Annual Report 2007/2008

QUALITY CAMPAIGN

"Transparent nursing homes" are now reality

ENCOURAGEMENT AND CHALLENGE

Performance-based pay for staff

"THE HOTEL CONCEPT IS THE SOLUTION"

An interview with Management Board Chairman Axel Hölzer

MARSEILLE-KLINIKEN AG

Main Group figures (IFRS)

		2007|2008	2006|2007	Change in %	Page
Results					
Operating sales	€ m	228.1	214.8	6.2	74
EBITDAR*	€ m	62.6	61.8	1.3	75
EBITDA*	€ m	25.3	28.9	-12.5	75
EBIT*	€ m	17.5	20.2	-13.4	75
EBIT margin*	%	7.7	9.4	-18.4	75
Net income	€ m	13.8	9.1	51.5	71
ROS*	%	4.9	4.9	0.6	
DVFA/SG result	€ m	11.2	10.5	7.0	75
Gross cash flow*	€ m	12.2	23.0	-47.0	77
Balance sheet					
Fixed assets	€ m	177.3	189.2	-6.3	77
Investments	€ m	17.2	5.5	212.7	78
Shareholders' equity**	€ m	84.0	71.2	18.0	77
Equity ratio	%	35.1	23.0	52.8	77
Return on equity***	%	13.4	14.7	-9.3	77
Financial debt	€ m	78.8	121.1	-34.9	106
Financial ratio	%	33.0	39.2	-15.9	
Per capita sales	€ '000	56.1	55.0	2.0	
Other key indicators					
Total dividend	€ m	3.0	3.0	0.0	75
Dividend per share	€	0.25	0.25	0.0	75
DVFA/SG result per share	€	0.93	0.86	7.0	75
Employees	Average number	5,309	5,139	3,3	79
Facilities	Number	65	63	3.2	71
Bed capacity	Number on 30.06.08	8,899	8,765	1,5	71
Occupancy rate****	%	92.4	89.7	3.0	71

* taking DVFA/SG adjustment items into account

** including 84.2 % (previous year: 73.6%) special items with an equity portion

*** DVFA result/Group shareholders' equity

**** excluding the facilities that started operation: Hamburg, Berlin, Schömberg, Potsdam and Düsseldorf II

Operating sales in € m

DVFA result in € m

Mission statement

People age. Nature decides when they are no longer able to organise their lives without the help of others. Marseille-Kliniken has been **there for these people throughout Germany for more than 20 years now.** It is our mission to enable them to enjoy **as pleasant and decent** an environment as possible during this final stage of their lives.

We generate consistently profitable growth, because we are firmly committed to our principles of **customer orientation, economic viability and social responsibility.** We set standards in the areas of nursing care for the elderly and rehabilitation by providing innovative and specialised programmes. High-quality, flexible facilities and staff with impressive social and professional skills guarantee us a sound future.
The aim of **our clear and straightforward structure** is cost and quality leadership.

Segments

Nursing care

		2007/2008	2006/2007
Sales	€ m	175.0	164.9
DVFA result	€ m	7.2	12.7
Employees	Average number	3,148	2,985
Facilities	Number	56	53
Bed capacity	Number on 30.06.2008	7,616	7,287
Nursing days	Million	2.4	2.3
Occupancy rate *	%	93.3	92.8

* excluding the facilities that started operation

The nursing division is responsible for all the operations associated with nursing care for the elderly and handicapped. People in need of nursing care receive personal attention and skilled care in a comfortable home at 56 different facilities. Special nursing concepts take specific account of the needs of the residents.

Rehabilitation

		2007/2008	2006/2007
Sales	€ m	51.7	48.3
DVFA result	€ m	4.0	-2.3
Employees	Average number	628	621
Clinics	Number	9	10
Bed capacity	Number on 30.06.2008	1,283	1,478
Cases treated	'000	16.5	17.0
Occupancy rate	%	90.4	75.9

The rehabilitation division consists of eight psychosomatic and somatic rehabilitation clinics and one acute hospital. The patients are treated by modern, state-of-the-art concepts, with the focus on the following areas: psychosomatics, cardiology, orthopaedics and oncology.

Services

		2007/2008	2006/2007
Sales	€ m	59.8	58.5
Employees	Average number	1,533	1,533

The Marseille-Kliniken AG service companies make sure the residents and their relatives receive optimum catering, housekeeping and laundry services. They are an essential feature of our medical concepts.

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Nursing care

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35 Sale and leaseback
A total of four transactions have led to profound changes in the structure of the Marseille-Kliniken AG property portfolio. Only 20% of the properties are still owned by the company, whereas 80% are rented.

36 Quality and quality assurance pioneer
Marseille-Kliniken is making large investments in the development and completion of an internal quality management system. It enables continuous improvements to be made in all of the Group's services and processes.

37 Steps towards “transparent nursing homes“
Marseille-Kliniken is setting standards by publishing the first Group quality report by a company in the nursing care industry with national operations. The report provides information about furnishing and equipment at the individual facilities, about the specialised programmes and about the quality of the nursing care.

Special feature: employees

40 Growing together
In nursing care for the elderly, the same principle continues to apply: employees are a company's most important asset. Provision of the best possible nursing care and assistance to residents can only be guaranteed by qualified and motiv-ated staff who attend training courses at regular intervals. The e-learning concept implemented by Marseille-Kliniken is unique in the industry.

44 Joint career planning
Marseille-Kliniken adopts the dual approach of challenge and encouragement “Bilden und Binden” in its training of specialised and management recruits. Purposeful career planning is an essential element in ongoing personnel development.

46 Performance is rewarded
Nursing care for the elderly is a demanding profession. Marseille-Kliniken does not just thank its staff when they provide outstanding nursing care; it rewards them financially too. Performance-based pay elements enable the company to respond to high professional skills and personal commitment.

Rehabilitation

52 Return to profit
The turnaround of this division has been completed. The rehabilitation operations have been reduced to a core that has a secure future and now consist of only eight rehabilitation clinics and one acute hospital. The occupancy rate increased to just over 90% on average over the year.

54 Realignment of the rehabilitation operations
The restructuring exercise in the division has been largely completed. Five clinics have been sold and leased back on long-term contracts in the context of two transactions. The occupancy rate at the eight remaining rehabilitation clinics is improving steadily.

Services

58 Five companies at the service of the residents
The service companies are a key element of the medical and nursing concepts at Marseille-Kliniken. They guarantee optimum housekeeping services for the customers.

Corporate responsibility

62 Dialogue with the public
Marseille-Kliniken opts for open internal and external communication in its constant interaction with experts from the health management and political communities, investors, shareholders and media representatives. The purpose of the dialogue is to help the company to focus on the essentials, identify trends and problems and publicise its own convictions.

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Highlights

The past year at a glance

The new facilities are in attractive surroundings at excellent locations.

Nursing care

Three new facilities come into operation

The senior citizens' residential home Düsseldorf-Lessingplatz with 79 beds, which is located in the immediate vicinity of the senior citizens' residential home Düsseldorf-Volksgarten in the Oberbilk district of Düsseldorf, opens in October 2007. The high-quality, 4-star home has 63 single rooms and 8 double rooms. Marseille-Kliniken opens the Josephinen residential home in Potsdam on 1 September 2007. The home has 131 residential units that are designed for assisted living. The first residents move into the new Schömberg nursing clinic in September too. The nursing clinic has taken 100 beds over from the Schömberg psychosomatic clinic, which is right next to the building, and has converted them to nursing care beds.

Marseille-Kliniken AG

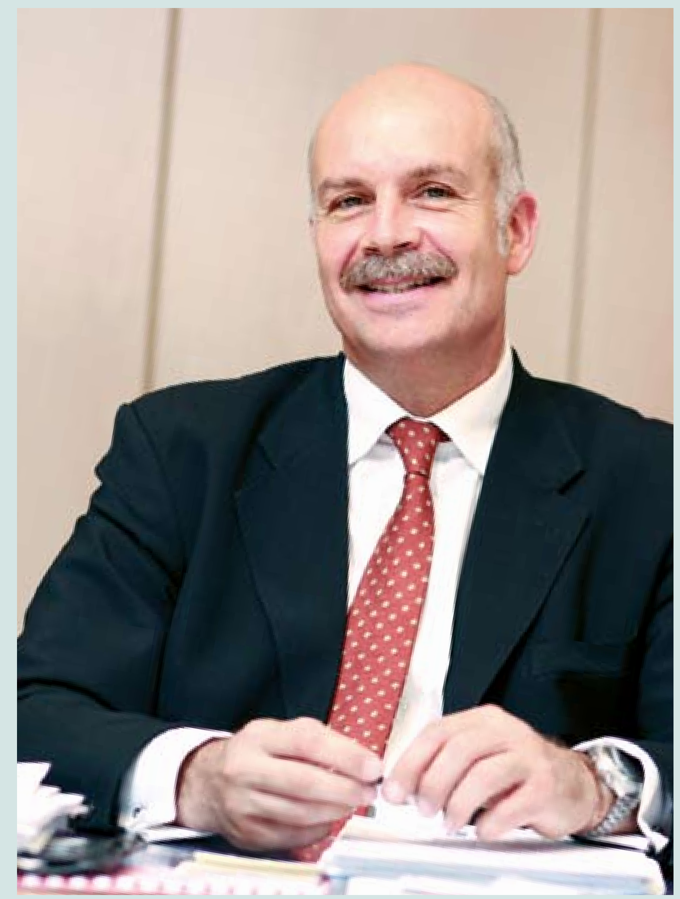
First Group quality report in the nursing care industry

Marseille-Kliniken AG presents the first Group quality report to appear in the nursing care industry in Germany in the 2007/2008 financial year. By doing this, the company helps to increase transparency in the German nursing care market and meets its own demands for "transparent nursing homes". On the basis of interviews with relatives and internal audit procedures, the 54 facilities reviewed are given grades according to the familiar school system. The company intends the first Group quality report to stimulate a debate throughout the industry about greater transparency in the nursing care business. Quality reporting is being continued at yearly intervals so that data can be compared over a lengthy period of time.

Rehabilitation/Acute

New Management Board member

The Supervisory Board appoints Peter Paul Gardosch (49) to be a member of the Marseille-Kliniken AG Management Board with effect from 1 August 2008. Gardosch will be responsible for the acute hospital and rehabilitation operations. He will be contributing great expertise to the planned development of the acute hospital operations. He worked as an emergency doctor for many years and was responsible for twelve acute hospitals with 2,100 beds and sales of € 230 million from 2003 to 2006 as director of the Humaine Group.



Peter Paul Gardosch, Marseille-Kliniken AG Management Board member.

Nursing care

Claus Fussek's nursing care discussion forum

Management Board Chairman Axel Hölzer makes a guest appearance at the nursing care discussion forum in the Benno Saal of the Löwenbräukeller on Stieglmaierplatz Square in Munich on 2 July 2008. For the first time, a representative of a private nursing care provider speaks to the roughly 200 guests from the nursing and health care community at the invitation of the well-known nursing care critic Claus Fussek. Hölzer holds a discussion with the audience about different programmes in the nursing care industry, the introduction of consistent quality standards and the disclosure of audit results as well as about staff motivation and loyalty. Other guests: Bavarian Red Cross director Leonhard Stärk and cabaret performer Georg Schramm.

Photo: R. Kurzendörfer/Münchner Merkur

From left to right: Axel Hölzer, Chairman of the Marseille-Kliniken AG Management Board, cabaret performer Georg Schramm and Bavarian Red Cross director Leonhard Stärk

Marseille-Kliniken AG

Great interest shown by shareholders

Large crowds at Ludwig Erhard Haus in Berlin: Marseille-Kliniken AG welcomes shareholders to the 108th Annual General Meeting on 4 December 2007. Axel Hölzer, the Management Board Chairman, focusses not only on the annual financial statements but also and in particular on the issue of quality management and quality assurance and explains the e-learning concept to the participants. Hölzer also has positive business figures to report to the shareholders. Sales and earnings increased again in the 2006/2007 financial year. The Annual General Meeting passes a resolution to pay a dividend of € 0.25 per ordinary share.

Pflegewissenschaftlicher Förderpreis 2007

Nursing care

Presentation of the 2007 nursing science prize

On 25 January 2008, nursing care graduate Dr Kathrin Engel receives Marseille-Kliniken AG's 2007 nursing science prize worth € 7,500 for her project "Quality in facilities for entirely inpatient long-term nursing care". The prize for up-and-coming young scientists is presented for the fifth time during the "Nursing 2008" congress in Berlin. Marseille-Kliniken also presents the rehabilitation science prize during the 17th rehabilitation science conference in Bremen on 3 March 2008.

Marseille-Kliniken AG

Fourth sale-and-leaseback transaction

Following three previous transactions in the last three financial years, Marseille-Kliniken sells six more existing facilities with 567 beds.

IMMAC
... leading in social investments

The buyers are IMMAC Holding AG, Hamburg, (a group of investors) and RP & C International/Public Service Properties Investments Ltd., London, who pay € 33.5 million for the homes. The total volume of all the sale-and-leaseback transactions increases to € 301.5 million as a result. The deal gives Marseille-Kliniken further financial scope to continue the growth strategy in the core nursing care business, while facilitating the planned entry into the acute hospital business. The long-term balance sheet liabilities are reduced by € 24 million as well.

Marseille-Kliniken AG

Agreement on a major issue

Marseille-Kliniken AG issues an invitation to a panel discussion entitled "Senior citizens neglected – Germany needs an official control system for nursing care" in Berlin. About 170 guests from the social field, politics, society, business and the media accept the invitation to the Dresdner Bank premises on Pariser Platz Square. On the panel: Dr Peter Pick, director of the medical service department of the central health insurance fund associations, nursing care critic Claus Fussek, Philipp Missfelder (CDU), member of the German Parliament, nursing care expert Professor Dr Adelheid Kuhlmey, Dr Michael Albert, member of the Management Board of Allianz Private Krankenversicherungs-AG, and Axel Hölzer, Chairman of the Management Board of Marseille-Kliniken AG. They are unanimous in their assessment of the nursing care issue: quality is what counts. The results of a poll about "the quality of nursing care in Germany", which Klaus-Peter Schöppner from the institute TNS Emnid presents at the beginning of the discussion, demonstrate that the actual situation is less than satisfactory. Most of the people asked think that there is an urgent need for action in the nursing care business. The discussion – in which the audience is involved too – is lively. To Adelheid Kuhlmey and Axel Hölzer, nursing care quality depends on well-structured quality management, while Claus Fussek is more in favour of performance reviews. Peter Pick thinks that internal and external audits need to complement each other, whereas Philipp Missfelder admits that the nursing care reform does not extend far enough into the future. Michael Albert advocates more private provision, because demographic developments are making the solidarity principle and the "contract between the generations" obsolete. Conclusion: new visions need to be developed in the nursing care field as well. The system we have today will no longer be the system we have tomorrow.

Panel from the left: Professor Dr Adelheid Kuhlmey, nursing care expert; Axel Hölzer; Claus Fussek, nursing care critic; Dr Michael Albert, member of the Management Board of Allianz Private Krankenversicherungs-AG; Klaus-Peter Schöppner, director of the opinion research institute TNS Emnid; Dr Peter Pick, director of the medical service department of the central health insurance fund associations.

"We are generating profitable growth today and will be continuing to do this in future as well, because it is our conviction that social responsibility and economic viability are not mutually exclusive; they can be combined when treated as a commitment and a challenge."

Axel Hölzer,
Chairman of the Management Board
of Marseille-Kliniken AG.

Dear shareholders and friends of the company,

You know the saying about the glass that is either half full or half empty, depending on how you look at it. With respect to Marseille-Kliniken AG's performance in the 2007/2008 financial year, I would say very definitely that the glass is half full. We increased sales substantially, we improved after-tax earnings significantly and we have succeeded in turning round the rehabilitation division, which did – after all – depress our figures severely for five years, so that is now operating profitably. All the main figures confirm that we performed considerably better than the industry average. So why do some people think that the glass is half empty? Because we did not quite reach the growth targets that were set at the beginning of the financial year. They were probably too ambitious for a market that is becoming more difficult.

At the end of the third quarter, we reduced our sales forecast for the 2007/2008 financial year. The somewhat slower growth than planned is due primarily to the fact that our facilities in Hamburg and Berlin are filling up more slowly than expected. The occupancy levels have stabilised in the meantime. Demand for the 4-star home in Hamburg-Hohenfelde is increasing, while the reservations shown particularly by the relatives of the immigrants in question are declining at the facility in Berlin-Kreuzberg, which is open exclusively to residents with a Turkish background.

We have had to reduce our forecast for earnings before interest and tax (EBIT) slightly. EBIT are now € 1.9 million lower than forecast at € 22.1 million. After-tax earnings (€ 13.8 million) are now € 4.2 million below the forecast level. The main reasons for this are provisions for legal disputes, tax issues, such as provisions for a current tax audit and the revaluation of deferred tax assets and liabilities. It would not therefore be accurate to describe earnings development in the two nursing care and rehabilitation divisions as thoroughly positive. It may well be true of the rehabilitation division. This division is no longer operating at a loss and made a positive contribution to earnings. The adjusted DVFA result decreased noticeably in nursing care for the elderly, on the other hand. The substantial increase in after-tax Group earnings before adjustments is attributable mainly to extraordinary income from another sale-and-leaseback transaction as well as to income from corrections to deferred taxes prior to the 2008 corporate tax reform. The poorer earnings in what is otherwise a highly profitable nursing division are due, on the one hand, to large increases in energy and food costs, which sales growth did not compensate for completely. In the energy field alone, we had to absorb total cost increases of 23% because of higher consumption (+ 16%) and higher prices (+ 7%). On the other hand, we made high non-recurring financial investments in the comprehensive introduction of e-learning in nursing care as well as in the establishment of a Group-wide quality management system. And, finally, we intensified marketing activities to increase occupancy rates at our facilities.

We can be satisfied with our sales and earnings development even so. The return we achieve in nursing care continues to be excellent by international standards. What we cannot simply accept, on the other hand, is the development of the Marseille share price. It has dropped considerably since the end of 2007 as a result of the weakness of the finance markets in general and of second-tier shares in particular. This means that a five-year success story has come to an abrupt end. The share price developed in a consistently positive pattern until the middle of 2007, reaching a high of € 18. It then fell to less than € 8 for a time in the course of 2008. The fierce debate about the poor quality of nursing care in Germany did not exactly help to stimulate share price development either. The more interest the public showed in the issue of nursing care, the less interest investors showed in health care shares.

Does this mean that you as our shareholders have to worry about whether your company will be continuing to develop soundly? The clear answer we can give you is: no. The drop in earnings in the nursing operations is attributable to cost developments and we will find ways to compensate for future cost increases. The purpose of the additional expenses is to safeguard the company's future and most of them will not be recurring. The only crucial factor as far as the future of your company is concerned is that we have identified changes on the market at an early stage and have adopted an appropriate strategic position in response to them. This primarily includes the realisation that the nursing care market is the strongest growth driver in the health system, but that there is definitely no guarantee that every operator of nursing facilities will be successful as a result. Competition is becoming more intensive, because nursing care is not prescribed; instead of this, old people and their relatives are demanding high-quality, affordable services. Due to the tougher requirements made by the government on the quality of nursing care, pressure on nursing home operators is growing and is forcing many of them to tackle assignments that they are unable to accomplish – at both the financial and organisational level. If it is taken into consideration, finally, that there is a maximum contribution to the nursing care insurance scheme and that about 40% of residents are only able to finance their place in a home with the help of the welfare authorities, it becomes clear that the conventional building and cost structure cannot be guaranteed any more in the long run. About 90% of all nursing facilities reach 3-star standards and have 50% single rooms at the moment. People who cannot afford them receive welfare payments. In view of the fact that the number of people in need of nursing care is increasing, whereas the number of people in employment who fund the social security systems with their contributions is decreasing, this financial system cannot be maintained in the long term.

We already abandoned the concept of facilities as all-round standard products years ago and have divided up and specialised our range more and more. Segmentation into 4-, 3- and 2-star homes as well as assisted living gives everyone in need of nursing care a comprehensive choice of support and treatment at different price levels. None of our competitors currently matches the classification of our homes into hotel categories where the buildings themselves and their furnishings are concerned, the maintenance of consistently high-quality standards in nursing care and hotel services and the specialisation of the range. Above-average market growth will be achieved at both ends of the prosperity scale. 20% of our facilities are already focussed on each of these two ends. The success of this policy is quantifiable. We are growing and we are filling our beds. The average occupancy rate of over 93% at the 56 nursing facilities is five points higher than the market as a whole.

We play a prominent role where the central issue in nursing care for the elderly at the moment is concerned too: quality and quality assurance. As a private operator in a competitive market, we cannot afford to provide poor quality and we are monitored even more closely as a company with a stock market listing. In addition to this, we know that quality fills beds. We have reviews made by our own quality managers, we interview relatives (making sure their statements are kept anonymous) and can identify all the relevant data and nursing risks via computer. We make these quality audits regularly and not just every five years, as is the case with the medical service departments of the health insurance funds. Publication of the first Group quality report is paving the way to the "transparent home" that we – and the political community – are keen to establish.

Quality does not happen automatically – it is created by people. We are therefore backing our quality campaign by a broad-based personnel campaign, about which we are informing you elsewhere in this report. It includes conversion of our training processes to professional e-learning, a huge project that no-one else in the industry has tackled yet. The attention we are attracting is evidence of the fact that we are pioneers in the quality debate. You may well have heard of Claus Fussek, who became the leading critic of the nursing care industry at the latest when his book "Im Netz der Pflegemafia" ("In the fangs of the nursing mafia") was published. Mr Fussek recently organised a "nursing care discussion forum" in Munich and invited me to be a guest speaker there. It does not happen very often that an operator of nursing homes – and a private one at that – receives positive comments from an audience of critical experts.

The problem posed by the rehabilitation operations, a division that critical observers of our company have always considered to be a strategically pointless millstone, has, finally, been solved to a large extent. A sustained turnaround has been achieved and the division no longer represents a risk to the Group. On average over the year, we reached an occupancy rate of about 90%, which is a very good level for the clinic operations. Although rehabilitation is susceptible to economic fluctuations, it remains an important element of basic medical care and it is being stimulated by the conversion of the hospital funding system to lump-sum payments per case. The more positive situation in the rehabilitation division has not, however, changed our decision to withdraw from rehabilitation by selling the business operations. It is not definite when this will be done; this depends solely on when the crisis on the finance markets ends. No negotiations are being held at the moment.

Disposal of the rehabilitation operations fits in with our plan to take further opportunities on the changing German health care market with the objective of adding to the core business of nursing care for the elderly. We have set ourselves the goal of acquiring at least one general hospital in the new financial year.
Our intention is to strengthen overall Group profitability by exploiting synergy potential via combination with the existing nursing facilities. We have appointed Mr Peter Paul Gardosch to be the new Management Board member responsible for developing these operations. Mr Gardosch is an experienced hospital expert, due not least of all to the positions he has held in the past as a hospital consultant with Roland Berger and as a director of the Humaine clinics with twelve locations. Thanks to his market know-how, the chances of divesting the rehabilitation operations from the Group in the foreseeable future are increasing too.
We are already gaining initial experience in the acute field. St. Nikolaus Hospital in Büren has been operating successfully in liaison with our nursing facility there for two years now. We are establishing a medical centre in Büren that guarantees integrated treatment for patients. The emphasis is on geriatrics, in order to meet the growing demand for the treatment of disorders suffered in old age. We have set up another medical treatment centre in Hennigsdorf. Surgeons with practices in the area can operate at the centre and use the equipment available there. The doctors employed at the centre are responsible for anaesthetics and post-operative treatment. Forms of integrated treatment like this are encouraged by the health insurance funds.

As investors and shareholders, you are of course keen for us to present you decent figures every quarter. It is our goal to do this in future as well. The success of our operations is not necessarily obvious in a few months, however. We plan for the long term and we take action today to make sure we meet the market's requirements tomorrow. Nursing care cannot be administered politically. It is nature that determines the point at which people become unable to organise their lives without the help of others. We need to be there when this time comes. And we are – with an operational structure that reflects the very different requirements made by the market and that guarantees us unique positions. The capital market will be responding positively to this again too. Although the risk for investors in Marseille-Kliniken is very limited, we have to earn confidence in tough, day-to-day operations. We are not alone here; the same applies to the entire industry. Mistakes made by competitors harm us as well.

We are generating profitable growth today and will be continuing to do this in future as well, because it is our conviction that social responsibility and economic viability are not mutually exclusive; they can be combined when treated as a commitment and a challenge. We need economic success so that we can do our job in the community. This commitment is also the basis for the trust you place in us and that we try to earn year in, year out. We would like to express our thanks to our shareholders and promise that we will stay on course. Our thanks also go to the residents at our facilities and their relatives who honour us by choosing Marseille-Kliniken. Last but not least, we thank the staff who demonstrate tremendous medical and nursing skill in carrying out their demanding profession and always give the elderly people they look after the attention they need. It is they who make Marseille-Kliniken an unmistakable brand on the market. They deserve great respect for their personal and professional commitment.

Your

Axel Hölzer,
Chairman of the Management Board

"The profitability of our operations is attributable to nursing services that are integrated in a networked system with high-quality standards that is implemented throughout the Group."

Interview with Axel Hölzer, Chairman of the Management Board of Marseille-Kliniken AG

The development of the Marseille-Kliniken share price in the 2007/2008 financial year was unsatisfactory. Do you think the company is undervalued?
Yes, definitely. Our very sound business model and our focus on market requirements are not being reflected appropriately in the current share price development. The share price has been depressed by the turbulence on the international finance markets, on the one hand, while it is suffering, on the other hand, from the downtrend which has affected practically all second-tier shares and health care shares in particular. From the company's point of view, there are no fundamental reasons for the slump in the share price. It will be increasing again. There are good reasons for an investment in Marseille-Kliniken AG shares. We are operating on a growth market that is largely unaffected by economic fluctuations. We have built up a promising market position thanks to a convincing brand policy. Our product range, which is segmented by hotel categories, gives us a unique position. In our second area of operation – rehabilitation – a turnaround has been achieved and the balance sheet has been optimised. With ongoing expansion, we can achieve economies of scale in the overhead costs, which will help to improve profitability even more. Finally, we maintain contact with international investors. A considerable proportion of our shareholders already comes from outside Germany. I think that the chances of a share price recovery after the finance markets calm down are good.

Profitable growth is the core of your strategy. You want to become the cost, market and quality leader of the private operators with a stock market listing. Are you making good progress?
Marseille-Kliniken is developing according to plan. The growth strategy focusses on nursing care for the elderly. It remains our goal to have

contracts for about 12,000 beds within the Group by the end of this year. Three units with a total of 510 beds are being added in the new financial year. On the basis of segmentation into three star categories along the lines of those used in the hotel business, we aim to expand primarily in the 4-star and 2-star segments. Assisted living is one of the main emphases. We are working on optimisation of the occupancy rate at the existing facilities too. We are developing new concepts, we are specialising the range and we are establishing the Marseille-Kliniken name as a brand for high-quality nursing care by carrying out a quality campaign. Full capacity utilisation, which in practice corresponds roughly to an occupancy rate of a good 96%, is feasible. The strategy in the rehabilitation division following the turnaround continues to be disposal. We intend to use capital and management potential that become available as a result to build up a new, associated area of operation. Our aims in entering the acute hospital field are, on the one hand, to participate in the consolidation process in the industry and, on the other hand, to exploit synergy potential that is created automatically by the increasing integration of services in the acute hospital and nursing fields.

You are entering virgin territory with the assisted living operations. Is this a market niche or a genuine growth segment?
Demand for participation in this model is increasing fast. Many people with limited incomes are also keen to maintain their independence in old age, wanting at the same time, however, to have the certainty that they will receive help if an emergency occurs. We already have two economically successful nursing services in operation in Halle and Potsdam. Our plan is to establish a further 3,000 units in the coming years, with the emphasis on East Germany. The outpatient nursing care operations can be expanded very effectively and successfully thanks to the low costs involved. We are co-operating with investors who acquire property inexpensively and convert it to assisted living units. While

the investors act as landlords, we assume responsibility for provision of the outpatient nursing care services. We charge the health insurance funds the official rate for outpatient nursing care and the resident personally or the welfare authorities when further services are provided. Assisted living has advantages for both parties involved.

Your first attempt to establish a foothold in nursing care for immigrants has attracted a great deal of attention. Is this a new growth area too?
It's not easy to say. In contrast to a typically German facility, we were still having acceptance problems a year after opening at our facility in Berlin-Kreuzberg, in which only Turks are allowed to live. Now that we have fine-tuned the concept, faster progress is being made in improving the occupancy rate. The problems are attributable primarily to inhibitions for cultural reasons as well as to reluctance on the part of relatives to put care for their parents into the hands of strangers. I think that it will be possible to solve the problem in the course of time, however. Professional mobility is growing among Turks too and this is changing the family structures. Our initial aim is to gain experience. Then we will decide what to do next.

Financial provision to guarantee appropriate nursing care for oneself or one's parents is becoming an increasingly heavy burden for people to bear. Greater provision is one option, while variation of supply to fit in with differences in financial resources is an alternative. Is the segmented hotel concept adopted by Marseille-Kliniken an attempt to solve the problem?
It is a viable solution rather than just an attempt to find one. I can confirm that the market needs a varied range of nursing facilities that charge different prices. There are people who are unwilling to do without the comforts to which they are accustomed in old age and are in a position to pay the necessary price for them too. Other people, who cannot afford this, depend on assistance from others. We have opted for a concept that involves the development of financially varied supply to satisfy the very heterogeneous demand structure. This concept includes division into 2-star, 3-star and 4-star homes. This always relates to the investment costs for the property, incidentally. The quality of nursing care and service is the same at all the homes. Room furnishing and the proportions of double and single rooms are what make the difference. Including nursing care, € 110 per day have to be paid on average to live in a 4-star home, while the figure at a 2-star home is only € 80.

The hotel concept is at the same time a response to the increasingly fierce competition on the nursing care market. People in need of nursing care are not simply allocated to a home any more. They are customers who want to be convinced. The hotel approach is implemented throughout all the facilities. We train our nursing staff to understand that a customer moves into our facility as a person and not as a case. Respect and courtesy include, for example, knocking on a resident's door, even when it is a well-known fact that the person in the room is hard of hearing.

The reform of the nursing care system took effect in the middle of this year. Will it enable control to be established over the costs and quality of nursing care in Germany?
I have my doubts about that. The reform does not go far enough. It is basically just a partial reform. It extends the services provided and increases the contributions paid but it postpones solution of the fundamental problem of guaranteed long-term funding until the future. It is already apparent that the increase

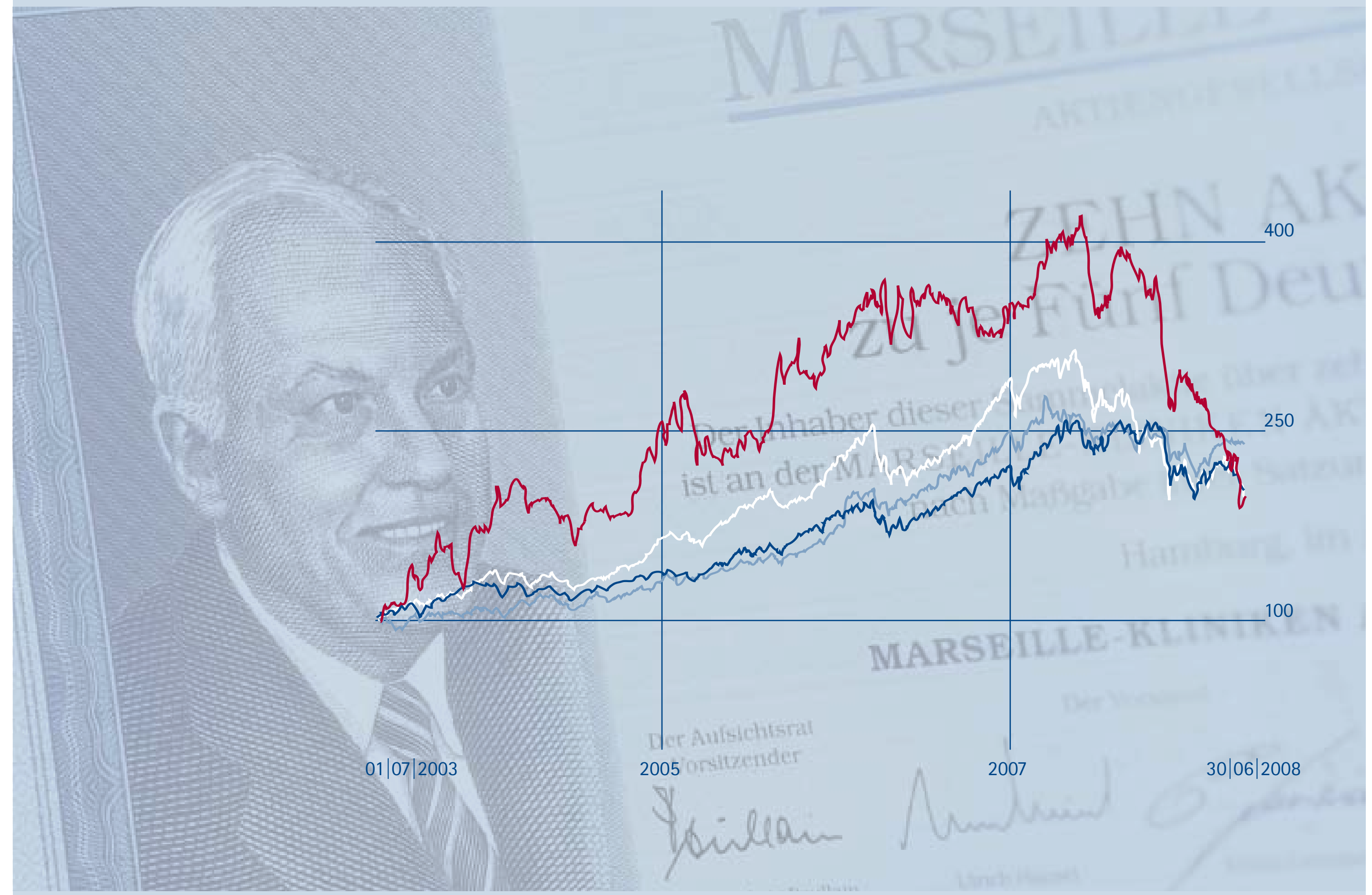
of 0.25 percentage point in the contribution rate will only succeed in closing the funding gap temporarily. Consider this: about two million people in Germany receive nursing care at the moment. This figure will more than double by 2050. The contribution-based nursing care system has its limitations in an increasingly old society. Put in simple terms: the insurance system is running out of people to pay contributions.

What needs to be done?
Two things need to be done to prevent a financial collapse of the nursing care system. People need to realise, on the one hand, that they have to assume greater personal responsibility in providing for their old age. The nursing care insurance system covers part of the risk but not all of it. It is painful but true: anyone who wants more service has to pay more. Greater competition and more market economics are needed, on the other hand. Up

to now, the market has been based on planned economy principles. The costs of services are specified, instead of allowing free competition to determine prices. This is stopping savings in the billion range from being made. The lack of economic incentives also leads to the drastic differences in quality at nursing homes that is the subject of regular criticism. Higher charges for nursing care are not the solution. You can pump as much money as you want into inefficient systems and the problems will still not be solved. We all receive comparable payments for nursing services and have the same keys for personnel deployment. However, while some operators do a good job on this basis – as we do – others are completely unable to cope. The planned economy system makes sure that the same payment is made for every service provided in nursing care for the elderly, irrespective of whether it is provided well or badly.

The accusation is frequently made that private nursing home operators in particular economise at the expense of the residents in order to maximise profits. It is claimed that this explains the very poor quality at some homes. Many people are asking the fundamental question: should people be allowed to earn money by providing nursing care to the elderly?
First of all, accusations of this kind are not correct. There are quality shortcomings at homes run by both private and non-profit or public operators. At our homes too sometimes. This is not a widespread phenomenon, however. And definitely not at Marseille-Kliniken. It goes without saying that we too need to economise and operate more efficiently in view of rising costs. We cannot simply pass cost increases on to our residents. Quality does not suffer from this; on the contrary: it is improved. Higher efficiency and consistently high-quality standards are only possible when investments are made, however, and they have to be financed. Which is why we need to make profits. What is wrong with that? We reinvest about two thirds of the profits we generate in our facilities, from which our residents and staff benefit most. The profitability of our operations is attributable to nursing services that are integrated in a networked system with high-quality standards that is implemented throughout the Group. •••

Capital market players are expecting a share price recovery



Marseille-Kliniken share price development indexed, 1 July 2003 = 100

- Marseille-Kliniken AG
- DAX
- Prime Pharma & Healthcare
- SDAX

The Marseille-Kliniken AG share lost a substantial amount of its value in the 2007/2008 financial year (30 June). Although the fundamental trend the company is following in its development continues to be good, the share price dropped 51.4% due to a poor stock market environment and reports about a difficult competitive situation in Germany. Anglo-Saxon institutional investors in particular were very critical of second-tier shares, which include Marseille-Kliniken, and disposed of their holdings to some extent. In many cases, shares were sold without taking the development of the company's operations into account, as a result of which the shares came under considerable pressure. Due to the reluctance shown by these major investors, small trading volumes were large enough afterwards to trigger further major share price movements. Like most of the financial analysts who follow the share, the Management Board of Marseille-Kliniken AG is convinced that the current share price level does not mirror the company's true value. We therefore think that there are good chances of a return to share prices that are a realistic reflection of the company's potential.

Environment

There was a drastic stock market slump in the 2007/2008 financial year. The combination of a deterioration in the economic conditions, a high oil price, a weak US dollar and the US property market crisis led to declining share prices all over the world. The central Deutsche Börse index DAX ended the last trading day in the previous financial year (29 June 2007) at 8,007.32 points. It decreased to 6,418.32 points by 30 June 2008, which represented a decline of almost 20.0%. The index reached its low for the period of 6,167.82 on 17 March 2008.

Share price development

	30.06.08	30.06.07	Change in %
Marseille share	€ 8.50	€ 17.50	-51.4
DAX	6,418.3	8,007.3	-19.8
CDAX	580.4	722.1	-19.6
Prime All Share	2,435.4	3,036.9	-19.8
Classic All Share	3,022.4	3,735.4	-19.1
GEX	1,858.9	2,472.9	-24.8
Prime Pharma & Healthcare	1,802.2	1,951.3	-7.6

The Marseille-Kliniken AG share followed a sustained, long-term upward trend starting in mid-2003. In the course of an ongoing increase in its value, the share price rose from less than € 3.60 at times to more than € 18 by mid-2007. This was the stock market's response for a long time to the positive development of the company's business and brought its shareholders an increase in value of over 400%.

The Marseille-Kliniken share price came under considerable downward pressure in the summer of 2007. It was not an isolated case. The prices of shares in companies from the health care field in general dropped sharply. The share prices of practically all of Marseille-Kliniken AG's peer group decreased substantially in the period under review.

The share started the first day of trading in the financial year, 2 July 2007, at a price of € 17.49. It rose slightly first of all and reached a high of € 18.09 on 26 July 2007. The share decreased in price in the following months and was trading for € 16 at the end of 2007. This meant that the share developed considerably better than all the relevant reference indices, which experienced far larger share price reductions during this period.

The Marseille-Kliniken AG share was unable to avoid the severe stock market slump at the beginning of 2008, however. The share volume traded at all the German stock exchanges was almost 290,000 shares in January alone – an unusually large number compared with the average monthly volume of 160,000 in the months of January to June 2007. Since this development was driven primarily by sellers, the share price temporarily fell to € 10.56 in January 2008 and recovered to € 11.40 by the end of the month.

The share trading volume decreased again substantially after this. Due to very low demand from buyers, small selling orders were frequently enough to trigger off a further drop in the share price, so that it fell to € 10.63 by the end of April. The share price development during this period was due exclusively to special technical reasons associated with the market itself, so that the company's convincing performance had practically no impact.

The company reduced its sales forecast on 8 May, while maintaining its earnings forecast. Due to this as well as to a reduction in the multiples by analysts for all the companies in the industry, the negative share price development accelerated. The share price reached its low of € 8.06 on 25 June 2008. The Marseille-Kliniken share ended the 2007/2008 financial year at a price of € 8.50 on 30 June 2008.

We are of the opinion that the correction to the share price was excessively large. With valuation at the current level, we therefore consider that there are good chances of a more positive development in share value in the future. This assessment is shared by a number of capital market players. The investor Artio Global Holdings LLC, New York, for example, took advantage of the low valuation of the company in early July 2008 to acquire a holding. The company, which operates on behalf of institutional customers like pension funds or foundations, bought 9.4% of the shares. Julius Baer International Equity Fonds voting rights amounting to more than 3.0% are also attributable to Artio Global Holdings too.

Free float

There was no change in the free float in the 2007/2008 financial year. 40% of the Marseille-Kliniken AG shares continue to be available for trading. Perfectly adequate share fungibility is therefore guaranteed.

Coverage

Two further well-known international banks (Goldman Sachs and Dexia) have started to cover Marseille-Kliniken AG. This has raised the company's profile in the finance community even more. The increase in coverage is in addition evidence of the keen interest the capital market still has in the industry of relevance to Marseille-Kliniken. Reporting in the business and finance press has been intensified successfully as well.

Most of the banks and financial service providers that assess the company on an ongoing basis are expecting the Marseille-Kliniken share price to develop positively. Five of the nine financial analysts recommend that the share is bought, for example. The other four have issued "neutral" or "hold" recommendations. None of the analysts recommends that the share is sold. The effective plannability and scalability of the business model and the low risk resulting from this are the main positive factors mentioned in the studies.

Market capitalisation and trading volume

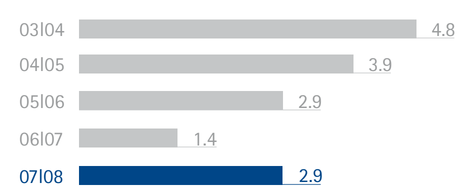
Due to the decline in the share price, the stock market value of Marseille-Kliniken AG decreased from € 212.6 million to € 103.3 million in the year under review. This means that stock market valuation dropped back to the level it was at about four years ago. The caution displayed by major capital market players in their operations also meant that the average number of the company's shares traded daily at German stock exchanges decreased from 13,125 to 8,885 too.

Dividend of € 0.25

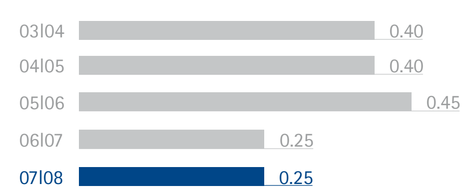
The Supervisory Board and Management Board are proposing to the Annual General Meeting which is being held on 12 December 2008 that a dividend of € 0.25 per ordinary share is paid for the 2007/2008 financial year. This means that Marseille-Kliniken AG is continuing its shareholder-friendly dividend policy by offering its shareholders another attractive dividend payment. In line with other listed health care service providers, a dividend payout ratio of 30% of the consolidated net income generated is taken as the basis for the dividend payment.

