ANNUAL REPORT 2019

MEDICLIN Aktiengesellschaft

MEDICLIN – A company of the Asklepios Group

MEDICLIN

MEDICLIN: Key data on business development

	2019	2018	Change in %
Number of shares **in millions**	47.5	47.5	0.0
Number of cases (inpatient)	122,053	122,954	−0.7
Number of beds as of 31.12.	8,403	8,324	+0.9
Occupancy rates **in %**	87.7	89.1	
Number of full-time employees **(annual average)**	7,431	7,226	+2.8

In thousands of €	2019	2018	Change in %
Cash flow from operating activities	69,593	27,956	+148.9
Cash flow from operating activities per share **in €**	1.47	0.59	+148.9
Sales	673,090	645,106	+4.3
EBITDAR	94,521	85,245	+10.9
EBITDAR margin **in %**	14.0	13.2	
EBITDA	93,584	37,348	+150.6
EBITDA margin **in %**	13.9	5.8	
EBIT (operating result)	22,412	15,063	+48.8
EBIT margin **in %**	3.3	2.3	
Financial result	−10,802	−3,200	−237.5
Result attributable to shareholders of MEDICLIN AG	9,683	7,765	+24.7
Earnings per share **in €**	0.20	0.16	+25.2
Dividend per share[1] **in €**	0.05	0.05	
Capital expenditure (gross additions to non-current assets without right-of-use assets IFRS 16)	48,184	49,331	−2.3
Thereof subsidies	6,882	8,061	−14.6
Proportion of own funds **in %**	85.7	83.7	
Interest coverage factor (EBITDA/interest income)	8.6x	11.5x	

In thousands of €	31.12.2019	31.12.2018	Change in %
Balance sheet total	897,753	444,735	+101.9
Equity	190,746	191,404	−0.3
Equity ratio **in %**	21.2	43.0	
Return on equity[2] **in %**	5.1	4.1	
Financial liabilities (to banks)	99,701	75,683	+31.7
Cash and cash equivalents	37,250	33,829	+10.1
Adjusted net financial debt[3]	58,410	32,787	+78.1
Adjusted net dinancial debt[3]/adjusted EBITDA[4]	1.4x	0.9x	

[1] Proposed for 2020 by the Management and the Supervisory Board
[2] Group result in the last 12 months/equity
[3] Adjusted average net financial debt in the last four quarters
[4] Adjusted 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 2019

In millions of €	Q 1	Q 2	Q 3	Q 4
Sales	167.6	167.8	169.3	168.4
EBITDAR	19.3	22.5	26.8	25.9
EBITDAR margin in %	11.5	13.4	15.9	15.4
EBITDA	19.1	22.2	26.6	25.7
EBITDA margin in %	11.4	13.2	15.7	15.3
EBIT (operating result)	1.6	4.5	8.7	7.6
EBIT margin in %	1.0	2.7	5.1	4.5
Financial result	−2.5	−2.5	−2.5	−3.3
Result attributable to shareholders of MEDICLIN AG	−0.9	1.6	5.1	4.5
Earnings per share in €	−0.02	0.03	0.11	0.08
Cash flow from operating activities	9.9	16.0	30.0	−56.0
Cash flow from operating activities per share in €	0.21	0.34	0.63	−1.18
Equity ratio in %	20.9	20.6	20.7	21.2
Capital expenditure (gross additions to non-current assets without right-of-use assets IFRS 16)	11.2	10.4	13.3	13.3
Adjusted net financial debt	53.6	62.6	55.3	62.1
Number of cases (inpatient)	30,293	30,829	31,063	29,868
Number of beds (end of quarter)	8,336	8,346	8,361	8,403
Occupancy rates in %	88.5	89.0	88.8	84.5
Number of full-time employees (quarterly average)	7,325	7,368	7,455	7,576

[1] Adjusted average net financial debt in the last four quarters

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,

Before commenting on our 2019 financial year, I would like to address the current situation in Germany and its neighbouring countries. For days now, the number of coronavirus-infected patients in all our neighbouring countries has been rising dramatically. This also applies to Germany. The measures that have been taken to slow the spread are drastic and affect every one of us both in the professional and the private sphere.

What is currently important? To slow the spread of the virus and to keep the economy running. This balancing act can only succeed if the people show solidarity and the government puts the right measures in place.

We are well prepared

The staff at our hospitals, rehabilitation and nursing care facilities are bracing themselves for this extraordinary situation, which is posing an enormous challenge. We are creating additional capacity for the rising number of infected patients while looking after all our other patients and inhabitants and providing them with acute treatment, medical and nursing care and therapies. Short-time working arrangements that are available in other sectors are not available within the healthcare system. This is not only due to the current situation, but also to the shortage of skilled professionals in general.

It looks as though the government is willing to do everything it takes to support the economy and the healthcare system. We assume that we will have the financial security to run our facilities and pay our staff, hoping that the government will find fast and unbureaucratic solutions and instruct the coverage providers to implement them immediately. This is another challenge we are tackling.

We are satisfied with the results in the 2019 financial year

Now I will address the 2019 financial year. The year was not easy, but we are satisfied with what we achieved. The documentation duties and cost pressures have further increased, while the shortage of skilled professionals is having a negative effect on the expansion of services that are high in demand.

We were able to increase Group sales by 4.3 % to EUR 673.1 mill.; this figure, however, falls short of our sales growth target of 5 % p.a. The Group operating result of EUR 22.4 mill., in turn, met our forecast for the 2019 financial year.

We continued to invest in further growth in the year under review, with capital expenditure amounting to EUR 48.2 mill. A look at the last three years reveals that we invested a gross amount of EUR 144.3 mill. in the expansion and modernisation of our capacities and our range of services. In addition we spent EUR 53.6 mill. on maintenance. We received subsidies for some of our newly built clinics and expansions, showing that the German states can also see the need for additional hospital capacity.

Since we plan to grow even more in the fields of neurology and psychosomatics, cardiology and geriatrics, as well as orthopaedics and internal medicine due to the strong demand in these specific indications, we will keep up the high capital expenditure in the medium term.

We focus on heart, head, age and exercise

We have decided to specialise in order to offer high-quality medical, therapeutic and nursing care services, concentrating on “heart, head, age” and – this is new – “exercise”, i.e. prevention. We have thus aligned our offering along socially highly relevant issues, that is demographics, multimorbidity, an increase in mental and neurological issues and prevention. Here, we will make the most of the arising 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 more successful we are, the better we will be able to develop or help develop solutions to these problems.

We have prepared a sustainability report for 2019 that shows how seriously we take our responsibility towards the society as a whole. We will also publish a prevention report around mid-year, which will be addressed mainly to our employees.

MEDICLIN is an attractive employer

Competence and esteem are essential quality criteria for a good working environment. Organisational criteria include, for instance, attractive part-time concepts and a good choice of further training options. Here, I would like to mention our Inter-Affiliate Training programme for nursing care professions, our trainee program and the huge variety of courses offered by the MediClin Academy.

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 most promising approach to healthcare going forward, also from a medical perspective, is to increasingly interweave acute care and rehabilitation as well as nursing care. At present it is becoming particularly obvious that close links between hospital and rehabilitation capacities and medical knowledge are the key to caring for the patients during this pandemic.

We would like to thank our employees

The current challenges are going to take us to our limits. But I am sure that our highly qualified and motivated employees, who will be fighting the virus on the front line, will master this extreme situation.

Therefore I and my colleague Tino Fritz would like to thank you for what you achieved in 2019 but also for what you have achieved in the last few weeks.

Thank you very much!

Dear Shareholders,

our healthcare system is currently undergoing a massive stress test. Our facilities are ready to tackle the circumstances and to fulfil our duty to provide care – both in the current situation and during normal times to which we will hopefully soon return.

My colleague and I would like to thank you for the trust you place in us.

Volker Hippler
Chairman of the Management Board

TINO FRITZ
CHIEF FINANCIAL OFFICER

Dear Ladies and Gentlemen,
Dear Shareholders,

The federal and state governments have instructed us to cancel any planned operations that are not medically essential in order to create additional intensive care capacities for the expected coronavirus patients and to train our staff accordingly. This means that patients, who would otherwise receive care and therapy at our post-acute and specialist clinics after acute treatment, and patients, whose rehabilitation measures can be postponed, will not be occupying beds in our post-acute and specialist clinics. Existing capacities will thus remain unused. In this context it is clear that post-acute clinics are a professional – and currently crucial – reserve to help guarantee that all patients receive the required treatment and post-acute care.

Here, we need the government to act, as the additional costs and additional expenses must be adequately compensated for. Many facilities will soon reach their limits when it comes to creating additional bed and nursing care capacity from a pool of resources that are already scarce.

In the current pandemic, the additional capacity we created over the last years, in particular the rehabilitation facilities in the direct vicinity of acute hospitals, will prove invaluable.

Cost increases in the healthcare sector can only be cushioned by means of sales growth and thus high capital expenditure

The demographic change, technological progress and digitalisation are all driving the costs in the healthcare sector. This is further aggravated by requirements regarding the space and technical design of healthcare facilities and the statutory requirements with regard to staff numbers. The largest cost factor at the clinics is staff costs. All the government's previous measures to compensate for the cost pressure by increasing the case-based lump sums, paying for some of the staff costs for a limited period of time or budget increases have not been sufficient to actually balance the additional costs. We see no pragmatic solutions for ensuring that healthcare facilities can be run effectively and that the staff can be paid, although the demands on the healthcare system are rising. Even during the present shortage of skilled professionals it should be paramount that jobs are preserved.

For us as service providers in the healthcare sector this means that our facilities need to expand their range of services. Expansion entails investment in areas with strong demand for medical, therapeutic and nursing care services.

In the last few years, we have invested heavily in capacity expansions in indications with strong demand and will continue to do so in the medium term.

Demand-driven investments

It is not easy to finance capital expenditure of nearly EUR 50.0 mill. per year. We used our cash flow, subsidies and borrowed capital to fund these investments. This year, too, we plan to complete the capacity expansions underway and to thus fulfil our duties to provide medical treatment.

For this we need the health insurance funds and the statutory social security pension funds to enter into clear and reliable commitments regarding the costs and a significant cut in bureaucracy. More planning security and less administrative burdens would drastically increase the efficiency in the clinics and the healthcare system as a whole, not only in the current situation.

We will not adjust our targets for the time being

In order to assess the actual effects on our guidance we need to wait until the final legislative measures are in place. Until such time, we will adhere to our previous guidance that provides for a business performance at the level of the 2019 financial year. We will inform the public accordingly as soon as we become aware of any facts indicating that our business might develop differently.

We are currently asking a lot of our employees at all levels and in all functions and we, the Management Board, perceive a great degree of commitment and motivation to provide our patients with the best available medical, therapeutic and nursing care, even in the current circumstances.

MEDICLIN is well prepared.

Tino Fritz
Chief Financial Officer

From left to right:

VOLKER HIPPLER
CHAIRMAN OF THE MANAGEMENT BOARD

TINO FRITZ
CHIEF FINANCIAL OFFICER


Care is human warmth

Excellent care requires a high degree of professional expertise and precise work. Human kindness, however, is just as important. It instils the confidence patients need to get better and feel well. Therefore MEDICLIN has always attached great importance to the human factor.

Good care has healing power

For us, care is not a chore but a vocation

Good care with a high degree of professionalism and human kindness forms the basis of our work at all our facilities, be they hospitals, rehabilitation clinics or nursing care homes. We know that good care gives patients hope and strength and contributes to their well-being. Therefore we encourage our employees to build up not only medical expertise but also emotional competence and social skills.

Nursing care to us means human interaction, communication with patients, attentiveness and being responsive to our patients' individual needs. People who are used to leading an independent life find it particularly hard to have to rely on care. This is understandable. Everything changes from one day to the next: the environment, the daily routine, the persons they are surrounded by. Our employees show empathy, openness and kindness to create an atmosphere where patients feel welcome and well looked after.

Motivation is the best incentive

Care work can be wearing and strenuous, which is why we keep closely in touch with our employees to support them at several levels to ease their burden and back them. We know the worth of our workforce and value their work. Consequently we seek to create a friendly working atmosphere, pay good salaries, offer many social fringe benefits and the possibility to grow professionally in further training and qualification measures. Only employees who feel good themselves can make our patients feel good as well.

This is where we are at home

MEDICLIN's headquarters are located in Offenburg and the Group has 18 medical facilities in Baden-Württemberg, including acute clinics, medical care centres, post-acute clinics, post-acute clinics that also offer acute care and retirement homes. Our patients and many of our employees come from the region or close vicinity of the clinics. They speak the same language, and many of them even know each other. This creates closeness.

And closeness creates trust

We have a healthy attitude towards the region

As a service provider in charge of the medical treatment and care of patients we keep our finger on the pulse of the general public wherever our facilities are located. Many of our hospitals in different regions throughout Germany are open to patients, visitors and relatives 24/7 on 365 days per year. This creates closeness.

And this closeness is important for service providers such as us. It is a material quality criterion. Short distances can be crucial for patients in a medical emergency. Moreover, they make it easier to visit friends and relatives who are hospitalised in one of our facilities. Short distances also enhance the quality of our employees' lives as they help balance family and career.

However, closeness is not the only important factor. We also value an open and trusting relationship with the people in the regions where we are located, requiring that our facilities deliver good-quality work and that our employees are satisfied. This is what we are striving for – every day.

Training with good prospects

MEDICLIN offers its trainees a unique advantage: our Inter-Affiliate Training programme. This means that they work at several MEDICLIN facilities during their training, getting to know all the aspects of the nursing profession and thereby receiving generalist training.

Training sets the course for the future

Our training programme is groundbreaking

The German Nursing Professions Act (PflBG) that came into force in January 2020 aims to make nursing training more attractive and future-proof. Among other requirements, it provides for generalist training concepts to ensure that trainees have various options after completing their training, for instance specialising in certain fields like rehabilitation or geriatric nursing or continuing their education at a university.

We at MEDICLIN have already been offering this type of training for several years. We call this concept Inter-Affiliate Training. The fact that we have more than fifty medical facilities throughout Germany and cover various specialisations is an enormous benefit.

A benefit for our trainees: during their three-year training course, they get to know seven clinics in the area of Offenburg that all specialise in different medical fields. The individual topics to be covered by the training programme are distributed among the different clinics, depending on their areas of expertise. Our trainees can thus find out during their training where their particular skills and preferences lie.

Clinics that participate in the Inter-Affiliate Training programme: MediClin Albert Schweitzer Klinik/Baar Klinik, MediClin Herzzentrum Lahr, MediClin Klinik am Vogelsang, MediClin Klinik an der Lindenhöhe, MediClin Reha-Zentrum Gernsbach, MediClin Schlüsselbad Klinik, MediClin Staufenburg Klinik

Full concentration on the objective

Our Inter-Affiliate Training programme follows a clear structure. The theoretical training units are taught by Ökumenisches Institut für Pflegeberufe in Offenburg, while the practical part of the training is completed with one single provider. The practical training units are distributed among our specialised hospitals within the region. Experienced nurses ensure that the trainees have the opportunity to put the theoretical knowledge they acquire at school into practice.

Despite working in several MEDICLIN facilities, each trainee has a facility that looks after him or her and is responsible for coordinating all the different activities. This facility is also in charge of various other issues, such as accommodation, the reimbursement of travel costs and other questions. We want to make it as easy as possible for our trainees to concentrate on their training and achieve their goals without any detours.

FURTHER TRAINING OFFERINGS

3 Y

School-leaving certificate without university qualification

School-leaving certificate with university qualification

Training as a nurse

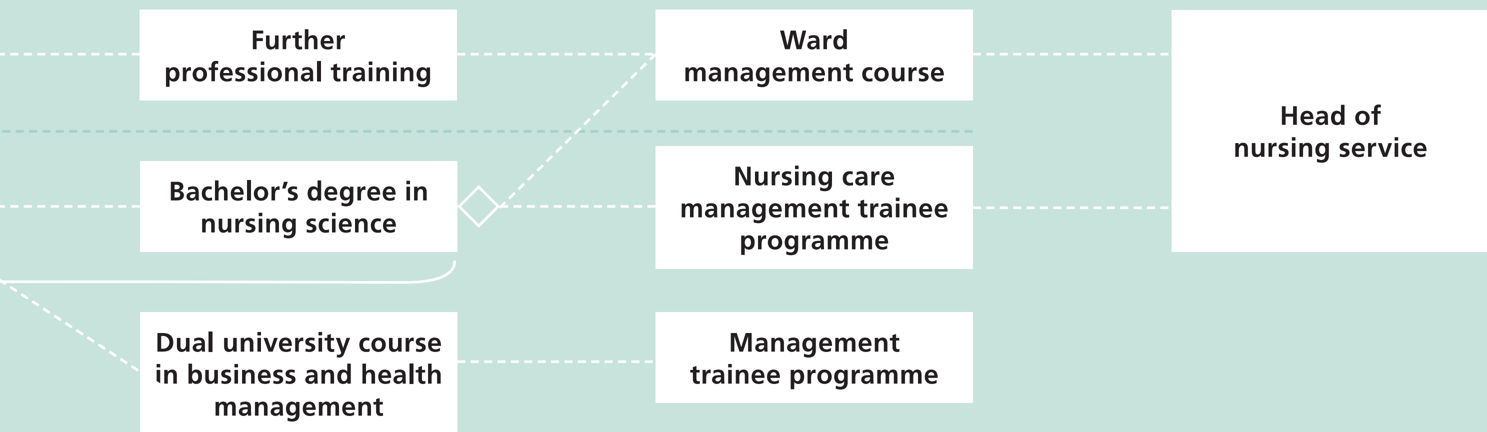
4 Y*

* Academic nursing training is currently under review in the scope of the German Act on the Reform of the Nursing Professions (PflBRefG)

To learn means to broaden your horizons

Once the training is complete, further training can commence

We actively support our employees to grow both professionally and personally by offering a wide variety of measures, for instance professional courses and further training at the MediClin Academy. Likewise, we promote employees who wish to enter university to complete a bachelor's degree or dual studies in nursing care or health management. The healthcare sector is driven by constant new findings and developments, new techniques and methods. We welcome it if our employees seek to stay ahead of these developments by growing professionally. As an employer, we depend on motivated staff as this is the only way we can maintain our high service standard.



TIMO KOFLER

Inter-Affiliate Training offers good prospects

During my three-year Inter-Affiliate Training, I worked at six MEDICLIN clinics that each had different specialisations. Today I manage a ward and can build on my experience, especially when it comes to supporting the new trainees who join the Group.

Timo Kofler, completed the Inter-Affiliate Training programme in the MEDICLIN Group; works at MedClin Klinik an der Lindenhöhe since 1 October 2015, now heads a ward

SIMONE WALZINGER

This is exactly right for me

After an internship at the MEDICLIN cardiac clinic in Lahr I immediately knew that this is just my thing. I want to help people and I want to know more about the human body. The dual university course at MEDICLIN is exactly right for me. The practical units are well organised and my career prospects are good.

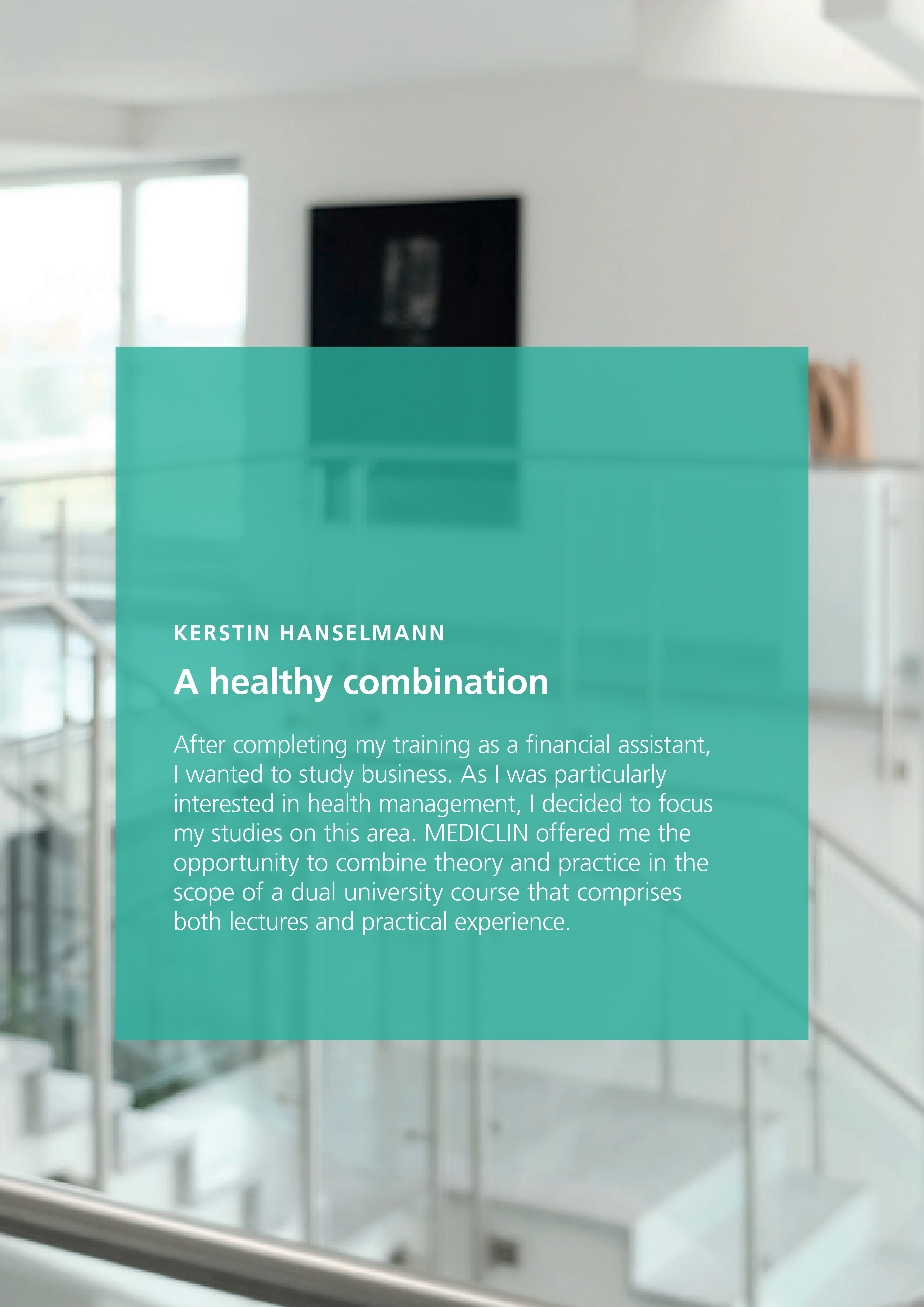
Simone Walzinger, dual student at MEDICLIN GmbH & Co. KG

Martin Schindler,
trainee in healthcare and nursing
at MEDICLIN Klinik an der Lindenhöhe
since 1 September 2018

MARTIN SCHINDLER

My training offers me all kinds of options

What excites me most about my training at MEDICLIN is that I am offered an insight into all areas of day-to-day clinic operations. This experience and the broad variety of training options enhance my job prospects. Although the most important aspect for me – even more important than money – is that I enjoy my work and that I believe in what I am doing.



KERSTIN HANSELMANN

A healthy combination

After completing my training as a financial assistant, I wanted to study business. As I was particularly interested in health management, I decided to focus my studies on this area. MEDICLIN offered me the opportunity to combine theory and practice in the scope of a dual university course that comprises both lectures and practical experience.

*Kerstin Hanselmann,
dual student at
MEDICLIN GmbH & Co. KG
since 1 October 2017*

PHILIPP KESSLER

Building on my practical experience

Following my training as a qualified nurse at MEDICLIN, I wanted to grow professionally. Now I am working at MEDICLIN as a dual student in business studies/health management and have excellent chances of finding a job in hospital management.

Philipp Kessler,
dual student at MEDICLIN GmbH & Co. KG
since 1 October 2017

JANA FLEISCHER

Excellent organisation

My two-year trainee programme is highly diversified, including work in acute and post-acute clinics and, in my case, at headquarters. I am learning a lot, in particular through the regular development and feedback interviews and by participating in management conferences. All this is excellently organised by MEDICLIN.

Jana Fleischer,
management trainee at
MEDICLIN GmbH & Co. KG
since 1 October 2016


MEDICLIN

Medicine has a future

We take medical progress to heart

The world of medicine is one of constant progress. New technologies are introduced into the operating theatres: robots, computer programmes and artificial intelligence help doctors, therapists and nurses in surgery, diagnostics and treatment. New research results, drugs and therapy methods open up new cures. Global access to medical knowledge and world-wide cooperation further boost this progress.

We actively shape this progress and ensure we are constantly up to date. The quality of our services depends on permanent further development in the fields of medicine, therapy and nursing care. Therefore we keep our medical facilities abreast of the state of the art and support our employees by offering various further training possibilities.

Networking brings progress

MEDICLIN is one of the leading clinic groups in Germany. More than 10,000 employees look after more than 90,000 patients every year in 53 hospitals, specialist clinics and medical care centres throughout the nation. We make the most of our size and generate synergies by means of intensive networking and by setting up interdisciplinary teams. Doctors, therapists and nurses from different facilities and disciplines come together regularly in working groups to share their experiences and devise holistic therapy concepts. This benefits our patients as we are thus able to ensure the highest standard of medical care.

The MEDICLIN share

The MEDICLIN share

After a disappointing stock market year 2018, the forecasts concerning the further development of the German lead index DAX diverged greatly at the beginning of 2019. Hardly anybody expected that the DAX would climb by more than 25 %. Starting with 10,448 points at the beginning of the year, the DAX closed the year at 13,249 points. This is the greatest annual increase since 2013. Even though 2019 was not free from uncertainties: a cooling macroeconomic environment, fears of recession, the Brexit and not least the trade war between the US and China led to a higher degree of volatility on the stock markets. Towards the end of the year, some kind of settlement in the trade dispute between the US and China and the end to the political impasse of the Brexit provided the DAX with considerable momentum.

In addition to these developments, the stock markets benefited from an expansive monetary policy in 2019, and given first signs of a macroeconomic slowdown in the second half of the year, this is expected to continue. So how will the situation develop in 2020?

The low interest rates on the capital markets are still considered a key driver, while some level of uncertainty remains. A no-deal Brexit cannot be ruled out, the trade dispute between China and the US may be rekindled, and Italy and the US are facing general elections this year.

Based on the results of its traditional survey on capital market trends, the German newspaper Handelsblatt reported on 30 December 2019 that 30 economists and analysts still expect a further increase in share prices, albeit not to the extent seen in 2019. The experts anticipate a potential increase of the DAX to 14,000 points by the end of 2020, which would mean a plus of 5 % – and a new all-time high.

With 13,796 points on 20 February 2020, the DAX reached a new peak. However, as Germany and the other EU countries saw an increasing number of infections with the coronavirus, the stock market took a severe hit. On 28 February, the DAX stood at 11,748 points, nearly 15 % lower than at its peak. This shows that the effects of a further spreading of the virus up to a possible pandemic are currently seen as an economic risk.

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 2019 at a price of EUR 5.15, below the share price at the beginning of the year (EUR 5.70). The yearly low was EUR 4.92 (16.07.2019); the yearly high was EUR 5.90 (15.01.2019).

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 2019 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 Group 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	2019	2018
Result undiluted/diluted	0.20	0.16
Cash flow from operating activities	1.47	0.59
Book value[1] as of 31.12.	4.02	4.03
Year-end price	5.15	5.75
Annual high	5.90	6.50
Annual low	4.92	5.55
Market capitalisation (year-end price) in millions of €	244.6	273.1
Number of shares in millions	47.5	47.5

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

Summarised management report and Group management report of MEDICLIN Aktiengesellschaft for the 2019 financial year

Contents

Basis of Group activities

Business model of the Group

The MEDICLIN Aktiengesellschaft Group (MEDICLIN) is a company active in Germany in the legal form of an Aktiengesellschaft (stock corporation). The Group offers professional medical services in the fields of acute care and post-acute rehabilitation at 52 medical facilities throughout Germany; some of the locations also offer nursing care services.

Focuses within the range of services in acute and post-acute care are neuromedicine (neurology, neurological early rehabilitation, neurosurgery and neuroradiology), psychosomatics and psychiatry, geriatrics as well as orthopaedics. In the acute treatment 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.

Together with the local clinic management teams, the managing directors 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 facilities, thus ensuring the economic success of the clinics within their region.

MEDICLIN focuses its offering of medical services on the actual demand and on integrated medical care for the patients.

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 Group 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).

As the number of employees rose to more than 10,000, the Management Board took the necessary steps in October 2018 to increase the Supervisory Board from 12 members (six to represent the staff and six to represent the shareholders) 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 16 Supervisory Board members were introduced and, in the case of the shareholder representatives, elected at the Annual General Meeting on 29 May 2019.

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 delegates advisory functions as well as decision-making authorities to the extent that this is legally admissible.

GROUP STRUCTURE

MEDICLIN AG is a holding company and 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, human resources and social affairs, payroll, 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, trainings
- MediClin Immobilien Verwaltung GmbH
  Real estate management, investment management, cost and income management in the real estate scope
- MediClin à la Carte GmbH
  Operation of the catering and cafeteria scope, 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 2019, MEDICLIN included 36 clinics, seven nursing care facilities 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 has total capacity of 7,936 beds and 467 nursing places on the balance sheet date. Bed capacity within the Group increased continuously over the last 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 2019 financial year the average number of employees totalled 10,029 (without managing directors and trainees); calculated on the basis of full-time staff, this corresponds to an average number of 7,431 full-time employees.

