly due to the impairment of the investment in a subsidiary. Current assets, in turn, rose by EUR 14.9 mill. Here, receivables from affiliated companies (receivables from ongoing settlement) in the amount of EUR 15.6 mill. (previous year: EUR 7.4 mill.) and receivables from short-term loans in the amount of EUR 36.1 mill. (previous year: EUR 28.5 mill.) increased.

Equity, in turn, decreased by EUR 14.4 mill., mainly due to the net loss for the year of EUR 12.0 mill. and the dividend payout in the amount of EUR 2.4 mill. Non-current liabilities dropped by EUR 4.3 mill., EUR 4.2 mill. of which refer to changes in deferred tax liabilities. These are associated with the write-off of the investment in a subsidiary.

Current liabilities rose by EUR 13.2 mill., due primarily to another drawdown on the syndicated loan in the amount of EUR 10.0 mill.

Statement on 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. Sales were within the scope of the forecast. The net profit for the year was reduced by EUR 20.1 mill. year-on year; this is attributable to the EUR 25.7 mill. impairment of the investment in a subsidiary. Higher income from participations in the amount of EUR 8.0 mill. had a slightly positive effect.

A letter of comfort was issued on behalf of several 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.

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.

Outlook

As in the previous years, the income structure of MEDICLIN AG in 2019 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 level of the year before last.

Balance sheet structure

In millions of €	31.12.2018	In % of balance sheet total	31.12.2017	In % of balance sheet total
Assets				
Non-current assets	308.1	85.6	328.5	89.9
Current assets	52.0	14.4	37.1	10.1
	360.1	**100.0**	**365.6**	**100.0**
Equity and liabilities				
Equity	289.4	80.4	303.8	83.1
Non-current liabilities	41.6	11.5	45.9	12.6
Current liabilities	29.1	8.1	15.9	4.3
	360.1	**100.0**	**365.6**	**100.0**

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 2018 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 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 margin 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. 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 margin targets set for a three- to five-year assessment period. The LTI is payable within one month after it was determined whether the targets for the vesting period were achieved. Two Management Board members will receive a one-off special bonus if they win the corresponding legal dispute. 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 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 1.6 mill. in the 2018 financial year (previous year: EUR 1.8 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 2018 a performance-based (variable) remuneration was paid out as the Annual General Meeting on 29 May 2018 resolved to pay out a dividend of 5 cent per share for the 2017 financial year.

The Supervisory Board remuneration amounted to a total of EUR 208.5 thou. in the 2018 financial year (previous year: EUR 175 thou.).

In the 2018 financial year, as in 2017, there were no loans to members of the Supervisory Board. No advanced payments were made, nor were the members of the Supervisory Board paid for individual performance, in particular, consulting and mediation services, nor were they granted benefits.

Consolidated financial statements of MEDICLIN Aktiengesellschaft for the 2018 financial year

Contents

Please click here to download the Annual Financial Statements of MEDICLIN Aktiengesellschaft (German version)
www.mediclin.de/JahresabschlussAG2018

Consolidated balance sheet as of 31 December 2018

ASSETS

	Appendix	31.12.2018 in €	Previous year in thou. of €
NON-CURRENT ASSETS			
Goodwill and other intangible assets	(1)		
Concessions, licences		3,796,954	3,593
Goodwill		48,830,073	48,830
Payments on account		4,008,269	2,485
		56,635,296	**54,908**
Property, plant and equipment	(2)		
Land, land rights and buildings including buildings on third-party land		113,726,714	112,883
Technical equipment and machines		13,105,487	12,711
Operating and office equipment		42,589,641	39,126
Payments on account and assets under construction		25,133,826	12,786
		194,555,668	**177,506**
Financial assets	(3)		
Investment in stock of subsidiaries		64,600	65
Reinsurance cover		830,396	859
Other financial investments		2,056	2
		897,052	**926**
Other financial assets			
Receivables pursuant to hospital financing law	(4)	37,644,130	0
		37,644,130	**0**
Deferred tax assets	(5)	**6,476,443**	**6,416**
		296,208,589	**239,756**
CURRENT ASSETS			
Inventories	(6)	**7,461,065**	**7,295**
Trade receivables	(7)	**93,098,658**	**84,003**
Current income tax claims	(8)	**1,017,280**	**0**
Other financial assets			
Receivables pursuant to hospital financing law	(9)	7,095,146	3,789
Other current financial assets	(10)	4,818,050	5,535
		11,913,196	**9,324**
Other assets	(11)	**1,206,711**	**1,341**
Cash and cash equivalents	(12)	**33,829,086**	**26,907**
		148,525,996	**128,870**
		444,734,585	**368,626**

EQUITY AND LIABILITIES

	Appendix	31.12.2018 in €	Previous year in thou. of €
EQUITY			
Shares MEDICLIN Group			
Subscribed capital	(13)	47,500,000	47,500
Capital reserve	(14)	129,391,829	129,392
Revenue reserve	(15)	−21,667,134	−22,440
Consolidated balance sheet result	(16)	36,382,391	31,079
		191,607,086	**185,531**
Non-controlling interests	(17)	**−202,798**	**−271**
		191,404,288	**185,260**
NON-CURRENT LIABILITIES			
Financial liabilities			
Liabilities to banks	(18)	54,852,582	37,356
		54,852,582	**37,356**
Liabilities from finance leases	(19)	**72,888**	**97**
Pensions and similar commitments	(20)	**54,707,157**	**55,237**
Other provisions	(21)	**22,755,114**	**22,689**
Other financial liabilities			
Liabilities pursuant to hospital financing law	(22)	30,672,215	0
Other financial liabilities	(23)	245,374	382
		30,917,589	**382**
Other payables	(24)	**2,050,743**	**2,648**
		165,356,073	**118,409**
CURRENT LIABILITIES			
Trade payables		**17,104,700**	**13,717**
Financial liabilities			
Liabilities to banks	(25)	20,830,586	10,135
		20,830,586	**10,135**
Liabilities from finance leases	(26)	**24,342**	**6,358**
Other provisions	(27)	**11,968,049**	**5,983**
Current income tax liabilities		**0**	**139**
Other financial liabilities			
Liabilities pursuant to hospital financing law	(28)	9,281,310	1,870
Other financial liabilities	(29)	4,846,022	6,132
		14,127,332	**8,002**
Other payables	(30)	23,919,215	20,623
		87,974,224	**64,957**
		444,734,585	**368,626**

Consolidated profit and loss account

for the financial year from 1 January to 31 December 2018

	Appendix	Jan.–Dec. 2018 in €	Previous year in thou. of €
Sales	(31)	645,106,299	609,083
Other operating income	(32)	9,848,025	17,326
Total operating performance		**654,954,324**	**626,409**
Raw materials and consumables used	(33)		
a) Cost of raw materials and supplies		–70,435,995	–64,540
b) Cost of purchased services		–48,964,440	–48,070
		–119,400,435	**–112,610**
Staff costs	(34)		
a) Wages and salaries		–331,720,241	–308,180
b) Social security, pension and retirement		–59,568,418	–54,885
		–391,288,659	**–363,065**
Other operating expenses	(35)	–106,917,099	–123,728
Result before interest, taxes, depreciation and amortisation/EBITDA		**37,348,131**	**27,006**
Depreciation and amortisation	(36)	–22,285,553	–20,390
Operating result/EBIT		**15,062,578**	**6,616**
Financial result	(37)		
a) Income from participations		37,589	0
b) Interest and similar income		234,109	202
c) Interest and similar expenses		–3,471,952	–2,562
		–3,200,254	**–2,360**
Result before tax		**11,862,324**	**4,256**
Taxes on income	(38)	–4,097,531	–296
Total consolidated result		**7,764,793**	**3,960**
Thereof attributable to shareholders of MEDICLIN AG		7,716,785	3,908
Thereof attributable to the non-controlling interests		48,008	52
Total consolidated result attributable to shareholders of MEDICLIN AG per share	(39)		
Undiluted in €		0.16	0.08
Diluted in €		0.16	0.08

Consolidated statement of comprehensive income

for the financial year from 1 January to 31 December 2018

	Appendix	Jan.–Dec. 2018 in €	Previous year in thou. of €
Total consolidated result		**7,764,793**	**3,960**
Other comprehensive income	(40)		
Revaluation from defined benefit plans and similar obligations		904,149	–313
Taxes on income		–143,082	49
Additions to value adjustments that are not reconciled to the total consolidated result		**761,067**	**–264**
Thereof attributable to shareholders of MEDICLIN AG		756,636	–269
Thereof attributable to non-controlling interests		4,431	5
Additions to value adjustments that are reconciled to the total consolidated result		**0**	**0**
Group comprehensive income		**8,525,860**	**3,696**
Thereof attributable to shareholders of MEDICLIN AG		8,473,421	3,639
Thereof attributable to the non-controlling interests		52,439	57

Consolidated cash flow statement

	Jan. – Dec. 2018 in €	Previous year in thou. of €
Total consolidated result	**7,764,793**	**3,960**
Result of finance activities	3,200,254	2,360
Result of income taxes	4,097,531	296
Operating result (EBIT)	**15,062,578**	**6,616**
Depreciation on fixed asset items	22,285,553	20,390
Result before interest, taxes, depreciation and amortisation (EBITDA)	**37,348,131**	**27,006**
Change in non-current provisions	– 1,654,937	18,509
Change in current provisions	5,985,170	447
Result from the disposal of fixed asset items	– 35,635	– 141
Result from other non-cash items	– 316,610	– 9,128
Changes in other current assets	– 10,536,142	– 16,636
Changes in other non-current liabilities	– 625,673	27
Changes in other current liabilities	3,960,291	5,648
Payments received from interest	223,220	200
Income taxes paid	– 4,672,749	– 5,883
Cash flow from operating activities	**29,675,066**	**20,049**
Payments received from the disposal of fixed assets	**312,452**	**1,169**
From the disposal of property, plant and equipment	312,452	1,169
Income from participations	**37,589**	**0**
Cash used for investments	**– 46,467,475**	**– 38,462**
For company acquisition less cash and cash equivalents acquired	0	– 2,719
For intangible assets	– 3,669,180	– 4,415
For property, plant and equipment	– 42,753,817	– 31,307
For financial assets	– 44,478	– 21
Cash flow from investing activities	**– 46,117,434**	**– 37,293**
Dividend payout to shareholders of MEDICLIN Aktiengesellschaft	– 2,375,000	0
Changes in non-controlling interests	– 7,000	0
Cash used for/received from dual hospital financing	6,214,126	5,560
New financial liabilities	30,000,000	0
Repayment of financial liabilities	– 8,336,962	– 1,816
Interest paid	– 2,130,928	– 1,241
Cash flow from financing activities	**23,364,236**	**2,503**
Cash flow for the period	**6,921,868**	**– 14,741**
Cash and cash equivalents at the beginning of the period	26,907,218	41,648
Cash and cash equivalents at the end of the period	**33,829,086**	**26,907**

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 01.01.2017	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**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Shares MEDICLIN Group	Non-controlling interests	Total equity
As of 01.01.2018	47,500,000	129,391,829	−22,440,157	31,079,507	185,531,179	−270,751	185,260,428
Total consolidated result	–	–	–	7,716,785	7,716,785	48,008	7,764,793
Other comprehensive income	–	–	756,636	–	756,636	4,431	761,067
Group comprehensive income	**–**	**–**	**756,636**	**7,716,785**	**8,473,421**	**52,439**	**8,525,860**
Dividend payout	**–**	**–**	**–**	**−2,375,000**	**−2,375,000**	**0**	**−2,375,000**
Changes in non-controlling interests	**–**	**–**	**16,387**	**−38,901**	**−22,514**	**15,514**	**−7,000**
As of 31.12.2018	**47,500,000**	**129,391,829**	**−21,667,134**	**36,382,391**	**191,607,086**	**−202,798**	**191,404,288**

Notes

Basic information

General

MEDICLIN Aktiengesellschaft (MEDICLIN AG) is active as a nationwide hospital operator. With 36 clinics, seven nursing care facilities, three home nursing care services and currently nine 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 registered office in 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. The MEDICLIN Group is further included in the subgroup accounts of Asklepios Kliniken GmbH & Co. KGaA, Hamburg (formerly Asklepios Kliniken Verwaltungsgesellschaft mbH, Hamburg), which holds a 52.73 % stake in MEDICLIN.

The present notes were prepared for the consolidated financial statements of MEDICLIN AG for the 2018 financial year. On 14 March 2019 the Management Board prepared 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 2018 were prepared in accordance with Section 315e (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.

International standards applicable for the first time in the reporting period

The following amended international standards were applicable for the first time in the period under review:

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

IFRS 15 "Revenue from Contracts with Customers" was applied for the first time in the 2018 financial year. In principle, the application of IFRS 15 from 1 January 2018 did not entail any material changes regarding the recognition of revenue at MEDICLIN, i.e. the recognition and measurement of hospital and rehabilitation services. 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. 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. 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 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. MEDICLIN used the modified retrospective approach and recognised the cumulative effects pursuant to IFRS 15 C3 (b). There was no need to make adjustments to equity. At MEDICLIN, control is passed, and revenue is recognised over time.

Pursuant to IFRS 15, revenue is classified into different categories reflecting the effect of economic factors on the type, amount, time and uncertainty of revenue and cash flows. The current segment reporting already meets this requirement. A breakdown of revenue by the degree of dependency on the most important customers is provided in the segment reporting section of the Annual Report in line with IFRS 8.34 "Information about major customers". MEDICLIN does not break down its business activities into regional segments as MEDICLIN only operates in Germany and regional characteristics are deemed to be irrelevant for the management of the Company. It does not seem expedient in the view of the management to break sales down any further as this would bring no material added value to the financial statements. The amendments to the International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers" serve to clarify several provisions of IFRS 15 and to simplify the transition to the new standard.

The aforementioned amendments did not have any significant effects on net assets, the financial position or results of operation of MEDICLIN. The effects mainly refer to allowances on receivables due to validity risks that are no longer shown in other operating expenses or other operating income since 1 January 2018. Instead, they are netted and recognised in revenue. MDK receivables with validity risks were already recognised in sales before, which is why the effects of applying IFRS 15 are only minor. EUR 0.1 mill. were reclassified in the 2018 financial year, as the reversal of impairments through profit or loss was lower than impairments recognised.