The total amount distributed for the year under review is € 3.0 million on the basis of 12.15 million shares.

Dividend yield in %



Dividend development in € per share



Main figures about the share

		07|08	06|07
Net income	€ m	13.8	9.1
DVFA/SG result	€ m	11.2	10.5
Gross cash flow	€ m	14.7	21.6
Dividend per share	€	0.25	0.25
Dividend yield (net)*	%	2.9	1.4
Total amount distributed (net)	€ m	3.0	3.0
Highest share price	€	18.05	16.10
Lowest share price	€	8.20	9.77
Year-end share price	€	8.50	17.50
Price-to-earnings ratio		7.5	23.4
Market capitalisation*	€ m	103.3	212.6
Number of shares	Million	12.15	12.15

* on 30.06.2008

Investor relations

Marseille-Kliniken AG is committed to providing the public with detailed explanations of the current business situation and the long-term success factors. The investor relations management gives high priority to prompt, regular and credible reporting, with the open provision of information to all market players at the same time in accordance with fair disclosure rules. The transparency campaign is supported every year by a Standard & Poor's rating, with BB- global being one of the best in the industry. In addition to this, it goes without saying for Marseille-Kliniken to issue a statement of compliance with the German Corporate Governance Code and to commission a well-known auditing firm to audit the financial statements. The 2006/2007 annual report has attracted particular attention in this context. The Marseille-Kliniken AG annual report is described as a successful, exemplary and convincingly visualised financial communication medium in the 11th edition of "Exemplary Annual Reports 2008" published by Verlag Dr. Florian Langenscheidt. The report is one of the 200 favourites among more than 1,300 annual reports that the publishing company examined.

The company continued to maintain its good contacts to capital market players in the

2007/2008 financial year. A large number of interesting talks were held with decision-makers from the financial community in spite of the poor stock market environment. Numerous meetings were arranged with current and potential investors from Germany and other countries at events held for investors and analysts as well as at roadshows in Hamburg, Frankfurt, Munich, London, Paris, Milan, Zurich and New York. The Management Board presented the company in this context, explaining the potential of an investment in the company's shares. The positive impression of Marseille-Kliniken AG in the financial community was therefore maintained to a large extent in spite of the recent development of the share price. The company also gives high priority to dialogue with its small shareholders, to whom it is always available for questions and suggestions. It is very important to Marseille-Kliniken AG to achieve a satisfactory return on its shareholders' investment and to increase corporate value. The company will be fulfilling the exacting demands made on capital market communication in future as well.

Marseille-Kliniken AG provides up-to-the-minute information about the latest events and about developments in the business figures on its website. Investors who are interested have an opportunity to download and look at the company presentations, reports and studies by many of the analysts covering us. Anyone who is interested receives all the latest information that is published by the company directly via e-mail on request. A detailed shareholders' report, which provides information about the current development of the business, is also sent to all the shareholders by post every quarter. Anyone who would like to contact the company personally can reach capable staff via the toll-free telephone number 0800 – 47 47 200. The committed investor relations team is available to answer the questions any market players may have. •••

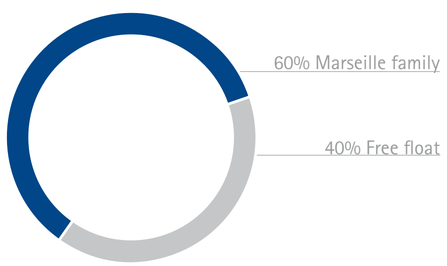
Share information

ISIN	DE0007783003
Stock exchange code	MKA.ETR
Reuters code	MKAG
Stock exchange segment	Prime Standard
Trading locations	Xetra, Frankfurt/Main, Hamburg
Designated sponsor	Close Brothers Seydler AG

Financial calendar for the 2008|2009 financial year

Press conference about the annual results	Beginning of November 2008
Report on the 1st quarter	10 November 2008
Analysts' conference	12 November 2008
Annual General Meeting	12 December 2008
Dividend payment	15 December 2008
Report on the 2nd quarter	10 February 2009
Report on the 3rd quarter	8 May 2009
Annual report 2008|2009	October 2009
Annual General Meeting	December 2009

Shareholder structure



Corporate Governance Code

For Marseille-Kliniken AG, corporate governance means responsible and transparent company management and control by the Management Board and the Supervisory Board. The Management Board and the Supervisory Board consider corporate governance to be an element of company management that focusses on a sustained increase in corporate value – in the interests of all shareholders.

With this in mind, the Management Board informs the Supervisory Board and its Chairman regularly, promptly and comprehensively about corporate planning, business development, company strategy, the risk situation, risk management and compliance. The rules of procedure for the Management Board specify that major business transactions require the approval of the Supervisory Board.

The shareholders are kept informed about the development of the business at regular intervals via the annual reports and quarterly reports and can find the main dates in the financial calendar in the Internet. At the Annual General Meeting, the shareholders can have their voting rights exercised by company proxies too, so they do not have to appear personally.

In the compensation paid to the members of the Management Board, no use is made of stock options or similar arrangements that are often lack transparency. The compensation paid to the members of the Management Board is set at an appropriate level by the Supervisory Board on the basis of a performance appraisal. One of the criteria that determine the size and appropriateness of the compensation is the overall development of the company. The compensation received by the members of the Management Board is published individually. The compensation paid to the Supervisory Board is based directly on the articles of association and includes not only fixed compensation but also a variable element that is based directly on the legal regulations in § 113 of the German Companies Act (AktG).

It has been arranged with the auditor that he presents immediate reports about all the findings and incidents of material significance as far as the assignments of the Supervisory Board are concerned and that he explicitly confirms his independent position as auditor to the Supervisory Board. The auditor also submits an extensive report about the results of his audit at the meeting held by the Supervisory Board to review the annual accounts.

The following compliance statement issued by Marseille-Kliniken AG has been made available to the shareholders on a permanent basis at www.marseille-kliniken.de, the company website.

Statement of compliance with the German Corporate Governance Code

The German Corporate Governance Code that was published by the German Ministry of Justice in the official section of the electronic federal bulletin includes a number of recommendations and suggestions in addition to legal regulations. The Management Board and the Supervisory Board of Marseille-Kliniken AG state in accordance with § 161 of the AktG that the company observed the recommendations made by the "Government Commission / German Corporate Governance Code" as amended on 14 June 2007 from the time when it submitted its last compliance statement in October 2007 until 8 August 2008 and has observed them as amended on 6 June 2008 and published on 8 August 2008 since 8 August 2008, with the exception of the following points:

Invitation to the General Meeting, proxies

The annual report and the invitation to the General Meeting, which includes the agenda, are published on the company website. Further documents that have to be provided are sent to the shareholders on request. The invitation, the annual report and the other documents that have to be provided are not sent using electronic channels.

Co-operation between the Management Board and the Supervisory Board

The company has taken out a D&O insurance policy for the Management Board and the Supervisory Board that does not include a deductible.

Management Board: composition and compensation

In line with the recommendations of the Government Commission, the compensation paid to the members of the Management Board consists of fixed and variable components in the form of a bonus. The size of the bonus is linked to success targets agreed individually with each member of the Management Board. Stock options and comparable arrangements for variable compensation have not been agreed with the members of the Management Board. Since no stock option plans or comparable arrangements for variable compensation have been agreed, there is no need to provide information about the compensation system on the website or in the annual report, while the Chairman of the Supervisory Board is not required to give the General Meeting any explanations either.

Supervisory Board: tasks and responsibilities

At the present time, the Supervisory Board does not consider a fixed age limit for members of the Management Board of the company to be necessary. The members of the Management Board are appointed for a maximum period of five years. The Supervisory Board takes decisions about reappointments in each individual case. The age of a member of the Management Board is only one of several criteria the Supervisory Board takes into account in its decision-making process here.

Supervisory Board: formation of committees

The Finance Committee discusses and handles issues relating to accounting, risk management and compliance, the necessary independence required of the auditors, the issuing of the audit mandate, the determination of auditing focal points and the fee agreement; a separate Audit Committee has not been set up by the Supervisory Board for this purpose.

Supervisory Board: composition and compensation

The fixed and variable components of the compensation paid to the members of the Supervisory Board are based on the company's articles of association. The variable component of the compensation paid to the members of the Supervisory Board complies with the legal regulations in § 113 Paragraph 3 of the AktG. An individualised breakdown of the compensation, including its additional components, is not provided.

Transparency

Information about the shares held by the Chairman of the Supervisory Board, Mr Ulrich Marseille, are published on the website of the German financial services supervisory authorities – BAFIN – (www.bafin.de) in accordance with § 21 of the German Securities Trading Act. Additional individualised information about the shares held by the Chairman of the Supervisory Board and a breakdown of the total shareholdings of members of the Management Board and the Supervisory Board are not given in the notes to the annual accounts or this report.

Reporting

In accordance with the Deutsche Börse regulations, the consolidated financial statements are published within four months of the end of the financial year and not within 90 days.

Berlin, October 2008

Marseille-Kliniken Aktiengesellschaft

The Management Board   The Supervisory Board

Health care in Germany
– a growing but problematic market

Enjoying old age together and well looked after.

The health system as it used to be has had its day

Health care in Germany continues to be an innovative and growing market for private companies to work in. Operations that maintain and promote health in the broadest sense generate steadily increasing sales and create new jobs on an ongoing basis. A rapidly developing "second health care market", which includes all the services that are not paid for by the health insurance funds, is where most of the growth potential can be found: over-the-counter medicine, fitness and wellness programmes, care cosmetics or organic foods. This market, in which the users pay the costs themselves, is being strengthened by the process of change among consumers, who no longer understand health to be the absence of illness; they define it as a quality in its own right. The second market is growing by more than 7% per year, which is faster than the overall health market.

The volumes involved on the health care market are substantial and they explain why the market players concerned are fighting vehemently to defend their positions. According to the German statistical authorities, total expenditure on health care in 2006 increased by 2.4% to about € 245 billion, which corresponds to almost 11% of the gross domestic product. Every German spent an average of € 2,870 on health care.

Health expenses in € per capita

Source: German statistical authorities

The statutory health insurance funds represented the largest expenditure item, accounting for 57%. The billions were spent primarily on outpatient health treatment, i.e. doctors' practices and chemist's shops. The funds spent in this sector increased by 3% to € 119 billion. A good € 90 billion went into the completely and partly inpatient sector, which consists mainly of hospitals and nursing facilities. The Germans spent about € 40 billion on medicine and almost € 11 billion on auxiliary products. The health care market is a job driver too. About 4.5 million people work at hospitals, doctor's practices, nursing homes, rehabilitation clinics, chemist's shops and pharmaceutical companies.

The OECD estimates that the sales generated on the international health care markets will be growing from about USD 3,000 billion today to USD 7,000 billion by 2015. At a time when globalisation is progressing, market experts think the German health care industry has substantial growth potential in international business. Whereas Germany has developed strong positions on the world markets in the medical technology and pharmaceutical fields, German health care facilities have only been a weak magnet for foreign patients up to now. Asia and the Gulf States are developing into the main strongholds of medical tourism. About 1.6 million foreign patients obtained treatment in Thailand alone in 2006. The biggest health care centre in the world so far – "Healthcare City" – is currently being created in Dubai. More than 35,000 patients a year are to be treated at 350 clinics, doctor's practices and beauty centres. The Far and Middle Eastern hospitals that are designed to cater for medical tourism not only provide state-of-the-art medical treatment and technology; they also offer considerably lower prices by international standards. While € 20,000 are charged for a new cardiac valve at a German clinic, it costs about € 7,100 in Bangkok.

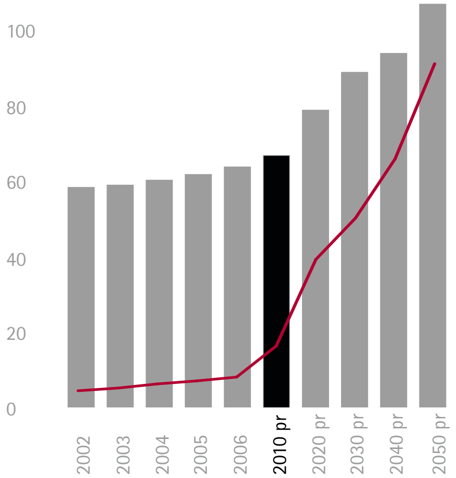
Clinic market in a process of radical change

The health care market is being driven by three trends that have been apparent for years. Firstly, the concentration process is speeding up. The outcome of the tremendous cost and performance pressure is that isolated facilities have practically no chance of survival any more. Secondly, medical progress and shorter periods of inpatient treatment necessitate closer liaison between all the different sectors of the health care market. Co-operation and integration of services are particularly necessary in the acute hospital field as well as in nursing care and rehabilitation. Integration is being facilitated by new legal regulations, which – for example – enable medical treatment centres to be established. What are known as health clusters, at which major market players like health care service providers, entrepreneurs and politicians join forces at the organisational level, are in addition being formed all over Germany to an increasing extent. What all the clusters have in common is that they do not see health care as a cost factor; instead of this, they consider it to be a growth industry and focus on exploitation of the existing potential. At the present time, there are more than 20 health clusters with firm structures in Germany, the aim of which is to optimise medical treatment. Thirdly and finally, the privatisation process in Germany is speeding up considerably. The health care market depends on private capital to fund growth. The health care market needs injections of capital primarily because the public sector is suffering from an increasing shortage of money and is incapable either of financing the urgently needed investments in the facilities or of absorbing the losses their facilities are making. Experts agree that the investment backlog that already exists can only be eliminated via private company structures.

The radical changes that are starting to be made on the German hospital market are symptomatic of the developments on the health care market in general. The acute market currently has a volume of about € 65 billion and is dominated by a large number of public hospitals that operate inefficiently in many cases. The private sector accounts for 27.3% of the market by the number of hospitals and 14% by the number of beds. Many hospitals are in a terrible financial state. According to a market survey by Bankhaus Lampe, a good third of the hospitals face insolvency. Due to rising material and personnel costs, very few hospitals still manage to find the necessary funds for modernisation exercises and state-of-the-art medical technology. The investment backlog in the acute field alone amounts to about € 50 billion and is increasing by € 3 to 4 billion every year. Public hospital funding is controlled by a dual principle. While the individual German states are responsible for the infrastructure, the health insurance funds finance the operating costs. This dual funding principle combined with governmental hospital planning is proving to be an increasingly serious obstacle to the achievement of sustained efficiency in hospital operation. Although discussions are being held about conversion to a monistic concept, in which the health insurance funds / companies pay not only the operating costs but also the investment expenditure, political resistance is likely to make prompt implementation impossible.

Under the existing conditions, hospitals are being forced more and more to counter the cost pressure exerted by competition for patients via rationalisation and specialisation on more profitable services. In order to be able to provide patients as wide a range of services as possible even so, there is an increasing trend on the market towards hospital co-operation, alliances and mergers. Experts doubt, however, that these options alone will lead to the necessary market consolidation. In the medium term, complete privatisation is likely to prove to be the most promising approach.

Expanding private market in € billion



— Market volume
— Privatisation
Source: German statistical authorities, HPS® forecast ("pr")

Irrespective of the fact that there is regular political and union resistance to hospital privatisations, the pressure exerted by practical circumstances will be setting off a new wave of privatisation, in which foreign investors will be involved too. Private hospital operators have considerable advantages where the unavoidable need to tap alternative sources of funding and the prompt and efficient implementation of turnaround concepts are concerned. It is most likely that general hospitals owned by local authorities will come onto the market as potential acquisition targets.

Imminent chaos in the health reform

The new "health fund", which is the most important element of the law to strengthen competition in the statutory health insurance system that came into force on 1 April 2007, is about to be introduced. The fund is the most controversial issue in health care policy and many observers do not rule out the possibility that establishment of it will end in chaos. Comments on the launch of the fund include descriptions of it as a "gamble" and a "tremendous economic risk". The government sees things differently, of course. The ministry of health says that the fund will help to promote competition about good treatment for patients and will lead to a fair balance between health costs and members' incomes. It is also said to be the precondition for making sure that more just payment than in the past can be made for both outpatient and inpatient treatment.

The health fund has the effect that more than € 150 billion in contributions are being distributed by new rules as of the beginning of 2009. In future, the roughly 200 statutory health insurance funds will not be specifying their contribution rates themselves any more. Instead of this, there will be a standard contribution for the approximately 71 million people insured, which is specified by the German government once a year via a legal regulation. The government is deciding what this standard contribution will be for 2009 at the beginning of October 2008. Experts are working on the assumption that it will be substantially higher than 15%. All the contribution income is being paid into the new health fund, which in turn distributes the money to the individual health insurance providers. A tax subsidy is being paid into the new fund in addition to the contributions and is supposed to reach about € 14 billion by 2016. Funding of this is not clear yet. How much the health insurance providers receive depends on the people insured with them: their age, their sex and, above all, their state of health. For this purpose, the German insurance authorities are compiling a list of 80 disorders for which payments of different sizes are made. Since it can be foreseen that not all the health insurance providers will manage with the payments from the fund in the long run, they can demand additional contributions from the people insured with them. They can amount to up to € 8, irrespective of the person's income. If they are higher than this, a hardship rule takes effect. According to this rule, the additional charge may not amount to more than 1% of the person's income. This can have paradoxical consequences. The health insurance provider is allowed to charge an apprentice who earns € 600 an additional € 8. If it increases this amount by € 1, the hardship rule is applied and reduces the additional charge from € 9 to € 6. The health insurance providers can also transfer bonuses to the people insured with them instead of making additional charges. This may be an attractive option for a company health insurance fund, which has had a low contribution rate up to now and wants to maintain its competitive edge by transferring € 20 to the members it insures. The possibility of making additional charges is a tremendous logistic challenge to the health insurance providers. They have to prepare collection of these charges and set up millions of individual accounts for the people they insure. The question also arises whether collection companies are to be involved when members fail to pay.

Large health insurance funds are talking about expenditure in the high double-digit million range. This expenditure is particularly painful, because it is part of a reform that does not solve any of the real problems. The health fund is a compromise between two concepts that are based on mutually exclusive principles. The Social Democrats wanted to set up the fund in order to oblige the private health insurance companies to make transfers to poorer health insurance providers. "Citizens' insurance" is what they had in mind. The Christian Democrats, on the other hand, wanted the fund in order to introduce additional insurance premiums which are not dependent on the income of the person insured and which employers do not help to finance.

Cutting back the social security systems

Health politicians basically agree that the contribution principle on which funding of the social security systems is based at the moment does not have a viable long-term future. However, they do not have the strength yet to change to a capital-based system. The debate about cutting back the social security systems has been stimulated by a position paper issued by the private insurance industry entitled "Social security in 2020: proposals by the German insurance industry". This paper suggests that the state old-age pension system is abolished and replaced by a standard basic old-age pension for everyone which is funded by taxes and that the nursing care insurance system is converted entirely to a private, capital-based system. The proposals are based on the assumption that the state will no longer be in a position to make its many different social policy claims and promises in future. The state support systems should concentrate on core assignments and private individuals should assume more personal responsibility. The responses to these proposals by the private insurance companies are divided. A political majority for the concept is not in sight at the present time. It is superior to the existing system, because it succeeds in separating health care costs from employment costs. In addition to this, the segmentation between capital-based private health insurance and contribution-based statutory health insurance is overcome, while genuine competition with identical conditions is created between the public and private health insurance providers.

Netherlands as an example

There has not been a statutory health insurance system in the Netherlands any more **since January 2006**, when it was replaced by a **standard private insurance system**. It is based on a law that stipulates the complete privatisation of the insurance system. For 16 million Dutch people, this means a **general obligation** to obtain **insurance** for basic medical services combined with freedom to choose an insurance company. Some of the funds required for basic medical services – about € 30 billion in 2006 – are provided by an income-based amount that employers pay. It amounts to **6.5%** of gross income **for employees** and **4.5% for the self-employed**. The remaining funds needed are provided via a **per capita lump sum**.

The market for nursing care for the elderly

Quality has its price

Making sure the elderly enjoy a decent life at German nursing homes is a central issue in the debate about health policy. Questions about the quality level of German nursing facilities are regularly stimulated by reports about unacceptable conditions and inhuman behaviour. Polls confirm that well-trained personnel, the quality of the nursing care provided and all-round personal attention are the criteria that have priority when a suitable nursing facility is being chosen.

Importance when choosing a nursing facility in %

99%	Well-trained nursing personnel
99%	Quality of nursing care
98%	All-round personal attention
86%	Within easy reach
78%	Additional programmes associated with the facility

Source: Emnid survey, February 2008

People in need of nursing care demand high-quality services in line with their financial resources. The state supports such wishes by making tougher requirements on the quality of nursing care. Quality assurance has its price, however. The legally prescribed implementation of quality management procedures backed by integrated software systems, intensified basic and advanced training of staff and the creation of "transparent nursing homes" mean that many nursing home operators are suffering from acute financial problems.

The market for inpatient nursing care for the elderly is the strongest growth driver in the German health care system. Growth is attributable primarily to demographic developments. Estimates indicate that the number of people who receive money from the nursing care insurance funds will be increasing from 2.1 million today to 4.7 million in 2050. 1.6 million of these people in need of nursing care are likely to require inpatient help. The disproportionately high growth in demand for inpatient nursing care is not being slowed down by the principle that "outpatient care has precedence over inpatient care", which is being promoted at the political and financial levels. On the contrary. The number of people cared for in their own home by relatives is decreasing steadily. Although in-family care by relatives still plays an important role in the community, the laws of nature follow different rules. No-one goes into an old people's home voluntarily and with great expectations.
A recent poll showed that only 8% of the people interviewed would opt for inpatient care in a home and only 27% can imagine receiving care in an assisted living or personally organised communal living context. Demand for admission to homes is increasing all the same – and there are reasons for this. The number of relatives, particularly children, who are in a position to look after people in need of care is decreasing steadily. High mobility means that children often live far away from their parents. The number of single-person households is increasing, while more and more women have jobs away from home. Above all, however, relatives are unwilling and unable to shoulder the responsibility on their own. They make excessive demands on themselves, get exhausted and harm their own health. Private nursing care is likely to be replaced to an increasing extent in future by professional outpatient and inpatient care. In this context, it can be expected that outpatient care will be integrated in inpatient care to an increasing extent, similar to developments in the medical field.

The market for inpatient nursing care for the elderly amounted to a volume of about € 27 billion in 2007. This market will be growing at a disproportionately fast rate by comparison with demand in spite of increasing cost and performance pressure. Market observers are expecting sales to double by 2050. The disproportionately fast growth is attributable, on the one hand, to the fact that the people who need nursing care are getting older, so that the intensity of the care required is increasing. The severity of the cases is growing too. This is particularly true of people suffering from dementia, the number of whom is rising by more than 10% per year. On the other hand, the ongoing shift both from home to inpatient care and from acute facilities to nursing facilities is leading to an expansion of the market. In the DRG environment, it is mainly elderly, long-term patients who are a burden on hospitals and who are therefore moved to nursing homes for further treatment.

Our increasingly old society combined with rising life expectancy is having far-reaching effects on the nursing care systems. On the one hand, the financial deficits made by the nursing care insurance system will be growing considerably due to the development in demand. Funding of the increasing expenditure will make it necessary for the contribution rates to be raised considerably and, at the same time, for the people affected to assume more personal responsibility. According to calculations by the institute for financial management at Albert Ludwig University in Freiburg, the contribution level would increase to more than 6% per month by 2050 if the nursing care funding system was maintained unchanged, taking into consideration the anticipated development in the number of people in employment and the increase in the number of people in need of nursing care for whom funding has to be provided. For the almost 36 million people insured by the statutory system and the good 8 million people insured privately, reaching to the point where nursing care is needed can mean financial ruin. With an average period of 8.2 years in which nursing care is required, additional private funds of € 95,000 are necessary even if only nursing care level II is needed. For the time being, the reform of the nursing care insurance system is not changing this situation at all, because it only provides an increase in the amount paid for inpatient nursing care at level III. But even with an increase of € 118 per month to € 1,550 in level III, someone in need of nursing care still has to close a monthly gap of € 1,125. This adds up to € 110,700 in personal funds over 8.2 years.

The large increase in the costs of nursing care are, on the other hand, leading to segmentation of supply. Due to inflation, the nursing care rates are on a lower level today than they were in 1996. This development represents a particular threat to the operators of standard facilities who account for about 80% of the total capacity. They have fewer than 50% single rooms and survive thanks to large subsidies from the welfare authorities. With stagnant nursing care rates, these providers face fast-increasing competitive and margin pressure. As is the case in many other areas of the business community, the market is spreading out in the nursing care field too. Segmentation focusses primarily on home furnishing and reflects the differences in income levels and social classes. At the top end of the prosperity scale, people who want to continue enjoying luxury in their old age and can afford the price are a source of growing demand for high-quality facilities. On the other hand, the need is also growing for facilities for people with small old-age pensions who can only finance life in a home with the help of the welfare authorities. The market requires a supply structure that takes account of the large differences in income levels. In view of this, the largely neglected market segment for assisted living is becoming more and more important. On the basis of a model calculation for nursing care level II, assisted living is about 30% less expensive than inpatient nursing care. The advantage of this model is that the personal contribution not paid by the nursing care insurance system is lower than the current average old-age pension level and that the welfare payments which are already needed normally in the case of inpatient nursing care are largely avoided. So far, only Marseille-Kliniken AG has implemented comprehensive segmentation of supply by hotel categories and has expanded the range by adding assisted living.

The market needs private capital

Cost and performance pressure, growing demand, the development of new forms of treatment and the modernisation of existing facilities are creating a need for immense investment in the industry. About 300,000 new beds are needed up to 2020, while many of the existing homes do not in some cases even comply with the minimum standards specified by the building regulations and need to be modernised completely. Experts estimate that annual funds of considerably more than € 5 billion are necessary to meet the future requirements on modern, high-quality nursing care for the elderly.

The German states and local authorities are not in a position to fund the investments of about € 50 billion required up to 2020. Almost all of the funds will have to be provided by the private sector. Experts expect that private operators will very soon be accounting for more than 50% of the market and that public operators will be withdrawing from the market completely by 2020. The expansion of the private sector competition will also be at the expense of the non-profit operators, who do not have access to private capital. The wheat will be separating from the chaff in the private sector too, however. Private operators who have not run their facilities economically in the past and whose cost structure does not meet the current requirements are in particular danger of going bankrupt. Operators who meet the requirements as regards costs, quality, investment and funding potential, product range and location are in a good position.

The reformed nursing care insurance system

The legislation designed to optimise the statutory nursing care insurance system came into force on 1 July 2008. The experts do not think that it represents a major advance. It does, however, have one piece of good news for the more than two million people in need of nursing care, for dementia patients, for relatives who care for family members and for nursing care service providers: all of them can hope for more support and a little more money in the next few years. It has bad news for the many million people and contributors who may need nursing care in two, three or four decades. Although the government has realised that the nursing care insurance funds require a fundamental, long-term financial reform, it has not fulfilled the demand for "capital-based elements to compensate for demographic developments" that is specified in the coalition contract. It increases the payments made by the nursing care insurance funds and burdens contributors with new costs without providing sound long-term foundations to shore up the unviable funding system. This is a particularly serious mistake, since the time left to make the conversion that is still possible now from contribution-based nursing care insurance to capital-based insurance is getting shorter and shorter every year, because the demands made on the nursing care insurance funds are increasing all the time. There are some indications that the opportunity to opt for this best of all possible solutions has been missed once and for all. •••

The elements of the reform

Higher contributions

The rate contributors have to pay is being increased by 0.25 percentage point to 1.95% of their income up to a maximum of € 3,600 per month as of July 2008. Contributors with no children will be paying 2.2% in future. Contributors to private insurance schemes have to pay more in future as well. The agreed increases in benefits apply to the statutory and private insurance systems. The higher contributions will bring the nursing care insurance funds more than € 2.5 billion per year. This amount is supposed to be enough to eliminate the annual deficits incurred by the nursing care insurance system and to pay for the additional expenditure that has been agreed. In spite of a steadily increasing number of people in need of nursing care, the contribution rate is to remain stable until 2014.

More time to provide care

Employees who want to care for relatives at home can take up to six months off for this purpose. This rule includes the right to return to their job. In addition to this right to time off to provide nursing care, employees can demand unpaid leave of up to ten working days "to organise appropriate nursing care in a situation that suddenly occurs or to guarantee nursing care during this time". Both of these rules only apply to companies with more than 15 employees. The nursing care insurance fund pays the contributions to the old-age pension scheme during the period of absence. The health insurance fund continues to provide family coverage.

More money

The rates for the three nursing care levels are being increased for the first time since 1995. This is being done in three stages in 2008, 2010 and 2012. In completely inpatient nursing care, there is only more money for people in need of the most intensive nursing care (nursing care level III), however. Up to 2012, there is a maximum of € 179 more for outpatient benefits, including assistance from professional nursing care service providers at home. The payments made to relatives providing nursing care are being increased in stages too. In the highest nursing care level III, € 700 are being paid from 2012 onwards, € 35 more than today. The amounts for short-term and partly inpatient daytime and nighttime nursing care are being increased in stages.

Dementia patients

Greater support for elderly people suffering from dementia is one of the emphases in the reform. € 200 million more per year are to be spent on this. For the people affected, this means an increase in the amount provided for care purposes from € 460 today to up to € 2,400 a year. Additional personnel to look after dementia patients is to be paid with this money.

Nursing care bases

The plan is to set up one base per 20,000 inhabitants. Information and an individual nursing care advisory service are to be combined there. Nursing care and health insurance funds, welfare organisations, local authorities and volunteers are supposed to liaise as closely as possible. The states take the decisions about the establishment of such bases. Launch funding of € 60 million is available for two years. With a maximum of € 50,000 per base, this is enough for 1,200 facilities at most. The insurance funds are also required to provide individual advice about nursing care from 2009 onwards. The case managers that have to be appointed for this purpose at the nursing care bases are supposed to develop individual treatment plans for the patients concerned.

Greater control and transparency

People who are looking for nursing care are supposed to be able to assess the quality of nursing facilities more simply and effectively in future – and not only on the basis of the price for nursing care, room and board. All nursing facilities are to be checked once a year from 2011 onwards instead of every three years. Consistent quality standards for the whole of Germany are being compiled for this purpose. The results of the audit reports by the medical service departments of the health insurance funds must be published "in a comprehensible form" in the Internet, at the nursing care base or at a clearly visible location in the home. Simple symbols or a star system comparable to the one used for hotels are supposed to give outsiders an immediate insight into the quality of nursing care provided at the facility. Homes can employ a doctor of their own. Nursing staff must be paid in accordance with normal standards at the location. Audits of effectiveness and economic viability are only to be made if there is a specific reason to do so. Costs of € 80 million that are attributable to bureaucracy are to be eliminated every year by simplifying the bookkeeping records for nursing care.

The rehabilitation market

Demand is increasing

Inpatient rehabilitation continues to be an important element in the medical treatment system. The market is slowly recovering from a period during which it has been weak. In contrast to nursing care, the prescription of rehabilitation measures is subject to economic fluctuations. The sector is in the middle of a process of radical consolidation. Major reasons for this are the increasing segmentation of the market and specialisation, which are trends that not all operators of rehabilitation clinics are able to follow.

The growing demand for rehabilitation services is boosted by several factors. One of them is that patients are leaving hospital after a shorter time in what is often a poorer state of health and require inexpensive further and subsequent treatment at rehabilitation clinics. This development is closely associated with the introduction of DRGs. This system of lump-sum payments per case in the acute field is leading to a substantial decrease in the length of time patients spend at hospitals. With a fixed amount specified for the DRGs, the number of cases determines hospital revenues and not the number of days spent at the hospital. In 2006, the average hospital stay decreased to fewer than nine days for the first time. Demand is focussing on follow-up treatment, which is growing at the expense of general treatment. The number of rehabilitation patients who are coming directly from hospital is increasing in this context. While the figure in 1991 was only 8%, it had risen to 37% by 2006. Forecasts suggest that it will be a good 77% in 2010 and almost 100% from 2020 onwards. On the basis of this estimate, 15% of all hospital patients will be transferred to a rehabilitation clinic in future after their inpatient stay at an acute hospital. The figure in 1991 was about 1%, which went up to about 4% in 2006. The rehabilitation market is, on the other hand, generating growth from changes in the demand structure. Patients are increasingly old and rehabilitation at home is becoming more and more problematic for socio-cultural reasons. The disorders that elderly people suffer from have many different causes and require more extensive treatment.

The requirements on inpatient rehabilitation are continuing to increase.

According to the most recent estimates, the rehabilitation market has a volume of about € 7.4 billion, a total which is funded to roughly equal extents by the state old-age pension and health insurance system and by private sources. The proportion of rehabilitation expenditure accounted for by the statutory insurance funds has decreased steadily in favour of private expenditure since 1995. This trend will be continuing. There are historical reasons for the funding structure in the rehabilitation sector. The old-age pension system funds rehabilitation by the working population with the aim of protecting them against a premature end to their working life for health reasons. The statutory health insurance system pays the costs incurred by old-age pensioners. There are likely to be profound changes to this funding structure in connection with the shorter hospital stays attributable to introduction of the DRG principle. The old-age pension funds will be withdrawing from the funding of rehabilitation measures gradually and will be transferring responsibility for this to the health insurance funds. This appears to be a sensible move, because management of rehabilitation in isolation – separately from acute inpatient and outpatient services – will have to be replaced by comprehensive payment for the entire treatment of a case. It means that rehabilitation will be paid for as part of the course of treatment within the framework of DRGs. There will as a result be a trend towards redistribution of funds from acute hospitals to rehabilitation clinics.

Selection process is continuing

Major adaptation processes are being carried out to integrate rehabilitation in the acute inpatient treatment system. Shortening hospital stays makes it essential to have high medical skills at the rehabilitation clinics attended afterwards. The range of outpatient and partly inpatient services needs to be expanded as well, while closeness to the patient and the acute hospitals must be maximised to guarantee value for money. Strong financial resources, flexibility and strategic management are essential to satisfy these requirements. Operators will only have a chance of being successful in the long run if they meet the following conditions: a blend of outpatient and inpatient programmes, a blend of private and public funding organisations, a blend of patient sources (acute hospitals, outpatient facilities and patients who take the initiative themselves), a choice of specialised programmes, locations close to patients' homes and to hospitals, sound cost structures and high investment potential. Most of the providers who fulfil these criteria will belong to the private sector of the market. Observers are working on the assumption that the proportion of the rehabilitation market accounted for by private players will increase to almost 80% by 2020. This fast-growing private market will be concentrated on a few large, national players with a stock market listing, whose names are associated with quality. •••

What we have achieved

- ••• We have continued to grow, with the focus on West Germany. Two neighbouring facilities in Düsseldorf were completely full after six months
- ••• The occupancy rate of our 7,616 beds has increased to over **93%** - 5 percentage points higher than the industry average
- ••• Publication of the first quality report is paving the way to the "transparent home"
- ••• We have optimised our property portfolio, created new financial scope and cleaned up the balance sheet by concluding the fourth sale-and-leaseback transaction

What we are aiming to achieve

- ••• We consider **12,000** beds available in the Group to be the optimum size – and will be reaching this target in the next 3 years
- ••• We will continue the quality campaign – becoming quality leader in nursing care and obtaining DIN ISO certification for the entire company by early 2009
- ••• To cover our requirement for capable staff, we aim to provide in-depth, ongoing training on the basis of e-learning
- ••• Flexible, performance-based pay systems will make Marseille-Kliniken even more attractive

Marseille-Kliniken AG strengthened its leading position in inpatient nursing care for the elderly in the 2007/2008 financial year.

An important market in the future: living independently but well looked after in one's own four walls.

Expansion is continuing

We have been operating according to the principles of customer orientation, economic viability and social responsibility ever since the company was founded. The persistence and dependability with which we do this have made an impact on the market. We are one of the pioneers of the branch concept in nursing care for the elderly and as a private company we demonstrate that socially responsible and economically viable operation can be combined in a market that is influenced mainly by welfare organisations.

People age. Nature has decided this. And people need help and care in old age. This has always been the case. People's life cycles have changed, however. The classic three-phase model, consisting of education, working life and retirement, is a thing of the past. Life does not follow a standard pattern any more. Retirement from working life is considered to be a beginning rather than an end. The different phases – transition, retirement and old age – that the second half of life involves are defined as an opportunity to catch up on what has been neglected during working life. People are becoming more and more aware of the fact that such a compensation strategy requires a well-considered shift to old age.

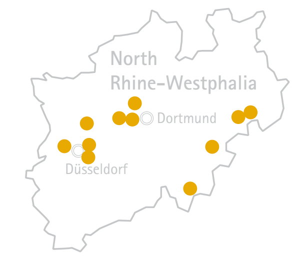
Our strategy is dictated by this change in attitude. People who are getting older and need nursing care are customers who want to be convinced by performance and quality. It is no longer enough simply to be there and give care patients a roof over their heads. Anyone who moves into a nursing facility requires the same standards to be reached as in his own home environment or at a hotel. We adopt a flexible response in satisfying the different requirements made by the market. Variations in the furnishing of the facilities match the general economic conditions of the location and its population structure. We give our customers the choice of different building concepts that suit their requirements and financial resources, without sacrificing any of the high quality of nursing care and service. The classification of our properties by the same star system as the one used in the hotel industry reflects a demand structure that varies on a prosperity scale. With 2-star homes and the assisted living concept as well as with integrated treatment concepts involving medical clinics and nursing clinics, we cover

Unmistakable: the Marseille-Kliniken AG brands.

practically all the needs of elderly people. We back customer orientation by professional marketing. Branding has been an underdeveloped concept in the nursing care market up to now. The aim of our marketing concept is to establish Marseille-Kliniken as an unmistakable, unique brand on the German nursing care market. All market players are supposed to associate Marseille-Kliniken with specific success criteria: quality, service, price, product profile, closeness to the market and specialisation. We have achieved our goal to maximum effect when potential customers always think of Marseille-Kliniken first when choosing a nursing facility. The development of the occupancy rate at our facilities shows that this strategy is working. At the end of the financial year, the 7,616 beds at the 56 facilities were filled 93.3% of the time on average. This is considerably higher than the industry average of 88%.

Go west

Expansion in West Germany and particularly in urban areas there is an important element of our growth strategy.



In July 2007, we opened the senior citizens' residential home Lessingplatz in Düsseldorf with 79 beds, which is located in the immediate vicinity of the Düsseldorf-Volksgarten facility. Both of these 4-star facilities were completely full within six months of opening and complement each other ideally at both the operative and strategic levels. Conversion of the former rehabilitation clinic in Schömberg into a nursing clinic with 100 beds was completed in November 2007. The location is an addition to the range of nursing homes in the region and is developing satisfactorily in spite of fierce competition. The expansion of the nursing division is being accelerated by entering new segments like assisted living. We inaugurated the Josephinen residential home in Potsdam, which has 131 residential units that are designed for assisted living, in September last year. Following initial acceptance problems, the facility Türk Bakim Evi in Berlin-Kreuzberg, which was opened in the spring of 2007 exclusively for Turkish residents, is developing positively thanks to an intensive information campaign targeted at the relevant opinion leaders. We have fine-tuned the concept and are implementing it in co-operation with the Turkish community.

Assisted living in Potsdam: spacious rooms in pleasant surroundings.

Expansion of the operations in the area of nursing care for the elderly will be continuing in the new financial year. Two facilities with a total of 150 beds came into operation in Meerbusch at the beginning of July 2008 and the senior citizens' residential home in Oberhausen with 80 beds will be following in November. Conversion of what used to be the cardiovascular clinic in Waldkirch into a nursing clinic with 80 beds will be completed in the autumn of 2008. Together with the adjacent senior citizens' residential home, 150 beds will be available at the Waldkirch location, where there will be a particular emphasis on a number of specific disorders. A facility in Bremerhaven with 200 beds will be opening in the summer of 2009.

Marseille stands for quality

All the activities in the nursing division are co-ordinated closely with the central quality management department. We aim to position Marseille-Kliniken even more clearly as a highly specialised, high-quality service provider. Our trademark is professional nursing care that not only satisfies the legal requirements but is also subject to high internal standards that are checked regularly at the facilities. Specialisation takes account of the current developments in the health care market. The changes in the funding system for acute hospitals (DRGs), new treatment structures such as integrated treatment and the increase in the average age of nursing home residents are leading to more exacting and more specific requirements.

Areas of specialisation

- Palliative care
- Activating care
- Dementia, open
- Dementia, closed
- Dementia with a chip system
- Dependence disorders
- Behavioural abnormalities
- Apallic syndrome (coma)
- Coma, 24-hour artificial respiration
- Multiple sclerosis
- Parkinson's disease
- Apoplexy
- Visual impairment/blindness
- Short-term care
- Day- and nighttime care
- Assisted living

The facilities are specialising in selected disorders for which there is particularly strong demand on the market. What is primarily involved here is the professional, concept-based treatment of people suffering from dementia, various forms of addiction, strokes, multiple sclerosis, Parkinson's disease and behavioural disorders. eqs.-Institut, which is part of the Group, has developed concepts for palliative care, short-term nursing care and intensive care too. Special concepts that guarantee varied and individual care for the residents are implemented at practically all the Marseille-Kliniken AG homes. We are working constantly on expansion and improvement of specialisation at the existing homes in particular. This enables us to respond quickly and flexibly to market requirements, which are changing and often vary from region to region. We combine the construction projects needed at older facilities with the implementation of special concepts, in order to modernise the homes so that they are in line with the latest state of the art for both the residents and the staff. •••

A success story – sale and leaseback

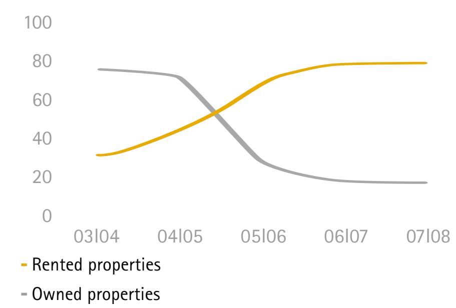
The new financial scope that has been created to fund expansion of the core business of inpatient nursing care for the elderly and of the assisted living segment as well as to implement the plan to enter the acute hospital field is attributable to the economic success of the sale-and-leaseback transactions carried out in recent years.

Growth in existing markets and moves into adjacent new areas of operation have to be financed. Releasing company capital that is tied up in property for investment in the core business is of crucial importance not just to us but also to many other companies, particularly those with a stock market listing. According to estimates by Eurohypo in Germany, 20% of the total capital of the companies listed in the DAX index is tied up in land and buildings alone. The recent transactions completed by Deutsche Bank, Telekom or Daimler are reinforcing the trend towards disposal of property portfolios. Local authorities are also exercising this option to improve their liquidity positions in the meantime.