SEGMENTS AND BUSINESS AREAS

The reportable operating segments of MEDICLIN are the post-acute, acute and other activities segments. The latter 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 125 beds or 3.7 % in 2019. As such, the share of neurology, psychosomatics and psychiatry amounts to 44.2 % (previous year: 42.9 %) of total beds available at the end of the year (not including nursing care). Further focus areas are orthopaedics, internal medicine and geriatrics as the Group expanded its geriatric expertise especially in the fields of orthopaedics and internal medicine.

Number of beds/places

As of 31.12.	2019	2018
Post-acute		
Neurology	1,643	1,583
Psychosomatics	950	932
Orthopaedics	1,515	1,629
Internal medicine	572	565
Cardiology	394	399
Oncology	375	371
Geriatrics	339	324
Other	354	339
Total	**6,142**	**6,142**
Acute		
Neurology	319	296
Psychosomatics	259	244
Psychiatry	338	329
Surgery	231	231
Orthopaedics	176	196
Internal medicine	197	191
Other	274	264
Total	**1,794**	**1,751**
Nursing care	467	431
Group	**8,403**	**8,324**

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

Shown in full-time employees	2019	2018
Medical	898	867
Nursing care	2,508	2,226
Medical-technical	1,517	1,609
Functional	436	470
Medical services	**5,359**	**5,172**
Support functions	1,154	1,159
Technical	138	134
Administration	635	618
Other	37	43
Non-medical services	**1,964**	**1,954**

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

Shown in full-time employees	2019	2018
Post-acute	4,002	3,877
Acute	2,142	2,099
Other activities	1,287	1,250
Thereof nursing care	202	212
Thereof service (including administration)	1,085	1,038
Group	**7,431**	**7,226**

DEVELOPMENT OF STAFF FIGURES

The average number of both medical and non-medical employees increased over the previous year. Despite the shortage of skilled professionals, the number of medical employees rose by 187 full-time employees or 3.6 %, respectively. In the nursing care area alone, the number of full-time employees increased by 282 or 12.7%, respectively.

Thus MEDICLIN ensures high-quality treatment by well-trained staff as the Group has more than the personnel capacities that are required by the coverage providers based on indication and number of beds.

MEDICLIN is thus convinced that it is seen as an attractive employer within the sector.

More staff was hired in all segments and the central areas that serve to support the clinics. Only in the nursing care business area, the number of full-time employees decreased as outpatient care services are no longer offered.

The highest rise in full-time employees and thus personnel was seen in the post-acute segment. 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 year.

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. 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. Further statutory rules and regulations contains the Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) that came into force on 1 January 2019. Its aim is to take first steps towards remedying the shortage of skilled nursing professionals in hospitals and retirement homes. The main objective is to create 13,000 new jobs in geriatric nursing. In the future every additional nursing position in hospitals will be fully refinanced by the health insurance providers that will also cover additional costs resulting from collective wage agreements. This means that nursing staff costs will be remunerated better and independently of the case-based lump sums, while the case-based DRG rates are adjusted for these nursing staff costs. In addition, minimum nursing staff thresholds will apply in four hospital areas from 1 January 2019, i.e. intensive care, geriatrics, cardiology and trauma surgery. The regulation came into force on 5 October 2018 and the minimum thresholds apply since 1 January 2019.

In the rehabilitation sector, the scope of services is agreed individually with the coverage providers; here there is no adjustment for deficiency in proceeds if the budget as approved by the coverage providers 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 by the public nursing care insurance if they are rendered by an approved facility that concluded a supply contract with the nursing care insurance fund. The risk of creating capacity for this type of services also lies with the operators of nursing care homes. The main objective of the Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) that came into force on 1 January 2019 is to create 13,000 new jobs in geriatric nursing. Depending on their size, nursing care facilities will thus receive between one half-time and two full-time nursing care positions additionally. This is financed by the health insurance funds. According to the Act, remuneration premiums on nursing care for medical treatment will generally only be paid for professional nurses. According to a new provision, family carers can now claim that the health insurance fund take over the care of their relative while the carer is in a facility to receive medical rehabilitation measures.

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 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, geriatrics, 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 management

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 data, such as occupancy and nursing day statistics that are recorded on a weekly basis as well as the monthly DRG reports. This data provide current information on clinic efficiency and help to coordinate, plan, control and monitor the operating processes.

At Group level, the debt ratio is an important control parameter that also serves banks as a key figure for assessing the creditworthiness before granting a loan (covenant). According to internal requirements, the debt ratio may not exceed 3.5 x.

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 first and foremost fulfil the needs of patients and employees while treating nature and its resources with the due care. In addition to the financial key figures, the Management Board has decided to use also non-financial parameters, 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.

MEDICLIN prepares a non-financial declaration pursuant to Sections 315b and 315c German Commercial Code (HGB). This year's declaration has been updated since the previous year and is included in the sustainability report.

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

INFORMATION ON THE BUSINESS MODEL

Section 315c German Commercial Code (HGB) in conjunction with Section 289c German Commercial Code (HGB) states that the non-financial declaration should include a brief description of the corporation's business model. MEDICLIN's business model strives to interlink outpatient and inpatient medical services in the sectors of acute and post-acute (rehabilitation) treatment and nursing care as defined in the healthcare system. This increases the efficiency of healthcare while guaranteeing a high quality standard along the entire treatment chain (please refer to the section on the Business model of the Group, pages 40 ff.).

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). MEDICLIN's most important stakeholders are its patients and employees.

PricewaterhouseCoopers GmbH, Frankfurt, was commissioned to conduct a voluntary ISAE 3000 (Revised) audit with limited assurance.

SUSTAINABILITY MANAGEMENT

Structure and responsibility
An interdisciplinary working group is in charge of coordinating and further developing sustainability-related activities and initiatives at MEDICLIN.

The working group consists of employees from the fields of human resources, energy management, finance, procurement, quality management, compliance, marketing, catering, corporate communication and investor relations. The heads of these areas are responsible for implementing specific measures and projects and for bundling and organising the issues relevant to their respective areas of responsibility.

The responsibility of the working group is to support 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 and analyses information, data and results that meet or could meet sustainability criteria across the entire Group.

Material non-financial risks
Neither the working group nor the annual Group risk inventory of MEDICLIN revealed any material non-financial risks that are highly probable to have a strong negative impact on the issues that were identified as being material.

MATERIALITY JUDGEMENT

The first step of the sustainability working group was to use the GRI standards to identify relevant sustainability issues in the respective areas. The GRI standards were compared with the statutory requirements as defined in the German Commercial Code (Section 289c HGB) and analysed with a view to their materiality. In doing so the working group analysed what special significance the issues could have for the Company itself in its capacity as a healthcare service provider on the one hand and MEDICLIN's patients and employees on the other. The second step was to analyse whether the relevant issues listed below could impact the efficiency of MEDICLIN. MEDICLIN considers social factors (patient satisfaction) and employee matters (employee satisfaction) to be of particular significance. It was reviewed again in 2019 whether there had been or might be any changes to this materiality assessment. This is not the case.

The following issues were defined as being material:

- Social factors (patient satisfaction)
- Employee matters (employee satisfaction)
- Environmental issues (energy, emission reduction)
- Fight against corruption and bribery (compliance)
- Profitability

No material issues were detected in the “respect for human rights” category.

SOCIAL FACTORS (PATIENT SATISFACTION)

Concept

Patient satisfaction is an important aspect for assessing the quality of MEDICLIN’s medical, therapeutic and care-related services. It is therefore crucial that the services rendered to this group of stakeholders is continuously and systematically measured and managed by means of patient satisfaction polls. High patient satisfaction is key to MEDICLIN’s success.

Objectives and measures

The aim is to ensure that patient satisfaction is permanently at a high level. To this end, all clinics regularly conduct extensive patient surveys. Patients are invited to give their general opinion and to evaluate their medical/therapeutic treatment and care and to provide written feedback on the premises at the facilities. The answers are evaluated by an external institute, which reports back to the clinics on a quarterly basis.

Internal clinic benchmarking

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 following quarterly surveys that are routinely conducted then show whether the measure improved the rating. The Management Board is informed regularly of these results.

Key to patient satisfaction in the post-acute clinics is to inform the patients extensively and transparently about their pending therapy and the possible outcome before the treatment commences. MEDICLIN believes that the introduction of a professional expectations management system increases patient satisfaction and has thus initiated its “The informed patient” project.

In the nine-month period between January 2019 and September 2019, patient satisfaction in the Group as determined in the manner described above and measured by means of the average recommendation rate was 82.8 % (prior-year period: 83.3 %).

External survey by the German pension insurance

In addition, 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 actual figures for the overall satisfaction rate in our post-acute clinics in 2019 will not be available until mid-2020. In 2018 this figure was 71.0 quality points (2017: 69.5 quality points).

Specific food survey

Another factor that influences patient satisfaction is the food that is served in the post-acute clinics and retirement homes. MediClin à la Carte, the company in charge of catering, has developed its own evaluation system to be able to react to feedback immediately. In the scope of the FeedbackNow project, patients can directly utter their opinions and evaluate the food in real time. On a monitor that is placed in the dining room over a longer period of time, patients can provide feedback on how satisfied they are with the food and beverages on offer. The persons in charge can constantly access a detailed analysis of the feedback provided and can thus take direct measures at the respective facility to increase patient satisfaction in this respect.

EMPLOYEE MATTERS (EMPLOYEE SATISFACTION)

Concept

Employee satisfaction is one of the keys to MEDICLIN's success. As MEDICLIN is a healthcare provider, its employees work with people and for their benefit. Therefore trust in the skills of the Company's physicians, therapists and nursing care staff is essential. The more trust and esteem the employees experience in their respective areas of responsibility and the more satisfied they are with their working conditions and environment, the more motivated they will be to live up to their skills.

Objectives and measures

MEDICLIN's objective is to meet its responsibility towards the staff and to permanently establish itself as an attractive employer.

In 2018 MEDICLIN started to systematically analyse the personnel's perception and experience with the Company as an employer by conducting various events and workshops as well as an intranet survey.

Communication and knowledge management

Between April 2018 and September 2019 the personnel development department of MEDICLIN conducted 12 two-day workshops for executives in all professional areas to initiate a dialogue between executives of all staff groups and locations. The aim of this initiative was to address issues that might improve the cooperation at the management level of the Group and of the locations and to intensify exchange between the various groups of professionals. Another aim was to make the executives aware of the future challenges they will be facing in their areas of responsibility.

In order to further promote and intensify this process, the Group will conduct workshops with the clinic management of individual locations in 2020 (at first as a pilot project) to adjust specific management processes to the future requirements of the clinics.

By initiating an in-depth process with its executives, MEDICLIN aims to fully understand what these stakeholders expect of an attractive and modern employer and to then take the measures required to fulfil these expectations.

A total of 179 executives participated in the workshops; this corresponds to approximately 80 % of all the Company's executives (as of: 31.12.2019).

In order to involve its employees in corporate strategy issues, the Management Board carries out a two-day event twice a year where all executives are informed of the Group's strategic and immediate issues. In 2019 the Management Board introduced an event called the Management Board Lounge which was held several times in Offenburg in the course of the year to personally inform the employees of current issues and to answer questions.

Further training and qualification

Another measure of being perceived as an attractive employer is offering possibilities to obtain further qualifications and training. 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 of employees through systematic personnel development and and purposively upskills them. Offers range from subject-specific topics to seminars imparting core personal qualifications. A total of 154 seminars was held in 2019 (previous year: 139 seminars) and 1,189 employees participated in these seminars (previous year: 1,342 employees). In the view of MEDICLIN, this shows that the further professional training offered by MediClin Academy is still popular.

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 education and training and that the qualification is embedded in the strategic orientation of the Group.

Family-friendly working conditions

In addition to personnel development, family-friendly working conditions are an important issue for MEDICLIN when it comes to attracting and keeping qualified personnel. The Company offers individual part-time arrangements that are tailored to meet the children's daycare schedules and the families' needs. More than 50 % of our employees work part-time. Some MEDICLIN facilities cooperate with local kindergartens, which adjusted their opening times to cover the clinics' shift requirements. MEDICLIN has especially trained staff to offer counselling when it comes to caring for relatives. So-called nursing care guides inform colleagues, who – while continuing to work – are taking care of relatives at home, of the relevant laws and regulations as well as the routine of home care among other things. Employees returning to work after parental leave or after caring for a relative or a prolonged sickness absence receive support to make their return into the job as easy as possible.

Occupational health management

Occupational health management combines the objectives and measures of health and safety at work and health promotion. Our workplace integration management system (BEM) helps employees who wish return to work after a prolonged sickness absence to do so in keeping with their abilities.

Modern Intranet promotes involvement in Company matters

Since the end of 2018 the Company has a new Intranet design allowing employees to participate in surveys. The constantly rising click rates show that the Intranet is becoming increasingly popular. In this context it is important to know that the employees at the clinics have only limited access to a computer or the Intranet.

A survey dealing with the staff's identification with the Company and the MEDICLIN brand was filled out by 146 employees within a period of 10 days in June 2019. 26 % of these employees answered that they identify with the MEDICLIN brand. 38 % do not identify strongly with the brand, 11 % stated that their identification is growing, while 23 % stated that their identification with the brand is decreasing.

In order to gain an insight into the significance that sustainability issues have for the staff, the Intranet offered a survey over 15 days at the end of September/beginning of October 2019 to ask employees about the importance they attach to environmental protection and sustainability issues. 256 employees participated in this survey. Nearly half of the 256 participants, some 49 %, stated that they attach great importance to environmental protection and sustainability. Another 40 % declared that these issues were becoming more and more important to them. Only 9 % stated that they are not very interested in environmental protection and sustainability.

Despite the shortage of skilled professionals, MEDICLIN was able to considerably increase its headcount in all staff groups in 2019. As of 31 December 2019 the headcount rose by 373 or 3.7 % year-on-year from 10,101 to 10,474 employees, underlining MEDICLIN's attractiveness as an employer (please refer to information in the section on the Group's business model, page 40 ff.).

ENVIRONMENTAL ISSUES (ENERGY, EMISSION REDUCTION)

Concept

Energy and emission reduction refers to the efficient and sustainable consumption of energy and the reduction of emissions, which we see as part of our corporate policy.

Objectives and measures

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 primary energy consumption by 5 % within five years (base year 2016) without neglecting economic aspects. This means that the Group aims to reduce the consumption of energy that is available as final energy net of energy conversion and energy transmission losses.

Reducing energy consumption by means of in-house cogeneration units

The largest contribution to reducing energy consumption is made by cogeneration units. In 2018 33 cogeneration units at 25 locations generated 42.2 % of MEDICLIN's entire electricity need (2017: 31 cogeneration units at 23 locations generated 42.4 %). In addition, the Group has four bio gas plants and five photovoltaic plants. The findings in the 2018 energy report show that, based on lower electricity consumption overall, the share of electricity generated by cogeneration units and consumed by the Group rose by 2.5 % or 386,789 kWh to 15,006,048 kWh.

Total heat consumption, in turn, dropped by 3.7 % in 2018 compared to the previous year (2018: 77,181,704 kWh; 2017: 80,164,062 kWh). The share of heat energy generated by the cogeneration units and consumed by Group facilities rose by 0.1 % or 27,524 kWh to 28,975,749 kWh.

The share of bio gas plants amounts to about 7,720,332 kWh.

Reducing CO_2 emissions

The highly efficient combined generation of power and heat also reduces CO_2 emissions. CO_2 emissions thus dropped by 1,237 tons in 2018 from 28,197 tons in 2017. The figures for CO_2 emissions in 2019 will be available in September 2020.

No additional cogeneration units were commissioned in 2019 (previous year: +2 cogeneration units), meaning the Group is not expecting to see another noticeable reduction in energy consumption and CO_2 emissions through cogeneration units compared to 2018. In addition to the aforementioned measures, MEDICLIN also takes various technical and constructional measures to reduce energy consumption, such as using high-performance pumps, modern lighting technology or facade insulation.

Looking at the effects from the perspective of 2009 when the first cogeneration unit started operations, CO_2 emissions were reduced from 40,777 tons in 2009 by xx % until 2018.

Our energy management activities are bundled in a special company, MediClin Energie GmbH.

Raising employee awareness for energy consumption

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. This change in awareness is also promoted by trainings conducted by employees from the energy management team for the responsible staff at the clinics.

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.

ISO 50001 certification

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. MEDICLIN or its facilities, respectively, were re-certified in 2019.

FIGHT AGAINST CORRUPTION AND BRIBERY (COMPLIANCE)

Concept

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.

Objectives and measures

Fighting against corruption and bribery is part of MEDICLIN's compliance management system. 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.

MEDICLIN has prepared internal rules of procedure for its employees defining specific requirements for impeccable legal and ethical behaviour. In addition – and in part due to the statutory requirements in the healthcare sector – 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. In addition to observing the aforementioned requirements and guidelines, the Company has appointed employees as data protection managers who are responsible for ensuring compliance with information security and data protection requirements.

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.

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 2019 reporting year.

PROFITABILITY

MEDICLIN regularly provides information on its economic performance in quarterly reports and its annual report. MEDICLIN's catering, energy management and purchasing operations clearly show whether and to what extent profitability and sustainability complement each other or are mutually exclusive.

CATERING

Concept

In recent years, MEDICLIN's subsidiary MediClin à la Carte has been implementing sustainable management principles in its catering operations.

Objectives and measures

By introducing a Group-wide menu in 2012, MediClin à la Carte has since been in a position to bundle food orders and reduce the number of suppliers to a minimum.

Cost reductions in logistics

The suppliers were selected based on their ability to supply across the entire nation and to provide consistent product quality. Product adjustments led to a leaner product range and lower number of deliveries, which means that, on average, only 1/3 of the previous number of deliveries is required.

All of the food suppliers (14 in total), except for regional bakeries and beverage suppliers, are either certified according to the International Featured Standards (IFS)[1] or according to ISO 9001. The certification ensures consistent quality levels along the production chain in the food industry. The IFS certification focusses on systems in place for quality and food safety management and manufacturing processes, which means that internal business processes are audited on a regular basis according to international standards and MEDICLIN receives a safe product that complies with the legal requirements (labelling, weight control, provisions on nutritional value analysis).

Waste reduction

The introduction of a standardised ordering system, in which the clinic enters the planned number of patients per day and which calculates the corresponding portion sizes, enables the operating locations to pursue strategic procurement strategies and to avoid incorrect orders and large excess quantities. MediClin à la Carte thus manages to save resources and protect the environment by having reduced the number of delivery trips.

In order to further improve the sustainable use of resources and raw materials along the entire value chain, MediClin à la Carte is participating in a comprehensive research project, which is carried out by the University of Stuttgart and funded by the German Federal Ministry of Food and Agriculture (Bundesministerium für Ernährung und Landwirtschaft) and the German project management agency Federal Office for Agriculture and Food (Bundesanstalt für Landwirtschaft und Ernährung).

The "ELoFoS – Efficient Lowering of Food Waste in the Out-of-Home Sector" research project investigates efficient measures to reduce food waste in out-of-home catering, which also includes the rehabilitation clinics.

The researchers have been monitoring waste and evaluating the results at three operating locations since July 2019, to obtain information on the volume, the composition, the value and the reasons for the disposal of food.

[1] The International Featured Standards (IFS), which was formerly known as the International Food Standard, is a set of "food, product and service standards" designed to ensure that a product or service is produced or rendered in accordance with certain specifications agreed with the customer.

The key objective of this study is to enable the sustainable use of resources and raw materials along the entire food value chain and the efficient avoidance of food waste. MediClin à la Carte accepts its responsibility to act in a sustainable and resource-conserving manner and wants to make an active contribution to the avoidance of food waste.

ENERGY AND EMISSIONS

In 2009, MEDICLIN's first cogeneration unit was put into operation. In 2019, the Group already operates 33 cogeneration units nationwide. This means that MEDICLIN is now in a position to generate a significant proportion of the electricity and heat consumed by its operations in-house.

Thanks to the reduction of purchased energy volumes over the years, the significant price increases for the energy components electricity and gas were partially compensated. The impact on the environment, e.g. on emissions, is discussed in more detail in the section on "Environmental issues".

PROCUREMENT

In procurement, the hygiene and quality of products and equipment used in the clinics are higher priority factors than sustainability. This also means that the requirement to exclusively select suppliers or products that comply with as many aspects of the GRI standard as possible, for example, can only be converted into practice to a limited degree. The requirements regarding quality, safety, hygiene and certification of the products and equipment used in healthcare operations are absolutely paramount, and so are the legal regulations and requirements. Furthermore, budgeting on the part of the cost bearers means that a lot of decisions have to be made based on price.

Concept

The central procurement department has therefore defined three key requirements with regard to suppliers: quality, delivery reliability and profitability.

All procurement is processed by the central procurement department under these aspects. The department is the relevant point of contact for the clinics when it comes to the procurement of medical products and medical equipment. The procurement of expendable medical items is also managed in a standardised fashion by the procurement department.

The procurement of medicines follows statutory regulations. According to the German Medicinal Products Act (AMG), a regional supply structure must be guaranteed. This means that medicines must be provided by a local pharmacy or a hospital pharmacy.

Service providers such as laboratories or laundry facilities must also have a nationwide presence and comply with the specific requirements for the healthcare sector. The suppliers are responsible for the logistical supply of the local clinics.

Objectives and measures

At the moment, MEDICLIN does not actively review or audit its suppliers with regard to ecological sustainability criteria, as the safety and hygiene requirements as well as the corresponding certification are more important factors for the selection of equipment and products in the healthcare sector.

With regard to the procurement of other, non-medicinal products such as office equipment, furniture, electronics etc., the central procurement department is already working together with suppliers who have defined and disclosed their own mandatory environmental policies.

The central procurement department is also responsible for the fleet, comprising 220 vehicles including vehicles for patient transport. Central procurement checks regularly to what extent electric and/or hybrid vehicles can be used within the Group in an ecologically and economically viable way. Given the individual mileage of the vehicles that are currently in use, the transition only makes sense and is thus planned for a few vehicles once the relevant contracts expire.

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

THE EARNINGS TARGETS WERE REACHED IN THE 2019 FINANCIAL YEAR

In the 2019 financial year MEDICLIN generated Group sales of EUR 673.1 mill., which was EUR 28.0 mill. or 4.3 % above the prior-year sales, while falling short of the targeted annual growth rate of 5.0 %. At EUR 22.4 mill. (previous year: EUR 15.1 mill.; adjusted: EUR 22.6 mill.), the guidance for the Group operating result was reached despite higher expenses. The prior-year result was influenced by a one-off effect of EUR 7.5 mill.

SALES GROWTH IN THE POST-ACUTE AND ACUTE SEGMENT

The post-acute segment reached its sales target in the 2019 financial year. Segment sales rose from EUR 400.5 mill. to EUR 416.7 mill. or by 4.1 %, respectively. The geriatrics and neurology capacities that were created in 2018 and 2019 contributed particularly strongly to this growth.

In the acute segment, sales rose on the previous year by EUR 12.3 mill. or 5.5 % from EUR 224.3 mill. to EUR 236.6 mill., clearly exceeding the guidance. This growth was driven by stronger demand in the fields of cardiology and heart surgery as well as internal organisational efficiency enhancements. The sales of the nine medical care centres included in the acute segment's sales amounted to EUR 9.6 mill. in the 2019 financial year, up from EUR 8.9 mill. in the previous year.

The post-acute segment generated a result of EUR 23.0 mill. (previous year: EUR 20.5 mill.; adjusted: EUR 24.7 mill.). The rise in staff costs, which exceeded both the prior-year figure and the sales growth, strongly weighed on earnings. The result in the acute segment amounts to EUR 1.6 mill. (previous year: EUR –1.2 mill., adjusted: EUR 1.6 mill.). Here, too, staff costs were significantly above the prior-year level.

Sales in the nursing care business area, which is part of the other activities segment, dropped by EUR 0.2 mill. in the year under review to EUR 15.3 mill. (previous year: EUR 15.5 mill.). The discontinuation of sales from outpatient nursing care services squeezed sales by EUR –0.6 mill.

SOUND FINANCIAL STRUCTURE

In addition to cash and cash equivalents of EUR 37.2 mill. (previous year: EUR 33.8 mill.), the Group has access to credit lines in the amount of EUR 24.8 mill. Funding of internal growth is thus guaranteed and will derive primarily from the cash flow, provided the sales growth is in line with the target.

The equity ratio was 21.2 % (31.12.2018: 43.0 %) while the net financial debt amounted to EUR 62.5 mill. (31.12.2018: EUR 41.9 mill.) on the reporting date. As at 31 December 2019 the debt ratio was 1.4 x (31.12.2018: 0.9 x), which is still clearly below the maximum target level of 3.5 x.

All in all, the Management Board describes MEDICLIN's financial position and results of operations as secure and the net assets as sound.

The macroeconomic and sector-specific environment

PROLONGED ECONOMIC UPSWING ENDED IN 2019 – STABLE LABOUR MARKET

Although the German economy still grew in 2019, the expansion was significantly weaker than in the year before. According to preliminary calculations by the Federal Statistical Office, the price-adjusted gross domestic product (GDP) was, on annual average, 0.6 % higher in 2019 than in the previous year and therefore considerably lower than the growth rates in the years 2013 to 2018. This means that the prolonged economic upswing ended in 2019.

In its Annual Report 2019/20, published on 6 November 2019, the German Council of Economic Experts sees a marked global economic slowdown in the year 2019 that also affected Germany. In Germany, this development had two sides. While the industrial sector saw signs of a recession with a decline in orders and rising fears regarding an escalation of the trade dispute between the US and China, the service sector remained robust. The risk of an economic slump decreased slightly towards the end of the year, as another escalation in the international trade dispute was considered to be less likely.

The conclusion at the end of the year was: domestically oriented service companies and the construction sector fared well in 2019, while the export-industry was under pressure.

On a positive note, the aforementioned trends did not affect the labour market. The unemployment rate was at 5.0 % in 2019 (previous year: 5.2 %) and is therefore at its lowest level since the German reunification. The rate of employment and employment with mandatory social security contributions reached record levels, even though the increase was no longer as pronounced as in the previous years.

According to first calculations by the Federal Statistical Office, the German economic output was generated by an annual average of 45.3 mill. persons resident in Germany in employment in 2019. This corresponds to around 402,000 people or 0.9 % more than in the previous year. The number of employees with mandatory social security contributions grew even more, by 537,000 people to 33.4 mill. employees from June 2018 to June 2019. Labour migration from other countries partly compensated for the age-related demographic effects.

The largest increase in the number of employed was noted in public services, education and health with +204,000 persons employed (+1.8 %), followed by trade, transport, hotels and restaurants with +62,000 persons employed (+0.6 %) and information and communication with +49,000 persons employed (+3.7 %).

The number of self-employed persons including helping family members, in contrast, dropped by 73,000 persons (–1.7 %) to 4.2 million during the same period.

According to the press release by the Federal Statistical Office (Destatis) of 25 February 2020, the budgets of federal government, state governments, local governments and social security funds closed the year 2019 with a surplus of EUR 49.8 bill. (previous year: EUR 62.4 bill.). The financing surplus equals the difference between revenue (EUR 1,608.6 bill.) and expenditure (EUR 1,558.8 bill.).

Revenue increased 3.6 % over the previous year, whereas expenditure rose by 4.6 %. Total tax revenue of the federal government was up by 3.1 % to EUR 825.8 bill.

The federal government recorded the highest surplus (EUR 20.1 bill.), while the state governments achieved a surplus of EUR 13.6 bill. and local governments of EUR 6.2 bill. The surplus of the social security funds amounted to EUR 9.9 bill., as on the revenue side social contributions in particular rose above average by 4.4 % to EUR 597.8 bill. The high level of employment was a major factor contributing to this development and to the further increase in wage tax payments (+4.1 %).

In its 2019 pension insurance report, the German government forecasts that the social security pension funds will be able to set aside reserves in the amount of roughly EUR 40.7 bill. (previous year: EUR 38.2 bill.) at the end of 2019. According to preliminary calculations, revenue in 2019 totalled about EUR 321.2 bill. (previous year: EUR 312.3 bill.), while expenditure amounted to approximately EUR 319.2 bill. (previous year: EUR 307.9 bill.).

The Statutory Health Insurance (GKV) also benefited from continuous employment growth. According to estimates published by the Schätzerkreis of the Statutory Health Insurance in October 2019, earnings subject to contribution payments of EUR 231.9 bill. and expenditure of EUR 246.0 bill. are expected for 2019.

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. According to the Federal Statistical Office expenditure in 2017 (new information is not available) amounted to EUR 375.6 bill. The public health insurance funds accounted for 57 % of expenditure, making them the largest expense factor in the healthcare sector in 2017. Their expenditure amounted to EUR 214.2 bill. The share of expenditure in the gross domestic product was 11.5 %.

MEDICLIN IS ONE OF THE MAJOR PRIVATE HOSPITAL OPERATORS

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. The following figures are data for 2017 published by the Federal Statistical Office in March 2019.