The new standard **IFRS 9 "Financial Instruments"** aims to improve the financial reporting of financial instruments by moving to a more forward-looking model for the recognition of expected losses on financial assets. This way the users of financial statements can better assess the amounts, timing and uncertainty of an entity's future cash flows.

In general, the introduction of IFRS 9 did not have any significant effects on the consolidated financial statements of MEDICLIN. Adjustments to equity as of 1 January 2018 were not required. For detailed explanations, please refer to pages 116ff.

The Amendments to **IFRS 4 "Insurance Contracts"**, **IFRS 1 "First-time Adoption of International Financial Reporting Standards"** and **IAS 28 "Investments in Associates and Joint Ventures"** were not relevant for 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 16 "Leases"	(EU) No. 2017/1986	01.01.2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	(EU) No. 2018/1595	01.01.2020
Amendments to IAS 28 "Investments in Associates and Joint Ventures"	(EU) No. 2019/237	01.01.2019

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 Interpretations Committee (IFRIC) 1, IFRIC 12, Interpretations of the Standing Interpretations Committee (SIC) 29 and SIC 32.

The main idea of the standard is to generally recognise all leases and associated contractual rights and obligations on the lessee's balance sheet. Thus, the distinction between finance and operating leases as required under IAS 17 "Leases" is no longer required for the lessee. The new standard replaces IAS 17 and the accompanying interpretations IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

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

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

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

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

The standard provides for another simplification for lessees, i.e. the so-called portfolio approach. This means that under certain conditions two or more contracts that were concluded with the same contracting partner at the same time may be treated as one lease. MEDICLIN will use the modified retrospective approach when applying the new lease requirements. On 1 January 2019, when the standard is first applied, the right-of-use assets equal the present value of the lease liability. The new provisions are not applied to leases with terms that end within 12 months of first-time application (01.01.2019). Such leases are recognised like short-term leases and accounted for as an expense. In general, the option to recognise the lease payments for short-term leases (term ≤ 12 months) directly as an expense will be exercised. Leases for low-value assets (IFRS 16.5(b) in conjunction with 16.B3ff) are not subject to the right-of-use model either; they are recognised as expenses. The value thresholds are based on IFRS 16.BC100. The option to account for the lease components of the contract and the associated non-lease components as a single lease component pursuant to IFRS 16.15 will be exercised.

The 21 rented hospital properties will have the most significant impact on the future net assets, financial position and results of MEDICLIN. To date, these were recognised as operating leases. Of these 21 clinic properties 20 refer to the post-acute segment and one to the acute segment. In addition, the Group has long-term leases for other properties, vehicles and printers and, to a very small extent, medical devices. Compared to the 21 clinic properties, however, these are immaterial.

The following tables show the status of the lease liability, the right-of-use asset and the expected effects on the operating and company results as of 1 January 2019.

CONSOLIDATED BALANCE SHEET

ASSETS

In thousands of €	31.12.2018	Adjustments due to IFRS 16	01.01.2019
NON-CURRENT ASSETS	**296,208**	**452,047**	**748,255**
Goodwill and other intangible assets	**56,635**	**0**	**56,635**
Property, plant and equipment			
Land, land rights and buildings including buildings on third-party land	113,727	449,527	563,254
Technical equipment and machines	13,105	0	13,105
Operating and office equipment	42,590	2,520	45,110
Payments on account and assets under construction	25,134	0	25,134
	194,556	**452,047**	**646,603**
Financial assets	**897**	**0**	**897**
Other financial assets	**37,644**	**0**	**37,644**
Deferred tax assets	**6,476**	**0**	**6,476**
CURRENT ASSETS	**148,526**	**0**	**148,526**
	444,734	**452,047**	**896,781**

EQUITY AND LIABILITIES

In thousands of €	31.12.2018	Adjustments due to IFRS 16	01.01.2019
EQUITY	**191,404**	**0**	**191,404**
NON-CURRENT LIABILITIES	**165,356**	**408,980**	**574,336**
Financial liabilities	54,853	0	54,853
Lease liabilities	73	408,980	409,053
Deferred tax liabilities	0	0	0
Other non-current liabilities	110,430	0	110,430
CURRENT LIABILITIES	**87,974**	**43,067**	**131,041**
Lease liabilities	**24**	**43,067**	**43,091**
Other current liabilities	**87,950**	**0**	**87,950**
	444,734	**452,047**	**896,781**

Forecast effects on the Group's income statement as of 1 January 2019

In thousands of €	Post-acute Jan.– Dec. 2019	Acute Jan.– Dec. 2019	Others Jan.– Dec. 2019	Group Jan.– Dec. 2019
Total operating performance	0	0	0	0
Other operating expenses	46,365	2,834	1,214	50,413
Result before interest, taxes, depreciation and amortisation / EBITDA	**46,365**	**2,834**	**1,214**	**50,413**
Depreciation and amortisation	– 42,231	– 2,648	– 1,176	– 46,055
Operating result / EBIT	**4,134**	**186**	**38**	**4,358**
Financial result	– 7,571	– 344	– 69	– 7,984
Result before tax	**– 3,437**	**– 158**	**– 31**	**– 3,626**
Taxes on income	544	25	5	574
Total consolidated result	**– 2,893**	**– 133**	**– 26**	**– 3,052**

With the exception of one contract, the 21 clinic leases expire in 2027. One contract was extended by another 20 years in 2018. Due to the indexed rents, the lease liability and the underlying right-of-use asset are redetermined every year in line with the rent increases. This, however, does not affect the underlying interest rate. In addition to the indexed lease payment, the land tax (ancillary operating costs) and the expenses for real estate management are also considered when calculating the lease liability.

The calculation of the lease liability is based on interest rates with matching maturities. The right-of-use asset is measured applying a cost model and depreciated on a straight-line basis over the remaining lease term. Deferred taxes are determined by applying an average tax rate of 15.825 %. 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 right-of-use assets 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 lease 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. The non-deductible input tax does not constitute a component of the lease payment and is therefore not considered in the recognition of the right-of-use asset or the lease liability.

Another change affects the cash flow statement. Previously, the cash payments for operating leases were recognised in the cash flow from operating activities. Following application of IFRS 16, the cash payments for the principal portion of the lease liability and the interest portion will be recognised in the cash flow from financing activities. This means that the cash flow from operating activities will improve by the amount of the lease payments at the cost of the cash flow from financing activities.

Commission Regulation (EU) No. 2018/1595 of 23 October 2018 covers International Financial Reporting Interpretations **(IFRIC 23) "Uncertainty over Income Tax Treatments"** published by the International Accounting Standards Board (IASB) on 13 January 2016. IFRIC 23 clarifies how the recognition and measurement rules under IAS 12 are to be applied when there is uncertainty over income tax treatments. In these cases, the entity shall recognise and measure its actual and deferred tax assets and tax liabilities in accordance with the provisions of IAS 12 and shall base these calculations on the values for the taxable profit (tax loss), tax basis, unused tax credits and tax rates that were determined in accordance with this interpretation. The interpretation must be applied for financial years beginning on or after 1 January 2019. Premature adoption is permitted, and has to be disclosed. When first adopting this interpretation, entities shall either apply it retrospectively as per IAS 8 – if this is possible without using retrospective findings – or retrospectively under recognition of the cumulative effects of the first-time adoption of the interpretation at the time of first-time adoption. If an entity opts for this transition provision, it does not need to adjust comparative information. Instead, the entity must recognise the cumulative effect of the first-time adoption of this interpretation as a correction of the opening balance of the revenue reserve (or, if this is expedient, another equity component). The time of first-time adoption is the beginning of the financial year, in which the entity first applies this interpretation. MEDICLIN does not expect IFRIC 23 to have any significant effects on net assets, the financial position or results of operation.

Commission Regulation (EU) No. 2019/237 of 12 October 2017 covers amendments to **IAS 28 "Investments in Associates and Joint Ventures"** published by the International Accounting Standards Board (IASB). The amendments to IAS 28 clarify that IFRS 9 must be applied to long-term interests in associates and 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.

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

In 2017 and 2018 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
Amendments to IFRS 3 "Business Combinations"	22.10.2018
Amendment to the definition of "material" in IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	31.10.2018
IFRS 17 "Insurance Contracts"	18.05.2017
IFRS 9: Financial Instruments "Prepayment Features with Negative Compensation"	12.10.2017
"Annual Improvements to IFRSs 2015–2017 Cycle"	12.12.2017

On 22 October 2018 the International Accounting Standards Board (IASB) published amendments to IFRS 3 "Business Combinations" regarding the definition of a business. To be considered a business, an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of output is narrowed by focusing on goods and services provided to customers and the generation of investment income and other income. As such, yields that consist of cost savings and other economic benefits are in future excluded. Entities may carry out an optional concentration test, which determines whether the entire fair value of the acquired gross assets is basically concentrated in one asset or one group of similar assets. In this case, it is determined that no business was acquired and that no further examination is required. Entities must apply the amendments to IFRS 3 to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Premature adoption is permitted.

On 31 October 2018 the International Accounting Standards Board (IASB) published amendments to **IAS 1 "Presentation of Financial Statements"** and **IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** regarding the definition of **"materiality"**. According to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make. The IASB places particular focus on the term "obscuring information". It specifies five ways of obscuring material information:

- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; or
- if material information is hidden by immaterial information to the extent that it becomes unclear which information is material.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. These two amendments will have no material effects on the consolidated financial statements of MEDICLIN.

On 18 May 2017 the IAS 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 12 October 2017 the IASB published amendments to **IFRS 9: Financial Instruments "Prepayment Features with Negative Compensation"**. 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 IFRS 9 will have no material effects 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 must be remeasured (IFRS 3.42A).
- IFRS 11 "Joint Arrangements"
  When an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business (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 amendments must be applied as from 1 January 2019. Premature adoption is permitted. These amendments will have no material effects on the consolidated financial statements of MEDICLIN.

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

On 20 May 2017 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):
  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.

- 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 publicly explain their equity investment strategy 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. In October 2018 the Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz – BMJV) published a draft for an act to implement the Second Shareholder Rights Directive (SRD II).

Consolidation principles

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

Receivables and liabilities between companies included in the consolidated financial statements, as well as expenses and income from mutual service and supply transactions, and intermediate results 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 5.199 % (corresponding to 1,201 shares) of shares in Kraichgau-Klinik AG, Bad Rappenau, that are in free float. Seventy-three additional shares (corresponding to 0.316 %) were acquired in the 2018 financial year. The profit and loss attributable to non-controlling interests 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. This is immaterial at Group level.

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. Their 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 associated company, bears the risk of the investment's fluctuations in commercial success, has the right to such success and has the possibility of influencing the degree of this success by exercising its power of disposition over the associated company. The power of disposition is deemed to exist if the parent has rights to determine activities of the associated 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 i. L. and MediServ GmbH i. L. (the latter two companies are currently 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 (without MediServ GmbH i. L.) totalled EUR 49 thou. in 2017 (2016: EUR 12 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 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 2018 amounted to EUR 36 thou., while the profits attributable to MEDICLIN in 2017 totalled EUR 14 thou. The prorated equity of MEDICLIN that was carried forward amounted to EUR 2 thou. as of 31 December 2018 (31.12.2017: EUR –34 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 is 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 has bought 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 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 had 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. The agreement was not terminated in 2018, meaning that its term now ends on 31 December 2019. 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

Liquidation

The shareholder's meeting on 12 June 2018, convened by the shareholders with sole voting right and sole right to attend, i.e. Fachklinik Rhein/Ruhr für Herz/Kreislauf- und Bewegungssystem GmbH & Co. KG and Dussmann Beteiligungs- und Managementgesellschaft, mbH, Berlin, resolved to liquidate the company Medusplus GmbH, Essen, effective end of day of 31 December 2018.

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
	31.12.2018	31.12.2017	
MEDICLIN Aktiengesellschaft, Offenburg			
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	94.801[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	94.801	94.485	no
Kraichgau-Klinik Bad Rappenau GmbH & Co. KG, Bad Rappenau	94.801[3]	94.485[3]	yes
MC Kliniken Geschäftsführungs-GmbH, Offenburg	94.801[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	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, Essen	100.000[2]	100.000[2]	yes
MediClin Geschäftsführungs-GmbH, Offenburg	100.000	100.000	no
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	no
MediClin Medizinisches Versorgungszentrum GmbH, Offenburg	100.000[2]	100.000[2]	yes
MediClin MVZ Achern GmbH (formerly MVZ-Müritz GmbH, Waren), Achern	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
MediClin-IT GmbH (formerly Cortex Software GmbH), Offenburg	100.000[1]	100.000[1]	yes
MVZ MediClin Bonn GmbH, Bonn	100.000[2]	100.000[2]	yes
Rehabilitationszentrum Gernsbach / Schwarzwald GmbH & Co. KG, Bad Rappenau	94.801[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	
	2017	2016	2017	2016	2017	2016
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz[1]	8,564.09	10,655.49	54,831.88	46,267.79	69.231[2]	69.231[2]
MediServ GmbH i.L., Essen[1, 3, 4, 6]	–	178,245.85	–	285,327.58	–	51.000[2]
Medusplus GmbH i.L., Essen[1, 5]	3,909.62	–7,114.63	48,703.07	44,793.45	51.000[2]	51.000[2]
Müritz-Klinikum Service GmbH, Waren[1]	91,356.32	24,097.09	201,576.82	110,220.50	51.000[2]	51.000[2]

[1] 2018 annual financial statements not yet available
[2] Indirect participation
[3] 49.0 % have been held by the Company itself since September 2016
[4] Dissolved as at 31.05.2017
[5] Dissolved as at 31.12.2018
[6] 2017 annual financial statements not yet available

Companies not included in the consolidated financial statements in €	Results		Total equity		Percentage of shares held	
	2018	2017	2018	2017	2018	2017
VR-LEASING ABYDOS GmbH & Co. Immobilien KG, Eschborn	107,619.74	67,655.61	34,549.13[1]	–35,169.66[1]	44.408[2,3]	44.408[2,3]

[1] Taxable equity
[2] Including atypical silent participation
[3] Indirect participation

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 the German Commercial Code (HGB) as in the previous year. These are reconciled to IFRSs principles at Group level.