The exploitation of hidden reserves and liquidity reserves is not the only driving force behind this strategy. It is also a response to the changes in the requirements made by the finance and capital markets on listed companies. In the context of capital costs, the capital markets demand optimisation of the balance sheet structure. This requirement has become even more exacting following Basel II with its revision of the rules for granting loans, according to which banks have to carry out rating procedures for borrowers before they grant loans and during the term of such loans. Such balance sheet structure indicators as the equity ratio, the total return on investment and the debt/equity ratio are considered in this connection. The most important steps taken to improve the balance sheet structure include the sale-and-leaseback transactions completed in recent years, that lead to off-balance-sheet financing, in which the properties we use and the external capital needed to finance them are no longer shown on our balance sheet. Sale-and-leaseback transactions have the effect of shortening the balance sheet, which in turn leads in the final analysis to an increase in the equity ratio and to an improvement in the total return on investment reported.

The four sale-and-leaseback transactions with a total purchase price volume of € 301 million that Marseille-Kliniken has arranged in the last four years have improved the balance sheet structure substantially. The equity ratio, which was 17.6% in the 2003/2004 financial year, was 35.4% at the end of the financial year, while the financial debt ratio decreased from 60.9% to 33.0%. The latest transaction with a volume of € 33.5 million involves six properties with a total of 567 beds. The buyers are IMMAC Holding AG, Hamburg, (a group of investors) and RP & C International/Public Service Properties Investments Ltd., London. As in the previous transactions, Marseille-Kliniken is leasing the properties back for 20 years, with appropriate rights of first refusal / buying rights guaranteeing long-term access to these properties for the company. The four transactions have made profound changes to the structure of the Marseille-Kliniken AG property portfolio. The ratio of 30% rented property and 70% owned property has been reversed to 80% rented and 20% owned property. •••

Development in the proportion of our properties that are owned in %

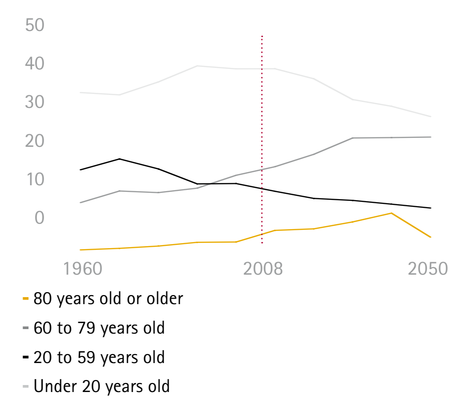


Emergency situation on the nursing care market

Financial provision for old age and need for nursing care were issues that people in Germany – younger people in particular – preferred not to think about for a long time. A survey by the opinion poll institute TNS Emnid is refuelling the debate.

In view of an age pyramid that has been turned upside down and the realisation that the existing funding system will not be able to meet the growing requirements in the long run, nursing care for the elderly has in the meantime become the focal point in the debate about the health system. The core issues in the debate are quality and transparency. This debate has been stimulated by the results of a survey compiled by the opinion poll institute

Demographic development in millions



Source: German statistical authorities

TNS Emnid that was published in April 2008. The survey commissioned by Marseille-Kliniken AG ("Nursing care in Germany – the situation from the point of view of the people affected") is based on interviews with 1,100 people with relatives who require nursing care about the nursing care reform, quality and funding of the nursing care system. The conclusion is clear: Germany needs official nursing care control authorities and "transparent nursing homes". Even the people interviewed with close relatives who need nursing care only have very vague information about the reform projects.

Ways to check nursing quality in %

97%	Personal impression during a visit
87%	Test certificate from independent institutes
84%	Audits by federal and state authorities
82%	Audits by the nursing care insurance funds
64%	Quality reports issued by the home operators

Source: Emnid survey, February 2008

Every fourth to fifth person asked had no idea of the costs he would incur if the need for nursing care arose. 97% rely primarily on their personal impression during a visit when choosing a nursing home. 87% demand test certificates and audits by independent institutions and health insurance funds. 64% of the people interviewed think that quality reports by the nursing home operators are a worthwhile addition to external certification procedures. The participants feel in general that there should be a standard auditing process. 78% of the interview partners think that inadequate care is attributable to a shortage of staff. 57% consider that underfunding of the nursing care system is the central problem. Almost all of the people questioned say that well-trained nursing staff, all-round personal attention and proper medical treatment are the most important quality criteria. In order to improve nursing care, 90% of the relatives consider it necessary to check facilities more frequently and on the basis of stricter criteria, 89% call for less bureaucracy in the system and 52% think that stronger competition between the operators would be sensible.

Suggestions for improving nursing care in %

90%	More frequent home checks
89%	Less bureaucracy in the nursing system
85%	Stricter rules when checks are made
83%	Minimum wage for nursing staff
52%	Stronger competition between home operators

Source: Emnid survey, February 2008

Pioneering role for Marseille-Kliniken

Quality and quality assurance have top priority at Marseille-Kliniken AG. In the last four years alone, we have invested about € 3.5 million in the development and optimisation of the internal quality management system, the primary aim of which is to guarantee successful implementation of the quality policy. What are involved here are, firstly, a systematic approach and, secondly and most importantly, the ongoing improvement of all Group services and processes.

Geprüfte eqs. Institut Siegel Pflege-Qualität

We are the first private nursing home operator to present a quality award to the best homes and we draw attention to the facilities concerned in the Internet. The assessment made is based on the results not only of the interviews that are held regularly with relatives but also of the internal quality audits that are carried out in accordance with the criteria specified by the medical service departments of the health insurance funds. All of our facilities perform well in this context, the results being expressed in the same grades as those used at schools. All in all, 30 of the 54 facilities tested were given an overall grade of better than two and therefore received the quality award presented by the Group's own eqs.-Institut [1].

[1] A Marseille-Kliniken AG company

An examination is made of all the structural, process and performance quality features. Trained quality managers ask detailed questions about the implementation of nursing plans and nursing inspections, about nursing reports and about the steps taken to deal with nursing risks, while they also review personal care, storage, nutrition, liquid intake and room cleanliness.

We make ongoing improvements in the quality of the services we provide by taking the opinions expressed by our residents and their relatives about the quality of our work seriously. We receive clear indications of existing optimisation potential and incentives to do better via the complaint management function, which is a central element of our improvement system. We have developed an extensive set of instruments to monitor the viability of the quality management system. It includes auditing, certification schemes, complaint management, "complaint boxes" at the facilities and an IT-based reporting system that gives us regular information about the quality of our processes and services.

We audit our facilities and clinics once a year to determine their compliance with our management system and make monthly checks on the basis of the latest test catalogue issued by the medical service departments of the health insurance funds. We back our internal controls by participation in external certification schemes. We have had three facilities certified by the internationally respected KTQ standard in a pilot project. The quality mark confirms that the nursing facilities observe the highest quality assurance requirements. External certification of the entire company by the DIN ISO standard will have been completed by the end of 2009 at the latest. •••

Kooperation für Transparenz und Qualität im Gesundheitswesen · KTQ-Zertifikat ·

Transparency campaign – the first Group quality report

Marseille-Kliniken AG is setting standards by publishing the first Group quality report by a company in the nursing care industry with national operations. It is at the same time the first comprehensive project in the campaign to create "transparent nursing homes". Our aim is to make it clear to our residents and potential customers how the individual homes are furnished and equipped, what programmes are available and how high the quality of nursing care provided is. It is only possible to grant such a full insight into the quality management system and the level of structural, process and performance quality achieved from a position of strength. In the report, we document what quality standards have been implemented at the company, how theory and practice are linked, what results the internal reviews by the quality managers have produced. The results of the external audits by the medical service departments of the health insurance funds will be presented in the next quality report for 2008 too.

Good quality is a high priority at all the Marseille-Kliniken nursing facilities.

The report begins with information about structural features of the facilities, including the number of full-time staff, when the facility was built, the bed capacity or the number of residential areas. This is followed by a detailed description of the internal quality management system. The report documents how we determine the quality of the treatment provided at the facilities in a comprehensive and up-to-the-minute form, e.g. via internal and external audits, via a nursing problem report, via interviews with customers and via a complaint management system. The instruments and test methods applied in this context make quality measurable with the help of key figures. A particular highlight of the report is a presentation of the results of the reviews. The interviews with relatives demonstrate that the personnel, co-operation with relatives and facility administration are given good marks. A description is also given of how the residents are guaranteed the best possible treatment by qualified personnel via careful selection of employees, an exemplary ongoing training curriculum, basic training of new nursing staff and trainee programmes.

The key figures are determined on the basis of comprehensive IT structures. Weak points can be detected and analysed in detail immediately. The rapid identification of deficits enables problems to be solved quickly and action to be taken to make sure improvements are made. The report includes, finally, a description of current quality management projects that are being tackled to make further improvements in the treatment provided. Some examples are systematic reporting of nursing risks, optimisation of laundry supply or a standardised hygiene concept throughout the Group. Ongoing optimisation of the quality management system can be traced back to our understanding of quality as a process rather than a state. We will be continuing to develop the quality report by including further key figures and presenting the progress made in the course of time. The current quality report is available on the website www.marseille-kliniken.com, while a print version can also be ordered.

The response to the quality report has been very positive. Objections have been raised too, however. It has been said, for example, that the report is not objective because of the lack of external controls and that it is the marketing department which benefits most from publication of the report. We consider these criticisms to be unjustified. On the one hand, the internal quality reviews are based on the rules issued by the medical service departments of the health insurance funds, with the addition of specifications from the in-house quality management system. On the other hand, we are subject to regular external controls. In 2007, we received 16 visits from the medical service departments of the health insurance funds, the home supervisory authorities came to our facilities 49 times and we reviewed individual cases with 700 representatives of the medical service departments of the health insurance funds in connection with nursing care level corrections at our homes. We are not aware of any facility run by a non-profit or public organisation that is controlled so comprehensively. We have no objection to external control. It is our conviction that an optimum quality review consists of an annual check by the home supervisory authorities and the medical service departments of the health insurance funds combined with an internal quality assurance process that is rounded off by the external certification by official control authorities which we advocate. •••

Co-operation as the key to efficient treatment

Networking of the business and scientific communities is a source of good ideas for processes and structures.

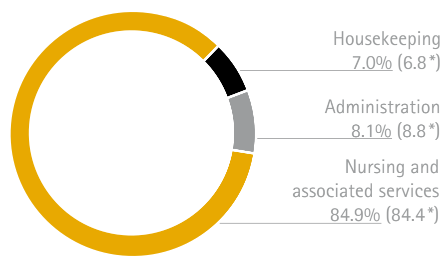
Marseille-Kliniken AG has been co-operating with universities on different projects for years now. We consider these partnerships to be worthwhile, because they help us to find solutions for optimising treatment of our patients. We are, for example, developing a standard for residents' meals at inpatient nursing facilities in co-operation with the University of Applied Sciences in Hamburg and a standard for medical treatment in a second project with Hamburg University.

Theory and practice always go together.

Bed capacity Number on 30.06.2008

Occupancy rate in %
excluding the facilities that started operation

Number of employees



* Figure for the previous year

Reform of the nursing care insurance system

1. Improvement in benefits

Gradual increase in outpatient and inpatient benefits as well as in payments made to relatives providing nursing care

Expansion of the outpatient benefits for people with limited ability to cope in everyday life

Improvement in short-term and inpatient nursing care, short-term nursing care for children in facilities for the handicapped

Larger subsidies to facilitate further expansion of low-threshold support programmes as well as for volunteer and self-help structures

Improvement in the benefits for daytime and nighttime nursing care

Dynamisation of benefits

Facilitation of access to nursing care services

Shortened appraisal periods

Shortening of the time during which nursing care has to be provided before respite care benefits can be claimed

Payment of contributions to the state old-age pension scheme continue when the person providing nursing care is on holiday

2. Elimination of interface problems

Medical treatment in nursing homes is being improved, improvement in release management, introduction of nursing care bases

3. Improvement in dementia care

Right to additional personnel employed in jobs requiring social security payments for fully inpatient nursing care

4. Strengthening of outpatient services

Nursing care bases involving local authorities, welfare organisations and local service providers

Right to comprehensive advice about nursing care, "pooling" in new residential structures, expansion of advisory programmes, individual contracts

5. Time off for employees to provide nursing care

Up to 6 months off work for employees; no salary payments are made, but social security contributions continue to be paid

6. Strengthening of prevention and rehabilitation in nursing care

Non-recurring cash payment of € 1,536 for facilities that succeed in reducing the nursing care level patients need thanks to rehabilitation

7. Higher quality and greater transparency

Development of national quality standards in Germany

Stricter rules for quality audits

Understandable audit reports with consumer-friendly publication in the Internet

Introduction of a traffic light or star system

8. Intergenerational civil involvement

Self-help and volunteer structures are included in the backing provided for low-threshold programmes

9. Payment in accordance with normal local standards and other payment issues

Nursing homes are required to pay staff in accordance with normal standards at the location

Individual personnel keys can be agreed between the funding organisation and the home

Several facilities can be operated at one location on the basis of a single overall care contract

10. Less bureaucracy and more economic efficiency

Completion of audits only if there is evidence of a lack of effectiveness and economic viability

11. Adaptation of private nursing care insurance to the rules specified in the law to strengthen competition in the statutory health insurance system

Statutory nursing care insurance system is allowed to arrange additional private nursing care insurance cover

12. Funding

Increase of 0.25 percentage point to 1.95% in the contribution rates as of 1 July 2008
(Contributors with no children: 2.2%)

Source: BMG, HPS

Our employees

Growing together

Marseille-Kliniken AG has been a stock market listed operator of senior citizens' residential homes and nursing facilities throughout Germany for more than 20 years now and steady growth has made it one of the biggest private service providers in the German health care industry. As a Group, we have over 5,400 employees at more than 65 different locations. The provision of nursing care and assistance to elderly people continues to be the core business. Such new segments as assisted living and acute hospitals will be playing an increasingly important role in the near future.

Employees are a company's most important asset in the service sector in general and where health care services are concerned in particular. Provision of the best possible nursing care and assistance to our residents and patients can only be guaranteed by qualified and motivated staff, who attend training courses at regular intervals. Since the services are provided directly by one person to another, the quality of our staff's work has a direct impact on the quality of our overall performance, so ongoing reviews and rewards are made. Thanks to our activities in the nursing care research and development field, we are in a position to create state-of-the-art special concepts for the provision of individual treatment and nursing care to our residents which represent unique features that help us to stand out from other market players.

Nursing care Rehabilitation Services Administration

Market for qualified staff

On the employment market for health care services, there has been a substantial reduction in jobs at hospitals in recent years, as a result of which a large number of qualified staff have been available for employment elsewhere. This trend has not continued; on the contrary: the situation has changed considerably in the meantime. There is a shortage of trained personnel and demand is increasing. In view of this development, it is particularly important to encourage qualified personnel to remain loyal to the company over the long term. We were quick to recognise this and have initiated extensive staff loyalty and motivation measures. Open dialogue and high transparency play an important role in this context. We offer our employees the weekly staff television format "Profile TV" with reports from the facilities and regular news programmes. They receive important background information and helpful tips via the staff magazine "Profile" too. Our staff programmes also include fitness training, meals, nursery school subsidies, supervision and use of sunbeds at the facilities free of charge.

Improvements to the pay systems, comprehensive basic and advanced training via e-learning and individual career planning have helped to stabilise the workforce considerably and have made us a more attractive employer. Innovative concepts for performance-based pay, such as the bonus system for top nursing staff and the e-learning reward system are not matched by the competition. We promote staff involvement in development of the company via the introduction throughout the Group of an ideas management system. Payments are made for promising suggestions that can be implemented in practice. We have also turned most of the 1,600 temporary employment contracts into permanent contracts. The newly established pension fund, acceptance of which by the company's employees is increasing steadily, is, finally, having a strong impact on staff loyalty and motivation. Staff turnover within the Group developed very positively in the last financial year – particularly in the nursing division – and is substantially lower than the industry average at 10%.

Time	06.00	07.00	08.00	09.00	10.00	11.00	11.15	11.45	12.00
	Transfer from night to early day shift	Basic care	Distribution of and help with breakfast	Administration of medicine	Mobilisation	Nursing documentation	Treatment care	Team meeting	Distribution of and help with lunch

Quality – secrets to success

Purposeful career planning is an essential element of successful personnel development. We offer our employees personal and professional development in the nursing care and business administration fields on the basis of intensive and individual assistance with their career planning. We apply the principle of challenge and encouragement in enabling qualified specialised and management recruits to participate in trainee programmes and appropriate advanced training courses. The balance between high-quality nursing care and commercial efficiency guarantees our economic success and competitive position.

Basic and advanced training

The lack of skilled employees is not a new issue for us. Ongoing training of young specialised and management staff has been one of the central features of the personnel development activities for years. In the 2008/2009 financial year, we will be training a total of 270 young people in six different professions:

- Geriatric nursing
- Nursing service and facility management
- Cooking or housekeeping
- Hotel management
- Office administration
- IT system administration

The apprentices benefit from our attractive and appropriate pay system too. An additional 10 to 20% of the basic salary is paid if good enough grades are achieved and the assessment of practical performance is good as well. The best apprentices each year are rewarded by being paid an extra bonus. We guarantee an employment contract within the Group on successful completion of an apprenticeship, provided that suitability for the company has been demonstrated.

We provide a wide range of advanced and ongoing training options in addition to apprenticeships. Our employees can complete further training alongside their normal work responsibilities in order to become a diet cook or a nursing service or facility manager. The Marseille Academy, which was established in 1998, carries out a central function in ongoing training of our specialised and management staff. As the main training provider in the Group, it gives all employees the opportunity to participate in training courses via what is known as a blended learning concept, i.e. 80% of the training is in the form of e-learning units, while only 20% requires personal presence. The dependable and efficient e-learning system (SAP Learning Solution®) is the basis for the administration and implementation of all further training measures.

Every employee has the opportunity to complete the training offered either via specially equipped e-learning rooms (learning studios) or via the PC at his or her own workplace. The success achieved in the training is confirmed in subsequent tests and consistently excellent performances are rewarded. The concept gives all staff a constant incentive to continue learning for his or her own benefit as well as for the good of the company. All the training courses offered by the Marseille Academy are recognised by the German Nursing Council (DPR). This means that the nursing staff registered voluntarily with the DPR are able to obtain all the advanced training points needed to maintain registration via our in-house training system.

Our training courses and in particular the e-learning units produced by the Marseille Academy satisfy the highest quality standards and are reviewed regularly. Care is, above all, taken to make sure that the latest scientific findings in the medical and nursing care fields are incorporated in our training units immediately. The Group's own eqs.-Institut operates in the area of nursing and rehabilitation research. Its job is to carry out knowledge management in the Group and to investigate the latest progress made in research projects, in order to integrate results in new or existing nursing concepts. The Marseille Academy develops the concepts appropriately and makes sure that this specific know-how is made available to the company staff.

The individual divisions and the five service companies in the Group maintain an environment with a large number of different career profiles, which offer our staff attractive promotion prospects.

In the context of our basic training and the recruitment of new employees, we have initiated a programme for liaison with universities and nursing colleges that specifies the rules for co-operation with the training organisations. Marseille-Kliniken classes are formed at vocational colleges, for example, in order to communicate our quality standards to the apprentices right from the start. The joint activities with the organisers of apprenticeship training combined with our efforts to be an even more attractive employer will enable us to cover the necessary personnel requirement in spite of the tight market.

Time	14.00	14.30	15.00	15.30	16.00	17.00	19.00	20.00	21.00
	Transfer from early to late day shift	Administration	Coffee break	Contact with relatives	Activities	Distribution of and help with dinner	Basic care	Treatment care	Preparation for the night

Recognition and reward

Giving elderly people nursing care is not a straightforward 9-to-5 job. Nursing care for the elderly is a demanding profession that involves great intimacy. No-one comes closer to old and ill people who need intensive care than their nurses. They help, provide the assistance that is required every day, are responsible for medical treatment or are simply there. Although they require high medical and nursing skills, what they need most of all is a good heart. We do not just thank our staff when they provide outstanding nursing care; we reward them financially too. It is important for high professional qualification and personal commitment to pay off. The nursing home managements nominate top nursing staff every year to reward them for their achievements. Nomination is based on the following criteria: length of service at the facility (at least 2 years), professional qualification and personal commitment. The staff nominated receive a non-recurring bonus, the size of which is specified again by the Management Board every year. In the year under review, the bonus amounted on average to 5% of the annual salary. An employee of the year is chosen annually too.

Dementia simulation – training in a different form

Marseille-Kliniken has been adopting innovative new approaches in the training field for years. We make use of the services of external providers in special cases too. Merz is one of these companies. It organises courses in which the participants enter the world that people with dementia inhabit – with the help of what is known as a dementia simulator.

Seeing a polar bear and only seconds later realising that it is a postage stamp. Straining to listen and giving up in resignation at some point because of all the background noise that makes the words spoken impossible to hear. Trying to read but seeing nothing more than a jumble of letters on the page. People suffering from dementia live in a different world. In a world full of emotions: fear and sadness, happiness and satisfaction. But also in a world that is alien and difficult to imagine when you are healthy.

How do dementia patients experience certain things? How do words and noises reach them? "Walking in different shoes" is the motto of the training course, the aim of which is to enable the participants to see dementia patients with different, more understanding eyes after they have completed the course. The conclusion drawn by the nursing personnel at the Hennigsdorf senior citizens' residential home, who took part in the training course, was unanimous: the best training course we have had so far.

About a million people suffering from dementia live in Germany today. Experts are working on the assumption that the number will be doubling by 2020. A challenge not only for relatives but also for nursing staff. We are tackling this tremendous assignment by making the most effective possible preparations.

Time	08.00	08.30	09.00	10.00	11.00	12.00	13.00	14.00	15.00
	Short meeting with staff	Tour of the home	Talks with prospective residents	External acquisition	Correspondence	Departmental management meeting	Talks with suppliers	Participation in shift transfers	Key figure controlling

Financial provision for old age

Discussion of the state old-age pension scheme is part of any debate about social policy. Fears that benefits will be reduced in the coming years are justified. Demographic developments alone are making sure that the state old-age pension will decrease and only represent absolutely basic financial support. Additional provision at private and company level is becoming essential for anyone who is employed. The business community has developed corporate old-age pension schemes that are subsidised by the state at the tax and social security levels. Corporate old-age pension schemes are at the same time a major instrument for increasing staff loyalty to the company and for boosting motivation. The new Marseille-Kliniken Group pension fund, which was launched on 1 July 2007, has many social aims. It is an important element in the social security network for employees and it encourages loyalty to the company. At the same time as this, it demonstrates our conviction that social responsibility must be shown not only to our residents and patients but also to our staff.

Employer and employees each pay an identical amount into Versorgungswerk Soziale Dienste e.V. monthly, which was established together with Allianz AG. Four contribution groups have been defined – A (€ 30), B (€ 45), C (€ 60) and D (€ 75) – according to which the employer's payment is determined. The employee can receive his benefits in the form of a monthly pension or a single capital payment from his 65th birthday onwards. A special offer was made in the 2007/2008 financial year to the staff in groups A and B – with successful results. The number of members in the Group is growing steadily. Young skilled staff are responding to the offer particularly positively. About 2,200 of 5,100 eligible staff are currently members of the pension fund. We intend to arouse even more interest in the pension fund from company employees in the new financial year and plan to intensify the partnership with Allianz.

Performance-based payment elements

Appropriate payment is a basic precondition for staff loyalty to the company and for the recruitment of new employees. We apply the principles of "Growing together" and "Performance is rewarded". The aims of these principles are to guarantee a fair salary structure and an attractive pay policy within the Group, taking special regional factors into account. The facility management and nursing service management staff are measured by the success of the facility concerned and receive a performance bonus. The personal goals are specified at the beginning of the financial year and relate to the facility's economic and nursing mission. They represent an important element of our quality management system. The feedback meeting at the end of the year is the basis for a bonus that is a reward for reaching the targets and for producing the success associated with them. The e-learning reward system involves up to two days more holiday or up to 10% more salary for particularly good e-learning performances. The reward can be made again every year for good performances. If the facilities reach their qualitative and quantitative targets, all the staff receive a Christmas bonus that amounts to up to half a month's gross salary.

What we have achieved

- The rehabilitation division, which depressed our results for five years, has been turned around and is operating at a **profit**
- All eight clinics that are in operation have obtained DIN EN ISO 9001:2000 certification. The internal quality management system adapts the organisation and processes to the changing requirements on an ongoing basis
- The clinics are highly specialised and implement modern, state-of-the-art treatment concepts
- We co-operate with universities and liaise with them to develop new standards

What we are aiming to achieve

- The high-quality standards reached in the rehabilitation operations are to be maintained
- We intend to raise the occupancy rate to a similar **level** to the nursing division
- We will dispose of the rehabilitation operations as soon as the financial markets have settled down again
- Capital and management resources that are released are to be focussed on our entry into the **acute** hospital field

Positive trend in the rehabilitation operations

We are a single, integrated source of all the necessary services, from initial medical treatment to nursing care and rehabilitation.

Return to profit

The German rehabilitation market has bottomed out. There was a small increase in the number of applications and approvals for treatment last year, particularly where the state pension authorities are concerned. Demand for follow-up treatment rose considerably. The growth in this area, which will be determining the development of the industry at the expense of general medical treatment in future as well, requires changes to be made by the operators of rehabilitation clinics. This is connected with the new system of lump-sum payments per case (DRGs) at the acute hospitals. Lump-sum payments per case are forcing hospitals to shorten patients' stays and to carry out vertical integration of rehabilitation in acute inpatient treatment. Rehabilitation clinics face medical and organisational challenges as a result.

The turnaround of the rehabilitation division in the Marseille-Kliniken Group has been completed. The division is no longer a financial burden on the Group and does not pose any major operative risks, now that the balance sheet has been optimised by the sale of the properties. Less than 15% of our total bed capacity is accounted for by the rehabilitation operations in the meantime. The division has been reduced to a core that has a secure future and now consists of eight rehabilitation clinics and one acute hospital in Büren. The occupancy rate has improved steadily at both the somatic and psychosomatic clinics. On average over the year, it amounted to 90.4%; this corresponds to an increase of 19 percentage points. The occupancy rate in the second half of the financial year was 91.8%. The somatic clinics are benefitting from the growing need for rehabilitation services in connection with follow-up treatment. The recovery at the psychosomatic clinics that is important for the division as a whole is attributable, among other things, to the improvement of the situation on the employment market. The measures initiated are also having a positive impact. The special fields already defined previously were implemented systematically at the Marseille clinics last year. The psychosomatic clinic in Gengenbach is a good example. Demand has increased considerably thanks to the special pain treatment concept. The occupancy rate has gone up substantially and the waiting list has stabilised at a high level. The specialisation has led to innovative new forms of treatment that the funding organisations have found convincing.

The problem of the Schömberg clinic, which used to operate at a deficit, has been solved. Splitting the location has proved to be a success. The 100 beds rented by the nursing division have been incorporated in the new nursing clinic, which opened for people suffering from geriatric disorders in September 2007. The Schömberg clinic, which has been reduced to 129 beds, is benefitting from its wide range of treatment in the psychosomatic field and the expansion of its conceptional basis. The clinic rented in Bad König with 195 beds has discontinued its operations. We terminated the rental contract with effect from 30 June 2008 and have largely completed redundancy plan negotiations with the staff.

A comparable trend to the one experienced in nursing care is being confirmed in rehabilitation. Waiting for patients is not the way to operate successfully. Structured marketing activities are of crucial importance in both the psychosomatic and somatic field. New funding organisations that are boosting occupancy were obtained in the year under review after they were contacted for this specific purpose. The combination of specialised treatment and positive expectations on the part of the funding organisations has led to a large increase in occupancy at Schömberg, for instance. We have created the necessary basis for a central marketing organisation in the psychosomatic field, with the aim of finding new funding

Some of the Schömberg rehabilitation clinic has been converted into a nursing clinic.
Below: Kinzigtal clinic

organisations – health insurance funds in particular – for the rehabilitation division.

Our clinics are well positioned and will be successful in coping with the forthcoming changes on the rehabilitation market. The health reform has definitely strengthened the rehabilitation operations. Medical rehabilitation services are mandatory benefits and have increased in importance. Further development of the DRGs is influencing demand, as is the demographic development that can be expected in the next few years. The political objective of increasing the retirement age is opposed by a change in the incidence of various disorders. The entire health care system will be facing new challenges due to the increase in civilisation diseases. For the rehabilitation operations, this means that even more effectively workplace-based rehabilitation models will have to be incorporated in the concepts in future. Rehabilitation will also need to be actively integrated in regional developments connected with the formation of health centres. Even closer networking between doctor's practices, hospitals and rehabilitation facilities is becoming increasingly necessary.

No difference in quality

The quality standards are high in both the nursing division and the rehabilitation division.

DIN EN ISO 9001:2000 certification has been obtained for the internal management system at all eight rehabilitation clinics. The internal quality management system is a central element in corporate management at the clinics and is considered to be a comprehensive concept that steadily adapts the organisation and processes at the homes to changes in the requirements. Since the rehabilitation clinics were established, we have worked concertedly on building up indicator-based quality management structures at all the facilities on the basis of evaluation studies and the development of empirical routine monitoring processes. These projects are supported by eqs.-Institut.

BSI Management Systems

The DIN EN ISO standard observed by all the clinics describes the requirements made on a quality management system. Increasing patient satisfaction has top priority. The standard relates, among other things, to management responsibility, to external and internal transparency, to a process-oriented approach and to continuous improvement. Our quality management system makes everyday life more pleasant for the patients – when they are being admitted, when they are having their meals or when their treatment is being planned.

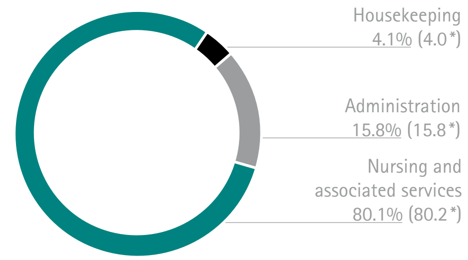
Major quality management processes like internal communication, complaint management or the compilation of final reports are all documented in manuals that are specific to the individual clinics. The clinics employ quality supervisors, who are responsible for controlling all the activities. All the efforts made focus on improvement of the internal processes with the help of all the staff. Steady optimisation and development of the quality management system as a dynamic and at the same time stable foundation for the work that is done for the patients every day are the clinics' objective. Broad-based involvement of the entire workforce guarantees that the individual steps are taken one after another.

The quality certificate is valid for three years. During this time, the service programmes are reviewed and scope for making adjustments and improvements is created in regular internal quality circles and quality audits, in order to maintain the high quality level. A check is at the same time made in the context of an annual external audit review whether the quality management system is being implemented and improved constantly. An application for recertification can be submitted when the validity period ends.

Networking of the scientific and business communities is reflected by the rehabilitation research prize too. The prize is presented annually for projects which demonstrate impressive innovation, a strong evidence base and practical relevance. We also receive support and advice about major issues affecting operations in future from the scientific advisory boards that we have appointed to help us not only with nursing care for the elderly but also with rehabilitation. We strengthened the boards in the year under review by making a capable addition in Professor Jens Goebel. •••

Two happy prizewinners: Anja Mehnert and Thomas Altenhörner.

Number of employees



* Figure for the previous year

Bed capacity Number on 30.06.2008

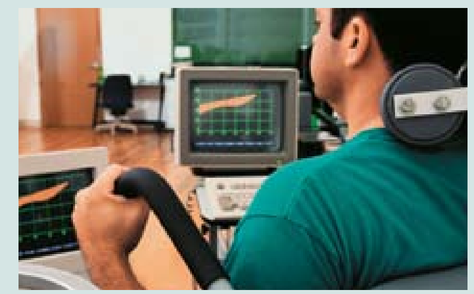
Occupancy rate in %, excluding acute clinic Büren

Case study from the cardiological rehabilitation field

Back to everyday life in small steps

Markus M., 44 years old, retail salesman, married with 2 children, suffers a heart attack on 7 February 2008 while playing squash. He is successfully reanimated on the squash court by his training partner and further bystanders and is taken to the nearest cardiological clinic with a heart catheter laboratory by the emergency doctor. Although the coronary blood vessel affected is opened again, Mr M. loses about 50% of the pumping capacity of his heart. Due to the protracted reanimation, he experiences a severe transition syndrome and therefore has to be given intensive medical treatment for 14 days because of further complications. Five weeks after the heart attack, he comes to the Gotthard Schettler Clinic for cardiological rehabilitation. At this time, Mr M. is extremely depressed and has been weakened so much by the long period of immobilisation that he cannot climb stairs and is unable to walk the length of more than a corridor slowly without equipment to help him. The patient, whose weight has been normal in the past, has lost 10 kg. A comprehensive rehabilitation approach is to be adopted in order to restore his health to a state in which he can lead an independent life again and can return to work.

To make this possible, Mr M. completes a qualified performance test before starting a differentiated training programme, the elements of which include endurance training, strength and stamina training, co-ordination gymnastics and breathing exercises. With the help of additional psychological activities like



individual supervision, relaxation therapy and stress management training, he slowly begins to redevelop confidence in his own health.

His mood improves gradually as his physical strength increases. Due to the severity of his condition, the three-week rehabilitation course has to be extended by a week. At the end of the rehabilitation period, Mr M. reaches 80% of the normal spiroergometric performance for people of his age and leaves the clinic with no complaints under standard everyday conditions. He has been informed about everything he needs to know about the background to and consequences of his illness as well as about appropriate behaviour in day-to-day routine during the in-depth educational parts of his rehabilitation course. The pumping capacity has improved by 20% during rehabilitation. A detailed training programme to continue the sport/medical therapy at home has been developed and agreed with Mr M. He will be participating in controlled training at the clinic once a week in the context of a special follow-up group for patients with cardiac insufficiency. The initial plan is for him to make a gradual return to his previous job after four weeks and this plan has already been agreed with his employer. In the course of the rehabilitation measures, Mr M. has come to terms with his illness and only finds it a minor strain any more thanks to the positive way he feels. He says that he will be celebrating the heart attack as his second birthday in future.

What we have achieved

- The five service companies make a vital contribution to the implementation of our medical and nursing concepts
- ProF&B sets standards in producing healthy, balanced and varied meals
- The quality of laundry supply is guaranteed by extension of the facilities and by improvement of the dirty laundry processing operations
- The energy management staff have succeeded in limiting the increase in energy costs to **17 %** in spite of exploding prices

What we are aiming to achieve

- We are liaising with the University of Applied Sciences in Hamburg to develop a nutrition concept designed to optimise the meals provided to residents
- We are compiling a standardised hygiene concept that will apply throughout the Group
- The catering, cleaning and laundry supply processes and operations are being streamlined and made more efficient
- The service operations are being integrated even more firmly in our growth strategy as a core business

Services

Five service companies make sure the complete range of hotel services is provided.

Our five companies

The aim of the operations carried out by the service division is to make sure that the facilities are relieved of specific individual assignments and that the staff are given the freedom to concentrate on their core skills in nursing, rehabilitation and general care by providing residents with a complete range of hotel services. The companies only provide services to third parties in exceptional cases. The service companies are a key element of our medical and nursing concepts and guarantee optimum housekeeping services for our customers. The comprehensive scope of our system, which is unique in the industry, reflects our strategic profile as a branch-based provider of nursing care for the elderly. Services are an essential feature of our growth strategy.

Five service companies make up the core of the division:

PRO F&B®
GASTRONOMISCHE DIENSTLEISTUNG

The programme consists of the complete range of services provided by a professional caterer. ProF&B is responsible for feeding the patients, residents, guests and staff. A total of about 600 employees serve more than 7,500 customers. Food price increases that reached up to 20% in some product groups were experienced in the year under review. The increase in expenditure actually recorded by ProF&B was 3%.

PRO WORK®
DIENSTLEISTUNGEN

ProWork provides professional cleaning services at the facilities. The impressive skills demonstrated by the staff and the practical, modern equipment guarantee high hygiene and quality standards at all the facilities. The level of acceptance of the facilities depends to a large extent on the performance of ProWork. Moving to a nursing facility is a profound change in elderly people's lives. Their own four walls are of essential importance as an oasis to which they can retreat.

PROMINT®
MIETWÄSCHEREI

ProMint is responsible for laundry supply in the Group. About 9 tonnes of laundry are washed every day. ProMint looks after not only the residents' private laundry but also the facility laundry. At facilities that can only be reached by ProMint with great difficulty because of infrastructure problems, laundry supply is farmed out to third parties with regular quality checks being made. External customers like hospitals and hotels take advantage of the company's know-how about gentle textile processing and minimisation of water and energy consumption too.

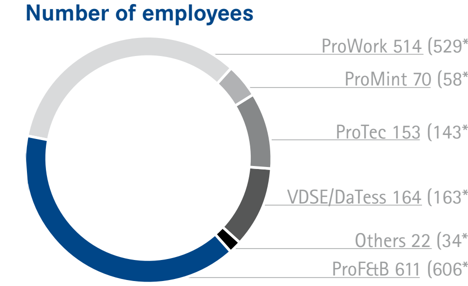
PRO TEC
DIENSTLEISTUNGSGESELLSCHAFT MBH

The company is responsible for facility management at all the Marseille-Kliniken AG facilities. ProTec provides building and equipment maintenance and repair services and also carries out energy management operations. This includes not only the inexpensive obtainment of energy sources but also optimum alignment of the property infrastructure and energy cost controlling with the aim of consumption and cost optimisation. In the year under review, the energy management staff managed to limit the increase in energy costs to 8.8% in spite of exploding prices. Due to higher consumption because of the weather conditions, the total costs including new facilities were 17% higher than in the previous year.

DATESS

DaTess is based in Pritzwalk and is responsible for the Group's payroll accounting operations as well as for the financial accounting required by the over 80 different companies with business operations in the Group.

Number of employees



* Figure for the previous year

Keeping a clean sheet

Marseille-Kliniken AG's steady growth presents ProMint with regular new challenges.

In order to guarantee the necessary quality standards in laundry supply with a daily laundry volume of 9 tonnes, the company built a dirty washing hall in February 2008. Several dirty laundry processing operations have been optimised thanks to the approximately 70 m² extension. It is possible for the first time to unload two lorries completely at the same time. The laundry containers can be parked at locations specified for individual facilities. These specified container locations enable ProMint to make sure that laundry from different facilities is not allocated to a wrong facility when it is unloaded. After they have been emptied, the containers are pushed into the hygiene lock for disinfection and the laundry is sorted according to the washing programmes required and then pre-treated. Once they have been sprayed to disinfect them, the unloaded lorries are ready to be loaded with clean laundry again.

In its outerwear washing operations, ProMint increased its use of water that is processed in a high-tech plant and is reusable during the year under review. Water reprocessed in this way has a number of positive characteristics that have both economic and environmental benefits. About 20 cbm of water per day can be saved by this process, on the one hand. On the other hand, the processed water has a temperature of 35°C and is not only considerably warmer than fresh water; it also includes tensides. The washing machines therefore need substantially less energy to heat up the water and less detergent for the washing operation itself.

Nutrition is the key

Meals that are appropriate for elderly people play a central role in maintaining quality of life.

Physiological functions deteriorate steadily as people grow older. Appetite, hunger and satiation regulation change. Problems that are frequently encountered are diabetes, swallowing and chewing difficulties as well as changes in liver and kidney functions. As a prominent private nursing service provider, we are fully responsible for the health of our residents. It is our job to avoid not only malnutrition but also certain disorders associated with nutrition physiology.

We are currently liaising with the University of Applied Sciences in Hamburg to develop a nutrition concept that aims to optimise the meals provided to our residents even more. The objective is to introduce regular screening of all residents on the basis of a digital question catalogue and to obtain an exact insight into the elderly people's state of health as a result. All the data collected will be incorporated in the nursing documentation. If we detect a problem with a risk patient, a catalogue with countermeasures will be compiled immediately.

In connection with this nutrition concept, a recipe module has been integrated in the ProF&B goods management and buying system. Every meal is stored in the form of a recipe with the relevant nutritional information and the individual meal components. We have also produced a ladle plan and assigned the appropriate ladle for serving the individual meal components in the system. All the nursing staff have received extra training from the catering managers about how to serve food, which includes portion size and nutrition information. We are now in a position to determine the nutrient intake of any meal immediately on the basis of the amount of food eaten. This makes it possible to take direct action to eliminate the risk of malnutrition.
•••

Fruit and vegetables are on the menu every day.

Corporate responsibility

We link generations: students from the University of Music and Theatre in Hamburg play music with the residents.

Constant dialogue with the public

Marseille-Kliniken is a company that meets the requirements of and anticipates the changes in the society to which it belongs. In our function as a health care company, we have great responsibility not only to our employees but also to our residents, patients and guests. Transparency and commitment are expected of us in our social environment. We satisfy these requirements. Everyone benefits from the results of our corporate operations. Society, because we reduce the economic costs of old age; the state, because we pay taxes; investors, because we operate profitably; staff, because we create secure jobs; and, last of all, we ourselves, because we are successful.

Internal and external communication is part of our corporate culture. We are proactive in maintaining a dialogue in constant interaction with experts from the nursing and health management fields, investors, shareholders and media representatives, in order to help us to focus on the essentials, identify trends and problems, communicate our messages and publicise our views. We enjoy critical discussions and are not afraid of confrontation. Marseille-Kliniken was the first to demand official nursing control authorities, based on the conviction that good nursing care can in the final analysis only be achieved with a structured and electronically based quality management system. We face critical questions and call a spade a spade when populistic demands are made and unpopular facts need to be emphasised. In view of demographic changes and the explosion in costs that can be expected, we have said in public that the demand made by minister of health Ulla Schmidt that every resident of an inpatient nursing facility should be accommodated in a single room is unrealistic. We make it clear that conventional all-purpose homes are on their way out, we criticise the fact that the controls made by the home supervisory authorities and the medical service departments of the health insurance funds are inadequate and can only be considered to be an addition to a comprehensive internal quality management system. The response to our warning that more and more elderly people are unable to pay for inpatient nursing care and that affordable solutions need to be provided for people with limited financial resources is not exactly positive. Since what we say is true, we have developed the 2-star home and assisted living concepts.

Our openness makes us an attractive interview partner for the media, as numerous publications in the business and trade press or invitations to various political talk shows demonstrate. More and more organisers of conferences, trade fairs and panel discussions about nursing quality or nursing facilities are requesting speakers from our company. There is particular interest in our views on such issues as quality management, e-learning and the hotel concept.

We are available to anyone who would like to communicate with us. By e-mail to the address info@marseille-kliniken.com or via the Internet (www.marseille-kliniken.de). •••

We link generations

Kooperation
hochschule für musik
und theater hamburg
Marseille-Kliniken AG
Wir verbinden Generationen!

"We link generations" is the motto of a project on which we are co-operating with the University of Music and Theatre in Hamburg. We are not just paying lip service to this motto; it is being put into practice via music and theatre. The result is an unusual concert and theatre programme. Young artistes meet with an enthusiastic response from audiences at piano and chamber music concerts, operettas and readings that are held at 14 of our locations. The project builds a bridge between young and old and is at the same time a genuine solidarity pact: all the students who appear in three performances of the concert and theatre programme earn the tuition fees for an entire year for themselves and one fellow student. We provide a total of 28 yearly grants for highly talented musicians.