Acute sector

The Federal Statistical Office stated in March 2019 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 also stated 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 78.0 %. The staff costs ratio was 56.5 %. In terms of beds, MEDICLIN accounted for 1.8 % of the market of private hospital operators in 2017. 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 2019 MEDICLIN treated 41,995 inpatients. The average length of stay was 8.1 days (not including patients in the psychosomatic/psychiatric units) and the occupancy rate 76.0 %. The staff costs ratio was 58.9 %.

In terms of beds, MEDICLIN's share of the market of private hospital operators is likely to have increased moderately in the last two years.

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 and 2019.

The number of rehabilitation facilities had 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 was 53.3 % in terms of facilities and 65.5 % in terms of beds. In 2017 the number of patients had risen 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 mill. days to about 50.1 mill. days. The average length of stay in 2017 was 25.4 days (2016: 25.3 days). The average occupancy rate was 83.6 % in 2017 (2016: 83.0 %).

In 2017 MEDICLIN treated 79,602 patients. The length of stay in MEDICLIN's post-acute clinics stood at 25.3 days and the occupancy rate at 90.5 %. The staff costs ratio was 50.6 %. In 2017 MEDICLIN accounted for 3.7 % of the market of rehabilitation facilities in terms of beds and 4.0 % in terms of cases. In 2018 the Group treated 80,596 patients with an average length of stay of 25.5 days. The occupancy rate stood at 91.8 %. The staff costs ratio was 52.2 %. In 2019 the Group treated 80,058 patients with an average length of stay of 25.5 days. The occupancy rate stood at 91.8 %. The staff costs ratio was 53.0 %.

In terms of beds, MEDICLIN's share of the market of rehabilitation facilities is likely to have increased moderately in the last two years.

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 2019 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 needed 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 run by private operators increased by 430 facilities to 6,167 homes.

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 673.1 mill. in the 2019 financial year were EUR 28.0 mill. (previous year: EUR 36.0 mill.) or 4.3 % (previous year: 5.9 %) higher than in the previous year. 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 18.0 mill. (previous year: EUR 16.7 mill.); of this amount, EUR 8.8 mill. (previous year: EUR 8.1 mill.) was generated by the medical care centres.

MEDICLIN's Group operating result as of 31 December 2019 is EUR 22.4 mill. (previous year: EUR 15.1 mill.; adjusted: EUR 22.6 mill.). In the previous year, a one-off effect had weighed on the Group operating result. This effect resulted from additional expenses and provisions for staff and ancillary staff costs in the amount of EUR 7.5 mill.

Development of expenses

Raw materials and consumables used increased by EUR 1.6 mill. or 1.3 % compared to the same period of the previous year, now amounting to EUR 121.0 mill. (previous year: EUR 119.4 mill.). Raw materials and supplies increased by EUR 3.0 mill. while purchased services decreased by EUR 1.5 mill.

Expenses for implants rose particularly strongly in the raw materials and supplies item (EUR +1.0 mill.), while expenses for medical supplies also increased on the back of higher sales (EUR +0.8 mill.).

Group sales and Group operating result

In millions of €	2019		2018	
	Group sales	Group EBIT	Group sales	Group EBIT
1st quarter	167.6	1.6	157.9	0.7
2nd quarter	167.8	4.5	163.5	5.6
3rd quarter	169.3	8.7	163.7	11.5
4th quarter	168.4	7.6	160.0	–2.7
Year total	**673.1**	**22.4**	**645.1**	**15.1**

Expenses

	2019	2018	Change in %
Raw materials and consumables used in millions of €	121.0	119.4	+ 1.3
Cost of materials ratio in %	18.0	18.5	
Staff costs in millions of €	412.6	391.3	+ 5.4
Staff costs ratio in %	61.3	60.7	
Depreciation and amortisation in millions of €	71.2	22.3	+ 219.4
Other operating expenses in millions of €	59.3	106.9	– 44.5

The inclusion of a large location in MediClin à la Carte's group of clients was the main reasons for the decline in the cost of purchased services (EUR –1.2 mill.).

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 21.3 mill. or 5.4 % to EUR 412.6 mill. (previous year: EUR 391.3 mill.). The main reasons for the increase in staff costs are wage increases and a higher number of employees (+205 full-time employees).

MEDICLIN assumes that the planned expansion of services and the stricter legal requirements with regard to the required number of staff and higher remuneration will lead to a rise in staff costs between 6.0 % and 8.0 % per year.

Depreciation and amortisation amounted to EUR 71.2 mill. (previous year: EUR 22.3 mill.). The depreciation and amortisation item breaks down into EUR 46.4 mill. for right-of-use assets due to the mandatory first-time adoption of IFRS 16 in 2019, EUR 2.6 mill. for intangible assets (previous year: EUR 2.3 mill.) and EUR 22.2 mill. (previous year: EUR 20.0 mill.) for property, plant and equipment. The depreciation and amortisation ratio (without depreciation and amortisation of right-of-use assets) amounts to 3.7 % (previous year: 3.5 %).

IFRS 16 also has an effect on the Other operating expenses item. Expenses for rents and leases, which amounted to EUR 53.3 mill. in the previous year, fell by EUR 3.7 mill. due to the new IFRS 16 standard. Except for maintenance expenses, all the other figures shown in the other operating expenses item were slightly higher than in the previous year; in total they increased by EUR 2.0 mill.

Financial result and tax ratio

The financial result amounted to EUR –10.8 mill. at year-end (previous year: EUR –3.2 mill.). Interest and similar expenses amount to EUR 10.9 mill. (previous year: EUR 3.5 mill.). Due to the first-time adoption of IFRS 16, this item contains EUR 8.0 mill. in interest on lease liabilities in the year under review.

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 1.9 mill. in the year under review (previous year: EUR 4.1 mill.). In the previous year EUR 1.8 mill. referred to income tax expenses in previous years.

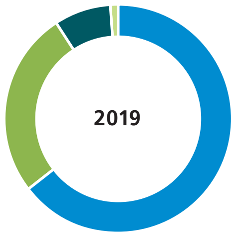
Total consolidated result

In the 2019 financial year, the consolidated result after tax attributable to shareholders of MEDICLIN AG was EUR 9.7 mill. (previous year: EUR 7.7 mill.). Basic earnings and diluted earnings per average share outstanding as well as per participating share were EUR 0.20 (previous year: EUR 0.16).

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 %



	2019	2018
Public health insurance funds	65.0	64.8
Social security pension funds	26.4	26.8
Private health insurance companies	8.4	8.2
Other coverage providers	0.2	0.2

FINANCIAL POSITION

MEDICLIN covers its capital requirements from operating cash flow, investment subsidies and a syndicated loan.

In November 2019 the Group took out a new syndicated loan in the amount of EUR 90.0 mill. while prematurely repaying the existing syndicated loan for EUR 60.0 mill. The syndicated loan consists of a bullet loan for EUR 50.0 mill. and a revolving working capital loan for EUR 40.0 mill. On 31 December 2019 EUR 75.0 mill. thereof had been drawn. The syndicated loan has a term of five years (2019 until 2024), including two options to renew the loan by another year. Both loan components are subject to a variable interest rate composed of the Euribor for the relevant interest period and an agreed margin.

The Group has one subsidised investment loan under the hospital financing law for building a new clinic that amounts to EUR 18.6 mill. as of 31 December 2019 (31.12.2018: EUR 19.3 mill.). Non-current liabilities to banks, including the subsidised loan, amount to EUR 73.0 mill. (31.12.2018: EUR 54.9 mill.), while current liabilities to banks amount to EUR 26.7 mill. (31.12.2018: 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.

Cash and cash equivalents amount to EUR 37.2 mill. on the balance sheet date (31.12.2018: EUR 33.8 mill.). On 31 December 2019 the Group had free credit lines of EUR 24.8 mill.

MEDICLIN has 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 total EUR 48.2 mill. in 2019 (previous year: EUR 49.3 mill.).

Essential gross additions to non-current assets

In millions of €	2019	2018
Licences, concessions	3.6	4.0
Goodwill	0.5	0.0
Land, buildings	10.1	6.2
Technical equipment, EDP	1.6	2.3
Operating and office equipment	16.3	15.9
Payments on account and assets under construction	16.0	20.9
Financial assets	0.1	0.0
Total	**48.2**	**49.3**

A gross amount of EUR 4.1 mill. (previous year: EUR 4.0 mill.) was invested in intangible assets. Gross investments in property, plant and equipment total EUR 44.0 mill. (previous year: EUR 45.3 mill.).

Approximately EUR 24.8 mill. was used for the reconstruction and expansion of clinics. The largest investment of EUR 9.3 mill. pertains to the construction or expansion of three retirement homes.

Capital expenditure for IT infrastructure amounted to EUR 4.7 mill., EUR 6.2 mill. was invested in medical devices including accessories, and EUR 4.3 mill. was spent on furnishing patient and nurses' rooms and offices.

The investment ratio was 19.1 % (previous year: 21.1 %). EUR 17.5 mill. (previous year: EUR 18.5 mill.) was spent on maintenance and repairs.

LIQUIDITY

The adoption of IFRS 16 entails changes in the cash flow statement. Previously, the payments for leases were recognised in the cash flow from operating activities. In the future, 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 while the cash flow from financing activities will decrease accordingly.

The cash flow from operating activities increased, mainly due to the change in recognition of depreciation and amortisation and the resulting higher operating result before tax and depreciation and amortisation. It climbed by EUR 41.6 mill. from EUR 28.0 mill. to EUR 69.6 mill. Provisions for pensions and other non-current provisions increased by a total of EUR 7.8 mill. The result from other non-cash items rose by EUR 13.0 mill., EUR 9.5 mill. of which pertain to the revaluation of defined benefit pension plans and similar commitments. EUR 8.0 mill. of the change in other current assets is attributable to an increase in trade receivables (previous year: EUR +9.1 mill.)

The cash flow from investing activities totalled EUR –35.7 mill. (previous year: EUR –38.2 mill.). In 2019 the investment subsidies received were fully recognised in the cash flow from investing activities (previous year: cash flow from financing activities). The previous year was adjusted accordingly. Investment subsidies received amounted to EUR 7.6 mill. (previous year: EUR 7.9 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. A gross amount of EUR 3.6 mill. (previous year: EUR 3.7 mill.) was spent on intangible assets. Gross investments in property, plant and equipment totalled EUR 41.3 mill. (previous year: EUR 42.8 mill.).

The cash flow from financing activities amounted to EUR –30.5 mill., down from EUR 17.1 mill. in the previous year. The change refers, among other things, to a new syndicated loan, the repayment of financial liabilities and – pursuant to IFRS 16 – the repayment of lease liabilities and interest payments on lease liabilities.

Consolidated cash flow statement (abridged)

In millions of €	January–December 2019	January–December 2018
Cash flow from operating activities	**69.6**	**28.0**
Payments received from the disposal of fixed assets	1.6	0.3
Payments received from investment subsidies	7.6	7.9
Income from participations	0.1	0.0
Cash used for investments	–45.0	–46.4
Cash flow from investing activities	**–35.7**	**–38.2**
Dividend payout	–2.4	–2.4
Repayment of lease liabilities	–42.7	0.0
New financial liabilities	86.0	30.0
Repayment of financial liabilities	–62.1	–8.4
Interest payments for lease liabilities	–8.0	0.0
Other interest payments	–1.3	–2.1
Cash flow from financing activities	**–30.5**	**17.1**
Cash flow for the period	3.4	6.9
Cash and cash equivalents at the beginning of the period	33.8	26.9
Cash and cash equivalents at the end of the period	37.2	33.8

Cash and cash equivalents at the end of the period thus increased by EUR 3.4 mill. (previous year: EUR +6.9 mill.) to EUR 37.2 mill. (previous year: EUR 33.8 mill.).

NET ASSETS

EUR 452.8 mill. in right-of-use assets for leased objects (mainly clinic properties) and the corresponding lease liabilities in the same amount were recognised as of 1 January 2019 in the scope of the transition to the IFRS 16 accounting standard. The prior-year figures were not adjusted in the scope of this transition in the 2019 financial year.

The balance sheet as of 31 December 2019 shows right-of-use assets totalling EUR 408.7 mill. in the non-current assets item.

Non-current liabilities include lease liabilities totalling EUR 368.3 mill., while the current liabilities include EUR 44.1 mill. in lease liabilities.

The Other provisions in the non-current liabilities item include provisions for additional rent payments in the amount of EUR 21.0 mill. 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 clinic properties that were pooled in a fund and rented back.

The agreement 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 in the 2019 financial year to EUR 21.0 mill. is only due to interest adjustments in the amount of EUR 0.7 mill.

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 €	31.12.2019	In % of balance sheet total	31.12.2018	In % of balance sheet total
Assets				
Non-current assets	731.7	81.5	296.2	66.6
Current assets	166.0	18.5	148.5	33.4
	897.7	**100.0**	**444.7**	**100.0**
Equity and liabilities				
Equity	190.7	21.2	191.4	43.0
Non-current liabilities	561.2	62.5	165.3	37.2
Current liabilities	145.8	16.3	88.0	19.8
	897.7	**100.0**	**444.7**	**100.0**

SEGMENT REPORTING

Sales

The share of the post-acute segment in Group sales was 61.9 % (previous year: 62.1 %), while the share of the acute segment was 35.1 % (previous year: 34.8 %) and the nursing care business area contributed 2.3 % (previous year: 2.4 %).

Sales in the post-acute segment rose by EUR 16.2 mill., or 4.1 %, to EUR 416.7 mill. The sales growth was driven by price increases, a good occupancy rate in the newly created geriatrics and neurology capacities and higher demand for psychosomatic services. As such, sales growth was in line with the guidance.

In the acute segment, sales amounting to EUR 236.6 mill. were EUR 12.3 mill. or 5.5 % above the previous year's value and thus clearly above the target range. This performance was driven by internal efficiency enhancements as well as stronger demand for medical services in the fields of cardiology and heart surgery.

The other activities and reconciliation segment recorded sales of EUR 19.8 mill. (previous year: EUR 20.3 mill.) in the 2019 financial year. The nursing care business area generated sales of EUR 15.3 mill. (previous year: EUR 15.5 mill.).

Sales

In millions of €	2019	2018	Change in %
Post-acute	416.7	400.5	+4.1
Acute	236.6	224.3	+5.5
Other activities and reconciliation	19.8	20.3	−2.5
Thereof nursing care business area	15.3	15.5	−1.1
Group	**673.1**	**645.1**	**+4.3**

Raw materials and consumables used

	2019	2018	Change in %
Post-acute			
Raw materials and consumables used in millions of €	79.6	78.1	+1.9
Cost of materials ratio in %	19.1	19.5	
Acute			
Raw materials and consumables used in millions of €	62.0	60.2	+2.9
Cost of materials ratio in %	26.2	26.9	

Staff costs

	2019	2018	Change in %
Post-acute			
Staff costs in millions of €	220.8	209.0	+5.7
Staff costs ratio in %	53.0	52.2	
Acute			
Staff costs in millions of €	139.3	131.3	+6.1
Staff costs ratio in %	58.9	58.6	

EUR 0.6 mill. of the decline in the sales of the nursing care business area is attributable to the discontinuation of outpatient nursing care services.

Expense items

Raw materials and consumables used climbed slightly higher than the previous years' figures in both the post-acute segment and the acute segment. In the post-acute segment, external medical services increased by EUR 0.7 mill. over the previous year, while they were reduced by EUR 1.2 mill. in the acute segment. Raw materials and supplies rose significantly in the acute segment, with the most pronounced increase in expenses for implants and medical supplies.

The rise in staff costs was in line with expectations in both segments, but disproportionately high in relation to sales growth. The increases are mainly due to a higher number of staff and higher wages and salaries. In the post-acute segment, the average number of full-time employees rose by 125 to 4,002 in 2019, while the number of full-time employees in the acute segment climbed by 43 employees to 2,142 full-time employees.

Segment results

Sales growth over the previous year and changes in the service mix had a positive impact on the segment results. At EUR 23.0 mill. and a margin of 5.5 %, the result of the post-acute segment was within the medium range of the

Segment results

In millions of €	2019	2018
Post-acute	23.0	20.5
Acute	1.6	–1.2
Other activities and reconciliation	–2.2	–4.2
Group	**22.4**	**15.1**

Yearly average of number of employees in the segments

Shown in full-time employees	2019	2018	Change
Post-acute	4,002	3,877	+ 125
Acute	2,142	2,099	+ 43
Other activities	1,287	1,250	+ 37
Thereof nursing care business area	202	212	– 10
Thereof service business area (including administration)	1,085	1,038	+ 47
Group	**7,431**	**7,226**	**+ 205**

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

In %	Post-acute		Acute	
	2019	2018	2019	2018
Public health insurance funds	42.0	41.7	91.7	91.5
Social security pension funds	49.2	49.9	0.1	0.1
Private health insurance companies	8.6	8.2	8.1	8.2
Other coverage providers	0.2	0.2	0.1	0.2
Total	**0.1**	**100.0**	**100.0**	**100.0**

[1] Without nursing care business area

guidance. The result in the acute segment improved over the previous year, but was slightly below the guidance with a segment margin of 0.7 %.

In the other activities segment, which comprises the service business area and the nursing care business area, the segment result was EUR –2.2 mill., up from EUR –4.2 mill. in the previous year.

Capital expenditure

In 2019 a total of EUR 48.2 mill. (gross amount) was invested in non-current assets. Capital expenditure was distributed among the segments as follows:

In millions of €	2019	2018
Post-acute	22.7	25.0
Acute	12.9	12.2
Other activities and reconciliation	12.6	12.1
Group	**48.2**	**49.3**

EMPLOYEES

The average number of employees in 2019, calculated on the basis of full-time employees, was 7,431 (previous year: 7,226 full-time employees). The number of full-time employees increased by 205 or 2.8 % compared to the previous year. On average, this means that MEDICLIN employs 321 more persons than in the comparable prior-year period. On 31 December 2019 the number of employees exceeded 10,500. The average number of trainees was 328 in 2019 (previous year: 304 trainees).

Sales per full-time employee rose by EUR 1,303 or 1.5 % year-on-year in the reporting year, while the average staff costs per full-time employee increased by EUR 1,371 or 2.5 %.

Key data per full-time employee in the Group

In €	2019	2018
Sales per full-time employee	90,579	89,276
Staff costs per full-time employee	55,521	54,150

Forecast report

Actual results and target figures for control parameters

In the 2019 financial year, Group sales growth of 4.3 % missed the target of 5.0 %. The post-acute and the acute segment, in turn, reached or even outperformed their growth targets. The targets for the Group operating result and the result of the post-acute segment were reached, while the result of the acute segment fell slightly short of the target.

German government expects moderate economic recovery in 2020

In its annual economic report for 2020, which was published in January 2020, the German government expects that the German economy will grow moderately in 2020. In the current year it anticipates a 1.1 % increase in the price-adjusted gross domestic product (GDP). The German government further expects that the unemployment rate in 2020 will stay at 5.0 %, the same level as in 2019.

The economic slowdown shows clearly that the challenges with respect to a sustainable recovery of the economic situation in Germany are manifold. The structural challenges – from energy turnaround to the dependency on exports and much more – are the real issues Germany has to counteract in order to prevent a currently more industry-based recession from turning into a prolonged weakness in growth affecting all economic sectors. The current demographic trend and a comprehensive social welfare system make structural change even more difficult.

In addition, new risks are currently arising with regard to foreign trade due to the spread of the corona virus. The related economic impact on domestic consumption and exports is currently difficult to foresee.

New laws and regulations as well as planned legislation in the healthcare sector

Towards the end of 2019, a new act was adopted to improve wages in long-term care (Pflegelöhneverbesserungsgesetz), which provides for a possible collective wage agreement or a wage recommendation by the federal long-term care commission (Pflegekommission). This is intended to eliminate the wage differences between individual federal states. It is now up to the trade unions and employers to negotiate and decide together whether they want to create a generally binding collective wage agreement or whether they intend to continue along the path of a minimum nursing wage.

The Digital Healthcare Act (DVG) also came into force at the end of 2019. The objective of this new legislation is to drive the implementation of digital solutions to facilitate communication between all stakeholders in the healthcare system.

The enactment of the Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) in the last year obliges the health insurance funds to spend more than EUR 70 mill. per year on workplace health promotion in hospitals and nursing care facilities. The health insurance funds and substitutional health insurance funds will expand their counselling services in 2020. The designated funds are to be used to finance measures to support the health of the employees and lower the level of absences due to sickness in the facilities.

The new German regulation stipulating a minimum threshold for nursing staff (PpUGV) enters into force on 1 January 2020. The objective of the new legislation is to further improve the staffing levels and working conditions for nursing staff in hospitals and to raise the quality of care. From 1 January 2020, nursing staff thresholds will have to be adhered to in the areas of cardiac surgery, neurology, neurological stroke units and neurological early rehabilitation. In the past, these thresholds only applied to intensive care, geriatrics, cardiology and trauma surgery. This means that nursing thresholds have now been set for a total of eight nursing-sensitive hospital areas.

Nursing training and qualification was comprehensively reorganised and the new regulations apply from 1 January 2020. The new German Nursing Professions Act (PflBG) introduces a combined, general training for geriatric, general and paediatric nurses. The legislator is introducing this reform of the nursing professions to provide the trainees with more flexibility and better professional development opportunities. The more general nursing training is intended to make the nursing profession more attractive and counteract the shortage of skilled professionals in nursing care.

Another act that came into force on 1 January 2020 is the Act for Better and More Independent Reviews – MDK Reform Act (Gesetz für bessere und unabhängigere Prüfungen – MDK-Reformgesetz). While reorganising the health insurers' medical services (MDK) and separating them from the health insurance funds, the Act introduces a number of additional changes and aims to enhance the efficiency and effectiveness of hospital billing reviews. In the future the billing quality of a hospital shall determine the admissible scope of reviews by the health insurance funds. In addition, a maximum review ratio of up to 12.5 % of the final invoices received in a quarter applies per hospital from 2020. Starting in 2021 the review ratio will be determined on the basis of the billing quality seen in previous quarters. Billing mistakes will be sanctioned by means of additional "penalty premiums". If the review does not result in a reduction of the invoice amount, the health insurance fund must – as in the past – pay the hospital EUR 300 in lump-sum expenses.

The Measles Protection Act (Masernschutzgesetz) will enter into force on 1 March 2020. From then on, the vaccination or immunity against measles will have to be proven for children and young people entering daycare facilities or schools. The same applies to care staff, teachers and nursing personnel who are in close contact with those in care.

The draft legislation for the Act to Strengthen Intensive Care and Rehabilitation (GKV-IPReG) is intended to strengthen medical rehabilitation and intensive care outside of hospitals. The Act will presumably enter into force in the summer. The new legislation is to improve, for example, the care provided to ventilation patients after they have been released from hospital by introducing highly specialised nursing care facilities. Only in exceptional cases, intensive care out of hospital is to be provided in the insured person's home or in other suitable locations. The Act is to improve the quality standards for artificial ventilation, and the patients affected are to be relieved of high personal contributions for inpatient care facilities. This legislation does not need to be approved by the German Federal Council (Bundesrat). In the field of rehabilitation, the Act further provides that doctors may prescribe geriatric rehabilitation without prior verification of the medical necessity by the health insurance fund. When insured persons opt for a facility that was not chosen by the health insurance fund, they will only have to cover half of the resulting additional costs in the future. The previously applicable maximum of 20 days for outpatient treatment and three weeks for inpatient treatment will become the regular duration of geriatric rehabilitation. According to the draft bill, the health insurance funds may only question the medical necessity of rehabilitation measures prescribed by accredited physicians if this is supported by an expert report by the MDK. The minimum waiting period for another rehabilitation measure that used to apply will be abolished for children and young people. Standardised and binding requirements are introduced for rehabilitation contracts and care remuneration contracts to increase the transparency in this field. The legislation is to oblige health insurance funds and medical service providers to conclude framework recommendations at national level. At the same time, arbitration proceedings are introduced. The health insurance funds may no longer refuse remuneration in rehabilitation facilities that was agreed by collective wage agreement on the grounds that such remuneration is uneconomic.

The new Emergency Care Reform Act provides for a uniform emergency control system under the telephone numbers 112 or 116117. Based on a qualified, standardised and software-supported initial assessment procedure, the control centre is intended to provide patients with directions and initiate medical emergency rescue services, patient transport to hospitals as well as telemedical or outreach emergency services by doctors. In addition, so-called "Integrated Emergency Centres" (INZ) are to be established at suitable hospitals. These will be accessible at all times and function as the first point of contact for patients in an emergency. After an initial assessment in these centres, patients will either be admitted to the hospital or treated on an outpatient basis.

It is not yet possible to make a reliable estimate whether the new laws and regulations described above, as well as the planned legislation, will have an impact on MEDICLIN's business performance in the 2020 financial year.

Summary and outlook

MEDICLIN WILL CONTINUE TO GROW IN 2020

As a company that is only active in Germany, the legal regulations and the economy in Germany and the latter's effect on the labour market are of particular significance to MEDICLIN. As the effects of a further spreading of the corona virus or even an epidemic cannot be reliably assessed, the aforementioned forecasts and assessments are currently highly uncertain. If the virus spreads, MEDICLIN as a hospital operator is well prepared in terms of both optimal patient care and protection of its employees. At present the Management Board sees no indications that the current situation could have a massive effect on the Group's sales and earnings performance. Therefore, the Management Board assumes that the positive business performance of the Group seen in the previous year will continue in 2020.

GROUP GROWTH AT PRIOR-YEAR LEVEL IN 2020

Therefore, the Management Board assumes with regard to the Group's 2020 business performance that the demand for the 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 4 % and 6 % at Group level in 2020. Sales growth in the post-acute and acute segment is expected to amount to 4 % to 6 % and 2 % to 3 %, respectively.

This means that the Group operating result will range between EUR 18 mill. and EUR 24 mill. The clearly lower outlook for the Group operating result compared to the previous year is due to the additional burdens that, as far as they can be currently assessed, are expected from the new legal requirements regarding the cost and remuneration structures of hospitals. In the post-acute segment the segment EBIT margin will will be between 5 % to 6 %; in the acute segment, it will will be between 1 % to 2 %.

MEDICLIN SET TO INVEST IN EARNINGS POWER

MEDICLIN will continue to expand capacities in indications with strong demand in 2020 and thereby focus on expanding certain medical, therapeutic and nursing care services and on promoting locations with growth potential. In the scope of focussing, an adjustment of the portfolio of clinics according to the Companys stragegie might be possible. The aim is to create an offer that allows the Group to create a stable earnings situation.

In total a (gross) sum of EUR 48.2 mill. was invested in 2019. A large share of the capital expenditure was channelled into the modernisation and expansion of buildings as well as into medical equipment and accessories. The Company always examines whether the planned construction measures are eligible for subsidies before making such investments. The Group plans capital expenditure at a similar level as in the reporting year.

Funding of internal growth is guaranteed and will derive primarily from the cash flow, provided the sales growth is in line with the target.

	2019 financial year	2020 targets
GROUP TARGETS		
Sales, growth	EUR 673.1 mill.	+4 % to +6 %
EBIT	EUR 22.4 mill.	EUR 18 to 24 mill.
SEGMENT TARGETS		
Post-acute		
Sales, growth	EUR 416.7 mill.	+4 % to +6 %
EBIT margin	5.5 %	5 % to 6 %
Acute		
Sales, growth	EUR 236.6 mill.	+2 % to +3 %
EBIT margin	0.7 %	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.)

[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)

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.
- 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 heterogenous 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. Appropriate impairments were made to counteract potential default risks. Provisions were also set aside for risks resulting from inspections by the association of the German Health Insurance Medical Service (MDK).

Additional financial risks may result from statutory provisions or regulations leading to a drastic rise in expenses. This refers to the Nursing Staff Strengthening Act (Pflegepersonal-Stärkungs-Gesetz – PpSG) and the Regulation on Nursing Staff Thresholds (Pflegepersonaluntergrenzen Verordnung – PpUGV).

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 45.7 mill. in the reporting year (previous year: EUR 44.9 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 (up to 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

Despite growth concerns, the German economy still boasts a stable labour market indicating, from today's viewpoint, that demand for medical, therapeutic and nursing care services will continue to grow irrespective of the demographic trend.

Due to its specific range of services, MEDICLIN is set to participate in this growth.

Evaluation and classification of opportunities

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

- Very high opportunity expectations – opportunity expected to be more than EUR 10 mill.
- High opportunity expectations – opportunity expected to be between EUR 5 mill. and EUR 10 mill.
- Medium opportunity expectations – opportunity expected to be between EUR 1 mill. and EUR 5 mill.
- Low opportunity 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 area refers to opportunities resulting from political and economic trends and includes also 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 2020 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 2020 financial year. In general, the Group is well hedged against both external and internal risks.

Potential risks and their effects are known as well as the corresponding measures to be taken. Potential opportunities are analysed and their exploitation is initiated if feasible.

The risk inventories conducted in the 2019 financial year did not reveal any existential risks or risks that require action for the forecast period or the 2020 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.

Risks that might arise in the 2020 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 RESULTING FROM THE FURTHER SPREADING OF THE CORONA VIRUS

The macroeconomic, sector-related and MEDICLIN-specific effects of a nationwide spreading of the Corona virus are currently impossible to assess. MEDICLIN is taking measures to minimise potential effects on patient and staff safety and to continue operations even under quarantine conditions. Due to the measures already taken it is currently not necessary to change the evaluation of the risks to the Group's business performance in 2020.