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, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. If the reason for a non-scheduled depreciation recognised in the past 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.

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 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. Alternative 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 or non-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** and investment incentives in the form of debt service support are recognised on an accrual basis.

Up to and including 2018 leases are, pursuant to IAS 17, classified as **finance leases** if basically all the risks and opportunities incident to ownership of an asset are transferred 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 of minor importance for the Group until 31 December 2018. Capitalised leased property items were 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 lease expenses thus incurred are generally recognised as lease or rental expenses over the term of the contract. Starting in 2019, leases will be accounted for in accordance with IFRS 16. More detailed information in this respect is available in the explanations of the new accounting standards to be applied.

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 2018 financial year. The costs are not capitalised if the investment is subsidised by means of debt service support and the interest payments for the loans taken out in order to finance the project are subsidised. 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 (incurred losses model). If the default risk increases thereafter, specific bad debt allowances that are determined on a flat-rate basis are made, while 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 lease rates when the leased property is capitalised and, depending on the term of the lease, are recognised in non-current or current liabilities from finance leases.

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

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

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

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

In accordance with IAS 37, **remaining provisions** are recognised to the extent that present obligations from past events exist vis-à-vis third parties which will probably lead to an outflow of funds and which can be reliably estimated. In case of legal disputes, the management has to exercise 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, all 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 segments (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 used for recognising sales and measuring services not yet invoiced meets the requirements under IFRS 15.

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

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

Non-scheduled depreciation, losses from the sale of non-current assets and other expenses unrelated to the accounting period 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, liabilities, financial position and profit or loss. Any differences between the actual circumstances and the assumptions will have an effect on the recognition and measurement of assets and liabilities. Depending on the situation, such differences might also have an effect on the result. This is particularly the case in the following circumstances:

- Financial assets must be classified as per the following measurement categories: measurement at amortised cost (AC), measurement at fair value through other comprehensive income (FVTOCI) or measurement at fair value through profit or loss (FVTPL). In doing so, the financial assets must be classified on the basis of the business model that is used to manage the financial assets and the contractual cash flows. The business model condition refers to how a financial asset is used to generate income, distinguishing between the collection of contractual cash flows (hold to collect) and the sale of the financial asset (hold to collect and sell). A third option refers to a combination of holding and selling. The business model is determined by the management of the company after considering all the relevant and available information.

- 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 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 the criteria for classification as a finance lease as set out in IAS 17.
- Structured companies and other investment companies must be consolidated where a parent company has the decision-making power over the investment company, bears the risk of the investment's fluctuations in commercial success, has the right to such success and has the possibility of influencing the degree of this success by exercising its decision-making powers over the investment company.
- The impairment test for goodwill is carried out on the assumption that the time frame used for the calculation (detailed planning for three years; calculation of perpetuity on the basis of the figures for the third year, pricing in an appropriate discount if required) is adequate to determine the value in use. Further assumptions are stable occupancy rates as well as a commensurate development of personnel expenses across the Group. Special assumptions must be made regarding the development of state base rates as well as the prospective budget development and, in the post-acute segment, regarding the prospective development of the main occupancy providers and the future remuneration development. The management also exercises judgement in defining the scope of cash-generating units.

Estimates and assessments made by management

The application of accounting policies and valuation methods prescribed by IFRSs and the IFRS IC requires estimates and assumptions to be made about the future which, as a matter of course, may differ from actual events. All underlying estimates and assumptions made in the context of the accounting and valuation are re-examined on a regular basis and are 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 obligations. The discount rate for pension obligations is determined on the basis of yields on senior, fixed-rate corporate bonds on the financial markets as of the balance sheet date. A rise in the discount rate results in a reduction in the present value of the pension obligations and thereby an increase in equity, whereas a reduction in the discount rate leads to the reverse effects. Thus, an increase in the discount rate by 0.5 percentage points from 1.9 % to 2.4 % lowers the present value of the defined benefit obligation (DBO) by EUR 4.5 mill., or 8.0 %. A reduction in the discount rate by 0.5 percentage points from 1.9 % to 1.4 %, in turn, increases the DBO by EUR 5.1 mill., or 9.1 %. 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 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.

Following the introduction of IFRS 15, the measurement, recognition and disclosure of sales is subject to even more judgement and estimates on the part of MEDICLIN than before. This is particularly true of:

- Identification of the contract(s) with a customer
- Identification of the separate performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the individual performance obligations in the contract
- Revenue recognition when a performance obligation is satisfied

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. This includes quantitative and qualitative information based on the Group's previous experience, credit risk assessments and forward-looking information (including macroeconomic factors). The assessment whether a significant deterioration has occurred is decisive for determining the time of change between different impairment levels.

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 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 20.4 mill. (previous year: EUR 20.1 mill.). The increase in the 2018 financial year is only due to interest adjustments in the amount of EUR 0.2 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.

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 2019 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 derived using the indirect method. The cash flow from investing activities is stated using the gross method. The investment subsidies received in the 2018 reporting year are, for the first time, fully recognised in the cash flow from financing activities (previous year: cash flow from investing activities). As such, the source and purpose of funds is shown more clearly in line with capital expenditure that is not financed by investment subsidies. Income from participations is shown in the cash flow from investing activities. The previous year was adjusted accordingly.

The cash flow from operating activities increased by EUR 9.7 mill., from EUR 20.0 mill. to EUR 29.7 mill. It includes interest received totalling EUR 223 thou. (previous year: EUR 200 thou.). Tax payments amounted to EUR 4.7 mill. net of tax refunds (previous year: EUR 5.9 mill.). EUR 1.2 mill. thereof are attributable to back payments for previous years.

Provisions for pensions and other non-current provisions were reduced by a total of EUR 1.7 mill. Current provisions showed a EUR 6.0 mill. change. EUR 9.1 mill. of the change in other current assets is attributable to an increase in trade receivables (previous year: EUR +12.9 mill.). EUR 5.6 mill. thereof refer to unfinished services not yet invoiced. Partly, the increase is due to higher sales.

A gross amount of EUR 3.7 mill. (previous year: EUR 4.4 mill.) was spent on intangible assets. Gross investments in property, plant and equipment total EUR 42.8 mill. (previous year: EUR 31.3 mill.). This results in a net cash flow from investing activities totalling EUR – 46.1 mill. (previous year: EUR – 37.3 mill.).

The cash flow from financing activities amounted to EUR 23.4 mill., up from EUR 2.5 mill. in the previous year. This change refers to the EUR 20.0 mill. annuity loan taken out in connection with the subsidies for a new clinic to be built in Lingen and another EUR 10.0 mill. drawdown on the credit facility. EUR 6.3 mill. of the repayment of financial liabilities in the total amount of EUR 8.3 mill. (previous year: EUR 1.8 mill.) refers to the buy-back of a clinic building in Gernsbach/Schwarzwald. Interest payments amounted to EUR 2.1 mill. (previous year: EUR 1.2 mill.). EUR 1.0 mill. thereof are attributable to back payments in connection with the external tax audit. Investment subsidies received amounted to EUR 7.9 mill. (previous year: EUR 6.3 mill.). The investment subsidies received refer primarily to MediClin Müritz-Klinikum, MediClin Hedon Klinik, MediClin Krankenhaus Plau am See, MediClin Seepark Klinik and MediClin Herzzentrum Coswig.

Cash and cash equivalents at the end of the period thus increased by EUR 6.9 mill. (previous year: EUR –14.7 mill.) to EUR 33.8 mill. (previous year: EUR 26.9 mill.).

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

In thousands of €	As of 01.01.2018	Cash items	Non-cash items		As of 31.12.2018
			Interest accrual	Other changes	
Current liabilities to banks	10,135	10,658	38	0	20,831
Non-current liabilities to banks	37,356	17,497	0	0	54,853
Current finance lease liabilities	6,358	−6,334	0	0	24
Non-current finance lease liabilities	97	−24	0	0	73
Non-current receivables pursuant to hospital financing law	0	0	0	−37,644	−37,644
Current receivables pursuant to hospital financing law	0	7,933	0	−9,181	−1,248
Non-current liabilities pursuant to hospital financing law	0	0	0	30,672	30,672
Current liabilities pursuant to hospital financing law	725	0	5	6,414	7,144
Current other financial liabilities	178	2	0	0	180
Non-current other financial liabilities	382	−137	0	0	245
	55,231	**29,595**	**43**	**−9,739**	**75,130**

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 2018 financial year. The division into operating segments corresponds to that used for the internal controlling and reporting of the Group. MEDICLIN does not break down its business activities into regional segments 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.

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

The **other activities segment** consists of the nursing care and service business areas, which are disclosed together due to non-fulfilment of quantitative thresholds pursuant to an IFRS ("IFRS 8.16 Quantitative Thresholds"). 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. Altogether, the following companies belong to the service business area: MediClin GmbH & Co. KG (Offenburg branch office), MediClin Geschäftsführungs-GmbH, MediClin-IT GmbH, MediClin à la Carte GmbH, MC Service GmbH, MediClin Therapie GmbH, MediClin Immobilien Verwaltung GmbH, Kraichgau-Klinik Aktiengesellschaft, MC Kliniken Geschäftsführungs-GmbH and MediClin Energie GmbH.

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

Intra-Group sales are also disclosed within the segment reporting. Clinics that offer services of both segments are assigned to the post-acute segment. The carrying amounts of goodwill are assigned to nine cash-generating units (operating locations), seven of which are part of the acute segment while two refer to the post-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 41.7 % (previous year: 41.8 %) of the demand for services in the post-acute segment, while the social security pension funds make up 49.9 % (previous year: 49.4 %) of the demand for services in this segment. In the acute segment, 91.5 % (previous year: 92.4 %) of the services demanded are attributable to the public health insurance funds.

Sectoral segmenting

In millions of €	January – December 2018					
	Post-acute	Acute	Other activities	Subtotal	Reconciliation	Total
Sales	400.5	224.3	72.1	**696.9**	–51.8	**645.1**
Total sales	406.9	226.7	76.3	**709.9**	0.0	**709.9**
Internal sales	6.4	2.4	4.2	**13.0**	51.8	**64.8**
Raw materials and consumables used	–78.1	–60.2	–29.3	**–167.6**	48.2	**–119.4**
Staff costs	–209.0	–131.3	–50.3	**–390.6**	–0.7	**–391.3**
Other operating expenses	–90.0	–30.4	–15.4	**–135.8**	28.9	**–106.9**
Segment result	**20.5**	**–1.2**	**–3.1**	**16.2**	**–1.1**	**15.1**
Extraordinary effect rent provisions	0.00	0.00	0.0	**0.00**	0.00	**0.00**
Segment result excl. extraordinary effect	**20.5**	**–1.2**	**–3.1**	**16.2**	**–1.1**	**15.1**
Thereof non-cash items:						
Scheduled depreciations/ write-ups	–13.1	–14.9	–2.9	**–30.9**	0.0	**–30.9**
Non-scheduled depreciations/ write-ups	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Release of special item	1.2	7.4	0.0	**8.6**	0.0	**8.6**
Allowances	–0.3	0.2	0.0	**–0.1**	0.0	**–0.1**
Allocation of provisions/liabilities	–14.9	–12.9	–3.0	**–30.8**	–1.0	**–31.8**
Release of provisions/liabilities	0.8	0.5	0.3	**1.6**	0.2	**1.8**
Financial revenues	0.4	0.2	0.4	**1.0**	–0.7	**0.3**
Financial costs	–1.1	–1.2	–2.6	**–4.9**	1.4	**–3.5**
Financial result	**–0.7**	**–1.0**	**–2.2**	**–3.9**	**0.7**	**–3.2**
Taxes on income	**–0.2**	**–0.2**	**–3.8**	**–4.2**	**0.1**	**–4.1**
Assets	**188.1**	**195.7**	**19.3**	**403.1**	**41.6**	**444.7**
Liabilities	**42.3**	**37.8**	**96.2**	**176.3**	**77.0**	**253.3**
Gross capital expenditure	25.0	12.2	12.1	**49.3**	0.0	**49.3**

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. extraordinary effect	**20.8**	**2.3**	**5.2**	**28.3**	**– 1.6**	**26.7**
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**

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 01.01.2017	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**
Acquisition costs as at 01.01.2018	24,712	75,109	2,485	**102,306**
Additions	2,244	0	1,738	**3,982**
Reclassifications	215	0	– 215	**0**
Disposals	– 3	– 38	0	**– 41**
Acquisition costs as at 31.12.2018	**27,168**	**75,071**	**4,008**	**106,247**
Cumulated depreciation as at 01.01.2018	21,119	26,279	0	**47,398**
Scheduled depreciation	2,255	0	0	**2,255**
Reclassifications	0	0	0	**0**
Disposals	– 3	– 38	0	**– 41**
Cumulated depreciation as at 31.12.2018	**23,371**	**26,241**	**0**	**49,612**
Balance sheet value 31.12.2018	**3,797**	**48,830**	**4,008**	**56,635**

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 45.1 mill.) refers to differences from capital consolidation.

Goodwill is allocated to nine 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 2018 (31.12.2017: EUR 48.8 mill.). The carrying amounts of the CGUs totalled EUR 117.5 mill. (31.12.2017: EUR 109.2 mill.). Nearly 47 % of goodwill and 32 % of the carrying amount referred to one CGU similar to 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 5.86 % before tax was determined for short and medium term planning in the reporting period (previous year: 5.06 %). 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 %	31.12.2018	31.12.2017
Risk-free interest rate	1.0	1.25
Market risk premium	6.50	6.50
Beta coefficient (on the basis of a peer-group analysis)	0.76	0.62
Growth discount to the perpetuity	0.25	0.25
Borrowing costs (before taxes)	2.93	2.39
Tax shield	0.46	0.38
Capital structure (equity / borrowed capital) (on the basis of a peer-group analysis)	72.12/27.88	69.35/30.65

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	1.8	0.0	0.0
Change in EBIT	5.0 %	0.0	0.0	0.7	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	0.5	2.9	0.0	0.0
Change in EBIT	–10.0 %	0.0	1.7	4.4	0.0	0.0

The analysis revealed a need for write-downs totalling a maximum of EUR 4.4 mill. within the context of the parameter changes, which corresponds to 3.8 % of the carrying amount.