At times when conflict between the generations is developing into a danger to society, it is important to us and the university that real solidarity and togetherness are demonstrated. Music is a very important element in the lives of many elderly people and remains so until they are very old. Estella-Maria Marseille initiated the project. "We are aware of our social responsibility for the elderly and the young and are delighted to be able to encourage highly talented musicians to develop their gifts by helping to increase their financial resources", she says.

Environmental protection starts at home

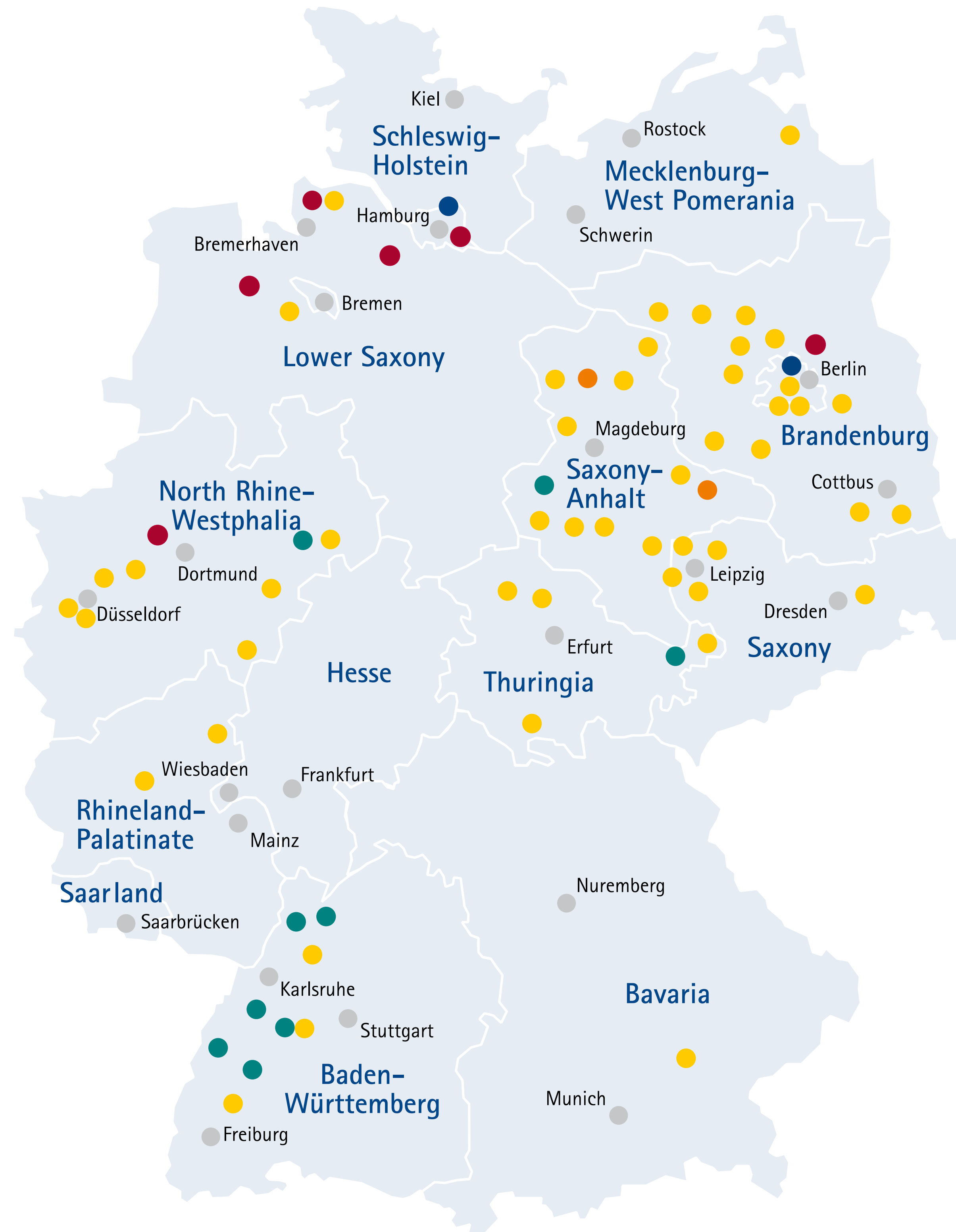
Any community will die if it fails to protect the environment. Environmental protection strengthens the basis for our lives as human beings and is a precondition for maintaining a viable balance of nature. Marseille-Kliniken has been focussing on this issue intensively for years now. Our concepts aim to protect the environment in which our customers live by avoiding careless waste and by using ecologically sound products. Careful use of resources is one of our basic principles. Sustained management is a matter of course in our operations and we make consumption-oriented use of water, electricity, gas and oil energy sources. Energy is a significant cost factor that has a strong impact on company success. We instruct all our staff to make economical use of energy for their own good and in the public interest. In co-operation with the marketing department, the service division has developed a poster that emphasises our approach: "Energy already saved today – careful use of energy resources safeguards our future" is one slogan.

Environmental protection has particularly high priority in our cleaning operations. All the cleaning products used comply with the regulations of German water management legislation and are biologically degradable. Environmental soundness plays an important role in our choice of cleaning agent supplier. Our supplier is a member of "EMAS" – the association of companies that take environmental protection particularly seriously. The product ranges are configured in such a way that cleaning is both environmentally sound and efficient. Every employee receives training once or twice a year about how to dispense and handle each cleaning agent properly and what effects the individual products have. Dispensing aids minimise consumption of cleaning chemicals and the groundwater pollution that would otherwise occur. Special machines and environmentally responsible detergents are used in our laundry operations. ProMint has a water processing and recycling plant of its own. Agreements with our suppliers make sure that outer and disposable packaging is kept to a minimum. We prefer hygienic returnable boxes and limit individual and small packs to cases where they are necessary for residents and patients for medical and hygienic reasons. Strict separation of waste is leading to the production of less and less waste in the Group. In the construction of our facilities, we insist on the use of technical solutions that consume as little energy as possible and of building materials that have minimum health impact. •••

Ecologically sound concepts help us to protect the environment in which our customers live.

Locations

- **Administration/office**
- **Senior citizens' residential home, nursing clinic and special nursing home**
- **MEDINA**
- **AMARITA and Astor Park**
- **Rehabilitation clinics and acute clinic**



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Report by the Supervisory Board

The Supervisory Board held a total of six meetings in the 2007/2008 financial year, at which it was informed in detail by the Management Board about the situation of the company and the Group as well as about the strategic alignment of them and monitored the conduct of the business by the Management Board, providing it with appropriate support and advice. On these occasions, the Management Board presented oral and written reports to the Supervisory Board in particular about such issues as corporate and Group planning, profitability and liquidity, the progress made in business operations, the situation of the company and the Group, risk management, compliance and the transactions that have considerable impact on company profitability or liquidity. The members of the Management Board also reported to the Chairman of the Supervisory Board regularly about major business transactions, particularly those that required the approval of the Supervisory Board, outside the meetings. The Supervisory Board passed resolutions about these business transactions, including those that involved personnel issues, at its meetings. Due to the regular reports presented to the Chairman and other members of the Supervisory Board by the Management Board, the Supervisory Board was informed about all the activities and business transactions of major importance and involved in the decision-making processes in good time. All the members of the Supervisory Board attended the meetings of the Supervisory Board in the 2007/2008 financial year. The finance committee formed by the Supervisory Board met three times in the 2007/2008 financial year. No conflicts of interest arose within the Supervisory Board in the past financial year with respect to members of the Supervisory Board.

The documents prepared by the Management Board about the 2006/2007 financial year were reviewed at the meetings of the Supervisory Board that were held on 9 and 16 October 2007. The Management Board outlined the main results, background facts and information with respect to the documents for the 2007/2008 financial year and answered the Supervisory Board's questions about them. One important point involved the explanations by the Management Board about the annual accounts for 2006/2007 and by the auditors about their audit report about the (Group) annual accounts and the (Group) management report for the 2006/2007 financial year, which was included in the Supervisory Board's discussion, as were the comments and explanations given about it by the auditors. On completion of the review by the Supervisory Board, the annual accounts and the Group annual accounts for the 2006/2007 financial year were approved at the meeting held on 16 October 2007, as were the documents prepared by the Management Board for the Annual General Meeting in December 2007.

Another important point at the meetings was the approval of the Supervisory Board for the contractual implementation of the "assisted living" expansion programme. In addition to this, the Supervisory Board was informed essentially about the developments in the nursing, rehabilitation, building & facility management and expansion operations and questions about them that were asked by the Supervisory Board were answered. Reports were also presented about individual legal transactions from the finance, contracts and personnel fields that required approval, following which resolutions were passed.

The main issues at the meeting of the Supervisory Board on 4 December 2007 were the question of a successor to Mr Laviziano on the Management Board following his resignation from the Management Board and further expansion of the assisted living operations.

At its meeting on 25 February 2008, the Supervisory Board focussed on the results shown in the report about the first half of the year and the economic development of the company up to 31 December 2007. The Management Board reported to the Supervisory Board and answered its questions about these subjects. The Supervisory Board was also informed about the developments in the nursing, rehabilitation, service, building & facility management and expansion operations. In addition to this, the Management Board presented the Supervisory Board the outlook for the 2007/2008 financial year and the main items in the budget for the following 2008/2009 financial year. Further points were reports about legal transactions that required approval, following which resolutions were passed.

At the meetings on 27 May 2008 and 30 May 2008, the Supervisory Board discussed the earnings forecast for the current financial year that was presented by the Management Board. The budget for the 08/09 financial year was approved. Further points were reports about legal transactions that required approval, including the property transaction that was carried out in June, following which resolutions were passed.

The Supervisory Board advised and monitored the Management Board in its conduct of the business on the basis of the oral and written reports presented by the Management Board, in accordance with the assignments stipulated for it by law and the articles of association. The lawfulness, propriety, appropriateness and economic viability of the conduct of the business by the Management Board were reviewed. This review included not only business activities that were already in progress but also future-oriented decisions and plans by the Management Board. Outside the meetings of the Supervisory Board, the activities by the Management Board in connection with specific business transactions were reviewed and advice was given by means of the inspection of company documents, books and other records by the members of the Supervisory Board on behalf of the Supervisory Board. The insights gained by the presiding committee of the Supervisory Board and the finance committee in this context were included in the reviews made by the Supervisory Board. All in all, nothing arose in the past financial year that would have made it necessary for the Supervisory Board to take any action above and beyond the measures outlined above.

The Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report compiled by the Management Board for the 2007/2008 financial year (including the bookkeeping records) were audited by the auditors chosen at the Annual General Meeting held on 4 December 2007, BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hamburg, at the request of the Supervisory Board. An unqualified certificate was issued, with the addition of an informative note. The Supervisory Board reviewed the annual accounts and the audit of them at the meetings held on 13 October 2008 and 30 October 2008. The auditors took part in the Supervisory Board's discussions about the documents submitted by the Management Board at the meeting of the Supervisory Board and reported about the results of their audit. The Management Board presented the main items in the accounts, commented on the management report and explained risks and liability issues as well as the expectations for the current financial year. The Management Board answered questions put to it about the documents by the Supervisory Board. The Supervisory Board approved the outcome of the audit by the auditors. The Supervisory Board shares the evaluation and assessment made by the Management Board in the management report. All in all, the Supervisory Board did not have any reason on the basis of its internal review in the context of the Supervisory Board meetings, including the audit reports by the auditors and the results achieved in the 2007/2008 financial year, to think that the documents submitted by the Management Board might be incomplete or incorrect or needed to be questioned for any other reasons. The Supervisory Board therefore had no objections to raise after it completed its review of the Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report for the 2007/2008 financial year. The Supervisory Board agreed with the results of the audit by the auditors. The Supervisory Board approved the annual and Group accounts prepared by the Management Board as per 30 June 2008 and accepted the proposal made by the Management Board for the appropriation of the profits for the 2007/2008 financial year.

The Supervisory Board
1 **Ulrich Marseille, Chairman**
2 **Dr. Peter Schneider**
3 **from the left: Prof. Dr. Matthias P. Schönermark, Hans-Hermann Tiedje**
4 **from the left: Uwe Bergheim, Mathias D. Kampmann**

The review of the documents submitted by the Management Board at the meeting held on 30 October 2008 included the report about relationships to affiliated companies compiled by the Management Board as stipulated by § 312 of the German Companies Act (AktG). The auditors audited the report by the Management Board too and informed the Supervisory Board about their findings. The auditors issued the following certificate about the report:

"Following our completion of a thorough audit and evaluation exercise, we confirm that

1. the factual information provided in the report is correct,
2. the contribution made by the company in the legal transactions outlined in the report was not unreasonably high,
3. there are no reasons to make a significantly different assessment from the Management Board with respect to the measures outlined in the report."

Following the completion of its review, the Supervisory Board accepts the results of the audit by the auditors and declares that it has no objections to the statement made by the Management Board at the end of the report about the relationships to affiliated companies.

The Supervisory Board would like to express its thanks to the Management Board and all employees for their commitment and hard work in the 2007/2008 financial year.

Berlin, October 2008

Marseille-Kliniken Aktiengesellschaft
The Chairman of the Supervisory Board

Ulrich Marseille

Management report and Group management report for the financial year 2007|2008

The management report of Marseille-Kliniken AG is published together with the Group management report of the Marseille-Kliniken Group pursuant to § 315 (3) of the German Commercial Code (HGB). The risks and opportunities open to Marseille-Kliniken AG as parent company are inseparable from those of the Group as a whole. This management report contains information which, unless otherwise specified, refers to the Group. Information about the situation of the parent company Marseille-Kliniken AG is contained in a separate section.

The consolidated financial statements of the Marseille-Kliniken Group are prepared in accordance with the International Financial Reporting Standards (IFRS) and within the scope of Group consolidation take account of the financial statements of Marseille-Kliniken AG which are also prepared in accordance with these standards. The individual financial statements of Marseille-Kliniken AG are prepared in accordance with the principles of the German Commercial Code (HGB) and the German Companies Act (AktG).

Highlights and overview of key Group indicators

The Marseille-Kliniken Group continued to grow in the financial year 2007/2008. Operating revenues rose to € 228.1 million (previous year: € 214.8 million). Whilst capacity in the rehabilitation division was reduced in comparison to the same period in the previous year from 1,478 to 1,283, the number of nursing beds rose by 329 beds from 7,287 to a total of 7,616 beds.

In the first half of the financial year, the property in Schömberg was sold to Grosvenor House Group plc. (GHG) by way of a sale-and-leaseback transaction. A further adjustment to our balance sheet portfolio was made in the fourth quarter with the sale of six properties previously classified as finance leases to a consortium made up of IMMAC Holding AG, Hamburg, and RP & C International/Public Service Properties Investments Ltd., London. The equity ratio was raised to over 35% (taking into account 84.2% of deferred investment subsidies).

Net Group profit was € 13.8 million after € 9.0 million in the previous financial year. Earnings per share amounted to € 1.14 (previous year: € 0.75).

The occupancy rate of available beds for the Group reached 92.4% as against 89.7% in the previous year. With 65 facilities and an average of 5,309 employees, the Marseille-Kliniken Group is a market-leading, listed company operating in the market for inpatient health care in Germany.

Business operations and strategy

Group organisation and control

Marseille-Kliniken AG has been listed on the stock exchanges in Frankfurt and Hamburg since 1996. It has numerous subsidiaries which are run as private limited companies (GmbH) and each of these companies is allocated either to the nursing, rehabilitation or services division. These three divisions comprise the Group's reporting segments for International Financial Reporting Standards (IFRS) purposes. They are managed by independent department heads and supported and monitored by centralised service providers for human resources, finance and controlling, accounting, taxes, information technology, organisational management and marketing. External revenues are earned almost exclusively by the nursing and rehabilitation divisions. The services division generates inter-Group revenues with the other two divisions.

The completion of integrated networking of all information and decision processes on a Group-wide basis allows for effective and efficient management. The planning and control system is based on the rotationally revised strategic planning of the Group which is adjusted to take account of anticipated market developments, state-of-the-art information technology and financial opportunities available to the Group. Plans are normally made for a period of up to five years, but budget planning is made in detail for the following financial year. The budget sets targets for monthly reporting on the asset situation, financial position and profitability of each individual company in the Group and for the Group as a whole. Monthly reports also include wide-ranging controlling data such as key performance indicators, capacity utilisation, qualitative data, and detailed information for ensuring proper control of business and so that risks of failing to attain strategic corporate targets will be recognised even where they are not immediately clear from the figures. These reports provide important information and form the basis for decision-making by the Management Board and the Supervisory Board.

The Supervisory Board advises the Management Board about company management and works closely with the Management Board for the benefit of the company. The Supervisory Board and Management Board liaise to agree on and specify strategy. The Supervisory Board monitors compliance of the Management Board with legal requirements and regulations, with the company's articles of association and with the recommendations of the German Corporate Governance Code and is involved in all important decisions.

The Supervisory Board and the Management Board have issued a statement of compliance with the recommendations of the Federal Commission for the German Corporate Governance Code in accordance with § 161 of the German Companies Act (AktG) and made this available permanently to shareholders on the company's website under www.marseille-kliniken.de.

Marseille-Kliniken Group strategy

The focus of our business is sustaining qualitative growth whilst increasing the earnings base.

Marseille-Kliniken is to be established as a distinctive brand in the nursing care market associated with the success factors quality, customer orientation, economic viability, marketability and flexibility.

The issue of quality and ensuring quality is already a central element of our business model. Business operations are controlled centrally with the assistance of specialised IT solutions. The same also applies to training for our employees, which is provided by computer-supported training programmes (e-learning) and which allows our employees to carry out the training needed in their areas of responsibility and permits us to meet quality standards in practice. The Group's own Marseille-Akademie and the eqs.-Institut provide ongoing training for employees. Quality-oriented and forward-looking staff development remains one of the company's most urgent strategic goals. It improves the attractiveness of a career providing nursing care for the elderly and secures availability of qualified personnel. Employee qualification allows us to further develop the specialisations necessary for care of age-related illnesses in our facilities in order to meet demand and the above-average occupancy of our facilities.

Categorisation of our product into two-, three- and four-star facilities, based on the amenities offered by the various establishments, allows us to meet the future financial needs of a variety of income classes. We can offer high quality care and excellent service to anyone regardless of their personal income situation.

New facilities being developed in Meerbusch (150 beds), Oberhausen and Waldkirch (80 beds) and Bremerhaven (200 beds) are likely to be completed and ready to open in the next financial year. We intend to convert our redundant properties into care or assisted living facilities and put them back into operation.

Strategic effort is being concentrated at the two-star level as we see considerable scope for growth potential in this sector and, in particular, in the assisted living sector. The success of this market niche can be seen in Halle, where we have provided nursing services to 756 competitively priced apartments in three complexes since mid-2005. A further assisted living facility with 130 beds opened in Potsdam during the past financial year. In the future, we will expand our assisted living capacity. We have completed our search for suitable properties for conversion to this kind of care concept and we expect to develop 3,000 residential units over the next three years.

The preconditions necessary for the financial flexibility required for this expansion are a balance sheet structure in line with the capital markets and a long-term refinancing strategy. Our aim is to use investors to finance growth and to explore the opportunities presented by the markets with international partners. We can offer our know-how as an operator and in change management, and our partners can generate attractive returns in the property sector on the capital they invest.

We have further reduced capacity in the rehabilitation division to a total of 1,283 dedicated beds (previous year: 1,478), and the turnaround has largely been completed. Our goal with respect to the portfolio of eight rehabilitation clinic facilities is still to transfer operations of these individual clinics and the remaining two operational facilities when the financial markets allow for improved economic conditions. After the last successful sale-and-leaseback transactions, the breakdown of the Group's property portfolio at balance sheet date amounted to about 22% owned and 78% leased properties which, by international standards, is a healthy comparison.

We are currently implementing alternative concepts with renewable fuels to counter the Group-wide negative effect of rising energy costs. We hope to combat rising food prices by making purchasing and production more efficient.

Our competitiveness in the "old" federal states, or the former West Germany, is made difficult by high quality standards, specialisation and staff development. Competition is at a local level and is not marked by market dominance of individual operators. The major challenge for the future is financial weaknesses of the system. Resources available to the health insurance companies, falling pensions and the financial situation of the public sector mean that rates can only be raised minimally, despite significant increases in costs for energy and food. This means that it is more important than ever to combat falling margins with optimal occupancy and effective cost management. As oil and gas prices are likely to become more expensive in the medium to long-term due to increased global demand, we have investigated and implemented the use of renewable energy at some locations.

On 1 July 2008 the German government brought the German Nursing Care Reform Act (Pflegeweiterentwicklungsgesetz) into force. This law creates opportunities for integrated networks of service concepts. Issues such as ambulatory/inpatient care, rehabilitation, medical centres and acute medicine are to be reorganised in future years to provide integrated solutions designed to meet the needs of consumers. Implementation of some of these concepts in various pilot programmes gives us a head start in a rapidly developing market.

General economic conditions

Between recession and inflation

After only two and a half years, the boom in Germany was over by mid-2008. The upturn, which had been fuelled by exports in a strong global economy from autumn 2005, stopped. In 2006, growth was an impressive 2.9% and in 2007 it was still a good 2.5%. However, from the beginning of 2008 there was a fall in new orders for industry, which had been the motor behind the upswing. The Ifo Business Climate Index collapsed in August 2008 and the word "recession" began to be heard in the German economy for the first time.

The weak domestic economy is a source of concern. Exports, which benefited from an upturn in the global economy for over four years and were able to compensate for ailing domestic demand, showed the first signs of weakness in spring 2008 with a fall of 0.2%. Private consumer spending has fallen constantly for three quarters, and in the second quarter 2008 it was down by 0.7%. Consumer reticence is due mainly to hefty price increases. Although the inflation rate fell from 3.3% to 3.1% in August, it is still significantly higher than the target of the European Central Bank. Against this economic background, companies have made significant revisions to their investment plans.

While economists are being cautious with forecasts for future growth, they draw attention to the strength and competitiveness of German companies. Prices for commodities, particularly crude oil, are falling and there is still hope. It could mean that the fall in consumption as against import levels could be lower than feared. Experts also believe that the inflation rate has now peaked and will drop in the coming months.

There is general agreement that future growth will be mostly determined by the European and global economies. Important trading partners for the German economy are in serious difficulty. Spain is heading rapidly towards recession as a consequence of the property crisis, Italy is stagnant, France is heading for zero growth and the United Kingdom is suffering more and more from the property and financial crisis. Experts generally estimate that global growth will continue to weaken. The most recent financial crisis and the bankruptcy of American banks has once more led the whole financial market into decline and accelerated recessionary trends.

The German health care market

Embracing reforms

The health care market plays an important role in the German economy. Revenues and the number of people employed in this sector show that health is not just a social issue, but also plays an important role in economic and employment policy. Only a few industries generate more than 90% of their added value inside Germany. According to the German Federal Statistics Office, total outlay for health in 2006 rose by 2.4% to € 245 billion – that represents almost 11% of the gross domestic product. On average, every German spent € 2,870 on health. There is growth above all in the "secondary" health services market, which includes all services no longer covered by statutory health insurance companies: over-the-counter medicines, fitness and health programmes, organic food and cosmetics. About 4.5 million people work in hospitals and medical practices, in nursing care homes and rehabilitation clinics, in the pharmaceutical industry and in pharmacies.

The markets are determined by three developments. Firstly, consolidation is being spurred on by extreme pressure on costs and performance. Secondly, medical advances and shorter lengths of stay in the acute sector are forcing close integration in all sectors of the health market. Cooperation and integration of services are particularly necessary in acute hospital care, nursing care and rehabilitation. Government is promoting the trend towards closer cooperation by encouraging the establishment of medical centres. At the same time it is involved in the promotion of clusters of health services, which aim to optimise medical care. Finally, the number of private service providers is increasing. The market is dependent on private capital to finance growth. Public bodies are already unable to meet their obligations to make necessary infrastructure investments, nor are they able to cover losses in facilities. The investment backlog in hospitals is about € 50 billion and increasing by about € 3 to € 4 billion per year. In the coming years inpatient care for the elderly will also require investment of about € 50 billion.

Discussion about reform of health policy is centred on the introduction of the German centralised health care fund on 1 January 2009. The fund is the riskiest component of the law to strengthen competition in the statutory health insurance system (Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung) which came into force on 1 April 2007. Many experts believe that the introduction of the reform will cause chaos. The centralised health care fund will reorganise health insurance contributions. All contributions which have previously been paid to the statutory health insurance companies will be paid directly into the central fund and distributed to the statutory health insurance companies according to specific criteria. In the future, the uniform contribution rate will be determined by the federal government annually in the form of a statutory regulation. The level for 2009 will be decided by the government in October. Experts are certain that it will be over 15%. The health service reform remains controversial because it fails to solve any of the problems underlying provision of health services. It fails in its aim of ensuring in the future that rising costs for health services will not result in higher salary-related contributions. Financing continues to be based on the apportionment principle and demographic trends mean that this is unsustainable in the long term. The government does not have the courage to tell its citizens that in the future they will increasingly have to turn to private health insurance to receive the most up-to-date medical care.

In the nursing care sector, on 1 July 2008, the German law to develop the structure of nursing care insurance (Gesetz zur Weiterentwicklung der gesetzlichen Pflegeversicherung) came into force. This reform also fails to meet the goal of finding a suitable long-term solution for financing the system. The firm aim expressed in the Government's coalition agreement of integrating demographic reserves as unfunded elements in the law has not materialised. The law expands the services to be provided by the nursing care insurance companies and also burdens the contributor with additional costs. Contributions by insured persons are being increased by 0.25 percentage points to 1.95% of contributing income of a maximum € 3,600 per month. People with no children will in future pay 2.2%. The additional income expected to be generated by the insurance companies in the amount of € 2.5 billion is to be used to balance out the deficit in nursing insurance and to finance additional services. The Government expects that the contribution rate can be maintained at this level until 2014. Experts think this is unrealistic. They are of the almost unanimous opinion that the apportionment principle underlying the social security system is obsolete and must be reformed to include an unfunded insurance element.

These financing difficulties mean that the German health services market increasingly offers attractive opportunities for private companies. Market trends are still promising. Financing growth in health services is unlikely to happen without the involvement of private capital.

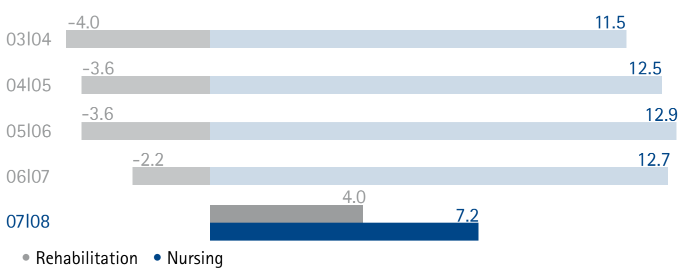
Profitability of Marseille-Kliniken Group

The EBIT, which amounted to € 22.3 million, didn´t reached the forecast of € 24.0 million. The consolidated net profit € 13.8 million is € 4.2 million below the forecast amount. This is due mainly to provisions for tax risks from an ongoing audit and an increase in deferred tax liabilities and for provisions for legal disputes.

Revenues

Operating revenues of the Group in the financial year 2007/2008 increased to € 228.1 million (previous year: € 214.8 million). This represents an increase of 6.2% or € 13.3 million, of which € 4.9 million results from existing facilities, € 5.1 million from expansion facilities and € 3.3 million from rehabilitation.

DVFA result by divisions in € m



The Group had a bed capacity of 8,899 beds in 65 facilities. This represents an increase of beds in the nursing division by 329 beds, and a decrease in capacity in the rehabilitation division by 195. The Group-wide occupancy rate also improved and was at 92.4% as against 89.7% in the previous year. This is due mainly to the specialisation of certain facilities, external certification, consequential quality management and increased marketing activities.

Capitalised own costs in the Group

In this financial year capitalised own costs include only new software developed by the Group.

Other operating income

Other operating income for the Group increased from € 28.3 million to € 32.5 million. In the previous year, this included income from the sale of four properties to GHG amounting to € 16.8 million. In this financial year, it includes income of € 8.4 million from the sale of one property to GHG (Schömberg). There was also a transaction concluded in June 2008 for the sale of six properties from the nursing division with a total of 567 beds to a consortium of property investors, IMMAC Holding AG, Hamburg, and RP & C International/Public Service Properties Investments Ltd., London. These properties are leased from the investor consortium on long-term contracts. This resulted in other operating income for the Group of € 11.4 million. The sale of the Held Bau Projekt Steuerungsgesellschaft mbH resulted in income of € 0.7 million. All other operating income amounted to about € 12.0 million, approximately the same as in the previous year.

Group earnings

Total Group earnings amounted to € 260.7 million (previous year: € 244.7 million). It should be noted that capitalised own costs in the previous year, which were for construction, were also netted against cost of materials as in this financial year. If income from sale-and-leaseback transactions is discounted, this results in total earnings of € 240.9 million (previous year: € 228.3 million). This represents an increase of € 12.6 million or 5.5%.

Expenses

Expenses for raw materials, consumables and supplies have increased by € 2.0 million to € 26.3 million as against the previous year (€ 24.3 million) due to increases in revenues and prices. Expenses for purchased services rose from € 3.1 million to € 3.8 million. The total cost of materials rose by 9.8% or € 2.7 million as against the previous year. This was mainly due to water, energy and fuel costs of € 1.7 million. One third of this rise results from energy prices and two thirds results from lower average temperatures in comparison with the previous year, which led to increased energy usage.

The increase in personnel expenses by € 5.3 million to € 119.3 million was due mainly to the start-up of new facilities. The average number of employees in the financial year 2007/2008 was 5,309 after 5,139 in the previous year.

Depreciation and amortisation of intangible assets and fixed assets fell by € 0.5 million to € 8.8 million.

Other operating expenses increased from € 70.5 million in the previous year to € 80.2 million. Rental and leasing expenses rose from € 36.9 million to € 42.9 million. This was due to the property transactions carried out at the end of the last financial year and in previous years, whose leaseback in the past financial year resulted in rental expenses. Furthermore, legal and consultancy costs increased by € 2.4 million to € 7.3 million. Against the previous year, value adjustments to receivables were around € 3.8 million lower. Expenses from other periods increased by € 0.6 million and business needs increased by € 0.3 million. The remaining increases are divided between other types of expenses.

Special factors in operating result

Group earnings before tax amount to € 16.8 million (previous year: € 13.2 million). As in previous years, the result was affected by positive special factors from book profits from property transactions. The result was also adversely affected mainly by one-off expenses from unused property, expenses for social security and start-up costs for various facilities.

In detail:

- € -19.6 million profits from transactions involving a total of seven properties.

- € 9,7 million from extraordinary expenses and losses mainly from the current unused properties at Waldkirch, Reinerzau, Bad König and Bad Oeynhausen (€ 5.7 million), provisions (€ 1.9 million), value adjustments (€ 1.3 million) and others (€ 0.8 million).

- € 7.4 million preliminary and start-up costs for new facilities such as the AMARITA facility in Hamburg (€ 2.7 million), the Türk Bakim Evi facility in Berlin-Kreuzberg (€ 1.8 million), the new facility in Düsseldorf (€ 0.6 million), the assisted living facility in Potsdam (€ 0.6 million), the Allgemeine Soziale Dienstleistungen gGmbH facility (€ 0.6 million), the new nursing clinic in Schömberg (€ 0.6 million), and preliminary costs for 2008/2009 for the facilities to open in Meerbusch, Oberhausen, Belzig and Bremerhaven (€ 0.5 million).

The sum of positive and negative special factors amounts to € -2.5 million net (previous year: € +0.7 million). This means that the result before taxes and before deduction of these special factors amounts to € 14.3 million (previous year: € 14.0 million).

Derivation at DVFA/SG results financial year 07|08 in € m

	Nursing	Rehab.	Group
Operating income per division	9.2	7.6	16.8
Tax expenses	-2.3	-1.2	-3.5
DVFA effects	0.0	-2.6	-2.6
Minorities	0.3	0.2	0.5
DVFA result per division	7.2	4.0	11.2
DVFA result per share in €	0.59	0.34	0.92

After taxes of € 3.5 million, Group net profit for the year amounts to € 13.3 million (previous year: € 9.0 million) before minority interests and to € 13.8 million (previous year: € 9.0 million) after minority interests. Earnings per share are € 1.14 (previous year: € 0.75).

Operating result and key performance figures

EBITDAR including other taxes increased from € 69.6 million to € 73.8 million and EBITDA fell slightly from € 32.7 million to € 30.9 million. EBIT including other taxes decreased from € 23.3 million in the previous year to € 22.1 million.

EBITDAR was 32.4% as in the previous year, the EBITDA margin at 13.5% was lower than the previous year's 15.2%, and the EBIT margin fell from 10.9% to 9.7%.

Financial result

The financial result is € -5.5 million and has improved as against the previous year by € 4.8 million. The reason for this is the reduction in debt arising from property transactions in the previous year.

Tax expenses

Income taxes of € 3.3 million are below the level of the previous year of € 4.0 million. One reason for this drop is the application of lower tax rates regarding deferred tax assets and deferred tax credits as at 30 June 2007 following the German company tax law reform in 2008. Another reason is the changes to the deferred tax assets and deferred tax credits over the past financial year.

The share of consolidated net profit attributable to shareholders of Marseille-Kliniken AG

Net profit after taxes and deduction of minority interests amounted to € 13.8 million (previous year: € 9.0 million).

Earnings per share / Dividend

Earnings per share amount to € 1.14 (previous year: € 0.75). The Management Board and the Supervisory Board will recommend to the Annual General Meeting that a dividend of € 0.25 be paid (previous year: € 0.25) per entitled share.

Profitability of divisions

Nursing care division

The nursing care for the elderly division continued to grow and progress has been made with increasing capacity. New facilities opened in Düsseldorf and Schömberg and the new two-star standard of care product sector for assisted living and inpatient care for the elderly in Potsdam was able to establish itself in the market, confirming our growth expectations for the future.

Nursing division sales in € m

With our specialisation concepts for age-related illness and nursing care requirements we have been able to achieve occupancy rate improvements in selected residential facilities.

The specialisation in Hamburg-Mitte with a capacity of 336 nursing care beds has been made in conjunction with the neighbouring Marienkrankenhaus. The opening of a centre for patients in a persistent vegetative state and for care of dementia patients allowed Marseille-Kliniken AG to offer our quality-assured, safe and patient-oriented chip concept and contributed to a continuing and sustained improvement in occupancy rates (September 2008: 235 beds). In the last months of the financial year, the facility was making a profit.

Our new facility in Düsseldorf has been a success and is already fully occupied. The same applies to the nursing care facility in Schömberg, and even though it is not yet fully occupied it will show profits in the financial year 2008/2009.

The two-star facility in Berlin-Kreuzberg, which opened in February 2007 and is designed to take account of the religious and cultural needs of the Turkish population, has been able to improve occupancy rates, even though we have noticed acceptance issues which need to be overcome. It will be some time before this facility will be able to show profits.

Our concept of differentiated four-, three- and two-star standards of comfort, all of which maintain the highest standards of supervision and care, has been well received by the market.

Rising costs, particularly energy costs, have had a more significant impact on profitability of our facilities than in previous years. Two thirds of the increase was down to lower average temperatures and therefore to usage, and one third was due to the price effect of costs, so there is no reason to expect that this worsening of costs at this level is to be permanent.

Revenues in the nursing division have increased by € 10,1 million to € 175.0 million (previous year: € 164.9 million). The occupancy rate of the available capacity of 7,616 beds (previous year: 7,287 beds) was on average 93.3% (previous year: 92.8%).

Rehabilitation operations positive

Our eight rehabilitation clinics have shown positive growth and revenues have been increased, even though capacity was reduced by 1,283 beds due to the loss of beds at the Onkologische Fachklinik Bad König. The occupancy rate during the financial year was 90.4% after 75.9% in the previous year. Revenues, including the acute hospital facility in Büren, were € 51.7 million (previous year: € 48.3 million). Based on the successful renovation of the rehabilitation clinics, we intend to give up operational facilities as soon as the financial markets have settled down.

Rehabilitation division sales in € m

Service companies as an important part of quality and cost-effectiveness strategy

The service division remains an integral part of our medical strategy and secures optimal coverage of the home needs of our customers.

The division is not just an important part of the Group's growth strategy of improving the whole supply chain, and is also critical to our quality strategy. Its activities are based on the principle of providing our customers with a wide-ranging product span of hotel-style services to reduce pressure on our facilities. This frees up employees to concentrate on their core competencies in the areas of nursing care, rehabilitation and supervision.

Services division sales in € m

Always bearing in mind the customer focus of our brand and product policy, we concentrated on the development, control and maintenance of our headline quality standards in comparison with competitive products. Our corporate organisation is reliant on transparency and information networks and consists of a comprehensive quality management system based on central, uniform quality control for daily operations, regular audits and constructive complaint processes. We have also been the first nationally operating company to publish a Group-wide quality report.

Optimising costs while securing high standards of quality for purchasing and sourcing of supplies and purchased services affords us a competitive advantage. Our nursing care, supervision and residential services, IT-networked and quality- and profitability-controlled offers are monitored and managed by an integrated risk control system. Recently we have concentrated on savings potential in facility management and energy supplies, and we continue to seek worthwhile optimisation potential based on clearly identified priorities.

The service companies Pro F&B, ProMint, ProWork and ProTec provide an excellent complement of services based on the quality standards of the parent company, Marseille-Kliniken AG. Our project management company, Held Bau Consulting, was sold during this financial year. The sale was made in accordance with the strategic decision that we are no longer going to be involved in building new facilities, other than the facilities currently under construction, and to concentrate on growth in outpatient care as assisted living. Any construction which the Group may require in the future will be contracted out to external providers.

Our training and professional development academies (Marseille Academy, eqs.-Institut) provide top-level professional training so that employees of Marseille-Kliniken AG can improve quality standards to meet the demands of ever-rising scientific standards.

VDSE and DaTess are charged with providing centralised control and monitoring functions and integrated IT networks for the whole Group. They make it possible for the Marseille-Kliniken AG Group to offer informational and transparency of decision-making at all times.

Services division revenues are derived almost exclusively from transactions with other Group companies but it also earned external revenues in this financial year of € 1.4 million (previous year: € 2.4 million).

Asset situation of the Group

The number of companies included in the Group consolidation in the financial year was 135. Held Bau Consulting Projekt Steuerungsgesellschaft mbH was deconsolidated. There were no significant effects on the asset situation, financial position and profitability of the Group.

Non-current assets amounted to € 178.6 million as of 30 June 2008. Property, plant and equipment (including disposal of properties, reclassification of the Potsdam property from inventories to assets and addition of new facilities under construction) and intangible assets were reduced by € 11.2 million, deferred tax assets by € 3.2 million and other financial assets by € 0.6 million. This amounts to a total reduction of € 15.0 million.

Current assets amounted to € 60.6 million, which represents a decrease over the previous year of € 54.9 million. Inventories decreased as against the previous year by € 4.2 million. This is due mainly to reclassification of the property in Potsdam to assets. Trade receivables increased slightly by € 1.2 million; other receivables increased to € 65.8 million due to payment of the purchase price from the GHG transaction made in the previous year. At the same time there are new receivables amounting to € 5.6 million which arose by the date at which this report was drawn up from recent property transactions. A further € 4.5 million was paid to Ulrich Marseille which was set off against the purchase price for outpatient nursing care for assisted living in Gera, which will be purchased in the financial year 2008/2009. There is also the purchase price of € 0.8 million due from the sale of Held Bau Consulting Projekt Steuerungsgesellschaft mbH. Tax claims have risen by € 0.2 million. Cash and cash equivalents increased from € 9.8 million to € 14.4 million.

Commercial equity amounted to € 44.1 million (previous year: € 34.8 million). Equity plus 84.2% (previous year: 73.6%) of differentiated investment subsidies amounts to € 84.1 million after € 71.2 million in the previous year. The ratio was 35.1% after 23.0% in the previous year. The share of non-current loan capital in the balance sheet total amounted to 51.2% (previous year: 63.4%). Including 15.8% (previous year: 26.4%) of differentiated investment subsidies, the share is 34.5% (previous year: 51.6%). Non-current liabilities were reduced from € 195.9 million to € 122.5 million, due mainly to the reduction of non-current liabilities to banks, lower pension obligations and the reduction in deferred tax assets on the liabilities side due to the partial dissolution of reserves made by individual companies pursuant to § 6b of the German Income Tax Act (EStG) and lower tax rates resulting from the reform of German tax laws in 2008. Other non-current liabilities fell due to the disposal of properties previously recognised as finance leases and their related liabilities. Current liabilities have decreased by € 5.8 million and amount to € 72.6 million after € 78.4 million in the previous year. There have been reductions in current debt (€ 2.6 million), trade payables (€ 2.7 million), current tax liabilities (€ 0.3 million) and other financial liabilities (€ 5.3 million). There was an increase in current provisions (€ 5.0 million).

In total, the assets position has changed further as properties have been sold, as in previous years, and the balance sheets assets positions have been reduced. On the liabilities side, financial debt continues to be reduced. Other future liabilities arising from the sale of properties and their leaseback under these contracts are set out in detail in the notes and amount at balance sheet date to € 742.8 million.

Financial position of the Group

Financing

The Group will use either its own financial resources to cover the necessary financing for its expansion in new facilities or will work in conjunction with property investors, from whom the new facilities are to be leased long-term. There are also other lines of short and long-term credit with several independent credit providers which cover anticipated financial needs. The Group's current account lines are unchanged at € 25.0 million, of which € 21.4 million was being utilised at balance sheet date. There is also another credit line for purchases in the amount of € 5.0 million.

Cash flow

The cash flow from business operations is € 49.6 million, due mainly to cash inflows from purchase price receivables for the receivable recognised in the previous financial year from the sale of property to GHG.

The cash flow from investment activities is positive at € 1.1 million, as disposals exceed additions under assets.

The cash flow from financing activities of € -46.1 million is negative due to the reduction of bank liabilities. The total result is a net inflow in the amount of € 4.7 million.

In summary, the asset situation, financial position and profitability of the company have not changed substantially since the management report was prepared.

Cash flow statement € '000	30.06.08 € '000	30.06.07 € '000
Earnings before interests and taxes (EBIT)	**22,327**	**23,586**
Financial results	-5,517	-10,339
Tax expenses	-3,503	-4,282
Earnings after tax (EAT)	**13,307**	**8,965**
Non-cash item outgo/income	-10,360	-8,805
Decrease/increase assets/liabilities	46,652	-2,641
Net cash flow from investing activities	1,132	-7,613
Net cash flow from financing activities	-46,056	-12,393
Decrease (previous year: increase) monetary equivalents	**4,675**	**-22,486**
Increase/decrease of cash and cash equivalents	4,675	-22,486
Cash and cash equivalents at 01.07.07	9,758	32,245
Cash and cash equivalents at 30.06.08	**14,433**	**9,759**
The composion of cash and cash equivalents	14,433	9,759
	14,433	**9,759**

Group investments

The bulk of investment volume by Marseille-Kliniken AG was in the nursing care division. Total investment in intangible assets (€ 1.3 million) and fixed assets (€ 15.9 million) and other loans (€ 0.2 million) amounted to € 17.4 million. Significant additions to assets refer to the property in Potsdam previously shown under inventories (€ 5.2 million) and facilities under construction refers to Eberswalde, Bremerhaven and Belzig (€ 6.4 million). Disposals refer principally to six properties previously classified as finance leases which have now reduced assets as they are classified as operating leases, and to the disposal of the property in Schömberg as part of a sale-and-leaseback transaction.