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 setup 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 Group 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 2019 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 and Section 315d HGB

This declaration contains all the corporate governance disclosures required as per Section 289f and Section 315d 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 2019 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 €	2019	2018
Sales	3,193	2,462
Other operating income	196	261
Total operating performance	3,389	2,723
Staff costs	–2,241	–1,740
Other operating expenses	–2,481	–2,137
Result before interest, taxes, depreciation and amortisation/ EBITDA	–1,333	–1,154
Depreciation of fixed assets	–8	–9
Operating result/EBIT	–1,341	–1,163
Financial result	14,680	–10,918
Income taxes	–1,280	113
Profit after tax	12,059	–11,968
Other taxes	0	–1
Net loss/profit	**12,059**	**–11,969**

Sales

In thousands of €	2019	2018
Sales from Group contribution	2,355	2,259
Sales from management services	784	174
Other sales	54	29
	3,193	**2,462**

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

Other operating income

In thousands of €	2019	2018
Income from the release of provisions	182	247
Other income	14	14
	196	**261**

Other operating expenses

In thousands of €	2019	2018
Auditing and consultancy costs	1,367	918
Other administrative expenses	470	468
Thereof remuneration of the Supervisory Board	287	253
Thereof costs of the Annual General Meeting	60	82
Thereof incidental costs of monetary transactions	84	83
Thereof staff recruitment costs	39	50
Advertising and public relations	237	51
Insurance costs	107	104
Other expenses	300	596
	2,481	**2,137**

The financial result consists primarily of an advance distribution of a subsidiary's 2019 net profit in the amount of EUR 14.0 mill. In the previous year, an amount of EUR 15.0 mill. had been distributed. The write-off of an investment in a subsidiary in the amount of EUR 25.7 mill. weighed on the financial result in 2018.

Development of net assets and the financial position

The balance sheet total as shown in the balance sheet structured according to maturity is EUR 37.9 mill. higher than on the previous year's reporting date. Non-current assets decreased by EUR 1.3 mill. Current assets, in turn, rose by EUR 39.2 mill. Here, receivables from short-term loans granted in the amount of EUR 72.4 mill. increased (previous year: EUR 36.1 mill.), whereas receivables from affiliated companies remained basically unchanged at EUR 15.5 mill. (previous year: EUR 15.6 mill.).

Equity increased by EUR 9.7 mill., mainly due to the net profit for the year of EUR 12.1 mill. and the dividend payout in the amount of EUR 2.4 mill.

Non-current and current liabilities rose, primarily due to another drawdown on the syndicated loan in the amount of EUR 26.0 mill. EUR 20.0 mill. thereof pertain to non-current and EUR 6.0 mill. to current liabilities.

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 planning and the forecast. Adjusted for the write-off of an investment in a subsidiary in the previous year, net profit of EUR 12.1 mill. is at the prior-year level.

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.

On average, the company employed 4.4 persons during the year (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 2020 will continue to depend on the economic development of the subsidiaries and thus also of the Group as a whole. The Management Board assumes that sales and net profit will be at the previous year's level.

Balance sheet structure

In millions of €	31.12.2019	In % of balance sheet total	31.12.2018	In % of balance sheet total
Assets				
Non-current assets	306.8	77.1	308.1	85.6
Current assets	91.2	22.9	52.0	14.4
	398.0	**100.0**	**360.1**	**100.0**
Equity and liabilities				
Equity	299.1	75.2	289.4	80.4
Non-current liabilities	60.6	15.2	41.6	11.5
Current liabilities	38.3	9.6	29.1	8.1
	397.5	**100.0**	**360.1**	**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 2019 Annual Report in accordance with the statutory requirements and with the Annual General Meeting's opting-out decision of 25 May 2016. According to this decision, the Company does not need to disclose individual Management Board remuneration for financial years 2016 through 2020. The Supervisory and the Management Board are of the opinion that individual disclosure of Management Board remuneration affects the privacy of its members and contravenes the interests of the Company in terms of competition aspects. During this period, MEDICLIN will also refrain from following the recommendations of the German Corporate Governance Code (DCGK) regarding the presentation of management board remuneration. The conformity declaration includes the corresponding information.

Management Board remuneration

Pursuant to the requirements under the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code (DCGK), the remuneration consists of fixed and variable components. It comprises fixed remuneration (the fixed salary) and a variable profit-sharing bonus 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. The incumbent 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 1.5 mill. in the 2019 financial year (previous year: EUR 1.6 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 2019 a performance-based (variable) remuneration was paid out as the Annual General Meeting on 29 May 2019 resolved to pay out a dividend of 5 cent per share for the 2018 financial year.

The Supervisory Board remuneration amounted to a total of EUR 236 thou. in the 2019 financial year (previous year: EUR 209 thou.).

In the 2019 financial year, as in 2018, 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.

Forward-looking statements

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

Consolidated financial statements of MEDICLIN Aktiengesellschaft for the 2019 financial year

Contents

Please click here to download the Annual Financial Statements of MEDICLIN Aktiengesellschaft (German version)
www.mediclin.de/jahresabschlussag2019

Consolidated balance sheet as of 31 December 2019

ASSETS

	Appendix	31.12.2019 in €	Previous year in thou. of €
NON-CURRENT ASSETS			
Goodwill and other intangible assets	(1)		
Concessions, licences		3,353,915	3,797
Goodwill		49,253,841	48,830
Payments on account		5,466,147	4,008
		58,073,903	**56,635**
Property, plant and equipment	(2)		
Land, land rights and buildings including buildings on third-party land		126,354,182	113,727
Right-of-use assets on representing the right to use land, land rights and buildings, including buildings on third-party land		406,406,320	0
Technical equipment and machines		13,128,773	13,105
Operating and office equipment		42,988,448	42,590
Right-of-use assets on representing the right to use operating and office equipment		2,326,662	0
Payments on account and assets under construction		26,285,138	25,134
		617,489,523	**194,556**
Financial assets	(3)		
Investment in stock of subsidiaries		108,322	65
Reinsurance cover		760,229	830
Other financial investments		2,056	2
		870,607	**897**
Other assets			
Receivables pursuant to hospital financing law	(4)	46,595,930	37,644
		46,595,930	**37,644**
Deferred tax assets	(5)	**8,724,156**	**6,476**
		731,754,119	**296,208**
CURRENT ASSETS			
Inventories	(6)	**8,080,780**	**7,461**
Trade receivables	(7)	**101,138,459**	**93,099**
Current income tax claims	(8)	**1,735,636**	**1,017**
Other financial assets			
Other current financial assets	(9)	9,354,304	4,818
		9,354,304	**4,818**
Other assets			
Prepaid expenses	(10)	1,341,409	1,207
Receivables pursuant to hospital financing law	(11)	7,098,536	7,095
		8,439,945	**8,302**
Cash and cash equivalents	(12)	**37,249,818**	**33,829**
		165,998,942	**148,526**
		897,753,061	**444,734**

EQUITY AND LIABILITIES

	Appendix	31.12.2019 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)	−29,568,498	−21,667
Consolidated balance sheet result	(16)	43,669,121	36,382
		190,992,452	**191,607**
Non-controlling interests	(17)	**−245,990**	**−203**
		190,746,462	**191,404**
NON-CURRENT LIABILITIES			
Financial liabilities			
Liabilities to banks	(18)	72,993,679	54,853
		72,993,679	**54,853**
Liabilities from finance leases	(19)	**47,837**	**73**
Lease liabilities	(20)	**368,318,704**	**0**
Pensions and similar commitments	(21)	**63,659,595**	**54,707**
Other provisions	(22)	**23,342,354**	**22,755**
Other financial liabilities			
Other financial liabilities	(23)	106,428	245
		106,428	**245**
Other payables			
Liabilities pursuant to hospital financing law	(24)	30,672,215	30,672
Other payables	(25)	2,069,004	2,051
		32,741,219	**32,723**
		561,209,816	**165,356**
CURRENT LIABILITIES			
Trade payables		**17,599,492**	**17,105**
Financial liabilities			
Liabilities to banks	(26)	26,707,267	20,831
		26,707,267	**20,831**
Liabilities from finance leases	(27)	**25,051**	**24**
Lease liabilities	(28)	**44,051,053**	**0**
Other provisions	(29)	**12,588,658**	**11,968**
Other financial liabilities			
Other financial liabilities	(30)	5,627,629	4,846
		5,627,629	**4,846**
Other payables			
Liabilities pursuant to hospital financing law	(31)	15,859,141	9,281
Other payables	(32)	23,338,492	23,919
		39,197,633	**33,200**
		145,796,783	**87,974**
		897,753,061	**444,734**

Consolidated profit and loss account

for the financial year from 1 January to 31 December 2019

	Appendix	Jan.–Dec. 2019 in €	Previous year in thou. of €
Sales	(33)	673,089,910	645,106
Other operating income	(34)	13,349,751	9,848
Total operating performance		**686,439,661**	**654,954**
Raw materials and consumables used	(35)		
a) Cost of raw materials and supplies		–73,476,886	–70,436
b) Cost of purchased services		–47,479,123	–48,964
		–120,956,009	**–119,400**
Staff costs	(36)		
a) Wages and salaries		–349,542,375	–331,720
b) Social security, pension and retirement		–63,033,053	–59,569
		–412,575,428	**–391,289**
Other operating expenses	(37)	–59,324,478	–106,917
Result before interest, taxes, depreciation and amortisation/EBITDA		**93,583,746**	**37,348**
Depreciation and amortisation	(38)	–71,171,487	–22,285
Operating result/EBIT		**22,412,259**	**15,063**
Financial result	(39)		
a) Income from participations		51,000	38
b) Interest and similar income		85,030	234
c) Interest and similar expenses		–10,937,549	–3,472
		–10,801,519	**–3,200**
Result before tax		**11,610,740**	**11,863**
Taxes on income	(40)	–1,927,843	–4,098
Total consolidated result		**9,682,897**	**7,765**
Thereof attributable to shareholders of MEDICLIN AG		9,661,730	7,717
Thereof attributable to non-controlling interests		21,167	48
Total consolidated result attributable to shareholders of MEDICLIN AG per share	(41)		
Undiluted in €		0.20	0.16
Diluted in €		0.20	0.16

Consolidated statement of comprehensive income

for the financial year from 1 January to 31 December 2019

	Appendix	Jan.–Dec. 2019 in €	Previous year in thou. of €
Total consolidated result		**9,682,897**	**7,765**
Other comprehensive income	(42)		
Revaluation from defined benefit plans and similar obligations		–9,463,289	904
Taxes on income		1,497,565	–143
Additions to value adjustments that are not reconciled to the total consolidated result		**–7,965,724**	**761**
Thereof attributable to shareholders of MEDICLIN AG		–7,901,364	757
Thereof attributable to non-controlling interests		–64,360	4
Additions to value adjustments that are reconciled to the total consolidated result		**0**	**0**
Group comprehensive income		**1,717,173**	**8,526**
Thereof attributable to shareholders of MEDICLIN AG		1,760,366	8,474
Thereof attributable to non-controlling interests		–43,193	52

Consolidated cash flow statement

	Jan. – Dec. 2019 in €	Previous year in thou. of €
Total consolidated result	**9,682,897**	**7,765**
Result of finance activities	10,801,519	3,200
Result of income taxes	1,927,843	4,098
Operating result (EBIT)	**22,412,259**	**15,063**
Depreciation on fixed asset items	71,171,487	22,285
Result before interest, taxes, depreciation and amortisation (EBITDA)	**93,583,746**	**37,348**
Change in non-current provisions	7,784,530	–1,655
Change in current provisions	620,609	5,985
Result from the disposal of fixed asset items	–780,117	–36
Result from other non-cash items	–12,963,252	–2,035
Changes in other current assets	–13,401,917	–10,536
Changes in other non-current liabilities	–12,197	–625
Changes in other current liabilities	–1,880,854	3,960
Payments received from interest	85,030	223
Income taxes paid	–3,442,278	–4,673
Cash flow from operating activities	**69,593,300**	**27,956**
Payments received from the disposal of fixed assets	**1,677,053**	**312**
From the disposal of property, plant and equipment	1,677,053	312
Payments received from investment subsidies	**7,649,516**	**7,933**
Income from participations	**51,000**	**38**
Cash used for investments	**–45,018,387**	**–46,467**
For intangible assets	–3,644,584	–3,669
For property, plant and equipment	–41,284,583	–42,754
For financial assets	–89,220	–44
Cash flow from investing activities	**–35,640,818**	**–38,184**
Dividend payout to shareholders of MEDICLIN Aktiengesellschaft	–2,375,000	–2,375
Changes in non-controlling interests	0	–7
Repayment of lease liabilities	–42,734,175	0
New financial liabilities	86,000,000	30,000
Repayment of financial liabilities	–62,092,658	–8,337
Interest payments for lease liabilities	–8,011,307	0
Other interest payments	–1,318,610	–2,131
Cash flow from financing activities	**–30,531,750**	**17,150**
Cash flow for the period	**3,420,732**	**6,922**
Cash and cash equivalents at the beginning of the period	33,829,086	26,907
Cash and cash equivalents at the end of the period	**37,249,818**	**33,829**

The cash and cash equivalents at the end of the period correspond to the balance sheet item “cash and cash equivalents” and encompass mainly 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 01.01.2018	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**

In €	Subscribed capital	Capital reserve	Revenue reserve	Consolidated balance sheet result	Shares MEDICLIN Group	Non-controlling interests	Total equity
As of 01.01.2019	47,500,000	129,391,829	−21,667,134	36,382,391	191,607,086	−202,798	191,404,288
Total consolidated result	–	–	–	9,661,730	9,661,730	21,167	9,682,897
Other comprehensive income	–	–	−7,901,364	–	−7,901,364	−64,359	−7,965,723
Group comprehensive income	**–**	**–**	**−7,901,364**	**9,661,730**	**1,760,366**	**−43,192**	**1,717,174**
Dividend payout	**–**	**–**	**–**	**−2,375,000**	**−2,375,000**	**0**	**−2,375,000**
As of 31.12.2019	**47,500,000**	**129,391,829**	**−29,568,498**	**43,669,121**	**190,992,452**	**−245,990**	**190,746,462**

Notes

Basic information

General

MEDICLIN Aktiengesellschaft (MEDICLIN AG) is active as a nationwide hospital operator. With 36 clinics, seven nursing care facilities and currently nine medical care centres in 11 German federal states, the MEDICLIN Group (MEDICLIN) has an overall capacity of approximately 8,500 beds/nursing care places. 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 is 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). 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 2019 financial year. On 16 March 2020 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 2019 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. One exception to this rule is the IFRS 16 "Leases" that was first applied in 2019 subject to the modified retrospective approach (IFRS 16.C5(II)) according to which the prior-year figures remain unchanged.

New or amended international standards applicable for the first time in the reporting period

The following new or amended international standards were compulsory applicable for the first time from 1 January 2019:

Standard	Adopted into EU law by Commission Regulation
IFRIC 23 "Uncertainty over Income Tax Treatments"	(EU) No. 2018/1595 of 23 October 2018
Amendments to IAS 28 "Investments in Associates and Joint Ventures"	(EU) No. 2019/237 of 8 February 2019
Amendments to IFRS 9 Financial Instruments: "Prepayment Features with Negative Compensation"	(EU) No. 2018/498 of 22 March 2018
Amendments to IAS 19 "Employee Benefits"	(EU) No. 2019/402 of 13 March 2019
"Annual Improvements to IFRSs 2015–2017 Cycle"	(EU) No. 2019/412 of 14 March 2019
IFRS 16 "Leases"	(EU) No. 2017/1986 of 31 October 2017

Commission Regulation (EU) No. 2018/1595 of 23 October 2018 covers the International Financial Reporting Interpretations **IFRIC 23 "Uncertainty over Income Tax Treatments"** issued 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 the entity has to recognise and measure its actual and deferred tax assets and tax liabilities in accordance with the provisions of IAS 12 and has to 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 application of IFRIC 23 did not have any material effects on MEDICLIN's net assets, financial position or results of operation.

Commission Regulation (EU) No. 2019/237 of 8 February 2019 covers amendments to **IAS 28 "Investments in Associates and Joint Ventures"** issued 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 are currently of no relevance to MEDICLIN.

Commission Regulation (EU) No. 2018/498 of 22 March 2018 refers to the amendments to **IFRS 9 Financial Instruments "Prepayment Features with Negative Compensation"** issued by the International Accounting Standards Board (IASB). The 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. This did not have any effects on MEDICLIN's consolidated financial statements.

Commission Regulation (EU) No. 2019/402 of 13 March 2019 refers to the amendments to **IAS 19 "Employee Benefits Plan Amendment, Curtailment or Settlement"** issued by the International Accounting Standards Board (IASB). These amendments clarify that an entity must apply the assumptions used for the remeasurement of net debt from performance-oriented benefit plans (asset) until the end of the remaining reporting period after a plan amendment, curtailment or settlement. The amendment was of no relevance to MEDICLIN.

Commission Regulation (EU) No. 2019/412 of 14 March 2019 covers amendments to **"Annual Improvements to IFRSs 2015–2017 Cycle"** issued by the International Accounting Standards Board (IASB) on 12 December 2017. The amendments were as follows:

- **IFRS 3 "Business Combinations"**
  When an entity obtains control of a business that was a joint operation previously, 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 was a joint operation previouslyn, the entity does not remeasure previously held interests in that business (IFRS 11.B33CA).
- **IAS 12 "Income Taxes"**
  All income tax consequences of dividend payouts 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 to IFRSs 3, 11 and IAS 12 were of no relevance to MEDICLIN. IAS 23 was applied to calculate capitalised borrowing costs.

The new version of **IFRS 16 "Leases"** issued by the International Accounting Standards Board (IASB) on 13 January 2016 and adopted into EU law by Commission Regulation (EU) No. 2017/1986 of 31 October 2017 had by far the largest effect on the 2019 financial statements. The standard was already described in detail in the 2017 and 2018 Annual Reports, which is why no detailed explanations are given in this report. The first-time adoption in the 2019 financial year was implemented in accordance with the modified retrospective approach that refrains from adjusting prior-year figures. The Group recognised right-of-use assets for leased objects of EUR 452.8 mill. and the corresponding lease liabilities in the same amount in the balance sheet as of 1 January 2019. On 1 January 2019, when the standard was first applied, the right-of-use assets equalled the present value of the lease liabilities. Leases classified as finance leases applying IAS 17 as of 31 December 2018 remain unchanged (IFRS 16.C11). They have a residual term until 2022 and are of only minor importance. The right-of-use model was 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 the future. The option to recognise the lease payments for short-term leases (term ≤ 12 months) directly as an expense will be exercised. In the 2019 financial year these lease payments amounted to EUR 2.3 mill. Leases for low-value assets (IFRS 16.5(b) in conjunction with 16.B3 ff) are not subject to the right-of-use model either; they are further on recognised as expenses. The value threshold is based on the threshold defined in **"IFRS 16 Basis for Conclusions BC100"**. In the 2019 financial year these leases amounted to EUR 0.7 mill. 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. Based on the lease obligations under operating leases as of 31 December 2018, the reconciliation to the opening balance entry for lease liabilities as of 1 January 2019 is as follows:

In millions of €	
Off-balance-sheet lease and rent obligations as of 31.12.2018	**508.0**
Material lease-related obligations (land tax)	9.3
Contracts/contract components that were revalued (e.g. incidental costs)	– 1.0
Short-term leases (< 12 months) recognised as expenses on a straight-line basis	– 0.5
Leases for low-value assets recognised as expenses on a straight-line basis	– 1.1
Gross lease liabilities as of 01.01.2019 pursuant to IFRS 16	**514.7**
Discounting	– 61.9
Net lease liabilities as of 01.01.2019 pursuant to IFRS 16	**452.8**
Liabilities from finance leases recognised in the balance sheet as of 31.01.2018	0.1
Lease liabilities recognised in the balance sheet as of 01.01.2019	**452.9**

The 21 rented hospital properties recognised as operating leases applying IAS 17 up to and including 2018 have the most significant impact on the future net assets, financial position and results of MEDICLIN. They account for approximately 97 % of the capitalised right-of-use assets. 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 right-of-use assets are 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 %. The right-of-use asset saw the following changes in the 2019 reporting year:

In thousands of €	Clinic real estate	Other real estate	Vehicles	Other operating and office equipment	Total
First-time adoption of IFRS 16 as of 01.01.2019	440,077	10,200	1,548	986	**452,811**
Additions in 2019	0	1,364	778	262	**2,404**
Disposals/corrections of depreciation 2019	0	0	– 101	– 9	**– 110**
Depreciation 2019	– 43,145	– 2,089	– 800	– 338	**– 46,372**
Residual book values as of 31.12.2019	**396,932**	**9,475**	**1,425**	**901**	**408,733**

With the exception of one contract, the 21 clinic leases expire in 2027. One contract was extended by another 20 years in the 2018 financial year and has a term until 2047. The contracts provide for an annual adjustment of rents in accordance with changes in the German consumer pricing index as published by the Federal Statistical Office for the corresponding previous year (up to a maximum of 2 % p.a.). 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. Until they actually become effective, these potential changes in the lease rates are not recognised in the lease liability.

As soon as the changes of an index or interest rate have an effect on the lease rates, the lease liability and the right-of-use asset are adjusted accordingly. The lease increase is expected to amount to 1.5 % in 2020 (2019: 1.7 %). Extrapolated to the end of the lease term, the lease liability and the right-of-use asset would increase by EUR 5.8 mill. as of 1 January 2020. Based on different rent increase scenarios, this will result in the following additional outgoing cash flows:

In thousands of €	Rent increase 0.50 %	Rent increase 1.00 %	Rent increase 1.50 %	Rent increase 2.00 %
2020 to 2027	1,896	3,858	5,890	7,993
2028 to 2047	41	95	163	248
	1,937	**3,953**	**6,053**	**8,242**

Options to extend the lease or residual value guarantees do not exist in this context.

In addition to the indexed lease payment, the land tax 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. For real estate, these amount to 1.728 % (residual term of nine years) and 2.589 % (residual term of 29 years). The weighted average incremental borrowing rate that was applied to the lease liabilities as of 1 January 2019 is 1.85 %. The incremental borrowing rate was calculated on the basis of reference rates for the yields of corporate bonds (EUR Europa Composite BBB).

As of 31 December 2019 IFRS 16 has the following effect on the profit and loss account:

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	46,479	2,978	1,288	50,745
Result before interest, taxes, depreciation and amortisation/EBITDA	**46,479**	**2,978**	**1,288**	**50,745**
Depreciation and amortisation	– 42,345	– 2,778	– 1,249	– 46,372
Operating result/EBIT	**4,134**	**200**	**39**	**4,373**
Financial result	– 7,573	– 366	– 71	– 8,010
Result before tax	**– 3,439**	**– 166**	**– 32**	**– 3,637**
Taxes on income	544	26	5	575
Total consolidated result	**– 2,895**	**– 140**	**– 27**	**– 3,062**

Outgoing cash flows for leases total EUR 50,745 thou. in 2019. Another change affects the cash flow statement. Previously, the 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 in the future. 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.

Other amendments issued by the EU Commission in the reporting year

Amendment	Adopted into EU law by Commission Regulation
"Amendments to References in the Conceptual Framework in International Financial Reporting Standards"	(EU) No. 2019/2075 of 29 November 2019
Amendment to clarify the definition of "material" in IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	(EU) No. 2019/2104 of 29 November 2019
"Interest Rate Benchmark Reform"	(EU) No. 2020/34 of 15 January 2020

Commission Regulation (EU) No. 2019/2075 of 29 November 2019 refers to **"Amendments to References in the Conceptual Framework in International Financial Reporting Standards"** issued by the International Accounting Standards Board (IASB) on 29 March 2018. The objective of the amendments is to update existing references in several standards and interpretations to previous frameworks with references to the revised conceptual framework. They refer to amendments to the International Accounting Standards (IASs) 1, 8, 34, 37, 38, International Financial Reporting Standards (IFRSs) 2, 3, 6, Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) 12, 19, 20, 22 and the Interpretation of the Standing Interpretations Committee (SIC) 32. These amendments must be applied at the latest from the first financial year beginning on or after 1 January 2020. The amendments have no effect on MEDICLIN's net assets, financial position or results of operation.

Commission Regulation (EU) No. 2019/2104 of 29 November 2019 adopted the amendment **"Definition of Material (Amendments to IAS 1 and IAS 8)"** issued by the IASB on 31 October 2018 in the framework of its Better Communication in Financial Reporting project into EU law. The amendment clarifies the definition of "material" and standardises the various definitions in the conceptual framework and the standards to make it easier for companies to make materiality judgements and to enhance the relevance of the disclosures in the notes to the financial statements. The amendments to IAS 1 and IAS 8 imply, by way of consequence, amendments to **IAS 10 "Events after the Reporting Period", IAS 34 "Interim Financial Reporting"** and **IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"**.

According to the new definition, 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 must be applied as from 1 January 2020. Premature adoption is permitted. In the future MEDICLIN will have to reassess whether information, either individually or in combination with other information, is material. Following this final reassessment, information may be added or deleted if it is classified as immaterial or information may be compiled, itemised or restructured in a new way.

Commission Regulation (EU) No. 2020/34 of 15 January 2020 adopted **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** published by the IASB on 26 September 2019 into EU law. The amendments refer, in particular, to certain expedients in hedge accounting in periods before the replacement of an existing interest rate benchmark with an alternative reference rate and are mandatory for all hedging relationships affected by the interest rate benchmark reform. Further disclosures are required to show to what extent the hedging relationships of entities are affected by the changes. The amendments have no effect on MEDICLIN's net assets, financial position or results of operation.

Standards and interpretations that have been issued by the IASB, but are not yet binding

On 18 May 2017, the IASB issued **IFRS 17 "Insurance Contracts"** and on 22 October 2018 it issued amendments to **IFRS 3 "Business Combinations"**, which have not yet been published in the Official Journal of the EU and are therefore not yet mandatory.

IFRS 17 "Insurance Contracts" establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The object of IFRS 17 is to ensure that entities provide relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's net assets, financial position and results of operation. IFRS 17 was issued in May 2017 and must be applied to annual reporting periods beginning on or after 1 January 2021. The standard is of no relevance to MEDICLIN.

The amendments to **IFRS 3 "Business Combinations"** clarify whether a business or a group of assets was acquired in the scope of a business combination. 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 23 January 2020 the IASB issued amendments to **IAS 1 "Presentation of Financial Statements"**. The amendments refer to a limited adjustment to the assessment criteria for classifying liabilities as current or non-current. The IASB clarifies that the classification of liabilities as current or non-current depends on the entity's right at the end of the reporting period to defer settlement of such liabilities beyond 12 months. If the entity has this right, the liability is classified as non-current; otherwise it is classified as current. The amendments must be applied as from 1 January 2022. Premature adoption is permitted. The amendments are not expected to have any material effects on the net assets, financial position and results of MEDICLIN.

Directives issued by the European Parliament, the Council of the European Union and the European Commission 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.

On 14 November 2019 the Federal Parliament (Bundestag) issued the Act to Implement the Second Shareholder Rights Directive (SRD II). On 30 December 2019 it was published in the Federal Law Gazette (Bundesgesetzblatt) and it came into force on 1 January 2020. The Directive changes certain shareholder rights and provides for extensive changes that are relevant under stock corporation law and accounting considerations. In addition to reorganising related party transactions and enhancing shareholder engagement in listed companies, the Directive contains new provisions in the fields of remuneration referring not only to the remuneration systems for the management board and the supervisory board but also stipulating extensive reporting obligations in this respect. In the future the remuneration of the management board is to be based on both long-term and sustainable company development and is limited by a maximum threshold.

This means that, among other measures, MEDICLIN is required to present more detailed remuneration reports in the future. In the future the remuneration report will provide a comprehensive overview of the remuneration of individual members of the Management and the Supervisory Boards, providing comparisons with the last five financial years that show the annual change in the individual remuneration of such members versus the development of the Company's earnings and the remuneration of employees. In turn, the notes and the management report will no longer include disclosures on remuneration except for the total remuneration of the Management Board and the Supervisory Board. It is no longer possible to refrain from disclosing the remuneration of individual members by means of the resolution at the Annual General Meeting. The remuneration report for the Management Board and the Supervisory Board must be published and made publicly available on the Company website for ten years.

Therefore, the resolution by the Supervisory Board on the remuneration system for the Management Board and the resolutions by the Annual General Meeting on the remuneration (including the remuneration system) for the Supervisory Board and the approval of the remuneration system for the Management Board must be, for the first time, passed at the first Annual General Meeting that takes place after 31 December 2020. The first remuneration report must be prepared for the financial year beginning after 31 December 2020.

By publication in the Official Journal of the European Union of 29 May 2019, the European Commission issued the **"Delegated Regulation (EU) 2018/815"** of 17 December 2018. The Regulation became effective on 18 June 2019. The Regulation requires issuers whose securities are admitted to trading on a regulated market to make public their annual financial reports for financial years beginning on or after 1 January 2020 in a uniform European electronic reporting format (European Single Electronic Format, ESEF). In the future, issuers must prepare their annual financial reports in the Extensible Hypertext Markup Language (XHTML) format. Consolidated financial statements prepared in accordance with IFRSs should be marked up using Extensible Business Reporting Language (XBRL)-labels. The core taxonomy to be used for the European Single Electronic Format is based on the IFRS Taxonomy of the IFRS Foundation. The IFRS Foundation updates the IFRS Taxonomy every year to reflect the issuing of new IFRSs or the amendments to existing IFRSs, the analysis of disclosures that are usually shown in the reports or general content-related or technical improvements to the IFRS Taxonomy among other developments. The last update was implemented by means of **"Commission Delegated Regulation (EU) 2019/2100"** of 30 September 2019, published in the Official Journal of the European Union of 16 December 2019.

