CURANUM

Gute Pflege hat ein Zuhause.

Consolidated financial statements 2007

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Group Management Report
for the 2007 financial year
of CURANUM AG, Munich

1. Group business progress in 2007

With 9,281 care units, comprising 7,651 care places and 1,630 managed apartments, the CURANUM Group is Germany's third largest private operator of care homes, and Germany's largest stock market listed care operator. Our core competency is to provide care on an inpatient, short-term, and outpatient basis, as well as the provision of related services such as catering, cleaning, and laundry services to residents of our care homes and managed apartments. With its Group headquarters in Munich, and 67 senior citizen and care facilities across the whole of Germany, CURANUM combines the expertise and quality of its care services with a commercial and competitive structure. Our aim is to play a leading role in the growing market for care services, and to actively structure the process of consolidation in the sector. We are expanding through taking over existing care operations, and through opening new facilities. We wish to become a full service-provider for senior citizens and those in need of care, offering related services with competitive products ranging from outpatient care, through partial and full inpatient care, all the way through to medical attention. In doing so, we are concentrating exclusively on the value-creation chain surrounding care. The rehabilitation and acute area is not part of our core competency. In geographic terms, we are focusing on the market in Germany, which will also offer numerous opportunities for further expansion over the upcoming years.

In 2007, we worked further on the integration of the Westfalen Group (Dr. Lohbeck Group), which was acquired in January 2006, and on the Fazit Group, which was acquired in September 2006. The focus of activities at the Fazit Group was on reorganization in the areas of kitchens, cleaning, and laundry, whereas at the Westfalen Group we implemented quality-improvement and specialization concepts.

After managing problems relating to volumes, our central laundry expanded as planned in the third quarter to include the remaining facilities, which allowed the utilization rate to rise further. In April 2007, we opened the CURANUM Seniorenpflegezentrum Bad Lauterberg in the Harz region, not far from our facilities in Wolfenbüttel and Vienenburg. Occupancy started only hesitantly, at a level far below our expectations, particularly since we had expected one local public sector facility to be closed. We have caught up at this location in the meantime, and we expect occupancy to rise rapidly this year. Group-wide occupancy in our facilities remained stable last year at around 90%, with a greater level of competition being particularly noticeable.

On November 26, 2007, we announced the takeover of ELISA Seniorenstift GmbH, which has been owned by the CURANUM Group since January 1, 2008. With 435 care places and 755 managed apartments, the ELISA Group will contribute around EUR 34 million of revenue to the CURANUM Group.

At the end of the business year, we sold the Großalmerode operation with 88 care places in North Hesse. This disposal was prompted by the lack of opportunity to create a cluster, as well as the forthcoming expiry of the rental contract, which could not be extended. The disposal of the Großalmerode care facility will result in the loss of around EUR 2.6 million of revenue this year.

In 2008, we failed to reach the earnings targets we set in early 2007. We had already communicated this fact in the half-year report. While Group revenue of EUR 230.1 million corresponded to our budgets, EBITDA of EUR 30.7 million failed to reach the targets we budgeted early in the year.

2. Macroeconomic development

Macroeconomic development in Germany in 2007 was characterized by a slowdown in growth, which became more pronounced from quarter to quarter during the course of the year. Whereas GDP was still growing at a rate of 3.4% in the first quarter (previous year: 3.4%), it had slowed to 1.6% by the fourth quarter (previous year: 3.7%). In overall terms, GDP in 2007 grew 2.5% (previous year: 2.9%), and was consequently the second year in a row characterized by a high growth of a level not witnessed since German reunification. The number of gainfully employed persons rose by 649,000 (+1.7%) to an annual average of 39.7 million. Conversely, the number of unemployed fell 641,000 (-15.1%) to 3.6 million. The favorable economic environment consequently had an impact on the labor market.

The export surplus was the strongest growth-driver. This alone contributed 1.4 percentage points to GDP growth. Domestically too, it was industry that made the main contribution to growth via equipment spending. As far as consumption was concerned, state spending rose 2.0%, whereas private consumption declined 0.3% year-on-year in real terms. The marked reticence with regard to spending was reflected in a further rise in the savings ratio to 10.8% (previous year: 10.5%). Besides a moderate increase in the available incomes of private households, this was due to continued uncertainty about pensions, health and care insurance, as well as the marked increase in inflation.

This continues to feed through to a detectable reticence relating to demand for inpatient and outpatient care, although lower unemployment should in fact result in fewer substitution effects.

3. Developments within the sector

Reform of care insurance and the Act concerning the Further Development of Care

Following extensive coalition negotiations, the Federal Cabinet launched the reform of care on October 17, 2007. The aim is to implement the planned modifications from July 1, 2008. Among other things, they are aimed at taking better account of the help and care requirements of people suffering from dementia, supporting the rehabilitation and prevention efforts made on the part of those requiring care, as well as to orienting services to people's more individual requirements.

The objective is to raise both fixed amounts for outpatient care, and benefits for at-home care rendered by relatives, on a gradual basis up to 2012. Depending on care level, the increase is intended to amount to between EUR 66 and EUR 179 monthly for outpatient care, and between EUR 30 and EUR 35 monthly for care benefit. Whether this could even begin to do justice to the higher costs must be a matter of doubt. It should be noted that the existing amounts have not been raised for 12 years, whereas costs have seen major increases.

This is why the increase in rates for outpatient care, and care benefits, will have hardly any effects on the decision whether care is performed at home by relatives or within an institution. Experience shows the decisive factors are the intensity of the care required, and the related care expense, as well as the possibility and willingness on the part of relatives to perform care at home.

Inpatient care benefits-in-kind for those in significant need of care (Care Level I) and those in extreme need of care (Care Level II) are for the time being unaffected, and will be neither adjusted nor reduced. Care Level III for those most in need of care is being raised from EUR 1,432 to EUR 1,550, and hardship cases will receive EUR 1,918 by 2012, instead of currently EUR 1,688 per month.

It is intended that the downwards reclassification of a person in need of care to the lower level on the basis of particularly good care, will in future be remunerated with a one-off amount of EUR 1,536. This is welcome given the system error that punishes downwards recategorization due to good care with lower remuneration.

The aim is also that the additional amount for persons suffering from dementia should be raised to an annual EUR 2,400, including for insured persons not categorized in Care Level 1. In addition, individuals who do not have significant care requirements, but nevertheless need looking after to an advanced extent, will receive the amount. This means the definition of "being in need of care" has now been extended to include physical ageing illnesses such as dementia, which reflects the significant care expense that has so far been incurred but not reimbursed. Most dementia illness has so far not been categorized until physiological deficits have arisen.

All higher care insurance payments are paid directly to the insured person in need of care, and are not directly connected with the prices being negotiated, which care institutions are entitled to invoice. For this reason, the positive effects for the operators are expected to take effect on only a delayed basis through higher demand for professional care, particularly for those suffering from dementia.

The long-awaited dynamization of payments in line with the rate of inflation has been postponed to the year 2015. In other words, the share of recipients of social security will rise further, and consequently also the transfer of refinancing from care insurance to local authorities.

In order to finance the anticipated additional expenditures, the contribution rate will be raised by 0.25% to 1.95% for people with children, and to 2.20% for the childless employed, from July 1, 2008.

The Act concerning the Further Development of Care, which was approved by the Lower House of the German Parliament on March 14, 2008, and which will also come into force on July 1, 2008, envisages further reform steps to relieve the burden on those in need of care and their families. Related discussions concerned the introduction of a care period of six months for employees in companies employing more than ten people, the expansion of quality assurance through publication of the examination reports of the Medical Service of the Health Funds (MDK) in "understandable language" for the citizen, as well as the comprehensive introduction of flexible staffing ratios. In addition, it is intended that the Länder will approve the introduction of care support points to provide help for those in need of care, and their families, when searching for outpatient and inpatient care. In future it will be permitted to employ one doctor per care facility.

Care insurance and clinical pictures

The demographic increase in the number of persons of very advanced age will continue to ensure rising demand for care places in future, and consequently a growing market for care services. However, it is not only demography and socio-economic changes that feed through to rising demand for care places. According to a recent study produced by the Fritz Beske Institute in Kiel, demand for care places will rise by 150% over the next 40 years. The most important illnesses in this respect will be, for example, diseases relating to the circulatory system, with cases requiring treatment rising 67.3% by 2050, or cases of those suffering from diabetes mellitus, the frequency of which is forecast to grow by 29.4%, as well as dementia. In particular, the number of those suffering from dementia will rise sharply from 0.9 million in 2000 to 2 million cases in 2050.

The consequences of these illnesses (e.g. immobilization as the consequence of a stroke, loss of orientation in the case of dementia) will feed through to significantly higher demand for full inpatient care. This means that care insurance benefit spending will rise from around EUR 16 billion in 2000 to around EUR 38 billion in 2050, representing an increase of 134%. These figures do not include auxiliary care materials and measures relating to the supply of the residential environment. Care costs for a person employed today will rise by almost 240% by 2050 compared with the year 2000. Full inpatient care today already represents by far the largest cost block within care insurance.

Raising care insurance contributions intermittently will be insufficient to finance these costs in the future. Experts estimate that, in order to maintain the current system, the contribution rate will need to rise to at least 7% by 2045 to finance the same level of benefits. In order to achieve this, politicians have proposed a number of different ways to introduce a capital-covered system. This would lead to a major burden for current benefit contributors. It will not be introduced by any government as a consequence. Also, no German politician has so far dared approach greater deregulation of the effective "One Class System", although trends towards a softening of stance already exist at the Land level.

Neither the reform of care insurance nor the Act concerning the Further Development of Care makes a contribution to solving the financing problem. The general expectation is that a new attempt will not be made until after the Lower House German Parliament elections in 2009, since any effective reform of care financing in Germany will bring about further costs for the population.

Care sector's image in need of improvement

The image of care facilities in Germany has depreciated once again. According to a survey conducted by the "Altenpflege-Monitor" in 2007, only 8% of those surveyed would use the services of an inpatient care facility. However, alternative residential and living forms are also not very popular. According to the survey conducted in 2007, only 10% of the 494 people surveyed selected care in a self-organized residential community, while care at home administered by outpatient care service was selected by 35%.

When a comparison is made of the quality of inpatient care facilities in Germany, there are enormous differences despite heavy regulation of the personnel structure, and regular inspections. What is interesting in this respect, however, is that there is no correlation between price and quality, and there is currently also no transparency with respect to the quality of care.

With the reform of care, and the Act concerning the Further Development of Care, the legislator is now aiming to make the care market more transparent in terms of quality and performance. Among other things, it is intended that the inspection reports of the Medical Service of the Health Funds (MDK) should be published on the Internet to allow the services of individual facilities to be compared, and to make it easier for interested parties to reach decisions. The intention is that the report should be presented in a manner that is comprehensible, comprehensive, possible to verify, and approachable.

Above and beyond this, the medical services are working across the Länder on a transparency project: the aim is that those seeking a place in a home will be able to tell at a glance how the quality in a preferred institution compares with all the facilities in the neighboring region that have been inspected. The aim is also to make satisfaction surveys and detailed evaluations possible. The plan is to present this concept in Berlin in 2008. The aim is to define and set the criteria for the publication of the MDK inspection reports by December 31, 2008 at the latest.

We regard creating greater transparency of care as indispensable, in order to give customers the possibility of differentiating between good and bad facilities, and to allow them to inform themselves in advance about the quality of local care facilities. This is the only way to sort out the black sheep in the long term, and to give inpatient care a better image among the general public.

Care support points

It is intended that not only the quality of care will change in the future, but also the structure of care. As a result of the approval on March 14, 2008 by the Lower House of the German Parliament of the Act concerning the Further Development of Care, the aim is to provide support for care consulting at so-called care support points. The aim is that consultants employed at public healthcare funds will provide advice to those interested in analyzing care requirements, and help them arrive at decisions regarding the granting or declining of benefits. Care insurance will provide a related budget totaling EUR 60 million. As a result of the lack of unanimity in the Grand Coalition, implementation is now being left to the Länder. Many experts doubt the expediency of these additional advice points, particularly since advice is already now given by the service-providers themselves, and the independence of the support points will presumably not be assured in any case.

Doctors in care homes

The care reform that has been passed has also brought the subject of doctors in care homes back into focus. In principle, we greet the local medical attention of care home residents by in-house doctors, or medical care centers attached to homes. However, the question as to how this will be specifically implemented remains open. According to the Berlin Model, which was implemented as early as 1998, a doctor is employed directly in the facility, or as a local doctor has entered into an agreement with the home. As far as costs go, the figures speak for themselves: according to information provided by the ZDF German television station, EUR 600 million could be saved per year were this model to be introduced across the whole of Germany.

We are already one step further with our model of centralized medical supply centers (MVZ's) located within major clusters. Statutory requirements to employ doctors in care homes fit with this approach.

Prohibition on third-party and multiple ownership of pharmacies under scrutiny

According to a report in the Handelsblatt newspaper on February 4, 2008, the European Commission has launched breach of contract proceedings against Germany. The first matter being scrutinized by the authorities in Brussels is the prohibition on multiple ownership. This prohibits pharmacies in Germany from operating more than five branches. This initiative on the part of the Commission puts the traditional German model of the single-standing pharmacy under further pressure. The German government was already required to answer questions at the European Court of Justice in the summer of 2007 regarding the prohibition on third-party ownership. This prohibits non-pharmacists from operating pharmacies in Germany.

The case pending in Luxembourg was prompted by the approval for a Dutch mail order pharmacy organized as a corporation to open a branch in Saarbrücken. The European Court of Justice is due to reach a decision prospectively in the early summer of 2008. This would also facilitate our pharmacy concept, which is still in its starting phase.

Greater cost pressure leads to rise in insolvency rate

The cost of living in 2007 rose significantly faster than in the previous year. The strong global economy, and particularly the high growth in emerging economies, generated greater demand for energy and foodstuffs, which fed through to higher inflation in Germany. Besides the increase in VAT, this meant further cost increases without comparable price adjustments for care operators. Price adjustments have occurred to only a limited extent in the last three years due to a restrictive approach on the part of social cost-providers, and to greater competition, which is why the spread between costs and revenues widened even more than usual last year. This pushed many small or commercially weak operators towards insolvency or the prior sale of operations. They were unable to compensate for this cost development through greater synergies or economies of scale. This trend was very noticeable, particularly in the second half of 2007. Numerous facilities, owned by both private and charitable operators, were offered for sale on the market.

Further intensification of competition; consolidation phase accelerates

Competition in the care market also intensified in 2007 as a result of numerous new openings. Despite an overhang of supply, and low levels of occupancy at existing facilities, new facilities were opened at many locations. This served to further intensify the crowding-out effect already underway. The consequences included lower utilization rates, and, along with greater cost pressure, further declines in marginal profits at weak operators. In overall terms, what could be observed was an acceleration of consolidation in the care market, characterized by new openings and takeovers by large, financially powerful operators, as well as market exits and sales of smaller, commercially weak operators.

4. Financial position and investments

Cash flow

Cash flow from operating activities fell from EUR 15.8 million to EUR 10.5 million in 2007, mainly due to rental prepayments, and reclassifications to accrued items and other receivables and liabilities. Gross cash flow, when considered before changes in net current assets and provisions, rose from EUR 18.6 million in 2006 to EUR 19.3 million in 2007, despite lower operating earnings.

Cash flow from investment activities of EUR 9.1 million (previous year: EUR 25.7 million) in 2007 was mainly composed of reconstruction costs for the facility in Bad Lauterberg (EUR 3.2 million) and Bad Schwartau (EUR 1.6 billion), investments in our laundry (EUR 1.3 million) and replacement purchases (EUR 1.5 million), as well as a pre-payment for the purchase of ELISA Seniorenstift GmbH (EUR 1.1 million).

Although cash flow from financing activities of EUR 15.1 million in 2007 was somewhat lower than in 2006 (EUR 16.9 million), financing measures were significantly more extensive. Whereas cash flow from financing activities in 2006 was mainly characterized by the utilization of overdrafts (EUR 10.4 million), loans and overdrafts of EUR 13.4 million were repaid in 2007. The capital increase generated a cash inflow of EUR 22.2 million, and the borrower's note loan contributed EUR 29.8 million. This was offset by outgoing payments for finance leasing of EUR 7.9 million, the dividend distribution of EUR 3.3 million, and the repayment of the 1997 convertible bond of EUR 12.3 million.

The overall cash position increased from EUR 9.1 million to EUR 25.6 million as of December 31, 2007.

Capital increase and repayment of convertible bond

The Management Board of CURANUM AG passed a resolution on May 4, 2007 to utilize its authorization to make a capital increase from approved capital, and, with the approval of the Supervisory Board, to increase the issued share capital against cash contributions and excluding subscription rights. This allowed the issued share capital to be increased to EUR 32.66 million through the issue of 2,960,000 new ordinary shares. The issue price was EUR 7.73. This equates to a total cash inflow of EUR 22.2 million after costs. The new shares were subscribed for by a private investment company.

Equity rose as a result of the capital increase from EUR 38.6 million to EUR 62.5 million, with subscribed capital rising by EUR 2.96 million, in line with the number of new shares.

Borrower's note loan

CURANUM AG issued a borrower's note loan of EUR 30 million with a five-year term at the end of 2007 in order to refinance the purchase price of Elisa Seniorenstift GmbH, and to create further flexibility for future acquisitions. The borrower's note loan, which was arranged by WestLB AG together with Kreissparkasse Köln, encountered major investor demand despite a difficult market environment and the forthcoming year-end. The transaction was oversubscribed, which is why the total volume of the borrower's note loan was increased from originally EUR 25 million to EUR 30 million. The notes were placed successfully with nine investors. This allows CURANUM AG to secure favorable terms in the debt capital markets, and boosts its long-term planning and financing security.

Investments and reorganizations

In 2007, the Group spent around EUR 1.9 million on the maintenance of its facilities. We spent around EUR 1.6 million on the reconstruction and reorganization of the Seniorenresidenz Geertz property in Bad Schwartau. The reconstruction and creation of the Bad Lauterberg care centre for the elderly cost around EUR 3.2 million. As part of the inclusion of further care facilities in our central laundry in Kaisersesch, we invested EUR 1.3 million, predominantly in pool linen, in other words, bed sheets, hand towels etc. We spent a total of EUR 20.6 million on the acquisition of the facilities of ELISA Seniorenstift GmbH.

New openings, sales, acquisitions

New opening in Bad Lauterberg

On April 1, 2007, we opened the care centre for the elderly in Bad Lauterberg in the Harz region with 121 full-time inpatient care places, and 18 managed apartments. The facility's location fits optimally into our cluster strategy, and supplements the existing cluster that includes our care homes for the elderly in Vienenburg and Wolfenbüttel.

Sale of the operation in Großalmerode

CURANUM AG sold the operating facility in Grossalmerode as of December 31, 2007. This will lead to the discontinuation of EUR 2.6 million of revenue, and of around EUR 0.4 million of EBITDA, in the 2008 financial year. It was advantageous for CURANUM AG to sell the operation on profitable terms due to the lack of an opportunity to integrate it into an existing cluster, and due to the expiry of the rental agreement.

Acquisition of ELISA Seniorenstift GmbH

In 2007, we continued our strategy of acquiring seven to eight facilities per year. The purchase agreement for ELISA Seniorenstift GmbH and ELISA Seniorenstift Aschaffenburg GmbH with a total of six facilities for the elderly was signed on November 26, 2007. The transfer took place on January 1, 2008. The six facilities in Aschaffenburg, Frechen, Herne, Hilden, Cologne, and Ulm with a total of 435 care places and 755 managed apartments with adjacent outpatient services generated revenue of EUR 34.2 million and EBITDA operating earnings of EUR 2.4 million.