Research and development

Research is extremely important to Marseille-Kliniken AG. No health care company can survive in the long term unless it keeps pace with or pioneers rapid developments in the medical field.

Today more than ever, nursing care for the elderly needs to be provided on a sound scientific basis. This area still needs to be optimised and it is still rare for scientific research to be translated into practice. In future, universities must carry out both sound scientific and practically viable research. Marseille-Kliniken AG would like to make its contribution to supporting such pioneering research.

Research results have particular priority for the company for the development of new treatment and facility-design concepts for the benefit of residents and patients.

This includes the development of an IT-supported security concept for nursing care residences. A special security pass will be available during the course of this financial year at select locations to allow relatives to have access to patients in the care facility even outside of normal visiting hours.

The foundation of the Marseille Academy was a further milestone for Marseille-Kliniken AG. The academy aspires to quickly implement new findings and guidelines in practice, requiring precise communication, training and employee qualifications. This allows the Marseille Academy to target information and know-how management in the Group and requires uniform quality of training for all employees in order to meet the requirements of the health care market.

Total integration of our e-learning programme is exemplary in the sector. The Group-wide system ensures that employees can undertake courses in their area of responsibility and implement our quality requirements in practice.

Other factors affecting earnings

Quality and product offensive

With its sector-leading quality concept, its brand strategy, product expansion and diversification, and unique marketing and service mix, Marseille-Kliniken AG has created demand in the German market for nursing care which will be crucial to the further dynamic and profitable growth of the Marseille-Kliniken Group and will further increase the present level of satisfaction of our customers and business partners with our performance and reliability. We have also published our first Group-wide quality report, which is based on internal audits in accordance with the guidelines of the MDK (Medical Review Board of the German Statutory Health Insurance Funds) and the results of surveys carried out with patients' relatives.

Winning new customers and customer care

The continued consequential expansion of our business operations is supported by targeted high-visibility and customer-oriented multi-channel presentations, successful liaison and cooperation with local companies, service providers and public authorities and, last but not least, the exemplary dedication and professionalism of our employees. All these play an important part in winning new customers and providing customer care.

Centralised evaluation and control of sales activities by our customer relationship management (CRM) provides all active parties in the company with the information they need for continual control of and improvement to quality and performance.

Procurement

Our modern controlling systems provide procurement advantages and support quality-oriented purchasing and procurement activities by bundling purchase activity for the whole Group, and this has an immediate and direct effect on company results. This applies to the purchasing of consumables, investments, durables and perishables as well as to services in food and beverages, laundry, cleaning and maintenance, energy and facility management, and service and administrative functions.

Decisions as to whether performance should be allocated to Group companies or to suitable business partners are made in accordance with strict quality and commercial standards.

Employees

As of 30 June 2008, the Group employed 5,295 employees (previous year: 5,158 employees). Employee loyalty and experience play an important role in our success.

The Marseille Academy offers all employees the chance to take part in training programmes and seminars based on blended-learning concepts. Our e-learning tool uses SAP Learning Solutions to support administration and implementation of all training procedures. Our priority is to inspire and motivate employees. Each employee can book training programmes either in special e-learning rooms or on their own workplace PC. Tests taken at the end of the training validate the successful completion of the programme and exceptional performance can also be rewarded.

The concept provides employees with the incentive to further their qualifications for the benefit of the company. The company guarantees high level potential for development to employees and a sustainable guarantee of performance in the company's facilities and our corporate processes. We promote ongoing education, training and skill enhancement of our employees. Our pay is above average and we also offer additional performance-based incentive schemes.

Marseille-Kliniken AG has set up a superannuation fund with Allianz Pensionskasse AG creating a pension fund for all its employees. Employee and employer pay equal contributions into the pension fund. The pension scheme enables employees to increase their statutory pension rights by up to 30%. Thus Marseille-Kliniken AG offers its employees a crisis-proof and highly effective addition to their state pension provision. This model encourages the long-term commitment of employees to the company, which is critical for us as service providers.

Individual annual financial statements of Marseille-Kliniken AG

Marseille-Kliniken AG has its registered office in Berlin and is the listed parent company of the Marseille-Kliniken Group. The Management Board of Marseille-Kliniken AG also manages the Marseille-Kliniken Group.

The annual financial statements of Marseille-Kliniken AG are prepared in accordance with requirements of the German Commercial Code (HGB) and the German Companies Act (AktG) and provide the basis for calculation of the dividend. Income statements are drawn up in accordance with the total costs method.

Marseille-Kliniken AG revenues amounted to € 17.5 million and were slightly above the previous year's level of € 16.7 million. As in the previous year, these result from nursing care facilities.

Other operating income rose from € 25.9 million to € 31.2 million. This resulted mainly from release for tax purposes of the untaxed special reserves (under § 6b of the German Income Tax Act (EStG)) totalling € 4.0 million. There is also income of € 5.6 million resulting from the transfer of purchase options on six properties which were sold during this financial year from the present lessor to two new financial investors, Public Service Properties Investments Ltd. and IMMAC Holding AG. Rental income from subsidiaries totalled € 18.7 million (previous year: € 18.4 million). In the previous year, book profits from the sale of the property in Leipzig of € 6.6 million were recognised.

Cost of materials rose by € 0.8 million to € 5.1 million (previous year: € 4.3 million) due to higher food, cleaning, water, energy and fuel costs.

Personnel expenses have increased over the previous year by € 0.6 million to € 9.8 million (previous year: € 9.2 million).

Depreciation and amortisation of intangible assets and fixed assets has been slightly reduced from the previous year from € 0.7 million to € 0.6 million.

There was depreciation of current assets amounting to € 4.1 million. This refers mainly to claims against AMARITA Hamburg-Mitte PLUS GmbH and Senioren-Wohnpark Montabaur GmbH. Due to accumulated losses, both companies had to partially write off receivables at balance sheet date.

Other operating expenses have been reduced from € 35.4 million in the previous year to € 32.2 million. In the previous year, untaxed special reserves totalling € 5.9 million were set aside and these were partially released during this financial year (see comments to other operating income). As against the previous year, reserves for litigation have risen by € 1 million.

The financial result of € 8.7 million (previous year: € 12.7 million) is derived from investment income of € 1.1 million (previous year: € 0.9 million), the net difference between income from profit sharing agreements and expenses from assumption of losses in the amount of € 15.5 million (previous year: € 11.3 million) and from the balance from interest income and expenses in the amount of € 0.5 million (previous year: € 0.5 million). Under income from profit sharing agreements, it should be noted that it also includes releases from untaxed special reserves set aside in previous years (§ 6b of the German Income Tax Act (EStG)) totalling € 5.5 million for Senioren-Wohnpark Hennigsdorf GmbH and Senioren-Wohnpark Bad Langensalza GmbH. The financial result also includes impairment of financial assets amounting to € 8.5 million. This is due mainly to necessary impairment by € 7.1 million of the investment in Karlsruher-Sanatorium-AG. After the sale of most of the property held by the company and the realisation of considerable silent reserves in previous years, which as a non-operating asset played an essential part in maintaining the value of Karlsruher-Sanatorium-AG in the past, is now valued in light of the company's future plans (including operational subsidiaries) at € 33.0 million and impairment was now possible. A further impairment of € 0.6 million was also made in respect of the investment in VDSE GmbH, which acts purely as a management company within the Group. The investment in Senioren Wohnpark Aschersleben GmbH also had to be impaired by € 0.3 million. Value adjustments totalling € 0.1 million were also made to investments in six shell companies held by the Group.

In the individual financial statements, there are improved earnings from business operations of € 5.6 million (previous year: € 5.8 million) as a result of the release of untaxed special reserves (§ 6b of the German Income Tax Act (EStG)) totalling € 9.5 million.

The net profit of the AG amounts to € 3.9 million (previous year: € 3.8 million).

It is intended to distribute a dividend to authorised shareholders in the amount of € 0.25 per dividend-bearing share.

The assets of Marseille-Kliniken AG have been reduced by the impairment of investments (see notes about depreciation and amortisation). In particular, the investment in Karlsruher-Sanatorium-AG has been impaired by € 7.1 million. In addition, loans by the company to Karlsruher-Sanatorium-AG totalling € 5.8 million have been repaid. Total assets amounted to € 96.1 million (previous year: € 110.1 million).

Receivables and other assets include € 85.6 million (previous year: € 85.4 million) against affiliated companies. Other assets in the previous year included the purchase price receivable for the Leipzig property in the amount of € 12.1 million and this was repaid in full during this financial year. Other receivables include the new receivable of € 5.6 million for the transfer of option rights, which was paid in August 2008. A further € 4.5 million was paid to Ulrich Marseille and set off against the purchase price for the outpatient nursing service for assisted living in Gera which will be purchased in the financial year 2008/2009. There is also a receivable of € 0.8 million arising from the sale of Held Bau Consulting Projekt Steuerungsgesellschaft mbH.

Working capital was reduced at balance sheet date by € 2.5 million to € 4.0 million (previous year: € 6.5 million). The negative net liquidity, or working capital less liabilities to banks, improved from € -52.5 million in the previous year to € -42.9 million.

Provisions for pension obligations amount as in the previous year to € 0.5 million. Other provisions are composed of provisions for taxes in the amount of € 6.5 million (previous year: € 6.9 million) and other provisions in the amount of € 4.1 million (previous year: € 2.1 million).

Liabilities include liabilities to banks in the amount of € 46.9 million (previous year: € 59.0 million). Other liabilities include € 86.9 million (previous year: € 85.9 million) of liabilities to affiliated companies.

Total assets amount to € 206.5 million (previous year: € 223.5 million) and of this 72.2% (previous year: 73.5%) is financed by loans. The loans consist mainly of provisions of € 11.0 million (previous year: € 9.5 million) and liabilities of € 137.0 million (previous year: € 152.3 million).

Risks to which Marseille-Kliniken AG is exposed in the individual financial statements are that the remaining book value of the investment in Karlsruher-Sanatorium-AG of € 33.0 million is dependent on how far the underlying plans of the subsidiary company manages to attain its targets. The same applies to the remaining receivables from AMARITA Hamburg-Mitte PLUS GmbH and Senioren-Wohnpark Montabaur GmbH. Receivables due from other affiliated companies amount to € 85.6 million. They will only be realised if the relevant subsidiaries grow as scheduled.

In the Trump legal dispute we still believe that our chances of success are high and see no reason to make a further value adjustment.

Group risk report

Risk management system

Its commercial business activities expose Marseille-Kliniken to various risks which are inseparable from its business activities. Our method is only to undertake risks if there are equal opportunities for profit. Our principle of risk limitation is that we only expose ourselves to risks which are manageable within the recognised methods and systems of our organisation.

Our centralised risk-management system and centralised management ensure the timely availability and evaluation of information relevant to decision-making processes in establishing the asset situation, financial position and profitability of Marseille-Kliniken AG.

Risk management is therefore an integral part of company management and integrated into all business processes.

A detailed, multi-level, IT-supported planning and control system implements, realises and observes uniform principles of risk. Deviations from targets are identified immediately and can be discussed with staff in the relevant branch location in order to alleviate the problem.

Several specialist departments take care of legal regulations.

Furthermore, Group-wide regulations and guidelines have been introduced which ensure uniform handling and communication of potential risk factors.

An integrated Group-wide reporting system covering all risk-relevant data and events ensures that decision-makers are informed correctly and promptly. It shows ongoing adherence to targets and acts as an early warning system for changes relating to revenues, costs, quality and market competitiveness.

External and sector risks

The economic situation remains unchanged and is marked by continuing dynamic sampling of competition and market consolidation, and increasing quality demands by customers, patients and legislators. There is also a call for a quality hallmark for facilities.

Legal stipulations of qualified employees in our facilities can lead to an increase in salary costs, as finding qualified personnel remains a persistent problem. We promote human resources measures to bind high-quality employees to our company. Implementation of our special concepts promotes ongoing education, training and skill enhancement of our employees. Our pay is above average and we also offer additional performance-based incentive schemes.

Economic performance risks

Risks arising from nursing care, treatment and quality of supervision care are minimised on an ongoing basis by development and training of our employees on the basis of the latest scientific knowledge and methods.

In addition, the constant updating and development of modern IT-supported systems has a high level of priority.

Surveys of patients' relatives by way of questionnaires and audits by our central quality management in the facilities allow us to form an opinion about services provided and how they have been perceived. We have published the first Group-wide quality report, which is based on internal audits in accordance with the guidelines of the MDK (Medical Review Board of the German Statutory Health Insurance Funds) and the results of the surveys carried out in conjunction with patients' relatives.

The introduction of an internal Group complaint management system and an increase in cooperation with local advisory committees in the individual facilities and the Group advisory board bring about a continuous improvement process by implementation of customer wishes.

In order to implement quality requirements in practice, our employees receive constant training in our facilities. We support this by means of our Group-wide e-learning courses offered by the Marseille Academy.

Financial risks

Securing the liquidity of the Group is an important function of our financial division. Constant monitoring of liquidity and liquidity planning allows us to assess risk-laden decisions correctly and to avoid causing unnecessary capital requirements which are in excess of planned liquidity outflows.

Liquidity, oil and interest risks are subject to active treasury management and are controlled and secured centrally. Individual details of risk management targets and methods can be seen in the notes to this report.

Turbulence in the international financial markets and limitations on the granting of credit from banks and other financial institutions to Marseille-Kliniken AG and other institutional investors may result in a disintegration of payment morals and an increased demand for longer payment periods. We do not yet see any evidence of this but we are countering the risk with consequential credit management.

Legal risks

Risks for Marseille-Kliniken AG from legislative changes to the social security system are minimal. There are continual attempts to stabilise the financial position of the health and nursing care systems but the economic effects of legislative changes have been minimised by political parameters, even for the health care reform, which has been completed.

The introduction of the nursing care insurance system was viewed positively by all social groups. However, the reform made in mid-2008 is controversial amongst experts but should not provide any challenge to the comfortable risk estimation of Marseille-Kliniken AG.

The successful implementation and application of DRGs (diagnosis-related groups) continues to show how important this measure is to guarantee the continuation and success of quality, performance and cost-oriented clinics in an increasingly tough competitive environment.

If there are to be future changes made to legislative provisions in Germany, we are convinced that our customer orientation and operating efficiency will maintain our leading position in the competitive market.

To cover risks, decisions and organisation of business processes are normally made on the basis of comprehensive legal and tax advice.

Individual companies of the Marseille-Kliniken Group are involved in both active and passive legal disputes. The prospects of success in most of these are considered to be sound. In the Bad König case several disputes are being heard together by the Regional Court (Landgericht) in Darmstadt. It concerns a contractual obligation to operate, where an expert report has demonstrated that economic operation is not possible. The lessor was presented with an alternative concept, but it was rejected. On this basis, the lease was subject to extraordinary termination on 30 June 2008. Payment of damages or a settlement are being contested. We consider our position to be strong, and there currently seems to be little risk. We have set aside a provision of € 0.5 million to cover possible risks arising from litigation costs. We set aside provisions of € 0.3 million for redundancy payments for former employees of the Onkologische Fachklinik in Bad König. We still think that our chances of success in the Trump dispute are sound and have not made any further provisions.

Other risks

Careful use of resources is self-evident for Marseille-Kliniken AG. Water, electricity, gas and oil are used as energy sources on a strictly consumption-oriented basis. Special machines and environmentally friendly detergents are used in laundry operations. Dishwashers are optimised to run in accordance with specific requirements and to minimise the consumption of dishwasher detergent. In most cases, the returnable packaging system is utilised.

The strict separation of waste, the use of energy-efficient technologies and the selection of building materials with minimum impact on health are further examples of environmentally sound management.

Even where there are further price increases, such as in the energy sector, Marseille-Kliniken AG is well equipped to maintain its position in a competitive market.

Strategic risks and risk situation of Group

Marseille-Kliniken AG is the first company in the inpatient nursing care market to secure a rating from the international rating agency Standard & Poor's (S&P). Only 8% of listed German companies have a rating. Investors and banks which provide refinancing for the company regard this independent external rating in a positive light and consider it a basic prerequisite for acceptance as a sound business partner.

By international standards, Marseille-Kliniken AG has a good S&P rating of "BB-, outlook stable", valid since March 2007.

Performance in the rehabilitation division was balanced in this financial year. The turnaround has now been achieved after losses were suffered in the last financial year. The property assets included in the balance sheets of the eight rehabilitation facilities amounted on 30 June 2007 to € 11.7 million. After the sale of the property in Schömberg in the financial year 2007/2008, only € 7.3 million remained in the balance sheet on 30 June 2008. The remaining operational rehabilitation clinics in Zell and Bad Herrenalb have a book value of € 7.3 million and are regarded as intrinsically valuable.

Current occupancy rates at the beginning of the financial year 2008/2009 are over 90%, and therefore the estimated occupancy rate for the forthcoming financial year seems realistic. Due to recent business development in the clinics and existing budgetary plans for future years, we see no reason to doubt the profitability of this division.

Determination of discounted cash flow in connection with the probability estimations and the impairment test were made on the basis of the weighted average cost of capital (WACC) of 7.6%. The intrinsic value of the assets in the rehabilitation division is dependent on the valuations used in budgetary planning.

There are currently plans afoot to convert the facilities at Reinerzau (book value € 3.3 million), Bad Oeynhausen (book value € 5.3 million), Waldkirch (book value € 3.7 million) and Blankenburg (old clinic, book value € 4.3 million) into nursing care/assisted living facilities in order to make better returns from these properties. Relevant concepts have been drawn up and change of use applications have been made. As long as no negative results emerge from our market and demand analyses, we see no substantial risks in this restructuring. The intrinsic value of the properties was confirmed by an external valuation dated 30 June 2008.

We returned the Onkologische Fachklinik 1A GmbH facility in Bad König to the lessor on 30 June 2008, as the lessor refused to accept our alternative concept for use as a nursing care clinic. Continuing operation as a rehabilitation clinic was, and still is, uneconomic. We have set aside sufficient provisions to cover any ensuing legal dispute. This issue is discussed in detail under point "legal risks".

We counteract falls in occupancy rates in our facilities by increasing the qualifications of our personnel and further developing our high quality of nursing care. We are also in the process of increasing the degree of specialisation in age-related illnesses in our facilities in order to meet demand and to improve occupancy rates.

In conjunction with the Marienkrankenhaus, our location in Hamburg Angerstraße has introduced specialised treatment of dementia patients and persistent vegetative state patients. Increased marketing activities over the last few months of the last financial year shown positive trends in the result.

The Türk Bakim Evi facility in Berlin is having acceptance problems, even if occupancy is increasing. Extensive informational and image events and further cooperation with outpatient services should improve earnings in the financial year 2008/2009. However, the facility is not yet expected to show a profit.

Our newly opened facility for assisted living in Potsdam has done well and the occupancy rate for apartments was at a very satisfactory level by the end of the financial year, which means that we can expect positive earnings for the whole financial year 2008/2009.

The rehabilitation division is becoming less and less important for the profitability of the Group as a whole. Above-average performance in the nursing care division is the axis around which further Group profitability is centred. Even if various individual expansion facilities need longer to break even, there are other new facilities which quickly begin to deliver profits for the Group.

In our opinion, the current total estimation of risk to the asset situation, financial position and profitability of Marseille-Kliniken AG and the Marseille-Kliniken Group is minimal.

The likelihood of claims from parent company guarantees issued is regarded as minimal.

Events after the end of the financial year

There were no significant events after the end of the financial year 2007/2008 which could affect the situation as detailed in the Group financial statements or could have significant effects on the business operations of Marseille-Kliniken AG or the Group.

Remuneration report

The remuneration report for the financial year 2007/2008, which sets out the basis for remuneration of the Management Board and the Supervisory Board, is published in the notes to these annual financial statements.

Dependent companies report by the Management Board

A report about legal and business relationships to all affiliated companies has been compiled in accordance with § 312 of the German Companies Act (AktG) and ends with the following statement:

"The Management Board of Marseille-Kliniken AG confirms that Marseille-Kliniken AG was not placed at a disadvantage in performance of any services, nor did it suffer any disadvantage regarding information received during the course of business operations.

Care was taken to ensure that appropriate payment was made for services. Costs and prices correspond to work done and/or conditions for comparable arms-length transactions with third parties. The Management Board also confirms that Marseille-Kliniken AG received appropriate consideration for all legal transactions and was not disadvantaged in any transactions undertaken or not undertaken, or if there were any such disadvantages, they received appropriate compensation. The report covers all pertinent business transactions known to the Management Board."

Statements made pursuant to § 315(4) of the German Commercial Code (HGB)

Composition of subscribed capital

As of 30 June 2008, the subscribed capital of Marseille-Kliniken AG amounted to € 31,100,000.00, divided into 12,150,000 bearer shares. The shares are fully paid up. Each share has one vote.

Limitations affecting voting rights or the transfer of shares

The registered shares of Marseille-Kliniken AG do not have restricted transferability. We are not aware of any other restrictions applicable to voting rights or transferability of shares.

Investments exceeding more than 10% of voting rights

The founding shareholder and Chairman of the Supervisory Board, Ulrich Marseille, and his wife, Estella-Maria Marseille, hold 60% of the share capital of Marseille-Kliniken AG. Pursuant to the Securities Trading Act (Wertpapierhandelsgesetz) every shareholder who by means of purchase, sale or any other means attains, exceeds or ceases to hold a certain threshold of voting rights, must notify the company and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The lowest threshold requiring such notification lies at 3%. We are not aware of any other direct or indirect shareholding which exceeds the 10% voting rights threshold.

Shares with special control rights

No shareholder of Marseille-Kliniken AG is authorised by the articles of association to place members on the Supervisory Board. No shares have been issued which have special rights allowing control powers.

Type of voting controls where employees hold capital share but do not exercise their control rights directly

Like any other shareholders, employees who hold shares in Marseille-Kliniken AG may exert their control rights directly in accordance with legal stipulations and the articles of association. There are no limitations on voting rights for shares held by employees of Marseille-Kliniken AG.

Regulations about the appointment and termination of members of the Management Board

In accordance with the articles of association of Marseille-Kliniken AG, the Management Board consists of one or more members, whose number shall be determined by the Supervisory Board and who may each be appointed by the Supervisory Board for a period of up to five years in accordance with § 84 of the German Companies Act (AktG). The Supervisory Board may appoint one member of the Management Board as Chairman of the Managing Board, if the Management Board consists of several members. It can also appoint deputy Management Board members. The appointments to the Management Board require a simple majority of the Supervisory Board. Where there is a tie, the vote of the Chairman of the Supervisory Board at the applicable meeting shall be decisive. Appointment to the Management Board may be terminated by the Supervisory Board in accordance with § 84 of the German Companies Act (AktG) if there are relevant grounds. If there is no appointment of an essential member of the Management Board, in urgent circumstances the court may, upon application of an interested party, appoint a member to the Management Board pursuant to § 85 of the German Companies Act (AktG).

Regulations regarding amendments to the articles of association

Any amendment to the articles of association requires a resolution of the Annual General Meeting (§ 179 of the German Companies Act (AktG)). Pursuant to § 9 of the articles of association and § 179 AktG, the Supervisory Board may make resolutions to amend or make additions to the articles of association which refer only to formal procedures. Unless the law requires otherwise, resolutions of the Annual General Meeting may be made with a simple majority of votes cast and, for increases in capital, a simple majority of capital (§ 15 (2)). Pursuant to § 181 (3) AktG, changes to the articles of association do not become valid until they are registered in the Commercial Register.

Authority of the Management Board to issue shares or to buy back shares

Pursuant to § 4 of the articles of association of Marseille-Kliniken AG, the Management Board is authorised with the approval of the Supervisory Board to increase share capital up to 1 December 2008 by issuing new bearer shares for cash or capital contribution in one or more tranches up to a total of € 3.11 million (authorised capital). Furthermore, with the approval of the Supervisory Board the Management Board is authorised to determine the scope of share rights and conditions for issuance, particularly with regard to determining the issue amount and to exclude the subscription rights of shareholders in certain cases. Further details can be found in § 4 (5) of the articles of association.

At the Annual General Meeting held on 4 December 2007, the Management Board was authorised to buy back its own shares. The authorisation is limited to 18 months until 4 June 2009 and to a maximum of 10% of the share capital. The time limit applies to the time of purchase of the shares, not to the holding of the shares beyond this period in time. Purchases made for trading purposes and ongoing price management are not authorised. The authorisation can be exercised for all or part of the shareholdings, and exercised on one or more occasions, either by Group companies or by third parties acting on their behalf or on behalf of their legal successors in title. Buy-back can be made on the stock market or by public offer. The nominal value for the purchase of the shares (excluding incidental costs) may be no more than 5% more or less than the average value of the closing share price for similar shares on the Frankfurt Stock Exchange for the last five trading days before the shares were bought. The Management Board was authorised, with the approval of the Supervisory Board, to sell the repurchased shares whilst excluding subscription rights for shareholders if the repurchased shares can be sold for an amount which may not be less than 5% of the average value of the closing share price for similar shares on the Frankfurt Stock Exchange for the last five trading days before the shares were sold. This authorisation is limited to a maximum of 10% of the share capital. The authorisation applies also to the sale of treasury shares for the purchase of investments in companies. On the basis of the resolution made, the Management Board is authorised to buy the shares with the approval of the Supervisory Board but without further requirement for approval from the Annual General Meeting. The buy-back can be made one or more times. The Supervisory Board is authorised to amend the articles of association in order to amend the scope of the buy-back.

The articles of association do not contain any provision which authorises the Management Board to buy back shares in a takeover situation.

Significant agreements which are subject to a change of control in case of a merger offer

There are no significant agreements which are subject to a change of control in case of a merger offer.

Compensation agreements in case of a merger offer

There are no agreements made with members of the Management Board which will grant them compensation in case of a change of control, nor are there any such agreements with employees.

Outlook

The financial year 2007/2008 was eventful and the company is determined to make use of the opportunities open to the Marseille-Kliniken Group. There was a raft of new initiatives which will unleash significant potential for revenues and profits over the coming months and years. Many nursing home operators cannot compete due to increasing pressure on quality and price margins arising from statutory requirements and the simultaneous restrictive and strongly directive influences of the statutory health insurance companies.

This will accelerate consolidation in the nursing care market. Marseille-Kliniken AG will emerge from this consolidation process a winner and will be able to take over additional facilities from private, municipal and non-profit operators.

In the next two years the company expects to see a significant improvement in operating income. The nursing division expects occupancy rates to increase further. We still expect start-up costs for the expansion facilities to decrease. A clear improvement in the occupancy rate of our facility for Turkish people in Berlin will play a particularly significant role here. Occupancy rates in the rehabilitation division in the financial year 2007/2008 have already stabilised at around 90%, and we expect positive growth if these remain consistent.

The company expects revenue and earnings growth for the next two financial years without any of the special factors in comparison with the previous year. For revenue growth this means average annual growth in the next two years of 6.5%. Occupancy rates have a disproportionate effect on earnings in covering the principally fixed cost structure. The increase in capacity and growth in the nursing care division will contribute substantially.

We will focus on expanding to further facilities in North-Rhine Westphalia and in northern and eastern Germany. Agreements have already been concluded for facilities in Meerbusch, Oberhausen, Bremerhaven, Eberswalde, Gera and Waldkirch. Marseille-Kliniken AG aims to extend its operational bed capacity in the financial year 2008/2009 by 352 beds (excluding Gera outpatient nursing care).

The company expects an EBIT yield of at least 7%. The expansion of assisted living and the integration of the start-up facilities in Group earnings structures will continue to improve margins gradually. Rehabilitation, which now makes up only about 20% of Group revenues, has a decreasing impact on the profitability of the whole Group. After reaching break-even over the past financial year, the company has set the operating facilities a short to mid-term target (after the financial markets have reached some sort of financial stability) of withdrawal from the rehabilitation segment by way of partial or total sale of existing facilities.

We anticipate results for Marseille-Kliniken AG which will permit a shareholder-friendly distribution policy.

We expect that the issues detailed in the risk report will have no significant effect on the assets situation, financial position and profitability in the coming years.

In line with our growth strategy, expansion in the assisted living sector will increase total capacity to 12,000 beds in the coming years.

There may be differences between the forecast results and the actual results. However, we expect any such differences to be minimal.

Hamburg, October 2008

The Management Board

Annual financial statements

Consolidated balance sheet at 30 June 2008 and previous year	30.06.2008 €	30.06.2008 €	30.06.2007 €	Notes page
Assets				
Non-current assets				
Intangible assets	33,003,763.51		33,595,811.82	102
Property, plant and equipment	141,822,994.43		152,444,633.02	103
Other long-term assets	2,515,117.03		3,117,822.48	104
Deferred tax assets	1,209,498.39		4,374,381.00	104
		178,551,373.36	**193,532,648.32**	
Current assets				
Inventories	5,271,944.21		9,496,004.67	104
Accounts receivables	13,794,776.34		12,627,624.50	104
Other receivables, other assets	23,512,645.53		76,016,968.43	105
Tax receivables	3,590,131.81		3,409,929.82	105
Cash on hand, bank balances	14,433,059.01		9,758,176.33	105
Non-current assets held for sale	0.00		4,226,020.49	105
		60,602,556.90	**115,534,724.24**	
Total assets		**239,153,930.26**	**309,067,372.56**	
Equity				
Capital stock	31,100,000.00		31,100,000.00	106
Capital reserve	15,887,038.24		15,887,038.24	106
Revenue reserve	627,105.53		627,105.53	106
Treasury stock	-869,316.91		-63,030.00	106
Consolidated loss	-3,149,247.64		-13,738,809.99	
Minority status	458,834.21		941,529.15	106
		44,054,413.43	**34,753,832.93**	
Non-current liabilities				
Deferred benefits from public authorities	47,511,250.83		49,509,621.73	106
Long-term interest-bearing loan	47,453,918.66		87,165,147.60	106
Provisions, accruals for pensions	16,897,840.00		18,268,095.00	107
Deferred tax liabilities	10,389,238.14		17,010,848.90	107
Other long-term liabilities	293,624.88		23,933,777.66	108
		122,545,872.51	**195,887,490.89**	
Current liabilities				
Short-term interest-bearing loan	31,368,787.01		33,981,814.92	106
Other provisions	20,292,216.60		15,269,790.92	108
Trade payables	7,405,997.10		10,157,614.12	108
Accrued taxes	1,100,032.52		1,380,381.39	
Other short-term liabilities	12,386,611.09		17,636,447.39	109
		72,553,644.32	**78,426,048.74**	
Total equity and liabilities		**239,153,930.26**	**309,067,372.56**	

Consolidated income statement for the year 2007|2008 and previous year	2007|2008 €	2007|2008 €	2006|2007 €	Notes page
Revenues	228,061,465.47		214,840,615.85	109
Change in inventories of finished goods and work in progress	49,546.09		1,062,156.56	109
Company-produced additions to plant and equipment	134,131.13		550,000.00	109
Other operating income	32,452,765.37		28,297,392.63	109
Total revenues		**260,697,908.06**	**244,750,165.04**	
Cost of materials				
a) Raw materials and consumables used	-26,252,515.24		-24,252,678.01	109
b) Cost of purchased services	-3,797,848.57		-3,109,671.38	109
		-30,050,363.81	**-27,362,349.39**	
Personnel expenses				
a) Salaries and wages	-97,923,230.94		-94,165,771.36	110
b) Expenditure for company pension funds and pensions paid	-21,426,669.71		-19,835,848.89	110
		-119,349,900.65	**-114,001,620.25**	
Depreciation and amortisation		**-8,758,614.73**	**-9,324,938.06**	110
Other operating expense		**-80,211,970.48**	**-70,475,630.23**	110
Earnings before interest and taxes (EBIT)		**22,327,058.39**	**23,585,627.11**	
Financial result				
Interest income	1,392,102.89		1,154,007.64	111
Interest expenses	-6,909,539.57		-11,492,867.12	111
		-5,517,436.68	**-10,338,859.48**	
Earnings before taxes (EBT)		**16,809,621.71**	**13,246,767.63**	
Tax expenses		-3,317,375.80	-4,029,254.64	111
Other taxes		-185,263.60	-252,956.31	
Net profit after taxes		**13,306,982.31**	**8,964,556.68**	
Minority interests		482,694.94	88,770.86	
Net profit for the year		**13,789,677.25**	**9,053,327.54**	
Profit per share				
Undiluted profit per share in €		**1.14**	**0.75**	114

Consolidated statement of changes in equity for the year 2006|2007

	Capital stock €	Capital reserve €	Revenue reserve €	Consolidated loss €	Treasury stock €	Shares Marseille-Kliniken AG €	Minority shareholders Minority interest €	Consolidated Group Total equity €
Balance at 01.07.2006	31,100,000.00	15,887,038.24	627,105.53	-19,153,232.41	0.00	28,460,911.36	682,793.29	29,143,704.65
Dividends paid	0.00	0.00	0.00	-2,232,774.00	0.00	-2,232,774.00	-28,414.86	-2,261,188.86
Distribution of earnings (ADG) to senior shareholders	0.00	0.00	0.00	-1,069,175.00	0.00	-1,069,175.00	0.00	-1,069,175.00
Other changes	0.00	0.00	0.00	-336,956.12	-63,030.00	-399,986.12	375,921.58	-24,064.54
Earnings from this period	0.00	0.00	0.00	9,053,327.54	0.00	9,053,327.54	-88,770.86	8,964,556.68
Balance at 30.06.2007	31,100,000.00	15,887,038.24	627,105.53	-13.738,809.99	-63,030.00	33,812,303.78	941,529.15	34,753,832.93

Consolidated statement of changes in equity for the year 2007|2008

	Capital stock €	Capital reserve €	Revenue reserve €	Consolidated loss €	Treasury stock €	Shares Marseille-Kliniken AG €	Minority shareholders Minority interest €	Consolidated Group Total equity €
Balance at 01.07.2007	31,100,000.00	15,887,038.24	627,105.53	-13,738,809.99	-63,030.00	33,812,303.78	941,529.15	34,753,832.93
Dividends paid	0.00	0.00	0.00	-3,036,449.50	0.00	-3,036,449.50	0.00	-3,036,449.50
Profit distribution to third parties	0.00	0.00	0.00	-11,537.20	0.00	-11,537.20	0.00	-11,537.20
Changes in basis of consolidation	0.00	0.00	0.00	-152,128.20	0.00	-152,128.20	0.00	-152,128.20
Other changes	0.00	0.00	0.00	0.00	-806,286.91	-806,286.91	0.00	-806,286.91
Earnings from this period	0.00	0.00	0.00	13,789,677.25	0.00	13,789,677.25	-482,694.94	13,306,982.31
Balance at 30.06.2008	31,100,000.00	15,887,038.24	627,105.53	-3,149,247.64	-869,316.91	43,595,579.22	458,834.21	44,054,413.43

Balance sheet Marseille-Kliniken AG at 30 June 2008 and previous year

ASSETS	30.06.2008 €	30.06.2008 €	Previous year € '000
A. Non-current assets			
I. Intangible assets			
Franchises, industrial property rights and similar rights and values		**452,861.76**	**530**
II. Property, plant and equipment			
1. Real estate	17,037,903.71		17,428
2. Technical plant and machinery	406.28		0
3. Furniture and office equipment	561,825.30		348
4. Deposits paid and construction in progress	331,951.74		4
		17,932,087.03	**17,780**
III. Financial assets			
1. Shares in affiliated companies	77,641,957.80		85,863
2. Loans to affiliated companies	0.00		5,821
3. Investments	65,912.58		66
		77,707,870.38	**91,750**
		96,092,819.17	**110,060**
B. Current assets			
I. Inventories			
Raw materials and supplies		**38,447.84**	**62**
II. Receivables and current assets			
1. Trade accounts receivable	540,740.32		624
2. Trade accounts receivable (affiliated companies)	85,552,756.07		85,358
3. Other receivables	19,418,298.38		20,806
		105,511,794.77	**106,788**
III. Stocks			
1. Treasury stock	565,547.50		**63**
2. Other securities	188,000.00		**0**
		753,547.50	**63**
IV. Cash and short-term deposits		**4,016,061.24**	**6,499**
C. Deferred expenses and accrued income		**69,247.10**	**46**
		206,481,917.62	**223,518**

EQUITY AND LIABILITIES	30.06.2008 €	30.06.2008 €	Previous year € '000
A. Equity			
I. Issued capital		**31,100,000.00**	**31,100**
II. Capital reserve		**15,887,038.24**	**15,887**
III. Revenue reserve			
1. Statutory reserve	207,073.21		
2. Treasury stock (reserve)	565,547.50		
		772,620.71	**591**
IV. Retained earnings		**6,352,103.81**	**5,638**
		54,111,762.76	**53,216**
B. Special item for investment grants for properties and buildings as per official subsidy notes		**1,992,256.58**	**2,077**
C. Special reserve with an equity portion		**1,913,992.14**	**5,914**
D. Provisions and accruals			
1. Accrual for pensions	474,917.00		481
2. Provisions for taxation	6,478,945.03		6,887
3. Other provisions	4,086,112.87		2,110
		11,039,974.90	**9,478**
E. Liabilities			
1. Bank debts	46,909,690.09		59,023
2. Trade payables	601,904.16		686
3. Trade payables (affiliated companies)	86,921,642.82		85,935
4. Trade payables (associated companies)	40,474.18		57
5. Other liabilities	2,482,908.55		6,585
- of which taxes: € 175,039.31 (previous year: € 83,000) - - of which social security: € 12,494.51 (previous year: € 8,000) -			
		136,956,619.80	**152,286**
F. Deferred income and accrued expenses		**467,311.44**	**547**
		206,481,917.62	**223,518**

Income statement Marseille-Kliniken AG for the year 2007|2008 and previous year

Income statement Marseille-Kliniken AG for the year 2007|2008 and previous year	2007|2008 €	2007|2008 €	Previous year € '000
Revenues		17,478,398.59	16,692
Other operating income		31,156,268.99	25,910
- of which income from release of special reserves with equity portion € 4,000,000.00 (previous year € 0.00)			
Purchases			
a. Raw materials and consumables used	1,345,594.05		1,196
b. Cost of purchesed services	3,703,183.78		3,079
		5,048,777.83	**4,275**
		43,585,889.75	**38,327**
Employee expenses			
a. Salaries and wages	8,011,201.60		7,580
b. Expenditure for			
Old-age pension and support	1,749,548.35		1,574
Of which for old-age pension € 313,952.95 (previous year: EUR 180,000)			
		9,760,749.95	**9,154**
Depreciation and amortisation			
a. on intangible assets and property, plant and equipment	576,589.31		654
b. on current assets	4,059,000.00		0
		4,635,589.31	**654**
Other operating expense		32,220,891.66	35,421
- of which allocation special reserve with an equity portion € 0 (previous year: € 5,914,000) -			
Income from investments		1,156,363.04	893
- of which dividends from associated companies: € 1,156,184.04 (previous year: € 893,000) -			
Income from profit transfer agreement		20,032,704.47	14,807
- of which affiliated companies: € 20,032,704.47 (previous year: € 14,807,000) -			
Interest income		5,724,169.57	5,204
- of which affiliated companies: € 5,115,551.35 (previous year: € 4,795,000) -			
impairment of financial assets and securities under current assets		8,510,769.41	0
Expenses from transfer of losses		4,502,718.07	3,449
- of which affiliated companies: € 4,502,718.07 (previous year: € 3,449,000) -			
Interest expense		5,231,051.06	4,732
- of which affiliated companies: € 2,004,182.89 (previous year: € 1,709,000) -			
Earnings before taxes (EBT)		**5,637,357.37**	**5,820**
Income tax expenses		1,675,325.22	1,940
Other taxes		29,483.56	31
Net Profit		**3,932,548.59**	**3,849**
Accumulated income		5,637,836.95	4,021
Withdrawal from reserve for treasury stock		347,998.27	0
Allocation to reserves for treasury shares		529,830.50	0
Distribution of profit		3,036,449.50	2,233
Retained earnings		**6,352,103.81**	**5,638**

Consolidated cash flow statement (IFRS)

Consolidated cash flow statement (IFRS)	2007|2008 € '000	2006|2007 € '000
Operating activities		
Earnings before taxes (EBT)	22,327	23,586
Taxes on income and earnings	-3,503	-4,282
Financial result	-5,517	-10,339
Net profit after taxes	**13,307**	**8,965**
Proceeds of the disposal of assets (profit/loss)	-8,143	-17,312
Depreciation and amortisation	8,759	9,325
Changes in standard of evaluation	-5,521	0
Other invalid payment (profit/loss)	-3,457	796
Release of the deferred benefits from public authorities	-1,998	-1,613
Increase/decrease in inventories[*1]	125	-7,280
Increase/decrease in provisions and accruals for pensions	-1,370	698
Increase in other provisions	5,022	3,997
Changes in net current assets	42,875	-56
Net cash flow from operating activities	**49,599**	**-2,481**
Investing activities		
Changes in basis of consolidation	633	1,464
Investment in intangible assets	-1,274	-2,429
Investment in property, plant and equipment[*2]	-11,828	-3,055
Investment in financial assets	0	-70
Increase in non-current assets held for sale	0	-4,226
Addition of asset disposals		
- Intangible assets	0	15
- Property, plant and equipment[*3]	9,375	0
- Financial assets	0	688
- Non-current assets held for sale	4,226	0
Net cash flow from investing activities	**1,132**	**-7,613**
Financing activities		
Increase in medium and long-term bank liabilities	4,232	2,058
Decrease in medium and long-term bank liabilities	-43,943	-31,989
Increase in short-term bank liabilities	717	32,609
Decrease in short-term bank liabilities	-3,330	-11,025
Decrease in other liabilities	274	-603
Other changes in equity	-970	-1,182
Dividends paid	-3,036	-2,261
Net cash flow from financing activities	**-46,056**	**-12,393**
Net increase/decrease in cash and cash equivalents	**4,675**	**-22,487**
Net increase/decrease in cash and cash equivalents	4,675	-22,487
Cash and cash equivalents at 01.07.	9,758	32,245
Cash and cash equivalents at 30.06.	**14,433**	**9,758**
Cash on hand, bank balances [*4]	14,433	9,758

[*1] In the cash flow statement, the reclassification of the Potsdam property is not taken into account in changes to inventory (€ 4,099,000).

[*2] The reclassification of the Potsdam property from current assets (€ 4,099,000) was not taken into account in additions to property, plant and equipment.

[*3] Refers mainly to a reduction in book values and book gains for Schömberg.

[*4] Credits in banks at the end of the financial year 2007/2008 includes pledged time deposits in the amount of € 9.0 million.