From 2020 the primary financial statements in IFRSs consolidated financial statements (balance sheet, profit and loss account and other comprehensive income, statement of changes in equity and cash flow statement) and ten general company disclosures (e.g. name, registered office and legal form) must be presented in the new format as a first step. Following a transitional phase the new format must be applied to the entire notes from 2022.

On 20 September 2019 the Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz – BMJV), together with the Federal Ministry of Finance (Bundesministerium der Finanzen – BMF) submitted the draft of a law to implement the amendments to the EU Directive 2013/50/EU with a view to a uniform electronic format for annual financial reports (ESEF) to the associations and expert groups to be involved for consultation. The Regulation has yet to be implemented into German law (as of 31 December 2019).

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements were prepared in accordance with uniform accounting policies as of the reporting date of the consolidated financial statements. 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 (IFRS 10 B94).

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. 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. and Medusplus GmbH i.L.) totalled EUR 53 thou. in 2018 (2017: EUR 49 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 was 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. In November 2018 MEDICLIN exercised its purchase right as agreed in the lease agreement and bought back the property at the agreed residual book value of approximately EUR 6.2 mill. Thus, the company's business purpose became obsolete. The company was dissolved as at 31 March 2019 without requiring a liquidation procedure. The profit from this company attributable to MEDICLIN amounted to EUR 0.2 thou. in the shortened financial year from 1 January 2019 to 31 March 2019 (FY 2018: EUR 36.1 thou.). The limited partner contribution was disbursed in full when the company was dissolved.

VR-LEASING ABYDOS GmbH & Co. Immobilien KG was not consolidated as a structured company, since MEDICLIN had no power of disposition of this company and had no right to influence the returns of VR-LEASING ABYDOS GmbH & Co. Immobilien KG.

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 has a term until 31 December 2018. Unless terminated in writing half a year before the expiry date, the contract is renewed automatically by another year each time the expiry date is reached. The agreement was not terminated in 2019, meaning that its term now ends on 31 December 2020. MediClin Medizinisches Versorgungszentrum GmbH, Offenburg, makes use of the option pursuant to Section 264 (3) HGB to refrain from disclosing its annual financial statements.

Affiliated companies

In addition to the Group companies, the aforementioned companies that are not included in the consolidation scopes also belong to the affiliated companies. 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
	31.12.2019	31.12.2018	
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]	94.801[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	94.801	no
Kraichgau-Klinik Bad Rappenau GmbH & Co. KG, Bad Rappenau	94.801[3]	94.801[3]	yes
MC Kliniken Geschäftsführungs-GmbH, Offenburg	94.801[3]	94.801[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, 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, Offenburg	100.000[1]	100.000[1]	yes
MVZ MediClin Bonn GmbH, Bonn	100.000[2]	100.000[2]	no
Rehabilitationszentrum Gernsbach/Schwarzwald GmbH & Co. KG, Bad Rappenau	94.801[3]	94.801[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	
	2018	2017	2018	2017	2018	2017
4QD – Qualitätskliniken.de GmbH, Berlin[1,8]	–	–	–	–	–	–
KDC-Krankenhaus-Dienstleistungsgesellschaft Crivitz mbH, Crivitz[1]	1,454.27	8,564.09	56,286.15	54,831.88	69.231[3]	69.231[3]
MediServ GmbH i. L., Essen[1, 5]	–	–	–	–	–	–
Medusplus GmbH i. L., Essen[1, 6]	–	3,909.62	–	48,703.07	–	51.000[3]
Müritz-Klinikum Service GmbH, Waren[1]	106,879.32	91,356.32	258,456.14	201,576.82	51.000[3]	51.000[3]
VR-LEASING ABYDOS GmbH & Co. Immobilien KG, Eschborn[7]	107,619.74	67,655.61	34,549.13[4]	–35,169.66[4]	44.408[2,3]	44.408[2,3]

[1] 2019 annual financial statements not yet available
[2] Including atypical silent participation
[3] Indirect participation
[4] Taxable equity
[5] Dissolved as at 31.05.2017
[6] Dissolved as at 31.12.2018
[7] Dissolved as at 31.03.2019
[8] Participation percentage of 5.1 % since September 2019

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 principles are converted 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 reported as amortised costs 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 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 (IAS 38.57).

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.

Financial instruments encompass, first and foremost, cash and cash equivalents, receivables and financial liabilities. Receivables are generally recognised at settlement amount 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.

Pursuant to IFRS 9, **financial assets** must be classified must be classified into the following measurement categories: measurement at amortised cost (AC), measurement at fair value through other comprehensive income (FVTOCI) and 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 characteristics of the contractual cash flows. In the scope of the cash flow criterion, it must be determined whether the contractual cash flows and whether they exclusively constitute repayment and interest payments on the capital amount outstanding. The business model condition refers to how financial assets are used to generate income, distinguishing between the collection of contractual cash flows (hold to collect) and the sale of the financial assets (sell). As third option a combination of holding and selling (hold to collect and sell) is possible. In the MEDICLIN Group, the financial assets pursuant to IFRS 9 refer to trade receivables, cash and cash equivalents, investments in stock of subsidies, other financial investments and other current financial assets. The management determines the business model having regard to all relevant and available information and ensures that it is operationally implemented.

The reinsurance policies serve to cover risks from pension commitments. Claims from reinsurance policies that are pledged to the beneficiaries of pensions are offset directly against the pension obligations. They are classified as qualifying insurance policies as defined in IAS 19. Reinsurance policies that have not been pledged are recognised 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 in stock of subsidiaries are measured at fair value through profit or loss.

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 on 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. The first-time adoption of IFRS 16 has an effect on the cost of capital because the financing structure of the peer group takes account of leases. 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 changes 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 payables. 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** were accounted for **in accordance with IAS 17**. According to this standard, a **finance lease** is a lease that transfers basically all the risks and opportunities incident to ownership of an asset to the lessee according to the terms of the lease. They are capitalised at the commencement of the lease term at the fair value of the leased property or, if lower, the present value of the minimum lease payments. If the economic ownership of the leased asset remained with the lessor **(operating leases)**, the leased property was recognised in the balance sheet of the lessor. The lease expenses thus incurred were generally recognised as lease or rental expenses over the term of the contract. This mainly referred to the 21 rented clinic properties that were classified as operating leases on the basis of their contractual framework.

Since 1 January 2019 the Group applies **IFRS 16 "Leases"**. This standard requires that the entity assesses at inception of a contract whether the contract is, or contains, a lease. A contract is, or contains, a lease if the lessee is entitled to control the use of an identified asset for a period of time in exchange for consideration. As the lessee, the Group recognises and measures all leases in accordance with the right-of-use model. Right-of-use assets for lease objects and liabilities for the corresponding payment obligations are recognised at present value in the balance sheet.

The option to recognise the lease payments for short-term leases (term ≤ 12 months) directly as an expense is exercised. Leases for low-value assets (IFRS 16.5(b) in conjunction with 16.B3 ff) are not subject to the right-of-use model either; they are further on recognised as expenses. The value threshold is based on the threshold defined in "IFRS 16 Basis for Conclusions BC100" ("USD 5,000 or less"). Moreover, the new provisions are not applied to leases for other intangible assets (IFRS 16.4) or intra-Group leases. 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 **right-of-use** asset is measured on the basis of the cost incurred including, in addition to the present value of the lease payments, other direct costs associated with the lease contract. In the scope of subsequent measurement the right-of-use asset is depreciated on the basis of the straight-line basis to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term. If there are indications of impairment, an impairment test in accordance with IAS 36 for the right-of-use is carried out.

The **lease liability** is recognised at the present value of the lease payments to be paid during the expected lease term, including both fixed and index-related payments. Payments to be received under lease incentives must be deducted. In this context, residual value guarantees, early repayment penalties and call option premiums are also considered if the lessee is reasonably certain to exercise that option. The incremental borrowing rate as at the commencement date of the lease is used to calculate the present value of the lease payments as the underlying interest rate of the lease cannot be easily determined. If the lease is modified because the term and/or the lease payments change (e.g. because the lease payments are linked to an index or if the interest rate is changed after the term changes) or if the assessment of a purchase option changes, the carrying amount of the lease liability is remeasured.

Leases for which the Group is classified as the lessor and that do not transfer basically all the risks and opportunities incident to ownership of an asset are classified as operating leases. The lease income from such leases is recognised as other operating income on a straight-line basis over the term of the lease.

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.

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 2019 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.

Trade receivables are initially recognised at fair value and thereafter measured at amortised cost due to their short-term nature and the fact that they do not bear interest. Furthermore, a risk provision for expected default losses is set aside pursuant to IFRS 9 as soon as the receivables are recognised; unrecoverable receivables are written off. A simplified approach is to be applied to the impairment of trade receivables. Given their short terms (< 12 months), the expected loss in the next 12 months equals the loss over the residual term of the receivable. MEDICLIN divides risks from payment default that are based on the debtor's creditworthiness into two classes that are, by their very nature and irrespective of how long the receivables have been overdue, exposed to different creditworthiness risks. The first group comprises the statutory health and pension insurance providers. Their creditworthiness risks are assessed on the basis of the CDS spread for Germany. The second group refers to self-paying patients. Their creditworthiness risks were assessed and adjusted on the basis of historical default rates as of 31 December 2019. The expected loss over the residual term is determined depending on how long they have been overdue and by determining how probable it is that they will pass from one level of overdue receivables to another. Receivables that have been overdue for 360 days and receivables that have been overdue for shorter periods but have a significantly increased default risk are written off entirely. Pursuant to IFRS 9, an impairment needs to be recognised as soon as a receivable is recognised, 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.

Cash and cash equivalents encompass cash, sight deposits, other short-term, highly liquid financial assets with original terms of no more than three months, and current account balances. Current account credits drawn upon are disclosed in current financial liabilities as liabilities to banks. Cash and cash equivalents are measured at amortised cost and a risk provision is set aside for expected default losses in accordance with the three-step model under IFRS 9 (general approach). Under the three-step model, debt instruments that are measured at amortised cost are classified as level 1 upon initial recognition. The expected loss equals the amount that could arise from potential defaults over the next 12 months after the balance sheet date. If a significant increase in the default risk of the counterparty has been identified since initial recognition, the financial asset is reclassified from level 1 to level 2. Among other factors, the default risk is deemed to have increased significantly if the debtor no longer honours its payment obligations in the short term or if there are indications that the business performance of the debtor has deteriorated or might deteriorate. The default risk is then determined in accordance with the probability of default over the entire residual term. The impairment equals the amount that might arise from potential default during the residual term of the financial asset. The financial asset must be reclassified from level 1 to level 2 at the latest when the contractual payments have been overdue for more than 30 days. If there are objective indications that a financial asset might be impaired, it must be transferred to level 3. Whenever payments have been overdue for more than 90 days, it is assumed that the debtor has significant financial problems and it is deemed that there are objective indications for a default. The financial asset must be reclassified to level 3.

Current and non-current financial liabilities are initially recognised at fair value less transaction costs on the liabilities side and stated at amortised cost using the effective interest method in the following periods. Amortised cost equal the amount at which a financial liability is measured at initial recognition:

- less repayment
- plus or less agio or disagio
- applying 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. 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** mainly 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 reported 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. Due to the ongoing interest situation on the capital markets in recent years, some of these defined contribution plans incurred underinsurance because interest surpluses were no longer available to fund the guaranteed annual adjustment of 1.0 % of the benefits. This risk is covered by means of a provision in the amount of EUR 0.2 mill. (please refer to item (21) Pensions and similar commitments for further details). Given this underinsurance, these commitments are also classified as defined benefit plans in the future. Payments for government pension plans are treated like payments for defined contribution plans.

In accordance with IAS 37, the **remaining provisions** are recorded to the extent that a current commitment vis-à-vis a third party resulting from a previous event exists which will probably lead to an outflow of resources 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, which means 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 a provision for an ongoing proceeding due to new circumstances is required or the amount of an existing provision has to be adjusted 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 payables.

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 of the provision of services or their cause. 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 and available options 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:

- 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".
- 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.
- The lease term within the meaning of IFRS 16 is defined as the non-cancellable period of a lease and option periods that are reasonably certain to be exercised. In determining the lease term, the lessee must consider any periods covered by options to extend or terminate the lease if the lessee is reasonably certain to exercise such option (IFRS 16.18). A unilateral right on the part of the lessor to terminate the lease (IFRS 16.BC128) is not relevant for determining the lease term and therefore it is irrelevant from the lessee's perspective. Such option periods that are reasonably certain to be exercised must be considered in the lease term from the beginning of the lease. A lease term is no longer binding when both the lessee and the lessor can terminate the lease without the consent of the respective other contracting party.
- Practical expedients are available for leases for low-value assets and for short-term leases (less than 12 months). The quantitative threshold pursuant to IFRS 16 BC 100 is USD 5,000.
- Pursuant to IFRS 16.15 there is an option to combine non-lease components with the lease components and thus to account for them together for non-lease components and lease components.

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. MEDICLIN assumes that this tax treatment will be accepted. 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 high-quality, 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 0.9 % to 1.4 % lowers the present value of the defined benefit obligation (DBO) by EUR 5.5 mill., or 8.4 %. A reduction in the discount rate by 0.5 percentage points from 0.9 % to 0.4 %, in turn, increases the DBO by EUR 6.2 mill., or 9.6 %. 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 and
- Revenue recognition when a performance obligation is satisfied

Revenue recognition is based mainly on a comparison of performance and consideration under a contract (asset-liability approach): a performance rendered creates an asset, whereas consideration received creates a liability. This point in time or time period may, but does not have to, coincide with with the transition of risks and rewards related to such assets are passed. Treatment contracts between hospitals or rehabilitation facilities and patients or their health insurance funds are classified as service contracts pursuant to Section 630a ff 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 nursing fee in the field of rehabilitation is agreed in negotiations of nursing fees 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 basically 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 (MDK), are already performed on the basis of various parameters. At MEDICLIN, control is passed, and revenue is recognised over time.

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 partially 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.

Furthermore, the assessment of the recoverability of receivables, including the receivables pursuant to the hospital financing law, as well as the assessment of the 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).

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.

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. The application of IFRS 16 also requires a larger scope of judgement and estimates, referring in particular to:

- determining the lease term, thereby considering any options to purchase or to extend the lease that might exist,
- determining the incremental borrowing rate, and
- reassessing the lease liability when the lease is modified.

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 regulation (IFRS 9.3.2.2) 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 21.0 mill. (previous year: EUR 20.4 mill.). The increase in the 2019 financial year is only due to interest adjustments in the amount of EUR 0.7 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 2020 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. In 2019 the investment subsidies received were fully recognised in the cash flow from investing activities (previous year: cash flow from financing activities). The previous year was adjusted accordingly. Furthermore, the items “Repayment of lease liabilities” and “Interest payments for lease liabilities” were added to the cash flow from financing activities in the scope of the conversion to IFRS 16. The application of IFRS 16 entails another change in the cash flow statement. Previously, the payments for operating leases were recognised in the cash flow from operating activities. In the future, 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 expense of the cash flow from financing activities will decrease accordingly.

The cash flow from operating activities increased by EUR 41.6 mill., from EUR 28.0 mill. to EUR 69.6 mill. EUR 50.7 mill. thereof is attributable to the first-time application of IFRS 16. It includes interest payments received totalling EUR 85 thou. (previous year: EUR 223 thou.). Tax payments after tax refunds amounted to EUR 3.4 mill. net (previous year: EUR 4.7 mill.).

Provisions for pensions and other non-current provisions increased by a total of EUR 7.8 mill. Current provisions showed a EUR 0.6 mill. change. EUR 8.0 mill. of the change in other current assets is attributable to an increase in trade receivables (previous year: EUR +9.1 mill.). EUR 0.7 mill. thereof refer to unfinished and not yet invoiced services.

A gross amount of EUR 3.6 mill. (previous year: EUR 3.7 mill.) was spent on intangible assets. Gross investments in property, plant and equipment total EUR 41.3 mill. (previous year: EUR 42.8 mill.). Investment subsidies received amounted to EUR 7.6 mill. (previous year: EUR 7.9 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. This results in a cash flow from investing activities totalling EUR –35.6 mill. (previous year: EUR –38.2 mill.).

The cash flow from financing activities amounted to EUR –30.5 mill., up from EUR 17.2 mill. in the previous year. The change is due, among other factors, to a new syndicated loan. The new loan agreement consists of two facilities. Facility A was granted as a EUR 50.0 mill. bullet loan and Facility B was granted as a revolving operating credit of up to EUR 40.0 mill. Since November 2019 EUR 50.0 mill. of Facility A and a partial amount of EUR 25.0 mill. of Facility B have been drawn. EUR 60.0 mill. of the payout from the repayment of financial liabilities in the amount of EUR 62.1 mill. (previous year: EUR 8.3 mill.) is attributable to the repayment of the old syndicated loan. The repayment of lease liabilities due to the first-time application of IFRS 16 amounts to EUR 42.7 mill. The interest payments for lease liabilities amount to EUR 8.0 mill. Other payments for interest amounted to EUR 1.3 mill. (previous year: EUR 2.1 mill.). In 2018 EUR 1.0 mill. thereof was attributable to back payments in connection with the external tax audit.

Expenses for short-term and low-value rental and lease agreements that are not recognised in accordance with IFRS 16 are still shown in the operating cash flow.

Cash and cash equivalents at the end of the period thus increased by EUR 3.4 mill. (previous year: EUR +6.9 mill.) to EUR 37.2 mill. (previous year: EUR 33.8 mill.).

In the year under review, the subsidies received and investments made with subsidies were shown separately in the cash flow from investing activities as this better reflects the nature of this item.

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

In thousands of €	As of 01.01.2019	Cash items	Non-cash items		As of 31.12.2019
			Interest accrual	Other changes	
Current liabilities to banks	20,831	5,927	–51	0	26,707
Non-current liabilities to banks	54,853	18,141	0	0	72,994
Current liabilities from finance leases	24	1	0	0	25
Non-current liabilities from finance leases	73	–25	0	0	48
Current lease liabilities	0	550	0	43,501	44,051
Non-current lease liabilities	0	–43,284	0	411,603	368,319
Current other financial liabilities	180	2	0	0	182
Non-current other financial liabilities	245	–139	0	0	106
	76,206	**–18,827**	**–51**	**455,104**	**512,432**

[1] Furthermore a lease liability in the amount of EUR 452.811 thou. was recognised upon the first-time adoption of IFRS 16.

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 liabilities from finance leases	6,358	–6,334	0	0	24
Non-current liabilities from finance leases	97	–24	0	0	73
Current other financial liabilities	178	2	0	0	180
Non-current other financial liabilities	382	–137	0	0	245
	54,506	**21,662**	**38**	**0**	**76,206**

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 2019 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.

The operating segments within the post-acute and acute business are each aggregated to form one reportable segment as they have similar economic characteristics as is also reflected in similar medical services, medical procedures and patients. Given the same structural framework conditions in the post-acute and acute business, the risk and opportunity profiles are likewise comparable. Moreover, the economic and political conditions are also identical in the post-acute and the acute segment. Therefore, the operating results (EBIT) are subject to uniform and comparable conditions that entail a similar long-term earnings performance.

In its **post-acute segment**, MEDICLIN offers services in the fields of subsequent nursing treatment and curative procedures. Subsequent nursing treatment includes all medical measures required to facilitate the healing process and return the patient to a functioning state immediately after acute care treatment. 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 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 eight cash-generating units (operating locations) that all belong to the acute segment. Given that the operations were discontinued, the goodwill of one CGU was written off in the 2019 financial year.

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 IFRS (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 42.0 % (previous year: 41.7 %) of the demand for services in the post-acute segment, while the social security pension funds make up 49.2 % (previous year: 49.9 %) of the demand for services in this segment. In the acute segment, 91.7 % (previous year: 91.5 %) of the services demanded are attributable to the public health insurance funds.

Sectoral segmenting

In millions of €	January – December 2019					
	Post-acute	Acute	Other activities	Subtotal	Reconciliation	Total
Sales	416.7	236.6	74.4	**727.7**	–54.6	**673.1**
Total sales	422.1	239.5	78.7	**740.3**	0.0	**740.3**
Internal sales	5.4	2.9	4.3	**12.6**	54.6	**67.2**
Raw materials and consumables used	–79.6	–62.0	–29.9	**–171.5**	50.6	**–120.9**
Staff costs	–220.8	–139.3	–51.5	**–411.6**	–0.9	**–412.5**
Other operating expenses	–45.9	–29.6	–13.9	**–89.4**	30.1	**–59.3**
Segment result	**23.0**	**1.6**	**–0.9**	**23.7**	**–1.3**	**22.4**
Thereof non-cash items:						
Scheduled depreciations/write-ups	–57.1	–18.6	–4.3	**–80.0**	0.0	**–80.0**
of which depreciation from right-of-use assets (IFRS 16)	–42.4	–2.8	–1.2	**–46.4**	0.0	**–46.4**
Non-scheduled depreciations/write-ups	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Release of special item	1.2	7.6	0.0	**8.8**	0.0	**8.8**
Allowances	–0.2	0.0	0.0	**–0.2**	0.0	**–0.2**
Allocation of provisions/liabilities	–12.6	–11.1	–10.4	**–34.1**	–1.1	**–35.2**
Release of provisions/liabilities	1.3	1.1	0.3	**2.7**	0.2	**2.9**
Financial revenues	0.4	0.1	0.5	**1.0**	–0.9	**0.1**
Financial costs	–8.8	–1.5	–2.9	**–13.2**	2.3	**–10.9**
of which financial costs from lease liabilities (IFRS 16)	–7.6	–0.3	–0.1	**–8.0**	0.0	**–8.0**
Financial result	**–8.4**	**–1.4**	**–2.4**	**–12.2**	**1.4**	**–10.8**
Taxes on income	**0.5**	**–0.1**	**–1.0**	**–0.6**	**–1.3**	**–1.9**
Assets	**591.4**	**216.6**	**41.5**	**849.5**	**48.2**	**897.7**
Liabilities	**438.3**	**58.6**	**108.7**	**605.6**	**101.4**	**707.0**
Gross capital expenditure	447.7	36.6	19.1	**503.4**	0.0	**503.4**
Gross capital expenditure excl. IFRS 16	22.7	12.9	12.6	**48.2**	0.0	**48.2**

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**
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**	**187.7**	**27.3**	**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**

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 01.01.2018	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**
Acquisition costs as at 01.01.2019	27,168	75,071	4,008	**106,247**
Additions	1,804	485	1,755	**4,044**
Reclassifications	297	0	–297	**0**
Disposals	–73	–722	0	**–795**
Acquisition costs as at 31.12.2019	**29,196**	**74,834**	**5,466**	**109,496**
Cumulated depreciation as at 01.01.2019	23,371	26,241	0	**49,612**
Scheduled depreciation	2,539	0	0	**2,539**
Non-scheduled depreciations	0	61	0	**61**
Reclassifications	0	0	0	**0**
Disposals	–68	–722	0	**–790**
Cumulated depreciation as at 31.12.2019	**25,842**	**25,580**	**0**	**51,422**
Balance sheet value 31.12.2019	**3,354**	**49,254**	**5,466**	**58,074**

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

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

The goodwill is attributable to eight cash-generating units (CGUs) and refers entirely to the acute segment. The medical care centres are each summarised with the CGUs on a location basis if physically separate facilities exist at one location. In the 2019 financial year a medical care centre with a rehabilitation facility and a rehabilitation facility were each summarised with a CGU at their respective locations.

The goodwill of one CGU in the amount of EUR 61 thou. was written off in 2019 as the unit discontinued its operations.

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 49.3 mill. on 31 December 2019 (31.12.2018: EUR 48.8 mill.). The carrying amounts of the CGUs totalled EUR 198.2 mill. (31.12.2018: EUR 117.5 mill.). This breaks down to CGU as follows:

In millions of €	Goodwill	in %	Carrying amount	in %
CGU location 1	23.5	47.6	40.6	20.5
CGU location 2	7.9	16.0	16.6	8.4
CGU location 3	7.2	14.6	44.6	22.5
CGU location 4	6.5	13.2	53.5	27.0
CGU location 5	2.2	4.4	8.5	4.3
CGU location 6	1.8	3.7	24.6	12.4
Others	0.2	0.5	9.8	4.9
	49.3	**100.0**	**198.2**	**100.0**

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.

Cost of capital after tax was 3.93 % in the period under review (previous year: 4.96 %). Taking account of the first-time application of IFRS 16 and, thus, the effect of leases on the financing structure of the peer group in 2019, the cost of capital amounts to 3.35 %. after tax. The capital structure was adjusted and the present value of the operating lease liabilities was accounted for. The resulting capital structure (equity/borrowed capital) is 49.84/50.16. All other parameters remain unchanged. The discount rate was determined by means of iteration in the reporting year and is 3.79 % for the short-term and the medium-term planning (previous year: 5.86 % on the basis of a post-tax interest rate of 4.96 %). The discount rate is derived from external data sources. It is determined on the basis of weighted average cost of capital before tax (WACC before tax), taking certain variables into account.

In %	31.12.2019	31.12.2018
Risk-free interest rate	0.10	1.00
Market risk premium	6.75	6.50
Beta coefficient (on the basis of a peer-group analysis)	0.72	0.76
Growth discount to the perpetuity	0.25	0.25
Borrowing costs (before taxes)	2.06	2.93
Tax shield	0.33	0.46
Capital structure (equity/borrowed capital) (on the basis of a peer-group analysis)	67.65/32.35	72.12/27.88

In millions of €			Change in discount rate				
			0.00 %	0.50 %	1.00 %	−0.50 %	−1.00 %
Change in EBIT	0.0 %	CGU location 3	0.0	0.0	−3.2	0.0	0.0
Change in EBIT	0.0 %	CGU location 5	0.0	0.0	−0.4	0.0	0.0
Change in EBIT	0.0 %	CGU location 6	0.0	−0.4	−4.7	0.0	0.0
Change in EBIT	**0.0 %**	**Total**	**0.0**	**−0.4**	**−8.3**	**0.0**	**0.0**
Change in EBIT	5.0 %	CGU location 3	0.0	0.0	−1.9	0.0	0.0
Change in EBIT	5.0 %	CGU location 6	0.0	0.0	−4.4	0.0	0.0
Change in EBIT	**5.0 %**	**Total**	**0.0**	**0.0**	**−6.3**	**0.0**	**0.0**
Change in EBIT	10.0 %	CGU location 3	0.0	0.0	−0.6	0.0	0.0
Change in EBIT	10.0 %	CGU location 6	0.0	0.0	−4.0	0.0	0.0
Change in EBIT	**10.0 %**	**Total**	**0.0**	**0.0**	**−4.6**	**0.0**	**0.0**
Change in EBIT	−5.0 %	CGU location 3	0.0	0.0	−4.5	0.0	0.0
Change in EBIT	−5.0 %	CGU location 5	0.0	0.0	−0.7	0.0	0.0
Change in EBIT	−5.0 %	CGU location 6	0.0	−0.8	−5.2	0.0	0.0
Change in EBIT	**−5.0 %**	**Total**	**0.0**	**−0.8**	**−10.4**	**0.0**	**0.0**
Change in EBIT	−10.0 %	CGU location 2	0.0	0.0	−1.1	0.0	0.0
Change in EBIT	−10.0 %	CGU location 3	0.0	0.0	−5.8	0.0	0.0
Change in EBIT	−10.0 %	CGU location 5	0.0	0.0	−1.1	0.0	0.0
Change in EBIT	−10.0 %	CGU location 6	0.0	−1.3	−5.5	0.0	0.0
Change in EBIT	**−10.0 %**	**Total**	**0.0**	**−1.3**	**−13.5**	**0.0**	**0.0**

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 %).

The analysis revealed a need for write-downs totalling a maximum of EUR 13.5 mill. within the context of the parameter changes, which corresponds to 6.8 % of the carrying amount.

As no deterioration is expected with regard to the growth rate, it was not included in the sensitivity analysis.