CURANUM acquired the operation of the facilities, including a cash position of around EUR 3 million as well as a property with a value of around EUR 7 million (including an encumbrance of EUR 4.8 million), for a total price of EUR 20.6 million.

The geographical location of the ELISA facilities allowed us to integrate them into CURANUM AG's existing cluster system, and to realize related synergy effects through the bundling of secondary services.

5. Revenue and earnings

Consolidated revenue rose 6.6% in 2007 to EUR 230.1 million (previous year: EUR 215.7 million). The increase in revenue was primarily attributable to the full-year integration of the Fazit Group, and of the Armbrustergasse senior citizens' home in Vienna. Of the total consolidated revenue in 2007, 92.2% was from inpatient care services and related services, 5.1% was from a company generating rental income from managed apartments and outpatient services, and other revenue generated 2.7%.

Production costs rose faster than revenue in 2007, from EUR 177.1 million to EUR 192.7 million, representing an 8.8% increase. The gross margin consequently fell from 17.9% to 16.3%, and gross profit amounted to EUR 37.4 million in 2007 (previous year: EUR 38.6 million).

Personnel expense within the Group rose from EUR 106.9 million in 2006 to EUR 115.1 million, an increase of 7.7%. This meant the personnel expense ratio amounted to precisely 50.0%, equivalent to a year-on-year rise of 0.4% (49.6%). The main reason for this was the continued conversion of facilities to our central laundry, which employed more personnel as a consequence, as well as higher personnel cost ratios in the feeder house in Bad Lauterberg and in the Vienna facility.

The rental expense rose from EUR 42.4 million to EUR 45.1 million in 2007, reflecting a rate of increase almost exactly in line with revenue (+6.3%). Earnings before interest, tax, depreciation, amortization and rent (EBITDAR) consequently rose from EUR 71.9 million in 2006 to EUR 75.8 million in 2007, which represents an increase of 5.4 %. The EBITDAR margin fell slightly from 33.3% to 32.9%, which continues to represent an operating return well above the sector average.

EBITDA earnings after rental expense rose from EUR 29.5 million to EUR 30.7 million, and the EBITDA margin fell from 13.7% to 13.3% in 2007. Depreciation increased from EUR 6.8 million to EUR 8.6 million in 2007 due to the consolidation of the Fazit Group, the senior citizens' home in Vienna, real estate in Bad Lauterberg and Greiz, and investments in the laundry. Operating earnings (EBIT) fell from EUR 22.8 million in 2006 to EUR 22.2 million.

Last year's interest expense rose from EUR 8.0 million to EUR 9.8 million mainly due to a higher level of loans related to acquisitions, and greater utilization of overdrafts. Interest income fell from EUR 0.8 million to EUR 0.3 million, mainly as a result of consolidation effects, so that the net financial result of EUR -7.2 million widened to EUR -9.4 million. The pre-tax result amounted to EUR 12.7 million in 2007 (previous year: EUR 15.6 million).

After deducting income tax of EUR 4.7 million (2006: EUR 5.5 million), consolidated annual earnings before deferred tax amounted to EUR 8.0 million (previous year: EUR 10.2 million), which corresponds to earnings per share before deferred tax of EUR 0.25. The income tax rate was 37.3%, and was slightly higher than in the previous year (35.0%) due to retrospective tax payments relating to deferred tax.

Due to the adjustment of deferred tax to the lower rate of corporate taxation in the future, we were required to book additional deferred tax of EUR 1.6 million in 2007, so overall deferred tax amounted to EUR 3.1 million. Net profit after deferred tax amounted to EUR 4.9 million in 2007 (previous year: EUR 9.3 million), which corresponds to earnings per share of EUR 0.16 (previous year: EUR 0.31).

Divergence from the budget contained in the 2006 Group Management Report

Group revenue in 2007 fully met our expectations despite a lower level of capacity utilization than planned. The consolidation effect from the full-year inclusion of the Fazit Group and of the facility in Vienna compensated for a level of occupancy in Bad Lauterberg that was below expectations.

However, the cost situation, and consequently also the earnings situation, performed significantly worse than the forecast contained in our budget as of November 9, 2006. This was connected with both a lower level of occupancy than expected in the CURANUM Group, particularly towards the end of the year, and a level of occupancy that was significantly below expectations at the new facility in Bad Lauterberg. Further factors included cost rises in the energy, fuel, and foodstuffs areas, which were not fully compensated through care rate negotiations, as well as excessively high personnel costs in Vienna precipitated by the rapid increase in occupancy. Besides this, a higher interest burden due to uncertainties in the financial markets, and a resultant sharp rise in money market rates, played a role in the development of consolidated earnings for the year. The determination of deferred tax, which did not occur until the third quarter due to the reform of corporate taxation, also reduced after-tax earnings.

6. Asset and capital structure

The year-on-year change in the structure of assets, liabilities, and equity was mainly characterized by the capital increase performed in June 2007, the repayment of the convertible bond at the end of August 2007, and the issue of the borrower's note loan in December 2007. Primarily as a result of these factors, total equity and liabilities increased from EUR 219.9 million to EUR 239.7 million as of December 31, 2007.

The inflow of cash arising from the borrower's note loan, minus the repayment of overdrafts, was responsible for the rise in cash and cash equivalents from EUR 9.1 million in 2006 to EUR 25.6 million at the end of 2007. Other current assets increased from EUR 3.8 million to EUR 7.0 million. The main factors behind this increase were rental prepayments (cash outflows that had already occurred before the reporting data relating to rental payments for the subsequent month), as well as the capitalization of the purchase price receivable for the disposal of the operation in Großalmerode. The property relating to the care facility in Greiz was reclassified from fixed assets to current assets, since a planned sale and leaseback of the property was about to occur as of the reporting date. Current assets overall rose from EUR 20.9 million to EUR 47.9 million, corresponding to a 20% share of total assets.

Property, plant, and equipment fell from EUR 122.7 million to EUR 117.6 million as a result of the reclassification of the property in Greiz. Of this amount, EUR 94.2 million (previous year: EUR 90.4 million) comprised land, buildings, and installations, EUR 20.5 million (previous year: EUR 20.9 million) operating and office equipment, and EUR 2.9 million (previous year: EUR 11.4 million) prepayments rendered and plant under construction. Four leased properties amounting to EUR 35.6 million (previous year: EUR 37.6 million), and operating and office equipment of EUR 8.4 million (previous year: EUR 10.6 million) were capitalized as finance leases.

Deferred tax assets fell from EUR 12.0 million in 2006 to EUR 8.0 million as of December 31, 2007. Other assets rose from EUR 8.9 million to EUR 10.5 million. Overall, non-current assets reduced from EUR 199.0 million to EUR 191.8 million at the end of 2007. They correspond to 80% of total assets.

On the liabilities side of the balance sheet, we reduced current liabilities from EUR 58.0 million to EUR 32.2 million. The reduction of EUR 25.8 million arose mainly from the EUR 12.3 million repayment of the convertible bond, which expired as of August 31, 2007, and a EUR 10.4 million decrease in the utilization of overdrafts. Provisions fell to EUR 2.6 million (EUR 4.1 million), and other liabilities decreased to EUR 17.1 million (previous year: EUR 18.2 million).

By contrast, non-current liabilities rose from EUR 123.3 million in 2006 to EUR 145.0 million, which was mainly due to the issuing of the borrower's note loan to an amount of EUR 30.0 million. In addition, non-current loans already in existence were repaid further, lease liabilities fell from EUR 57.7 million to EUR 54.1 million, and deferred tax was reduced to EUR 6.1 million (previous year: EUR 7.1 million), so that the rise in non-current liabilities amounted to only EUR 21.7 million.

In overall terms, external funding fell to EUR 177.2 million as of the December 31, 2007 reporting date, which corresponds to a reduction of EUR 4.2 million. The external funding ratio consequently declined from 82.5% in 2006 to 73.9% in 2007. When considering solely interest-bearing and lease liabilities, the indebtedness ratio amounted to 61.0% (previous year: 66.3%). Net debt, excluding leasing, fell from EUR 74.2 million in 2006 to EUR 62.1 million.

Equity rose from EUR 38.6 million to EUR 62.5 million mainly as a result of the capital increase, whereby the subscribed capital grew by the arithmetic nominal value of one euro per share for a total of 2,960,000 shares, and the capital reserve increased from EUR 12.8 million to EUR 32.3 million. The negative capital reserve from the previous year of EUR -14.9 million fell by EUR 5.9 million to EUR -9.0 million, which corresponded to the previous year's consolidated earnings (EUR 9.3 million) reduced to reflect the dividend distribution of EUR 3.3 million.

The equity ratio consequently rose from 17.5% in 2006 to 26.1%, and the debt-equity ratio fell from 488% to 284%.

7. Personnel and further training

Staff

The year-average number of employees rose from 4,883 in 2006 to 5,263 in 2007. As of the December 31, 2007 reporting date, the CURANUM Group employed 5,348 staff members (previous year: 5,274), of which 425 were temporary workers and 214 were trainees.

Further training concept

As part of the CURANUM Group's quality management, we offer an extensive program of further training to the entire care staff and management in our facilities. This training concept is revised every year, and adjusted to meet the requirements within CURANUM AG, as well as statutory guidelines and recommendations. The training sessions are held in our facilities, predominantly in groups in accordance with our cluster strategy, and they are conducted by specially trained quality management staff, as well as external experts. For example, training sessions cover the correct care treatment of occupants with risk potential. Such training takes into account current expert standards promulgated by the German Network for Quality Development in Care (Deutsches Netzwerk für Qualitätsentwicklung in der Pflege (DNQP)). Our further training scheme also includes quality-based topics such as outpatient service, regular refresher courses on TQM in general, as well as the training of specialists to treat incontinence, the management of wounds, or nutrition, and training sessions for specialist areas such as geronto-psychiatric care.

CURANUM AG promotes the team spirit and individual initiative of its staff members. Constant motivation through continued and further training ensures a high degree of expertise, and consequently the high quality level of our work in our facilities and administrative areas.

Workplace safety

Workplace safety is an important topic at CURANUM AG. Our occupational and fire safety department is responsible for this area. It also concerns itself with hygiene within our facilities, and performs workplace inspections in the areas of care, administration, kitchens, cleaning, laundry etc. Regular inspections are conducted. Accident prevention regulations, as well as detailed operating and safety instructions, are issued. Related training sessions are also held. Extensive checklists for, for example, the handling of hazardous materials, eye protection, or safety in the disposal of materials, ensure correct behavior with respect to hazards. The training and instruction of staff members is conducted at regular intervals, and supplements extensive documentation.

8. IT structure

Within the CURANUM Group, all facilities are connected both with each other, and with the Group headquarters in Munich. We use SAP R/3 in the areas of planning, controlling, financial bookkeeping, and house administration. We use the modules CO, FI/AA and BW. The home administration software IS Social is also based on SAP R/3, module KH. As is the case with all other modules, it has been adapted to the individual requirements of CURANUM AG. Real-time availability of all SAP data ensures efficient planning, management, and evaluation of resources, and consequently the optimal allocation of production factors, as well as the subsequent assessment of data in the internal and external accounting system. It provides CURANUM AG with a coordinated cycle consisting of planning, controlling, and financial bookkeeping, which allows potential risks to the identified at an early stage, and to be forwarded to the management in summarized form.

Our Group-wide intranet including an integrated CRM module not only provides us with information about the company, but also allows us to coordinate sales activities on the basis of current updates.

9. Internal and external quality assurance

In 2007, we set up a new total quality management level between the operating Management Board and our facilities. This has entailed a major modification of the organizational structure of quality management in terms of managerial function. Total quality management (TQM) has consequently arisen out of quality management with a focus on care quality. This TQM supervises the entire range of customer services. It includes not only the most important component of care, but also the quality of all services such as catering, room hygiene, reliable laundry supplies, and the customer-orientation and friendliness of staff members.

Each member of the TQM staff reports directly to the Management Board, and is responsible for six to eight facilities in his or her region. This structure simultaneously takes our cluster system into account. This approach bundles facilities in close geographical proximity. TQM staff members conduct frequent internal quality inspections, and supplement these by extensive quality audits performed at longer intervals that go far beyond the inspection intensity of external quality inspections. This also entails the regular training of staff members in facilities as to how to ensure high quality standards on a sustainable basis.

As a matter of course, all of our facilities are subject to regular external inspections by the care home regulatory authorities, the Medical Service of the Health Funds (MDK), the Ministry of Health, the health authority pharmacies, fire safety authorities, and the professional cooperative.

10. Risk report

<u>The risk management system</u>

The risk management system of the CURANUM Group has the task of identifying at an early juncture, and of documenting, internal and external developments that might jeopardize or negatively impact the company's continued existence. The risk management system forms an integral component of the planning, operating business, controlling, and accounting business processes, and is directly anchored within the Management Board. Our Group-wide controlling system, which evaluates on a daily basis all data from facilities and headquarters that are relevant to business decision-making processes, provides us with an early warning system and management tool that allows us to act rapidly to inappropriate risks.

The members of the CURANUM risk management team are selected by the Management Board. The team examines the risk management system at predefined intervals. Four quarterly meetings are held per year. As a rule, this meeting should take place before a meeting of the Management Board so that a member of the risk team can report to the Management Board meeting concerning particular instances risks that might threaten the company as a going concern. The risk team meeting examines identified risks in the risk inventory using a relevant prepared risk inventory form in its valid edition. Above and beyond this, the risk team assesses the extent to which new risks have been identified that might jeopardize the company's existence, and which must be added to the risk inventory.

The risk inventory form is a list of risks (in its relevant up-to-date version) that might threaten the company as a going concern, and measures divergence from a predefined benchmark, whereupon the Management Board must be notified immediately. The review parameters consist of revenue per facility, occupancy, personnel cost ratio, overtime inventory, absenteeism and sick day rates, materials expenses, quality control results, cash reconciliation, as well as modifications to the legal framework.

Depending on the relevant related quantity, the Management Board is obligated to inform the Supervisory Board immediately when a threshold is reached. Besides this, the results of the risk team meetings are regularly presented to the Supervisory Board, and consultations are held at Supervisory Board meetings concerning the functioning and potential adaptations of the risk management system.

The risk team then decides in coordination with the Management Board concerning the introductory listing of risks in the risk inventory. Risks that potentially threaten the company as a going concern are examined at the risk team meetings using the management information system for the previous three months.

In the 2007 financial year, the risk management team conducted ongoing monitoring and checking of all areas of potential risk in the CURANUM Group. No risks to the company as a going concern were identified.

Risks

The company's overall risk can be classified as relatively low compared with other sectors and service businesses as a result of the special position of the care market in Germany. It is certainly the case that the specific risks inherent in the care market that we have presented above do not occur to this extent in other sectors. Many risks typical of industrial and service companies, however, do not apply at all to CURANUM. Constant market growth results in constant rises in demand, secure cash streams guarantee liquidity, and a weaker level of competition provides protection from serious regulatory interventions.

The company also operates with only one exception exclusively in Germany, and is therefore not subject to foreign exchange risks. We are nevertheless exposed to some risks typical of service operators, as well as specific risks occurring only in the care market.
The following section describes the risks that may have a significant influence on our company's development and its asset, liability, and earnings positions. These are not necessarily the only risks to which we are exposed. As yet unknown risks may also affect the company's operations.

Macroeconomic and sector-related risks

Demand for inpatient care places continues at a very high level, is non-cyclical (unlike many other sectors), and has so far been unexposed to intense competition. Our sector nevertheless felt the effects of economic phases of weakness and high unemployment in recent years, since care at home can be performed even by untrained staff, is given monetary support by related insurance entities, and can therefore substitute inpatient care. This means a high level of unemployment can result in a greater extent of care being performed at home, and fewer admittances in the inpatient area.
Even a reduced inclination to consume can result in reduced outlays on care by relatives in periods of economic difficulty. Price structure plays a greater role as a consequence, and predatory market practices implemented via prices can occur in more competitive regions.

It is possible to only a limited extent to make forecasts concerning macroeconomic changes in private consumption, unemployment, and the entrance of new competitors into the market.

Changes in the German care market such as new forms of care or new types of residential arrangement and alternative outpatient services may also affect demand for inpatient care places. We provide extensive protection for ourselves from these market risks through close observation of the market, the development of our own innovative concepts, and an extensive network to institutions that perform care research, or that may have an influence on the overall environment for care.

Our strategy of growth via acquisitions and start-ups entails an inherent risk, since employees, processes, and systems require integration when facilities are acquired. The main risk involved in a start-up is that of occupancy, which can be exacerbated by the difficulty of forecasting demand, and its related elasticity, due to various factors prevailing at the relevant location.

Operating risks

CURANUM AG offers its customers inpatient care and all related services such as catering, cleaning, laundry services, among others. The core business comprises the rendering of high-quality care in inpatient facilities. We are unable to benefit from the value-creation chain surrounding care without this corresponding quality. Despite our quality management, frequent inspections, and employee training courses, errors may occur as a result of the personnel-intensive nature of the business, which could result in quality problems. In the instance of serious quality problems, the care home regulatory authorities may prohibit the acceptance of new residents, and, in a worst case, order the withdrawal of the supply agreement, or even the closure of the facility. As a rule, CURANUM is in a position to identify problems and implement rapid solutions as a result of its early warning systems, both internal and external inspections, as well as an extensive complaint management procedure. Quality shortfalls nevertheless represent a risk that cannot be excluded entirely.

Major new inpatient capacities have been created in Germany in the past few years, which have resulted in a competitive situation in some locations. This has led to reduced waiting lists even within the CURANUM Group, and risks to our revenue have become detectable at some locations. Although the occupancy risk is minimized through appropriate measures in the areas of care quality, scope of care, marketing, and communications, the risk of declining occupancy at some locations cannot be excluded.

Personnel risks

Large numbers of care personnel have been made redundant in the last three years as a result of the introduction of case-based lump-sum payments in hospitals, and the related reduction of waiting periods. This means there are sufficient numbers of care staff available also for inpatient care facilities, and even in major conurbations there are hardly any bottlenecks. The risk of being unable to hire qualified care personnel has reduced decisively as a consequence. Procuring personnel at individual locations may nevertheless prove difficult in future. There is, however, a serious problem concerning the hiring of facility managers. The markedly non-profit-making, social aspect of the German care market makes it difficult to locate facility managers that combine social, care, and business expertise aspects. We have significantly reduced this risk through our company-internal trainee program for facility managers. Despite this, we are unable to fully exclude the possibility of a bottleneck in this area.

Regulatory and legal risks

Around 60-70% of revenues in the inpatient care area derive directly or indirectly from public funds. Care institutions in Germany are consequently subject to manifold regulations, laws, and ordinances, and they are monitored simultaneously by several authorities. For instance, as has happened in the past, new laws are enacted to maintain quality without an accompanying deployment of funds. Such laws give rise to increased levels of bureaucracy and documentation-related expense, without providing the resources required. As a result of the precarious financial situation of care insurance and local authority funds, the risk exists that new regulations are introduced along with the Act concerning the Further Development of Care and the new version of the care home rules at Länder level could entail greater burdens for occupants and/or operators.

CURANUM AG is keeping a very close eye on developments, and is attempting to anticipate the consequences of existing draft laws. The State's mandate to safeguard the provision of efficient care for those in need means, however, that from today's perspective, no major changes are anticipated that might jeopardize the operators of care institutions. The majority of our competitors, which are insufficiently profitable, would also be impacted earlier and harder than CURANUM AG. Consequently, politicians would need to first ask themselves what would happen to the occupants of these facilities following a wave of insolvencies.

Risks connected with financial instruments

Since the interest-rate risk of CURANUM AG results predominantly from interest-bearing financial liabilities, we have arranged fixed interest rates for a large portion of these liabilities for their duration. For instance, real-estate-collateralized loans have fixed and long-term interest-rate arrangements.