Notes to the consolidated financial statements

Background information about the company

The consolidated financial statements for the financial year from 1 July 2007 to 30 June 2008 will be approved for publication on 30 October 2008 by resolution of the Management Board of Marseille-Kliniken AG.

Marseille-Kliniken AG is a limited company founded in Germany with its registered office in Berlin (registered in the Commercial Register of the local court Berlin-Charlottenburg under number HRB 86329), whose shares are approved and listed on the Prime Standard index of the Frankfurt Stock Exchange and on the Hamburg Stock Exchange. The administrative headquarters are in rented premises in Hamburg.

The purpose of Marseille-Kliniken AG is to build, acquire and/or operate clinics and rehabilitation clinics, spa facilities, nursing care facilities, residential homes for the elderly, service companies in the social and charitable field and accommodation companies both in Germany and abroad.

Principal activities of the Group are shown in the Group notes under segment reporting.

Accounting and valuation principles

Basis of preparation of the financial statements

The financial year for operational purposes is not the calendar year but begins on 1 July and ends on 30 June of the following year.

The consolidated financial statements have been drawn up using the principle of the historical cost principle. Excepted from this are any properties held as financial investments, derivative financial instruments and held-for-sale financial instruments which have all been valued at fair value. The book value of assets and liabilities included in the balance sheet, which show the basic financial transactions underlying fair value, were adjusted for changes to fair value which could affect hedged risks.

The consolidated financial statements are drawn up in euros. Items are mainly shown in thousands (€ '000) or as € million.

Declaration about compliance with IFRS

The consolidated financial statements of Marseille-Kliniken AG were drawn up in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as they are applicable in the EU and in consideration of the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the additional regulations specified by German commercial law under § 315a (1) of the German Commercial Code (HGB). The consolidated financial statements consist of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flow and the notes.

Basis of consolidation

The consolidated financial statements of Marseille-Kliniken AG consist of the annual financial statements of Marseille-Kliniken AG and its subsidiaries at 30 June of each financial year. All annual financial statements of Group companies are prepared at the balance sheet date of Marseille-Kliniken AG, 30 June 2008, in accordance with IAS 27.28 and prepared in accordance with the same uniform accounting and valuation principles as are used in the financial statements of the parent company.

At 30 June 2008, there were 135 (previous year: 135) companies included in the Group.

The consolidated financial statements include all subsidiaries over which Marseille-Kliniken AG can exercise a controlling interest (control principle). These are all companies for which the Marseille-Kliniken AG Group exercises control over the financial and business policies of the company, normally indicated by a voting share holding of over 50%. The existence and influence of potential voting rights which are currently exercisable or transferable are taken into account when determining whether there is control.

Capital consolidation is made pursuant to IAS 27 by offsetting investment book values against the pro rata equity of the subsidiaries. Equity of the acquired subsidiary is determined at the time of acquisition taking account of fair value of its assets, liabilities and contingent liabilities, deferred taxes and any goodwill at this time.

Subsidiaries are included in the consolidated financial statements from the time of acquisition, i.e. the time at which the Group acquired control. Inclusion in the consolidated financial statements ends as soon as the parent company no longer exercises control over the company.

All intra-Group balances, income, expenses and unrealised profits and losses from intra-Group transactions have been eliminated in full.

Pursuant to IFRS 3, all company valuations are shown in accordance with the purchase method.

For company acquisitions, assets and liabilities of the relevant subsidiaries are valued at fair value at the time of acquisition. If acquisition costs exceed the fair value attributed to the identifiable assets and liabilities acquired, the difference is recognised as goodwill. Each negative difference between cost of the company acquisition and the value attributed to the identifiable assets and liabilities acquired is charged to earnings in the period in which the acquisition was made.

Minority shares are the part of the earnings and assets which are not attributable to the Group. Minority interests are shown separately in the consolidated income statement and in the consolidated balance sheet. Recognition in the consolidated balance sheet is under equity, and separate from any equity attributable to the shareholders of the parent company.

Income and expenses from companies are included in the consolidated balance sheet from the date of first inclusion.

Earnings from subsidiaries acquired or disposed of during the course of the financial year are included in the consolidated income statement from the actual date at which they were acquired or up until the actual disposal date. Companies set up during the financial year are included in the consolidated financial statements from the date of formation.

Group companies

At 30 June 2008, Marseille-Kliniken AG and all of the following 135 (previous year: 135) subsidiaries were included in the consolidated financial statements:

	Share	Subscribed capital	Equity	Net profit or loss elimination after transfer of profits	
			30 June 2008	2007|2008	2006|2007
	in %	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark Langen GmbH, Langen	100	102	102	0	0
Senioren-Wohnpark Lemwerder GmbH, Langen	100	26	26	0	0
Astor Park Wohnanlage Langen GmbH, Langen	100	26	26	0	0
Senioren-Wohnpark Hennigsdorf GmbH, Hennigsdorf	100	102	102	0	0
Senioren-Wohnpark Radensleben GmbH, Radensleben	100	26	26	0	0
Senioren-Wohnpark Neuruppin GmbH, Neuruppin	100	26	26	0	0
Senioren-Wohnpark Treuenbrietzen GmbH, Treuenbrietzen	100	26	26	0	0
Senioren-Wohnpark Erkner GmbH, Erkner	100	26	26	0	0
Teufelsbad Fachklinik Blankenburg GmbH, Blankenburg	100	26	26	0	0
Senioren-Wohnpark Tangerhütte GmbH, Tangerhütte	100	26	44	0	0
Senioren-Wohnpark Kyritz GmbH, Kyritz	100	26	26	0	0
Senioren-Wohnpark Thale GmbH, Thale	100	26	26	0	0
Senioren-Wohnpark Wolmirstedt GmbH, Wolmirstedt	100	26	26	0	0
Senioren-Wohnpark Aschersleben GmbH, Aschersleben	100	26	42	0	0
Senioren-Wohnpark Coswig GmbH, Coswig	100	26	26	0	0
Senioren-Wohnpark Stützerbach GmbH, Stützerbach	100	26	26	0	0
Senioren-Wohnpark Schollene GmbH, Schollene	100	26	26	0	0
Senioren-Wohnpark Bad Langensalza GmbH, Bad Langensalza	100	26	32	0	0
Senioren-Wohnpark Ballenstedt GmbH, Ballenstedt	100	26	26	0	0
Senioren-Wohnpark HES GmbH, Hamburg	100	26	26	0	0
Pro F&B Gastronomische Dienstleistungsgesellschaft mbH, Hamburg	100	26	26	0	0
Senioren-Wohnpark Klausa GmbH, Nobitz	100	26	26	0	0
Senioren-Wohnpark OES GmbH, Hamburg	100	26	26	0	0
Senioren-Wohnpark Friedland GmbH, Friedland	100	26	26	0	0
Senioren-Wohnpark ZES GmbH, Hamburg	100	26	26	0	0
– SWP – Senioren-Wohnpark Klötze GmbH, Klötze	100	38	38	0	0
Algos Fachklinik Bad Klosterlausnitz GmbH, Bad Klosterlausnitz	100	26	26	0	0
Senioren-Wohnpark Leipzig – Am Kirschberg GmbH, Leipzig	100	26	26	0	0
Senioren-Wohnpark soziale Grundbesitzgesellschaft mbH, Hamburg	100	26	–84	0	0
AMARITA Buxtehude GmbH, Buxtehude	100	26	26	0	0
PRO Work Dienstleistungsgesellschaft mbH, Hamburg	100	26	26	0	0
Senioren-Wohnpark Cottbus – SWP – GmbH, Hamburg	100	26	26	0	0
Medina Meerbusch GmbH (formerly: Atrium Senioren-Wohnstift Nr. 19 GmbH), Pritzwalk	100	26	–135	–20	–98
MK-Delta GmbH, Hamburg	100	26	26	0	0
Marseille-Klinik-Omega GmbH, Hamburg	100	26	25	0	0
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gGmbH, Neuruppin	100	26	16	–1	56
Senioren-Wohnpark soziale Altenbetreuung gGmbH, Langen	100	26	4,328	95	397
Allgemeine soziale Dienstleistungen gGmbH, Langen	100	26	–1,668	–618	–401
Medina soziale Behindertenbetreuung gGmbH, Wolmirstedt	100	38	598	426	542
MK "Vorrat Nr. 26" Vermögensverwaltungs GmbH, Berlin	100	51	–17	–6	35

	Share in %	Subscribed capital € '000	Equity 30 June 2008 € '000	Net profit or loss elimination after transfer of profits 2007|2008 € '000	 2006|2007 € '000
"Villa Auenwald" Seniorenheim GmbH, Böhlitz-Ehrenberg	100	26	26	0	0
VDSE GmbH - Verwaltungsdienstleister sozialer Einrichtungen GmbH, Hamburg	100	26	108	0	0
PROMINT Dienstleistungsgruppe Neuruppin GmbH, Neuruppin	100	51	51	0	0
Senioren-Wohnpark Hennigsdorf - SWP - GmbH, Hennigsdorf	100	26	26	0	0
SCS Standard Computersysteme Entwicklungsgesellschaft mbH, Hamburg	100	51	54	0	0
SIV Immobilien-Verwaltungsgesellschaft mbH, Hamburg	100	26	26	0	0
DaTess Gesellschaft für Datendienste mbH, Pritzwalk	100	25	25	0	0
Karlsruher-Sanatorium-Aktiengesellschaft, Hamburg	93.8 [1]	12,271	19,697	9,041	6,541
Mineralquelle Waldkirch GmbH, Hamburg	93.8 [1]	26	47	2	3
Mineralquelle Waldkirch Verwertungsgesellschaft mbH, Hamburg	88.5 [1]	2,557	-3,426	-1,177	-222
Reha-Klinik Sigmund Weil GmbH, Hamburg	93.8 [1]	5,113	7,734	342	763
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg	88.5 [1]	26	-260	-67	-26
eqs. Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Hamburg	100	26	231	145	-98
Ausgleichs- und Bürgschaftsgesellschaft im Heim- und Pflegewesen, Pritzwalk	100	25	17	-1	-1
Betrium Nr. 20 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	18	-1	-1
Cetrium Vermögensverwaltungs-GmbH, Hamburg	100	25	-6	-1	-1
Senioren-Wohnpark Friedland - SWP - GmbH, Friedland	100	25	24	0	0
Marseille-Akademie GmbH, Hamburg	100	25	-1,425	0	59
Betrium Nr. 29 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	-15	-2	-1
Senioren-Wohnpark Leipzig "Stadtpalais" GmbH, Leipzig	100	25	25	0	0
Senioren-Wohnpark Leipzig "Eutritzscher Markt" GmbH, Leipzig	100	25	25	0	0
Senioren-Wohnpark Lichtenberg GmbH, Berlin	100	25	25	0	0
Senioren-Wohnpark Neuruppin - SWP - GmbH, Neuruppin	100	25	18	-1	-1
Cefugium Betriebsmanagement GmbH, Pritzwalk	100	25	14	-1	-2
MVZ Büren Medizinisches Versorgungszentrum am St. Nikolaus-Hospital Büren GmbH (formerly: Betrium Nr. 35 Vermögensverwaltungs-GmbH), Büren	100	25	15	-1	-1
MVZ Hennigsdorf Medizinisches Versorgungszentrum Am Senioren-Wohnpark Hennigsdorf GmbH (formerly: Betrium Nr. 36 Vermögensverwaltungs-GmbH), Hennigsdorf	100	25	15	-2	-1
MHCC - Marseille Health Care Consulting GmbH, Hamburg	100	25	17	-1	-1
Senioren-Wohnpark Landshut, Landshut	100	25	-523	0	0
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Pritzwalk	100	25	-12	-4	-38
Tessenow Vermögensverwaltungs GmbH, Pritzwalk	100	25	-15	-8	-6
AMARITA Datteln GmbH, Datteln	100	25	25	0	0
AMARITA Hohen Neuendorf GmbH, Hohen Neuendorf	100	25	25	0	0
Teufelsbad Residenz Blankenburg GmbH, Blankenburg	100	25	24	0	0
Betrium Nr. 44 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	22	0	0
Sport- und Rehabilitationszentrum Harz GmbH, Blankenburg	100	25	85	53	9
Marseille-Kliniken-Beteiligungsgesellschaft Nr. 46 GmbH, Pritzwalk	100	25	-56	-10	-65
Marseille-Kliniken R.S.A. GmbH, Pritzwalk	100	25	13	-1	-1
Betrium Nr. 48 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	21	-1	0
Betrium Nr. 49 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	-1,129	-288	-578
Betrium Nr. 50 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	18	-1	-1
Betrium Nr. 51 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	11	-1	-1
Betrium Nr. 52 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	1,028	-197	1,429
Betrium Nr. 53 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	25	0	0
MobiRent Vermietung GmbH, Pritzwalk	100	25	23	0	0
Betrium Nr. 55 Vermögensverwaltungs-GmbH, Pritzwalk	100	25	18	0	0
WK Grundstücksgesellschaft Nr. 50 GmbH, Pritzwalk	100	25	16	-8	-1
WK Grundstücksgesellschaft Nr. 51 GmbH, Pritzwalk	100	25	24	0	0
WK Grundstücksgesellschaft Nr. 52 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 53 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 54 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 55 GmbH, Pritzwalk	100	25	25	0	-1

	Share in %	Subscribed capital € '000	Equity 30 June 2008 € '000	Net profit or loss elimination after transfer of profits 2007|2008 € '000	 2006|2007 € '000
WK Grundstücksgesellschaft Nr. 56 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 57 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 58 GmbH, Pritzwalk	100	25	25	0	-1
WK Grundstücksgesellschaft Nr. 59 GmbH, Pritzwalk	100	25	25	0	-1
TÜRK BAKIM EVI Pflegeeinrichtung Berlin-Kreuzberg gGmbH (formerly: TÜRK HUZUR EVI Pflegeeinrichtung Berlin-Kreuzberg gGmbH), Berlin	80.0 [1]	50	-2,182	-1,588	-643
Senioren-Wohnpark Meerbusch GmbH (formerly: Atrium Senioren-Wohnstift Nr. 21 GmbH), Pritzwalk	100	51	-382	-86	-74
AMARITA Oldenburg GmbH, Oldenburg	100	51	100	0	0
Spezial-Pflegeheim Hennigsdorf gemeinnützige GmbH, Hennigsdorf	100	51	-77	582	500
Atrium Senioren-Wohnstift Nr. 24 GmbH, Pritzwalk	100	51	35	-13	4
VSE Vermietungsgesellschaft für soziale Einrichtungen mbH, Hamburg	100	51	52	0	0
Atrium Senioren-Wohnstift Nr. 26 GmbH, Pritzwalk	100	51	-29	-5	-4
SFS Dienstleistungs-GmbH (formerly: Atrium-Senioren-Wohnstift Nr. 27 GmbH), Pritzwalk	100	51	-201	-210	-5
Senioren-Wohnpark Montabaur GmbH, Montabaur	100	51	-4,298	-1,184	-1,431
Senioren-Wohnpark Lessingplatz GmbH, Düsseldorf	100	51	-647	-578	-78
AMARITA Hamburg - Mitte PLUS GmbH, Hamburg	100	51	-3,391	-1,703	-1,832
Atrium Senioren-Wohnstift Nr. 31 GmbH, Pritzwalk	100	50	-119	-90	-15
Atrium Senioren-Wohnstift Nr. 32 GmbH, Pritzwalk	100	50	-17	-7	-5
Senioren-Wohnpark Düsseldorf - Volksgarten GmbH, Düsseldorf	100	50	-194	240	67
Atrium Senioren-Wohnstift Nr. 34 GmbH, Pritzwalk	100	50	39	-7	-1
Collateral Transparency GmbH, Pritzwalk	100	50	29	0	1
Sozialimmobilien "Südharz" GmbH, Wolmirstedt	100	50	45	-6	1
Senioren-Wohnpark Dresden "Am Großen Garten" GmbH, Dresden	100	50	50	0	179
Atrium Senioren-Wohnstift Nr. 42 GmbH, Pritzwalk	100	25	-4	3	-8
Senioren-Wohnpark Arnsberg GmbH, Arnsberg	100	25	-90	0	0
Senioren-Wohnpark Büren GmbH, Büren	100	25	-359	0	0
Senioren-Wohnpark Kreuztal-Krombach GmbH, Kreuztal	100	25	-115	0	0
Senioren-Wohnpark Lutzerath GmbH, Lutzerath	100	25	25	0	0
CareAktiv GmbH, Hamburg	100	25	657	80	180
Fachklinik IA GmbH, Hamburg	93.8 [1]	26	-7,695	-3,633	-2,636
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg	100	25	649	260	351
Psychosomatische Fachklinik Gengenbach GmbH, Gengenbach	93.8 [1]	26	493	350	17
ProTec Dienstleistungsgesellschaft mbH, Pritzwalk	100	25	25	0	-414
Fachklinik für psychische Erkrankungen Ortenau GmbH, Zell a. H.	93.8 [1]	26	102	-46	273
Psychosomatische Fachklinik Schömberg GmbH, Schömberg	93.8 [1]	26	-671	-633	997
Gotthard Schettler Klinik GmbH, Bad Schönborn	93.8 [1]	26	611	73	43
Klinik Bad Herrenalb GmbH, Bad Herrenalb	93.8 [1]	26	92	-30	109
Medina Belzig GmbH, Belzig	100	25	-182	-150	[2]
Marseille-Projektgesellschaft "Bremerhaven" GmbH, Berlin	100	25	-82	-121	9
Allgemeine Dienstleistungsgesellschaft mbH - ADG, Tessenow	100	26	26	0	0
Grundstücksgesellschaft Nikolaus Büren mbH, Büren	100	25	218	351	-103
St. Nikolaus-Hospital Büren GmbH, Büren	100	25	977	1,032	447
MK "Vorrat Nr. 23" GmbH, Pritzwalk	100	25	17	-1	-1
Medina Fördergesellschaft sozialer Einrichtungen gGmbH, Wolmirstedt	100	25	-5,288	-1,157	-2,321
MK IT-Entwicklungs GmbH, Hamburg	100	25	25	0	0

[1] Group share after deduction of direct or indirect minority share.

[2] Initial consolidation at 01.12.2007. Disclosure of previous year value omitted.

Information regarding subscribed capital, equity and the annual results of subsidiaries is derived from the individual company financial statements prepared in accordance with the requirements of commercial law.

The parent company of the extended and the smallest group of companies is Marseille-Kliniken AG, Berlin (company register: Berlin-Charlottenburg HRB No. 86329).

At the balance sheet date of 30 June 2008 there were a total of 56 profit and loss transfer agreements with Marseille-Kliniken AG, Berlin, as the controlling company (previous year: 56), and 8 profit and loss transfer agreements between MK-Delta GmbH as the controlling company and its subsidiaries (previous year: 8).

The companies to be included in the consolidation group of Marseille-Kliniken AG pursuant to IAS 27.12 changed during the financial year 2007/2008 as against the position on 30 June 2007 with the addition of Medina Belzig GmbH, Nuthetal (initial consolidation 1 December 2007), and by the deconsolidation of Held Bau Consulting Projekt Steuerungsgesellschaft mbH (deconsolidation 30 June 2008).

There were no significant effects arising from the initial consolidation of Medina Belzig GmbH.

With effect from 30 June 2008, the Marseille-Kliniken Group sold all shares (100%) in Held Bau Consulting Projekt Steuerungsgesellschaft mbH for the amount of € 760,000. In the financial year 2007/2008, during the time the company was included in the consolidation, it earned internal business revenues of € 11.5 million and annual profits of € 95,000.

The following assets and liabilities have been removed from the consolidated balance sheet as a result of deconsolidation:

	€ '000	€ '000
Sale price		**760**
Intangible assets	8	
Property, plant and equipment	23	
Inventories	991	
Trade receivables	2,114	
Other assets	5	
Cash and cash equivalents	93	
Total deconsolidated assets		**3,234**
Trade payables	889	
Tax provisions	101	
Other provisions	1,748	
Other current liabilities	376	
Total deconsolidated liabilities		**3,114**
Deconsolidation profit to Group		**640**

Pursuant to IAS 27.30 the difference between disposal value and proceeds from the sale of the shares (deconsolidation profit) was recognised in the balance sheet.

Changes to accounting and valuation principles

Effect of new accounting regulations

The following accounting standards or interpretations were applicable for the first time during the financial year 2007/2008. None of the new accounting regulations had a significant influence on the asset situation, financial position, profitability or earnings per share during the financial period.

In August 2005 the IASB (International Accounting Standards Board) amended IAS 1 (Capital Disclosures), which affects information to be disclosed about a company's capital. Disclosures about capital management must be made in the Notes for financial years which begin on or after 1 January 2007.

In addition, in August 2005 the IASB published IFRS 7 (Financial Instruments: Disclosures), which is applicable for financial years beginning on or after 1 January 2007. IFRS 7 requires disclosure of information about the effect of financial instruments on assets and profitability and about the type and scope of risks associated with these financial instruments and details about how the risk is to be managed. Current disclosures about financial instruments are extended considerably by IFRS 7 and are to be shown in classes or IAS 39 categories.

New accounting regulations published but not implemented before effective date

As of 30 June 2007, the IASB had published the following standards, interpretations and amendments to existing standards, which are not yet required to be implemented and have not been implemented as yet by Marseille-Kliniken AG, Berlin. Implementation of these IFRS standards requires that they first be adopted by the EU under the IFRS endorsement process.

Amendments refer to
IAS 27: Consolidated and Separate Financial Statements under IFRS
IAS 32: Financial Instruments: Presentation
IFRS 2: Share-based Payment
IFRS 3: Business Combinations
IFRIC 14: Limit on a Defined Benefit Asset

Marseille-Kliniken AG is currently also investigating the effect on the consolidated financial statements of IFRS 8, which was adopted under the IFRS endorsement procedure on 21 November 2007 as is applicable for financial years beginning on or after 1 January 2009. First-time implementation of the other regulations should not have any significant effect on the presentation of the financial statements.

Corporation tax law reform 2008

In its 835th sitting on 6 July 2007, the Bundesrat (Upper House of the German parliament) approved the corporation tax law reform 2008. The reduction in corporation tax rates from 25% to 15% had for Marseille-Kliniken AG, Berlin, a significant effect on deferred taxes in the financial year 2007/2008. The taxes are calculated at 15.825% (including solidarity taxes) instead of the previous 26.375% (including solidarity taxes).

In the financial year 2007/2008 this reduction in tax rates affected deferred tax liabilities in the financial statements in the amount of about € 6.8 million and deferred tax assets in expenses in the amount of € 1.7 million.

Significant discretionary assumptions and estimations

Preparation of the consolidated financial statements in accordance with IFRS requires that assumptions and estimations be made which have an impact on values stated for assets, liabilities, income and expenses and contingent liabilities included in the financial statements. These assumptions and estimates relate, amongst other things, to the accounting and valuation of

- goodwill,
- property, plant and equipment,
- provisions for pensions and similar obligations,
- deferred tax assets, particularly for losses carried forward.

Assumptions and estimations are made in determination of useful lives for property, plant and equipment, for cash flows as part of impairments tests and in the setting aside of provisions, such as for legal disputes, employee retirement benefits and taxes. Further sections below will examine the accounting principles behind these assumptions and estimates and their effects in the individual areas.

Estimates are based on experience and other assumptions which seem to be appropriate. They are monitored continually but may vary from actual figures.

At least once per year, the Group checks whether goodwill has decreased in value. This requires an estimation of the use value of income-generating units underlying the goodwill. In estimating use value, management must estimate probable future cash flows from the income-generating units and choose an appropriate discount rate in order to determine the cash value of the cash flows. The book value of goodwill on 30 June 2008 was € 28,466,000 (previous year: € 28,712,000). Further details can be found under goodwill in the Notes.

Determination of estimated useful life of assets in the property, plant and equipment is also based on assumptions about the residual value of these assets at the end of the estimated useful life of the asset. These estimations are based on external sources. Estimations have also been made about recoverable amounts in accordance with IAS 36, but with regard to the valuation of properties and buildings, in some cases external opinions have been sought.

Expenses for pension obligations are determined on the basis of actuarial reports. Actuarial valuation is made on the basis of assumptions with regard to discount factors, expected earnings from plan assets, future salary and wage rises, mortality, and future pension increases. Such estimations are subject to considerable insecurity due to the long-term aspects of this planning.

Furthermore, provisions for bad debts, deferred tax assets for losses carried forward and valuation of other provisions depend on appropriate assumptions and estimates being made by management on the basis of the latest dependable information being taken into consideration.

All assumptions are based on circumstances and estimates at the balance sheet date. In addition to this, future economic development in the industry and regions in which the Group operates assumed to be realistic at the time was taken into consideration for assessing future business development. Actual figures may differ from the estimates made due to developments in these general economic conditions. In such circumstances the assumptions and, where necessary, the book values of the assets and liabilities concerned are adjusted accordingly. At the date at which these consolidated financial statements were prepared, there was nothing to suggest the need to make any major changes to the assumptions and estimates already made, and there was no need either in the past or at the present time to make any substantial adjustments to the book values of the assets and liabilities stated for the financial year 2007/2008.

Summary of important accounting and valuation principles

The following accounting and valuation principles have been applied in preparing the consolidated financial statements of Marseille-Kliniken AG:

With the exception of goodwill, **intangible assets** are valued by the purchase method at acquisition or production cost. Intangible assets are subject to scheduled depreciation and amortisation over an average useful life of three to eight years. Loan interest is not included in production costs.

Development costs are shown as self-produced intangible economic assets so long as the developments are new developments and there is some certainty that the asset will generate future revenue inflows and allocable expenses can be determined with certainty. The costs are initially capitalised based on the management's assessment of whether the asset is technically and economically realisable. This is usually the case if a development product has reached a specified milestone in an existing project management model. For the purposes of determining amounts to be capitalised, management makes estimates about future expected cash flows from the assets, discount rates and the period of the expected future cash flow to be generated by the assets.

At each balance sheet date, the Group examines whether there is any need for an asset to have its value reduced. If there has been value reduction, unscheduled depreciation, amortisation or impairment is made.

Goodwill is shown at acquisition cost, adjusted for impairment of value. Pursuant to IFRS 3 in conjunction with IAS 36 there is no scheduled impairment for these assets.

In order to establish value reductions, each year on 30 June impairment tests are carried out on goodwill at the level of income-generating units in order to identify unscheduled value adjustments. Otherwise, a review of the economic value of goodwill is made when circumstances require. A value adjustment is identified by determination of the attainable value of the income-generating unit on which the goodwill is based. If the attainable value of the income-generating unit is less than its book value, a decrease in value will be recorded. In order to estimate average useful life pursuant to IAS 36, probable future cash flow from the income-generating unit is estimated and discounted by an appropriate interest rate in order to determine the cash value of this cash flow.

All **property, plant and equipment** is shown using the historical cost method at acquisition cost or cost of production less accumulated depreciation and accumulated expenses for decrease in value. Production costs for self-produced assets include directly allocable costs as well as a share of overheads and general depreciation. Loan interest is not included in production costs. Repairs and maintenance costs are included as an expense at the time they were incurred. Depreciation is made on a straight-line basis over the expected useful life of the asset.

Properties and buildings are valued by the historical cost method. Depreciation by the straight-line method for buildings is made on the basis of an average useful life of 50 years. Technical equipment and machinery are depreciated on the basis of an average useful life of 5 to 20 years, other fixtures, fittings and equipment over a period of 3 to 15 years. Depreciation is made on the basis of customary average useful life expectancy of the assets by the straight-line method. Buildings are depreciated in accordance with the definition of residual value under IAS 16.6, which amounts to 10% of acquisition or production costs.

Book values, average useful life terms and depreciation methods for property, plant and equipment are examined at the end of each financial year for reduction in value and adjusted as necessary. On disposal of the asset value, acquisition and production costs and the book value of the fixed asset are removed from the financial statements.

In addition to a fixed planning period of three years used in determining the value in use of a cash-generating unit, the assumption was also made that the last planned year would also be in perpetuity, as it is assumed that the asset has a longer period of use. Perpetuity is also taken into account in determining goodwill.

The assumption was made in calculating the fair value of disused properties that leases would mainly be able to be continued under unchanged conditions. Possible costs of sale were taken into consideration in determining fair value.

Leasing contracts are classified and impaired as **finance leases** in accordance with IAS 17 when preconditions for finance leases are met. The economic ownership of leasing objects is attributed under IAS 17 to the lessee if all essential risks and opportunities associated with ownership are transferred to the lessee by the leasing contract. Here it is assumed that the cash value of the minimum leasing payments essentially corresponds to the fair value of the leased asset. The lower limit for this is considered to be 90% of the fair value. Assets held as finance leases are shown as Group assets at fair value or at the cash value of minimum leasing repayments, whichever is lower at the beginning of the leasing contract. Liability to the lessor is shown in the balance sheet as a finance lease commitment. Leasing payments are broken down in such a way that interest expenses and reduction in leasing obligations are divided so that interest commitments remain constant. Interest expenses are recognised directly in the income statement unless they are clearly allocable to a qualified asset. In this case, interest expenses are capitalised.

Depreciation and amortisation methods and average terms of useful life correspond to those of comparable commercial assets. Cash payment obligations arising from future leasing rates are shown in the financial statements under current or non-current liabilities. Leasing payments are divided between finance costs and partial amortisation of the remaining debt.

All other leasing contracts are classified as **operating leases.** Leasing payments made in connection with operating leases are included in the income statement using the straight-line method over the term of the relevant leasing contract.

Financial assets comprise loans and receivables, purchased securities and debts, cash and cash equivalents and derivatives with positive fair values.

Accounting and valuation of financial assets is made in accordance with IAS 39, whereby financial assets are recognised in the consolidated balance sheet if the Group has a contractual right to receive cash or other financial assets from another party. Commercial sales and purchases of financial assets are generally recognised at settlement date. Initial recognition of financial assets is made at fair value plus transaction costs. Transaction costs arising upon purchase of financial assets to be recognised in the balance sheet at fair value are recognised directly as an expense. Receivables attracting no interest or lower interest are initially recognised at cash value of the expected future cash flows. Revaluation is made in accordance with allocation of the asset to one of the following categories:

Financial assets valued at fair value through profit or loss comprise financial assets held for trading. This valuation category includes receivables from futures trading and receivables from other derivative financial instruments allocated to other financial assets, provided that hedge accounting is not used. Changes to the fair value of financial assets in this category are recognised at the time of the increase or decrease in value.

Loans and receivables are not derivative financial assets, unless listed in an active market. Loans and receivables are valued at amortised cost. This valuation category includes trade receivables, financial receivables and loans contained in other financial assets, additional financial receivables and loans shown in other receivables, and cash and cash equivalents. Interest income from items in this category are determined using the effective interest method, provided it does not relate to current receivables and the effect from compounding is not relevant.

Financial instruments to be held to term are not derivative financial assets with fixed or determinable payments and a fixed term for which they are being held. These are valued using the effective interest method at amortised cost. Financial investments held until term form part of other financial assets.

Held-for-sale financial assets include those non-derivative financial assets which cannot be allocated to another category. This includes in particular equity securities valued at fair value and debt instruments not held to term which are included under other financial assets. Changes to fair value of the available-for-sale financial assets are recognised directly in equity and not recognised at profit or loss until they are sold or impaired. In situations where the market value of equity or debt instruments can be determined, this will be done at fair value. If there is no listed market price and no reliable estimate of the fair value can be made, these financial assets are shown at acquisition cost less impairment expenses.

If there are objective, substantial indications of impairment for financial assets in the categories loans and receivables, financial investments to be held to term and available-for-sale financial assets, it shall be investigated whether the book value is greater than the cash value of expected future cash flows which are discounted by the current market yield of a comparable financial asset. If this is the case, impairment will be made to cover the differential amount. Markers to value reduction include operational losses over several years for a company, a reduction in market value, a significant decline in creditworthiness, a specific breach of contract, the likelihood of insolvency or another form of financial restructuring of the debtor or the collapse of an active market.

Where the reasons for the extraordinary impairment no longer apply, impairment loss will be reversed but not in excess of the acquisition costs. No reversal of impairment loss is made in respect of held-for-sale equity instruments.

Financial assets are derecognised if the contractual rights to payments from the financial assets no longer exist or if the financial assets and all risks and opportunities are transferred. Treatment of financial and commodity price risks, and in particular derivative financial instruments and hedging with financial instruments are discussed further under "Management of financial risks".

The Group uses **derivative financial instruments** in the form of futures to hedge fair value of its interest risks from assets or liabilities shown in the financial statements. Derivative financial instruments are not held for trading purposes. Inclusion in the financial statements as other non-current assets or as other provisions is made at the time of acquisition or at fair value in case of revision of value.

Reference is made to publicly quoted market rates on the open market to determine current value. Recognition of gains and losses arising from changes to fair value is made in the income statement.

Pursuant to IAS 2, **inventories** include those assets held for sale in normal business operations (finished goods), those which are in production (work in progress) or those which are used during the course of provision of services (raw materials and consumables). Valuation of inventories is carried out using the weighted average method at the lower of acquisition or production costs (full production costs) or net residual value (realisable proceeds under normal business operations less estimated cost of completion and sales costs). Depreciation is undertaken where there is a lower residual value at the balance sheet date. Production costs include all directly attributable costs of materials and production, including general material and production overheads. General administrative costs and sales and distribution costs are not included in inventories. Valuation of work in progress is made in accordance with the degree of completion of individual costs plus costs of materials and production overheads. The net residual value is the estimated realisable proceeds under normal business operations less estimated cost of completion and estimated sales and distribution costs.

Receivables and other receivables are shown at nominal value less provision for bad debts. Provisions for bad debts are made for receivables which are unlikely to be collected. No lump sum provisions for bad debts have been set aside. Receivables and other assets are written off when they are regarded as uncollectible.

Cash and cash equivalents include cash on hand, bank balances and short-term deposits with an original maximum term of less than three months and are valued at nominal value.

Treasury shares are deducted from equity. The purchase, sale, issue or buyback of treasury shares is not recognised in profit or loss for accounting purposes. All consideration given or received is directly recorded in equity.

In a financial period where non-current assets or asset groups have been classified as **held-for-sale** or have been sold, companies are required to make a description of the non-current asset and a description of the circumstances and conditions of the sale, or the circumstances and conditions expected for consideration of a sale, and the probable type, nature and likely time of such a sale.

Provisions for pensions and similar obligations are calculated in accordance with the projected unit credit method (IAS 19). Actuarial valuation of pensions reserves is made pursuant to IAS 19 on the basis of present value of entitlement method for guarantee of performance of pension benefits. This takes account not only of pensions due at the balance sheet date and purchased entitlements, but also of expected future increases in salaries and pensions.

For some employees, provision for pensions during the period after retirement is met by the Group directly or by contributions to private and public bodies. Obligations include those for existing pensions and also for future pension claims. Company pensions within the Group are usually performance-based. For contributory pensions, the company makes contributions to public or private insurance companies in accordance with statutory or contractual obligations or on a voluntary basis. No further obligations are incumbent on the company other than payment of the contributions. Current contributions are shown as an expense in the relevant year in the functional areas and in EBIT. All other pension systems are performance-based. Inclusion of performance-based pensions in the financial statements recognises expected income from plan assets, and all net income and expenses are included in the operating result. The interest component is shown in the financial result under other financial income and expenses, as is expected income from plan assets. Actuarial gains and losses from performance-based pension schemes and reductions for consideration of limits for assets are included in full in the provisions for pensions. Early retirement benefits and other pension entitlements arising from termination of employment which are similar to pension obligations are also included in the pension provisions.

Estimated benefits to be paid after commencement of the entitlement are divided between the total number of years of employment of the employee, and future salary increases are to be taken into account. The fair value of plan assets is deducted from the current value of benefits. Obligations and plan assets are valued at regular intervals, not exceeding three years. A comprehensive actuarial calculation is made annually at balance sheet date for all important facilities.

Expected future cash outflows are discounted in order to show pension and similar obligations with present value at balance sheet date. The discount rate used for discounting of pension and similar obligations is based on balance sheet day yields.

Actual future expenses and obligations may vary significantly from the estimates due to changing market and economic conditions, which are made on the basis of actuarial assumptions. Higher or lower retirement rates or longer or shorter life spans of beneficiaries may also affect the level of income from the pension system and related expenses.

Tax provisions and **other provisions** were set aside where a past event has resulted in a legal or factual obligation to a third party which will probably result in an outflow of resources and this outflow can be estimated with reliability. Provisions are made for all apparent risks and uncertain commitments in the amounts of liabilities which will probably be incurred and are not offset by recourse claims. Expenses for setting aside provisions are shown in the income statement after deduction of refunds.

Financial liabilities comprise original liabilities and the negative fair value of derivative financial instruments. Original liabilities are shown in the consolidated balance sheet where the company has a contractual obligation to transfer funds or another financial asset to another party. Initial recognition of original liabilities is made at fair value of the consideration received or at the value of the funds received less any transaction costs. Revaluation of liabilities is made at amortised cost using the effective interest method. Liabilities from finance leases are shown at the cash value of minimum leasing payments. Derivative financial instruments are valued in profit and loss at fair value provided they are not used for hedge accounting. The negative fair values of derivative financial instruments form part of financial liabilities and other liabilities. Inclusion of derivative financial instruments and hedge accounting with financial instruments in the financial statements is discussed further under "Management of financial risk". Financial liabilities are derecognised when financial obligations are met, terminated or have expired.

Initial inclusion of **interest-bearing loans** is made at fair value of the consideration received. Subsequently, interest-bearing loans are valued at amortised cost using the effective interest method. Pursuant to IAS 23.7, loan costs are included directly in profit and loss in the period in which they arise. Pursuant to IAS 39.56, gains and losses are recognised in profit or loss when debts are repaid and in the course of amortisation.

Trade payables and **other current and non-current liabilities** are valued at repayment amount.

Government grants (IAS 20) are recognised when there is sufficient certainty that the grants will be made and the company will fulfil attached conditions. Expense-based grants are recognised as scheduled income and set off over the period of time for which they have been granted in order to compensate for the expenses for which the grant has been made. Grants for an asset are shown in the consolidated balance sheet as deferred income and accrued expenses. Deferred income and accrued expenses are released in the financial statements in equal annual instalments over the expected useful life of the asset involved.

Prepayments received on account from customers and **deferred income** are shown under other liabilities. Deferred income serves to divide income from revenues from services and leasing contracts between the financial periods to which it applies.

Deferred tax assets and liabilities were set aside in accordance with IAS 12 with respect to temporary differences to the book values of assets and debt in the tax balance sheets prepared in accordance with the relevant regulations. Tax losses carried forward for consolidated companies dictate the extent of deferred tax assets utilised in that the relevant company will in all probability have tax losses to be offset during the course of the next five financial years.

The tax rate for deferred taxes is 15.825% (previous year: 26.375%). An elimination of deferred tax assets was made in the consolidated balance sheet against those on the liabilities side due to balance sheet latencies for each company, provided that the necessary conditions were fulfilled. Deferred tax assets for losses carried forward were not included in this offsetting, as the counterbalancing situation is not given.

The **income statement** is classified according to the total costs method.

Revenues and other operating income are realised in the income statement upon performance of the service or sale of the product which transfers definitive risks and opportunities of ownership of the goods to the recipient and the company retains no further common rights of ownership to dispose of the goods nor any remaining right of disposal with regard to the goods, and where the amount of income and costs incurred or to be incurred may be reliably determined and it is reasonably likely that the economic benefit from performance will flow to the Group.

Revenues are realised after deduction of value-added tax and other taxes and after deduction of reductions in earnings. Recognition of revenues at the time they arise includes reduced amounts for rebates and sales discounts granted. Estimates of reduced income are mainly based on past experience, specific contractual terms and anticipated future revenue development of individual segments. It is unlikely that any other estimate parameters will have a significant effect in reducing income for the business operations of the Group. The fluctuation margin of provision in the financial statements for future income reductions is insignificant in relation to the disclosed operating result. Adjustments of provisions for rebates and sales discounts granted in previous periods had no significant effect on pre-tax earnings over the past financial year. Work in progress was recognised in relation to its degree of completion. In accordance with the percentage of completion (PoC) method, long-term work orders are allocated to order costs and income (revenues) according to their degree of completion. This results in income, expenses and earnings relative to the degree of performance. A reliable estimation of the degree of completion is required for the method to be used.

Operating expenses are recognised in the period a service is utilised. Borrowing costs are included as an expense in the period in which they arise. Income taxes are determined on the basis of the tax law requirements of the countries in which the Group operates.

Events after the balance sheet date

There were no significant events after the balance sheet date.

Explanatory notes to the consolidated balance sheet

Consolidated balance sheet – Assets

Intangible assets

Development of intangible assets in the financial year 2007/2008 is shown in the table below:

Intangible assets	AC/PC 30.06.2007 € '000	Additions € '000	Accumulated amortisation € '000	Disposals from deconsolidation € '000	Disposals 30.06.2008 € '000	AC/PC 30.06.2008 € '000	Book value 30.06.2008 € '000	Book value 30.06.2007 € '000
Franchises, trademarks, patents licences and similar rights	1,743	2	0	0	1,745	1,151	594	735
Software	9,767	1,179	81	0	10,865	6,957	3,908	4,149
Total	**11,510**	**1,181**	**81**	**0**	**12,610**	**8,108**	**4,502**	**4,884**

As in the previous year, additions to software refer mainly to purchases for software programs for VDSE GmbH for human resources, time recording, SAP Group accounting and the creation of new programs.

In the financial year 2008 there were € 134,000 (previous year: € 0) of capitalised development costs, which were subject to amortisation by the straight-line method for an estimated useful life of three years. Taking into account amortisation already made at balance sheet date of € 17,000, this gives a book value at balance sheet date of € 117,000.

The statement of intangible assets in the consolidated financial statements is detailed in the schedule of fixed assets attached as an appendix to these notes.

All amortisation of intangible assets has been included in the income statement as amortisation.

Goodwill

Goodwill is subject to impairment tests on the basis of value in use. The basis for the impairment tests is the budget plans of the various companies and the derived profits in consideration of perpetuity. Assumptions about revenues and results are based on this planning, which is derived from the estimations of management and strategies for individual markets. Reasonable increases in costs for human resources expenses and other operating expenses are taken into consideration. In the rehabilitation, nursing care and administration/services divisions, discounting of 7.6% (previous year: 8%) was made regularly during the planning period on the basis of the weighted average cost of capital.

Unscheduled impairment is made for goodwill when the cash value of expected cash inflows is less than the net book value of the cash-generating unit including goodwill or when there are other criteria for a value reduction. In the financial year 2008, impairment losses of € 303,000 were made in respect of goodwill.