(2) PROPERTY, PLANT AND EQUIPMENT

In thousands of €	Land, land rights and buildings incl. buildings on third-party land	Right-of-use assets on land, land rights and buildings, incl. buildings on third-party land	Technical equipment and machines
Acquisition and manufacturing costs as at 01.01.2018	252,281	0	40,827
Additions	5,032	0	1,838
Reclassifications	3,441	0	554
Disposals	–78	0	–1,162
Acquisition and manufacturing costs as at 31.12.2018	**260,676**	**0**	**42,057**
Cumulated depreciation as at 01.01.2018	139,398	0	28,116
Scheduled depreciation	7,630	0	1,997
Disposals	–79	0	–1,161
Cumulated depreciation as at 31.12.2018	**146,949**	**0**	**28,952**
Balance sheet value 31.12.2018	**113,727**	**0**	**13,105**
Acquisition and manufacturing costs as at 01.01.2019	260,676	0	42,057
Additions	9,795	451,640	1,504
Reclassifications	11,848	0	739
Disposals	–1,428	0	–443
Acquisition and manufacturing costs as at 31.12.2019	**280,891**	**451,640**	**43,857**
Cumulated depreciation as at 01.01.2019	146,949	0	28,952
Scheduled depreciation	8,477	45,234	2,185
Disposals	–889	0	–409
Cumulated depreciation as at 31.12.2019	**154,537**	**45,234**	**30,728**
Balance sheet value 31.12.2019	**126,354**	**406,406**	**13,129**

Operating and office equipment	Right-of-use assets on operating and office equipment	Payments on account and assets under construction	**Total**
180,450	0	12,786	**486,344**
13,198	0	17,175	**37,243**
826	0	–4,821	**0**
–10,040	0	–6	**–11,286**
184,434	**0**	**25,134**	**512,301**
141,324	0	0	**308,838**
10,404	0	0	**20,031**
–9,884	0	0	**–11,124**
141,844	**0**	**0**	**317,745**
42,590	**0**	**25,134**	**194,556**
184,434	0	25,134	**512,301**
11,368	3,574	14,502	**492,383**
755	0	–13,342	**0**
–8,583	–138	–9	**–10,601**
187,974	**3,436**	**26,285**	**994,083**
141,844	0	0	**317,745**
11,538	1,138	0	**68,572**
–8,397	–29	0	**–9,724**
144,985	**1,109**	**0**	**376,593**
42,989	**2,327**	**26,285**	**617,490**

Gross additions to property, plant and equipment before deduction of special items totalled EUR 499.2 mill. in the 2019 financial year (previous year: EUR 45.3 mill.). EUR 455.2 mill. thereof are attributable to additions of right-of-use assets due to the first-time adoption of IFRS 16. The right-of-use assets developed as follows in the 2019 financial year:

In thousands of €	Clinic real estate	Other real estate	Vehicles	Other operating and office equipment	Total
First-time adoption of IFRS 16 as of 01.01.2019	440,077	10,200	1,548	986	452,811
Additions in 2019	0	1,364	778	262	2,404
Disposals/corrections of depreciation 2019	0	0	−101	−9	−110
Depreciation 2019	−43,145	−2,089	−800	−338	−46,372
Residual book values as of 31.12.2019	**396,932**	**9,475**	**1,425**	**901**	**408,733**

Approximately EUR 24.8 mill. was spent on the reconstruction and expansion of clinics. EUR 9.3 mill. thereof pertain to newly built retirement homes, EUR 1.8 mill. to the conversion of clinic premises into patient rooms at one location and EUR 0.8 mill. to the new construction of a psychosomatics clinic.

Capital expenditure for IT infrastructure amounted to EUR 4.7 mill., EUR 6.2 mill. was invested in medical devices including accessories, and EUR 4.3 mill. was spent on furnishing patient and nurses' rooms and offices.

Subsidies 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 hospital financing law with an amortised amount of EUR 66.6 mill. (previous year: EUR 68.6 mill.). The additions of subsidised assets amount to EUR 6.9 mill. (previous year: EUR 8.1 mill.). Depreciation and amortisation was reduced by the deduction of subsidies totalling EUR 8.8 mill. (previous year: EUR 8.6 mill.) from the acquisition or manufacturing costs. There were no circumstances that would give rise to a repayment of subsidies.

(3) FINANCIAL ASSETS

Financial assets refer primarily to reinsurance policies for pension obligations totalling EUR 760 thou. (previous year: EUR 830 thou.). A further reinsurance policy with a coverage volume of EUR 377 thou. (previous year: two policies totalling EUR 462 thou.) has 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 in stock of subsidiaries relate to shareholdings in 4QD – Qualitätskliniken.de GmbH (EUR 46 thou.), 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.) and Kur und Tourismus GmbH Bad Peterstal-Griesbach (EUR 6 thou.).

(4) RECEIVABLES PURSUANT TO HOSPITAL FINANCING LAW

The receivables pursuant to hospital financing law totalling EUR 46.6 mill. on the balance sheet date (previous year: EUR 37.6 mill.) refer to the subsidies for the construction of new clinics at three locations. EUR 22.5 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. EUR 10.0 mill. pertain to subsidies for a new building at the location of MediClin Seepark Klinik in Bad Bodenteich. The balance sheet recognition of receivables pursuant to hospital financing law each refers to promised subsidies that have not yet been used.

The current portion thereof is shown in current assets (please refer to item (11) "Receivables pursuant to 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Deferred tax assets				
Lease liabilities	412,370	0	65,258	0
Pension obligations	58,414	49,407	9,244	7,819
Provision for additional rent payments	21,041	20,359	3,330	3,222
Tax loss carried forward	4,568	4,765	723	754
Anniversary obligations/provisions for partial retirement	856	703	135	111
Others	3,521	1,553	557	245
			79,247	**12,151**
Deferred tax liabilities				
Right-of-use assets (IFRS 16)	408,733	0	64,682	0
Intangible assets	18,507	18,244	2,929	2,887
Property, plant and equipment	17,605	16,954	2,786	2,683
Others	797	664	126	105
			70,523	**5,675**
Balance sheet recognition			**8,724**	**6,476**

Based on the first-time adoption of IFRS 16, deferred tax assets were recognised for lease liabilities, while deferred tax liabilities were recognised for right-of-use assets. The Others item includes EUR 293 thou. in deferred tax assets from the difference between the valuations of impairments under tax law and commercial law. 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 10.8 mill. (previous year: EUR 10.6 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 €	31.12.2019	31.12.2018
Medical supplies	5,811	5,454
Operating supplies	1,982	1,743
Administrative supplies	288	264
	8,081	**7,461**

(7) TRADE RECEIVABLES

In thousands of €	31.12.2019	31.12.2018
Receivables stock	105,470	98,195
Allowance and Medical Review Board (MDK)	−4,332	−5,096
Disclosure	**101,138**	**93,099**
Receivables not yet invoiced	35,637	34,966
Invoiced trade receivables	65,501	58,133

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 valuation allowance matrix is also admissible under IFRS 9 (simplified approach). MEDICLIN divides its trade receivables into two classes that are, by their very nature and irrespective of how long the receivables have been overdue, exposed to different creditworthiness risks. The first group comprises mainly the statutory health insurance providers and the social security pension funds. Their creditworthiness risks were for the first time assessed on the basis of the CDS spread for Germany as of 31 December 2019. The second group refers to self-paying patients. Their creditworthiness risks were assessed and adjusted on the basis of historical default rates as of 31 December 2019.

The expected loss over the residual term is determined depending on how long they have been overdue and by determining how probable it is that they will pass from one level of overdue receivables to another. Specific bad debt allowances are made for receivables that have been overdue for 360 days and receivables that have been overdue for shorter periods but have a significantly increased default risk. Given the different creditworthiness risks of the two types of receivables, the model had to be adjusted; now it also accounts for macroeconomic factors. Write-ups (reinstatement of original values) are recorded when the reason for the individual value adjustment no longer applies. Given the short-term nature of the trade receivables, their carrying amount 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 €	31.12.2019	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
Receivables from public health and pension insurance institutions	44,388	35,890	6,400	1,338	286	231	243	0
Default risk in %		0.02	0.02	0.02	0.02	0.02	0.02	0
Expected default losses	**– 7**	**– 6**	**– 1**	**0**	**0**	**0**	**0**	**0**
Other trade receivables	3,637	2,541	535	126	60	129	246	0
Default risk in %		0.36	1.58	5.78	15[1]	25[1]	50[1]	0
Expected default losses	**–189**	**– 9**	**– 9**	**– 7**	**– 9**	**– 32**	**– 123**	**0**
Invoiced trade receivables (without MDK and specific bad debt allowances)	48,025	38,431	6,935	1,464	346	360	489	0
Total expected default losses	**– 196**	**– 15**	**– 10**	**– 7**	**– 9**	**– 32**	**– 123**	**0**

[1] Specific bad debt allowance in per cent

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
Invoiced trade receivables (without MDK and specific bad debt allowances)	48,701	36,415	6,550	1,329	533	733	486	2,655
Default risk in %		1	1	1	10	25	50	100
Expected default losses	–3,705	–364	–66	– 14	–54	– 185	–228	–2,794

Allowances for expected default losses 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.

Invoiced trade receivables without MDK for which specific bad debt allowances have been made for the full amount:

In thousands of €	31.12.2019	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
Receivables from public health and pension insurance institutions	621	0	0	0	0	0	0	621
Other trade receivables	1,698	0	0	7	15	61	217	1,398
Specific bad debt allowances	**– 2,469**	**0**	**0**	**– 7**	**–15**	**– 61**	**– 217**	**– 2,169**

The bad debt allowances for trade receivables developed as follows:

In thousands of €	2019	2018
Allowances as of 01.01.	5,096	5,091
Additions in allowances	1,776	2,142
Consumption	–1,411	–1,081
Release	–1,129	– 1,056
Allowances as of 31.12.	**4,332**	**5,096**

The balance from expenses resulting from allowances and/or the full write-off of receivables and income from allowances and/or the recovery of written-off receivables resulted in expenses totalling EUR 0.2 mill. during the 2019 financial year (previous year: expenses totalling EUR 0.1 mill.)

In thousands of €	2019	2018
Expenses for bad debt allowances/full write-off of receivables	–1,396	–1,197
Recoveries of bad debt allowances/written-off receivables	1,208	1,059
	–188	**–138**

(8) CURRENT INCOME TAX CLAIMS

The current income tax assets on the balance sheet date on 31 December 2019 amount to EUR 1.7 mill. and are attributable to income tax prepayments that were too high in the 2019 financial year (31.12.2018: EUR 1.0 mill.)

(9) OTHER CURRENT FINANCIAL ASSETS

In thousands of €	31.12.2019	31.12.2018
Receivables stock	9,354	4,818

This item discloses financial assets which are recognised at amortised cost. Impairments for expected default losses pursuant to IFRS 9 are immaterial. 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.

(10) PREPAID EXPENSES

This item refers to prepaid expenses including insurance accruals.

(11) RECEIVABLES PURSUANT TO HOSPITAL FINANCING LAW

In thousands of €	31.12.2019	31.12.2018
Receivables stock	7,099	7,095

Receivables pursuant to hospital financing law relate to claims under the hospital financing law and compensation claims stipulated in the National Ordinance on Hospital Rates (Bundespflegesatzverordnung) or the Hospital Compensation Act (Krankenhausentgeltgesetz), respectively. EUR 1.0 mill. (previous year: EUR 1.2 mill.) pertain to the short-term element of the subsidies for new construction measures at one clinic location (previous year: two clinic locations) that are explained in item (4). 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. In the year under review, the receivables pursuant to hospital financing law were no longer recognised as financial assets as this better reflects the nature of this item.

(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 amortised cost in the financial statements as of 31 December 2019. Furthermore, a risk provision was set aside for expected default losses pursuant to IFRS 9. Reclassifications to level 2 were not carried out as the Group uses only banks with investment grade ratings.

Additional information on financial instruments

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.

Except for the investments in stock of subsidiaries, current and non-current assets are recognised at amortised cost. Current financial assets include mainly trade receivables and cash and cash equivalents. A simplified approach is to be applied to the impairment of trade receivables. Detailed explanations on this are available in the section on accounting principles.

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 21 thou. (previous year: EUR 17 thou.) and therefore considered very low. The bank balances can be called at any time.

The impairment of other current financial assets is immaterial. All other current financial assets that are to be classified in accordance with the impairment model under IFRS 9 are classified as level 1 as historical figures do not imply any significant increase in the default risk.

All the current and non-current financial liabilities are recognised at amortised cost. Liabilities to banks are accounted for using the effective interest method. Amortised cost equals the gross carrying amount of the liability less repayments made and less transaction cost.

The fair value of non-current financial liabilities amounting to EUR 73.0 mill. is EUR 72.0 mill. The fair value of current financial liabilities equals their amortised cost.

Liabilities from rent and 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.

Net gain/loss from financial instruments

In thousands of €	From interest and dividends	From subsequent measurement		From disposal	Net result	
		At fair value	Impairment		2019	2018
Amortised cost (assets)	–	–	– 192	–	– 192	– 155
Amortised cost (liabilities)	– 802	–	–	–	– 802	– 697
At fair value through profit or loss	–	0	–	0	0	–
	– 802	**0**	**– 192**	**0**	**– 994**	**– 852**

Financial instruments by category in accordance with IFRS 9

In thousands of €	Category in accordance with IFRS 9	Level	31.12.2019 Book value	31.12.2019 Fair value
ASSETS				
Non-current assets				
Investment in stock of subsidiaries	at fair value through profit or loss	3	108	108
Other financial investments	at amortised cost	3	2	2
Current assets				
Trade receivables	at amortised cost	–	101,138	–
Other current financial assets	at amortised cost	–	9,354	–
Cash and cash equivalents	at amortised cost	–	37,250	–
EQUITY AND LIABILITIES				
Non-current liabilities				
Liabilities to banks	at amortised cost	2	72,994	71,985
Liabilities from finance leases	n/a	–	48	–
Lease liabilities	n/a	–	368,319	–
Other financial liabilities	at amortised cost	3	106	106
Current liabilities				
Trade payables	at amortised cost	–	17,599	–
Liabilities to banks	at amortised cost	–	26,707	–
Liabilities from finance leases	n/a	–	25	–
Lease liabilities	n/a	–	44,051	–
Other financial liabilities	at amortised cost	–	5,628	–
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets	**Total at amortised cost**		**147,744**	**2**
Financial assets	**Total at fair value through profit or loss**		**108**	**108**
Financial liabilities	**Total at amortised cost**		**123,034**	**72,091**

In thousands of €	Category in accordance with IFRS 9	Level	31.12.2018	
			Book value	Fair value
ASSETS				
Non-current assets				
Investment in stock of subsidiaries	at fair value through profit or loss	3	65	65
Other financial investments	at amortised cost	3	2	2
Current assets				
Trade receivables	at amortised cost	–	93,099	–
Other current financial assets	at amortised cost	–	4,818	–
Cash and cash equivalents	at amortised cost	–	33,829	–
EQUITY AND LIABILITIES				
Non-current liabilities				
Liabilities to banks	at amortised cost	2	54,853	54,853
Liabilities from finance leases	n/a	–	73	–
Lease liabilities	n/a	–	0	–
Other financial liabilities	at amortised cost	3	245	245
Current liabilities				
Trade payables	at amortised cost	–	17,105	–
Liabilities to banks	at amortised cost	–	20,831	–
Liabilities from finance leases	n/a	–	24	–
Lease liabilities	n/a	–	0	–
Other financial liabilities	at amortised cost	–	4,846	–
AGGREGATED BY CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets	**Total at amortised cost**		**131,748**	**2**
Financial assets	**Total at fair value through profit or loss**		**65**	**65**
Financial liabilities	**Total at amortised cost**		**97,880**	**55,098**

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 Aktiengesellschaft 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. At the end of November 2019, the previous syndicated loan totalling EUR 60.0 mill., consisting of a EUR 30.0 mill. bullet loan and a EUR 30.0 mill. revolving working capital line, was repaid prematurely by means of a new syndicated loan. The new syndicated loan has a total volume of EUR 90.0 mill., consisting of a bullet loan for EUR 50.0 mill. and a revolving working capital loan for EUR 40.0 mill., EUR 25.0 mill. of which were utilised on 31 December 2019. The credit line was increased to finance investments at several clinic locations. The syndicated loan has a term of five years, including two options to renew the loan by another year. Both loan components are subject to a variable interest rate. The applicable interest rate is composed of the Euribor for the relevant interest period and an agreed margin.

This measure served to strengthen the Group's financial foundation. 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 €	31.12.2019	31.12.2018
Equity	190,746	191,404
Non-current liabilities	561,210	165,357
Current liabilities incl. tax liabilities	145,797	87,974
Balance sheet total	897,753	444,735
Net financial debt	62,451	41,854
Equity ratio in %	21.2	43.0
Debt ratio in %	78.8	57.0

Remeasurements from the calculation of pension obligations pursuant to IAS 19 "Employee Benefits" in the amount of EUR –8.0 mill. that are recognised directly in equity and the total consolidated result in the amount of EUR 9.7 mill. as well as the EUR 2.4 mill. dividend payment to the shareholders of MEDICLIN Aktiengesellschaft expanded equity by EUR 0.7 mill. As, mainly due to the first-time adoption of IFRS 16 "Leases", the balance sheet total more than doubled compared to the previous year's reporting date, the equity ratio dropped considerably to 21.2 %. The return on equity after tax is 5.1 % (previous year: 4.1 %). The increase in non-current liabilities by a total of EUR 395.9 mill. is primarily attributable to lease liabilities (IFRS 16) amounting to EUR 368.3 mill. Liabilities to banks also increased significantly (EUR +18.1 mill.) due to the new syndicated loan and pensions and similar commitments (EUR +9.0 mill.). Current liabilities of EUR 57.8 mill. were also significantly above the previous year's figure on 31 December 2019. This increase is also mainly due to lease liabilities (IFRS 16) in the amount of EUR 44.1 mill., higher liabilities to banks (EUR +5.9 mill.) and higher liabilities pursuant to hospital financing law (EUR +6.6 mill.).

(13) SUBSCRIBED CAPITAL

In thousands of €	31.12.2019	31.12.2018
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 €	31.12.2019	31.12.2018
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 €	31.12.2019	31.12.2018
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	–270
Reserve pursuant to IAS 19	–29,601	–21,700
	–29,568	**–21,667**

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

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

(16) CONSOLIDATED BALANCE SHEET RESULT

The consolidated balance sheet result is structured as follows:

In thousands of €	31.12.2019	31.12.2018
Profit carryforward	36,382	31,079
Result attributable to shareholders of MEDICLIN AG	9,662	7,717
Dividend payment	−2,375	−2,375
Changes in non-controlling interests	0	−39
	43,669	**36,382**

APPROPRIATION OF THE ANNUAL RESULT OF MEDICLIN AKTIENGESELLSCHAFT

In the Annual General Meeting of 29 May 2019, the Group resolved to pay out part of the net profit as of 31 December 2018 totalling EUR 41,481,927.76 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 39,106,927.76 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 2019 (31.12.2019: 5.199 %/31.12.2018: 5.199 %). 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 €	31.12.2019	31.12.2018
Syndicated loans	49,833	29,904
Other bank loans	5,179	6,314
Subsidised investment loan	17,982	18,635
	72,994	**54,853**

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

SYNDICATED LOANS

In thousands of €	31.12.2019	31.12.2018
Syndicated loans	74,752	48,920
less short-term ratio (facility B incl. interest accrual)	24,919	19,016
	49,833	**29,904**

In order to repay an existing syndicated loan totalling EUR 60.0 mill. and to finance investments at several clinic locations, the Group concluded a contract for a new syndicated loan in the amount of EUR 90.0 mill. with a syndicate of banks at the end of November 2019.

The loan agreement consists of two facilities (A, B). Facility A is a EUR 50.0 mill. bullet loan and Facility B was granted as a revolving credit line of up to EUR 40.0 mill. Since 29 November 2019 EUR 50.0 mill. of Facility A and EUR 25.0 mill. of Facility B have been drawn. Given its short-term nature, Facility B is shown in current liabilities (please refer also to item (26) “Liabilities to banks”).

Originally, the syndicated loan had a term of five years, including two options to renew the loan by another year. Being a bullet loan, Facility A must be repaid at the end of the agreed term. Facility B is repaid at the end of 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 0.6 mill. was paid for the syndicated loans in the reporting year (previous year: EUR 0.5 mill.). This corresponds to an average interest rate of 1.1 % p.a. (previous year: 1.1 %).

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

In thousands of € 2019	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	3,986	813	811	2,362	0
Repayment/additions (–) [1]	49,833	–34	–34	49,901	0

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

[1] The loan is initially recognised at fair value less transaction costs. 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 50,000 thou. (previous year: EUR 30,000 thou.) and the prorated write-up.

OTHER BANK LOANS

In thousands of €	31.12.2019	31.12.2018
Other bank loans	6,314	7,489
less repayments due in the short term	1,135	1,175
	5,179	**6,314**

Of the other bank loans, EUR 6.3 mill. (previous year: EUR 7.4 mill.) is secured through real property liens (carrying amount: EUR 17.7 mill.; previous year: EUR 16.7 mill.). All in all, the average interest rate for liabilities to banks is 3.2 % p.a. (previous year: 3.1 %).

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

In thousands of € 2019	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	672	190	159	283	40
Repayment	6,314	1,135[1]	1,165	2,957	1,057

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	7,489	1,175[1]	1,135	3,487	1,692

[1] Shown under current liabilities (item (26) "Liabilities to banks")

SUBSIDISED INVESTMENT LOAN

In thousands of €	31.12.2019	31.12.2018
Subsidised investment loan	18,635	19,274
Less repayments due in the short term	653	639
	17,982	**18,635**

In financial year 2018, 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 hospital financing law" or item (11) "Current receivables pursuant to 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 € 2019	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	4,909	395	748	1,011	2,755
Repayment	18,635	653[1]	667	2,089	15,226

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	19,274	639[1]	653	2,045	15,937

[1] Shown under current liabilities (item (26) "Liabilities to banks")

(19) LIABILITIES FROM FINANCE LEASES

In thousands of €	31.12.2019	31.12.2018
Leases for movable property	73	97
Less repayments due in the short term	25	24
	48	**73**

FINANCE LEASES

As at 31 December 2019 the Group had one finance lease for a monitoring device that ends 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 payments due in future, the shares of interest contained therein and the present values of future lease payments are disclosed in the following tables:

In thousands of € 31.12.2019	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment	76	27[1]	49	0
Interest component	–3	–2[1]	–1	0
Present value	**73**	**25**	**48**	**0**

In thousands of € 31.12.2018	Total	1 year or less	1 to 5 years	More than 5 years
Minimum lease payment	103	27[1]	76	0
Interest component	–6	–3[1]	–3	0
Present value	**97**	**24**[1]	**73**	**0**

[1] Shown under current liabilities (item (27) "Liabilities from finance leases")

(20) LEASE LIABILITIES

Starting in financial year 2019 leases are recognised in accordance with IFRS 16. Non-current lease liabilities are as follows:

In thousands of €	31.12.2019	01.01.2019
Financial liabilities	412,370	452,811
Less repayments due in the short term	44,051	43,120
	368,319	**409,691**

Non-current lease liabilities refer to the following assets:

In thousands of €	31.12.2019	01.01.2019
Clinic real estate	359,657	399,876
Other real estate	7,388	8,259
Vehicles	712	878
Other movables	562	678
	368,319	**409,691**

Lease liabilities recognised on the reporting date are due as follows:

In thousands of €	31.12.2019	01.01.2019
Due in 1 year or less	44,051	43,120
Due in 1 to 5 years	174,685	172,274
Due in more than 5 years	193,634	237,417
	412,370	**452,811**

This resulted in the following outgoing cashflows in 2019:

In thousands of €	2019
Clinic real estate	47,434
Other real estate	2,165
Vehicles	805
Other movables	342
	50,745

(21) PENSIONS AND SIMILAR COMMITMENTS

In thousands of €	31.12.2019	31.12.2018
Mitarbeiterunterstützungskasse der vereinigten Klinikbetriebe (MAUK) and four individual commitments (previous year: five)	51,843	44,250
Kraichgau-Klinik Group	11,647	10,457
MediClin Unterstützungskasse (MUK)	170	0
	63,660	**54,707**

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 (MAUK)** and one reinsurance policy (previous year: two policies) that is pledged to the insurance beneficiaries are considered in the recognition of the defined benefit obligations as plan assets. Since the 2019 financial year the MediClin relief fund (MUK) is also recognised as a defined benefit obligation and its fund assets are classified as plan assets.

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 four (previous year: 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:

	31.12.2019	31.12.2018
Active employees	1,177	1,271
Departed employees with vested rights	809	794
Pensioners	905	861
	2,891	**2,926**

In the year under review, the share of persons entitled to pensions amounts to 68.7 % (previous year: 70.6 %) and the share of recipients of pensions to 31.3 % (previous year: 29.4 %).

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 facility 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 2019 amounted to EUR 11.7 mill. (31.12.2018: EUR 11.6 mill.). No minimum endowment obligation exists.

Since the 2019 financial year the MediClin relief fund is also recognised as a defined benefit obligation and its fund assets are classified as plan assets. The MAUK pension commitment was replaced by the MUK pension commitment as of 31 December 2001. 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 claim 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 of 65 years was reached in 2018 and this individual benefit commitment has thus reached the payment stage.

The pension obligations are recognised in full and were revalued for the purpose of preparing the IFRSs 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 expense is computed using the projected unit credit method and is calculated at the beginning of the financial year, bearing 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 expenses. Pursuant to IAS 19, remeasurements carried out in the financial year resulting from actuarial gains and losses are recognised in other comprehensive income. In derogation thereof, the reinsured part of the MUK pension commitment is recognised at the amount of the reinsurance policies that were taken out at fair value. Only the commitment for the adjustment of current benefits of 1 % per year that is not covered by the reinsurance policy is measured by means of actuarial methods.

The amounts reported in other comprehensive income are items which in future will not be reclassified in the profit and loss account (IAS 19.122).

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 MUK's plan assets consist entirely of reinsurance policies.

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 2019	MAUK 2018	Kraichgau-Klinik Group 2019	Kraichgau-Klinik Group 2018
Discount rate	0.90	1.90	0.90	1.90
Salary trend	–	–	2.50	2.50
Pension trend	1.00	1.00	2.00	2.00

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

For the biometric calculations, the mortality tables of Klaus Heubeck (Richttafel 2018 G) were used.

A discount rate of 0.90 % (previous year: 1.90 %) 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 €	2019	−0.50 %	−0.25 %	+0.25 %	+0.50 %
Discount rate (0.90 %)		+6.245	+3.019	−2.827	−5.477
Salary trend[1] (2.50 %)		−33	−16	+17	+34
Pension trend[1] (2,00 %)		−704	−360	+376	+768

In thousands of €	2018	−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 Gruppe

The sensitivities were calculated on the basis of the same principles that were applied to determine the present value of the defined benefit obligations at the end of the financial year. In doing so, only one calculation figure is changed at a time while the others remain unchanged. Dependencies between the individual calculation figures are not considered.

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 7.3 mill. (previous year: 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) or demographic assumptions (biometry) and from the 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 63.5 mill. (previous year: EUR 54.7 mill.) with plan assets of EUR 1.5 mill. (previous year: EUR 1.4 mill.).

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

In thousands of €	31.12.2019	31.12.2018
Development of recognition in the balance sheet		
Present value of the DBO	64,993	56,128
Fair value of plan assets	–1,503	–1,421
Net defined benefit liability at the end of the financial year	**63,490**	**54,707**
Reconciliation of the carrying amount		
Net defined benefit liability at the end of the preceding financial year	54,707	55,237
Service cost	92	632
Net interest expense on the reported net obligation	1,027	982
Remeasurements recognised in other comprehensive income	9,421	–904
Employer contributions	–1,204	–738
Benefits paid directly by the employer	–553	–502
Carrying amount: net defined benefit liability at the end of the financial year	**63,490**	**54,707**

The present value of the DBO showed the following development:

In thousands of €	31.12.2019	31.12.2018
DBO at the end of the preceding financial year	56,128	56,908
Current service cost	70	74
Interest expense on DBO	1,051	1,010
Actuarial profit (–) / loss (+) due to experience-based adjustment to the obligation	–883	–374
Actuarial profit (–) / loss (+) due to change in demographic assumptions	0	400
Actuarial profit (–) / loss (+) due to change in financial assumptions	10,299	–968
Benefits paid from plan assets	–1,141	–978
Benefits paid directly by the employer	–553	–502
Past service costs	22	558
Pension obligations at the end of the financial year	**64,993**	**56,128**

Break-down of pension obligations by participants in the pension scheme:

In thousands of €	31.12.2019	31.12.2018
Active employees	23,895	21,128
Departed employees with vested rights	15,999	13,290
Pensioners	25,099	21,710
	64,993	**56,128**

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

In thousands of €	31.12.2019	31.12.2018
Fair value of plan assets at the end of the preceding financial year	1,421	1,671
Income from plan assets calculated with the discount rate	24	28
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	–5	–38
Employer contributions	1,204	738
Benefits	–1,141	–978
Fair value of plan assets at the end of the financial year	**1,503**	**1,421**

The following table shows the plan assets on the balance sheet date:

In %	31.12.2019	31.12.2018
Bond funds		
With generally mixed maturities	8.7	9.3
With generally short-term maturities	6.2	6.6
Fixed interest securities	10.0	10.5
Cash and cash equivalents	50.0	41.0
Reinsurance policies	25.1	32.6
	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 measured at fair value, which corresponds with their tax-related asset value and thus amortised cost. Market prices on an active market are available for all assets except for the reinsurance policies.

Total pension costs of the defined benefit obligations during the reporting year amount to EUR 10.5 mill. (previous year: EUR 0.7 mill.), of which EUR 1.1 mill. (previous year: EUR 1.6 mill.) are recognised in profit and loss account and EUR 9.4 mill. (previous year: EUR – 0.9 mill.) are recognised in other comprehensive income.

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

In thousands of €	2019	2018
Consolidated profit and loss account		
Current service cost	70	74
Past service costs due to plan amendments	22	558
Net interest expense (/income) on the reported net defined benefit liabilities (/assets)	1,027	982
Pension costs, recognised in consolidated profit and loss account	**1,119**	**1,614**
Other comprehensive income		
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	– 883	– 374
Actuarial profit (–)/loss (+) due to change in actuarial assumptions (on the obligation side)	10,299	– 568
Actuarial profit (–)/loss (+) accrued in the course of the financial year	**9,416**	**– 942**
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	5	38
Remeasurements recognised in other comprehensive income	**9,421**	**– 904**
Total pension costs	**10,540**	**710**

The expected benefits for the coming year are forecast at EUR 1.6 mill. (previous year: EUR 1.6 mill.), while the current service expenses for the expected pension obligations are estimated at EUR 0.1 mill. and net interest expense at EUR 0.6 mill.