Portions of the acquisition loans for the Westfalen GmbH and Fazit GmbH operations, which were acquired in 2006, carry variable rates of interest, and are consequently subject to interest-rate risk. The same applies to overdraft lines, whose terms are subject to short-term adjustment to current market circumstances. We minimize the risk from unexpected increases in interest expense through distributing the related risks among several banks, and the constant monitoring of current interest-rate developments.

An interest-rate swap was concluded in order to hedge the variable interest-rate loan. This swap hedges the loan against the risk of rising market interest rates. As a matter of principle, our interest-rate derivative transactions are monitored constantly by our cash management and treasury functions, and changes to the interest-rate and relevant spreads are reported directly to the Management Board. The issuing bank provides us with a daily report on the development of interest rates, and on the relevant parameters that have effects on interest-rate developments in the future. The bank also reports regularly regarding the development of the interest-rate derivatives.

The borrower's note loans issued before the end of the financial year also carries a variable rate of interest, and is consequently subject to the risk of rising market interest rates. The Management Board is planning to hedge it this year through the conclusion of further interest-rate derivative transactions.

Liquidity risks are very minor as a result of the reliability of payments from public authorities, and the improvement of our system of invoice reminders. The CURANUM treasury and cash management system caters for a minimization of this risk.

Ongoing DPR procedure

Following the qualification of the audit certificate relating to the 2005 consolidated financial statements, the German Financial Reporting Enforcement Panel (DPR) initiated a procedure to identify accounting errors. This procedure has in the meantime been extended to include the 2006 consolidated financial statements. This process has not yet been concluded, and could lead to the determination of an error by the DPR. This could potentially result in a correction of the financial statements.

Current litigation

Current litigation, which had not concluded as of the reporting day, might result in charges in the future. The risk relating to potential expense has been estimated for this purpose, and provisions of TEUR 645 have been formed correspondingly.

Other risks

Further significant risks, such as occur typically for industrial, production or service companies, are largely excluded at CURANUM AG. There are no country or foreign exchange risks. Default risks are minimal due to the high share of proceeds from public funds, since, if a resident is unable to pay for services, social security funds make up the difference. There are no concentrations of risk on the procurement or sales sides, especially since, within purchasing, sufficient diversification is ensured in all areas.

11. Corporate compliance

At CURANUM AG, corporate compliance refers to the legally compliant and responsible behavior of each individual employee within the company. As an operator of care facilities, CURANUM AG is subject to over 80 various acts, ordinances, guidelines, and standards, which must be adhered to and implemented by each employee on a daily basis. CURANUM AG's compliance management system consists of four levels that form a regulatory cycle. This ensures laws are adhered to, and implement penalties when regulations are breached.

A - Identification of risks

The identification of risks, not only by compliance management but also by each staff member, presupposes knowledge of the legal framework to which the relevant employee is subject. In the care and service area, the applicable acts and regulations are, for example, the 11th book of the German Code of Social Law (SGB XI), the Act concerning Care Homes (HeimG), or the Ordinance concerning Care Home Personnel (HeimPersV). The risk arising from the withdrawal of approvals or supply agreements depends to a critical extent on the awareness of these regulations, and can be classified as the most important risk confronting operators of care facilities. Within the CURANUM Group, the highly experienced care rate department, which generally handles communications with authorities, is responsible for this area. Together with our total quality management, the care rate department has combined its extensive knowledge of wide-ranging care regulations with many years of experience in dealing with authorities.

Given the fact that the care of individuals is a matter of trust, the risk of damage to image, for example, from negative press as the consequence of care errors, is at least as important. Particularly in the case of care errors, a risk may arise from compensation claimed by either health funds or relatives. There are also further, less sector-specific risks such as, for example, the risk of fines arising from a failure to adhere to regulations, or the risk of litigation against board members. The CURANUM Group's highly knowledgeable legal adviser is available to deal with these civil, criminal, and labor law risks. The investor relations and compliance department of CURANUM AG is available to deal with capital market legal risks arising from insider transactions, or a failure to adhere to disclosure requirements.

B- Internal information system

Within the CURANUM Group, the specialist departments directly ensure the internal communication of information. For this purpose, our internal quality management is available with its own managerial centre to train staff in the operating care area. The basic prerequisite is that the quality management department provides clear instructions to all staff members that laws must be adhered to, as well as the equally clear warning that infringements are not tolerated. For this purpose, intensive training is provided relating to risks resulting from the failure to adhere to the above laws. The investor relations and compliance department also provides training to all Group headquarters staff on the subject of risks arising from capital markets law. Our legal advisers provide training, particularly to the management levels of the facilities, regarding labor and civil law risks.

Besides this, as part of the corporate guidelines at CURANUM AG, we provide clear formulations of our understanding of ethics, which form part of regular training at all levels.

C - External communications system

The Management Board has set up a two-level complaints management system within the CURANUM Group in order to prevent infringements, and identify them at an early stage, as well as to limit risks. This requires that complaints within facilities should be addressed to the management responsible on a local basis, that they should be handled by the home management, care service, and residential area management levels, and that an improvement process should be started. If those raising complaints fail to meet with a response within the relevant facilities, the next point of contact is the centralized complaints management function within the Group head office. The centralized complaints management function is directly connected to the Management Board, and works together with TQM and, potentially, the Management Board, to deal with all infringements and problems that have been notified.

The centralized authority management function, in cooperation with the managers of facilities, is also responsible for external notification to local authorities.

D - Internal controlling system

The compliance department coordinates controlling within the compliance management system. The compliance department in turn reports to the compliance officer of CURANUM AG.

As a matter of principle, members of staff of integrity and expertise are appointed to key positions within the CURANUM Group. The management is nevertheless obligated to perform ongoing controls in parallel with the business within their relevant areas of responsibility. This entails conducting spot checks of particular projects with respect to adherence to legal requirements.

In the operating care area, ongoing controlling is in the form of care visits, and of documentation inspections by managers. The TQM department also conducts regular internal quality inspections, and extensive audits are performed at longer intervals. An internal audit committee consisting of the centralized bookkeeping and controlling functions carries out regular inspections of bookkeeping and money flows within the facilities.

Both on a regular basis, and as required for particular circumstances, the compliance officer reports to the management and supervisory boards concerning legal developments in the area of compliance, the implementation of the compliance system, and important compliance processes within the company. The management levels of the facilities report to the TQM department and the Management Board. The TQM department reports directly to the Management Board and the compliance officer regarding controlling.

12. Takeover law disclosures pursuant to § 315 Paragraph 4 of the German Commercial Code (HGB)

The subscribed capital amounted to EUR 32,660,000 as of December 31, 2007, split into 32,660,000 nil-par ordinary bearer shares. Each share confers one voting right. There are no preference shares in issue.

Pursuant to § 21 (1) of the German Securities Trading Act (WpHG), VATAS Holding GmbH, which is headquartered in Berlin, informed us that it had exceeded the threshold of 10%, and that its share of voting rights amounts to 17.91%. VATAS Holding GmbH is controlled by Sapinda Beteiligungs-KG, which in turn is controlled by Sapinda Verwaltungs-GmbH.

Pursuant to § 21 (1) of the German Securities Trading Act (WpHG), Norddeutsche Landesbank Girozentrale, Hanover/Germany, informed us that it had exceeded the threshold of 10%, and that its share of voting rights amounts to 13.14%

The provisions of §§ 84/85 of the German Stock Corporation Act (AktG) and § 7 of the company by laws of CURANUM AG apply for the appointment and withdrawal of members of the Management Board.

Pursuant to § 7 of the company's bylaws, the Management Board consists of one or several members. The Supervisory Board determines the number of Management Board members, and is entitled to appoint one Management Board member to be the Chairperson of the Management Board. The appointment of deputy Management Board members is permitted.

Management Board authorizations to issue or repurchase shares:

Management Board authorizations to issue shares:

The Management Board is authorized, with the approval of the Supervisory Board, to increase the registered capital of the company by June 23, 2010 against cash payments or contributions in kind, either once or on several occasions, through the issue of a total, however, of EUR 10,040,000.00 or of a maximum 10,040,000 new ordinary shares (Approved Capital). Subscription rights are to be granted to shareholders as a matter of principle when performing the capital increase. However, the Management Board may exclude shareholders' subscription rights with the approval of the Supervisory Board in the case of a capital increase for payment in kind, if the new shares are required as counterpayment by the company for the acquisition of another company, or a shareholding in another company. The Management Board may exclude shareholders' subscription rights with the agreement of the Supervisory Board in the event of a cash capital increase if the capital increase does not exceed 10% of the company's issued share capital and the issue price for the new shares is not materially less than the stock exchange price. Furthermore, the Management Board may exclude residual amounts from the subscription rights with the approval of the Supervisory Board. The Management Board, with the approval of the Supervisory Board, determines all further details relating to capital increases and their execution. The Supervisory Board is furthermore authorized to make corresponding adaptations to the wording of the company bylaws following each utilization of approved capital.

Management Board authorizations to repurchase shares:

The company was authorized at the ordinary Shareholders' General Meeting of June 21, 2007, to acquire or resell, once or on several occasions, own shares in the company while observing the principle of equal treatment, until December 20, 2008, and with the approval of the Supervisory Board. This authorization may not be used for the purposes of trading in the company's own shares. The arithmetic share of the shares acquired as part of this authorization may not exceed 10% of the subscribed capital. The purchase price paid by the company for each share may deviate by no more than 5% from the average stock exchange price of the share of the company on the last five trading days before the acquisition of the shares (excluding ancillary purchase costs). In this respect, the average share price in the sense of the above ruling is the average (arithmetic mean) of the closing prices determined during the last five stock exchange days before the purchase of the shares on the Frankfurt Securities Exchange for one CURANUM share. The Management Board is authorized, with the agreement of the Supervisory Board, to retire own shares acquired on the basis of the above authorization without a further resolution of the Shareholders' General Meeting. The Management Board is entitled, with the approval of the Supervisory Board, to utilize the shares acquired on the basis of the above authorization, either wholly or in part, as payment for the acquisition of convertible bond issued by the company or for the acquisition of companies or shareholdings in companies made by the company. In these instances, the subscription rights of the shareholders lapse. Also in these cases, for the purposes of valuing the payments to be made, it is not permitted to pay less than 95% of the average stock exchange price of the company's share during the last five trading days before the coming into force of the agreement regarding the acquisition of the convertible profit-sharing certificates, of the company or of the shareholding In this respect, the average share price in the sense of the above ruling is the average (arithmetic mean) of the closing prices determined during the last five stock exchange days before the coming into force of the relevant purchase agreements on the Frankfurt Securities Exchange for one CURANUM share.

13. Disclosures relating to the company's boards

Management Board

As of January 1, 2007, Sabine Merazzi-Weirich assumed the function of Chief Operating Officer after Jens Spitzer relinquished his position as of December 31, 2006. Sabine Merazzi-Weirich has been a member of staff at CURANUM AG since 1995. Besides acting as an assistant to the operational management of founding shareholder Bernd Scheweling, she was, among other things, responsible for the management of the homes administration and the cash management and treasury function of the CURANUM Group, before starting her Management Board activities.

Bernd Scheweling relinquished his Management Board mandate on August 7, 2007. On September 7, 2007, the local court of Munich appointed him as a regular member of the Supervisory Board.

Management Board remuneration

The overall remuneration of the Management Board of CURANUM AG is split into basic and performance-based components. We have so far not implemented components with long-term incentive effects such as stock options or convertible bonds, although they are planned for the future. The Management Board has no vested rights to future pension payments, pension arrangements for surviving dependants or predefined settlements, and there are no special regulations relating to a change of company control.

In the 2007 financial year, the Management Board received total remuneration of EUR 1.4 million (previous year: EUR 2.1 million), of which TEUR 642 (previous year: TEUR 801) comprised fixed pay, and TEUR 748 (previous year: TEUR 1,268) was a variable bonus related to the company's earnings. The Management Board members received the following remuneration on an individual basis (in thousands of euros):

Management Board	Salary	Bonus	Total 07	Prev. yr 06
Hans-Milo Halhuber	212	412	624	809
Bernd Scheweling (until 06.09.2007)	175	196	371	809
Sabine Merazzi-Weirich (from 01.01.2007)	128	70	198	0
Bernd Rothe (from 01.10.2006)	127	70	197	21
Jens Spitzer (until 31.12.2006)	0	0	0	430

Supervisory Board

Dr. Michael Roggen relinquished both his Supervisory Board mandate and his Chairmanship of the Supervisory Board on September 27, 2007. Dr. Roggen has been a member of the Supervisory Board since the company converted to a stock corporation in 1996. On the same day, the Supervisory Board elected Dr. Dieter Thomae to be the Chairman of the Supervisory Board, and Bernd Scheweling to be the Deputy Chairman of the Supervisory Board.

Supervisory Board remuneration

Pursuant to § 15 of the company's bylaws, and besides reimbursement of expenses, the members of the Supervisory Board received annual remuneration of EUR 8,000.00 each, plus VAT where applicable. A Chairperson of the Supervisory Board receives one and a half times this amount. A Supervisory Board member who has been a member of the Supervisory

Board for only part of the year receives remuneration pro rata temporis. Total Supervisory Board remuneration for 2007 amounted to TEUR 45 (previous year: TEUR 70).

14. Report on events subsequent to the reporting date

With effect as of January 1, 2008, 100% of the shares of ELISA Seniorenstift GmbH and ELISA Seniorenstift Aschaffenburg GmbH were acquired. Please refer to the discussion contained in this management report, as well as to the notes to the consolidated financial statements.

No further events of significance occurred in the 2008 financial year between the end of the reporting period and the dates of the preparation of these annual financial statements.

15. Forecast report: Outlook and perspective development of the CURANUM Group

Economy

Risks to the economy have risen markedly as a result of the turbulence in international financial markets. The consequences of the so-called subprime crisis in the US real estate market are becoming increasingly clear both in Europe and Germany, as well as in all areas of commercial life. Defaults on securitized real estate loans are being followed by instances of default at small banks, credit card companies, and insurance companies.

Although the drivers of economic growth in Germany continue to be intact, the slowdown in the global economy is nevertheless having an effect here as well. The appreciation of the euro, and the resultant loss of competitiveness, a slowdown in export demand, and also higher prices for energy and foodstuffs, will raise costs for companies, and restrict the purchasing power of private households. Economic research institutes in Germany are now anticipating GDP growth of only between 1.6% and 1.9% for 2008. Despite this, they expect growth in the purchasing power of private households, and consequently a further stimulus from the consumption side, due to the continued rise in employment. Most experts also anticipate only a brief period of recession, which should turn around by as early as the third quarter, and may represent a continuation of the upturn. Forecasts for GDP growth in 2009 consequently return to levels above two percent.

We expect the further decline in unemployment, and the moderate rise in private consumption, to provide an additional driver to demand for care places in Germany. However, this development also has a negative side, insofar as labor market experts anticipate a marked increase in labor costs for 2008. While calls for wage increases of 8%, as currently demanded in the public service sector, cannot be implemented in the care area with it capped care rates, employees will nevertheless seek to offset their higher costs of living. The higher cost of living will also make itself felt in rents, particularly since most of our rents are tied to the consumer price index.

Developments within the sector

Although the economy is slowing down, growth in the care market continues to be positive. Demographic developments, and the greater shift from home-based care to inpatient care facilities, ensure a constant rise in demand. Expansions of capacity in the market have brought about the exit of old care institutions, which no longer conform to current standards. Their residents have been redistributed to free capacities available in their areas. As a consequence of this, and as a result of the rising number of insolvencies, we expect a rationalization of the market this year, and an accelerated consolidation process towards professional care, and towards larger providers.

However, the greater level of competition has also meant that far fewer care rate negotiations, and consequently price increases, have occurred in the last two years than costs have necessitated. The consequence was particularly noticeable last year: more facilities were offered for sale in the market, and there was a major rise in the insolvency rate. This trend will continue this year. We nevertheless expect operators will make greater demands for negotiation of care rates, without which the high price increases cannot be compensated.

The average occupancy of care facilities in Germany fell last year to around 88%, which already represents an un-commercial level for many operators. We anticipate that a very high number of new facilities will be opened in the next one to two years, which will further lower the average occupancy rate.

Further expansion

The acceleration of the consolidation process creates numerous opportunities for us to acquire good operators with modern facilities, and so push ahead with our expansion. As in the past, we shall continue to acquire small chains of operators with between one and ten facilities, which are sold at attractive prices.

We shall stay true to our acquisition strategy in 2008, and we are still planning to acquire seven to eight facilities, equivalent to between 800 and 1,000 beds. We shall continue to focus on the following prerequisites: a good commercial base to the facilities, a service and quality strategy already in place, as well as the opportunity to integrate the facilities into our cluster strategy.

New openings

Although competition has increased in the care market, there are still many locations that are highly undersupplied with care places, and where there are long waiting lists for existing homes. This is why we aim to open between one and three new facilities per year in the future. The first reason for doing this is to occupy locations that offer no potential acquisitions. The second is to focus on strengthening clusters. The third reason is to rejuvenate our real estate structure. The same principle also applies in this respect: the location must offer corresponding demand, and fit into our cluster strategy.

Financing of acquisitions and new openings

As a rule, we can largely finance the acquisition of the planned 800 to 1,000 beds per year from current cash flow. Depending on the size of the companies, and the related resources that they contain (e.g. real estate), further funds are required. These have been provided by banks in the past.

In 2007, we had the opportunity to generate funds from a capital increase from Approved Capital, in order to make further acquisitions. At the end of the business year, we issued a syndicated borrower's note loan in order to be prepared for further expansion, and in order to settle the purchase price for ELISA Seniorenstift GmbH. In the medium term, we plan to finance 1,000 beds per year entirely from our own resources, and only make recourse to banks or the capital market in the instance of larger acquisitions.

2008 revenue and earnings targets

Excluding further acquisitions, we anticipate revenue in a range between EUR 260 million and EUR 265 million for the 2008 financial year, EBITDA earnings before interest, depreciation, and amortization of between EUR 32 million and EUR 34 million, and net profit in a range between EUR 10.5 million and EUR 12 million. The increase in revenues is based mainly on the acquisition of the Elisa facilities. However, the budget currently excludes the rise in the capacity utilization ratio for which we are currently aiming.

Thanks

We would like to thank our staff members for their work, and for their high degree of commitment, as well as our customers and residents, and their families, and also our shareholders and business partners for the confidence they have invested in us, and for our fruitful co-operation. We look forward to a continuation of our partnership-based co-operation in the coming year.