(2) PROPERTY, PLANT AND EQUIPMENT

In thousands of €	Land, land rights and buildings incl. 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 01.01.2017	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**
Acquisition and manufacturing costs as at 01.01.2018	252,281	40,827	180,450	12,786	**486,344**
Clinic addition	0	0	0	0	**0**
Additions	5,032	1,838	13,198	17,175	**37,243**
Reclassifications	3,441	554	826	–4,821	**0**
Disposals	–78	–1,162	–10,040	–6	**–11,286**
Acquisition and manufacturing costs as at 31.12.2018	**260,676**	**42,057**	**184,434**	**25,134**	**512,301**
Cumulated depreciation as at 01.01.2018	139,398	28,116	141,324	0	**308,838**
Clinic addition	0	0	0	0	**0**
Scheduled depreciation	7,630	1,997	10,404	0	**20,031**
Disposals	–79	–1,161	–9,884	0	**–11,124**
Cumulated depreciation as at 31.12.2018	**146,949**	**28,952**	**141,844**	**0**	**317,745**
Balance sheet value 31.12.2018	**113,727**	**13,105**	**42,590**	**25,134**	**194,556**

Gross additions to property, plant and equipment before deduction of special items totalled EUR 45.3 mill. in the 2018 financial year (previous year: EUR 42.2 mill.).

Approximately EUR 24.1 mill. was used for the reconstruction and expansion of clinics. EUR 6.8 mill. thereof are attributable to the new construction of retirement homes, EUR 1.5 mill. to the new construction of a clinic for psychosomatic medicine and EUR 1.0 mill. to the new construction of a medical care centre.

Capital expenditure for IT infrastructure amounted to EUR 4.0 mill., while EUR 8.2 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 68.6 mill. (previous year: EUR 69.2 mill.). The additions of subsidised assets amount to EUR 8.1 mill. (previous year: EUR 7.2 mill.). Depreciation and amortisation was reduced by the deduction of subsidies totalling EUR 8.6 mill. (previous year: EUR 8.9 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 referred in particular to a sale-and-leaseback agreement for the properties and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald. A contractually agreed purchase right was exercised as of 30 November 2018 and the land and buildings were bought back at the agreed residual financing value on the same date. Thus, there is only one finance lease contract on the balance sheet date pertaining to the medical and technical equipment at a clinic. The contract has a term until 2022. The net carrying amounts of the assets total EUR 0.1 mill. (previous year: EUR 0.1 mill.). More detailed explanations are provided in item (19) "Finance lease liabilities".

(3) FINANCIAL ASSETS

Financial assets refer primarily to reinsurance policies for pension obligations totalling EUR 830 thou. (previous year: EUR 859 thou.). Two further reinsurance policies with a coverage volume of EUR 462 thou. (previous year: EUR 462 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 i. L. (EUR 13 thou.), MediServ GmbH i. L. (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) RECEIVABLES PURSUANT TO HOSPITAL FINANCING LAW

The receivables pursuant to the hospital financing law totalling EUR 37.6 mill. on the balance sheet date (previous year: EUR 0.0 mill.) refer to the subsidies for the construction of new clinics at two locations. EUR 23.5 mill. thereof pertain to the construction of a new clinic for neurology, neurointensive care and neurophysiology at the location of MediClin Hedon Klinik in Lingen, which is being subsidised by the federal state of Niedersachsen under the hospital financing law with a contribution of EUR 20.0 mill., plus the interest for debt service. Another EUR 14.1 mill. refer to subsidies for a new clinic for child and youth psychiatry at MediClin Müritz-Klinikum in Röbel granted by the federal state of Mecklenburg-Vorpommern. The subsidies for this project total EUR 14.5 mill. The balance sheet recognition of receivables pursuant to the hospital financing law each refer to promised subsidies that have not yet been used.

The current portion thereof is shown in current assets (please refer to item (9) "Receivables pursuant to the hospital financing law").

(5) 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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Deferred tax assets				
Pension obligations	49,407	49,915	7,819	7,899
Provision for additional rent payments	20,359	20,146	3,222	3,188
Tax loss carried forward	4,765	3,382	754	535
Anniversary obligations /provisions for partial retirement	703	724	111	114
Others	1,553	1,476	245	234
			12,151	**11,970**
Deferred tax liabilities				
Intangible assets	18,244	18,099	2,887	2,864
Property, plant and equipment	16,954	16,316	2,683	2,582
Others	664	684	105	108
			5,675	**5,554**
Balance sheet recognition			**6,476**	**6,416**

MEDICLIN recognises 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 10.6 mill. (previous year: EUR 9.5 mill.), no deferred tax assets were recognised.

Current assets

(6) INVENTORIES

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

In thousands of €	31.12.2018	31.12.2017
Medical supplies	5,454	5,284
Operating supplies	1,743	1,707
Administrative supplies	264	303
	7,461	**7,294**

(7) TRADE RECEIVABLES

In thousands of €	31.12.2018	31.12.2017
Receivables stock	98,195	89,094
Allowance and Medical Review Board (MDK)	–5,096	–5,091
Disclosure	**93,099**	**84,003**
Receivables not yet invoiced	34,966	29,361
Invoiced trade receivables	58,133	54,642

The residual terms of the receivables are 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. The use of a provision matrix is also admissible under IFRS 9 (simplified approach). The expected loss over the residual term is calculated as a flat-rate percentage rate in relation to the time the receivable has been overdue. Receivables that are not yet overdue are also classified in accordance with a default probability. Additions to the allowances on the financial year's receivables due to validity risks are no longer shown in the "other operating expenses" or "other operating income" item of the consolidated profit and loss account since 1 January 2018. Instead, they are netted and recognised in sales. 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.

Invoiced trade receivables (without MDK and bad debts, for which specific bad debt allowances have been made) and identified default risk (impairment matrix)

In thousands of €	31.12.2018	not yet due	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
Default risk in %		1	1	1	10	25	50	100
Invoiced trade receivables (without MDK and bad debts, for which specific bad debt allowances have been made)	48,701	36,415	6,550	1,329	533	733	486	2,655
Valuation allowance	–3,705	–364	–66	–14	–54	–185	–228	–2,794

In thousands of €	31.12.2017	not yet due	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
Default risk in %		1	1	1	10	25	50	100
Invoiced trade receivables (without MDK and bad debts, for which specific bad debt allowances have been made)	47,972	35,840	6,126	971	554	738	1,149	2,594
Valuation allowance	–3,966	–358	–61	–10	–57	–190	–518	–2,771

The valuation adjustments of trade receivables developed as follows:

In thousands of €	31.12.2018	31.12.2017
Allowance as of 01.01.	5,091	5,021
Additions to general bad debt allowances	2,142	1,132
Consumption	–1,081	–169
Release	–1,056	–893
Allowance as of 31.12.	**5,096**	**5,091**

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 and income from the recoveries of written-off receivables resulted in expenses totalling EUR 0.1 mill. during the 2018 financial year (previous year: expenses totalling EUR 0.2 mill.).

In thousands of €	2018	2017
Expenses for full write-off of receivables	–1,197	–1,105
Recoveries of written-off receivables	1,059	908
	–138	**–197**

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 31.12.2018	58,133	36,051	7,118	2,148	1,055	1,685	2,319	7,757
As of 31.12.2017	54,642	35,482	6,388	1,308	876	1,988	2,612	5,988

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.

(8) CURRENT INCOME TAX ASSETS

The EUR 1.0 mill. current income tax assets as of the balance sheet date are the result of income tax overpayments in the 2018 financial year (31.12.2017: EUR 0.1 mill. in current income tax liabilities).

(9) RECEIVABLES PURSUANT TO HOSPITAL FINANCING LAW

In thousands of €	31.12.2018	31.12.2017
Receivables stock	7,095	3,789

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. EUR 1.2 mill. (previous year: EUR 0.0 mill.) pertain to the short-term element of the subsidies for new constructions at two clinic locations explained in item (4).

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 31.12.2018	7,095	7,095	0	0	0	0	0	0
As of 31.12.2017	3,789	3,789	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.

(10) OTHER CURRENT FINANCIAL ASSETS

In thousands of €	31.12.2018	31.12.2017
Receivables stock	4,818	5,535

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 terms of the receivables are 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.

(11) OTHER ASSETS

This item refers to prepaid expenses including insurance accruals.

(12) CASH AND CASH EQUIVALENTS

In the reporting year, cash and cash equivalents include cash, bank credit balances and other fixed-interest securities. The fixed-interest securities were sold as of 3 January 2019. They were recognised at fair value through profit or loss in the financial statements as of 31 December 2018.

Additional information on financial instruments

The new standard IFRS 9 "Financial Instruments" aims to improve the financial reporting of financial instruments by moving to a more forward-looking model for the recognition of expected losses on financial assets. This way the users of financial statements can better assess the amounts, timing and uncertainty of an entity's future cash flows.

MEDICLIN only has very few non-current financial assets, which is why the changes resulting from the introduction of IFRS 9 refer primarily to the impairment of current financial assets recognised at amortised cost. The exception is a disbursement claim to debt service support that was granted in 2018 and amounts to EUR 24.6 mill. plus interest due on the debt service.

Current financial assets include mainly trade receivables and cash and cash equivalents. A simplified approach is applied to trade receivables or contractual items resulting from transactions subject to IFRS 15 that do not contain any material financing component. 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 12 months equals the loss over 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. The previous model that was based on incurred losses is replaced by an expected loss model, meaning that losses are recognised at an earlier stage as both incurred and expected losses are booked. This approach does not record the change in default risk; instead, an impairment that represents all the credit losses expected during the entire term is recognised on each balance sheet date. There was no need to perform any adjustments in this respect as MEDICLIN had already been following the approach prescribed by IFRS 9. This is due to the fact that health insurance funds have invoices for services rendered checked in standardised random checks and individual checks by the MDK, resulting in a significant validity risk that MEDICLIN has always taken account of when recognising revenues. Given the nature of MEDICLIN's contractual partners, the risk resulting from default due to the debtor's creditworthiness is extremely low.

Value adjustments to cash and cash equivalents due to impairment were conducted on the basis of the corresponding bank ratings and the associated default risk. The amount thus determined is about EUR 17 thou. and therefore considered very low. The bank balances can be called at any time.

The market value of financial liabilities 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 market fluctuations 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 of MEDICLIN and the resulting good creditworthiness, there was no need for adjustments in this respect. The new annuity loan that was taken out in the year under review to finance a clinic for neurology, neurointensive care and neurophysiology will receive the aforementioned debt service support by the federal state of Niedersachsen amounting to EUR 24.6 mill. and the interest for debt service.

With respect to trade payables and other financial liabilities with short-term maturities, the carrying amounts as of the reporting date correspond with their fair values. The carrying amount of liabilities from finance leases also equals their current fair values.

The first-time application of IFRS 9 did not have any effects on the classification or measurement of financial liabilities.

In general, the introduction of IFRS 9 did not have any significant effects on the consolidated financial statements of MEDICLIN. Adjustments to equity as of 1 January 2018 were not required.

Reconciliation of measurement categories under IAS 39 to IFRS 9

In thousands of €	Category in accordance with IAS 39	Carrying amount as of 31.12.2017 pursuant to IAS 39	Category in accordance with IFRS 9
ASSETS			
Non-current assets			
Investment in stock of subsidiaries	AfS	65	at fair value through other comprehensive income (without recycling)
Reinsurance policies	LaR	859	at amortised cost
Other financial assets	HtM	2	at amortised cost
Receivables pursuant to hospital financing law	LaR	0	at amortised cost
Current assets			
Trade receivables	LaR	84,003	at amortised cost
Receivables pursuant to hospital financing law	LaR	3,789	at amortised cost
Other current financial assets	LaR	5,535	at amortised cost
Prepaid expenses	LaR	1,341	at amortised cost
Cash and cash equivalents	LaR	26,907	at fair value through profit or loss
EQUITY AND LIABILITIES			
Non-current liabilities			
Liabilities to banks	FLAC	37,356	at amortised cost
Liabilities from finance leases	FLAC	97	at amortised cost
Liabilities pursuant to hospital financing law	FLAC	0	at amortised cost
Other financial liabilities	FLAC	382	at amortised cost
Current liabilities			
Trade payables	FLAC	13,717	at amortised cost
Liabilities to banks	FLAC	10,135	at amortised cost
Liabilities from finance leases	FLAC	6,358	at amortised cost
Other provisions	FLAC	5,983	at amortised cost
Liabilities pursuant to hospital financing law	FLAC	1,870	at amortised cost
Other financial liabilities	FLAC	6,132	at amortised cost
Other payables	FLAC	20,623	at amortised cost
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IAS 39 AND/OR IFRS 9			
Financial assets	**Total LaR**	**122,434**	**Total at amortised cost**
Financial assets	**Total AfS**	**65**	**Total through other comprehensive income (fair value)**
Financial assets	**Total HtM**	**2**	**Total through profit or loss (fair value)**
Financial liabilities	**Total FLAC**	**102,653**	**Total at amortised cost**

	Level	01.01.2018		31.12.2018	
		Book value	Fair value	Book value	Fair value
	2	65	65	65	65
	2	859	859	830	830
	2	2	2	2	2
	2	0	0	37,644	37,644
	2	84,003	84,003	93,099	93,099
	2	3,789	3,789	7,095	7,095
	2	5,535	5,535	4,818	4,818
	2	1,341	1,341	1,207	1,207
	2	26,907	26,907	33,829	33,829
	2	37,356	37,356	54,853	54,853
	2	97	97	73	73
	2	0	0	30,672	30,672
	2	382	382	245	245
	2	13,717	13,717	17,105	17,105
	2	10,135	10,135	20,831	20,831
	2	6,358	6,358	24	24
	2	5,983	5,983	11,968	11,968
	2	1,870	1,870	9,281	9,281
	2	6,132	6,132	4,846	4,846
	2	20,623	20,623	23,919	23,919
	2	**95,529**	**95,529**	**144,695**	**144,695**
	2	**65**	**65**	**65**	**65**
	2	**26,907**	**26,907**	**33,829**	**33,829**
	2	**102,653**	**102,653**	**173,817**	**173,817**

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 19.0 mill. of which were utilised on 31 December 2018. 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. The second renewal option was exercised in the 2018 financial year, extending the term by another year until 25 July 2023. 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 €	31.12.2018	31.12.2017
Equity	191,404	185,260
Non-current liabilities	165,357	118,409
Current liabilities incl. tax liabilities	87,974	64,957
Balance sheet total	444,735	368,626
Net financial debt	41,854	20,583
Equity ratio in %	43.0	50.3
Debt ratio in %	57.0	49.7

Remeasurements from the calculation of pension obligations pursuant to IAS 19 "Employee Benefits" in the amount of EUR 0.7 mill. that are recognised directly in equity and the total consolidated result in the amount of EUR 7.8 mill. as well as the EUR 2.4 mill. dividend payment to the shareholders of MEDICLIN Aktiengesellschaft expanded equity by EUR 6.1 mill. A stronger increase in the balance sheet total as compared to the previous year's reporting date reduced the equity ratio to 43.0 %. The return on equity after tax is 4.1 % (previous year: 2.1 %). The increase in non-current liabilities by a total of EUR 46.9 mill. is mainly attributable to higher liabilities to banks (EUR +17.5 mill.) and higher liabilities pursuant to hospital financing law (EUR + 30.7 mill.). Current liabilities were EUR 23.0 mill. above the previous year's figure on 31 December 2018. This increase is also mainly due to higher liabilities to banks (EUR +10.7 mill.) and higher liabilities pursuant to hospital financing law (EUR + 7.4 mill.). These rises in current and non-current liabilities are associated with the subsidised new construction of two clinics and the higher drawdowns on the syndicated loan to finance the buyback of a clinic building in Gernsbach.