For the year 2020 employer contributions to the plan assets are expected at EUR 1.2 mill. (previous year: EUR 0.7 mill.), benefits paid directly by the employer at EUR 0.6 mill. (previous year: EUR 0.6 mill.) and benefits to be paid from the plan assets at EUR 1.0 mill. (previous year: EUR 1.0 mill.).

The following benefit payments are forecast for the coming years:

In thousands of €	
Expected benefit payments for the year 2020	1,629
Expected benefit payments for the year 2021	1,688
Expected benefit payments for the year 2022	1,757
Expected benefit payments for the year 2023	1,843
Expected benefit payments for the year 2024	1,909
Expected benefit payments for the years 2025 to 2029	10,621

The following figure of 18.0 years (previous year: 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.

MEDICLIN UNTERSTÜTZUNGSKASSE (MUK)

MEDICLIN pays an annual contribution into MediClin-Rent 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, MediClin-Rent offers eligible employees the possibility to build up a private pension by allocating a portion of their gross salary. MEDICLIN rewards this conversion of salary entitlements by increasing the employees' own contribution by 20 %, but by a minimum of EUR 50 and up to a maximum of EUR 100. 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.

MEDICLIN terminated the works agreement underlying this pension 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 MediClin-Rent scheme. Employees with ongoing vesting periods will also receive entitlements under the MediClin-Rent 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 MediClin-Rent 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.

MUK e. V. is a reinsured relief fund, meaning that its commitments to pay benefits are covered by a reinsurance contract with an insurance company. MUK e. V. fulfilled its obligation pursuant to Section 16 Company Pensions Act (BetrAVG) to review whether adjustments are required by promising a guaranteed annual 1 % adjustment (Section 16 (3) Sentence 1 Company Pensions Act (BetrAVG)). When taking out the reinsurance contract, the guaranteed 1.00 % adjustment was not insured, thereby increasing the maturity benefit, as it was assumed that the 1 % adjustment could easily be generated by means of the insurance company's surpluses. In the course of the low-interest situation on the capital markets, it has become obvious that, in particular, reinsurance contracts with a high guaranteed interest rate see hardly any allocations of surpluses and that the insurers can therefore not guarantee that the benefits will be adjusted in the guaranteed amount. Nevertheless, the commitments were adjusted by 1.00 % as agreed. The adjustment is financed in retrospect by making annual one-off payments to the insurance company. As such, this constitutes a systematic underinsurance, the future amount of which will be shown in the balance sheet by means of the closest possible estimate. This means that these commitments are henceforth classified and recognised as defined benefit plans. The reinsurance cover of the MUK benefits has meanwhile been changed; new pension commitments are no longer subject to underinsurance from adjustment obligations as the 1.00 % adjustment guarantee was included in the cover. The amount of the underinsurance was determined using an actuarial expert report, which calculates the present value of the future underinsurance on the basis of the vested benefit claims. The discount rate that was used to calculate the underinsurance is 0.9 %, while a figure of 2.75 % p.a. was used to show the insurance company's overall interest. Further, the calculation is based on the assumption that the share of persons entitled to benefits that will receive ongoing pension payments rather than a one-off payment will continue to amount to 5 %.

The reconciliation with the balance sheet amount is as follows:

In thousands of €	31.12.2019
Net defined benefit liability at the end of the preceding financial year	0
Service cost	758
Net interest expense on the reported net obligation	2
Remeasurements recognised in other comprehensive income	43
Employer contributions	−753
Benefits paid directly by the employer	−5
Past service costs	125
Carrying amount: net defined benefit liability at the end of the financial year	**170**

The present value of the DBO showed the following development:

In thousands of €	31.12.2019
DBO at the end of the preceding financial year	13,899
Current service cost	758
Interest expense on DBO	266
Actuarial profit (–)/loss (+) due to experience-based adjustment to the obligation	210
Actuarial profit (–)/loss (+) due to change in demographic assumptions	0
Actuarial profit (–)/loss (+) due to change in financial assumptions	37
Benefits paid from plan assets	–600
Benefits paid directly by the employer	–5
Past service costs	125
Pension obligations at the end of the financial year	**14,690**

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

In thousands of €	31.12.2019
Fair value of plan assets at the end of the preceding financial year	13,899
Income from plan assets calculated with the discount rate	264
Amount by which the actual income of the plan assets in the current financial year exceed/undercut the income calculated with the discount rate	204
Employer contributions	753
Benefits	–600
Fair value of plan assets at the end of the financial year	**14,520**

The following compensation payments are forecast for the coming years:

In thousands of €	
Expected benefit payments for the year 2020	8
Expected benefit payments for the year 2021	14
Expected benefit payments for the year 2022	20
Expected benefit payments for the year 2023	27
Expected benefit payments for the year 2024	34
Expected benefit payments for the years 2025 to 2029	291

DEFINED CONTRIBUTION PLANS

Due to collective bargaining agreements, employer-financed relief fund benefit plans exist at 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 0.8 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.

RZVK is a multi-employer plan.The information available for this plan is not sufficient to recognise it as a defined benefit obligation. EUR 0.7 mill. (previous year: EUR 0.6 mill.) of the entire expenses for defined contribution obligations are attributable to this plan. Contributions in the amount of EUR 0.7 mill. (previous year: EUR 0.7 mill.) are expected in the next year. Further, the statutory social security pension funds are also classified as defined contribution plans. The employer contributions amount to EUR 22.4 mill. (previous year: EUR 20.9 mill.) in the year under review.

(22) OTHER PROVISIONS

In thousands of €	31.12.2019	31.12.2018
Provisions for renewal of lease agreements	174	174
Provisions for archival storage	1,293	1,293
Provisions for insurance	834	929
Provisions for additional rent payments	21,041	20,359
	23,342	**22,755**

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 in the 2019 financial year to EUR 21.0 mill. is only due to interest adjustments in the amount of EUR 0.7 mill.

It is not anticipated that the provisions for the renewal of lease agreements recognised as of 31 December 2019 will be consumed in the coming year.

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

In thousands of €	As of 01.01.2019	Additions	Interest	Consumption	Reversal	As of 31.12.2019
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	929	14	60	93	76	834
Provisions for additional rent payments	20,359	0	682	0	0	21,041
	22,755	**100**	**742**	**179**	**76**	**23,342**

(23) OTHER FINANCIAL LIABILITIES

In thousands of €	31.12.2019	31.12.2018
Loan from a public corporation	245	381
less current repayment share	139	136
	106	**245**

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 € 2019	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Interest	5	4	1	0	0
Repayment	245	139[1]	106	0	0

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

[1] For information only

(24) LIABILITIES PURSUANT TO HOSPITAL FINANCING LAW

The non-current liabilities pursuant to hospital financing law totalling EUR 30.7 mill. on the balance sheet date 31 December 2019 (31.12.2018: EUR 30.7 mill.) 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 (31) „Liabilities pursuant to hospital financing law"). In the year under review, the liabilities pursuant to hospital financing law were no longer recognised as financial liabilities as this better reflects the nature of this item.

(25) OTHER PAYABLES

In thousands of €	31.12.2019	31.12.2018
Anniversary obligations	1,980	1,968
Partial retirement obligations	89	83
	2,069	**2,051**

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 0.60 % (previous year: 1.75 %). 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 (0.60 %)	+61	+30	−29	−58

Of the provisions for anniversary obligations, an estimated EUR 321 thou. will be used in the 2020 financial year, and EUR 1,659 thou. in the subsequent years. The interest component totalled EUR 32 thou. in the 2019 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, one (previous year: three) part-time arrangement with a term until 2022 is in force (block-time model).

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.

(26) LIABILITIES TO BANKS

In thousands of €	31.12.2019	31.12.2018
Syndicated loan	24,919	19,016
Other loans	1,135	1,175
Subsidised investment loan	653	639
	26,707	**20,830**

In the year under review, syndicated loans refers to Facility B measured in accordance with the effective interest method (EUR 24,917 thou.; previous year EUR 18,939 thou.) and accrual interest (EUR 2 thou.; previous year: EUR 77 thou.).

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

(27) LIABILITIES FROM FINANCE LEASES

In thousands of €	31.12.2019	31.12.2018
Leases for movable property	25	24
	25	**24**

This table shows loan repayments and interest payments for liabilities from finance leases due in the short term.

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

In thousands of €	31.12.2019	31.12.2018
Minimum lease payment	27	27
Interest component	–2	–3
	25	**24**

More details are available in item (19) “Liabilities from finance leases”.

(28) LEASE LIABILITIES

Starting in financial year 2019 leases are recognised in accordance with IFRS 16. Current lease liabilities refer to the following assets:

In thousands of €	31.12.2019	01.01.2019
Clinic real estate	40,847	40,201
Other real estate	2,146	1,941
Vehicles	715	670
Other movables	343	308
	44,051	**43,120**

(29) OTHER PROVISIONS

In thousands of €	31.12.2019	31.12.2018
Provisions for billing risks/reimbursements	7,102	6,855
Provisions for Supervisory Board	73	41
Remaining provisions	5,414	5,072
	12,589	**11,968**

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 mainly pertain to obligations in connection with external medical services in the amount of EUR 4.9 mill. (previous year: EUR 4.5 mill.) and 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. (previous year: EUR 0.5 mill.).

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

In thousands of €	As of 01.01.2019	Addition	Consumption	Reversal	As of 31.12.2019
Provisions for billing risks/reimbursements	6,855	1,954	1,500	207	7,102
Provisions for Supervisory Board	41	73	41	0	73
Remaining provisions	5,072	897	139	416	5,414
	11,968	**2,924**	**1,680**	**623**	**12,589**

(30) OTHER FINANCIAL LIABILITIES

Other liabilities pertain to the following circumstances:

In thousands of €	31.12.2019	31.12.2018
Costs of annual financial statement	975	985
Other procurement of materials	574	589
Legal and consultancy costs	905	636
Liabilities from third-party funds	359	439
Liabilities to health insurance funds and other public coverage providers	254	264
Charges and fees	93	128
Liabilities from doctors' invoices	290	122
Energy and water supply	254	340
Other loans	139	136
Miscellaneous	1,785	1,207
	5,628	**4,846**

(31) LIABILITIES PURSUANT TO HOSPITAL FINANCING LAW

In thousands of €	31.12.2019	31.12.2018
Liabilities pursuant to hospital financing law	14,645	7,144
Liabilities pursuant to the National Ordinance on Hospital Rates/Hospital Compensation Act	1,214	2,137
	15,859	**9,281**

EUR 14.3 mill. of the liabilities pursuant to hospital financing law (previous year: EUR 7.7 mill.) refer to individual subsidies for new constructions at three (previous year: 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.

(32) OTHER PAYABLES

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

In thousands of €	31.12.2019	31.12.2018
Staff costs	17,604	18,738
Payroll tax to be paid	5,106	4,556
Value added tax to be paid	258	186
Payments received	188	223
Deferred income	182	216
	23,338	**23,919**

Other payables from staff costs mainly consist of the following:

In thousands of €	31.12.2019	31.12.2018
Vacation and flexitime entitlements	6,828	6,385
Profit-sharing bonus payments	5,741	5,025
Wage supplements	2,243	1,825
Bonus payments	755	712
Severance payments	172	43
Contributions to statutory accident insurance and prevention	891	902
Other staff costs	974	3,846
	17,604	**18,738**

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. The resulting claims were largely paid in the 2019 financial year.

Notes to the consolidated profit and loss account

(33) SALES

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

In millions of €	2019	2018
Post-acute	324.7	315.4
Acute	286.8	272.0
Nursing care	15.3	15.5
Other sales	46.3	42.2
Sales	**673.1**	**645.1**

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 18.0 mill. (previous year: EUR 16.7 mill.). Furthermore, in addition to service revenues, other sales include revenues from the sale of pharmacy merchandise totalling EUR 4.5 mill. (previous year: EUR 4.0 mill.), from private accommodation totalling EUR 3.6 mill. (previous year: EUR 3.9 mill.) and from cafeterias, kiosks and meals totalling EUR 7.6 mill. (previous year: EUR 7.7 mill.)

(34) OTHER OPERATING INCOME

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

In millions of €	2019	2018
Subsidies	1.6	1.4
Rental income	0.9	0.9
Services to staff	0.4	0.3
Other income	10.4	7.2
Other operating income	**13.3**	**9.8**

The sale of non-operational parts of the property at the MediClin Robert Janker Klinik site generated other income in the amount of EUR 0.7 mill. 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 2019 this amounts to EUR 2.8 mill. (previous year: EUR 1.6 mill.).

(35) RAW MATERIALS AND CONSUMABLES USED

Raw materials and consumables used rose by EUR 1.6 mill. to EUR 121.0 mill. (previous year: EUR 119.4 mill.). Raw materials and supplies increased by EUR 3.1 mill. while purchased services decreased by EUR 1.5 mill. The cost of materials ratio amounts to 18.0 % (previous year: 18.5 %).

In millions of €	2019	2018
Operating supplies	22.4	21.8
Medical supplies	51.5	49.6
Other raw materials and supplies incl. price deductions/bonuses/cash discounts	–0.4	–1.0
Raw materials and supplies	**73.5**	**70.4**
Energy/water/sewage	11.8	12.3
Third-party housekeeping and facility services	9.8	10.7
External medical services	23.2	23.2
Other third-party services	2.7	2.8
Purchased services	**47.5**	**49.0**
Raw materials and consumables used	**121.0**	**119.4**

(36) STAFF COSTS

Staff costs of EUR 412.6 mill. were 5.4 % higher than in the previous year (previous year: EUR 391.3 mill.). The staff costs ratio for the 2019 financial year was 61.3 % (previous year: 60.7 %).

In thousands of €	2019	2018
Wages and salaries	349,542	331,720
Social security, pensions and retirement	63,033	59,569
Thereof pension costs	1,810	2,234
Staff costs	**412,575**	**391,289**

Pension expenses incurred in addition to those for statutory pension insurance, including contribution payments to external pensions facilities, totalled EUR 1.8 mill. (previous year: EUR 2.2 mill.). They concern the following:

In thousands of €	2019	2018
Contributions to		
Defined benefit plans	861	623
Defined contribution plans	830	1,532
Other pension-related expenses	119	79
	1,810	**2,234**

As, when calculating pension provisions, the interest share accounts for approximately 92 % 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 0.8 mill. (previous year: EUR 0.7 mill.) to contributions to three supplementary pension or relief funds.

(37) OTHER OPERATING EXPENSES

Other operating expenses of EUR 59.3 mill. are EUR 47.6 mill. below the previous year's level (previous year: EUR 106.9 mill.). The change versus the previous year is mainly due to the first-time adoption of the new accounting standard IFRS 16 "Leases" that has effects on both the other operating expenses and the depreciation, amortization and interest expenses. This reduces the largest item in other operating expenses in 2018, i.e. rental and lease expenses for real estate and medical equipment, by EUR 49.6 mill. from EUR 53.3 mill. to EUR 3.7 mill. in the 2019 financial year.

The expenses for short-term rents and leases that are not recognised applying IFRS 16 amount to EUR 2.3 mill. on the reporting date.

Low-value rents and leases that are long-term but not recognised applying IFRS 16 incurred expenses amounting to EUR 0.7 mill. as of the balance sheet date. Value added tax remains in the rental and lease expenses item as it is not recognised in accordance with IFRS 16.

In millions of €	2019	2018
Rents and leases	3.7	53.3
Maintenance and repairs	17.5	18.5
EDP and organisation	5.9	5.5
Legal and consultancy costs	5.5	4.1
Insurance costs	4.7	4.5
Contributions, fees, levies	1.9	1.6
Other miscellaneous expenses	20.1	19.4
Other operating expenses	**59.3**	**106.9**

(38) DEPRECIATION AND AMORTISATION

In the 2019 financial year depreciation and amortisation totalled EUR 71.2 mill. (previous year: EUR 22.3 mill.), with EUR 2.6 mill. (previous year: EUR 2.3 mill.) attributable to intangible assets and EUR 22.2 mill. (previous year: EUR 20.0 mill.) to property, plant and equipment. The first-time adoption of IFRS 16 adds another EUR 46.4 mill. in depreciation and amortisation of right-of-use assets.

(39) FINANCIAL RESULT

The financial result is structured as follows:

In thousands of €	2019	2018
Income from participations	51	38
Interest and similar income	85	234
Interest and similar expenses	– 10,938	– 3,472
Financial result	**– 10,802**	**– 3,200**

The 2019 interest and similar expenses items contains EUR 8.0 mill. in interests from lease liabilities. The financial result dropped from EUR 7.6 mill. to EUR – 10.8 mill., mainly due to the adoption of IFRS 16.

Interest and similar income

In thousands of €	2019	2018
Interest income from receivables	50	15
Other interest-related income	35	219
Interest and similar income	**85**	**234**

Interest and similar expenses

In thousands of €	2019	2018
Interest on current accounts	20	0
Interest on loans	782	697
Interest on pension provision	1,030	982
Interest on finance leases	2	309
Interest from lease liabilities (IFRS 16)	8,010	0
Other interest-related expenses	1,094	1,484
Interest and similar expenses	**10,938**	**3,472**

Other interest-related expenses include interest in the amount of EUR 0.7 mill. from discounting the provisions for additional rent payments (previous year: EUR 0.2 mill.). In the previous year other interest-related expenses included expenses amounting to EUR 1.0 mill. from the external tax audit. An overview of future interest expenses is presented in the section on non-current liabilities.

(40) TAXES ON INCOME

The taxes on income are structured as follows:

In thousands of €	2019	2018
Actual taxes on income	2,678	4,301
Deferred taxes on income	–750	–203
	1,928	**4,098**

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

In thousands of €	2019	2018
Consolidated result before tax	11,611	11,862
Resultant calculational tax charge (15.825 %)	1,837	1,878
Tax effect on profit/loss from		
Income tax expenses from previous years	0	1,434
Non-capitalisable losses in the financial year	290	332
Valuation differences between the tax and the consolidated balance sheet	–308	207
Trade tax expenses in the financial year	39	63
Non-deductible expenses	25	135
Others	45	49
Actual tax expenses	**1,928**	**4,098**

(41) 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.

	2019	2018
Result after tax attributable to shareholders of MediClin AG **in thousands of €**	9,662	7,717
Average number of shares issued **in thousands of €**	47,500	47,500
Undiluted earnings per share **in €**	0.20	0.16

(42) 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	2019	2018	Change
Medical	898	867	+31
Nursing care	2,508	2,226	+282
Medical-technical	1,517	1,609	–92
Functional	436	470	–34
Medical services	**5,359**	**5,172**	**+187**
Support functions	1,154	1,159	–5
Technical	138	134	+4
Administration	635	618	+17
Other	37	43	–6
Non-medical services	**1,964**	**1,954**	**+10**
	7,323	**7,126**	**+197**

Contingencies and other financial obligations

Due to their contractual design, the respective 21 long-term lease contracts qualified 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 Group further has obligations under the real estate management agreements concluded together with the rental contracts.

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 2019) renders it likely that the agreed performance parameters will be reached. The increase in the 2019 financial year is only due to interest adjustments in the amount of EUR 21.0 mill.

The following obligations exist in connection with operating and office equipment:

In millions of €	Nominal value 31.12.2019	Nominal value 31.12.2018
Remaining term up to 1 year	0.6	1.7
Remaining term 1– 5 years	1.2	2.3
Remaining term more than 5 years	0.0	0.0
	1.8	**4.0**

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 refer 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 31.12.2019	Nominal value 31.12.2018
Remaining term up to 1 year	1.0	1.0
Remaining term 1– 5 years	2.1	3.1
Remaining term more than 5 years	0.0	0.0
	3.1	**4.1**

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.

Contractual obligations totalling approximately EUR 4.9 mill. existed in connection with the acquisition of property, plant and equipment as of 31 December 2019 (previous year: approximately EUR 10.2 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 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 2019, 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, the Group is exposed to 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

At the end of November 2019, the previous syndicated loan totalling EUR 60.0 mill., consisting of a EUR 30.0 mill. bullet loan and a EUR 30.0 mill. revolving working capital line, was repaid prematurely by means of a new syndicated loan. The new syndicated loan has a total volume of EUR 90.0 mill. and consists of a bullet loan for EUR 50.0 mill. (Facility A) and a revolving working capital loan for EUR 40.0 mill. (Facility B). Drawdowns 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. On 31 December 2019, the full amount of Facility A and EUR 25.0 mill. of Facility B had been drawn. Moreover, the parties agreed on an option to increase the loan by up to EUR 20.0 mill. The Group can make a maximum of two requests to increase the loan, of which no more than EUR 10.0 mill. may refer to Facility B. Such request must amount to at least EUR 10.0 mill. or any other integer multiple of EUR 1.0 mill. The credit line was increased to finance investments at several clinic locations. The initial term of the loan is five years after signing the loan agreement with two options to extend the loan by one year each. Being a bullet loan, Facility A must be repaid at the end of the agreed term. Facility B is repaid at the end of every six-month interest period. Until the end of the agreed term, any amounts drawn at the end of an interest period may also be rolled over. Any amounts repaid at the end of an interest period may be drawn again as required. 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 of both facilities each depend on the adjusted net debt key figure (net debt on the basis of average debt, adjusted for effects from lease financing) as reported in the four most recent quarterly reports of the MEDICLIN Group. The commitment fee for loan commitments not yet drawn amounts to 35 % of the respective margin. Furthermore, a utilisation fee is charged for Facility B depending on the amount drawn. A total of EUR 554 thou. (previous year: EUR 435 thou.) in interest was calculated in the 2019 financial year for the previous and the new syndicated loan. As the 6-month Euribor was negative over the entire year, it was set to 0 % in the interest calculation. The annual average was – 0.302 % (previous year: – 0.266 %).

At the annual average of – 0.302 %, 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	– 389
Change in 6-month Euribor	+ 50	– 110
Change in 6-month Euribor	+ 25	+/– 0[1]
Change in 6-month Euribor	+10	+/– 0[1]
Change in 6-month Euribor	–10	+/– 0[1]
Change in 6-month Euribor	– 25	+/– 0[1]
Change in 6-month Euribor	– 50	+/– 0[1]
Change in 6-month Euribor	–100	+/– 0[1]

[1] No effect as Euribor is negative

Supervisory Board in the 2019 financial year

Dr. Ulrich Wandschneider (Chairman), Hamburg (until 15 November 2019)
Managing Shareholder of beebusy capital gmbh, Hamburg
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Chairman of the Supervisory Board of
- MPH Health Care AG, Berlin

Member of the Supervisory Board of
- Vanguard AG, Berlin
- BioNTech SE, Mainz

Dr. Jan Liersch, Düsseldorf (since 15 November 2019, Chairman since 22 November 2019)
Managing Director of Broermann Holding GmbH, Königstein im Taunus
Managing Director of RKG Reha-Kliniken GmbH, Königstein im Taunus
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Chairman of the Board of Directors
- Hotel Montreux Palace SA, Montreux, Schweiz
- Hotel Suisse Majestic SA, Montreux, Schweiz

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

Michael Bock, Leverkusen
Managing Director of REALKAPITAL Vermögensmanagement GmbH, Leverkusen
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of
- TTL Beteiligungs- und Grundbesitz-AG, München

[1] Employee representative on the Supervisory Board

Dr. Bernard große Broermann, Königstein-Falkenstein
Entrepreneur

Barbara Brosius, Kronberg im Taunus
Management consultant
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of

- Asklepios Kliniken GmbH & Co. KGaA, Hamburg

Dr. Julia Dannath-Schuh, Merchweiler (since 29 May 2019)
Management consultant
Managing Director of Manres GmbH, Köln
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of

- 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 (until 29 May 2019)
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

Kai Hankeln, Bad Bramstedt (since 29 May 2019)
Chief Executive Officer (CEO) of Asklepios Kliniken Group
Member of the Management Board of Asklepios Kliniken GmbH & Co. KGaA
Managing Director of Asklepios Kliniken Management GmbH
Managing Director of Blomenburg Holding GmbH
Supervisory Board mandates and memberships in comparable domestic and foreign bodies:
Member of the Supervisory Board of

- Asklepios Kliniken Hamburg GmbH, Hamburg
- Asklepios Klinik Stadtroda GmbH, Stadtroda

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

Non-Executive Board Member

- REG Overseas Holding B.V., Amsterdam
- REG International Trading & Commodities B.V., Amsterdam

[1] Employee representative on the Supervisory Board

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

Elke Schwan[1], Bad Soden (since 29 May 2019)
Masseuse and Medical Pool Attendant, MediClin GmbH & Co. KG, Bad Orb branch

Frauke Schwedt[1], Hamburg (since 29 May 2019)
Psychologist/Psychological Psychotherapist, MediClin GmbH & Co. KG, Soltau branch

Eleonore Seigel[1], Offenburg
Secretary, MediClin GmbH & Co. KG, Durbach branch

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

Dr. med. Thomas Witt[1], Königsfeld (since 29 May 2019)
Chief Physician, MediClin GmbH & Co. KG, Königsfeld branch

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

Supervisory Board Committees

In the 2019 financial year, the committees consisted of the following members:

General and Personnel Committee
Dr. Ulrich Wandschneider (Chairman, until 15 November 2019)
Dr. Jan Liersch (Chairman, since 22 November 2019)
Hans Hilpert (Vice Chairman)
Dr. Bernard große Broermann
Dr. Tom Giesler (until 29 May 2019)
Dr. Thomas Witt (since 29 May 2019)
Rainer Laufs
Thomas Müller

Audit Committee
Michael Bock (Chairman)
Walburga Erichsmeier
Matthias H. Werner
Cornelia Wolf

Nomination Committee
Dr. Ulrich Wandschneider
(Chairman, until 15 November 2019)
Dr. Jan Liersch (Chairman, since 22 November 2019)
Michael Bock
Cornelia Wolf

Mediation Committee pursuant to Section 27 MitbestG
Dr. Ulrich Wandschneider
(Chairman, until 15 November 2019)
Dr. Jan Liersch (Chairman, since 22 November 2019)
Hans Hilpert (Vice Chairman)
Frauke Schwedt
Cornelia Wolf

[1] Employee representative on the Supervisory Board

Management Board

Volker Hippler, Chairman of the Management Board, with business address in Offenburg

Tino Fritz, Chief Financial Officer, with business address in Offenburg

Ulf Ludwig, Member of the Management Board, with business address in Offenburg (until 31 August 2019)

Management remuneration

Total remuneration granted to the Management Board in the period under review for board activities totalled EUR 1,523 thou. (previous year: EUR 1,613 thou.). It is comprised of amounts due in the short term (fixed remuneration) in the amount of EUR 816 thou. (previous year: EUR 916 thou.) and a one-year variable remuneration component in the amount of EUR 667 thou. (previous year: EUR 655 thou.). The remuneration due in the short term includes ancillary benefits amounting to EUR 37 thou. (previous year: EUR 27 thou.) that refer to payments in kind for the provision of company cars. Other remuneration due in the long term (variable remuneration component for several years) amounts to EUR 40 thou. (previous year: EUR 42 thou.). Total remuneration in the 2018 financial year also included a compensation payment of about EUR 98 thou. for a 5-month non-competition clause following the resignation of a former Management Board member.

The net remuneration for the Supervisory Board in the reporting year totals EUR 236 thou. (previous year: EUR 209 thou.). This breaks down as follows.

In thousands of €	2019	2018
Basic remuneration	159	135
Attendance fees	22	18
Committee work remuneration	19	20
Dividend bonus	36	36
	236	**209**

Based on the dividend the Annual General Meeting resolved to pay out from the net profit as of 31 December 2018, 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. The remuneration of the employee representatives in the Supervisory Board refers only to the remuneration they receive for their role on the board. In the 2019 financial year, as in 2018, there were no loans to members of the Supervisory Board.

Disclosures pursuant to Section 314 (1) No. 6 a of the German Commercial Code (HGB) and further disclosures on remuneration paid to members of governing bodies as well as the structure of the remuneration system are presented in the summarised management report and Group management report of MEDICLIN Aktiengesellschaft in the section "Remuneration Report". The remuneration of the Management Board is disclosed in accordance with the statutory requirements and in 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 Management 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 315 a (1) of the German Commercial Code (HGB) in the annual and consolidated financial statements for the financial years 2016 until 2020. Following the introduction of the Act on Control and Transparency in Business (KonTraG) such an opt-out decision will no longer be possible in the future.

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 the remunerations of the Management Board and the Supervisory Board.

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 2019 financial year, the Management Board of MEDICLIN AG included the Chairman of the Management Board Volker Hippler, Chief Financial Officer Tino Fritz as well as Ulf Ludwig. Ulf Ludwig left the Company as of 31 August 2019.

The Chairman of the Supervisory Board, Dr. Ulrich Wandschneider, left the Supervisory Board of MEDICLIN AG as of 15 November 2019. Among other positions, 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.