Munich, March 17, 2008

CURANUM AG

The Management Board

Halhuber Rothe Merazzi-Weirich

Consolidated Balance Sheet as of December 31, 2007
CURANUM AG, Munich

Assets

	Notes	2007 T-EUR	2006 T-EUR
Current assets			
Cash and cash equivalents	(1)	25,646	9,106
Trade accounts receivable	(2)	6,411	5,953
Inventories	(3)	862	729
Current assets	(4)	7,021	3,784
Tax receivables	(5)	2,022	978
Security investment	(6)	380	370
Assets held for sale	(7)	5,516	0
Total current assets		**47,858**	**20,920**
Non-current assets			
Property, plant and equipment	(8)	117,586	122,743
Intangible assets	(9)	1,702	1,982
Goodwill	(9)	54,067	53,397
Shareholdings		0	0
Deferred tax assets	(22)	7,969	11,958
Other financial assets	(4)	10,474	8,928
Total non-current assets		**191,798**	**199,008**
		239,656	**219,928**

Shareholders' equity and liabilities

	Notes	2007 T-EUR	2006 T-EUR
Current liabilities			
Finance lease debt	(10)	4,009	4,453
Short-term debt	(11)	3,834	26,384
Trade accounts payable	(12)	3,194	3,210
Provisions	(13)	2,567	4,075
Income tax payable	(14)	1,478	1,742
Other current liabilities	(14)	17,083	18,183
Total current liabilities		**32,165**	**58,047**
Non-current liabilities			
Financial lease obligations	(10)	54,121	57,675
Long-term debt	(11)	84,246	57,293
Deferred tax liabilities	(22)	6,068	7,091
Provisions	(13)	575	1,229
Total non-current liabilities		**145,010**	**123,288**
Shareholders' equity			
Share capital	(15)	32,660	29,700
Additional paid-in capital	(15)	32,303	12,808
Revenue reserve	(15)	-8,970	-14,912
Consolidated profit	(15)	4,917	9,346
Other shareholders' equity	(15)	1,571	1,617
Before minorities		**62,481**	**38,559**
Minority interest	(15)	0	34
Total shareholders' equity		**62,481**	**38,593**
		239,656	**219,928**

Consolidated Income Statement
January 1st, 2007 to December 31,2007
CURANUM AG, Munich

	Notes	2007 T-EUR	2006 T-EUR
Revenues	(16)	230,069	215,725
Cost of sales	(17)	192,676	177,105
Gross profit/loss		**37,393**	**38,620**
Selling and marketing expenses	(18)	1,022	1,073
General and administration expenses	(19)	16,819	16,985
Other operating expenses	(20)	1,816	2,016
Other operating income	(20)	4,418	4,224
Operating income/loss		**22,154**	**22,770**
Interest and other expenses	(21)	9,763	8,020
Interest and other income	(21)	296	817
Profit participation associated companies		0	65
Earnings before tax		**12,687**	**15,632**
Tax expense	(22)	4,727	5,472
Deferred tax expense	(22)	3,103	814
Earnings after taxes		**4,857**	**9,346**
Profit or loss attributable to minority interest	(23)	-60	0
thereof shareholder earnings	(23)	4,917	9,346
Net income per share, basic	(23)	***0.16***	***0.31***
Net income per share, diluted	(23)	***0.16***	***0.31***
Number of underlying outstanding shares		**31,240,822**	**29,700,000**

Consolidated statement of changes in shareholders' equity 2007

CURANUM AG, Munich

in T-EUR	Share capital	Additional paid-in capital	Retained earnings: Accumulated profit/loss	Retained earnings: Other retained earnings	Consolidated profits	Other shareholders' equity: Revaluation reserve	Other shareholders' equity: Other reserve	**Shareholders' equity before minority interest**	Equity convertible bond	Minority interest	**Total shareholder's equity**
31.12.2005	**29,700**	**11,763**	**-17,977**	**0**	**6,599**	**0**	**0**	**30,085**	**1,051**	**0**	**31,136**
Tax audit adjustment according IAS 8.42			-574					-574			-574
Adjusted opening figures 01.01.2006	**29,700**	**11,763**	**-18,551**	**0**	**6,599**	**0**	**0**	**29,511**	**1,051**	**0**	**30,562**
Dividend payment					-2,970						**-2,970**
Balance carried forward			3,629		-3,629						**0**
Others			-35								**-35**
Negative minority interest			45								**45**
Changes in consolidated entity		-6				1,617				34	**1,645**
Earnings after tax					9,346					0	**9,346**
Reclassification convertible bond		1,051							-1,051		0
31.12.2006	**29,700**	**12,808**	**-14,912**	0 **0**	**9,346**	**1,617**	**0**	**38,559**	**0**	**34**	**38,593**
Dividend payment					-3,266			-3,266			**-3,266**
Balance carried forward			6,080		-6,080			0			**0**
Capital increase after issuing costs and taxes	2,960	19,495						22,455			**22,455**
Financial instruments according IAS 39							8	8			**8**
Earnings after taxes					4,857			4,857			**4,857**
Minority Interest				-26	60			34		-34	**0**
Changes in revaluation reserve			72			-54		18			**18**
Changes in the consolidated entity			-184					-184			-184
31.12.2007	**32,660**	**32,303**	**-8,944**	**-26**	**4,917**	**1,563**	**8**	**62,481**	**0**	**0**	**62,481**

Consolidated cash flow statement 2007

CURANUM AG, Munich

		2007 T-EUR	2006 T-EUR
I.	**Operating activity**		
	Result before income tax and minority interest	*12,687*	*15,632*
	Depreciation	8,562	6,767
	Other interest and similar income	-296	-817
	Interest and similar expenses	9,763	8,020
	Result from disposals of fixed assets	4	64
	Other expenses and income not affecting payments	-128	-26
	Increase/decrease in provisions	-1,144	-1,204
	Change in net working capital	-7,680	-1,655
	Tax paid	-6,382	-9,352
	Tax received	75	1,643
	Interest paid (no finance-lease interest included)	-5,338	-3,635
	Interest received	383	325
	Cash flow from operating activities	**10,506**	**15,762**
II.	**Investing activity**		
	Cash outflow for acquisition (less acquired cash reserves)	-1,041	-8,635
	Cash outflow for property, plant and equipment and intagible assets	-8,060	-17,136
	Cash inflow from disposal of property, plant and equipment	18	45
	Cash flow from investing activities	**-9,083**	**-25,726**
III.	**Financing activity**		
	Cash inflows from borrowing/ cash repayments of amounts borrowed	-13,371	28,355
	Cash outflows for outstanding finance-lease liabilities	-7,943	-8,490
	Cash outflow for convertible bond	-12,272	0
	Cash inflow from loan against borrower's note	29,775	0
	Cash inflows from capital increase	22,194	0
	Dividend payments	-3,266	-2,970
	Cash flow from financing activities	**15,117**	**16,895**
	Change in cash and cash equivalents	**16,540**	**6,931**
	Cash and cash equivalents at beginning of period	9,106	2,175
	Cash and cash equivalents at end of period	**25,646**	**9,106**

For explanations to the cash flow statement refer to (24) in notes

Basis of consolidation

	Name	Office	Amount of holding %
	The following national companies were consolidated as of December, 31, 2007 (in alphabetical order):		
1.	accurato GmbH[2]	Munich	100.00
2.	Altenheimbetriebsgesellschaft Nord GmbH[2]	Munich	100.00
3.	Altenheimbetriebsgesellschaft Ost GmbH[2]	Munich	100.00
4.	Altenheimbetriebsgesellschaft Süd GmbH[2]	Munich	100.00
5.	Altenheimbetriebsgesellschaft West GmbH[2]	Munich	100.00
6.	Alten-und Pflegeheim Sieglar GmbH[2]	Munich	100.00
7.	Bad Schwartauer AVG Altenheim-Vermietung GmbH & Co. KG	Munich	100.00
8.	Bonifatius GPG Gesellschaft für Pflege und Gesundheit mbH i.L.	Munich	55.00
9.	CURANUM AG (Muttergesellschaft)	Munich	--
10.	Curanum Bad Hersfeld GmbH[2]	Munich	100.00
11.	Curanum Baubetreuung und Immobilienmanagement GmbH	Munich	100.00
12.	Curanum Bessenbach GmbH[2]	Munich	100.00
13.	Curanum Betriebs GmbH[2]	Munich	100.00
14.	Curanum Franziskushaus GmbH[2]	Gelsenkirchen	100.00
15.	Curanum Holding GmbH[2]	Munich	100.00
16.	CURANUM Verwaltungs- und Beteiligungs GmbH & Co. KG[2]	Munich	100.00
17.	Curanum Westphalia GmbH[2]	Munich	100.00
18.	Fazit Betriebsgesellschaft für soziale Dienstleistungen mbH[2]	Nuremberg	100.00
19.	GAP Media Service GmbH[2]	München	100.00
20.	Krankenheim Ruhesitz am Wannsee GmbH[2]	Berlin	100.00
21.	Opticura Service GmbH[2]	Munich	100.00
22.	Residenz Lobberich GmbH	Nettetal-Lobberich	100.00
23.	RIAG Seniorenzentrum "Ennepetal" GmbH & Co. KG	Munich	100.00
24.	RIAG Seniorenzentrum "Erste" GmbH & Co. KG	Munich	100.00
25.	RIAG Seniorenzentrum "Zweite" GmbH & Co. KG	Munich	100.00
26.	Rosea GmbH & Co. Objekt Liesborn KG	Düsseldorf	94.00
27.	Seniorenzentrum Hennef GmbH[2]	Munich	100.00
28.	Servicegesellschaft West GmbH	Munich	100.00
29.	VGB Beteiligungs-und Verwaltungs GmbH	Munich	94.00
30.	Wäscherei Ellerich GmbH[2]	Kaisersesch	100.00
	The following foreign country companies were consolidated as of December 31, 2007		
31.	CB Seniorenresidenz Armbrustergasse GmbH	Vienna/Austria	94.00
32.	CB Management-Service GmbH	Kitzbühel/Austria	94.00
	The following inessential companies were not consolidated.		
33.	AT Management GmbH & Co. Bauträger MUC I KG	Munich	18.40
34.	Bonifatius AT GmbH, Vienna	Vienna/Austria	10.00

[1] Amount of holding is equal to voting rights unless otherwise noted
[2] These companies are exempted from the duty of setting up annual accounts according § 264 Abs. 3 HGB/ § 264b HGB

CURANUM
Gute Pflege hat ein Zuhause.

Responsibility Statement

„To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions and profit or loss of the group, and 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".

Munich, March 17, 2008

Curanum AG

The Management Board

Hans-Milo Halhuber

Bernd Rothe

Sabine Merazzi-Weirich

Notes to the consolidated financial statements
for the 2007 financial year
of CURANUM AG, Munich

A. Principles

1. Principles and methods

CURANUM Aktiengesellschaft (referred to below as "CURANUM AG" or the "Company") has its headquarters at Maximilianstrasse 35c, 80539 Munich, Germany.

The business objective of CURANUM AG and its subsidiaries is the creation and operation of senior citizen and residential care homes. CURANUM AG, Munich, as the ultimate parent company of the CURANUM Group, has prepared this set of consolidated financial statements.

The consolidated financial statements of CURANUM AG as of December 31, 2007 have been prepared according to International Financial Reporting Standards (IFRS), as applicable in the EU. We have taken into account the standards of the International Accounting Standards Board (IASB), London, applicable in the EU as of the reporting date, as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid for the financial year. We have satisfied the requirements of the applied standards and interpretations without exception. The financial statements consequently convey a true and fair view of the assets, liabilities, and earnings positions of the CURANUM Group.

The consolidated financial statements in this version comply with the requirements of § 315a of the German Commercial Code (HGB). This forms the legal basis for consolidated accounting according to international accounting standards in Germany, together with Regulation Number 1606/2002 of the European Parliament and Council of July 19, 2002 concerning the application of international accounting standards.

The financial statements of the subsidiaries have been prepared using the reporting date of the consolidated financial statements, which corresponds to the reporting date of CURANUM AG.

Various adjustments have been performed compared with the previous year in order to facilitate ease of overview, as well as to improve the information contained. Individual items in both the balance sheet and the income statement have been summarized, and set out and explained separately in the notes to the accounts. The presentation of the categorization of equity was changed in both the balance sheet and the statement of changes in equity. The revenue reserves now contain the cumulative undistributed results of previous years. The reserve for the market valuation of securities, and the revaluation reserve, are summarized in the Miscellaneous equity item. Earnings for the financial year are reported separately. The items are explained individually, independently of their maturity, in the notes to the consolidated financial statements. The previous year's figures were adjusted retrospectively in accordance with IAS 8. We elected not to make a separate presentation of the individual adjustments due to their lack of materiality for the overall meaningfulness of the financial statements.

The consolidated financial statements have been prepared on the going-concern principle. No further events occurred until the conclusion of the preparation of the consolidated financial statements that had a significant impact on the assets, liabilities, and earnings positions of the Group.

The financial year of the CURANUM Group comprises the period from January 1 to December 31. The consolidated financial statements have been prepared in thousands of euros (TEUR). Figures in the notes to the financial statements are presented in thousands of euros (TEUR), unless stated otherwise. The income statement has been prepared according to the cost of sales accounting format.

The consolidated financial statements and Group management report prepared as of December 31, 2007 are published in the official register of companies (www.unternehmensregister.de), and in the electronic Federal Gazette.

The Management Board of CURANUM AG will present the consolidated financial statements and the Group management report to the Supervisory Board; the Supervisory Board will reach a decision concerning its approval at its meeting on March 26, 2008.

2. Scope of consolidation

The consolidated financial statements of CURANUM AG include all companies where CURANUM AG, either directly or indirectly, enjoys the opportunity to determine the financial and business policy, and to draw related benefits (control relationship). A company is included for the first time when possibility of control is achieved. Inclusion ends when the possibility of control no longer exists.

Besides CURANUM AG, the group of consolidated companies includes 29 German (previous year: 28) and two foreign (previous year: 1) subsidiaries.

The complete list of shareholdings is attached as an annex. This list also comprises companies not included in the consolidated financial statements due to lack of materiality.

The following companies were included in the consolidated financial statements of CURANUM AG for the first time as of December 31, 2007:

1. Servicegesellschaft West GmbH, Munich
2. CB Managementservice GmbH, Kitzbühel, Austria

Servicegesellschaft West was founded on April 5, 2007. The issued share capital of the company amounts to TEUR 25. CURANUM holds 100% of the shares. CB Managementservice GmbH has share capital of TEUR 35. CURANUM holds 100% of the shares. The company was already acquired as of November 1, 2006, but was not fully consolidated in the consolidated financial statements as of December 31, 2006 due to its lack of materiality. It was included in the consolidation for the first time as of January 1, 2007, and has no significant impact on the financial statements for the 2006 financial year, as well as no significant effect on the comparability of the previous year's figures.

3. Principles of consolidation

Equity consolidation is performed using the purchase method as per IFRS 3 (Business Combinations). Acquired assets and liabilities are measured at fair value at the time of acquisition. The purchase cost of the acquired shares is then set off with the proportional revalued equity of the subsidiary. Any remaining positive differential amount from the offsetting of the purchase costs with the identified assets and liabilities is reported as goodwill among intangible assets.

If the purchase cost of the investment is less than the identified assets and liabilities, this differential amount is booked immediately through the income statement in the year when the shareholding is acquired.

Expenses and income, as well as receivables, liabilities, and provisions between consolidated companies, are netted. Results of intra-group sales of assets that have not yet been sold to third parties are eliminated. Deferred tax is formed for consolidation measures with income tax effects. Besides this, warranties and guarantees that either CURANUM AG or one of its consolidated subsidiaries acquires to the benefit of other consolidated subsidiaries are eliminated.

4. Accounting principles

The assets and liabilities of CURANUM AG, and those of its fully consolidated subsidiaries, are recognized and measured using uniform accounting principles that apply to the whole of the CURANUM Group. Comparable information for the 2006 financial year is based on the same accounting principles applied in the 2007 financial year.

With the exception of certain items, such as derivative financial instruments or financial assets available for sale, the consolidated financial statements have been prepared according to the historical cost principle. The measurement principles that have been applied to these exceptions are described in detail below. Discretionary decisions and estimates are required to a certain extent in the preparation of the consolidated financial statements. These have an impact on recognition, measurement, and reporting of assets, liabilities, income and expenses, as well as contingent claims and liabilities. All information currently availability is taken into account in this respect.

The main items affected by such discretionary decisions and estimates relate to Group-standard useful lives, and the recoverable amounts relating to tangible and intangible fixed assets, including goodwill, the classification of leases as operating finance leases, the measurement of derivative financial instruments, the extent to which receivables can be realized, the accounting treatment and measurement of deferred tax, as well as the accounting treatment and measurement of provisions. The values that actually occur may diverge from the estimates in individual cases. The carrying values of assets and liabilities affected by estimates are presented in the breakdown of individual balance sheet items.

Intangible assets / goodwill

Intangible assets include intangible assets acquired as part of corporate acquisitions, such as customer bases as well as purchased software, licenses, and similar rights. Such assets are

recognized if a future inflow of economic benefit is likely, and if the cost of the assets can be determined reliably.
In accordance with IAS 38, intangible assets of limited useful life are capitalized at cost, and amortized on a straight-line and scheduled basis over their economic useful life; additional impairment charges are reported if required. The useful life for software and licenses is five years. Useful lives of customer bases have been calculated on the basis of statistics relating to occupancy and durations of stay, and amount to two years. The useful life of a prohibition of competition, as well as that of a residency right, is categorized as indefinite, in accordance with the contractual agreements. Modifications to useful lives are treated as modifications of estimates. Besides this, residual values and methods of depreciation and amortization are reviewed at the end of the financial year, and adjusted if required. Intangible assets that have useful lives of unlimited duration are not subject to scheduled amortization but are subject instead to an impairment test at least once a year, or on an even more regular basis if there are indications that their values have been impaired. This includes goodwill and prohibitions on competition identified as part of corporate acquisitions.

Property, plant, and equipment

Property, plant, and equipment is measured at cost, and diminished to reflect scheduled depreciation corresponding to economic useful life and, if required, additional impairment charges. Repair and maintenance costs are reported as current expense. Scheduled depreciation, essentially linear, is performed corresponding to the expected progress of consumption of the future economic benefit.

Revaluation

Property, plant, and equipment is revalued as part of a corporate acquisitions analogously to IAS 16, if the acquired company has so far been included in the Group at equity. Fair values of land and buildings are reported on the basis of estimates produced by independent experts. The difference between fair values and carrying values are transferred to the revaluation reserve on a quota basis corresponding to the share in the previously associated company held to date.

Scheduled depreciation is based mainly on the following useful lives:

Buildings	50 years
Fittings	8-20 years
Technical equipment and machinery / operating and office equipment	3-20 years

Financing costs

Financing costs are not recognized as part of purchase and production costs.

Leases

The determination of whether an agreement contains a lease is performed on the basis of the economic content of the agreement at the time of the conclusion of the agreement. It requires an estimate as to whether the satisfaction of the contractual agreement depends on the use of a particular asset, or particular assets, and whether the agreement provides a right to the use of the asset. As a lessee, CURANUM AG is a contractual partner to a number of lease agreements for property, as well as individual assets or groups of other assets. Leases where all opportunities and risks connected with ownership of the transferred asset mainly are transferred to the CURANUM Group are classified as finance leases, and entered in the balance sheet accordingly.

Assets arising from finance leases are capitalized at the lower of either fair value or the present value of the minimum lease payments. They are depreciated over the shorter of either the duration of the agreement or the economic useful life of the lease asset. Leasing payments are split into the financing components, and the repayment component of the residual debt. Depreciation is performed over 20 years for fittings of care facilities capitalized as part of finance leasing, where 90% of capitalized book values are depreciated in the first 10 years, and the remaining 10% are depreciated from the 11th to the 20th years.

Leasing agreements are classified as operating lease agreements where essentially all risks and opportunities connected with the property remain with the lessor. The leasing payments that form part of an operating lease agreement are reported on a straight line basis over the duration of the leasing agreement.

Public authority subsidies

Public authority subsidies are not reported until there is sufficient security that the company will be able to fulfill the conditions attached to them, and that the company will in fact receive the subsidies. Insofar as the public authority subsidies have been granted on the basis that the company will acquire property, plant and equipment, they reduce the carrying value of these assets.

Impairment test

An impairment test is performed the least once a year for goodwill and other intangible assets of unlimited useful life, and when there are specific signs that impairment has occurred in the case of other intangible assets of limited useful life, as well as for property, plant, and equipment, and capitalized finance leases. An impairment is booked to the income statement if the recoverable amount of the asset is less than the carrying value. A review is performed at least once a year to establish whether there is an indication that the reason for an impairment no longer exists, or the amount of the impairment applied has fallen. In this instance, the recoverable amount is recalculated, and, with the exception of goodwill, the impairment previously applied is reversed correspondingly.