(13) SUBSCRIBED CAPITAL

In thousands of €	31.12.2018	31.12.2017
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.

(14) CAPITAL RESERVE

In thousands of €	31.12.2018	31.12.2017
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.

(15) REVENUE RESERVES

The consolidated revenue reserves are structured as follows:

In thousands of €	31.12.2018	31.12.2017
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	–270	–286
Reserve pursuant to IAS 19	–21,700	–22,457
	–21,667	**–22,440**

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).

The change in the negative non-controlling interests recorded in the revenue reserve is attributable to the acquisition of 73 additional bearer shares in Kraichgau-Klinik Aktiengesellschaft in the 2018 financial year.

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.

(16) CONSOLIDATED BALANCE SHEET RESULT

The consolidated balance sheet result is structured as follows:

In thousands of €	31.12.2018	31.12.2017
Profit carryforward	31,080	27,172
Result attributable to shareholders of MEDICLIN AG	7,717	3,908
Dividend payment	−2,375	0
Changes in non-controlling interests	−39	0
	36,383	**31,080**

APPROPRIATION OF THE ANNUAL RESULT OF MEDICLIN AKTIENGESELLSCHAFT

In the Annual General Meeting of 29 May 2018, the Group resolved to pay out part of the net profit as of 31 December 2017 totalling 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 in the form of a dividend. The dividend amounts to EUR 2,375,000.00. The remaining amount of EUR 41,883,866.10 is carried forward to new account.

(17) 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 2018 (31.12.2018: 5.199 % / 31.12.2017: 5.515 %). In the consolidated statement of comprehensive income, the result is recorded as a prorated figure in the item “Comprehensive income – thereof attributable to the non-controlling interests”.

Non-current liabilities

(18) LIABILITIES TO BANKS

Non-current liabilities to banks are as follows:

In thousands of €	31.12.2018	31.12.2017
Syndicated loans	29,904	29,867
Other bank loans	6,314	7,489
Subsidised investment loan	18,635	0
	54,853	**37,356**

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

SYNDICATED LOANS

In thousands of €	31.12.2018	31.12.2017
Syndicated loans	48,920	38,858
less short-term ratio (facility B incl. interest accrual)	19,016	8,991
	29,904	**29,867**

In July 2016 the Group agreed on a syndicated loan totalling EUR 60.0 mill. with a consortium of banks.

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 a previous 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. In August 2018 another partial amount of EUR 10.0 mill. of Facility B was drawn. Given its short-term nature, Facility B is shown in current liabilities (please refer also to item (25) "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 2017 and the second one in the reporting year, extending the final maturity date to 25 July 2023. 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. If the reference rate is negative, a value of 0 % is assumed. Interest totalling EUR 0.5 mill. (previous year: EUR 0.4 mill.) was paid for the syndicated loans with the total amount of EUR 49.0 mill. (previous year: EUR 39.0 mill.) in the reporting year. This corresponds to an average interest rate of 1.10 % p.a. (previous year: 1.07 %).

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

In thousands of €	2018	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest		1,534	335	335	864	0
Repayment/additions (–)[1]		29,904	–37	–37	29,978	0

In thousands of €	2017	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest		1,534	335	335	864	0
Repayment/additions (–)[1]		29,867	–28	–28	29,923	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 "2 to 5 years" includes a repayment amount of EUR 30,000 thou. and the prorated write-up.

OTHER BANK LOANS

In thousands of €	31.12.2018	31.12.2017
Other bank loans	7,489	8,633
less repayments due in the short term	1,175	1,144
	6,314	**7,489**

Of the other bank loans, EUR 7.4 mill. (previous year: EUR 8.5 mill.) is secured through real property liens (carrying amount: EUR 16.7 mill.; previous year: EUR 17.8 mill.). All in all, the average interest rate for liabilities to banks is 2.08 % p.a. (previous year: 3.16 %).

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

In thousands of € 2018	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	893	221	190	379	103
Repayment	6,314	–[1]	1,135	3,487	1,692

In thousands of € 2017	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	1,143	252	220	474	197
Repayment	7,489	–[1]	1,175	4,622	1,692

[1] Shown under current liabilities (item (25) "Liabilities to banks")

SUBSIDISED INVESTMENT LOAN

In thousands of €	31.12.2018	31.12.2017
Subsidised investment loan	19,274	0
less repayment component due in the short term	639	0
	18,635	**0**

In the reporting year, the Group took out an annuity loan amounting to EUR 20.0 mill. for the construction of a clinic for neurology, neurointensive care and neurophysiology. The construction project is subsidised under the hospital financing law and is to receive a fixed amount of EUR 20.0 mill. in the form of debt service support, plus the interest for debt service. The loan has a term until 2042 and the interest and capital repayments totalling EUR 1,048 thou. per year are payable every quarter. The subsidies stated in the corresponding subsidy grant notification were assigned to the lender as collateral for the loan, i.e. the fixed subsidy amount of EUR 20.0 mill. plus the interest for debt services. On the assets side of the balance sheet, the corresponding receivable for the subsidies was capitalised (item (4) "Non-current receivables pursuant to the hospital financing law" or item (9) "Current receivables pursuant to the hospital financing law", as applicable). The interest expenses for the loan are offset in the income statement against the corresponding interest subsidies received.

The future loan repayments and interest payments for this investment loan are as follows:

In thousands of € 2018	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	5,319	409	396	1,100	3,414
Repayment	18,635	–[1]	653	2,045	15,937

[1] Shown under current liabilities (item (25) "Liabilities to banks")

(19) LIABILITIES FROM FINANCE LEASES

In thousands of €	31.12.2018	31.12.2017
Leases for real estate	–	–
Leases for movable property	73	97
	73	**97**

FINANCE LEASES

As of 31 December 2018 there is one more finance lease agreement pertaining to monitoring equipment in force, which will end in 2022. This contract is based on an imputed interest rate of 2.9 % p.a. The net carrying amounts at the balance sheet date total EUR 0.1 mill. (previous year: EUR 0.1 mill.). The corresponding payments due in the future, the shares of interest contained therein and the present values of future lease payments are disclosed in the following tables:

In thousands of € 31.12.2018	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment	76	–[1]	76	0
Interest component	–3	–[1]	–3	0
Present value	**73**	**–**[1]	**73**	**0**

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**

[1] Shown under current liabilities (item (26) "Liabilities from finance leases")

Starting in the 2019 financial year lease transactions will be recognised in accordance with IFRS 16. This will lead to significant changes in net assets, financial position and results. Please refer to the detailed explanations in the Basic information section on the international standards to be applied in the future.

(20) PENSIONS AND SIMILAR COMMITMENTS

In thousands of €	2018	2017
Mitarbeiterunterstützungskasse der vereinigten Klinikbetriebe (MAUK) and five individual benefit commitments	44,250	44,437
Kraichgau-Klinik Group	10,457	10,800
	54,707	**55,237**

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:

	31.12.2018	31.12.2017
Active employees	1,271	1,348
Departed employees with vested rights	794	789
Pensioners	861	818
	2,926	**2,955**

In the year under review, the share of persons entitled to pensions amounts to 70.6 % (previous year: 72.3 %) and the share of recipients of pensions to 29.4 % (previous year: 27.7 %).

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 2018 amounted to EUR 11.6 mill. (31.12.2017: EUR 11.4 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 2018**	MAUK 2017	**Kraichgau-Klinik Group 2018**	Kraichgau-Klinik Group 2017
Discount rate	1.90	1.80	1.90	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, i.e. Richttafel 2018 G (and, until 2017, Richttafel 2005 G), were used. The difference resulting from the first-time use of the new biometric table totals EUR 400 thou. and is recorded in other comprehensive income as effect from the change in demographic assumptions.

A discount rate of 1.90 % (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 (1.90 %)	+5,095	+2,466	−2,315	−4,490
Salary trend[1] (2.50 %)	−31	−16	+16	+32
Pension trend[1] (2.00 %)	−604	−308	+322	+657

[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 5.8 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 54.7 mill. (previous year: EUR 55.2 mill.) with plan assets of EUR 1.4 mill. (previous year: EUR 1.7 mill.).

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

In thousands of €	31.12.2018	31.12.2017
Development of recognition in the balance sheet		
Present value of the DBO	56,128	56,908
Fair value of plan assets	–1,421	–1,671
Net defined benefit liability at the end of the financial year	**54,707**	**55,237**
Reconciliation of the carrying amount		
Net defined benefit liability at the end of the preceding financial year	55,237	55,147
Service cost	632	469
Net interest expense on the reported net obligation	982	969
Remeasurements recognised in other comprehensive income	–904	313
Employer contributions	–738	–1,149
Benefits paid directly by the employer	–502	–512
Carrying amount: net defined benefit liability at the end of the financial year	**54,707**	**55,237**

The present value of the DBO showed the following development:

In thousands of €	31.12.2018	31.12.2017
DBO at the end of the preceding financial year	56,908	56,526
Current service cost	74	82
Interest expense on DBO	1,010	994
Actuarial profit (–) / loss (+) due to experience-based adjustment to the obligation	–374	321
Actuarial profit (–) / loss (+) due to change in demographic assumptions	400	0
Actuarial profit (–) / loss (+) due to change in financial assumptions	–968	0
Benefits paid from plan assets	–978	–889
Benefits paid directly by the employer	–502	–512
Past service costs	558	386
Pension obligations at the end of the financial year	**56,128**	**56,908**

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

In thousands of €	31.12.2018	31.12.2017
Fair value of plan assets at the end of the preceding financial year	1,671	1,379
Income from plan assets calculated with the discount rate	28	25
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	–38	7
Employer contributions	738	1,149
Benefits	–978	–889
Fair value of plan assets at the end of the financial year	**1,421**	**1,671**

The plan assets comprise the following:

In %	31.12.2018	31.12.2017
Bond funds		
With generally mixed maturities	9.3	8.1
With generally short-term maturities	6.6	6.0
Fixed interest securities	10.5	9.0
Cash and cash equivalents	41.0	49.2
Reinsurance policies	32.6	27.7
	100.0	**100.0**

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

Total pension costs of the defined benefit obligations during the reporting year amount to EUR 0.7 mill. (previous year: EUR 1.7 mill.), of which EUR 1.6 mill. (previous year: EUR 1.4 mill.) are recognised in profit and loss and EUR –0.9 mill. (previous year: EUR 0.3 mill.) are recognised in other comprehensive income.

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

In thousands of €	2018	2017
Consolidated profit and loss account		
Current service cost	74	83
Past service costs due to plan amendments	558	386
Net interest expense (/income) on the reported net defined benefit liabilities (/assets)	982	969
Pension costs, recognised in consolidated profit and loss account	**1,614**	**1,438**
Other comprehensive income		
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	–374	320
Actuarial profit (–)/loss (+) due to change in actuarial assumptions (on the obligation side)	–568	0
Actuarial profit (–)/loss (+) accrued in the course of the financial year	**–942**	**320**
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	38	–7
Remeasurements recognised in other comprehensive income	**–904**	**313**
Total pension costs	**710**	**1,751**

The expected benefits for the coming year are forecast at EUR 1.6 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 2019 employer contributions to the plan assets are expected at EUR 0.7 mill., benefits paid directly by the employer at EUR 0.6 mill. and benefits to be paid from the plan assets at EUR 1.0 mill.

The following benefit payments are forecast for the coming years:

In thousands of €	
Expected benefit payments for the year 2019	1,594
Expected benefit payments for the year 2020	1,646
Expected benefit payments for the year 2021	1,719
Expected benefit payments for the year 2022	1,788
Expected benefit payments for the year 2023	1,878
Expected benefit payments for the years 2024 to 2028	10,500

The following figure of 17.0 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 2019:

In thousands of €	
Pension obligations as of 31.12.2018	56,128
Current service cost	70
Interest expense on the DBO	1,051
Expected benefits	– 1,594
Estimated pension obligations as of 31.12.2019	**55,655**
Estimates of plan assets	
Fair value of plan assets as of 31.12.2018	1,421
Income expected from the plan assets	24
Expected employer contributions	729
Expected benefits	– 1,025
Estimated fair value of plan assets as of 31.12.2019	**1,149**
Estimated net pension obligation	
Estimated pension obligations as of 31.12.2019	55,655
Estimated fair value of plan assets as of 31.12.2019	– 1,149
	54,506

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.