The initial consolidation of Medina Belzig GmbH generated goodwill of € 57,000, which was recognised under goodwill. Goodwill is comprised as follows:

Goodwill	30.06.2007 € '000	Additions from first-time consolidation € '000	Disposals € '000	Depreciation € '000	30.06.2008 € '000
ADG GmbH	10,055	0	0	0	10,055
SWP Aschersleben	3,479	0	0	0	3,479
SWP Neuruppin	3,177	0	0	0	3,177
Fachklinik Blankenburg	1,115	0	0	0	1,115
SWP Bad Langensalza	1,163	0	0	0	1,163
SWP Thale	1,015	0	0	0	1,015
Kasanag	876	0	0	0	876
SWP Klausa	800	0	0	0	800
SWP Schollene	796	0	0	0	796
Algos Fachklinik	722	0	0	0	722
Astor Park	596	0	0	0	596
VDSE	553	0	0	303	250
SWP Erkner	512	0	0	0	512
Sigmund Weil	448	0	0	0	448
SWP Coswig	381	0	0	0	381
Other goodwill (< € 350,000)	3,024	57	0	0	3,081
	28,712	**57**	**0**	**303**	**28,466**

Property, plant and equipment

Property, plant and equipment is comprised as follows:

	AC/PC 30.06.2007 € '000	Additions € '000	Reclassi-fication € '000	Accumul-ated dep-reciation € '000	Disposals from deconsoli-dation € '000	Disposals 30.06.2008 € '000	AC/PC 30.06.2008 € '000	Book value 30.06.2008 € '000	Book value 30.06.2007 € '000
Land, leasehold rights and buildings including buildings on non-owned land	168,448	6,745	13	0	2	175,204	53,984	121,220	117,421
Financial leases	29,043	0	0	0	29,043	0	0	0	19,745
Technical equipment, plant and machinery	2,654	20	0	0	0	2,674	2,305	369	441
Other equipment, fixtures and fittings	50,081	2,776	91	370	1,622	50,956	37,800	13,156	12,978
Prepayments and work in progress	2,010	6,385	-104	0	881	7,410	331	7,079	1,860
Total	**252,235**	**15,926**	**0**	**370**	**31,548**	**236,243**	**94,420**	**141,823**	**152,445**

Additions of € 6,745,000 to land refer in particular to the Potsdam property (Burgstraße) in the amount of € 5,241,000. In the financial year 200/2008 in addition the Group acquired other equipment, fixtures and fittings in the amount of about € 2,776,000. This refers in particular to € 302,000 for VDSE GmbH and operative facilities of Marseille-Kliniken AG in Bad Schönborn (€ 121,000), Koppenbergs Hof (€ 52,000) and Flora Marzina (€ 60,000).

On 30 June 2007/1 July 2007 a reclassification of € 2,637,000 was made for acquisition and production costs in accounts carried forward. It was determined in connection with the ending of finance lease agreements that the amounts shown under this item in previous years should have been included under land, leasehold rights and buildings. Also, additions in the reporting year took account of historical acquisition costs from previous years in the amount of € 1,215,000.

Land and buildings to 30 June 2008 include four temporarily unused rehabilitation clinics with the following book values: Reinerzau € 3,327,000, Bad Oeynhausen € 5,332,000, Blankenburg € 4,332,000 and Waldkirch € 3,682,000.

These properties were subjected to an impairment test on 30 June 2008, with their planned subsequent use being taken into account. The test confirmed the allocated book values. The intrinsic value is based on the intention that the properties can be used in the near future as nursing clinics or for assisted living. The value was confirmed by expert reports.

Additions to work in progress refer principally to the properties in Eberswalde (€ 1,216,000), Bremerhaven (€ 1,987,000), Belzig (€ 1,555,000) and Ortenau (€ 675,000).

Public grants and subsidies for financing investments are shown under liabilities as required by IAS 20.

A detailed statement of property, plant and equipment can be found in the attached schedule of fixed assets.

Properties held as financial investments
As in the previous year, no properties were held as financial investments.

Other financial assets
In the reporting year, other financial assets amounted to € 2.5 million (previous year: € 3.1 million) and are composed as follows:

	AC/PC 30.06.2007 € '000	Additions € '000	Accumulated amortisation € '000	Disposals from deconsolidation € '000	Disposals 30.06.2008 € '000	AC/PC 30.06.2008 € '000	Book value 30.06.2008 € '000	Book value 30.06.2007 € '000
Investment	203	0	42	25	136	0	136	161
Reinsurance of pensions	2,175	0	0	73	2,102	0	2,102	2,175
Other loans	782	218	0	723	277	0	277	782
Total	**3,160**	**218**	**42**	**821**	**2,515**	**0**	**2,515**	**3,118**

Disposals to **investments** refer in total (€ 25,000) to Medina Belzig GmbH, which has belonged to the Marseille-Kliniken Group since its initial consolidation on 1 December 2007.

Changes to **reinsurance of pensions** stand in direct correlation with the corresponding reduction in pension provisions on the liabilities side. This refers principally to the asset value of Karlsruher-Sanatorium AG in the amount of € 847,000 (previous year € 895,000), Marseille-Kliniken AG in the amount of € 481,000 (previous year: € 481,000), Mineralquelle Waldkirch Verwertungsgesellschaft mbH in the amount of € 247,000 (previous year: € 241,000), Psychosomatische Fachklinik Gengenbach GmbH in the amount of € 183,000 (previous year: € 232,000) and Fachklinik für psychische Erkrankungen Ortenau GmbH in the amount of € 122,000 (previous year: € 113,000).

Other loans refer exclusively to loans to companies shown under the investment heading.

Deferred tax assets
Deferred tax assets were set aside for tax losses carried forward for Group companies. Any deferred tax assets in excess of this, arising due to temporary differences, were set off against deferred tax liabilities from temporary differences and shown under liabilities provided that offsetting is permitted.

At 30 June 2008, there were corporation tax losses carried forward in the amount of € 25.9 million (previous year: € 17.8 million), which in principle are valid for an unlimited period of time. These were carried forward as deferred tax assets, so long as it was sufficiently probable that such losses carried forward would be able to be set off at a future date.

The following table shows the tax losses carried forward on which deferred tax assets are based:

	2008 € '000	2007 € '000	Tax on this amount 2008 € '000	Tax on this amount 2007 € '000
Tax losses carried forward	7,643	16,585	1,209	4,374

Tax losses carried forward for consolidated companies dictate the extent of deferred tax assets utilised in that the relevant company will in all probability have tax losses to be offset during the course of the next five financial years. From existing budgeting and various measures introduced, it is expected that there will be sufficient scope for the losses carried forward to be offset.

Where it does not seem likely that future taxed earnings of a company will allow for a tax reduction to be offset, deferred tax assets cannot be used against losses carried forward or appropriate value adjustments will be made to deferred tax assets.

Inventories
The inventories item amounts to € 5.3 million in this financial year (previous year: € 9.5 million). The property under development in Potsdam (previous year: € 3.6 million), shown here in the previous financial year has been reclassified under property, plant and equipment.

In addition, raw materials, consumables and supplies amounted to € 2.4 million (previous year: € 1.6 million), finished goods and merchandise totalled € 2.6 million (previous year: € 2.2 million) and prepayments amounted to € 83,000 (previous year: € 1.6 million).

Raw materials, consumables and supplies include medical supplies and energy supplies.

Trade receivables
Trade receivables increased from a total of € 12,628,000 (previous year: € 13,631,000) on 30 June 2007 by € 1,167,000 to € 13,795,000 on 30 June 2008. Trade receivables include value adjustments for determinable bad debts of € 1.2 million (previous year: € 1.6 million).

Trade receivables do not attract interest and are normally due within 30 to 90 days.

Current tax assets
Current tax assets amount to € 3.6 million (previous year: € 3.4 million) and consist of receivables from prepayments of just under € 0.1 million (previous year: € 0.8 million) and corporation tax including solidarity tax totalling € 3.5 million (previous year: € 2.6 million).

Other receivables
Other receivables totalling € 23,513,000 (previous year: € 76,017,000) are composed as follows:

	30.06.08 € '000	30.06.07 € '000
Compensation for transfer of option rights	5,606	0
Loan to Mrs Marseille	2,616	2,566
Loan to Mr Marseille	4,716	0
SCS loan	2,287	2,323
Receivables from Trump Organisation	1,529	1,529
Other loans	1,072	1,074
Accrued items	878	679
Savings on loan repayment	772	0
Receivable from sale of Held Bau GmbH	640	0
Employee loans	132	358
Rebates, bonuses from third-party business	328	291
Prepayments employers' liability insurance	221	282
Receivable from SALB transaction Karlsruher-Sanatorium-AG	0	45,712
Receivable from SALB transaction Marseille-Kliniken AG	0	12,206
Receivable from SALB transaction Betrium Nr. 52	0	7,981
Other	2,716	1,016
	23,513	**76,017**

Receivables in the amount of € 5,606,000 result from the transfer of option rights for the properties previously classified as finance leases in Arnsberg, Büren, Langen, Lichtenberg, Kreuztal and Lutzerath. The receivables were paid by the date at which these financial statements were prepared.

The loans to Mr and Mrs Marseille include interest accrued up to 30 June 2008. The loan to Mr Marseille is to be set off against the purchase of the outpatient nursing care service for assisted living in Gera by Marseille-Kliniken AG. The interest rate is calculated at the refinancing rate of the lender plus a profit margin of 1% per annum.

Receivables due from the SALB (sale-and-leaseback) transaction with Karlsruher-Sanatorium-AG shown in the previous year refer to the properties sold in Bad Schönborn (Gotthard-Schettler-Klinik, Klinik Sigmund Weil) and the Klinik Kinzigtal in Gengenbach. The sales were made by notarial deed of 29 June 2007 and the transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007.

Receivables from the SALB transaction of Marseille-Kliniken AG also shown in the previous year refer to a property in Leipzig. The sale was made by way of notarial deed dated 29 June 2007 and the transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007.

Receivables from the SALB transaction of Betrium Nr. 52 Vermögensverwaltungs GmbH also shown in the previous year refer to a property in Berlin. The sale was made by way of notarial deed dated 29 June 2007 and the transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007.

Conditions for the settlement of the purchase price of the SALB transactions were met in full during the financial year.

The remaining term of other receivables is less than one year.

Cash and cash equivalents
Cash and cash equivalents in this financial year include cash balances of € 250,000 (previous year: € 375,000) and cash in banks in the amount of € 13,995,000 (previous year: € 9,383,000).

Cash and cash equivalents also include other securities in the amount of € 188,000.

The fixed deposits have terms of under three months and are pledged up to an amount of € 9.0 million at balance sheet date.

Non-current assets held for sale
In the previous financial year this included the property in Schömberg but this was sold during the past financial year.

By deed dated 29 June 2007 a written offer was made for the sale of properties (document register no. 714/2007 and document register no. 715/2007, notary Dr Wolfgang Hanf). On 17 September 2007 the offer was accepted (document register no. 1060/2007/H and document register no. 1061/2007/H, notary Dr Wolfgang Hanf). The purchase price amounted to a total of € 13,736,000.

The book value from the sale amounted to about € 8.4 million.

No other non-current assets are covered by this item.

Consolidated balance sheet – equity and liabilities
Equity
Group equity at 30 June 2008 was € 44,054 (previous year: € 34,754,000). The most important aims of financial management are a sustained increase in enterprise value, securing liquidity and maintaining the credit standing of the Group. The reduction of capital costs and improvement in cash flow from financing activities play an important role as much as optimising the capital structure and effective risk management.

In relation to credit standing, the Group's financial strategy aims to improve our rating category, as the credit rating reflects the company's financial solvency and guarantees access to a broad spread of investors for financing purposes.

The Group's capital management is based on the debt ratios published by the rating agencies which (in various forms) compare cash flow during a period with exposure to debt. In recent years, divestment and operative cash flows have been used mainly to reduce net indebtedness in order to implement this strategy.

Details of equity are derived from the consolidated statement of changes in equity.

Subscribed capital

Subscribed capital (share capital) of the parent company Marseille-Kliniken AG remains unchanged at the balance sheet date 30 June 2008 at € 31,100,000.00 and is divided into 12,150,000 bearer shares at par value with a nominal value per share of € 2.56. The subscribed capital is fully paid-up.

At the Annual General Meeting held on 2 December 2003, the Management Board was authorised until 1 December 2008 and with the approval of the Supervisory Board to raise the share capital of Marseille-Kliniken AG by issuing new bearer shares for cash and/or contribution in kind in one or more tranches up to a total of € 3.11 million (authorised capital).

At the Annual General Meeting held on 4 December 2007, the authorisation of the Management Board granted at the Annual General Meeting held on 6 December 2006 to buy the company's shares was withdrawn. The Management Board was then authorised to buy its own shares. This authorisation is limited to 18 months until 4 June 2009 and to a maximum 10% of the share capital.

Capital reserve

The capital reserve is unchanged from the previous year and refers to the balance of cash inflows from capital increases.

Revenue reserves

Revenue reserves in the amount of € 627,000 (previous year: € 627,000) include statutory reserves in the amount of € 207,000 (previous year: € 207,000) and other revenue reserves in the amount of € 420,000 (previous year: € 420,000).

Treasury shares

Treasury shares are deducted from equity. Purchase or sale of treasury shares is charged directly to equity. All consideration given or received is recognised directly under equity.

The Management Board was authorised by the Annual General Meeting held on 4 December 2007 to buy the company's own shares up to an amount of 10% of the share capital. The authorisation was made so that the company could act quickly, flexibly and cost effectively when buying companies or investments in companies.

In 2008 a total of 93,977 shares (previous year: 4,202 shares) were purchased and 31,644 shares (previous year: 0 shares) were sold. The average share price was € 13.07 (previous year: € 15.00).

The amount of equity reduction resulting from the treasury shares amounts to a total of € 869,316.91 (previous year: € 63,030.00). This amount of share capital represented by the treasury shares is € 170,307.70 (previous year: € 10,755.74) and as of 30 June 2008 there were 66,535 treasury shares (previous year: 4,202). This represents a proportion of share capital of about 0.55% (previous year: 0.03%).

Minority interests

The percentage of share capital shown for minority shareholders of subsidiaries is shown under minority interests. At 30 June 2008, minority interests shown amounted to € 0.5 million (previous year: € 0.9 million).

Allocated investment grants

The following table shows government grants:

	30.06.08 € '000	30.06.07 € '000
Beginning of financial year	49,510	51,122
Granted in this financial year	0	0
Deferred income	81	0
Utilised and recognised in profit and loss	1,918	1,612
End of the financial year	47,511	49,510
of which non-current	47,511	49,510
of which current	0	0

As in the previous years, this item refers mainly to grants for Senioren-Wohnpark Radensleben GmbH, Senioren-Wohnpark Treuenbrietzen GmbH, Senioren-Wohnpark Erkner GmbH, Senioren-Wohnpark Kyritz GmbH, Senioren-Wohnpark Stützerbach GmbH, Senioren-Wohnpark Bad Langensalza GmbH, Senioren-Wohnpark Klausa GmbH, Senioren-Wohnpark Friedland GmbH, "Villa Auenwald" Seniorenheim GmbH, Marseille-Kliniken AG and SIV Immobilien-Verwaltungsgesellschaft mbH.

Non-current and current financial debt

The reduction in financial debt results mainly from the inflow of funds from property sales in the previous financial year.

Liabilities to banks in the amount of € 48.46 million (previous year: € 88.43 million) are secured by mortgages, ownership assignments and third-party guarantees (including local authority guarantees). In order to secure liabilities to banks incurred in connection with the purchase of ADG, the company's shares were pledged in the previous financial year.

The total of non-current and current financial debt at balance sheet date was € 78,824,000 (previous year: € 121,147,000). Utilisation of current lines of credit and interest-bearing loans at 30 June 2008 can be seen from the following table. Amounts due within one year of a total of € 31,370,000 (previous year: € 33,982,000) are shown as current liabilities. This leaves non-current financial debt of € 47,454,000 (previous year: € 87,165,000).

	Original amount € '000	Currency € '000	of which < 1 year € '000	of which > 1 year € '000
Liabilities to banks of which	**124,604**	**78,824**	**31,370**	**47,454**
– interest-bearing loans	99,164	57,427	9,973	47,454
– current lines of credit	25,440	21,397	21,397	0

The amortised costs (book value) of financed liabilities are in accordance with current cash values.

Of the non-current financial debt, an amount of € 21.4 million is subject to long-term interest rates (> 1 year). The following table shows the conditions with the terms of the loans (weighted interest), the original amounts and book values at the end of the financial year:

Term of interest rate	Interest rate %	30.06.2008 Original amount € '000	30.06.2008 Book value € '000
30.06.2009	5.92	92,052	57,476
30.06.2010	0.00	0	0
30.06.2011	5.66	9,589	5,575
30.06.2012	7.00	511	153
30.06.2013	5.62	11,039	9,758
30.06.2014	5.67	11,008	5,584
30.06.2015	6.89	405	278
		124,604	**78,824**

Pension commitments

Some employees have been promised regular payments from the Group after retirement under the company old-age pension scheme. It involves performance-related defined benefit plans in the form of rights to company old-age pension payments in accordance with § 1 of the German law for the improvement of company old-age pension provisions (BetrAVG). Eligible employees receive a pension upon disability, or at the latest as of their 65th birthday (for men) or their 60th birthday (for women).

The amount of the pension is determined on the basis of classification into groups receiving 5%, 10% or 15% of the pensionable salary. Eligible male employees have surviving dependents' rights amounting to 60% of the old-age or disability pension or of the accumulated rights to such pensions.

The pension commitments are fully endowed and were revalued when IFRS financial statements were produced for the first time. Group commitments include not only current pensions that are being paid but also rights to pensions to be paid in future. Pensions are generally calculated on the basis of length of service with the company and pension contributions.

Pension provision over the course of the financial year is shown in the following table:

	2007|2008 € '000	2006|2007 € '000
Cash value of commitments as of beginning of the financial year	18,268	17,570
Service cost	47	58
Interest expenses	773	762
Pension payments	–1,377	–1,256
Earnings from anticipated and actual total obligations	-813	1,134
Fair value of total commitment at beginning of the financial year	16,898	18,268
Commitments with similar character to pensions	0	0
	16,898	**18,268**

Calculations are made on the basis of an actuarial interest rate of 5.80% (previous year: 4.40%), salary increases of 3.0% (previous year: 0.0%) and expected average fluctuation of 10.0% (previous year: 10.0%).

The employer's pension liability insurance does not satisfy the criteria of IAS 19 for pension scheme assets and is not charged against value of provisions but shown under other non-current assets.

Deferred tax liabilities

Deferred tax liabilities in the amount of € 10,389,000 (previous year: € 17,011,000) result from the negative balance of deferred tax assets set off against deferred tax liabilities, where this setting-off is permissible and the tax claims or liabilities are governed by the same tax authority. When this setting-off results in a positive amount, this is shown as a non-current asset.

This is based on a tax rate of 15.825% (previous year: 26.375%) as a result of the corporation tax law reform 2008.

Deferred tax liabilities are made up as follows:

	Temporary differences		of which for taxes	
	2008 € '000	2007 € '000	2008 € '000	2007 € '000
Intangible assets	403	203	64	54
Property, plant and equipment	25,066	21,314	3,967	5,622
Current assets	4,183	3,860	662	1,018
Provision § 6b Income Tax Act EStG	33,152	37,495	5,246	9,889
Provision § 7f Income Tax Act EStG	4,041	4,218	639	1,112
Pension provisions (deferred tax assets)	–1,318	–2,595	–209	–684
Non-current debt, other	123	0	19	0
Total	**65,650**	**64,495**	**10,389**	**17,011**

Other non-current liabilities

Other non-current liabilities of € 294,000 (previous year: € 23,934) are composed principally of lump-sum subsidies. The reduction in other non-current liabilities results mainly from the non-current share of liabilities shown here in the previous year for leasing companies for leased assets in the amount of € 23,687,000 which were no longer applicable at balance sheet date 30 June 2008.

Leasing liabilities over the past financial year resulted mainly from Astor Park Langen GmbH in the amount of € 8,195,000, Senioren-Wohnpark Büren GmbH in the amount of € 5,275,000, Senioren-Wohnpark Lutzerath GmbH in the amount of € 2,919,000, Senioren-Wohnpark Kreuztal-Krombach GmbH in the amount of € 2,316,000, Senioren-Wohnpark Arnsberg GmbH in the amount of € 2,524,000 and Senioren-Wohnpark Lichtenberg GmbH in the amount of € 2,457,000.

Trade payables

Trade payables in the amount of € 7.4 million decreased on the previous year's figure of € 10.2 million by € 2.8 million. This represents a decrease of about 27.5%.

Other provisions

The development of other provisions is shown in the following table:

	01.07.2007 € '000	Allocation € '000	Release € '000	Release from deconsolidation € '000	Use € '000	30.06.2008 € '000
Tax provisions	3,006	5,550	0	100	2,174	6,282
Litigation risks	710	2,150	0	0	609	2,251
Outstanding incoming invoices	1,750	4,036	58	1,699	1,692	2,337
Holiday bonus	2,797	2,263	308	22	2,489	2,241
Christmas bonus	1,105	1,288	184	14	921	1,274
Legal and consultancy costs	583	374	0	10	573	374
Professional/trade association	476	471	0	2	476	469
Disability contributions	132	139	0	0	132	139
Overtime pay	1,536	1,645	532	0	1,004	1,645
Personnel severence payments	620	348	77	0	543	348
Emoluments	806	859	81	0	725	859
Other	1,749	2,073	35	0	1,714	2,073
	15,270	**21,196**	**1,275**	**1,847**	**13,052**	**20,292**

The **tax provisions** shown have a remaining term of up to one year and are shown at repayment value.

Tax liabilities in the amount of € 6.3 million (previous year: € 3.0 million) include corporation tax and solidarity tax payable to the tax authorities in the amount of € 5.1 million (previous year: € 1.5 million) and trade tax in the amount of € 1.2 million (previous year: € 1.5 million). They cover in full the liabilities of the current financial year and the previous financial year.

Other provisions have remaining terms of up to one year and are not interest-bearing.

Provisions for professional/trade associations include all planned professional/trade association contributions for the financial year 2008. The amount of the provision is dependent on several variables which are reviewed by the professional/trade association annually. Allocation of the provisions was made on the basis of unchanged parameters from the financial year 2007. Professional/trade association contributions are due for payment in May of the following year.

Disability contributions must be made when government quotas for the employment of disabled employees are not met or are exceeded. As this affects several Group companies, provisions have been set aside to cover this eventuality.

The **provision for emoluments and bonuses** refers to the 2008 earnings and the performance-related payments due to managers and employees of Group companies. Authorisation and payment of these amounts is generally made in the second quarter of the following financial year.

Other provisions include provision for obligations to keep business records, provision for the costs of the Annual General Meeting 2008 and provision for the costs of the annual audit, for the preparation and audit of the annual financial statements, for the consolidated financial statements for 2008 and for the preparation of the tax declarations.

Other current liabilities

The following table shows other current liabilities:

	30.06.08 € '000	30.06.07 € '000
Prepaid expenses and deferred income	5,355	6,802
Loans from third parties	2,256	2,449
Liabilities from nursing care services	1,432	779
Rent deposits and securities received	67	61
Salary liabilities	16	27
Other liabilities	3,261	7,518
	12,387	**17,636**

The other current liabilities include liabilities for the sale of Held Bau Projekt Steuerungsgesellschaft mbH in the amount of € 95,000 which is payable to the purchaser. In the previous year, other current liabilities amounting to € 7,500,000 referred to deferred purchase price payments for SWP Bad Langensalza in the amount of € 3.3 million.

Prepaid expenses and deferred income comprise mainly prepaid income for the following month, which is derived almost exclusively from the nursing and rehabilitation divisions.

Explanatory notes to the consolidated income statement

Revenues

Revenues are shown according to the individual company divisions in the segment report.

In this reporting year, Group revenues for the various divisions increased by about 6% (previous year: 2.1%) from € 215 million to € 228 million.

Changes to finished goods and services and work in progress

Changes to finished goods and services and work in progress in the amount of € 50,000 (previous year: € 1,062,000) consist of € -34,000 (previous year: € 735,000) for carrying out works contracts and € 84,000 (previous year: € 327,000) for services not yet invoiced.

Own assets capitalised

The Group has developed new software applications amounting to € 134,000 and this is shown under own assets capitalised. This refers mainly to software from the previous year for hospital information systems, calculation of nursing care rates, and ordering.

In the previous year, own assets capitalised also included any capitalised expenses incurred up to the date of sale for Berlin-Kreuzberg and for the renovation in Bad Langensalza, Potsdam and Schömberg in the amount of € 8,756,000. There was a reclassification to cost of materials under expenses for purchased services. The figure for the previous year was adjusted for comparative purposes.

Other operating income

In this financial year, other operating income amounted to € 32.4 million (previous year: € 28.3 million) and is composed as follows:

	2007|2008 € '000	2006|2007 € '000
Income from asset disposals	8,604	16,843
Income released from finance leases	5,821	0
Compensation pay-out for transfer of option rights	5,606	0
Income from release of investment grants	1,918	1,612
Income from release of pension provisions	1,509	331
Income from release of provisions	1,275	595
Income from other accounting periods	1,261	1,412
Grants for personnel	816	899
Rebates, reimbursements	676	493
Rental and leasehold income	667	668
Income from deconsolidation	640	0
Other refunds	292	348
Benefits in kind (vehicles)	240	189
Income from exchange rate differences	134	794
Neutral income	69	181
Income from pension accounting	23	209
Other	2,902	3,723
	32,453	**28,297**

Income from asset disposals refers mainly to the sale of the property in Schömberg in the amount of € 8.4 million.

Cost of materials

Materials include raw materials, consumables and supplies, purchased goods and expenses for purchases services. Operating costs are included at the time the service is performed or the time it is caused. As there is no prepayment of input tax, expenses also include statutory value-added tax.

The cost of raw materials, consumables and supplies increased from € 24.3 million by € 2.0 million (previous year: € 0.8 million) to € 26.3 million.

Expenses for purchased services increased from € 3.1 million by € 0.7 million (previous year: € 4.3 million) to € 3.8 million at 30 June 2008.

In the previous year, a reclassification of capitalised expenses for purchased services included costs for own assets capitalised amounting to € 8,756,000. As these own assets capitalised included materials expenses from third-party service companies, in order to provide an improved picture of profitability, as from the financial year 2007/2008 they have been recognised under cost of materials in accordance with IAS 1.29. For a comparison with the previous year to be possible, the previous year's figure was adjusted accordingly.

Personnel expenses

Personnel expenses are as follows:

	2007|2008 € '000	2006|2007 € '000
Wages and salaries	96,783	93,056
Emoluments and bonuses	1,140	1,109
Professional/trade association	991	979
Social security contributions	20,436	18,858
	119,350	**114,002**

There was no share-based payment pursuant to IFRS 2.

The average number of full-time employees, divided into groups, is shown in the following table:

Full-time employees	2007|2008	2006|2007
Doctors	159	154
Nursing staff	2,995	2,857
Medical-technical staff	20	15
Total medical staff	**3,174**	**3,026**
Housekeeping staff	1,429	1,434
Technical staff	165	155
Administrative staff	541	524
	2,135	**2,113**
Total	**5,309**	**5,139**

The above table does not include 18 administrative staff of a company deconsolidated as of 30 June 2008. The total number of employees has increased by 170 employees.

Depreciation, amortisation and impairment

Total depreciation, amortisation and impairment for the financial year amounted to € 8.8 million (previous year: € 9.3 million). In addition to the scheduled depreciation and amortisation of assets in the amount of € 8.5 million there was also an impairment of goodwill by € 0.3 million, resulting from annual impairment tests.

Of total depreciation, € 1,858,000 (previous year: 1,413,000) was in respect of intangible assets and € 6,901,000 (previous year: € 7,912,000) from property, plant and equipment.

Other operating expenses

In this financial year, other operating expenses increased by € 9.7 million from € 70.5 million to € 80.2 million.

Other operating expenses can be seen in the following table:

	2007|2008 € '000	2006|2007 € '000
Rent and lease payments	42,942	36,910
Administration costs	7,347	6,221
Legal and consultancy costs	7,298	4,904
Repair and maintenance costs	4,962	4,926
Advertising and entertainment costs	3,655	3,527
Economic requirements of Promint	2,395	2,125
Expenses from other accounting periods	1,772	1,167
Vehicle and aircraft costs	1,499	1,008
Insurances	1,145	1,103
Impairment, write-offs	1,528	5,301
Fees, contributions	575	378
Other social security costs	426	380
Other expenses	4,668	2,526
	80,212	**70,476**

The increase in rent and lease payments, which is shown under other operating expenses, results mainly from the leaseback of property included in the sale-and-leaseback transactions.

Legal and consultancy costs include fees detailed below for the auditors (including expenses and value-added tax) for the consolidated financial statements at 30 June 2008:

	2007|2008 € '000	2006|2007 € '000
Audit of financial statements	364	440
Other certification and valuation services	0	0
Tax advice	0	0
Other services	0	0
	364	**440**

Other expenses under other operating expenses consist mainly of travel costs, training and continuing education costs, costs for seminars, and other personnel-related costs (such as for work clothing).

Financial result

The financial result is as follows:

	2007|2008 € '000	2006|2007 € '000
Interest from capital investments	1,392	1,154
Financial income	**1,392**	**1,154**
Expenses from assumption of losses	0	7
Interest charged on loans	5,350	9,716
Interest charged for finance leases	1,559	1,770
Financial expenses	**6,909**	**11,493**
Financial result	**–5,517**	**–10,339**

Taxes on income and earnings

Taxes on income and earnings include both current and deferred taxes. The following table shows the offsetting and reconciliation of expected and actual tax expenses. Earnings before taxes are multiplied with the Group tax rate of 15.825% (including solidarity tax), which has decreased since the previous financial year (26.375%), in order to determine the expected tax expenses.

	2007|2008 € '000	2006|2007 € '000
Earnings before taxes	**16,624**	**13,247**
Income tax rate	15.825%	26.375%
Expected tax charge	**2,631**	**3,494**
Effects of tax rate changes	–5,055	0
Effect due to varying domestic tax rates	1,089	1,343
Tax increase due to non-deductible expenses	100	106
Tax increase due to off balance sheet additions	207	0
Effects of non-profit losses	373	718
Tax decrease due to use of losses, previous year unsustainable	–34	0
Value adjustment/changes deferred tax assets	489	–2,834
Tax increase due to losses in current year, unsustainable	770	0
Taxes from other accounting periods	2,759	1,202
Other effects	–13	1
Actual tax charge	**3,317**	**4,029**
Actual tax rate	19.95%	30.42%

The breakdown of taxes on income and earnings is as follows:

	2007|2008 € '000	2006|2007 € '000
Deferred taxes	3,456	–2,049
Current tax charge	–6,773	–1,980
Income taxes	**–3,317**	**–4,029**

Group earnings

The net profit for the financial year 2008 amounts to € 13,307,000 (previous year: € 8,965,000) of which € 13,790,000 (previous year: € 9,053,000) is attributable to the shareholders of the parent company and € -483,000 (previous year: € -89,000) to minority shareholders.

Additional notes about financial instruments

Pursuant to IFRS 7.25, the following table contains the fair value and corresponding book value for each class of financial asset and financial debt. Any differences arising represent the amount of silent reserves or charges in the financial instrument:

Asset class of financial assets	Book value 30.06.2008 € '000	Fair value 30.06.2008 € '000	Book value 30.06.2007 € '000	Fair value 30.06.2007 € '000
ASSETS				
Other non-current financial assets	2,515	2,515	3,118	3,118
Trade receivables	13,795	13,795	12,628	12,628
Other receivables	23,513	23,513	76,017	76,017
Cash and cash equivalents	14,433	14,433	9,758	9,758
Non-current assets held for sale	**54,256**	**54,256**	**101,521**	**101,521**

Cash and cash equivalents, trade receivables and other receivables have mainly short remaining terms. Therefore their book values also represent fair value at balance sheet date.

The fair values of other non-current assets with remaining terms of over one year represent the present value of the payments associated with the assets taking account of current interest parameters, which reflect market and partner-related changes in conditions and expectations.

Asset class of financial assets	Book value 30.06.2008 € '000	Fair value 30.06.2008 € '000	Book value 30.06.2007 € '000	Fair value 30.06.2007 € '000
LIABILITIES				
Non-current financial liabilities	47,454	47,454	87,165	87,165
Deferred investment subsidies	47,511	47,511	49,510	49,510
Other non-current liabilities	294	294	247	247
Leasing liabilities	0	0	23,687	23,687
Current financial liabilities	31,369	31,369	33,982	33,982
Trade payables	7,406	7,406	10,158	10,158
Other current liabilities	12,387	12,387	17,636	17,636
Total	**146,421**	**146,421**	**222,385**	**222,385**

The balance of financial assets from financial instruments and financial liabilities from financial instruments at balance sheet date shows insufficient coverage of assets compared to liabilities, for both book values and cash values, amounting to € 92,165,000 (previous year: € 120,864,000).

Trade payables, current financial liabilities and other liabilities have regular short remaining terms. Therefore these values represent the fair value.

The fair value of liabilities to banks (non-current financial liabilities) and other non-current financial liabilities are determined from the cash value of the payments associated with the debt on the basis of the applicable yield curve.

All the above assets and liabilities are held until term.

Segment report

Segment allocation

In the segment report, financial figures are classified according to segments in accordance with the internal reporting. The primary form of segment classification for the Group is by business segment as Group risks and equity yield rate are influenced by the differences between products and services.

There is no secondary, geographic segment classification, as Marseille-Kliniken AG operates only in the German market. This market is subject to uniform statutory regulations and uniform economic circumstances and the companies are subject to the same opportunities and risks regardless of their location.

The Group is organised into three business segments:

Nursing care

The nursing care segment includes operation of care homes for the elderly and the provision of nursing care services. Segment earnings were improved by € 5.8 million due to the change of lessor for six properties and the resulting classification as operating leases.

Rehabilitation

The rehabilitation segment includes medical follow-up treatment services and therapies. Segment earnings were affected by € 8.4 million from the sale of the Schömberg property.

Administration and services

This segment includes the centralised provision of services. This includes management, financial services, asset administration and IT services, construction and project management and further services such as food and beverage services, laundry, maintenance cleaning and facility management. Segment earnings were affected by the impairment of goodwill in the company VDSE in the amount of € 303,000.

During reconciliation of the segments to Group figures, expenses of Marseille-Kliniken AG not applicable to segments or effects of consolidation between Group companies and the segments are shown separately. Inter-segment transactions are made under normal market conditions.

Statement of segment earnings

The following table shows the segment earnings statement including segment results for the financial year 2007/2008 and a comparison with the previous year's figures:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000
External sales	175,040	164,067	51,670	48,345	1,351	2,428	0	0	228,061	214,841
Internal sales to other segments	0	799	0	0	58,453	56,024	-58,453	-56,823	0	0
Other operating income	11,436	10,405	13,042	11,519	32,201	30,268	-24,042	-22,283	32,636	29,910
Total	**186,476**	**175,271**	**64,712**	**59,864**	**92,005**	**88,720**	**-82,495**	**-79,105**	**260,698**	**244,750**
Cost of materials	-41,964	-38,323	-14,581	-14,912	-11,636	-10,744	38,129	36,616	-30,050	-27,362
Personnel expenses	-66,039	-60,557	-21,399	-22,117	-31,909	-31,327	-3	0	-119,350	-114,002
Other operating expenses	-62,515	-57,832	-18,913	-15,396	-43,165	-39,737	44,381	42,489	-80,212	-70,476
Scheduled depreciation	-4,999	-5,066	-1,618	-3,020	-1,536	-1,774	-303	535	-8,456	-9,325
Depreciation of goodwill	0	0	0	0	-303	0	0	0	-303	0
Earnings from business operations	**10,959**	**13,493**	**8,202**	**4,420**	**3,457**	**5,137**	**-291**	**535**	**22,327**	**23,586**
Earnings from interest and financial investments	1,695	2,029	1,661	719	18,974	17,846	-20,938	-19,440	1,392	1,154
Interest and similar expenses	-6,324	-8,991	-2,199	-4,337	-5,255	-7,419	6,869	9,254	-6,910	-11,493
Earnings before tax	**6,330**	**6,531**	**7,664**	**803**	**17,175**	**15,564**	**-14,360**	**-9,651**	**16,810**	**13,247**
Taxes on income and earnings	-14	-1,131	-657	1,764	-2,646	-4,663	0	0	-3,317	-4,029
Other taxes	-130	-209	-20	-18	-35	-26	0	0	-185	-253
Net Group profit/loss	**6,185**	**5,191**	**6,988**	**2,549**	**14,494**	**10,875**	**-14,360**	**-9,651**	**13,307**	**8,965**
EAT	**6,185**	**5,191**	**6,988**	**2,549**	**14,494**	**10,875**	**-14,360**	**-9,651**	**13,307**	**8,965**
EBT	**6,200**	**6,321**	**7,644**	**785**	**17,141**	**15,538**	**-14,360**	**-9,651**	**16,624**	**12,994**
EBIT	**10,828**	**13,283**	**8,182**	**4,403**	**3,422**	**5,112**	**-291**	**535**	**22,142**	**23,333**
EBITDA	**15,827**	**18,349**	**9,800**	**7,422**	**5,261**	**6,886**	**12**	**0**	**30,900**	**32,658**

Segment balance sheet structure

The following table shows segment reporting including segment balance sheet structure to 30 June 2008. These are compared to the figures for the previous year:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	30.06.2008 € '000	30.06.2007 € '000	30.06.2008 € '000	30.06.2007 € '000	30.06.2008 € '000	30.06.2007 € '000	30.06.2008 € '000	30.06.2007 € '000	30.06.2008 € '000	30.06.2007 € '000
Equity	6,849	5,395	29,141	22,199	67,875	62,884	-59,811	-55,723	44,054	34,754
Liabilities	157,393	192,656	68,955	110,225	138,053	161,608	-169,302	-190,111	195,100	274,377
Non-current assets	94,524	106,268	28,387	31,322	100,741	100,814	-45,101	-44,871	178,551	193,533
Current assets	69,718	91,782	69,709	101,102	105,188	123,678	-184,012	-201,027	60,603	115,535
Total assets	**164,242**	**198,051**	**98,096**	**132,424**	**205,929**	**224,491**	**-229,113**	**-245,898**	**239,154**	**309,067**

Other segment information

The following table shows additional segment reporting data for the financial year 2007/2008 and a comparison with the previous year's figures:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000	2007|2008 € '000	2006|2007 € '000
Investments(+) / disposals(-)	12,748	–11,061	2,182	–37,438	2,269	–1,602	0	0	17,200	–50,102
Other neutral expenses(+)/income(-)	–6,726	–9,039	–1,380	–9,886	–2,325	796	0	0	–10,431	–18,129

Earnings per share

In calculating basic earnings per share, the portion of the profit attributable to shareholders of the parent company is divided by the weighted average number of shares in circulation during the course of the financial year.

Basic earnings per share amount to € 1.14 (previous year: € 0.75). There is no difference between diluted and basic earnings per share since no other potential share rights have been issued.

The total number of ordinary shares is 12,150,000 (previous year: 12,150,000) made up at balance sheet date of the number of treasury shares at 66,535 (previous year: 4,202) and shares in circulation at 12,083,465 (previous year: 12,145,798).

Date	Number of shares bought	Number sold	Rate in €	Number of shares	Nominal value in €	Percentage of share capital	Amount of share capital in €
01.07.2007	4,202		15.000	4,202	63,030.00	0.03	10,755.74
21.08.2007	31,644		16.600	35,846	525,284.07	0.30	91,753.96
22.10.2007		19,000	16.850	16,846	-320,150.00	0.14	43,120.21
30.11.2007		12,644	16.650	4,202	-210,522.60	0.03	10,755.74
19.12.2007	22,500		16.095	26,702	362,137.50	0.22	68,348.33
21.01.2008	8,833		14.054	35,535	124,138.98	0.29	90,957.90
05.05.2008	7,000		11.080	42,535	77,560.00	0.35	108,875.60
22.05.2008	9,000		10.670	51,535	96,030.00	0.42	131,912.63
19.06.2008	15,000		10.120	66,535	151,800.00	0.55	170,307.70
Total	**98,179**	**31,644**	**13.065**	**66,535**	**869,307.95**	**0.55**	**170,307.70**
Valued at market value (closing rate XETRA at 30.06.2008)			**8.50**	**66,535**	**565,547.50**	**0.55**	**170,307.70**

In the period between balance sheet date and the preparation of the financial statements, there were no transactions with ordinary shares or potential ordinary share rights.

Dividends paid and proposed

Due to another positive Group result for the financial year 2007/2008 with a net profit of € 13.8 million (previous year: € 9.1 million), payment of a dividend has again been recommended for the financial year 2007/2008 as in previous years.

The net profit of Marseille-Kliniken AG, Berlin, amounts to € 6,352,103.81 (previous year: € 5,638,000). It is proposed to distribute a total of € 3,020,866.25 to profit-bearing shares and to carry the amount of € 3,331,237.56 forward. Therefore, a payment of a dividend of € 0.25 (previous year: € 0.25) per profit-bearing share is proposed.

Statement of changes in equity

The statement of changes in equity shows changes in equity.

Consolidated cash flow statement

The cash flow statement shows how funds of the Marseille Group (cash and cash equivalents, cash in banks and current liabilities to banks) have changed over the past financial year. Cash flows are classified as business operations, investment activities, financial activities and cash flow from abandoned business areas. Cash flow from business operations is shown by the indirect method. Interest income and payments are shown under cash flow from business activities.

Financial funds at 30 June 2008 comprise cash and cash equivalents of € 14,433,000 (previous year: € 9,758,000) and include cash in the amount of € 250,000 (previous year: € 375,000), cash in banks in the amount of € 13,995,000 (previous year: € 9,383,000) and other securities in the amount of € 188,000 (previous year: € 0).

Interest amounts paid during the reporting year amounted to € 6.9 million (previous year: € 11.5 million) and interest received from capital investments amounted to € 1.4 million (previous year: € 1.2 million).

The cash flow statement of Marseille-Kliniken AG was unchanged from the previous year with regard to the composition of financial funds and possible exercising of options.

Miscellaneous

Contingent liabilities

Marseille-Kliniken AG has issued absolute guarantees to secure loans made to subsidiaries totalling € 18,348,000 (previous year: € 18,348,000).

Unlimited parent company guarantees were issued by Marseille-Kliniken AG by way of guaranteeing obligations of individual subsidiaries under leasing contracts. This refers to the lease agreement between Logo 7. Grundstücksverwaltungs mbH, Senioren-Wohnpark Landshut GmbH and AMARITA Oldenburg GmbH and non-Group leasing companies. Leasing obligations arising from these agreements up until the earliest possible date of termination of the leasing agreements are shown in the table under other financial liabilities.

Two unlimited parent company guarantees were issued by Marseille-Kliniken AG to banks for loan obligations. One was given on 29 February 2008 to Landesbank Baden-Württemberg in the amount of € 12,500,000 and the other to Sparkasse Prignitz on 6 July 2004 for the amount of € 405,000.

An unlimited liquidity guarantee was given in respect of SWP – Senioren-Wohnpark Klötze GmbH so that it could meet its obligations from property leasing agreements.

There is also a subordination agreement for M. Held GmbH & Co. Baubetreuungs-KG in connection with a legal dispute about wage costs from Halleschen Mitteldeutschen Bau AG against M. Held GmbH & Co. Baubetreuungs-KG for payment in the amount of € 6.2 million. The claim has been ongoing since 1998 but, for various reasons, has little chance of success. In the opinion of the defendant, and on the basis of an expert report, the maximum risk is € 0.6 million.