The recoverable amount is always estimated individually for each asset. If this is impossible, the calculation is performed on the basis of a group of assets representing a cash-generating unit. The recoverable amount is the higher of either fair value minus disposal costs, or useful value. Fair value minus disposal costs corresponds to the amount achievable from the sale of an asset on normal market terms, minus disposal costs. Useful value is calculated on the basis of estimated future cash flows arising from the use, and disposal, of an asset using the discounted cash flow method. Cash flows are derived from long-term corporate budgets. Current developments are taken into consideration. They are discounted to the reporting date using pre-tax risk-adjusted capital rates of 8.32% (previous year: 11.21%).

Non-current assets held for sale

Non-current assets are classified as held for sale if the related carrying value is realized predominantly through a sales transaction, and not from continued use. This condition is only regarded as satisfied if the sale is highly likely, and the asset in its current condition is available for immediate sale. The Management Board must have obligated itself to a sale. In doing so, it must be assumed that this will result in the recognition of a concluded sale process within one year following such a classification. Non-current assets classified as held for sale are measured at the lower of either the amount of their original carrying value, or fair value minus disposal costs.

Inventories

Raw materials and supplies are reported among inventories. Inventories are recognized at acquisition cost calculated on the basis of average prices and applying the FIFO method.

Financial instruments

All remarks relating to financial instruments are summarized in Note 24 "Financial instruments and disclosures as per IFRS 7".

Deferred tax

The formation of deferred tax is performed by applying the balance-sheet-oriented liability method to all temporary differences arising between the fiscal valuations of an asset or liability, and IFRS valuations, as well to consolidation measures. Deferred tax relating to loss carryforwards is capitalized if it is likely that they can be utilized. Adjustments are applied to deferred tax assets whose realization is no longer expected within the foreseeable future. Unrecognized deferred tax claims are reviewed, and capitalized to the extent that it has become likely that future taxable earnings will make it possible to realize them.

The tax rates used at the time of realization as the basis for the measurement of deferred tax are those applying on the basis of the current legal situation, or which are expected to apply. Deferred tax relating to items reported directly in equity is also reported directly in equity. Deferred tax assets and liabilities are set off against each other if the Group would have an enforceable claim to net actual tax reimbursement claims against each other, and these relate to income tax applying to the same tax object, levied by the same tax authority.

With a resolution of July 6, 2007, the Upper House of the German Parliament approved the Corporate Tax Reform Act of 2008. The reduction of the corporate tax rate from 25% to 15% gives rise to significant effects on deferred tax for CURANUM AG; the tax rate applying to the measurement of deferred tax fell from 38.48% to 29.825%.

Actual tax

Actual tax claims and liabilities of the current or prior periods are measured using the amount the tax authority is expected to reimburse, or the amount expected to be paid to the tax authority. If the period until realization is estimated to be in excess of one year, the claims liabilities are discounted to a present value. Discounting is performed relative to the corresponding duration. Calculation of the amount is based on tax rates and tax laws applying as of the reporting date.

Convertible bond

The bond terms of issued hybrid capital have resulted in its recognition as a component of Group equity in accordance with IAS 32. Due to the repayment of the convertible bond in 2007, it was reclassified from the equity item "Equity portion relating to convertible bond " to the capital reserve; the previous year's amount was adjusted correspondingly.

Other provisions

Other provisions are formed if a current legal or de facto obligation based on a past event exists with respect to third parties that would lead to a probable future outflow of resources, and the extent of the obligation can be estimated reliably. Non-current provisions are recognized using the amount required to satisfy the obligation, and discounted to the reporting date. The interest rate used is a pre-tax interest-rate that reflects current market expectations with respect to the interest-rate effect, as well as risks specifically applying to the circumstances.

Income and expenses

Income is always reported if it is likely that the economic benefit will accrue to the Group, and the extent of the income can be determined reliably. Income from the supply of services is reported in the period in which the service is rendered.

Services rendered by CURANUM AG consist mainly of care services in both the inpatient and outpatient areas, as well as supplementary services connected with managed apartments. Residents as well as sponsors such as health insurance funds/care funds and social services institutions receive monthly invoicing for the services.

Interest income is reported at the time when the interest claim arises. Operationally-related expenses are expensive at the time of delivery, or the utilization of the service, and all other expenses are expensed at the time when they are incurred. Interest in other debt costs are booked as periodic expense.

Contingent liabilities

Contingent liabilities represent potential obligations to third parties arising from past events, and whose existence must yet be confirmed by the occurrence or non-occurrence of one or several uncertain future events not entirely within the control of CURANUM AG. Contingent liabilities also arise from a current obligation based on past events, but which cannot be recognized in the balance-sheet because the outflow of resources is unlikely, or the extent of the obligation cannot be estimated sufficiently reliably.

5. New accounting requirements

a) The following new and amended IFRS standards and interpretations were applied for the first time in the financial year. Their application gave rise to the following effects for the consolidated financial statements:

IFRS 7 "Financial Instruments: Disclosures":
IFRS 7 regulates the disclosure requirements concerning financial instruments for both industrial companies, as well as banks and similar financial institutions. IFRS 7 replaces IAS 30 "Disclosures in Financial Statements of Banks and Similar Financial Institutions" as well as the disclosure requirements contained in IAS 32 "Financial Instruments: Presentation" IFRS 7 should be applied for the first time for financial years commencing on or subsequent to January 1, 2007. The new standard resulted in a significant expansion in the disclosures concerning financial instruments contained in the notes to the consolidated financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"
No new disclosures resulted from these amendments with respect to internal management quantities, as well as notes concerning the type and scope of external capital demands, where applicable.

b) There were no, or no significant, effects for the consolidated financial statements arising from the following new or amended standards and interpretations applied for the first time:

IFRIC "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

IFRIC 7 stipulates that in a period when a country whose currency represents the functional currency of the company preparing accounts becomes a hyperinflationary economy, the company must apply the requirements of IAS 29 as if the company had always been in a hyperinflationary economy.

IFRIC 8 "Scope of IFRS 2"
IFRIC 8 regulates the application of IFRS 2 to all agreements where the fair value of a consideration is less than fair value of equity instruments granted by the company.

IFRIC 9 "Reassessment of Embedded Derivatives"
IFRIC 9 specifies the accounting treatment of financial instruments with embedded derivatives following first-time recognition.

IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 10 stipulates that where an impairment charge has been applied to goodwill or particular financial instruments in a set of interim financial statements preceding the annual financial statements, the impairment charge may not be reversed in the latest set of annual financial statements.

c) The following standards and interpretations, which have been published but whose application is not yet mandatory, were not applied:

IFRS 8 (Operating Segments)
The IASB published IFRS 8 in November 2006. This standard replaces IAS 14, and refers particularly to the application of the management approach for the reporting of the commercial progress of operating segments. Operating segments are parts of a company whose operating results are regularly monitored by a central decision-maker, which serve as the basis for making decisions with respect to the allocation of resources and profit-monitoring, and for which separate financial information is available. This entailed expanding individual notes. This standard is mandatory for all financial years commencing on or subsequent to January 1, 2009. Early application is permitted.

Amendments of IFRS 3 and IAS 27

On January 10, 2008, the IASB published both the amended IFRS 3 "Business Combinations" as well as the amended IAS 27 "Consolidated and Separate Financial Statements according to IFRS", and consequently ended the second phase of the Business Combinations Project. The IFRS 3 and IAS 27 standards that have now been approved contain numerous amendments compared to the drafts of the standards published in summer 2005. These amendments were made due to the large number of written comments that have been submitted, and following many discussions. Compared with standards IFRS 3 and IAS 27, which had been applied so far, there were many amendments in the following areas:

- Costs arising from a corporate purchase (only costs connected with the issue of equity of debt instruments may be recognized; all other ancillary purchase costs are expensed);
- Treatment of contingent consideration (subsequent changes in fair value are not booked to goodwill);
- Full goodwill method (application optional);
- Accounting treatment of step acquisitions: goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred, and the net assets acquired.
- Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions;
- Expansion of the scope of application of IFRS 3.

The amendments to IFRS 3 and IAS 27 are mandatory for financial years commencing on or subsequent to July 1, 2009. Application must be implemented on a prospective basis. Earlier application is possible whereby the amendments to IFRS 3 and IAS 27 must be applied together retrospectively. The amendment to the standards gives rise to consequential amendments of IAS 28 and IAS 31.

Amendments to IFRS 2

On January 17, 2008, the IASB published its revised IFRS 2 "Share-based Payment". The amendments are based on the draft standard IFRS 2 "Testing Conditions and Cancellations", which was published in February 2006. Amended IFRS 2 more precisely defines the term "vesting conditions", and regulates the cancellation of share-based payment by persons other than the company. According to amended IFRS 2, vesting conditions only include service conditions, which require the performance of a particular service period, and performance conditions, which entail the satisfaction of particular performance targets. Other contractual terms do not comprise vesting conditions. Due to the numerous queries raised, guidance points relating to the decision as to whether a vesting condition exists or not were included in the implementation guidance for IFRS 2 (among other things, a decision-tree and an overview of terms). Cancellation of share-based payment by a party other than the company, such as an employee, shareholders, or other parties, must be accounted for in exactly the same way as cancellation by the company. The amendment to IFRS 2 must be applied for financial years commencing on or after January 1, 2009. Earlier application is possible.

Amendments to IAS 32

On February 14, 2008, the IASB published the revised version of IAS 32 "Financial Instruments: Disclosure and Presentation". This standard is of central importance for the demarcation between equity and debt. With this amendment, the IASB responded to criticism submitted from, among others, German parties, that company law capital based on shareholder cancellation rights must be classified as a liability. The published amendment allows cancelable instruments to be classified as equity under certain conditions. Compared with the IASB's original draft from summer 2006, the terms have undergone significant modifications that are attributable to intensive consultations with the German Accounting Standards Committee (DRSC). As a rule, the new version should allow German unincorporated companies to classify their legal capital as equity in IFRS financial statements. The new version must be applied from January 1, 2009. Earlier optional application is possible.

Revision of IAS 1 "Presentation of Financial Statements"

IAS 1 was published in a revised version in September 2007. Amendments arose mainly with respect to the separate presentation of changes in equity resulting from transactions with shareholders, and other modifications, as well as amendments to the titles of some components of financial statements. This amended standard is mandatory for all financial years commencing on or subsequent to January 1, 2009.

Amendment of IAS 23 "Borrowing Costs"

This amendment relates to the mandatory capitalization of borrowing costs that can be directly attributed to the acquisition, construction, or production of a qualified asset. This abolished the option to expense such assets immediately. The amendment is applicable for the first time for financial years commencing on or subsequent to January 1, 2009.

IFRIC 11 "Interpretation on Accounting of share-based Payments”

This interpretation clarifies the accounting treatment of group-wide share-based remuneration. IFRS 11 should be applied for the first time for financial years commencing on or subsequent to March 1, 2007.

IFRIC 12 "Service Concession Arrangements"

IFRIC 12 regulates how concession operators as part of service concession arrangements should apply existing IFRS in order to report the rights and obligations entered into as part of these arrangements. IFRIC 12 must be applied for the first time for financial years commencing on or after January 1, 2008.

IFRIC 12 "Customer Loyalty Programs"

IFRIC 13 regulates the accounting treatment of customer loyalty programs operated by manufacturers or service-providers themselves, or by third parties. IFRS 13 should be applied for financial years commencing on or subsequent to July 1, 2008.

IFRIC 14 " The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14 relates to the interaction between a minimum funding requirement relating to a pension plan existing as of the reporting date, and the regulations contained in IAS 19 regarding the valuation limit of a positive balance between plan assets and a defined benefit obligation (asset ceiling). IFRIC 14 must be applied for financial years commencing on or after January 1, 2008.

CURANUM AG is currently investigating the effects of these new accounting standards on future consolidated financial statements; an initial preliminary assessment suggests no significant effects can be expected.

B. Notes to the consolidated balance-sheet

(1) Cash and cash equivalents

Cash and cash equivalents of TEUR 25,646 (previous year: TEUR 9,106) relate to cash holdings and bank accounts in credit with a term of less than three months. The change in cash and cash equivalents is presented in the consolidated statement of cash flows.

As of December 31, 2007, there were credit lines of €28.0 million (previous year: €15.0 million), which are subject to no restrictions with respect to their use. As of the December 31, 2007 reporting date, credit lines amounting to TEUR 22 (previous year: TEUR 10,532) were utilized.

Operating facilities using the credit line have assigned receivables as collateral for the overdrafts.

(2) Trade receivables

	2007 TEUR	2006 TEUR
Trade receivables	6,944	6,564
Charges for doubtful receivables	-533	-611
Trade receivables, net	**6,411**	**5,953**

The fair values of trade receivables correspond to their carrying values due to the fact that their terms are up to one year. The specific adjustments were calculated on a case-by-case basis, and taking into account the age structure of amounts outstanding. Bad debt charges were formed where costs transfers for beneficiaries' social security benefits were in dispute.

As a result of the diversified customer structure, there is no significant concentration of risk among the trade receivables. Maximum default risk corresponds to the carrying values.

The income statement for the financial year contains charges for adjustments and receivables defaults of TEUR 336 (previous year: TEUR 1,106), and income from the reversal of impairments of TEUR 126 (previous year: TEUR 152).

(3) Inventories

	2007 TEUR	2006 TEUR
Raw materials, consumables and supplies	**862**	**729**

The holdings comprise mainly foodstuffs, commercial and medical-care items, and fuel for facilities. With the exception of the fuel, the holdings are measured at a fixed value that was last determined as of December 31, 2006 by physical inventory-taking. No adjustments were required. The increase in fuel holdings of TEUR 113 was booked through the income statement (previous year: addition to fixed value of TEUR 221).

(4) Other non-current and current assets

	2007 TEUR	2006 TEUR
Prepayments and accrued income		
- Prepayments for corporate lease agreements	8,472	9,123
- Prepayments for leases	2,511	739
- Accrued income	2,465	529
Derivative financial instruments (interest-rate)	182	273
Other receivables	4,022	2,193
Specific adjustments to other receivables	-157	-145
	17,495	**12,712**
of which non-current	10,474	8,928
of which current	7,021	3,784

The fair values of Other assets mainly correspond to their carrying values; this also applies to the prepayments related to lease agreements, taking into account the present value of future lease reductions, since the future lease installments would have been set at correspondingly higher levels excluding the prepayments. Adjustments were performed to Other receivables to reflect disputed sales-and-use tax receivables.

The prepayments for corporate lease agreements relate to non-interest-bearing leases that in each case commenced on January 1, 2006, and that have been entered into for an initial period of 15 years. Amounts of TEUR 7,819 (previous year: TEUR 8,456) have a residual term of more than one year, and amounts of TEUR 652 (previous year: TEUR 667) a residual term of up to one year. Further rental prepayments of TEUR 2,181 (previous year: TEUR 457) have a residual term of more than one year, and of TEUR 330 (previous year: TEUR 282) up to one year. Accrued income relates to prepayments for vehicle tax, subscriptions, and advertising, and has a residual maturity of up to one year.

Recognition of derivative financial instruments of TEUR 182 (previous year: TEUR 273) relates to the measurement of an interest-rate derivative at fair value. Remarks concerning the measurement of financial instruments arising from interest-rate hedging transactions are presented with the notes concerning provisions (13).

The Other receivables mainly comprise receivables due from suppliers arising from goods reimbursements and creditor accounts in debit, input tax reimbursement claims, receivables due from staff, deposits, and a receivable arising from the sale of a facility amounting to TEUR 1,000.

The Other receivables to an amount of TEUR 473 (previous year: TEUR 0) have a residual maturity of more than one year.

Securities reported in the previous year among other assets are reported separately from the 2007 financial year (please refer to note 6). The previous year's report was adjusted correspondingly.

(5) Income tax receivables

	2007 TEUR	2006 TEUR
Current income tax receivables	2,022	978

The income tax receivables mainly contain capital gains tax claims, and receivables arising from corporation and trade taxes. The claims contain a sub-amount of TEUR 109 (previous year: TEUR 77) arising from capitalized corporation tax credits with a residual term of more than one year.

Recognition at present value arises from the amendment to § 37 Paragraph 5 of the German Corporation Tax Act effected by the German Act concerning Fiscal Accompanying Measures for the introduction of the European Company and for the Modification of Further Fiscal Regulations (SEStEG). The present value of the resultant tax claim of TEUR 77 was capitalized for the first time in 2006. This claim will be paid out in equal installments over 10 years.

(6) Securities

	2007 TEUR	2006 TEUR
Other securities	**380**	**370**

"Available for sale" securities are measured using the market value as of the reporting date. Additions of TEUR 8 arising from market valuation as of the reporting date were reported in equity. Deferred tax was not deducted for reasons of materiality.

(7) Non-current assets held for sale

The amount of TEUR 5,516 (previous year: TEUR 0) concerns a property in which a subsidiary operates its facility. It is intended to be sold as part of a sale-and-operating-leaseback transaction. The respective resolution concerning this item was passed shortly before the reporting date, and the sale is planned to occur during the first quarter of 2008.

It was reclassified and measured using its carrying value at the time of reclassification, in accordance with the IFRS 5, since this is less than the disposal price minus disposal costs. Since the reclassification occurred shortly before the reporting date, no deferred tax arose from the discontinuation of scheduled depreciation in the IFRS consolidated financial statements.

Deferred tax liabilities of TEUR 412 were recognized as of the reporting date in connection with assets held for sale.

(8) Property, plant, and equipment

Change in 2007 in TEUR	**Land, rights similar to land and constructions**	**Other facilities, operating and office equipment**	**Prepayments rendered**	**Total**
Cost				
January 1, 2007	125,097	50,009	**11,440**	**186,546**
Additions	3,117	4,248	**1,331**	**8,696**
Disposals	(54)	(508)	**(47)**	**(609)**
IFRS 5 reclassification	(5,779)			**(5,779)**
Transfers	10,042	(230)	**(9,812)**	**0**
Changes in the scope of consolidation	0	103	**0**	**103**
December 31, 2007	**132,423**	**53,622**	**2,912**	**188,957**
Cumulative depreciation and value impairments				
January 1, 2007	34,649	29,154	0	**63,803**
Depreciation	3,854	4,276	0	**8,130**
Disposals	(22)	(330)	0	**(352)**
IFRS 5 reclassification	(263)			**(263)**
Transfers	20	(20)	0	**0**
Changes in the scope of consolidation	0	53	0	**53**
December 31, 2007	**38,238**	**33,133**	**0**	**71,371**
Net carrying value	**94,185**	**20,489**	**2,912**	**117,586**

The amounts carried forward relating to historic cost and cumulative depreciation of the office and operating equipment as of January 1, 2007 were adjusted retrospectively to the revaluation as of December 31, 2006. The carrying values were not affected by this procedure.

Change in 2006 in TEUR	Land, rights similar to land and constructions	Other facilities, operating and office equipment	Prepayments rendered	Total
Cost				
January 1, 2006	99,722	32,930	0	**132,652**
Additions	913	14,029	11,604	**26,546**
Disposals	(58)	(6,581)	(1,572)	**(8,211)**
Changes in the scope of consolidation	24,520	9,631	1,408	35,559
December 31, 2006	**125,097**	**50,009**	**11,440**	**186,546**
Cumulative depreciation and value impairments				
January 1, 2006	27,077	21,100	0	**48,177**
Depreciation	3,011	7,590	0	**10,601**
Disposals	7	(5,442)	0	**(5,435)**
Changes in the scope of consolidation	4,554	5,906	0	10,460
December 31, 2006	**34,649**	**29,154**	**0**	**63,803**
Net carrying value	**90,448**	**20,855**	**11,440**	**122,743**

Investment grants

The Federal Länder of Saxony-Anhalt, Thuringia, and Mecklenburg-Vorpommern granted subsidies to the company in the years 1998-2000 of TEUR 13,902 in order to construct care properties. The grants were deducted from the carrying value of the tangible fixed assets to which the grants apply.