MEDICLIN terminated the works agreement underlying this defined contribution plan as of 31 December 2018 in order to set up a new, and more modern, company pension scheme.

However, employees who joined a MEDICLIN carrier company before 31 December 2018 will continue to receive employer-financed basic care under the MediClinRent scheme. Employees with ongoing vesting periods will also receive entitlements under the MediClinRent scheme. Employees who join after 1 January 2019 will be subject to another pension scheme, which will be agreed with the Group's works council. The existing MediClinRent contracts, including both employer-financed basic care and contracts financed by the employees themselves via conversion of salary entitlements, will be continued without limitations in accordance with the applicable defined contribution plans.

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 0.8 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.

(21) OTHER PROVISIONS

In thousands of €	31.12.2018	31.12.2017
Provisions for renewal of lease agreements	174	174
Provisions for archival storage	1,293	1,293
Provisions for insurance	929	1,076
Provisions for additional rent payments	20,359	20,146
	22,755	**22,689**

The provision for the renewal of lease agreements relates to future reinstatement costs in connection with the lease of the MediClin medical care centre in Leipzig. 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.

Provisions for additional rent payments in the amount of EUR 20.1 mill. were set aside in the 2017 financial year. 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). 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 increase to EUR 20.4 mill. in the 2018 financial year is only due to interest adjustments in the amount of about EUR 0.2 mill.

It is not anticipated that the provisions for the renewal of lease agreements recognised as of 31 December 2018 will be consumed in the coming year.

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

In thousands of €	As of 01.01.2018	Additions	Interest	Consumption	Reversal	As of 31.12.2018
Provisions for renewal of lease agreements	174	0	0	0	0	174
Provisions for archival storage	1,293	86	0	86	0	1,293
Provisions for insurance	1,076	0	2	60	89	929
Provisions for additional rent payments	20,146	0	213	0	0	20,359
	22,689	**86**	**215**	**146**	**89**	**22,755**

(22) LIABILITIES PURSUANT TO HOSPITAL FINANCING LAW

The non-current liabilities pursuant to the hospital financing law totalling EUR 30.7 mill. on the balance sheet date refer to the subsidies for the construction of new clinics at two locations. EUR 17.9 mill. thereof pertain to a new clinic for neurology, neurointensive care and neurophysiology at the location of MediClin Hedon Klinik in Lingen, which is receiving subsidies totalling EUR 20.0 mill. from the federal state of Niedersachsen. EUR 12.8 mill. refer to subsidies for a new clinic for child and youth psychiatry at MediClin Müritz-Klinikum in Röbel granted by the federal state of Mecklenburg-Vorpommern. The subsidies for this project total EUR 14.5 mill. The balance sheet item shows the individual subsidies for these construction measures that have not yet been used in accordance with their designated purpose.

The current portion of the individual subsidies that have not yet been used in accordance with their designated purpose is recognised in current liabilities (please refer to item (28) “Liabilities pursuant to hospital financing law”).

(23) OTHER FINANCIAL LIABILITIES

In thousands of €	31.12.2018	31.12.2017
Loan from a public corporation	382	515
less current repayment share	136	133
	246	**382**

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 € 2018	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	12	7	4	1	0
Repayment	381	136[1]	139	106	0

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

[1] For information only

(24) OTHER PAYABLES

In thousands of €	31.12.2018	31.12.2017
Anniversary obligations	1,968	1,992
Partial retirement obligations	83	65
Other long-term obligations	0	591
	2,051	**2,648**

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 1.75 % (previous year: 1.50 %). If the interest rate increases or decreases by 0.50 or 0.25 percentage points, provisions change as follows:

In thousands of €	−0.50 %	−0.25 %	+0.25 %	+0.50 %
Discount rate (1.75 %)	+54	+27	−26	−51

Of the provisions for anniversary obligations, an estimated EUR 336 thou. will be used in the 2019 financial year, and EUR 1,632 thou. in the subsequent years. The interest component totalled EUR 28 thou. in the 2018 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, three (previous year: two) part-time arrangements are in force (two block-time and one part-time model). Two arrangements (one block-time and one part-time arrangement) will expire in 2019, whereas another arrangement concluded in 2018 (block-time model) has a term until 2022.

Current liabilities

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

(25) LIABILITIES TO BANKS

In thousands of €	31.12.2018	31.12.2017
Syndicated loan	19,016	8,991
Other loans	1,175	1,144
Subsidised investment loan	639	0
	20,830	**10,135**

In the year under review, syndicated loans refers to Facility B measured in accordance with the effective interest method (EUR 18,939 thou.; previous year EUR 8,960 thou.) and accrual interest (EUR 77 thou.; previous year: EUR 31 thou.).

The other loans refer to loan repayments to be made in the upcoming year (please refer also to item (18) "Liabilities to banks").

(26) LIABILITIES FROM FINANCE LEASES

In thousands of €	31.12.2018	31.12.2017
Leases for real estate	0	6,334
Leases for movable property	24	24
	24	**6,358**

This table shows loan repayments and interest payments for liabilities from finance leases due in the short term. As of 31 December 2017 this table included the finance lease liability for the land and buildings of Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, because the purchase option that was exercised as at 30 November 2018 had already been declared in 2017, whereafter the liability was classified as current liabilities. The amount reclassified from non-current liabilities pertained to the present value of the payments for one year totalling EUR 6,141 thou. The liability from the real estate lease is composed of minimum lease payments in the amount of EUR 9,375 thou. less the interest component of EUR 3,041 thou.

The following table shows a breakdown of the liability from the lease of movable property:

In thousands of €	31.12.2018	31.12.2017
Minimum lease payment	27	27
Interest component	–3	–3
	24	**24**

More details are available in item (19) "Finance lease liabilities"

(27) OTHER PROVISIONS

In thousands of €	31.12.2018	31.12.2017
Provisions for billing risks/reimbursements and legal disputes	6,855	5,549
Provisions for Supervisory Board	41	70
Remaining provisions	5,072	364
	11,968	**5,983**

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

The remaining provisions pertain to obligations in connection with external medical services in the amount of EUR 4.5 mill., obligations from the promise to assume part of the costs for the expansion of data lines for fast Internet at six clinic locations in the amount of EUR 0.5 mill. and repayment obligations under the collective wage agreement in the amount of EUR 0.1 mill.

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

In thousands of €	As of 01.01.2018	Addition	Consumption	Reversal	As of 31.12.2018
Provisions for billing risks/reimbursements and legal disputes	5,549	2,816	1,265	245	6,855
Provisions for Supervisory Board	70	41	70	0	41
Remaining provisions	364	5,048	332	8	5,072
	5,983	**7,905**	**1,667**	**253**	**11,968**

(28) LIABILITIES PURSUANT TO HOSPITAL FINANCING LAW

In thousands of €	31.12.2018	31.12.2017
Liabilities pursuant to hospital financing law	7,144	725
Liabilities pursuant to the National Ordinance on Hospital Rates / Hospital Compensation Act	2,137	1,145
	9,281	**1,870**

EUR 6.8 mill. of the liabilities pursuant to hospital financing law refer to individual subsidies for new constructions at two clinic locations that have not yet been used in accordance with their designated purpose. Further, the item relates to lump-sum subsidies pursuant to state law provisions on hospital financing that were not yet used in accordance with their designated purpose, as well as compensation obligations pursuant to the National Ordinance on Hospital Rates or the Hospital Compensation Act.

(29) OTHER FINANCIAL LIABILITIES

Miscellaneous financial liabilities pertain to the following circumstances:

In thousands of €	31.12.2018	31.12.2017
Costs of annual financial statement	985	1,191
Other procurement of materials	589	837
Legal and consultancy costs	636	765
Liabilities from third-party funds	439	370
Liabilities to health insurance funds and other public coverage providers	264	262
Charges and fees	128	87
Liabilities from doctors' invoices	122	185
Administration costs	0	202
Energy and water supply	340	164
Other loans	136	134
Miscellaneous	1,207	1,935
	4,846	**6,132**

(30) OTHER PAYABLES

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

In thousands of €	31.12.2018	31.12.2017
Staff costs	18,738	15,632
Payroll tax to be paid	4,556	4,266
Value added tax to be paid	186	272
Payments received	223	224
Deferred income	216	229
	23,919	**20,623**

Other liabilities from staff costs mainly consist of the following:

In thousands of €	31.12.2018	31.12.2017
Vacation and flexitime entitlements	6,385	6,348
Profit-sharing bonus payments	5,025	5,171
Wage supplements	1,825	1,646
Bonus payments	712	551
Severance payments	43	283
Contributions to statutory accident insurance and prevention	902	878
Other staff costs	3,846	755
	18,738	**15,632**

The other staff costs as per 31 December 2018 include staff and ancillary staff costs in the amount of EUR 2.9 mill. incurred in connection with variable remuneration, some of which are a one-off effect in the 2018 financial year.

Notes to the consolidated profit and loss account

(31) SALES

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

In millions of €	2018	2017
Post-acute	315.4	298.4
Acute	272.0	255.4
Nursing care	15.5	15.2
Other sales	42.2	40.1
Sales	**645.1**	**609.1**

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

Other sales include revenues from outpatient services, which total EUR 16.7 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 4.0 mill. (previous year: EUR 4.2 mill.), from private accommodation totalling EUR 3.9 mill. (previous year: EUR 3.8 mill.) and from cafeterias, kiosks and meals totalling EUR 7.7 mill. (previous year: EUR 7.3 mill.).

(32) OTHER OPERATING INCOME

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

In millions of €	2018	2017
Subsidies	1.4	1.5
Rental income	0.9	0.9
Services to staff	0.3	0.3
Other income	7.2	14.6
Other operating income	**9.8**	**17.3**

Pursuant to IFRS 3.34, badwill resulting in 2017 from the acquisition of AWO Rehabilitationsklinik Bad Münder in the amount of EUR 5.7 mill. was recognised as income in the "Other operating income" item in 2017. Since 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 2018 this amounts to EUR 1.6 mill. (previous year: EUR 3.2 mill.).

(33) RAW MATERIALS AND CONSUMABLES USED

Raw materials and consumables used rose by EUR 6.8 mill. to EUR 119.4 mill. (previous year: EUR 112.6 mill.). Raw materials and supplies increased by EUR 5.9 mill. and purchased services by EUR 0.9 mill. The cost of materials ratio amounts to 18.5 % (previous year: 18.5 %).

In millions of €	2018	2017
Operating supplies	21.8	19.7
Medical supplies	49.6	46.2
Other raw materials and supplies incl. price deductions/bonuses/cash discounts	– 1.0	– 1.4
Raw materials and supplies	**70.4**	**64.5**
Energy/water/sewage	12.3	11.9
Third-party housekeeping and facility services	10.7	11.9
External medical services	23.2	21.3
Other third-party services	2.8	3.0
Purchased services	**49.0**	**48.1**
Raw materials and consumables used	**119.4**	**112.6**

(34) STAFF COSTS

Staff costs of EUR 391.3 mill. were 7.8 % higher than in the previous year (previous year: EUR 363.1 mill.). The staff costs ratio for the 2018 financial year was 60.7 % (previous year: 59.6 %).

In thousands of €	2018	2017
Wages and salaries	331,720	308,180
Social security, pensions and retirement	59,569	54,885
Thereof pension costs	2,234	2,211
Staff costs	**391,289**	**363,065**

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

In thousands of €	2018	2017
Contributions to		
Defined benefit plans	623	587
Defined contribution plans	1,532	1,542
Other pension-related expenses	79	82
	2,234	**2,211**

As, when calculating pension provisions, the interest share accounts for approximately 61 % 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 0.8 mill.) refers to MediClinRent and EUR 0.7 mill. (previous year: EUR 0.7 mill.) to contributions to three supplementary pension or relief funds.

(35) OTHER OPERATING EXPENSES

Other operating expenses of EUR 106.9 mill. are EUR 16.8 mill. below the previous year's level (previous year: EUR 123.7 mill.).

The largest item in other operating expenses is, at EUR 53.3 mill., rental and lease expenses for real estate and medical equipment (previous year: EUR 72.5 mill.). EUR 45.8 mill. (previous year: EUR 45.1 mill.) thereof concerns payments to related parties pursuant to IAS 24, of which EUR 44.9 mill. (previous year: EUR 44.2 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 2017 financial year other operating expenses also 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 (debtor warrant). An overview of future rental payments is presented under other financial obligations.

In millions of €	2018	2017
Rents and leases	53.3	72.5
Maintenance and repairs	18.5	17.6
EDP and organisation	5.5	5.0
Legal and consultancy costs	4.1	5.4
Insurance costs	4.5	4.1
Contributions, fees, levies	1.6	1.5
Other miscellaneous expenses	19.4	17.6
Other operating expenses	**106.9**	**123.7**

(36) DEPRECIATION AND AMORTISATION

In the 2018 financial year depreciation and amortisation totalled EUR 22.3 mill. (previous year: EUR 20.4 mill.), with EUR 2,255 thou. (previous year: EUR 1,850 thou.) attributable to intangible assets and EUR 20,031 thou. (previous year: EUR 18,540 thou.) to property, plant and equipment.

(37) FINANCIAL RESULT

The financial result is structured as follows:

In thousands of €	2018	2017
Income from participations	38	0
Interest and similar income	234	202
Interest and similar expenses	–3,472	–2,562
Financial result	**–3,200**	**–2,360**

The financial instruments underlying the interest income and interest expenses are allocated to the corresponding measurement categories as per IFRS 9.

Interest and similar income

In thousands of €	2018	2017
Interest income from receivables	15	11
Interest income from deposits at banks	0	0
Other interest-related income	219	191
Interest and similar income	**234**	**202**

Interest and similar expenses

In thousands of €	2018	2017
Interest on current accounts	0	0
Interest on loans	262	309
Interest on pension provision	982	969
Interest on finance leases	309	383
Other interest-related expenses	1,919	901
Interest and similar expenses	**3,472**	**2,562**

The other interest-related expenses include interest in the amount of EUR 1.0 mill. from back payments in connection with the external tax audit. An overview of future interest expenses is presented in the section on non-current liabilities.