There are no further contingent liabilities at the balance sheet date.

Leasing

Lessees – finance leases

Properties leased by the company (including those classified as finance leases in the previous years) include land, buildings and other installations and facilities. The most important obligations undertaken during the term of lease agreements, apart from lease payments, are the maintenance costs for the premises and facilities, insurance contributions and property taxes. Terms for leasing agreements for land, buildings, premises and equipment normally range from 10 to 25 years and include renewal options subject to various conditions. Rental costs under finance leases in this financial year 2007/2008 amounted to € 2,610,000 (previous year: € 2,794,000). They were shown as an expense item under other operating expenses, in the period in which they arose.

A total of six property leasing agreements which were classified as finance leases in the previous year and sold at the end of the financial year, the Group had no remaining finance lease at balance sheet date 30 June 2008. The classification of the six properties as finance leases in the previous year was made on the basis of cash value tests of the property lease agreements. The following table shows assets which were used for finance leases at balance sheet date:

	30.06.08 € '000	30.06.07 € '000
Land and buildings less:	0	31,680
Accumulated depreciation	0	-9,299
Net book value	**0**	**22,382**

There are no future minimum leasing payments for finance leases at balance sheet date as can be seen in the table below:

	30.06.08 € '000	30.06.07 € '000
During the first year	0	3,915
1 to 5 years	0	24,092
After 5 years	0	7,440
Minimum lease obligations	**0**	**35,447**
During the first year	0	1,051
1 to 5 years	0	4,899
After 5 years	0	17,737
Cash value of minimum lease obligations	**0**	**23,687**

Lessees – operating leases
Marseille-Kliniken AG, Berlin and its subsidiaries have concluded various operating leases for buildings, office fittings and other equipment and fittings. Total expenses for such agreements for this financial year amount to € 742.8 million (previous year: € 715 million).

Contingent liabilities and other financial obligations
Total commitments for the Group from rental and leasing agreements and service agreements amounts in this financial year to € 743.2 million (previous year: € 750.4 million).

Of this amount, € 732.6 million (previous year: € 714.9 million) applies to long-term property rentals. The long-term agreements covering these 49 (previous year: 38) rented or leased properties are classified as operating leases by IAS 17 and are included in the balance sheet of the lessor. The relevant rental agreements have terms of 20 to 25 years. The leasing agreements occasionally have renewal options. In some cases, there is also an option to purchase at market rates. The annual leasing payments from these agreements, included as an expense in this financial year, amount during the reporting period – unabridged – to € 40.1 million (previous year: € 33.4 million). Rents are increased by a fixed amount each year on the basis of the consumer price index.

Leasing agreements are mainly for the properties in Tangerhütte, Aschersleben, Coswig, Lemwerder, Algos Fachklinik, Teufelsbad Fachklinik, Klötze, Waldkirch, Bad Schönborn, Bad Langensalza, Wolmirstedt, Thale, Leipzig, Berlin-Lichtenberg, Schömberg, Gengenbach, Buxtehude, Hennigsdorf, Hohen Neuendorf, Langen, Schollene, Datteln, Lutzerath, Kreuztal-Krombach, Büren, Arnsberg, Hamburg-Angerstraße, Düsseldorf and Meerbusch.

	2007|2008	Remaining term		
		Up to 1 year	1 – 5 years	> 5 years
	€ '000	€ '000	€ '000	€ '000
Rental, leasing and service agreements	743,167	44,317	153,893	544,957
of which operating leases	742,856	44,207	153,770	544,879
Building lease obligations	6,267	111	442	5,714

At 30 June 2008, the cash value of other financial commitments at a discount rate of 4.5% amounted to € 496.0 million (previous year: € 515.5 million).

There were no contingent liabilities or other important financial obligations at balance sheet date.

Financial risk management
The Marseille-Kliniken Group is exposed to risks from changes to interest rates and the stock exchange with respect to its assets, liabilities and planned transactions. The goal of financial risk management is to limit these market risks by ongoing operative and finance-oriented activities. Depending on the assessment of the risk, it can use select derivative and non-derivative hedging instruments. Only those risks which could have an effect on the Group's cash flow will be hedged.

Derivative financial instruments are used only as hedging instruments, i.e. they are not permitted for trading or other speculative purposes. To minimise the default risk, hedging transactions are only carried out with leading financial institutions. Limit management, which determines specific relative and absolute limits to risk exposure independently of the rating of the partner, should minimise the risk of default for financial instruments with a positive market value.

Financial policy is determined annually by the Management Board and is monitored by the Supervisory Board. Implementation of the financial policy and ongoing risk management is the responsibility of specified persons within the Group (liquidity department). Transactions require prior approval from the Management Board, which is also kept informed on a regular basis about the scope and amount of the current risk exposure.

Effective management of market risk is a major responsibility. In order to estimate the effects of different circumstances in the market, simulated calculations are made on the basis of worst-case and market scenarios.

IFRS 7 requires sensitivity analyses to demonstrate market risks; these show the effects of hypothetical changes of relevant risk variables on earnings and equity. In addition to currency risk, the Marseille-Kliniken Group is exposed to risk of interest rate changes and price risk of investments. Periodic effects are determined by the hypothetical changes to risk variables being compared with the value of financial instruments at balance sheet date. This is based on the assumption that the value at balance sheet date is representative of the whole year.

In consideration of the existing and planned debt structure, interest derivatives are used to attain a mixed balance of fixed and variable interest-bearing net financial liabilities.

In the financial year 2007/2008 there was on average 40.6% (previous year: 58.1%) of fixed-rate net financial liabilities in euros. Also in the financial year 2007/2008 there was on average 5.9% (previous year: 2.6%) of net financial liabilities in euros with a fixed rate due to derivative hedging transactions. The average values are representative for the whole year.

Risks arising from changes in interest rates are shown by means of sensitivity analyses pursuant to IFRS 7. These show the effects of changes to market interest rates on interest payments, interest income and interest expenses, other earnings components, and equity, where applicable. Interest sensitivity analyses are based on the following assumptions:

Changes to market interest rates of original financial instruments with fixed rates of interest only have an effect on earnings if they are valued at fair value. Therefore, all financial instruments with fixed interest rates valued at amortised cost present no interest rate risk in the sense of IFRS 7.

The designated fair value hedges used to hedge risks against changes in interest rates and the interest related changes in value of underlying and hedging transactions cancel one another out almost completely in the same period in the income statement. Therefore, these financial instruments are also not associated with risks to changes in interest rates.

Changes to market interest rates of financial instruments which are designated as hedging instruments as part of a cash flow hedge to secure interest-related payment variations have an effect on the hedging reserve in equity and are therefore shown under earnings-related sensitivity calculations.

Changes to market interest rates also affect the net interest income of original financial instruments with a variable rate of interest, where interest payments are not designated as underlying transactions as part of a cash flow hedge against risk of changes to interest rates and are therefore included in earnings-related sensitivity calculations.

Changes to market interest rates from interest derivatives (interest rate swaps, interest rate/currency swaps), which are not bound to a hedging transaction pursuant to IAS 39, effect the other financial result (valuation result from the adjustment of financial assets to fair value) and are therefore taken into account in earnings-related sensitivity calculations.

Currency derivatives are not subject to risk from interest rate changes and therefore have no effect on interest sensitivity.

If the market rate of interest at 30 June 2008 had been 100 basis points higher (or lower) than it was, earnings would have been € 0.5 million (previous year: € 0.4 million) lower (or higher). The hypothetical effect on earnings results from the potential positive effect from interest derivatives of € 0.1 million, original financial liabilities with a variable rate of interest of € 0.7 million and positive effects from financial investments of € 0.2 million.

In disclosing market risks, IFRS 7 also requires disclosure of how hypothetical changes of risk variables may impact prices of financial instruments (other price risks). Risk variables include stock market prices and indices in particular.

At 30 June 2008 the Marseille-Kliniken-Group held no significant investment which was categorised as held-for-sale.

The Marseille-Kliniken Group is exposed to default risk from its operating business and certain financial activities. In the financial sector it concludes transactions with partners according to credit rating along with an ongoing credit standing management system. In the operating business, receivables are monitored on a divisional or decentralised ongoing basis. Default risks are taken into account by means of specific provisions for bad debts and lump-sum provisions for bad debts.

In view of its line of business, the Group is exposed primarily to credit risk as well as a liquidity and refinancing risk. Credit risk means the risk of insolvency or deterioration in the credit standing of a contractual partner.

Since Marseille-Kliniken AG generates almost all (approximately 98%) of its revenues with old-age pension organisations and statutory and private health insurance organisations, this risk must be classified as minimal. Liquidity risk means the danger of the Marseille-Kliniken Group being unable to meet its present or future payment commitments in time or in full. The refinancing risk is a special form of liquidity risk which arises when required liquidity cannot be obtained at the expected conditions when it is required.

In addition, interest rate risks arise from possible changes to interest rates at market level. This risk is countered by the arrangement of appropriate terms. Precautions are also taken to avoid risks by way of cautious liquidity management, including the maintenance of sufficient reserves of cash funds and agreed credit lines for certain amounts. A further security measure is the provision of liquidity to the Group by a central cash management pool system. Cash funds not required are invested as short-term time deposits.

Derivative financial instruments in the financial year 2007/2008 exist in the form of two commodity swaps and one interest swap.

The reference parameter for the commodity swaps is a predefined, fixed price on the variable price for heating oil (reference price) and the prior determination of a calculation period. At the end of the fixed period, the difference between the two prices is settled. Marseille-Kliniken AG was the payer of the fixed price amount (payer swap) in order to hedge itself against rising heating oil prices.

For the months December 2007 and June 2008 the following transactions were concluded on the basis of the planned purchase of heating oil:

Month	Amount of heating oil	Fixed price
December 2007	1,400,000 litres	0.4121 €/litres
June 2008	1,300,000 litres	0.4083 €/litres

Notes

The relevant reference prices on settlement day were higher than the fixed prices. For this reason, Marseille-Kliniken AG received a settlement payment for the derivative in the amount of € 78,000 in December 2007. The swap transaction in June 2008 realised a settlement payment in July 2008 of € 336,000.

Both settlements were recognised in the income statement at 30 June 2008.

To finance the 100% share in Allgemeine Dienstleistungsgesellschaft mbH (ADG), Marseille-Kliniken AG took out a credit agreement with Dresdner Bank in the amount of € 7,500,000. The loan is repayable in 20 quarterly instalments of € 375,000, beginning on 31 March 2006. The last repayment instalment is due on 31 December 2010.

It was agreed that interest payments on the loan would amount to a fixed rate of 5.6% from inception until 31 December 2010 or that, instead of a fixed interest rate, binding interest periods of three or six months for each drawdown could be chosen, with a variable interest rate based on Euribor plus a margin of 2.0% p.a during these periods.

At the time of the transaction, the 3-monthly Euribor was at 2.55%. Marseille-Kliniken AG anticipated rising interest rates for short-term borrowing. This was confirmed in a survey of significant market participants, who foresaw a moderate rise in current interest rates to 2.80% in 2006. Management also expected a rise in non-current rates, estimating that this rise would, however, be lower in the future. This was also covered in the aforementioned survey, which predicted a rise in non-current refinancing rates from banks for 2006 from a median value of 4.35% to 4.50%.

Under these circumstances Marseille-Kliniken AG decided to hedge the interest rate risk with a current interest swap transaction (as an alternative to the 5-year fixed financing).

In an interest swap transaction, the difference between the agreed fixed rate for a particular period is tied to the variable Euribor interest rates (reference interest rates) during that period. At term, the difference between these interest rates is settled. Marseille-Kliniken AG is the payer of the fixed interest rate (payer swap). This results in a fixed interest payment in the amount of the fixed rate of interest plus the agreed credit margin.

The advantage of a combination of an interest swap with a variable interest loan is that in comparison with a fixed rate loan, it can be redeemed prematurely and there is no prepayment penalty upon disposal. The price is determined by the market price of the interest swap. In the underlying transaction the interest swap can be sold on 30 September of each year.

Market-to-market valuation of the interest swap at 30 June 2008 shows that Marseille-Kliniken AG would receive € 75,000 if the derivative were to be sold. This was based on the 3-month Euribor at 4.947%. Current forecasts for current and medium-term interest rates show that further interest rate rises can be expected in the future. By the end of December 2008 it is expected that the median value will have risen to 5.10%. For this reason, Marseille-Kliniken AG continues to be convinced of the successful implementation of this instrument.

The interest rate swap was shown in the income statement at 30 June 2008 at a value of € 75,357.00.

No transactions have been made to hedge currency risks since there are few foreign currency transactions.

Investments in Marseille-Kliniken AG made known to the company pursuant to § 21(1) or § 21(4) of the German Securities Trading Act (WpHG)

Pursuant to § 21(1) of the German Securities Trading Act (WpHG), Artio Global Holdings LLC, New York, USA, informed us on 4 July 2008 that its share of voting rights in Marseille-Kliniken AG, Berlin, had exceeded the thresholds of 3% and 5% on 27 June 2008 and amounted on that day to 9.4% of the total number of voting rights in the company (equivalent to 1,141,607 voting rights).

The voting rights of 3% or more in Marseille-Kliniken AG, Berlin, held by Julius Baer International Equity Fund, 330 Madison Avenue, New York, USA, were deemed allocated to Artio Global Holdings LLC, New York, USA.

The Group has not been informed of any other investments in Marseille-Kliniken AG which are notifiable to the company pursuant to § 21(1) or 21(4) of the German Securities Trading Act (WpHG).

Directors' dealings

Pursuant to § 15a of the German Securities Trading Act (WpHG), persons who hold a management position in a company which issues shares, or have a close relationship with such a person, are required to publicise the fact that they trade in such shares or financial instruments based thereon if the total amount of the transactions exceeds € 5,000.00 per calendar year.

Persons required to make notifications are members of the Management Board and Supervisory Board of Marseille-Kliniken AG, other persons who have regular access to insider information concerning Marseille-Kliniken AG as defined by the German Securities Trading Act (WpHG) or who are authorised to make important corporate decisions about Marseille-Kliniken AG in the sense of the Securities Trading Act (WpHG), and any persons who have a close relationship with the abovementioned persons.

No share transactions have recently been publicised pursuant to § 15a of the German Securities Trading Act (WpHG).

Supervisory Board

The members of the Supervisory Board are:

Ulrich Marseille, Businessman, Hamburg, Chairman
Chairman of supervisory boards: Karlsruher-Sanatorium-AG, Hamburg
SCS Standard Computer Systeme AG, Hamburg
Member of the supervisory board: WMP EuroCom AG, Berlin
Chairman of comparable bodies: REHA-Klinik Sigmund Weil GmbH, Hamburg

Hans-Hermann Tiedje, Media Entrepreneur, Berlin,
Deputy Chairman
Chairman of the board: WMP EuroCom AG, Berlin

Uwe Bergheim, Communications Business Administrator, Düsseldorf,
Member of the supervisory board: Falke KGaA, Schmallenberg

Mathias D. Kampmann, Business Administrator, Hamburg

Prof. Dr Med. Matthias P. Schönermark, Professor, Consultant, Hanover

Dr Peter Schneider, Doctor, Hohen Neuendorf

In the financial year 2007/2008, members of the Supervisory Board received remuneration in the amount of € 191,000 (previous year: € 182,000).

Management Board

The members of the Management Board are:

Axel Hölzer, Businessman, Hamburg, Chairman
(Deputy Chairman of supervisory board:
SCS Standard Computer Systeme AG, Hamburg)

Ennio Laviziano, Businessman, Hamburg, member of Management Board
(until 4 December 2007)

Peter Paul Gardosch von Krosigk, Businessman, Hamburg
(from1 August 2008)

The company may be represented by two Management Board members or by one Management Board member and an authorised signatory. If only one Management Board member has been appointed, he/she shall represent the company alone. The Supervisory Board may free members of the Management Board from the restrictions of § 181 of the German Civil Code (BGB). Mr Hölzer has been freed from these restrictions under § 181 BGB.

The following remuneration was paid in 2007/2008 to active and former members of the Management Board:

Management Board	Fixed € '000	Variable € '000	total € '000
Axel Hölzer (Chairman of the Board)	357	220	577
Ennio Laviziano (Board member)	101	40	141

Remuneration for members of the Management Board in the financial year 2007/2008 was paid exclusively by Marseille-Kliniken AG. No loans had been made by the company to members of the Management Board either during the course of the year or at the balance sheet date.

Pension payments to former Management Board members and their surviving dependents amounted to € 53,000 (previous year: € 67,000); provisions in the amount of € 475,000 (previous year: € 481,000) have been set aside.

Disclosures required by the German Companies Act (AktG)

Pursuant to § 160 (1)(8) of the German Companies Act (AktG), Ulrich Marseille and Estella-Maria Marseille, Hamburg, hold a direct or indirect shareholding in Marseille-Kliniken AG, Berlin, in the amount of 60.0% of the voting rights.

Trading transactions

During this financial year, Group companies undertook the following transactions with related persons and companies which do not belong to the Group:

Transactions with related persons and companies

During this financial year, Group companies undertook the following transactions with related persons and companies which do not belong to the Group:

	Sale of goods and services		Purchase of goods and services		Receivables from related companies		Liabilities to related companies	
	2007|2008	2006|2007	2007|2008	2006|2007	2007|2008	2006|2007	2007|2008	2006|2007
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Ulrich Marseille	0	0	4,110	3,852	8,519	2,414	2,041	3,220
Estella-Maria Marseille	2	25	967	989	2,616	2,525	335	0

The sale of goods and services to related persons and companies is made under market conditions. Transactions between parties were made at market prices, less normal bulk discounts and other discounts made on the basis of connections between the parties.

Outstanding amounts from the sale of goods and services are not secured and are settled in cash.

In addition to the sale of goods and services, during this financial year Marseille-Kliniken AG also sold all the shares in Held Bau Consulting Projekt Steuerungsgesellschaft mbH (share capital € 26,000) for the amount of € 760,000 to DL Holding GmbH.

The goods and services allocated to Ulrich Marseille in the amount of € 4,110,000 (previous year: € 3,852,000) refer mainly to services provided by SCS Standard Computersysteme AG (€ 3,095,000, previous year: € 2,584,000 Marseille family) and SGS-GmbH (€ 240,000; previous year: € 266,000) and the leasing of the administration building at Sportallee 1 in Hamburg from Citycomp Grundstücks GbR by VDSE Verwaltungsdienstleister sozialer Einrichtungen GmbH (€ 729,000, previous year: € 720,000).

The purchased goods and services provided by Mrs Marseille refer to consultancy services provided by her law firm.

Receivables of € 2,616,000 (previous year: € 2,525,000) from Estella-Maria Marseille consist of € 2,616,000 for loans.

In the consolidated financial statements of Marseille-Kliniken AG other assets include receivables from Ulrich Marseille and companies associated with him in the amount of € 8,519,000 (previous year: € 2,414,000), consisting mainly of loans including interest of € 4,571,000, provision of cash in the amount of € 2,287,000 (previous year: € 2,323,000), trade receivables in the amount of € 1,471,000 and other receivables of € 190,000. As in the previous year 2006/2007, there were no traditional goods and services with Mr Marseille.

In the reporting year, loans to Ulrich Marseille include a new loan for € 4.5 million. This is secured by a mortgage for € 4.5 million registered in the land register of Tinz, page 982, local court in Gera, district 2, plots 196/4 and 193/9 (Julius-Sturm-Straße 1, 07546 Gera). The owner of the property is DL Immobilienverwaltung GmbH & Co. "Altmark Ansgar" KG. The loan is subject to interest of 1% over the refinancing rate of Marseille-Kliniken AG.

Receivables and liabilities are due within one year up to € 7,117,000, after which they are due in more than one year, and do not attract interest. Apart from the loan for € 4.5 million to Mr Marseille, the amounts are unsecured.

Publication

Adoption of the consolidated financial statements by the Supervisory Board and the approval for publication of the consolidated financial statements is scheduled for 30 October 2008. The consolidated financial statements for the financial year 2007/2008 will be submitted to the official company register and published in the electronic German Federal Gazette (Bundesanzeiger).

The following Group companies are included in the consolidated financial statements of Marseille-Kliniken AG and use the exemptions pursuant to § 264(3) of the German Commercial Code (HGB):

- Senioren-Wohnpark Langen GmbH,
- Senioren-Wohnpark Lemwerder GmbH,
- Astor Park Wohnanlage Langen GmbH,
- Senioren-Wohnpark Hennigsdorf GmbH,
- Senioren-Wohnpark Radensleben GmbH,
- Senioren-Wohnpark Neuruppin GmbH,
- Senioren-Wohnpark Treuenbrietzen GmbH,
- Senioren-Wohnpark Erkner GmbH,
- Teufelsbad Fachklinik Blankenburg GmbH,
- Senioren-Wohnpark Tangerhütte GmbH,
- Senioren-Wohnpark Kyritz GmbH,
- Senioren-Wohnpark Thale GmbH,
- Senioren-Wohnpark Wolmirstedt GmbH,
- Senioren-Wohnpark Aschersleben GmbH,
- Senioren-Wohnpark Coswig GmbH,
- Senioren-Wohnpark Stützerbach GmbH,
- Senioren-Wohnpark Schollene GmbH,
- Senioren-Wohnpark Bad Langensalza GmbH,
- Senioren-Wohnpark Ballenstedt GmbH,
- Senioren-Wohnpark HES GmbH,
- PRO F&B Gastronomische Dienstleistungsgesellschaft mbH,
- Senioren-Wohnpark Klausa GmbH,
- Senioren-Wohnpark OES GmbH,
- Senioren-Wohnpark Friedland GmbH,
- Senioren-Wohnpark ZES GmbH,
- Senioren-Wohnpark Klötze GmbH,
- ALGOS Fachklinik Bad Klosterlausnitz GmbH,
- Senioren-Wohnpark Leipzig – Am Kirschberg GmbH,
- Senioren-Wohnpark soziale Grundbesitzgesellschaft mbH,
- AMARITA Buxtehude GmbH,
- PRO WORK Dienstleistungsgesellschaft mbH,
- Senioren-Wohnpark Cottbus – SWP – GmbH,
- MK-Delta GmbH,
- Marseille-Klinik Omega GmbH,
- "Villa Auenwald" Seniorenheim GmbH,
- VDSE Verwaltungsdienstleister sozialer Einrichtungen GmbH,
- PROMINT Dienstleistungsgruppe Neuruppin GmbH,
- Senioren-Wohnpark Hennigsdorf – SWP – GmbH,
- SCS Standard Computer Systeme Entwicklungsgesellschaft mbH,
- SIV Immobilien-Verwaltungsgesellschaft mbH,
- DaTess Gesellschaft für Datendienste mbH,
- Senioren-Wohnpark Friedland – SWP – GmbH,
- Marseille-Akademie GmbH,
- Senioren-Wohnpark Leipzig "Stadtpalais" GmbH,
- Senioren-Wohnpark Leipzig "Eutritzscher Markt" GmbH,
- Senioren-Wohnpark Lichtenberg GmbH,
- Senioren-Wohnpark Landshut GmbH,
- AMARITA Datteln GmbH,
- AMARITA Hohen Neuendorf GmbH,
- Teufelsbad Residenz Blankenburg GmbH,
- Betrium Nr. 44 Vermögensverwaltungs-GmbH,
- Betrium Nr. 53 Vermögensverwaltungs-GmbH,
- MobiRent Vermietung GmbH,
- Betrium Nr. 55 Vermögensverwaltungs-GmbH,
- AMARITA Oldenburg GmbH,
- Senioren-Wohnpark Düsseldorf – Volksgarten GmbH,
- Senioren-Wohnpark Dresden - "Am Großen Garten" GmbH,
- Senioren-Wohnpark Arnsberg GmbH,
- Senioren-Wohnpark Büren GmbH,
- Senioren-Wohnpark Kreuztal-Krombach GmbH,
- Senioren-Wohnpark Lutzerath GmbH,
- ProTec Dienstleistungsgesellschaft mbH,
- Allgemeine Dienstleistungsgesellschaft mbH – ADG –,
- MK IT-Entwicklungs GmbH.

Statement of compliance with the German Corporate Governance Code (§161 German Companies Act (AktG))

The statement of compliance made by Marseille-Kliniken Aktiengesellschaft pursuant to § 161 of the German Companies Act (AktG) has been made available to shareholders on a permanent basis on the company's website.

Statements required by the German Commercial Code (HGB)

Pursuant to § 315a of the German Commercial Code (HGB) a group required to prepare its consolidated financial statements in accordance with international accounting standards must also make the following information available in the notes:

§ 313 (2)(1) HGB:
The names and registered offices of the companies included in the consolidated financial statements. The share in capital of subsidiaries which is attributable to the parent company, and the subsidiaries included in the consolidated financial statements. See Notes to the companies included in the consolidation.

§ 314 (1)(4) HGB:
The average number of employees in the companies included in the consolidation during the financial year and the personnel expenses incurred in the financial year. See Notes to personnel expenses.

§ 314 (1)(6) and § 314 (2) sentence 2 HGB:
The total remuneration paid during the financial year to the members of the management board, the supervisory board, any advisory boards or similar executive bodies of the parent company, declared for each group of persons in respect of their duties carried out on behalf of the parent company and the subsidiaries. In addition to remuneration for the financial year, any other remuneration granted but not paid and disclosed in any consolidated financial statements must be disclosed. See Notes to executive bodies of the company.

§ 314 (1)(8) HGB:
Each listed company included in the consolidated financial statement which has issued a statement of compliance as required under § 161 of the German Companies Act (AktG) and has made this available to shareholders. See Notes to the Corporate Governance Code.

§ 314 (1)(9) HGB:
Where the parent company operates in an organised market in the sense of § 2(5) of the German Securities Trading Act (WpHG), disclosure must be made of the amount of fees paid in the financial year to the auditor of the consolidated financial statements under § 319 (1) sentences 1 and 2 of the German Commercial Code (HGB) for
a. audit of the financial statements,
b. other certification or valuation services,
c. tax advice,
d. other services
provided on behalf of the parent company or a subsidiary. The services provided are disclosed under the Notes to other operating expenses.

Berlin, Germany, 24 October 2008

Marseille-Kliniken AG

The Management Board

Changes in assets
Marseille-Kliniken AG at 30 June 2007

	Historical and production costs						Accumulated depreciation						Book values	
	1 July 2006	Additions	Reclassification	Disposal from deconsolidation	Disposals	30 June 2007	1 July 2006	Additions	Reclassification	Disposal from deconsolidation	Disposals	30 June 2007	30 June 2007	30 June 2006
	€	€	€	€	€	€	€	€	€	€	€	€	€	€
I. Intangible assets														
1. Concessions	1,131,362.16	612,061.12	0.00	0.00	0.00	1,743,423.28	865,341.55	142,756.06	0.00	0.00	0.00	1,008,097.61	735,325.67	266,020.61
2. Software	8,265,462.30	1,558,141.07	0.00	0.00	56,865.03	9,766,738.34	4,389,342.52	1,270,170.13	0.00	0.00	41,462.39	5,618,050.26	4,148,688.08	3,876,119.78
3. Goodwill	28,452,578.50	259,219.57	0.00	0.00	0.00	28,711,798.07	0,00	0.00	0.00	0.00	0.00	0.00	28,711,798.07	28,452,578.50
	37,849,402.96	**2,429,421.76**	**0.00**	**0.00**	**56,865.03**	**40,221,959.69**	**5,254,684.07**	**1,412,926.19**	**0.00**	**0.00**	**41,462.39**	**6,626,147.87**	**33,595,811.82**	**32,594,718.89**
II. Property, plant & equipment														
1. Real estate	227,735,248.68	106,965.71	9,060,942.26	0.00	71,093,033.47	165,810,123.18	72,743,278.60	2,204,605.22	0.00	0.00	23,921,195.15	51,026,688.67	114,783,434.51	154,991,970.08
2. Finance lease	31,680,348.58	0.00	0.00	0.00	0.00	31,680,348.58	7,943,174.83	1,355,347.84	0.00	0.00	0.00	9,298,522.67	22,381,825.91	23,737,173.75
3. Plant and machinery	2,744,965.45	220,526.46	0.00	0.00	311,588.36	2,653,903.55	2,289,253.30	214,512.32	0.00	0.00	291,174.82	2,212,590.80	441,312.75	455,712.15
4. Furniture and office equipment	50,002,494.16	2,110,029.23	0.00	0.00	2,031,936.30	50,080,587.09	36,829,270.77	3,955,505.98	0.00	0.00	3,681,955.03	37,102,821.72	12,977,765.37	13,173,223.39
5. Deposits paid and construction in progress	3,708,334.54	617,236.52	647,993.18	0.00	2,963,898.95	2,009,665.29	539,272.68	182,040.51	0.00	0.00	571,942.38	149,370.81	1,860,294.48	3,169,061.86
	315,871,391.41	**3,054,757.92**	**9,708,935.44**	**0.00**	**76,400,457.08**	**252,234,627.69**	**120,344,250.18**	**7,912,011.87**	**0.00**	**0.00**	**28,466,267.38**	**99,789,994.67**	**152,444,633.02**	**195,527,141.23**
III. Non-current assets held for sale	**9,708,935.44**	**0.00**	**–9,708,935.44**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**9,708,935.44**
IV. Other long-term assets														
Shares in affiliated companies	1,973,210.62	0.00	0.00	0.00	1,973,210.62	0.00	509,213.86	0.00	0.00	0.00	509,213.86	0.00	0.00	1,463,996.76
Investments	132,912.58	70,100.00	0.00	0.00	0.00	203,012.58	41,999.00	0.00	0.00	0.00	0.00	41,999.00	161,013.58	90,913.58
Recognised pension requirements	2,568,356.22	0.00	0.00	0.00	393,644.16	2,174,712.06	0.00	0.00	0.00	0.00	0.00	0.00	2,174,712.06	2,568,356.22
Other financial assets	1,076,596.62	0.00	0.00	0.00	294,499.78	782,096.84	0.00	0.00	0.00	0.00	0.00	0.00	782,096.84	1,076,596.62
	5,751,076.04	**70,100.00**	**0.00**	**0.00**	**2,661,354.56**	**3,159,821.48**	**551,212.86**	**0.00**	**0.00**	**0.00**	**509,213.86**	**41,999.00**	**3,117,822.48**	**5,199,863.18**
Total	**369,180,805.85**	**5,554,279.68**	**0.00**	**0.00**	**79,118,676.67**	**295,616,408.86**	**126,150,147.11**	**9,324,938.06**	**0.00**	**0.00**	**29,016,943.63**	**106,458,141.54**	**189,158,267.32**	**243,030,658.74**

Changes in assets
Marseille-Kliniken AG at 30 June 2008

	Historical and production costs						Accumulated depreciation						Book values	
	1 July 2007	Additions	Reclassification	Disposal from deconsolidation	Disposals	30 June 2008	1 July 2007	Additions	Reclassification	Disposal from deconsolidation	Disposals	30 June 2008	30 June 2008	30 June 2007
	€	€	€	€	€	€	€	€	€	€	€	€	€	€
I. Intangible assets														
1. Concessions	1,743,423.28	1,582.00	0.00	0.00	0.00	1,745,005.28	1,008,097.61	142,765.31	0.00	0.00	0.00	1,150,862.92	594,142.36	735,325.67
2. Software	9,766,738.34	1,179,294.98	0.00	81,045.10	0.00	10,864,988.22	5,618,050.26	1,412,219.02	0.00	73,281.37	0.00	6,956,987.91	3,908,000.31	4,148,688.08
3. Goodwill	28,711,798.07	57,032.85	0.00	0.00	0.00	28,768,830.92	0.00	303,000.00	0.00	0.00	0.00	303,000.00	28,465,830.92	28,711,798.07
4. Deposits paid and construction in progress	0.00	35,789.92	0.00	0.00	0.00	35,789.92	0.00	0.00	0.00	0.00	0.00	0.00	35,789.92	0.00
	40,221,959.69	**1,273,699.75**	**0.00**	**81,045.10**	**0.00**	**41,414,614.34**	**6,626,147.87**	**1,857,984.33**	**0.00**	**73,281.37**	**0.00**	**8,410,850.83**	**33,003,763.51**	**33,595,811.82**
II. Property, plant & equipment														
1. Real estate*	168,447,434.18	6,745,279.81	13,395.90	0.00	2,476.60	175,203,633.29	51,026,688.67	2,957,092.55	0.00	0.00	144.00	53,983,637.22	121,219,996.07	117,420,745.51
2. Finance lease*	29,043,037.58	0.00	0.00	0.00	29,043,037.58	0.00	9,298,522.67	1,351,210.28	0.00	0.00	10,649,732.95	0.00	0.00	19,744,514.91
3. Plant and machinery	2,653,903.55	19,876.18	0.00	0.00	0.00	2,673,779.73	2,212,590.80	92,025.86	0.00	0.00	0.00	2,304,616.66	369,163.07	441,312.75
4. Furniture and office equipment	50,080,587.09	2,775,946.16	90,957.29	369,973.21	1,621,647.45	50,955,869.88	37,102,821.72	2,318,261.19	0.00	347,435.95	1,273,457.62	37,800,189.34	13,155,680.54	12,977,765.37
5. Deposits paid and construction in progress	2,009,665.29	6,385,383.72	-104,353.19	0.00	881,129.74	7,409,566.08	149,370.81	182,040.52	0.00	0.00	0.00	331,411.33	7,078,154.75	1,860,294.48
	252,234,627.69	**15,926,485.87**	**0.00**	**369,973.21**	**31,548,291.37**	**236,242,848.98**	**99,789,994.67**	**6,900,630.40**	**0.00**	**347,435.95**	**11,923,334.57**	**94,419,854.55**	**141,822,994.43**	**152,444,633.02**
III. Other long-term assets														
Investments	203,012.58	0.00	0.00	42,000.00	25,000.00	136,012.58	41,999.00	0.00	0.00	41,999.00	0.00	0.00	136,012.58	161,013.58
Recognised pension requirements	2,174,712.06	0.00	0.00	0.00	72,305.32	2,102,406.74	0.00	0.00	0.00	0.00	0.00	0.00	2,102,406.74	2,174,712.06
Other financial assets	782,096.84	217,489.51	0.00	0.00	722,888.64	276,697.71	0.00	0.00	0.00	0.00	0.00	0.00	276,697.71	782,096.84
	3,159,821.48	**217,489.51**	**0.00**	**42,000.00**	**820,193.96**	**2,515,117.03**	**41,999.00**	**0.00**	**0.00**	**41,999.00**	**0.00**	**0.00**	**2,515,117.03**	**3,117,822.48**
Total	**295,616,408.86**	**17,417,675.13**	**0.00**	**493,018.31**	**32,368,485.33**	**280,172,580.35**	**106,458,141.54**	**8,758,614.73**	**0.00**	**462,716.32**	**11,923,334.57**	**102,830,705.38**	**177,341,874.97**	**189,158,267.32**

* In the past, finance leases included € 2.6 million of property, plant and equipment, leaseholds and buildings which were disclosed during disposals from finance leases at 30 June 2008, meaning that a reclassification into property, plant and equipment was necessary. Moreover, additions to property, plant and equipment also include historical acquisition costs in the amount of € 1.2 million which had not been correctly disclosed.

Balance sheet oath

"We confirm that, to the best of our knowledge and in accordance with the applicable accountancy principles, the consolidated financial statements to 30 June 2008 give a true and fair view of the asset situation, financial position and profitability of the Group, and that the 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.

Axel Hölzer Chairman of the Management Board Marseille-Kliniken AG	Peter Paul Gardosch von Krosigk Management Board member Marseille-Kliniken AG

Auditors' report

We have issued the following unqualified reports signed in Hamburg on 29 October 2008 about the versions of the annual accounts and Group annual accounts, the combined management report about the company and the Group prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, for the financial year that began on 1 July 2007 and ended on 30 June 2008 that are enclosed with this report as Appendices I (management report), II (annual accounts) and III (Group annual accounts):

Marseille-Kliniken AG:

"We have audited the annual accounts - consisting of the balance sheet, profit and loss account and notes - including the bookkeeping records and the management report about the company and the Group prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, for the financial year that began on 1 July 2007 and ended on 30 June 2008. The company's legal representatives are responsible for keeping the bookkeeping records and for compiling the annual accounts and the management report about the company and the Group in accordance with the regulations specified by German commercial law. Our assignment is to make a judgement about the annual accounts (including the bookkeeping records) and the management report about the company and the Group on the basis of the audit we have completed.

We have made our audit of the annual accounts in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors (IDW). According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the annual accounts (in compliance with the principles of proper bookkeeping) and by the management report about the company and the Group are identified with sufficient certainty. Information about the company's business operations and its economic and legal environments as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the bookkeeping records, the annual accounts and the management report about the company and the Group are checked mainly by taking random samples in the course of the audit. The audit consists of an analysis of the accounting principles applied and of the main elements of company management by the legal representatives as well as an evaluation of the overall presentation of the annual accounts and the management report about the company and the Group. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised.

On the basis of the findings of the audit, we conclude that the annual accounts comply with the legal regulations and the principles of proper bookkeeping and provide an accurate and true picture of the asset situation, financial position and profitability of the company. The management report about the company and the Group is consistent with the annual accounts, gives an appropriate overall description of the situation of the company and presents the possible future opportunities and risks in an accurate way.

Without qualifying this report, we draw attention to the following:
The intrinsic value of the investment book values shown in the rehabilitation section of the individual financial statements of MK AG, a significant portion of receivables from affiliated companies (particularly rehabilitation facilities and also start-up facilities in the nursing sector) and the assets connected to the rehabilitation division in the consolidated financial statements are dependent on the realisation of planned measures. In the combined management report about the company and the Group, the Management Board pointed out accurately in this context, for example in the "Risk report" section, that maintenance of the value of the committed assets of the rehabilitation division depends on the correctness of the planning assumptions on which the valuation has been based."

Marseille-Kliniken Group:

"We have audited the Group annual accounts - consisting of the balance sheet, profit and loss account, equity schedule, statement of cash flow and notes - prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, as well as the management report about the company and the Group for the financial year that began on 1 July 2007 and ended on 30 June 2008. The company's legal representatives are responsible for compiling the Group annual accounts and the management report about the company and the Group in accordance with the IFRS that have to be applied in the EU and the additional regulations specified by commercial law that have to be applied in accordance with § 315a Paragraph 1 of the German Commercial Code (HGB). Our assignment is to make a judgement about the Group annual accounts and the management report about the company and the Group on the basis of the audit we have completed.

We have made our audit of the Group annual accounts in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors (IDW) as well as the International Standards on Auditing (ISA). According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the Group annual accounts (in compliance with the accounting regulations that have to be applied) and by the management report about the company and the Group are identified with sufficient certainty. Information about the Group's business operations and its economic and legal environments as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the Group annual accounts and the management report about the company and the Group are checked mainly by taking random samples in the course of the audit. The audit consists of an analysis of the annual accounts of the companies included in the Group annual accounts, of the specification of the companies consolidated, of the accounting and consolidation principles applied and of the main elements of company management by the legal representatives as well as an evaluation of the overall presentation of the Group annual accounts and the management report about the company and the Group. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised.

On the basis of the findings of the audit, we conclude that the Group annual accounts comply with the IFRS that have to be applied in the EU and the additional regulations specified by commercial law that have to be applied in accordance with § 315a Paragraph 1 of the HGB and provide an accurate and true picture of the asset situation, financial position and profitability of the Group while observing these regulations. The management report about the company and the Group is consistent with the Group annual accounts, gives an appropriate overall description of the situation of the Group and presents the possible future opportunities and risks in an accurate way.

Without qualifying this report, we draw attention to the information provided by the Management Board in the combined company and Group management report, where it is pointed out in the "Risk report" section that maintenance of the value of the committed assets of the rehabilitation division depends on the correctness of the planning assumptions on which the valuation has been based."

We have submitted the above report in compliance with the legal regulations and the principles of proper company and Group audit reporting.

Hamburg, Germany, 29 October 2008

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

ppa. Baier Auditor	zu Inn- u. Knyphausen Auditor

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5-year summary

Group IFRS (until 2003|2004 German GAAP)		2007|2008	2006|2007	2005|2006	2004|2005	2003|2004
Results						
Operating sales	€ m	228.1	214.8	210.4	201.5	200.1
Cost of materials	€ m	30.1	27.4	31.1	30.0	27.6
Personnel ex™penses	€ m	119.3	114.0	106.7	104.5	105.1
Depreciation	€ m	8.8	9.3	13.1	14.8	24.4
Net Group profit/loss for the year	€ m	13.8	9.1	9.7	6.3	-12.9
EBIT *	€ m	17.5	20.2	19.4	24.3	17.1
EBITDA *	€ m	25.3	28.9	30.9	37.4	31.4
EBITDAR *	€ m	62.6	61.8	58.0	55.5	53.4
EBIT margin *	%	7.7	9.4	9.2	12.0	8.6
ROS	%	4.9	4.9	4.4	4.4	3.7
DVFA/SG result	€ m	11.2	10.5	9.3	8.9	7.5
Gross cash flow *	€ m	12.2	23.0	27.5	23.5	17.9
Cash flow from current business operations	€ m	49.6	-2.5	21.1	19.1	19.1
Cash flow from investment activities	€ m	1.1	-7.6	89.5	29.9	-12.0
Balance sheet						
Fixed assets	€ m	177.3	189.2	243.0	332.8	328.0
Investments in tangible assets	€ m	17.2	5.5	9.3	21.3	10.1
Working capital	€ m	20.1	26.4	25.7	18.2	16.3
Investments in financial assets	€ m	0.2	0.1	0.6	0.1	1.1
Other key indicators						
Dividend	€ m	3.0	3.0	3.0	4.9	4.8
Dividend yield	%	2.9	1.4	2.9	3.9	4.8
Number of shares	Million	12.15	12.15	12.15	12.15	12.15
Market capitalisation	€ m	103.3	212.6	191.4	125.1	100.7
Return on equity **	%	13.4	14.7	13.9	14.3	11.5
Return on total assets	%	4.7	3.4	2.9	2.2	2.0
Year-end share price	€	8.50	17.50	15.75	103.30	8.29
Personnel expenses ratio	%	52.3	53.1	50.7	51.9	52.5
Adjusted cost of materials ratio	%	13.2	12.7	14.8	14.9	13.8
DVFA/SG earnings per share	€	0.93	0.86	0.76	0.73	0.62
Gross cash flow per share	€	1.00	1.89	2.26	1.93	1.47
Employees	Average number	5,309	5,139	4,858	4,520	4,380
Facilities	Number	65	63	62	60	58
Bed capacity	Number on 30.06.08	8,899	8,765	8,703	7,573	7,512
Occupancy rate ***	%	92.4	89.7	88.2	87.5	90.0

** taking DVFA/SG adjustment items into account

*** DVFA result/Group shareholders' equity

**** excluding the facilities that started operation: Hamburg, Berlin, Schömberg, Potsdam and Düsseldorf II

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