Several members of the Supervisory Board of MEDICLIN AG have or had executive functions within the Asklepios Group in the 2019 financial year. Dr. Bernard große Broermann is a Supervisory Board member of MEDICLIN AG and is, among other positions, the sole shareholder of Broermann Holding GmbH, Asklepios Management GmbH and of Broermann Health & Heritage Hotels GmbH. Rainer Laufs and Barbara Brosius are Supervisory Board members of MEDICLIN AG and are members of the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA. Cornelia Wolf is a Supervisory Board member of MEDICLIN AG and is the Head of Group division Audit and Risk Management of Asklepios Kliniken GmbH & Co. KGaA. The Annual General Meeting of MEDICLIN Aktiengesellschaft on 29 May 2019 elected Kai Hankeln, Bad Bramstedt, onto the Supervisory Board of MEDICLIN AG. Kai Hankeln is, among other positions, the CEO of the Asklepios Kliniken Group, a member of the Management Board of Asklepios Kliniken GmbH & Co. KGaA and the managing director of Asklepios Kliniken Management GmbH. At the same Annual General Meeting, Ms. Dr. Dannath-Schuh from Merchweiler was elected onto the Supervisory Board of MEDICLIN AG. Ms. Dr. Dannath-Schuh is on the Supervisory Board of Asklepios Kliniken GmbH & Co. KGaA. The local court of Offenburg appointed Dr. Jan Liersch as the temporary successor of Dr. Ulrich Wandschneider who left the Supervisory Board of MEDICLIN AG. At the Supervisory Board meeting on 22 November 2019, Dr. Liersch was elected Chairman of the Supervisory Board of MEDICLIN AG. Dr. Liersch is the managing director of Broermann Holding GmbH, Königstein im Taunus and of RKG Reha-Kliniken GmbH, Königstein im Taunus.

Payments made to the Management Board and the Supervisory Board are shown as "Remuneration for key management personnel" in the following table (please refer to page 175). 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.

In addition to business relationships with fully consolidated companies included in the consolidated financial statements, relationships exist with 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 clinics to outsource specific services such as catering, cleaning and administration tasks, as well as medical services. On 31 December 2019 two of these companies (2018: two companies) are being liquidated and discontinued their operations. The company VR-LEASING ABYDOS GmbH & Co. Immobilien KG, which was a party to a finance lease agreement between 2008 and 2018, was dissolved without a liquidation procedure in 2019 after the land and buildings of Rehabilitationszentrum Gernsbach / Schwarzwald GmbH & Co. KG were bought back in November 2018.

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. Therefore this company belonged to the related parties until Dr. Wandschneider left the Supervisory Board of MEDICLIN AG.

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 facility providing pension benefits to entitled former employees. These benefits are financed through the contributions of MEDICLIN to MAUK. Please find a detailed description of MAUK in the notes on item (21) "Pensions and similar commitments".

Business relations to related parties amount to the following:

In millions of €	2019	2018
Income		
Sales from post-acute, acute and nursing care services	2.8	2.4
Real estate management income	0.5	0.4
Pension payments of MAUK	1.0	1.0
Sales from service contracts	1.0	0.6
Expenses		
Lease expenses[1]	45.7	45.5
Real estate management costs	0.9	0.9
Insurance premiums	2.0	1.8
Service contracts	3.4	4.7
Remuneration for key management personnel	2.1	2.4
Payments to MAUK	1.2	0.7
EDP services	3.1	3.0
Other purchased goods and services	0.2	0.1
Capital expenditure		
Buy-back of clinic building	0.0	6.2

In millions of €	31.12.2019	31.12.2018
Receivables		
Repayment claims from preliminary financing of clinic expansion and building measures	0.1	0.1
Receivables from post-acute, acute and nursing care services	0.4	0.4
Liabilities		
Service contracts	0.4	0.5
EDP services	0.2	0.2
Provisions for remuneration for key management personnel	0.8	0.7

[1] Lease expenses include EUR 45.7 mill. (previous year: EUR 44.9 mill.) in rental payments to OIK-Immobilienfonds; for more details see page 176

Sales in the post-acute, acute and nursing care segments refer to three private health insurance companies which are part of ERGO Versicherungsgruppe. These sales represent less than 0.5 % (previous year: < 0.4 %) of sales.

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

Sales from service contracts consist primarily of remuneration for the payroll accounting of several Asklepios facilities performed by MediClin GmbH & Co. KG (2019: EUR 985 thou.; 2018: EUR 598 thou.).

Lease expenses refer to rents paid to OIK-Immobilienfonds (2019: EUR 45.7 mill.; 2018: EUR 44.9 mill.) and, until 2018, lease payments for the land and buildings of Rehabilitationszentrum Gernsbach (2018: EUR 0.6 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 (2019: EUR 1.1 mill; 2018: EUR 1.0 mill.). MediClin-Unterstützungskasse e. V. (MUK) has further contracted 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, MediClin-Rent. The contributions for this totalled EUR 0.9 mill. in 2019 (previous year: EUR 0.8 mill.).

Expenses from service contracts consist of:

In millions of €	2019	2018
Supply of sterile goods (Vanguard AG)	0.1	0.0
Pharmacy sales, laboratory services, others (Asklepios)	1.0	1.0
Services from non-consolidated MEDICLIN service enterprises	2.3	3.6
	3.4	**4.6**

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 63 thou. (previous year: EUR 22 thou.).

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

EDP services mainly consist of service and software maintenance fees and project and development services rendered by the Meierhofer Group. Other purchased goods and services and materials pertain primarily to hotel and seminar costs of Broermann Health & Heritage Hotels GmbH.

OIK-Immobilienfonds

In mid-2016 MEDICLIN filed a suit with the District Court of Offenburg claiming repayment of 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. If the case is won, the tax-related qualification would lead to financial consequences in the form of an outflow of funds (contingent liability); in this case, the outflow of funds would be related to an inflow of funds if the case is won and would depend on the amount of the inflow of funds..

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	2019	2018
Annual audit	357	368
Other attestation services	18	2
Tax advisory services	10	0
Other services	20	7
	405	**377**

The fees for the audit refer to the audit of the consolidated financial statements, the mandatory statutory audits of the annual financial statements of MEDICLIN Aktiengesellschaft and its affiliated companies as well as reviews. The fees for other attestation services refer to the audit of financial covenants to evidence compliance with the requirements under loan agreements. The tax advisory services include fees for preparing tax returns, while other services pertain to the separate review of a human resources process.

Subsequent events

For the consequences of the Corona epidemic we refer to the „Summary and outlook" section in the summarised management report. Since 1 January 2020 there have been no further 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, 16 March 2020

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

INDEPENDENT AUDITOR'S REPORT

To MEDICLIN Aktiengesellschaft, Offenburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of MEDICLIN Aktiengesellschaft, Offenburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of MEDICLIN Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's 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 § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this 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 audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [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 Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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 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

Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 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 audit 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 financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Impact of the initial application of IFRS 16 on lease accounting

2. Legal action for repayment of rent payments exceeding market rates and recognition of rent reductions with debtor warrant

3. Recoverability of goodwill

4. Accounting treatment of pension obligations

5. Accounting treatment of deferred taxes

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Impact of the initial application of IFRS 16 on lease accounting

1. In the Company's consolidated financial statements right-of-use assets of EUR 408.7 million and lease liabilities of EUR 412.4 million are reported as of the balance sheet date. The lease liabilities represent 45.9 % of total assets. The initial application of the new accounting standard on leases (IFRS 16) had material effects on the carrying amounts in the opening balance sheet and subsequent measurement in the financial year. The Company transitioned to IFRS 16 using the modified retrospective approach. The comparative information for prior-year periods was not restated. The new IFRS 16 requires that the executive directors make estimates and judgments for certain areas, which were assessed for appropriateness in the context of our audit. This applies in particular to the calculation of the Company's incremental borrowing rates as lessee. Against this background and due to the complexity of the new requirements of IFRS 16, lease accounting was of particular significance in the context of our audit.
2. As part of our audit and with the assistance of our internal IT specialists, we assessed, among other things, the appropriateness and effectiveness of the processes established by the Group to record leases. In addition, as part

of our audit and with the assistance of our internal specialists for international accounting, we assessed the impact of the initial application of IFRS 16. Together, we verified the implementation work and assessed the recording of transactions in accordance with IFRS 16. We assessed the lease agreements for land, land rights and buildings, including buildings on third-party land. We also inspected the lease agreements for operating and office equipment on a test basis, verified the identification of lease components and assessed whether these were fully and accurately recorded. We also assessed the assumptions and estimates made by the executive directors with respect to calculating the incremental borrowing rates. We were able to satisfy ourselves that the processes put in place and the assumptions and estimates underlying the calculation of interest are appropriate. Furthermore, we verified that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that leases are properly accounted for in accordance with IFRS 16 as applied for the first time.

3. The Company's disclosures relating to lease accounting and the impact of the initial application of IFRS 16 are mainly contained in the section entitled „New or amended international standards applicable for the first time in the reporting period" and in numbers 2, 20, 28 and 37 of the notes to the financial statements.

2. Legal action for repayment of rent payments exceeding market rates and recognition of rent reductions with debtor warrant

1. In the letter dated May 31, 2016, the Company filed an action with the Regional Court (Landgericht) of Offenburg against the investors in a special fund that holds a majority of the real estate leased to the MEDICLIN Group, as well as current and former shareholders, for repayment of rent payments exceeding market rates, in accordance with section 62 of the German Stock Corporation Act (Aktiengesetz, „AktG") in connection with a hidden repayment of contributions in accordance with section 57 AktG. The value of the dispute is EUR 181.0 million. The cause and subject matter of the legal action is a special dividend to major shareholders to be paid and guaranteed over an initial period of 20 years and then 25 years in the hidden form of rent in excess of market rates. The first and to date only hearing before the Regional Court of Offenburg was held on November 16, 2018. The dispute involves legal issues, some of which have not yet been subject to supreme court decisions, that are associated with complex valuation issues. In this connection, the executive directors have assessed the tax and accounting implications of the matter. The accounting assessment also concerns the question of how far a provision for payment of tax arrears or a claim for a refund must be recognized.

   In addition, rent reductions with debtor warrant in the total amount of EUR 21.0 million were granted for specific rented properties for the period 2005 to 2007. Depending on the achievement of a threshold value for the respective clinics of the MEDICLIN Group defined on the basis of annual net profit in the form of EBIT, a repayment of 50 % of the amount exceeding the threshold value is agreed. To estimate the repayment obligations, the executive directors made assumptions about future developments in the results of operations of the clinics in question in order to calculate a provision amount based on the projections. The outcome of this valuation is dependent to a large extent on the estimates and assumptions made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainties.

   Against this background, these matters were of particular significance in the context of our audit.

2. As part of our audit of the effects of the legal action and the treatment by the tax authorities of potential payments of tax arrears or claim for a refund, among other things we assessed the processes put in place by the Company to ensure that these matters are recorded, assessed with respect to the outcome of the proceedings and the tax implications, and presented in the financial statements. Furthermore, we also held regular meetings with the internal

tax department and the Company's executive directors in order to receive updates on current developments and the reasons for the corresponding estimates. We also assessed the legal opinions prepared by the Company's advisors and those of the opposing party as to whether the rent payments were in excess of market rates. As of the balance sheet date, we also obtained external legal confirmations that support the executive directors' assessment of the prospects of the legal action succeeding. In addition, we involved tax experts to assess the assumptions and forecasts made by the executive directors with respect to the tax assessment by the tax authorities. In our view, the assessments made by the executive directors with respect to the effects of the legal action are sufficiently documented and substantiated.

With the knowledge that the measurement of provisions in relation to the rent reductions with debtor warrant is largely based on estimates made by the executive directors, we assessed in particular the reliability of the information used as well as the appropriateness of the assumptions and planning premises with respect to the planning projections for the respective clinics underlying the valuation. Furthermore, we verified that the maturity-matched interest rates were properly derived. We assessed the entire calculations (including discounting) for the respective provisions using the applicable measurement parameters and scrutinized the planned timetable for utilizing the provisions. We were able to satisfy ourselves that the assessments and assumptions made by the executive directors were sufficiently substantiated to justify the recognition and measurement of the provisions. We consider the measurement parameters and assumptions used by the executive directors to be reproducible as a whole, and we were able to satisfy ourselves that they were properly included in the calculation of the provisions.

3. The Company's disclosures relating to the claims for repayment of rent payments exceeding market rates, including disclosures on the exercise of judgment, are contained in the sub-section „OIK-Immobilienfonds" in the section entitled „Other disclosures" of the notes to the financial statements, and additionally in the section entitled „Other opportunities and risks" in the group management report; the disclosures on the rent reduction with debtor warrant are contained in note 22 to the financial statements.

3. Recoverability of goodwill

1. In the Company's consolidated financial statements goodwill amounting in total to EUR 49.3 million (5.5 % of total assets or 25.8 % of equity) is reported under the „Goodwill and other intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount generally determined using the value in use. The present value of the future cash flows from the respective cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The business plan also includes model-based assumptions and estimates by the executive directors with respect to the prolongation of real estate leases and reinvestments in real estate following the expiration of a portfolio of real estate leases as of December 31, 2027. The discount rate used is the weighted average cost of capital for the respective cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating units, the discount rate used, the rate of growth and other assump-

tions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2. As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We discussed and examined supplementary adjustments to the medium-term business plan for the purposes of the impairment test with the executive directors, including in respect of the executive directors' assumptions and estimates on prolongation of real estate leases and reinvestments in real estate. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. This related in particular to adjusting the capital structure taking into account the present value of obligations under operating leases in connection with the initial application of IFRS 16. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash flows. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures relating to the impairment test and the „Goodwill and other intangible assets" balance sheet item are contained in the sections entitled „Accounting policies", „Exercise of judgment in applying accounting policies", „Estimates and assessments by management" and number 1 of the notes to the financial statements.

4. Accounting treatment of pension obligations

1. In the consolidated financial statements of the Company a total amount of EUR 63.7 million (7.1 % of consolidated total assets) is reported under the „Pensions and similar obligations" balance sheet item. The pension provisions comprise the obligations from defined benefit pension plans amounting to EUR 79.7 million and plan assets of EUR 16.0 million. MediClin-Unterstützungskasse e.V. (MUK) is a reinsurance-funded pension plan and was reported as a defined benefit plan. To date, the pension adjustment committed to but not covered by the insurance tariff under the reinsurance policy had been financed from reinsurance surpluses. Since the current low interest rates mean that the surpluses are no longer sufficient to finance the pension adjustment, the plan was reclassified from a defined contribution to a defined benefit plan in the reporting period. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. In derogation

from this, the reinsured portion of the MUK plan is recognized in the amount of the existing plan assets, based on IAS 19.115. The plan assets are measured at fair value, which in turn involves estimation uncertainties.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

2. As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the purposes of our audit of the fair value of plan assets, we worked with our internal actuaries to assess the respective information in the actuarial expert reports and the valuation parameters applied. We also reviewed the classification of pension commitments as defined benefit and defined contribution commitments and the classification of existing assets as plan assets. For this purpose we inspected the benefit plans and the respective pension fund statutes.

   Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3. The Company's disclosures relating to pension provisions are contained in the sections entitled „Accounting policies“ and „Estimates and assessments by management“ as well as number 21 of the notes to the financial statements.

5. Accounting treatment of deferred taxes

1. In the consolidated financial statements of the Company deferred tax assets amounting to EUR 8.7 million after netting are reported. Deferred tax assets amounting to EUR 79.2 million were recognized before netting with matching deferred tax liabilities. Both deferred tax assets and liabilities were recognized in respect of the right-of-use assets and lease liabilities resulting from the transition to IFRS 16, since the assets and liabilities both resulted from a single transaction and on initial recognition were offset by the same amount. These items were recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, insofar as sufficient deferred tax liabilities are not available, future taxable profits are projected on the basis of the adopted business plan. No deferred tax assets were recognized in respect of unused tax losses amounting in total to EUR 10.8 million since it is not probable that they will be utilized for tax purposes by means of offset against taxable profits.

   From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

2. As part of our audit, we assessed, among other things, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes. In addition, we verified the calculation of deferred taxes in respect of right-of-use assets and lease liabilities, and their subsequent measurement as of the balance sheet date. We also assessed the recoverability of the deferred tax

assets relating to deductible temporary differences and unused tax losses on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3. The Company's disclosures relating to deferred taxes are contained in number 5 of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section „Corporate Governance Statement pursuant to Section 289f HGB" of the group management report
- the non-financial statement pursuant to § 289b Abs. 1 HGB and § 315b Abs. 1 HGB included in section „Non-Financial Statement pursuant to §§ 315b, 315c HGB" of the group management report

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit 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 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 Group Management Report

The executive directors are responsible for the preparation of the 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 § 315e Abs. 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 group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents 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 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 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 group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the 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 group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 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 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 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 audit 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 controls.
- 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 group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit 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 group management report or, if such disclosures are inadequate, to modify our respective audit 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 § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the 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 group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the 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 audit 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 Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 29, 2019. We were engaged by the supervisory board on September 19, 2019. We have been the group auditor of MEDICLIN Aktiengesellschaft, Offenburg, without interruption since the financial year 2019.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Ey..

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, 16 March 2020

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

DR. JAN LIERSCH
CHAIRMAN OF THE SUPERVISORY BOARD

Report of the Supervisory Board

Dear Shareholders,

In the 2019 financial year the Supervisory Board of MEDICLIN Aktiengesellschaft (MEDICLIN) exercised the required care in carrying out 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. Where required, the Supervisory Board consulted external experts.

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. Following careful review, the Supervisory Board approved the investments in new construction and expansions requiring its approval and all the other legal transactions and measures 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 and promptly involved in all decisions of material importance. With regard to the status of the legal action taken by MEDICLIN in 2016 before the District Court (Landgericht) Offenburg to claim repayment of excessive rent payments for the period 2005 to 2015 in connection with the rent levels of the clinics bound by the rental agreements, the Supervisory Board continued to obtain regular reports from the Management Board and from a lawyer entrusted with the case. 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.

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.

Changes in the Supervisory Board and the Management Board

There were the following changes to the Supervisory Board in the reporting year:

As the number of employees rose to more than 10,000, the Management Board initiated statutory status proceedings in October 2018 in order to increase the Supervisory Board from twelve members (six to represent the staff and six to represent the shareholders) 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). At the Annual General Meeting on 29 May 2019, the eight shareholder representatives were elected and the 16 members of the Supervisory Board were introduced. Dr. Julia Dannath-Schuh and Kai Hankeln were newly elected to the Supervisory Board as shareholder representatives. The previous shareholder representatives in the Supervisory Board stood for re-election and were re-elected. With regard to employee representatives, Ms. Elke Schwan and Ms. Eleonore Seigel were elected as new members, and Dr. Thomas Witt was elected to replace Dr. Tom Giesler. In addition, the previous employee representatives were also re-elected to the Supervisory Board.

After the new elections to the Supervisory Board, an external legal advisor gave a presentation on the rights and duties of the Supervisory Board of a stock corporation at the full Supervisory Board meeting following the Annual General Meeting on 29 May 2019. The presentation served to educate and train the members of the Supervisory Board and, in particular, to support the newly elected members in taking up their new office.

The former Chairman of the Supervisory Board, Dr. Ulrich Wandschneider, resigned his mandate and chairmanship of the Supervisory Board as of 15 November 2019. Dr. Jan Liersch was court-appointed to the Supervisory Board on 16 November 2019 to replace him. In the meeting on 22 November 2019 he was elected chairman of this board. Dr. Liersch will stand for election to the Supervisory Board by the Annual General Meeting at its next meeting on 26 May 2020.

There was one change to the Management Board in the year under review. On 31 August 2019, Mr. Ulf Ludwig, member of the Management Board of MEDICLIN, resigned from the Management Board for personal reasons. The MEDICLIN Management Board has since comprised two members: Volker Hippler as Chairman and Tino Fritz as Chief Financial Officer.

Corporate Governance

The Management Board and the Supervisory Board issued a conformity declaration in March 2019 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 MEDICLIN website.

The remuneration report, which provides information on how the remuneration of the Management Board and Supervisory Board is structured, can be found on pages 80 ff of the 2019 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) (in the version applicable pursuant to Art. 83 (1) of the Introductory Act to the German Commercial Code (EGHGB)), 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 on the remuneration agreements.

Meetings and resolutions of the Supervisory Board

In the reporting year, the Supervisory Board held four rotational meetings with personal attendance. With the exceptions stated below, all members of the Supervisory Board took part in all meetings in person. The following did not participate in one meeting each:

Dr. Bernard große Broermann (29 May 2019), Kai Hankeln, Mathias H. Werner, Cornelia Wolf (each on 22 November 2019). The members presented excuses for not attending and participated in the resolutions by written vote.

On 28 March 2019, the Supervisory Board discussed the annual financial statements and the consolidated financial statements for 2018, which had already been reviewed by the Audit Committee, as well as the non-financial declaration reviewed by the auditor in accordance with ISAE 3000, with the Management Board and the auditor, and subsequently approved them. In so doing, it followed the corresponding recommendation of the Audit Committee. The auditor attended the consultations, reported on the material findings of the audit and answered questions. 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 2018 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 PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main be elected as auditor and Group auditor for the 2019 financial year; the statement of independence from the intended auditor had been received. The entire Board discussed and approved the updated conformity declaration and the report by the Supervisory Board for the 2018 financial year. Furthermore, the Supervisory Board discussed the forthcoming new elections to the Supervisory Board. The Supervisory Board followed the recommendation of the Nomination Committee regarding suitable candidates for the shareholder representatives in the Supervisory Board and resolved to propose the existing shareholder representatives as well as Dr. Julia Dannath-Schuh and Kai Hankeln for election at the Annual General Meeting. The Supervisory Board also followed the recommendation of the General and Personnel Committee with respect to the allocations regarding the variable remuneration component and bonuses of the Management Board. In addition, the Supervisory Board approved the agenda for the Annual General Meeting on 29 May 2019 and the proposals for resolution, which included amendments to the Articles of Incorporation with regard to the extended Supervisory Board. Moreover, the Supervisory Board also approved transactions requiring its approval as presented by the Management Board. This were mainly related to preliminary or interim financing of subsidised new construction projects or their completion.

Due to the election or re-election of members of the Supervisory Board, the Chairman, his deputy and the members of the committees had to be re-elected at the Supervisory Board meeting following the Annual General Meeting on 29 May 2019. The Supervisory Board further dealt with the current business development of the Group in the first quarter of 2019 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 addition, the Supervisory Board also discussed the results of the recent efficiency review. Further information about the recent self-assessment and related notes have been included in the corporate governance declaration.

In the meeting on 19 September 2019, the Management Board informed the Supervisory Board about the business development in the first half-year of 2019. 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 2020 financial year was accepted. The Management Board reported on the Group strategy, particularly with regard to its new focus with respect to locations and indications, and on the new organisational structureof the management level below the Management Board. The Management Board also informed the Supervisory Board about statutory changes, for example with regard to the new nursing staff thresholds according to the Regulation on Nursing Staff Thresholds (PpUGV). MEDICLIN has already successfully applied its personnel concept to acquire new employees in the nursing sector. Further topics discussed in this meeting included a syndicated loan of MEDICLIN, the auditor's engagement to review the sustainability report and the adjustment of the responsibility schedule of the Management Board to account for the fact that it now only has two members.

In the meeting on 22 November 2019, which was opened by the Deputy Chairman of the Supervisory Board due to the resignation of the previous Chairman Dr. Ulrich Wandschneider, Dr. Jan Liersch was elected as the new Chairman. In accordance with MEDICLIN's Articles of Incorpora-tion and the Rules of Procedure of the Supervisory Board, Dr. Liersch also chairs the General and Personnel Committee as well as the Mediation Committee. He was also elected as a member and Chairman of the Nomination Committee, again replacing Dr. Ulrich Wandschneider. In another item on the agenda, the Management Board explained the business performance of MEDICLIN in the first nine months of the 2019 financial year; here, too, the Audit Committee contributed its perspective. The Management Board presented its business planning for 2020 to 2022 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 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.

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 work 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 seven meetings with personal attendance and one conference call during the reporting year. All committee members participated in all meetings and the conference call, with the exception of Matthias H. Werner, who was excused from attending the meeting on 30 July 2019.

In a meeting on 22 February 2019, the Audit Committee discussed the preliminary financial statements for 2018, the preliminary consolidated financial statements for 2018 and the preliminary figures for 2018 with the Management Board and the auditor.

In the conference call on 1 March 2019, the Audit Committee decided to re-tender the audit of the annual financial statements for the AG and the Group Group and discussed the dividend distribution. In the meeting on 27 March 2019, the results of the tender for the audit of the financial statements were discussed, and the Committee resolved to propose two auditing firms as candidates to the Supervisory Board.

In the meeting with personal attendance on 28 March 2019, the auditor reported to the Audit Committee on its 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 auditor about the final annual financial statements for 2018, the consolidated financial statements for 2018, 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. In another meeting held on the same day, the Audit Committee discussed again the recommendation to the Supervisory Board with regard to the selection of a new auditor.

In the meetings on 6 May 2019 and on 1 August 2019, the Audit Committee had extensive discussions with the Management Board regarding the business performance in the corresponding reporting period. In its meeting on 5 November 2019, the Audit Committee discussed the business performance in the reporting period and the focus areas for the audit of the 2019 financial statements with the auditor, who attended the meeting, and gave its approval. The auditor was 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 one meeting with personal attendance during the reporting year. Five out of the six members of the General and Personnel Committee attended the meeting, while Dr. Bernard große Broermann was excused and submitted his vote in writing. The main topic at the meeting was the remuneration of the Management Board.

The Nomination Committee convened for one meeting with personal attendance and four conference calls during the reporting year. All of the members of the Nomination Committee attended the meeting and participated in the conference calls. The discussions focused on the search for and reflection on potential candidates, on the one hand for the new shareholder representatives to be elected at the Annual General Meeting on 29 May 2019, and on the other hand because of the resignation of Dr. Ulrich Wandschneider in November 2019.

The Mediation Committee did not convene in the 2019 reporting year.

Annual financial statements and consolidated financial statements

The annual financial statements of MEDICLIN AG and the consolidated financial statements for the 2019 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 PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The Group auditor was elected as auditor of the annual financial statements and the consolidated financial statements for the 2019 financial year at the Annual General Meeting on 29 May 2019, and commissioned with the audit by the Supervisory Board. The Supervisory Board had also commissioned PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft to audit the non-financial declaration for 2019 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 2019 annual financial statements of MEDICLIN AG and the 2019 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 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 25 March 2020, 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 representatives of the auditor 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 retain the net profit in full in the revenue reserves. This decision was based on the intention to position the Group well for the future. In order to ensure this, MEDICLIN has to achieve a CAGR of at least 5 %. This means that the Group will have to continue its high capital expenditure in the coming years, investing in the expansion of its medical facilities and in adjustments to its service portfolio. The demand on the market for the services provided by MEDICLIN is growing continuously. The Management Board and the Supervisory Board therefore recommend to retain the net profit in full in the Group's revenue reserves in order to strengthen internal financing.

The Management Board and the Supervisory Board therefore propose to the Annual General Meeting on 26 May 2020 that the net profit in the amount of EUR 51,165,466.01 is transferred in full to the other revenue reserves. In addition, the Supervisory Board also discussed the report of the Supervisory Board, the corporate governance declaration and, in particular, the conformity declaration contained therein, the remuneration report and the non-financial declaration, and adopted its proposed resolutions on the agenda items for the 2020 Annual General Meeting.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main 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 25 March 2020. 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 PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main.

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

Falkenstein, 25 March 2020

On behalf of the Supervisory Board

Dr. Jan Liersch

Chairman of the Supervisory Board

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[1]

To Mediclin AG, Offenburg,

We have performed a limited assurance engagement on the disclosures in the section "Combined Non-financial Statement" of the combined Non-financial Statement (hereinafter the "Non-financial Statement") included in the combined management report pursuant to §§ (Articles) 289b Abs. (paragraph) 1 and 315b Abs. 1 HGB („Handelsgesetzbuch": „German Commercial Code") of Mediclin AG, Offenburg, (hereinafter the "Company") for the period from 1 January to 31 December 2019.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Statement that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Statement based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Statement.

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 IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Statement for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, 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 practitioner's judgment.

[1] PricewaterhouseCoopers GmbH WPG has performed a limited assurance engagement on the German version of the combined Non-financial Statement and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Statement regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Statement
- Identification of the likely risks of material misstatement of the Non-financial Statement
- Analytical evaluation of selected disclosures in the Non-financial Statement
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the combined management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Statement for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, 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 the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 12 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke	ppa. Urata Biqkaj
Wirtschaftsprüferin	Wirtschaftsprüferin
[German public auditor]	[German public auditor]

Financial calendar

26 February 2020
Disclosure of the preliminary figures for the 2019 financial year

26 March 2020
Annual press and analysts' conference for the 2019 financial year

4 May 2020
Publication of the interim report from 1 January 2020 to 31 March 2020

26 May 2020
Annual General Meeting

31 July 2020
Publication of the interim report from 1 January 2020 to 30 June 2020

3 November 2020
Publication of the interim report from 1 January 2020 to 30 September 2020

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Publisher:
MEDICLIN Aktiengesellschaft,
Offenburg

This Annual Report is also available in German.
Dieser Geschäftsbericht liegt auch in deutscher Sprache vor.

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

Concept, design and media design
Designerwerk/Janine Weise,
Kronberg im Taunus

MEDICLIN owns 36 clinics, seven nursing care facilities and nine medical care centres. The Group has nearly 8,500 beds/nursing places and a headcount of about 10,500.

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.

About MEDICLIN