(38) TAXES ON INCOME

The taxes on income are structured as follows:

In thousands of €	2018	2017
Actual taxes on income	4,301	3,400
Deferred taxes on income	–203	–3,104
	4,098	**296**

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

In thousands of €	2018	2017
Consolidated result before tax	11,862	4,256
Resultant calculational tax charge (15.825 %)	1,878	673
Tax effect on profit/loss from		
Income tax expenses from previous years	1,434	0
Non-capitalisable losses in the financial year	332	537
Valuation differences between the tax and the consolidated balance sheet	207	– 1,015
Trade tax expenses in the financial year	63	51
Non-deductible expenses	135	20
Others	49	30
Actual tax expenses	**4,098**	**296**

(39) 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.

	2018	2017
Result after tax attributable to shareholders of MediClin AG **in thousands of €**	7,717	3,908
Average number of shares issued **in thousands**	47,500	47,500
Undiluted earnings per share **in €**	0.16	0.08

(40) 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	2018	2017	Change
Medical	867	853	+ 14
Nursing care	2,226	2,147	+ 79
Medical-technical	1,609	1,580	+ 29
Functional	470	428	+ 42
Medical services	**5,172**	**5,008**	**+ 164**
Support functions	1,159	1,094	+ 65
Technical	134	129	+ 5
Administration	618	590	+ 28
Other	43	47	– 4
Non-medical services	**1,954**	**1,860**	**+ 94**
	7,126	**6,868**	**+ 258**

Contingencies and other financial obligations

The Group's total obligations arising from rental and lease contracts as well as fixed incidental expenses totalled EUR 51.9 mill. in the reporting year (previous year: EUR 51.0 mill.). Of this amount, a total of EUR 44.9 mill. (previous year: EUR 44.2 mill.) is attributable to real estate rented over the long term. Due to their contractual design, the respective 21 long-term lease contracts qualify as operating leases pursuant to IAS 17 up to and including 2018. The underlying rental contracts have a term until 31 December 2027. An extension of the term until 31 December 2047 was agreed for one of the contracts in the 2018 financial year. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer pricing index (up to a maximum of 2 % p.a.). The obligation under the real estate management agreements concluded together with the rental contracts totalled EUR 0.9 mill. in the financial year (2019: EUR 0.9 mill.; 2020 to 2023: EUR 3.6 mill.; 2024 to 2027: EUR 3.7 mill.; 2028 to 2047: EUR 1.4 mill.). The expenses for other rents and leases totalled EUR 3.1 mill. (previous year: EUR 3.0 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 31.12.2018	Nominal value 31.12.2017
Remaining term up to 1 year	47.9	47.1
Remaining term 1–5 years	188.6	186.4
Remaining term more than 5 years	257.8[1]	230.5
	494.3	**464.0**

[1] of which from contract extension from 2028 until 2047: EUR 70.6 mill.

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.

Planning in 2017 revealed a high probability that these performance criteria will be reached, which is why provisions in the amount of EUR 20.1 mill. were set aside for future liabilities. The planning for the upcoming financial years as at the balance sheet date (31 December 2018) renders it likely that the agreed performance parameters will be reached. The increase to EUR 20.4 mill. in the 2018 financial year is only due to interest adjustments.

Lease expenses relating to movable property, such as vehicles, office equipment and medical technology, totalled EUR 3.0 mill. (previous year: EUR 3.0 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. Starting in 2019, the majority of these lease agreements will be accounted for in accordance with IFRS 16.

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

In millions of €	Nominal value 31.12.2018	Nominal value 31.12.2017
Remaining term up to 1 year	1.7	2.0
Remaining term 1–5 years	2.3	2.8
Remaining term more than 5 years	0.0	0.0
	4.0	**4.8**

Lease liabilities related to finance lease agreements pursuant to IAS 17 feature the following payment structure for minimum lease payments:

In millions of €	Nominal value 31.12.2018	Nominal value 31.12.2017
Remaining term up to 1 year	0.0	6.7
Remaining term 1–5 years	0.1	0.1
Remaining term more than 5 years	0.0	0.0
	0.1	**6.8**

Until 2017 the finance lease agreements totalling EUR 6.7 mill. primarily concern the lease agreement for the real estate of Rehabilitationszentrum Gernsbach. Effective on 30 November 2018, MEDICLIN exercised a contractually agreed purchase right and bought the property back at the residual financing value of EUR 6.2 mill. 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 one location – encompassing both the administrative and the medical electronic patient record. The previously implemented software for rehabilitation, invoicing and Group reporting is integrated into the overall HIS and will be further developed. In order to realise this plan, MEDICLIN concluded two longer-term project and development agreements with a software provider with a total volume of EUR 5.7 mill. The majority of these expenses refers to capital expenditure to be capitalised, which will only be charged as a depreciation expense once the project is completed. To this, the cost for adjusting the infrastructure and procuring the required hardware and software must be added.

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

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

In millions of €	Nominal value 31.12.2018	Nominal value 31.12.2017
Remaining term up to 1 year	1.0	1.1
Remaining term 1–5 years	3.1	3.6
Remaining term more than 5 years	0.0	0.0
	4.1	**4.7**

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

As of 31 December 2018 the contractual obligations in connection with the acquisition of property, plant and equipment amounted to approximately EUR 10.2 mill. (previous year: approximately EUR 10.4 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 under long-term leases.

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. This declaration becomes obsolete upon termination of the lease agreement and the exercise of the purchase right for the leased property.

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

MEDICLIN AG assumed direct liability for the liabilities under the loan agreement in connection with the EUR 20.0 mill. investment loan in order to finance the new construction at the MediClin Hedon Klinik location in Lingen.

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 declared its willingness to guarantee for the obligations entered into by these subsidiaries until the reporting date on 31 December 2018, 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 exists 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 previous 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 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 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. Another partial amount of EUR 10.0 mill. was drawn on Facility B in the year under review. 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 2017 and the second one in the reporting year, extending the final maturity date to 25 July 2023. 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 2018 financial year interest for the loan totalled EUR 435 thou. (previous year: EUR 407 thou.). As the 6-month Euribor was negative over the entire year, it was set to 0 % in the interest calculation. The annual average was −0.266 % (previous year: −0.260 %).

At the annual average of –0.266 %, 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	–312
Change in 6-month Euribor	+50	–98
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

A new annuity loan in the amount of EUR 20.0 mill., which was taken out in the reporting year to finance the construction of a clinic for neurology, neurointensive care and neurophysiology, will receive debt service support under the hospital financing law and the Niedersachsen hospital law from the federal state of Niedersachsen in the fixed amount of EUR 20.0 mill. plus the interest for debt service. This means that interest and loan repayments are only pass-through items for MEDICLIN and have no effect on the Group's net assets or results of operation. The term of the loan and the fixed interest period runs until 2042 and the quarterly annuity amounts to EUR 0.26 mill. The collateral for the loan consists of an assignment declaration for the subsidies stated in the corresponding subsidy grant notification, i.e. the fixed subsidy amount of EUR 20.0 mill. plus the interest for debt services.

Supervisory Board in the 2018 financial year

Dr. Ulrich Wandschneider (Chairman), Hamburg
Managing Shareholder of beebusy capital gmbh, Hamburg
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Chairman of the Supervisory Board of

- Asklepios Kliniken GmbH & Co. KGaA, Hamburg (until 27 September 2018)

Member of the Supervisory Board of

- Vanguard AG, Berlin
- MPH Health Care AG, Berlin
- BioNTech SE, Mainz (since 17 September 2018)

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

[1] Employee representative on the Supervisory Board

Michael Bock, Leverkusen
Managing Director of REALKAPITAL Vermögensmanagement GmbH, Leverkusen
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of
- DIC Asset AG, Frankfurt am Main (until 16 March 2018)
- TTL Beteiligungs- und Grundbesitz-AG, München (since 15 June 2018)

Dr. Bernard große Broermann, Königstein-Falkenstein
Entrepreneur

Barbara Brosius, Kronberg im Taunus
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 GmbH & Co. KGaA, Hamburg

Member of the Advisory Board
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Walburga Erichsmeier[1], Blomberg
Deputy District Manager at ver.di trade union for the district of Ostwestfalen-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:
- Deputy Chairman of Ärzteversorgung Sachsen-Anhalt

Rainer Laufs, Kronberg im Taunus
Independent Business Consultant
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Member of the Advisory Board
- Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Non-Executive Board Member
- REG Overseas Holding B.V., Amsterdam
- REG International Trading & Commodities B.V., Amsterdam

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

[1] Employee representative on the Supervisory Board

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

Cornelia Wolf, Leverkusen
Head of Group division Audit and Risk Management of Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Supervisory Board Committees

In the 2018 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

Tino Fritz, Chief Financial Officer, Merzhausen (since 1 September 2018)

Jens Breuer, Chief Financial Officer, Hamminkeln (until 31 May 2018)

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 1,613 thou. (previous year: EUR 1,809 thou.). It is comprised of fixed remuneration amounting to EUR 889 thou. (previous year: EUR 840 thou.), a variable remuneration component of EUR 655 thou. (previous year: EUR 915 thou.) for one year and a variable remuneration component of EUR 42 thou. (previous year: EUR 30 thou.) for several years. Ancillary benefits amounting to EUR 27 thou. (previous year: EUR 24 thou.) refer to payments in kind for the provision of company cars. Total remuneration also includes a compensation payment of about EUR 98 thou. for a five-month non-competition clause following the resignation of a former Management Board member.

The remuneration for the Supervisory Board in the reporting year totalled EUR 209 thou. (previous year: EUR 175 thou.). Based on the dividend the Annual General Meeting resolved to pay out from the net profit as of 31 December 2017, each of the Supervisory Board members received additional remuneration in the amount of EUR 3 thou. pursuant to § 12 (2) of the remuneration agreement dated 26 May 2010. In the 2018 financial year, as in 2017, there were no loans to members of the Supervisory Board.

Disclosures pursuant to Section 314 (1) No. 6a of the German Commercial Code (HGB) and further disclosures on remuneration paid to members of governing bodies as well as the structure of the remuneration system are presented in the summarised management report and Group management report of MEDICLIN Aktiengesellschaft in the section "Remuneration Report". The remuneration of the Management Board is disclosed in accordance with the statutory requirements and in accordance with the Annual General Meeting's opting-out decision of 25 May 2016. Here, the 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 2018 financial year, the Management Board of MEDICLIN AG included the Chairman of the Management Board Volker Hippler and Ulf Ludwig. Chief Financial Officer Jens Breuer left the Company on 31 May 2018. On 1 September 2018 the vacancy was filled by Tino Fritz.

Several members of the Supervisory Board of MEDICLIN AG have or had executive functions within the Asklepios Group in the 2018 financial year. Until 27 September 2018 the Chairman of the Supervisory Board, Dr. Ulrich Wandschneider, was the Chairman of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA, Hamburg. Furthermore, he is a member of the Supervisory Board of Vanguard AG, Berlin, with whom MEDICLIN has concluded service agreements for the supply of sterile goods.

Barbara Brosius and Rainer Laufs are members of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA, Hamburg.

Cornelia Wolf is Head of Group division Audit and Risk Management 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.

Payments made to the Management Board and the Supervisory Board are shown as "Remuneration for key management personnel" in the following table (see page 155). 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.

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. Since 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.

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

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

In addition to business relationships with fully consolidated companies included in the consolidated financial statements, relationships exist with five companies of MEDICLIN AG which, in line with the materiality principle, are not included in the consolidated financial statements of MEDICLIN AG. These companies are local service enterprises, which were founded by four clinics to outsource specific services such as catering, cleaning and administration tasks, as well as medical services. On 31 December 2018 two of these companies (2017: one company) were being liquidated and had discontinued their operations. A finance lease contract with VR-LEASING ABYDOS GmbH & Co. Immobilien KG had 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.

A contractually agreed purchase right was exercised for the real estate as of 30 November 2018 and the land and buildings were bought back at the agreed residual financing value of EUR 6.2 mill. from Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. 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. Vanguard AG sold one of its subsidiaries, with which MEDICLIN manages the major part of its supply with sterile goods. Therefore, sales with this company are no longer included in related parties sales.

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 (20) “Pensions and similar obligations”.

Business relations to related parties amount to the following:

In millions of €	2018	2017
Income		
Sales from post-acute, acute and nursing care services	2.4	1.8
Real estate management income	0.4	0.4
Pension payments of MAUK	1.0	0.9
Service contracts	0.6	0.5
Expenses		
Lease expenses[1]	45.5	44.8
Real estate management costs	0.9	0.9
Insurance premiums	1.8	1.6
Service contracts	4.7	7.9
Remuneration for key management personnel	2.4	2.5
Payments to MAUK	0.7	1.0
EDP services	3.0	2.6
Other purchased goods and services	0.1	0.2
Capital expenditure		
Buy-back of clinic building	6.2	0.0

In millions of €	31.12.2018	31.12.2017
Receivables		
Repayment claims from preliminary financing of clinic expansion and building measures	0.1	0.3
Receivables from post-acute, acute and nursing care services	0.4	0.2
Liabilities		
Service contracts	0.5	0.2
EDP services	0.2	0.1
Provisions for remuneration for key management personnel	0.7	1.0

[1] Lease expenses include EUR 44.9 mill. (previous year: EUR 44.2 mill.) in rental payments to OIK-Immobilienfonds; for more details see page 156.

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 services consist primarily of remuneration for the payroll accounting of several Asklepios facilities performed by MediClin GmbH & Co. KG (2018: EUR 598 thou.; 2017: EUR 457 thou.).

Lease expenses refer to rents paid to OIK-Immobilienfonds (2018: EUR 44.9 mill.; 2017: EUR 44.2 mill.) and lease payments for the land and buildings of Rehabilitationszentrum Gernsbach (2018: EUR 0.6 mill.; 2017: 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 (2018: EUR 1.0 mill; 2017: 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 2018 (previous year: EUR 0.8 mill.).