(9) Intangible assets / goodwill

Intangible assets include licenses and software, and prepayments for intangible assets. Recognized goodwill arises from corporate acquisitions.

Change in 2007 in TEUR	Goodwill	Software/licenses/similar rights	Prepayments rendered	Total
Cost				
January 1, 2007	53,398	3,317	129	**56,844**
Additions	670	146	0	**816**
Disposals	0	0	0	**0**
Transfers	0	129	(129)	**0**
Changes in the scope of consolidation	0	9	0	**9**
December 31, 2007	**54,068**	**3,601**	**0**	**57,669**
Cumulative amortization and value impairments				
January 1, 2007	0	1,464	0	**1,464**
Amortization	0	432	0	**432**
Disposals	0	0	0	**0**
Changes in the scope of consolidation	0	4	0	**4**
December 31, 2007	**0**	**1,900**	0	**1,900**
Net carrying value	**54,068**	**1,701**	**0**	**55,769**

The column "Software, licenses, and similar rights" includes prohibitions on competition and occupancy rights of unlimited useful life with a net carrying value of TEUR 1,100 (previous year: TEUR 1,100). This item also contains customer bases added as part of corporate acquisitions.

Additions to goodwill of TEUR 148 arise from retrospective purchase costs in 2007 connected with the acquisition of Fazit Betriebsträger GmbH in 2006; retrospective adjustment was not made for reasons of materiality. Further additions included an amount of TEUR 371 from the purchase of minority shares in RIAG Erste KG (TEUR 175) and RIAG Ennepetal KG (TEUR 196).

Change in 2006 in TEUR	Goodwill	Software/licenses/similar rights	Prepayments rendered	Total
Cost				
January 1, 2006	43,379	1,452	116	**44,947**
Additions	0	1,928	129	**2,057**
Disposals	0	(127)	(116)	**(243)**
Changes in the scope of consolidation	10,019	64	0	**10,083**
December 31, 2006	**53,398**	**3,317**	**129**	**56,844**
Cumulative amortization and value impairments				
January 1, 2006	0	1,142	0	**1,142**
Amortization	0	400	0	**400**
Disposals	0	(118)	0	**(118)**
Changes in the scope of consolidation	0	41	0	**41**
December 31, 2006	**0**	**1,465**	0	**1,465**
Net carrying value	**53,398**	**1,852**	**129**	**55,379**

Goodwill acquired as part of business combinations is allocated to the cash-generating care centers or groups of care centers for the purposes of the impairment test, as was the case in the previous year. The recoverable amount of these cash-generating units is calculated on the basis of useful value, applying cash flow forecasts, as in the previous year. These forecasts are based to a large degree on the utilization and occupancy structure of the care centers that are allocated to the relevant cash-generating units. These are in turn based on past empirical values, but also take into account the current position of each individual care centre.

The cash flow forecasts are based on financial plans approved by the company management for a period of three years, as in the previous year. The growth rate is adjusted individually to each cash-generating unit. The Group-average growth rate is 6.0% in the first year of the budget, 2.1% in the second budget year, and 0.4% in the third year. Cash flows subsequent to the period of three years are calculated more conservatively using a growth rate of 0.0%. The discount rate used for the cash flow forecasts is calculated using the WACC approach, and is equal to a post-tax rate of 6.05%, and an after-tax rate of 8.32%. The impairment tests gave rise to no impairment charges.

(10) Leases and other financial obligations

Financing leases

Property rented by the company includes the land, buildings, and other facilities and equipment. The main obligations that have been entered into during the period of the leasing agreements, besides the lease payments themselves, are the costs of maintenance for the operating locations and facilities, insurance contributions, and property taxes. In general, the durations of leasing agreements for land, buildings, and operating and office equipment range between 3 and 40 years and contain extension options on varying terms. Certain lease agreements contain price adaptation clauses, and comprise conditional lease payments. In 2007, rental costs in connection with finance leasing agreements amounted to T-EUR 9,022 and in 2007, T-EUR 9,569. They were recorded as expenditure in the items depreciation and interest in the period in which they arose.

The terms of the leases contain no restrictions with respect to dividends, additional borrowings, or further leases.

Purchase options exist for two property rental agreements that are classified as finance leasing agreements.

The carrying values of capitalized tangible fixed assets arising from financing leases are as follows:

	2007 TEUR	2006 TEUR
Cost		
Land	884	884
Buildings	57,875	57,875
Fittings and operational equipment	29,504	30,707
	88,263	89,466
Cumulative depreciation	(44,246)	(41,275)
Net carrying values	44,017	48,191

The carrying values of the corresponding lease liabilities (present values of the future minimum leasing payments) are as follows for the finance leases described above:

	2007 TEUR	2006 TEUR
Up to 1 year	4,009	4,453
1 to 5 years	14,953	14,456
Longer than 5 years	39,168	43,219
Reported lease liabilities	**58,130**	**62,128**

The corresponding nominal obligations are as follows:

	2007 TEUR	2006 TEUR
Up to 1 year	7,362	8,072
1 to 5 years	27,211	27,935
Longer than 5 years	51,376	58,147
Total of minimum lease obligations	**85,949**	**94,154**
Ancillary payments arising from lease agreements	(2,161)	(2,161)
Total of net minimum lease obligations	**83,788**	**91,993**

Due to the integration of the lessor into the scope of consolidation since the first-time consolidation of the VGB Group, a finance lease relating to the corresponding property was discontinued from the Group perspective, the previous year's figure was adjusted correspondingly.

Operating leases

The company and its subsidiaries have entered into various operating lease agreement for buildings, office equipment, and other facilities and fittings. Most of the lease agreements contain extension options. Some contain price adaptation clauses and provide for rental payments that are conditional on the basis of fixed percentages of turnover generated by the assets held as part of operating lease agreements. The terms of the leases contain no restrictions with respect to dividends, additional borrowings or further lease agreements.

Lease expenses amounted to TEUR 45,477 in 2007 (previous year: TEUR 43,104).

Other financial obligations

The other financial obligations of the CURANUM Group consist of obligations arising from rental, leasing, and maintenance agreements.

The maturities of the minimum lease payments arising from non-cancelable operating leases relating to real estate and maintenance service agreements, among other things, are as follows as of the December 31, 2007 reporting date:

	Up to 1 year TEUR	1 to 5 years	Longer than 5 years TEUR
Building rents	61,590	306,991	525,462
Maintenance agreements	1,593	5,037	1,893
Total	63,183	375,211	527,355

Besides this, the owners hold put options for two properties in which subsidiaries of CURANUM AG operate facilities. If the owners exercised the put options, the purchase price for both items of real estate would amount to €35.8 million.

As of December 31, 2007, there were no further potential obligations arising from warranties, guarantees, or the assignment of collateral for third-party liabilities within the CURANUM Group.

(11) Non-current and current financial liabilities

	Residual term up to 1 year TEUR	Residual term 1 to 5 years TEUR	Residual term longer than 5 years TEUR
31.12.2007			
Participatory right relating to Fazit	0	0	4,730
Bank loans	3,812	24,641	54,875
Overdrafts	22	0	0
Total	**3,834**	**24,641**	**59,605**
31.12.2006			
Liability component of convertible bond	12,167	0	0
Participatory right relating to Fazit	0	0	4,929
Bank loans	3,685	27,494	24,870
Overdrafts	10,532	0	0
Total	**26,384**	**27,494**	**29,799**

The following collateral exists for the bank loans:

- Land charges totaling TEUR 43,829 (previous year: TEUR 31,904) entered in the land registries of Jena, Lettin (Halle), Ribnitz Damgarten (Barth), Ennepetal, Wadersloh, Bad Lauterberg and Pasing.
- Amount-limited individual guarantee granted to a bank by CURANUM AG to an amount of TEUR 8,120.
- Global assignment of trade receivables for several loans used by operating companies;
- Pledging of shares in a limited company by a company utilizing a loan;
- Assignment of rental and lease interest receivables.

Convertible bond

As a result of a resolution of the Shareholders' General Meeting on May 20, 1997, the company has issued convertible bond with a total nominal value of DM 24 million (EUR 12,271,005.15) with conversion rights to ordinary shares to be issued in the future. The convertible bonds are divided into a tranche of 2,000 certificates of DM 2000.00 each (EUR 1,022.59) nominal value, and a tranche of 2,000 certificates of DM 10,000.00 each (EUR 5,112.92) nominal value. The issue price was 104%. The premium from the issue of the convertible bond of TEUR 491 was allocated to the capital reserve. It proved possible to perform conversion into equity capital for the first time in November 1999. The conversion price was fixed at the time of issue at DM 40 (EUR 20.45) for one ordinary share with a nominal value of DM 5 (EUR 2.56).

Conditional capital of €1,533,875.64 (DM 3 million) existed for the exercise of the conversion right. Since the convertible bonds had not been converted by August 1, 2007, they were repaid at their nominal amount in 2007. The holders of the convertible bonds received annual interest of 7.5%; during the 2007 financial year this payment was made pro rata temporis until redemption. The present value of the equity components was calculated at TEUR 1,051 as of the date of issue, and was not adjusted during the term of the components. When the conversion right expired, and the profit-sharing certificate was repaid in August 2007, the equity components (TEUR 1,051) were reclassified to the capital reserve; the previous year's figure was adjusted correspondingly.

The fair value of the debt components was calculated on each reporting date on the basis of the residual term and interest payment dates. The value of the debt components, which were reported in current financial liabilities, was calculated using the effective interest-rate method, applying a normal market interest rate for comparable financial instruments excluding conversion right of 9.0%; to this extent, no more liabilities exist after repayment of the convertible bond in 2007 (previous year: TEUR 267).

(12) Trade payables

Trade liabilities contain open items from incoming invoices for supplies and services utilized by Group companies. As of the reporting date, these amounted to TEUR 3,194 (2006: TEUR 3,210). The reported carrying values correspond to fair values and have a residual maturity of less than one year.

(13) Non-current and current provisions

	31.12.2007 TEUR	31.12.2006 TEUR
Obligations to utilities and waste management companies	616	855
Bonuses	1,123	1,251
Miscellaneous	1,403	3,198
	3,142	5,304

Other provisions contained non-current provisions (residual duration greater than one year) of TEUR 575 (previous year: TEUR 1,229).

Provisions changed as follows:

	Status 01.01.2007	Addition	Utilization	Reclassification	Release	Status 31.12.2007
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Obligations to utilities and waste management companies	855	647	765	0	121	**616**
Bonuses	1,251	1,093	1,221	0	0	**1,123**
Miscellaneous	3,198	514	1,582	-16	711	**1,403**
Total	5,304	2,254	3,568	-16	832	**3,142**

The miscellaneous provisions are composed as follows:

	2007 TEUR	2006 TEUR
Ongoing court cases/lawyers' fees	645	963
Repayment to the Eschweiler real estate fund	0	100
Impending losses from interest-rate derivative transactions	0	879
Contingent liabilities arising from the acquisition of shares	490	1,128
Miscellaneous	268	128
Total	1,403	3,198

The contingent liability results from the purchase of shares in a limited company in 2006. The related purchase price for the shares may rise by TEUR 336 if particular events occur. Curanum AG anticipates negative earnings contributions with respect to the customer base acquired at the time of the purchase of the company, and has correspondingly recognized a contingent liability of TEUR 792.

Four interest-rate derivative transactions were concluded in order to reduce the interest expenditure associated with the convertible bond and with current account borrowings. The total nominal value of the interest-rate derivative transactions is TEUR 7,600 (2006: TEUR 21,300).

	Term Start	End	Nominal TEUR	Interest-rate/reference rate
4	10.02.2006	30.11.2010	7.600	3M-EUR-EURIBOR-Telerate/3.34%

The interest-rate derivative was measured at fair value as of the reporting date (marked-to-market). The year-on-year change in fair values was as follows:

Current number		**2007**	**2006**
1	10Y-EUR-ISDA_EURIBOR/4.5 % (20.5.2005)	0	-321
2	10Y-EUR-ISDA_EURIBOR/4.5 % (15.7.2005)	0	-517
3	6M-EUR-Euribor-Telerate/Quanto (18.7.2005)	0	-42
4	3M-EUR-Euribor-Telerate /3.34% (10.2.2006)	+182	+233
	Total	**+182**	**-647**

A positive fair value of Swap Number 4 has been booked through the income statement as financial income from other assets (please refer to Note 4). The previous year's negative fair values (TEUR -880) were recognized among other provisions as of December 31, 2006. Besides the full utilization of the provision, the unwinding of the transaction entailed an additional financial expense of TEUR 180.

The bank's mark-to-market valuation was used to calculate the fair value in the reporting year. The previous year's valuation was based on the following assumptions:

- Assumptions were made concerning the number of days on which the interest-rate spread between 10-Y-Euribor and 2-Y-Euribor, and 12-M-CHF-Libor and 6-M-Euribor exceeds the value from which CURANUM receives payments from the swap. The development of these curves was based on the assumption that the connection between the two forward rates is linear; if the spread is below the limit at both points where payments would be released to CURANUM, the spread at all points between also consequently falls beneath the payment-triggering level. The development of the forward rates was forecast until the end-date of the swap transactions.
- An analysis of the interest-rate swaps was performed entailing the calculation of the average interest rates for the various credit ratings (BB to AAA), and this was compared with the average interest-rate of the bank issuing the interest-rate derivatives.

The fair value calculation was then performed on the basis of the relevant nominal amount, the calculation days for the interest-rate spread, and the risk-adjusted zero interest-rate curve taking into account the discount factor.

(14) Non-current and current liabilities arising from income tax and other liabilities

	2007 TEUR	2006 TEUR
Corporation tax liabilities	851	549
Trade tax liabilities	627	1,193
Income tax liabilities	**1,478**	**1,742**
Other current liabilities		
Liabilities to staff	2,471	2,499
Salary and wage liabilities	4,478	4,424
Social security liabilities	94	73
Wage/church tax and VAT liabilities	1,037	2,230
Prepayments received	3,209	3,290
Borrowing accounts in credit	1,097	1,240
Deferred income	96	89
Outstanding invoices	965	680
Professional co-operative contributions	590	582
Miscellaneous	3,046	3,076
Total other current liabilities	**17,083**	**18,183**
Liabilities arising from income tax and other liabilities	**18,561**	**19,925**
of which with a residual term up to 1 year	18,561	19,925

Liabilities to staff of TEUR 2,471 (previous year: TEUR 2,499) are composed of vacation outstanding (TEUR 768; 2006: TEUR 778), obligations arising from overtime hours, premiums, short-term age-related part-time working obligations and settlements (TEUR 1,400; 2006: TEUR 1,368), and time allowances (TEUR 303; 2006: TEUR 353).

Other liabilities include deposits received from tenants in managed accommodation (TEUR 1,069; 2006: TEUR 1,090), deferred interest payments for the convertible bond (TEUR 0; 2006: TEUR 703), as well as retained collateral resulting from construction and repair measures.

The obligation from age-related part-time agreements with employees wil be shown in amount of (TEUR 327; 2006: TEUR 191). When calculating the obligation, the employer's supplements to gross salaries as well as pension insurance contributions were provided for, as well as the company's employee remuneration arrears in the case of the "Blockmodell". The 2007 periodic result contains expenses arising from the increase in the obligation of TEUR 136 (previous year: income from production TEUR 36), which are contained in cost of sales.

The items "Other current liabilities" and "Miscellaneous current liabilities" reported in the previous year, are summarized in a single item "Miscellaneous current liabilities" from 2007. The "Miscellaneous non-current liabilities" item reported in the previous year was included in the "Non-current provisions" item in the reporting year. Each of the previous year's figures was adjusted.

(15) Equity and minority interests

The changes in equity and minority interests are presented in the statement of changes in equity.

Subscribed capital

The Subscribed Capital of CURANUM AG amounts to €32,660,000.00 (previous year: €29,700,000.00), and is split into 32,660,000 (previous year: 29,700,000) ordinary bearer shares, and is fully paid in. The increase resulted from a resolution passed by the Shareholders' General Meeting of 2007, entailing the issue of 2,960,000 ordinary bearer shares as part of a cash capital increase at an issue price of €7.73 per share.

Approved Capital

The Shareholders' General Meeting of June 23, 2005 passed a resolution to create approved capital. The Board was authorized, with the approval of the Supervisory Board, to increase the registered capital of the company by June 23, 2010 against cash payments or contributions in kind, either once or on several occasions, through the issue of a total, however, of EUR 10,040,000.00 or of a maximum 10,040,000 new ordinary shares.

Conditional Capital

Through a resolution of May 20, 1997, the registered capital was raised by TEUR 1,534 on a conditional basis (Conditional Capital I). The conditional capital increase will be carried out only to the extent that those entitled by the terms of the issued convertible bond utilize their conversion rights by August 1, 2007.

Besides this, the registered capital was increased by a further TEUR 330 as the result of a resolution of the Shareholders' General Meeting of November 27, 2000 (Conditional Capital II). The conditional capital increase is designed to allow the issue of equity options for employees of the business. An equity option plan has not been created to date.

Purchase of own shares

Through a resolution of the Shareholders' General Meeting on June 21, 2007, the company was authorized until December 21, 2008, with the approval of the Supervisory Board, to acquire or resell once or on several occasions own shares in the company while observing the principle of equal treatment. This authorization may not be used for the purposes of trading in the company's own shares. The arithmetic share of the shares acquired as part of this authorization may not exceed 10% of the subscribed capital.

Capital reserve

The capital reserve exclusively contains additional paid in capital. The capital reserve increased in the reporting year through the issue of 2,960,000 ordinary bear shares as part of a cash capital increase at an issue price of €7.73 per share, minus the after-tax costs of the capital issue.

The change in the capital reserve is as follows:

	TEUR	TEUR
Status as of December 31, 2006 [1)]		12,808
Premium from the cash capital increase	19,921	
Minus costs of the capital issue	-692	
Deferred tax expense	266	19,495
Status as of December 31, 2007		**32,303**

[1)] After retrospective reclassification of the equity components of the convertible bond of TEUR 1,051 due to its repayment in the 2007 financial year

Revenue reserves

The revenue reserves contain the cumulative results of previous years, and other revenue reserves of CURANUM AG. The cumulative results contain gains and losses generated by CURANUM AG and its consolidated subsidiaries in previous years, which were neither distributed nor allocated to other revenue reserves.

In addition, the revenue reserves contain items carried forward within the revenue reserves, and with no impact on income, relating to changes to deferred tax of TEUR -574 arising from tax audits for prior years, in accordance with IAS 8.42. The reason for the correction of the error is a failure to take into account tax audit determinations relating to the 2005 financial year with respect to the recognition of deferred tax in the consolidated financial statements as of December 31, 2005. As a result of the correction of the error, both the opening values of the revenue reserves and the deferred tax assets were reduced by TEUR 574 in each case. The adjustment is presented in the statement of changes in equity as an adjustment to the opening values as of January 1, 2006.

The presentation of equity in the balance sheet has changed with respect to the previous year insofar as the "Revenue reserves" item now contains all the company's cumulative earnings. The item unappropriated retained earnings/loss has been discontinued correspondingly, and it is now reported in a separate item "Consolidated earnings" within equity. The previous year's figures were adjusted correspondingly.

Appropriation of earnings

The annual financial statements of CURANUM AG as of December 31, 2007, which are based on German commercial law (HGB), report unappropriated retained earnings of €20,318,154.35. A proposal is submitted to the Shareholders' General Meeting to apply the unappropriated retained earnings as follows:

The Management Board and the Supervisory Board of the company recommend distributing an amount of EUR 0.10 per share, which corresponds to a total amount of TEUR 3,266. It is intended that the remaining unappropriated retained earnings should be carried forward to a new account.