Expenses from service contracts consist of:

In millions of €	31.12.2018	31.12.2017
Supply of sterile goods (Vanguard AG)	0.0	0.6
Laboratory services, pharmacy sales, others (Asklepios)	1.1	2.7
Services from non-consolidated MEDICLIN service enterprises	3.6	4.6
	4.7	**7.9**

Vanguard AG sold one of its subsidiaries, with which MEDICLIN manages the major part of its supply with sterile goods. Therefore, sales with this company are no longer deemed related parties sales. Three laboratory agreements with the Asklepios subsidiary MEDYLIS Laborgesellschaft mbH were terminated, effective at the end of 2017. One MEDICLIN service enterprise discontinued operations as of 1 July 2018 and was liquidated as of 31 December 2018. The services previously rendered by this company were taken over by the clinic that had ordered the services.

Remuneration for key management personnel refers to payments made to the Management Board and the Supervisory Board. The payments include the remuneration for activities in the Management Board and the Supervisory Board as well as a summary of the salary payments for the employee representatives on the Supervisory Board. The 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 22 thou. (previous year: EUR 48 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. Other procurement of services and materials pertains primarily to hotel and seminar costs of Broermann Health & Heritage Hotels GmbH.

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 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 acquired and rented back between 1999 and 2001 were incorporated. The first oral hearing took place on 16 November 2018 at the District Court (Landgericht) of Offenburg.

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 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	2018	2017
Annual audit	368	375
Other attestation services	2	2
Other services	7	5
	377	**382**

Subsequent events

Since 1 January 2019 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, 14 March 2019

Volker Hippler Chairman of the Management Board	Tino Fritz Chief Financial Officer	Ulf Ludwig Member of the Management Board

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 2018, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated cash flow statement and the statement of changes in equity for the fiscal year from 1 January to 31 December 2018, 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 2018. 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 of 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, 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 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 judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. 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 Aktiengesellschaft. 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 judgment 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 internal valuation experts.

We verified the forecast of the Group's budgets and forecasts underlying the impairment test performed by the executive directors by analyzing 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.

In addition, we considered the sensitivity analyses conducted by the executive directors for the significant shares in associates in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

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 recognition and measurement policies applied as well as on the judgment exercised by the management board and sources of estimating uncertainties are contained in the sections "Recognition and measurement policies" as well as "Exercise of judgment in applying recognition and measurement policies".

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 a special fund in which former and current shareholders have shareholdings, and leased them back in a sale-and-lease-back transaction.

MEDICLIN Aktiengesellschaft filed an action with Offenburg regional court mid-2016 in order to assert claims to repay the rental payments above the customary market rate. On 16 November 2018, the first court hearing took place before the regional court in Offenburg. As a result of this action, the executive directors must assess the accounting and tax 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 measurement issues that entail considerable judgment.

For the years 2005 to 2007, rent reductions totaling EUR 21.0m were granted for certain properties. The agreement with the lessor contains a full repayment obligation, which depends on parameters for economic success 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. A provision was recognized in the prior year based on the planning for the fiscal years to come.

Given the complexity as well as the judgment exercised, the assessment of the recognition and measurement 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 analyzing 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 reviewed the methodology and arithmetic calculations used for the measurement of provisions.

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 judgment 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 21 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 54.7m 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 entails a certain degree of judgment.

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 recognition and measurement policies applied regarding the pension provisions, we refer to the disclosure in the notes to the consolidated financial statements in section "Recognition and measurement policies", for information on the related disclosures on the judgment 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 20.

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, 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", „Experiencing the MediClin brand", "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, with the 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 judgment and maintain professional skepticism 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 29 May 2018. We were engaged by the supervisory board on 20 November 2018. We have been the group auditor of MEDICLIN Aktiengesellschaft 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 2018:

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 Aktiengesellschaft, Bad Rappenau	Voluntary audit of the financial statements
Kraichgau Klinik Aktiengesellschaft dependent company report, 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-Gesellschaft mit beschränkter Haftung, 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
MediClin-IT GmbH (formerly: 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 Aktiengesellschaft, Offenburg	Statutory audit of the financial statements
MEDICLIN Aktiengesellschaft dependent company report, Offenburg	Statutory audit
MC Kliniken Geschäftsführungs-GmbH, Offenburg	Review
MediClin Energie GmbH, Offenburg	Review
MediClin MVZ Achern GmbH, (formerly: MVZ-Müritz GmbH, Waren), Achern	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, 14 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Further information

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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, 14 March 2019

Volker Hippler Chairman of the Management Board	Tino Fritz Chief Financial Officer	Ulf Ludwig Member of the Management Board

DR. ULRICH WANDSCHNEIDER
CHAIRMAN OF THE SUPERVISORY BOARD

Report of the Supervisory Board

Dear Shareholders,

In the 2018 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 investments in new construction and expansions requiring its approval as presented by the Management Board in the corresponding meetings. Any deviations in business compared to the planning 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. The Supervisory Board ensured that it was constantly up to date on the progress of the judicial proceedings. The first oral hearing took place on 16 November 2018 at the District Court (Landgericht) of Offenburg. The Supervisory Board will continue to ensure that it is constantly informed of the progress of the proceedings.

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 68ff. of the 2018 Annual Report. The remuneration of the Management Board is disclosed in accordance with the statutory requirements and in accordance with the Annual General Meeting's opting-out decision of 25 May 2016. According to the latter, the Company may, pursuant to Section 286 (5) Sentence 1 and Section 314 (3) Sentence 1 of the German Commercial Code (HGB), refrain from disclosing individual Management Board remuneration amounts in the annual and consolidated financial statements of the Company to be prepared for financial years 2016 up to and including 2020. In line with the Management Board remuneration, Supervisory Board remuneration is also disclosed as a sum total. The conformity declaration includes additional notes and explanations in this respect.

Meetings and resolutions of the Supervisory Board

The Supervisory Board held four rotational meetings and one extraordinary meeting with personal attendance in the year under review. In addition to resolutions passed in these meetings with personal attendance, the Supervisory Board passed two resolutions through a circulation procedure. These resolutions referred to an investment project and the extension of Ulf Ludwig's Management Board office until 31 August 2023.

Six members of the Supervisory Board attended all meetings. None of the other members was absent at more than half the meetings. The members presented excuses for not attending and participated in the resolutions by written vote.

In the Supervisory Board meetings, the chairpersons of the committees regularly provided the Supervisory Board with detailed information on the work in their respective committees.

At the extraordinary meeting on 20 February 2018, the Supervisory Board resolved to appoint Tino Fritz to the Management Board of MEDICLIN as Chief Financial Officer, effective from 1 September 2018 up to and including 31 August 2023.

On 22 March 2018, the Supervisory Board discussed the annual financial statements and the consolidated financial statements for 2017, 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 to pay out a EUR 0.05 dividend per dividend-entitled share for the 2017 financial year, the Supervisory Board approved the proposal, which had previously already been approved by the Audit Committee. 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 2018 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 variable remuneration component and bonuses for the Management Board as well as the recommendation to prematurely extend the office of Volker Hippler, member and Chairman of the Management Board, until 31 March 2023. The entire Board discussed and approved the updated conformity declaration and the report by the Supervisory Board for the 2017 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 29 May 2018.

At the Supervisory Board meeting following the Annual General Meeting on 29 May 2018, the Supervisory Board dealt with the current business development of the Group in the first quarter of 2018 using the Management Board's and the Audit Committee's reporting as a basis. The Management Board explained the main earnings and financial key figures for MEDICLIN's business performance.

In the meeting on 20 September 2018 the Management Board informed the Supervisory Board about the business development in the first half-year of 2018. In addition, the Supervisory Board received the comments of the Audit Committee with regard to half-year reporting. The Supervisory Board extensively discussed the measures and results presented in the compliance report as well as the measures and results of the risk report. The financial calendar for the 2019 financial year was accepted. The Supervisory Board endorsed the revised competency profile for the entire Supervisory Board, which was prepared by the Nomination Committee using the diversity policy pursuant to Section 289f German Commercial Code (HGB). A responsibility schedule for the Management Board was adopted after Tino Fritz came into office.

In the meeting on 29 November 2018 the Management Board explained the business performance of MEDICLIN in the first nine months of the 2018 financial year; here, too, the Audit Committee rendered additional comments. The Management Board presented its business planning for 2019 to 2021 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 Supervisory Board resolved to commission a review of the Company's sustainability reporting (for achieving limited assurance).

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.

The Audit Committee convened for four meetings with personal attendance during the reporting year. In addition to resolutions passed in these meetings with personal attendance, the Committee passed resolutions during a conference call. Three members of the Audit Committee attended all meetings. One member was absent at less than half the meetings. The absences were excused.

In a conference call on 22 February 2018 the Audit Committee discussed the preliminary financial statements for 2017, the preliminary consolidated financial statements for 2017 and the preliminary figures for 2017 with the Management Board and the auditors.

In the meeting with personal attendance on 22 March 2018 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 2017, the consolidated financial statements for 2017, 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 to pay out a EUR 0.05 dividend per dividend-entitled share. 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 2018 as auditor. The independence certification was examined, and the independence confirmed.

In the meetings on 7 May 2018 and on 2 August 2018 and the meeting on 5 November 2018 the Audit Committee had extensive discussions with the Management Board regarding the business performance in the corresponding reporting period. In the meeting on 5 November 2018 the Audit Committee also talked about the key points for the 2018 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 2018. Internal audit planning for 2019 was talked through.

The General and Personnel Committee convened for two meetings with personal attendance during the reporting year. In addition to resolutions passed in these meetings with personal attendance, the Committee passed resolutions through a circulation procedure. Four members of the General and Personnel Committee attended all meetings. Two members were absent at less than half the meetings. The members presented excuses for not attending and participated in the resolutions by written vote.

The Committee resolved at the extraordinary meeting on 20 February 2018 to propose that the Supervisory Board appoint Tino Fritz to the Management Board of MEDICLIN as Chief Financial Officer. In its meeting on 22 March 2018, the Committee prepared its recommendations to the Supervisory Board for the 2017 Management Board variable remuneration component. It also resolved to propose that the Supervisory Board extend the office of Volker Hippler. Finally, it proposed that the Supervisory Board agree to the conclusion of a termination agreement with the Management Board member Jens Breuer, who left the Company on 31 May 2018. The Committee further resolved on 9 August 2018 through circulation to propose that the Supervisory Board prematurely extend the office of Ulf Ludwig.

The Nomination Committee convened on 30 August 2018. 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 part of the diversity policy, the Nomination Committee determined concrete targets for the composition of the Board and a competency profile for the entire Supervisory Board. All members were present.

The Mediation Committee did not convene in the 2018 reporting year.

Changes in the Supervisory Board and the Management Board

There were no changes to the Supervisory Board in the year under review. Jens Breuer, the Chief Financial Officer of MEDICLIN, left the Management Board, effective as at 31 May 2018. The Supervisory Board appointed Tino Fritz to the Management Board. On 1 September 2018 he became the new Chief Financial Officer of MEDICLIN.

Annual financial statements and consolidated financial statements

The annual financial statements of MEDICLIN AG and the consolidated financial statements for the 2018 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 2018 financial year at the Annual General Meeting on 29 May 2018, and commissioned with the audit by the Supervisory Board. The Supervisory Board had also commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the non-financial statement for 2018 included in the summarised management report and the Group management report of MEDICLIN AG in accordance with the ISAE 3000 audit standard. The auditor of the annual financial statements and consolidated financial statements issued an unqualified auditor's report on the 2018 annual financial statements of MEDICLIN AG and the 2018 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 28 March 2019 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.

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 2018 financial year. The Management Board and the Supervisory Board will thus propose to the Annual General Meeting on 29 May 2019 to pay out a dividend in the amount of EUR 0.05 per share. The Supervisory Board further adopted the report of the Supervisory Board, the corporate governance report and the corporate governance declaration, 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 2019.

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 28 March 2019. 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, 28 March 2019

On behalf of the Supervisory Board

Dr. Ulrich Wandschneider
Chairman of the Supervisory Board

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the group non-financial statement 2018 of MEDICLIN Aktiengesellschaft. The following text is a translation of the original German Independent Assurance Report.

To MEDICLIN Aktiengesellschaft, Offenburg

We have performed a limited assurance engagement on the group non-financial statement of MEDICLIN Aktiengesellschaft according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code), consisting of the chapter "Non-financial declaration pursuant to Sections 315b and 315c HGB" and the chapter "Business model of the Group" being incorporated by reference in the summarised management report and group management report for the reporting period from 1 January 2018 to 31 December 2018 (hereafter group non-financial statement).

Management's responsibility

The legal representatives of the Company are responsible for the preparation of the group non-financial statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the group non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a group non-financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the group non-financial statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the group non-financial statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted in February and March 2019, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the group non-financial statement, the risk assessment and the concepts of MEDICLIN for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the group non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the group non-financial statement,
- Identification of likely risks of material misstatement in the group non-financial statement,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the group non-financial statement,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected qualitative information and data,
- Evaluation of the presentation of disclosures in the group non-financial statement.

Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the group non-financial statement of MEDICLIN Aktiengesellschaft for the period from 1 January 2018 to 31 December 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended use of the assurance report

We issue this report on the basis of the engagement agreed with MEDICLIN Aktiengesellschaft. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 14 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter Wirtschaftsprüferin (German Public Auditor)	Annette Johne Wirtschaftsprüferin (German Public Auditor)

Financial calendar

22 February 2019
Disclosure of the preliminary figures for the 2018 financial year

29 March 2019
Annual press and analysts' conference for the 2018 financial year

6 May 2019
Publication of the interim report from 1 January 2019 to 31 March 2019

29 May 2019
Annual General Meeting

1 August 2019
Publication of the interim report from 1 January 2019 to 30 June 2019

5 November 2019
Publication of the interim report from 1 January 2019 to 30 September 2019

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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.

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MEDICLIN owns 36 clinics, seven nursing care facilities, two home nursing care services and nine medical care centres. The Group has nearly 8,300 beds and a headcount of about 10,000.

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.

About MEDICLIN

Prevention | Acute care | Post-acute care | Nursing care

www.mediclin.de