In the 2007 financial year, the distribution of TEUR 3,266 was performed with respect to 2006.

Miscellaneous equity

Miscellaneous equity includes the revaluation of assets booked through equity with no impact on income (Revaluation reserve), and the mark-to-market valuation of financial instruments "available for sale" booked through equity with no impact on income (Fair valuation reserve). Recognition reflects deferred tax.

The revaluation reserve results from the first-time consolidation of VGB GmbH in 2006 (proportional release of hidden reserves relating to companies previously included at-equity, in line with the IAS 16 revaluation rules), which was carried forward to the reporting year.

Equity component of convertible bond

After the expiry of the conversion rate, and repayments of the profit-sharing capital, the equity component of the hybrid financial instrument reported as a separate item in previous years was reclassified to the capital reserve; the previous year's figure was adjusted.

Minority interests

The reduction in minority interests results from a share of losses totaling TEUR 60. The amount of losses exceeding the minority interests' share (TEUR 34) of TEUR -26 was allocated to the shareholders of CURANUM AG, and charged to Other revenue reserves.

C. Notes to the consolidated income statement

Segmental reporting

CURANUM AG supplies all services for an identical group of customers. The risk and opportunity profiles of the services are not significantly different, and they are interdependent. The internal reporting structure of the company equally makes no segmental differentiation. In addition, the company is active primarily in the German market. Segmental reporting is not performed because the company can be divided into neither different business segments nor different geographical segments.

(16) Revenue

Revenue is mainly composed of the following:

	2007 TEUR	2006 TEUR
Inpatient care including related services (catering/cleaning and laundry)	**212,235**	**199,041**
Rental income from managed apartments/outpatient care services	**11,687**	**10,506**
Miscellaneous	**6,147**	**6,178**
	230,069	**215,725**

(17) Costs of production

The costs of production contain:

	2007 TEUR	2006 TEUR
Personnel expenditure for care and services	**103,471**	**94,782**
Rents	**45,031**	**42,396**
Miscellaneous expense	**36,182**	**33,820**
Depreciation	**7,992**	**6,107**
	192,676	**177,105**

Miscellaneous expense contains the following:

	2007 TEUR	2006 TEUR
Foodstuffs	**9,492**	**7,606**
Medical care requirements	**2,323**	**2,074**
Water/power/electricity	**7,493**	**6,769**
Third-party building cleaning services/laundry	**2,082**	**4,000**
Property and other charges	**2,006**	**2,179**
Other	**12,786**	**11,192**
	36,182	**33,820**

Depreciation and amortization in the concerns amortization of intangible assets (mainly software), and depreciation of buildings, and office and operating equipment.

Other costs include expenses for maintenance, waste disposal, depreciation on receivables, legal and consultancy costs as well as expenses for training, literature and general administration.

(18) Sales costs

The sales costs are composed as follows:

	2007 TEUR	2006 TEUR
Personnel expenditure	**172**	**205**
Miscellaneous expense	**849**	**867**
Depreciation	**1**	**1**
	1,022	**1,073**

Miscellaneous expenses include mainly expenses for advertising and public relations activities of TEUR 796 (previous year: TEUR 793).

(19) General administrative costs

The administration costs are composed as follows:

	2007 TEUR	2006 TEUR
Personnel expenditure	**11,467**	**11,884**
Miscellaneous expense	**4,708**	**4,419**
Depreciation/amortization	**569**	**659**
Rents	**75**	**23**
	16,819	**16,985**

Miscellaneous expense mainly includes legal and consultancy costs (TEUR 1,857; previous year TEUR 1,754), telephone/fax/mobile telephone charges (TEUR 478; previous year: TEUR 392), and office materials, postage, ancillary money transfer costs, and other administrative costs (TEUR 1,204, previous year: TEUR 1,170).

Personnel expense and average number of employees

The personnel expense is allocated to the individual functional areas (17) to (19) as follows:

	2007 TEUR	2006 TEUR
Wages and salaries	**96,158**	**88,131**
Settlements	**323**	**526**
Professional cooperative	**1,075**	**1,012**
Social contributions	**17,554**	**17,202**
Total	**115,110**	**106,871**

The average number of staff employed during the financial year, counted by heads, was:

	2007	2006
Salaried employees	**4,374**	**4,026**
Temporary personnel	**675**	**707**
Total excluding trainees	**5,049**	**4,733**
Trainees	**214**	**150**
Total	**5,263**	**4,883**

(20) Other operating expenses / income

	2007 TEUR	2006 TEUR
Income	**4,418**	**4,224**
Expenses	**(1,816)**	**(2,016)**

Other operating income includes income from reimbursements received TEUR 229 (2006: TEUR 570), income from the release of bad debt charges applied to receivables and provisions/liabilities of TEUR 126 and 550 (2006: TEUR 2,213 and 484) as well as income that lay outside the period of TEUR 850 (2006: TEUR 932). Other operating income also includes the book gain from the sale of a care centre for the elderly in 2007 of around €0.9 million.

Other operating expenses in 2007 contain expenses from the application of a bad debt charge to receivables of TEUR 495 (2006: TEUR 2,322), expenses that lay outside the period of TEUR 103 (2006: TEUR 931), and retrospective VAT payments related to the external audit of TEUR 0 (2006: 589 TEUR).

(21) Interest expense/income

	2007 TEUR	2006 TEUR
Interest income	**296**	**817**
Interest expense for diverse loans	(3,178)	(1,305)
Interest expense for financing lease agreements	(3,989)	(4,472)
Interest expense for the convertible bond	(613)	(920)
Other financing expenditure/interest-rate derivatives	(1,983)	(1,323)
Interest expense	**(9,763)**	**(8,020)**

Other financing expense contains primarily interest paid on current accounts of TEUR 1,070 (2006: TEUR 618), interest payments for retrospective tax payments of TEUR 151 (2006: TEUR

283), interest payments for current liabilities of TEUR 85 (2006: TEUR 37), as well as guarantee commissions of TEUR 67 (2006: TEUR 72).

Interest income mainly contains TEUR 296 arising from interest-rate derivative transactions, and other current investments (2006: TEUR 43). The previous year's figure also contains interest income from loans granted, and other receivables, of TEUR 664.

(22) Income tax

The reported income tax expense is composed as follows:

	2007 TEUR	2006 TEUR
Actual tax expenditure	**4,727**	**5,472**
Deferred income tax	**3,103**	**814**
Total income tax	**7,830**	**6,286**

	2007	2006
Income tax for the current year	**3,895**	**5,287**
Income tax for previous years	**832**	**185**
Actual tax expenditure, total	**4,727**	**5,472**

The net change in deferred tax in 2007 is presented in the following table:

	2007 TEUR	2006 TEUR
Deferred tax assets status January 1	**4,867**	**7,842**
Additions from consolidation	**(48)**	**(3,119)**
Changes without impact on income	**138**	**1,308**
Changes booked through income statement	**(3,056)**	**(1,164)**
Deferred tax assets status December 31	**1,901**	**4,867**

The previous year's deferred tax asset figure changed in an amount of TEUR 574 reflects prior years' tax audit results; please refer to the notes concerning revenue reserves (Note 15).

The company's deferred tax assets and liabilities arising from temporary differences are composed follows (before netting off):

	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Change booked through income statement	Change booked through equity
	2007 TEUR	2007 TEUR	2006 TEUR	2006 TEUR	2007 TEUR	2007 TEUR
Property, plant, and equipment						
- Divergence in useful life	**133**	868	217	443	**(509)**	
- Finance leasing		872		730	**(142)**	
- Other						
Goodwill/customer base/competition prohibition	**1,311**	729	2,780	631	**(1,567)**	
Provisions			339		**(339)**	
Liabilities						
- Finance leasing	**3,880**		4,642		**(762)**	
Tax loss carryforwards	**625**		816		**(191)**	
Other items	**516**	4	639	581	**454**	
	6,465	2,473	**9,433**	**2,385**	**(3,056)**	
Consolidation	**1,504**	3,594	2,525	4,705	**(47)**	**138**
Consolidated balance sheet	**7,969**	6,067	**11,958**	**7,091**	**(3,103)**	**138**

As a result of the German Corporate Tax Reform Act of 2008, an average income tax rate of 29.825% (previous year: 38.48%) is applicable to the German companies. The applicable tax rates for foreign companies amount to 25% (previous year: 25%).

The change in the statutory situation, as well as other modifications to tax rates in Germany, resulted in a total revaluation of deferred tax of TEUR 1,427 within the CURANUM Group. Of this amount, TEUR +119 is without impact on income, and TEUR 1,546 is booked through the income statement.

As in the previous year, the loss carryforwards can be carried forward indefinitely. No deferred tax assets were formed with respect to the loss carryforwards of two subsidiaries amounting to TEUR 3,764 (previous year: TEUR 3,730).

The differences between the expected tax expense based on the arithmetic rate of taxation, and the income tax expense reported in the income statement, is presented in the following reconciliation:

	2007 TEUR	2006 TEUR
Earnings before tax	**12,687**	**15,632**
Expected tax applying tax rate applicable to the parent company of 38.48% (2006: 38.48%)	**4,882**	**6,015**
Other, non tax-deductible expenses/trade tax additions	**50**	**33**
Effect of divergent trade tax result	**342**	**213**
Prior years' tax	**884**	**-1**
Effects of the 2008 Corporate Tax Reform	**1,546**	**0**
Other effects	**126**	**26**
Tax expense (actual and deferred)	**7,830**	**6,286**

(23) Earnings per share

	2007	2006
Earnings for the period attributable to CURANUM AG shareholders	**4,917**	9,346
Weighted average number of ordinary shares outstanding (in thousands)	31,241	29,700
Earnings per share (undiluted and diluted) EUR	0,16	0,31

Undiluted earnings per share has been calculated by dividing the periodic result attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

In order to calculate the diluted earnings per share, the periodic result attributable to the ordinary shareholders as well as the weighted average of shares in circulation are adjusted for the effects of all potentially diluting ordinary shares that arise from the exercise of equity subscription rights. For this purpose, the number of ordinary shares to be taken into account corresponds to the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the basis of the conversion of all potentially dilutive ordinary shares into ordinary shares. The conversion of potential shares into ordinary shares is regarded as having been carried out on the day on which the subscription rights were granted. Potential shares with dilutive character arise in connection with the issue of the convertible bond on May 20, 1997.

Due to the convertible bond issued in 1997, the following potentially dilutive effect resulted until the repayment in 2007:

Number of convertible bond	Nominal amount EUR	Conversion price EUR	Subscription right for shares	Number of shares on conversion
2,000	2,000.00	40.00	50 units	100,000
2,000	10,000.00	40.00	250 units	500,000

The convertible bonds were repaid in 2007 after the expiry of the conversion right. There was no dilution effect in the period from the start of the financial year until the expiry of the conversion right, due to the relationship between the conversion price of the convertible bonds and the share price.

D. Notes to the consolidated cash flow statement

(24) Notes to the consolidated cash flow statement

The cash and cash equivalents item reported in the cash flow statement is identical with the reported balance sheet item, and comprises cash holdings and bank accounts in credit with a term of up to three months. Cash and cash equivalents in the CURANUM Group amount to TEUR 25,646 (previous year: TEUR 9,106).

The cash flow statement shows how the cash and cash equivalents of the CURANUM Group changed during the course of the reporting year as a result of cash inflows and outflows. This entails separating the cash flows into the areas of operating activities, investment activities, and financing activities. The cash inflows and outflows from operating activities are calculated using the indirect method. This entails adjusting pre-tax earnings to reflect non-cash expenses, which are mainly composed of depreciation/amortization and changes in provisions, as well as non-cash income, and to reflect the change in operating assets and liabilities.

The changes in balance sheet items used in the cash flow statement are adjusted to reflect non-cash effects. For this reason, changes in the related balance sheet items cannot be reconciled directly with the corresponding values in the consolidated balance sheet.

Other non-cash expenses/income result mainly from the acquisition of the equipment of Altenheim Süd GmbH. The remaining lease liability of TEUR 124 was booked through the income statement.

The cash inflows and outflows from investment and financing activities are presented using the direct method.

The net cash outflows for the purchase of subsidiaries presented in the cash inflows and outflows arising from investment activities are presented in the notes relating to the change of the scope of consolidation contained in Section A.2 Scope of Consolidation in the notes to the consolidated financial statements. The item also contains prepayments rendered relating to a corporate acquisition (TEUR 1,044), which will be concluded in the first quarter of 2008.

The outgoing payments for financing leases contain both the interest and redemption components.

E. Other disclosures and notes

(25) Financial instruments and disclosures as per IFRS 7

The following table shows the carrying values of all categories of financial assets and liabilities:

	2007 TEUR	2006 TEUR
Financial assets		
Cash and cash equivalents	25,646	9,106
Financial assets available for sale	380	371
Loans and receivables	21,258	17,863
Derivative financial instruments not used for hedging purposes	182	233
Total	**47,466**	**27,573**
Financial liabilities		
Financial liabilities reported at amortized cost	163,182	163,819
Derivative financial instruments not used for hedging purposes	0	880
Total	**163,182**	**164,699**

The following table shows financial assets and liabilities measured at fair value:

	2007 TEUR	2006 TEUR
Financial assets measured at fair value		
Financial assets available for sale	380	371
Derivative financial instruments not used for hedging purposes	182	233
Financial liabilities measured at fair value		
Derivative financial instruments not used for hedging purposes	0	880

In the case of financial assets available for sale, the price in an active market, if available, is reported as the fair value. If prices are not available for particular instruments, the company calculates fair value using a net present value calculation.

The company uses derivative financial instruments mainly to hedge interest-rate risks, and, as a matter of principle, concludes such transactions with banks, as contractual partners, that enjoy investment-grade ratings. Derivative financial instruments used in 2006 and 2007 satisfied that neither the formal criteria of a hedge in the meaning of IAS 39, nor were designated formally as hedges as per IAS 39. Measurement depends on the financial instruments correspondingly used:

The fair value of interest-rate derivatives is determined by discounting the expected future cash flows over the contractual period remaining as of the measurement date, on the basis of risk-adjusted zero interest-rate curves. When determining the fair value of the derivative financial instrument, compensation effects arising from potential underlying transactions, to the extent that these exist and a hedge has been designated, are not taken into account.

The following collateral exists with respect to bank borrowings, which represents financial assets of CURANUM AG:

- (Global) assignment of trade receivables for several loans used by operating companies amounted to TEUR 4,497 (previous year: TEUR 4,398);
- Pledging of shares in a limited company by a company utilizing a loan, and amounting to TEUR 128 (previous year: TEUR 128) ;
- Assignment of rental/lease receivables of TEUR 4,559 (previous year: TEUR 5,054).

The following table shows the adjustment account for receivables as of the reporting date, as well as changes during the 2006 and 2007 financial years:

Adjustment account	**2007** **TEUR**	**2006** **TEUR**
Opening position	*756*	*428*
Release	*-147*	*-156*
Addition	*239*	*590*
Utilization	*-158*	*-106*
Closing position	*690*	*756*

The adjustments to doubtful receivables relate to a significant extent to estimates and assessments of individual receivables based on the creditworthiness of the relevant customer, current economic developments, and the analysis of historic receivables default rates on the basis of individual items.

The following table shows the age structure of overdue, but unimpaired, receivables:

	Up to 3 months TEUR	**3-6 months TEUR**	**6-12 months TEUR**	**Over 12 months TEUR**
2007	1.757	81	25	624
2006	950	-111	239	514

The following table shows the carrying values of impaired receivables before the deduction of the impairment charge:

	2007 TEUR	**2006 TEUR**
Trade receivables and other receivables	6.944	6.532

The following table shows the net gains and losses arising from financial instruments:

	2007 TEUR	**2006 TEUR**
Financial assets available for sale		
Assets	8	0
Loans and receivables	- 66	328
Financial assets held for trading purposes	296	43
Financial liabilities held for trading purposes	180	0
Interest expenses and income arising from financial instruments, measured at amortized cost	-7,780	-6,697

The net change in unrealized gains or losses arising from financial assets available for sale was reported in an amount of TEUR 8 (previous year: TEUR 0) in 2007 in equity, as part of the Fair valuation reserve within miscellaneous equity.

Net gains and losses arising from loans and receivables contain changes in adjustments, gains or losses arising from elimination, and cash inflows and revaluations relating to loans and receivables originally written off.

Net gains and losses arising from financial assets and liabilities held for trading purposes contain changes to the fair value, as well as realized disposal gains relating to the derivative financial instruments (including interest income and expenses), for which no hedge accounting is applied.

Interest expenses and income arising from financial instruments measured at amortized cost comprise interest income and expenses from loans that have been drawn down, the convertible bond of Fazit GmbH, the convertible bond, and finance lease liabilities.

IAS 39 differentiates between the following measurement categories:

- Financial instruments booked through the income statement at fair value;
- Financial instruments held to maturity;
- Financial instruments available for sale;
- Loans and receivables extended.

By contrast, financial liabilities are allocated to the following two categories:

- Financial instruments booked through the income statement at fair value;
- Miscellaneous liabilities.

Depending on the categorization of the financial instrument, measurement is at either fair value or amortized cost.

Fair value corresponds to the market or stock exchange price, to the extent that the financial instruments being measured are traded in an active market. If there is no active market for a financial instrument, the fair value is calculated using appropriate finance-mathematical methods, such as recognized option pricing models, or the discounting of future cash flows using the risk-adjusted market rate of interest. Amortized cost corresponds to cost minus redemptions, impairments, and the amortization of a difference between cost and the amount repayable at maturity.

Financial instruments are reported at the time of the conclusion of the related agreement, or acquisition. The related item is only booked out if the contractual right to cash flows expires, or this right is transferred to a third party.

Primary financial instruments

At CURANUM AG, primary financial instruments comprise trade receivables, as well as particular Other assets, cash and cash equivalents, securities, and investments. Financial liability instruments consist of trade payables, as well as particular Other liabilities, bank borrowings, lease liabilities, and financial liabilities.

As of the reporting date, there were no primary financial instruments at CURANUM AG belonging to the category of either financial instruments measured at fair value and booked through the income statement, or financial instruments held to maturity. Trade receivables and Other assets are measured at amortized cost. Identifiable risks relating to assets are recognized through the formation of appropriate specific write-downs. Due to a lack of reliable corporate information, and for reasons of materiality, shareholding investments are not measured at equity, but instead at a fair value of zero.

Securities are allocated to the "available for sale" category. The reporting-date measurement at fair value of instruments available for sale is performed directly in equity taking into account deferred tax (Fair valuation reserve), to the extent that there is no significant, or longer-lasting, decline of fair value below cost, or the security is to be sold.

To the extent that they are not used as hedging instruments, financial liabilities are measured at amortized cost. These particularly relate to trade receivables, financial liabilities (bank borrowings and borrower's note loans), and Other liabilities. Non-current non-interest-bearing liabilities are recognized using the amount required to satisfy the obligation, discounted to the reporting date. The interest rate used is a pre-tax interest-rate that reflects current market expectations with respect to the interest-rate effect, as well as risks specifically applying to the circumstances. By way of divergence from this practice, obligations arising from age-related part-time working agreements are discounted using the fiscal interest-rate (5.5%), for reasons of materiality. Finance lease liabilities are measured at present value as per IAS 17.

Derivative financial instruments

At the CURANUM Group, derivative financial instruments relate to interest rate derivative transactions that are used, as a matter of principle, to hedge interest-rate risks. Derivative financial instruments are measured at fair value. If the requirements of IAS 39 regarding hedge accounting have been satisfied, the hedges are designated either as fair value, or as cash flow, hedges from this time. Derivative financial instruments that do not satisfy these requirements are measured at fair value as of the reporting date.

Fair value hedging entails the hedging of the fair value of a reported asset or liability, or of an unreported fixed obligation. The changes in the market valuations of derivative financial instruments, and their related underlying transactions, are booked through the income statement. A cash flow hedge entails the hedging of highly probable future cash flows. To the extent that they are included in cash flow hedge accounting, changes in value are booked in Miscellaneous equity, with no impact on income, taking deferred tax into account. Once the underlying transaction takes effect, the item is reclassified out of Cumulative miscellaneous equity, and booked through the income statement.

Impairment

An impairment test is performed for trade receivables and other receivables at least once a year. It is performed for capitalized finance leases only when there are specific indications that impairment has occurred. Impairment is booked to an individual account (please refer to the Impairment account), if the present value of the financial assets relating to the expected future cash flows when discounted using the original effective rate of interest is less than the carrying value. A review is performed at least once a year to establish whether there is an indication that the reason for impairment no longer exists, or the amount of the impairment applied has fallen. In this case, the present value of the financial assets is recalculated, and the impairment previously applied is reversed correspondingly.

The present value is always calculated for each individual asset. CURANUM AG measures receivables on the basis of various parameters, such as interest rates, the specific creditworthiness of customers, and the risk structure of the financing transaction. In the case of all other financial assets, there are the following objective indications of impairment:

- Significant financial difficulties on the part of the issuer or counterparty;
- Default, or delay in payment, of interest or redemption payments; or
- Increased probability that the debtor enters insolvency, or another type of reorganization.

CURANUM AG uses this measurement to form adjustments for expected receivables defaults.

CURANUM AG is mainly exposed to interest-rate risks. These arise from the sensitivity of financial investments and liabilities, and resultant interest payments, to changes in market interest rates. The company endeavors to limit such risks to the use of interest-rate derivatives.

CURANUM AG uses interest-rate derivatives to hedge the interest-rate risk of individual items arising from particular interest-bearing financial investments and liabilities. When such transactions are entered into, a check is performed to ascertain whether the preconditions to hedge accounting according to IAS 39 are satisfied. If all of these prerequisites are satisfied, the hedge is formally designated as such. Irrespective of designation as hedge accounting as per IAS 39, all interest-rate derivatives utilized are reported at fair value among both current and non-current other assets. Depending on designation (cash flow hedge, fair value hedge, not used for hedging purposes), the company books changes in fair value through the income statement as financial result, or in equity in the item Miscellaneous equity, with no impact on income. CURANUM AG also books the balance of payments that are received and rendered as part of interest-rate derivatives used for hedging purposes in the financial result.

No swap contracts were designated as hedge accounting as per IAS 39 in 2006 and 2007. The corresponding changes in fair value of the swap transactions were consequently reported directly to the income statement in the financial result.

The following table presents the fair values and carrying values of financial assets and liabilities measured at cost or amortized cost:

	2007 TEUR Fair value	**2007 TEUR Carrying value**	**2006 TEUR Fair value**	**2006 TEUR Carrying value**
Financial assets measured at (amortized) cost				
Cash and cash equivalents	25,646	25,646	9,106	9,106
Rental and lease prepayments	10,982	10,982	9,862	9,862
Trade receivables	6,411	6,411	5,953	5,953
Other receivables	3,865	3,865	2,048	2,048
Financial liabilities measured at (amortized) cost				
Trade payables	3,194	3,194	3,210	3,210
Bank borrowings and profit-sharing capital	80,036	88,080	84,886	83,677
Liabilities arising from finance leasing	64,039	58,130	64,907	62,128
Other financial liabilities	13,778	13,778	14,804	14,804

The fair values of cash and cash equivalents, trade receivables, other current financial receivables, trade payables, and other current financial liabilities, approximately correspond to their carrying values. This is particularly due to the short maturity of these instruments. The same also applies to the prepayments related to lease agreements, taking into account the present value of future lease reductions, since the future lease installments would have been set at correspondingly higher levels excluding the prepayments.

CURANUM AG measures receivables on the basis of various parameters, such as interest rates, the specific creditworthiness of customers, and the risk structure of the financing transaction. CURANUM AG uses this measurement to form adjustments for expected receivables defaults. This also means the carrying values of these receivables, minus impairments, correspond approximately to their fair values as of December 31, 2006 and 2007 respectively.

CURANUM AG determines the present value of bank borrowings and other financial debt, finance lease liabilities, and other non-current financial liabilities through discounting the expected future cash flows using interest rates for similar types of finance debt with comparable maturities. When determining the fair value of finance lease liabilities, the nominal value of the minimum lease payments is distributed evenly over the assumed average residual maturity. Maturity is calculated on the basis of weighted average residual maturity. This is used to calculate the interest-rate for similar finance debt. The interest rate is used to discount future cash flows.

Changes in interest rates have an impact on both the operating business as well as the investments and financing activities of CURANUM AG, and may give rise to significant cash flow and earnings risks. The company primarily endeavors to manage and monitor the related risks as part of its ongoing business and finance activities. If necessary, it manages risks using derivative financial instruments, particularly swap transactions.

Managing financial market risks is a primary task incumbent on the Management Board of CURANUM AG. This part of the overall risk management system falls into the area of responsibility of the chief financial officer. The Management Board of CURANUM AG carries overall responsibility at the highest level, and delegates this responsibility to the central treasury department for operating and entrepreneurial reasons. CURANUM AG pursues risk management using a system based on sensitivity analyses. These sensitivity analyses enable the treasury, as the central department responsible, to approximately gauge the risk emerging within given assumptions as part of an observation performed on a ceteris paribus basis, and when particular variables are changed within a defined scope. The risk analysis regularly entails parallel movements of yield curves by up to 100 basis points (1.0%).

Resultant potential economic effects represent estimates. They are based on the assumed occurrence deteriorations in market conditions imputed as part of the sensitivity analysis. As a result, the actual effects on the consolidated income statement may diverge significantly from actual market developments.

Further significant risks, such as occur typically for industrial, production or service companies, are largely excluded at CURANUM AG. There are no country or foreign exchange risks. Default risks are minimal due to the high share of proceeds from public funds, since, if a resident is unable to pay for services, social security funds make up the difference. There are no concentrations of risk on the procurement or sales sides, especially since, within purchasing, sufficient diversification is ensured in all areas.

Currency risk

Due to the fact that transactions are denominated almost exclusively in euros, there are no currency risks from current receivables, liabilities, and debt.

Interest-rate risks

The interest-rate risk of CURANUM AG results predominantly from interest-bearing financial liabilities, which is minimized, since a large portion of these liabilities have fixed rates of interest for their duration. All real-estate-collateralized loans have fixed and long-term interest-rate arrangements. The convertible bond, which was repaid in 2007, excludes participation in the profits of the company and also carries a fixed rate of interest. Further acquisition loans have partly variable structures, and the interest is calculated on the basis of EURIBOR plus a market-normal lending margin. Overdrafts are also subject to short-term fluctuations in market interest rate. CURANUM AG pursues a risk-minimization strategy with respect to the risk from unexpected increases in interest expense by distributing related risks among several banks, and constant monitoring of current interest-rate developments.

CURANUM AG concluded three interest-rate derivative transactions with a total volume of €12.5 million in 2006 in order to reduce the interest expense arising from the convertible bonds and overdraft facilities, which are based mainly on the interest-rate differential between the EURIBOR interest rate across various terms. These were booked out in their entirety from the accounts in 2007.

An interest-rate derivative transaction of €10.0 million was concluded to minimize the risk related to the acquisition financing for the Dr Lohbeck Group, the terms of which have been set precisely to reflect the term and volume of the financing. Since the financing is structured on a variable basis, and becomes more expensive given rising interest rates, the interest-rate derivative transaction hedges rising interest rates on a 1:1 ratio, in other words, rising interest costs are hedged given a defined increase in EURIBOR. The interest-rate derivative volume reduces in parallel to the repayment of the loan.

As a matter of principle, the interest-rate derivative transactions are monitored constantly by the cash management and treasury functions, and changes to the interest-rate and relevant spreads are reported directly to the Management Board. CURANUM AG also cultivates intensive exchange with commercial banks so as to be informed about current interest-rate developments, relevant influencing factors, and their effects on future interest rates. The bank also reports regularly regarding the development of the interest-rate derivatives.

Depending on the corresponding financial instrument, CURANUM AG measures interest-rate risks either on the basis of their value, or a cash flow sensitivity analysis, and aggregates these in order to calculate overall risk for the Group. On the investment side, interest-rate risks exist with respect to falls in variable market interest rates, and, on the borrowing side, with respect to fixed interest rates when market interest rates fall; in the case of investments with fixed rates, and borrowings with variable rates, the risk results from rising market interest rates.

When calculating the sensitivities of the fair values of fixed interest-rate instruments, the change in fair value, defined as net present value, is simulated by a parallel movement of the yield curve by 100 basis points. In the first step of the calculation, gross cash flows are discounted using the term-congruent interest-rates taken from the yield curve, in other words, the net present value of the future interest and redemption payments of the fixed-interest financial instrument is calculated. In the second step of the calculation, the gross cash flows are discounted by moving the yield curve in parallel by 100 basis points. Generally recognized and published yield curves as of the relevant reporting date are used as the basis for the calculation. The interest-rate risk of the fair values results primarily from long-term fixed-interest finance debt, as well as from interest-bearing investments.

On the basis of the premises presented above, the sensitivity analysis generated an interest-rate risk to the fair values of TEUR 1,455 as of December 31, 2007.

In the case of variable interest-rate instruments, CURANUM AG measures interest-rate risk using a cash flow sensitivity analysis. The risk analysis also entails parallel movements of the yield curve by up to 100 basis points (1.0%). Such risks result mainly from variable interest-rate finance debt.

Based on the premises described above, the sensitivity analysis generates a cash flow interest-rate risk of TEUR 1,556 as of December 31, 2007.

Default risk

Default risk describes the risk of a loss for the Group if a contractual party fails to fulfill its contractual obligations. The default risk relating to financial assets is reflected through appropriate adjustments that take existing collateral into account. Various hedging measures are used to reduce default risk of primary financial instruments, such as raising collateral or guarantees, as well as credit checks based on credit information and historical data.

Liquidity risk

CURANUM AG's liquidity risk relates to its potentially being unable to satisfy its financial obligations, for example, the redemption of finance debt, the payment of trade payables or other liabilities, and finance lease obligations. CURANUM AG limits this risk through effective cash management, as well as access to credit lines at various banks with excellent credit ratings.

CURANUM AG limits its liquidity risks as a result of secure government grant payments, as well as through the continuous improvement of its treasury and cash management system, and of its invoice reminder system.

The following table presents all contractually fixed, non-discounted cash outflows and payments as of December 31, 2007 for redemptions, repayments, and interest-rate payments arising over coming years from financial liabilities entered in the balance sheet.

	2008 TEUR	**2009-2012 TEUR**	**2013 and after TEUR**
Nonderivative financial liabilities			
Bank borrowings	13,413	71,535	20,029
Miscellaneous finance debt (convertible bond)	383	383	4,788
Trade payables	3,194	0	0
Other financial liabilities	76,961	312,028	527,355
Finance lease liabilities	7,362	27,211	51,376

** Other financial liabilities include future obligations arising from rental, lease, and maintenance agreements*

The table solely presents the risk of payment outflows. Liabilities arising from finance leasing, trade payables, and other financial liabilities derived from the financing of utilized operating assets, such as property, plant, and equipment, and from the financing of current assets (e.g. inventories and trade receivables). CURANUM AG takes these assets into account through its effective management of overall liquidity risk. The central treasury department is responsible for the monitoring of financial assets and liabilities that are in place, and for effectively managing future risks. The overall view of liquidity and debt is established through calculating the net cash or debt position, and is used for internal financial management, as well as for external communications with financial investors, analysts, and banks.

The following table shows the net cash or debt position as of December 31, 2007, as well as its comparison to the previous year:

	2007 TEUR	2006 TEUR
Cash and cash equivalents	25,646	9,106
Current financial assets available for sale	380	371
Total cash position	**26,026**	**9,477**
Current finance debt and current portions of non-current finance debt	7,843	30,837
Non-current finance debt	138,367	114,968
Total finance debt	**146,210**	**145,805**
Net debt	**120,184**	**136,328**

Net cash or debt is the sum of cash and cash equivalents, and current financial assets available for sale, minus current and non-current bank borrowings, as well as finance lease liabilities, as reported in the balance sheet.

Additional disclosures concerning capital management

As of December 31, 2006 and 2007 respectively, equity and debt amounted to the following:

	2007 TEUR	2006 TEUR
Equity	**62,480**	**38,593**
As % of total equity and liabilities	*26.1%*	*17.5%*
Current finance debt and current portions of non-current finance debt	7,843	30,837
Non-current finance debt	138,367	114,968
Debt	**146,210**	**145,805**
As % of total equity and liabilities	*61.0%*	*66.0%*
Total capital	**208,690**	**184,398**
Total equity and liabilities	**239,656**	**219,928**

The equity ratio rose from 17.5% in 2006 to 26.1% in 2007. This increase primarily reflects the cash capital increase in 2007. Debt increased by only 0.2% of total capital compared with the previous year. This had the overall effect in 2007 of an increase of equity to 29.9% of total capital, compared with 20.9% on the previous year. The debt to total capital ratio fell from 79.0% in 2006 to 70.0% in 2007.

(26) Events following the reporting date

As of January 2008, CURANUM Holding GmbH acquired 100% of the shares and voting rights in ELISA Seniorenstift GmbH, Munich, and 100% of the shares and voting rights in ELISA Seniorenstift Aschaffenburg GmbH.

The purchase costs arising from this corporate merger amounted to €21.7 million, of which €20.6 million derived from the purchase price for the above-mentioned shares, and €1.1 million derived from costs directly attributable to the merger. Due to the fact that the purchase has only just been performed, and the time involved in calculating fair values, the purchase price allocation has not yet been completed.

(27) CURANUM AG boards, and supervisory and management board remuneration

The company's *Management Board* comprises the following members:

Hans-Milo Halhuber, Grünwald
(Management Board Chairman - CEO)

Bernd Scheweling, Munich
(Chief Operating Officer / Member of the Management Board until August 7, 2007)

Bernd Rothe, Munich
(Chief Financial Officer)

Sabine Merazzi-Weirich, Munich
(Chief Operating Officer / Member of the Management Board since January 1, 2007)

The remuneration of the Management Board totaled TEUR 1,390 in 2007 (previous year: TEUR 2,069).

The company's *Supervisory Board* comprises the following members:

Dr. Michael Roggen, Lawyer, Meerbusch
(Member and Chairman until September 27, 2007)

Dr. Dieter Thomae, Graduate of Business Studies, Sinzig-Bad Bodendorf
(Deputy Chairman until September 27, 2007, Chairman from September 27, 2007
those brackets

Bernd Scheweling, Business Economist, Munich
(Member since September 7, 2007, and Deputy Chairman since September 27, 2007)

Michael Sasse, Notary, Sasse & Ackermann Legal Practice, Schwelm
Angelika Pohl, Senior Employee, CURANUM AG Munich
Sabine Klöckner, Head of Department CURANUM AG, Munich

Remuneration for members of the Supervisory Board totaled TEUR 45 (previous year: TEUR 70).

Management Board remuneration consists of a fixed salary, and a profit-related component. Management Board remuneration is due exclusively on a short-term basis.

Management Board	Salary	Bonus	Total
Hans-Milo Halhuber	212	412	624
Bernd Scheweling (until 06.09.2007)	175	196	371
Sabine Merazzi-Weirich	128	70	198
Bernd Rothe	127	70	197

(28) Related parties

According to IAS 24, disclosure must be made of persons or companies that control CURANUM AG, or are controlled by CURANUM AG. The disclosure requirements of IAS 24 extend to include persons that may exercise a significant degree of influence on the company, in other words, persons (including their close family members) who participate in the company's financial and business policy, but who do not control the company. In the 2007 financial year, this concerned the members of the Supervisory Board and Management Board of CURANUM AG.

AVG Altenheim Vermietung Geschäftsführungs GmbH, Munich

AVG, which was controlled by the Board of CURANUM, qualified as a related company in the meaning of IAS 24. Control of this company discontinued in 2007. In addition, there were no contractual relations, and there was no exchange of services.

In the previous year, the following relations existed with AVG (the presentation is made from the perspective of the CURANUM Group):

	2006 TEUR
1. Income from services	274
2. Real estate purchases	8,815
3. Granting (+)/drawdown (-) of loans	0
4. Redemption of loans (inflow (+); outflow (-))	2,980
5. Purchase (+)/sale of receivables (-) (net)	0
6. Corporate purchases (receivable (+)/liability (-))	0
7. Interest (income (+); expense (-))	127

Transactions 1-3 and 5-7 occurred between AVG and CURANUM AG subsidiaries. The granting and redemption loans occurred between AVG and CURANUM AG. The balance of the receivables of the CURANUM Group amounted to TEUR 0 as of December 31, 2006.

Maxxware Computer Concepts GmbH

Maxxware, which is controlled by the a member of the Management Board of CURANUM, qualifies as a related company in the sense of IAS 24. A CURANUM Group company procured services from the company Maxxware in 2007 amounting to TEUR 236 (previous year: TEUR 317). As of the accounting reporting date, a receivable existed of TEUR 1 (2006: 2).

CURANUM Beteiligungs GmbH

CURANUM Verwaltungs- und Beteiligungs GmbH & Co. KG rendered a monthly fee of TEUR 12 to its general partner for taking over management duties and liability. In 2007, Curanum booked a total of TEUR 144 (2006: TEUR 139) as expenditure. There were no liabilities due for in this company as of the reporting date (2006: TEUR 0).

Transactions with members of the supervisory and management boards

A purchase option exists between CURANUM AG and a Management Board member through the remaining minority share (6%) in a Group company.

Supervisory Board members rendered legal advisory services to the CURANUM Group in 2007 amounting to TEUR 502, and of TEUR 102 arising from other consultancy agreements.

All of these services were rendered on terms equivalent to those that would have been agreed with third parties.

(29) Auditor's fee

Auditor's fees of TEUR 309 relating to the audit of the annual financial statements of CURANUM AG, as well as the audit of the consolidated financial statements, were expensed; in addition, TEUR 156 for the audits of the corresponding previous year's financial statements were reported as expense unrelated to the period.

(30) Utilization of the release provision pursuant to § 264 Paragraph 3 / § 264b of the German Commercial Code (HGB)

All companies, which were included as part of full consolidation in the consolidated financial statements of CURANUM AG, utilize the release from the obligation to prepare, audit, and publish annual financial statements and management reports in accordance with the provisions applying for public limited companies were listed in the Notes.

(31) Declaration relating to the Corporate Governance Code

The Management Board and Supervisory Board of the Company issued the declaration required pursuant to § 161 (the so-called "Declaration of Compliance") relating to the German Corporate Governance Code, and it was made permanently accessible to shareholders in April 2007.

Munich, March 17, 2008

CURANUM AG

The Management Board

Halhuber Rothe Merazzi-Weirich

AUDIT OPINION

We have audited the consolidated financial statements prepared by CURANUM AG, Munich, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the financial statements, together with the Group management report for the financial year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Paragraph 1 of the German Commercial Code (HGB), are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany / IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the assets, liabilities, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework, and in the Group management report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements, are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system, and the evidence supporting the disclosures in the consolidated financial statements and the Group management reports, are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has led to no reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Paragraph 1 of the German Commercial Code (HGB), and provide a true and fair view of the assets, liabilities, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, and, as a whole, provides an appropriate view of the Group's position, and suitably presents the opportunities and risks relating to future development.

Munich, March 17, 2008

Wirtschafts**Treuhand** GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Bühler	Ernst
Certified Public Auditor	Certified Public Auditor