Annual Report 2006/2007

HOTEL CONCEPT
Satisfaction of customers' requirements via highly specialised operation

"WE ARE IN AN EXCELLENT POSITION"
Interview with the Management Board members Axel Hölzer and Ennio Laviziano

HEALTHY FOOD
Individual nutritional programmes have a positive impact on health

MARSEILLE-KLINIKEN AG

Main Group figures (IFRS)

		2006|2007	2005|2006	Change in %	Page
Results					
Operating sales	€ m	214.8	210.4	2.1	69
EBITDAR*	€ m	61.8	58.0	6.7	-
EBITDA*	€ m	28.9	30.9	-6.3	-
EBIT*	€ m	20.2	19.4	4.4	-
EBIT margin*	%	9.4	9.2	2.2	-
Net income	€ m	9.1	8.9	-7.0	71
ROS*	%	4.9	4.4	10.6	-
DVFA/SG result	€ m	10.5	9.3	12.9	70
Gross cash flow*	€ m	23.0	25.8	-181.8	-
Balance sheet					
Non-current assets	€ m	193.5	250.2	-22.7	73
Investments	€ m	5.5	9.3	-40.9	73
Shareholders' equity**	€ m	71.2	66.8	6.6	73
Equity ratio	%	23.0	20.7	11.3	73
Return on equity***	%	14.7	13.9	5.9	-
Financial debt	€ m	121.1	129.5	-6.4	-
Financial ratio	%	39.2	40.1	-2.3	-
Per capita sales	€ '000	55.0	56.6	-2.9	-
Other key indicators					
Total dividend	€ m	3.0	2.2	34.4	-
Dividend per share	€	0.25	0.45	-44.4	71
DVFA/SG result per share	€	0.86	0.76	12.9	70
Employees	Average number	5,139	4,849	6.0	70
Facilities	Number	63	62	1.6	67
Bed capacity	Number on 30.06.07	8,765	8,703	0.7	67
Occupancy rate****	%	89.7	88.2	1.7	67

* taking DVFA/SG adjustment items into account

** including 73.6 % special items with an equity portion

*** DVFA result/Group shareholders' equity

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

Operating sales in € m

DVFA result in € m

Mission statement

People age. They need help and care as they grow older. Marseille-Kliniken has been there for these people throughout Germany for more than 20 years now. It is our mission to enable them to enjoy as pleasant and decent an environment as possible during this final stage of their lives.

We set standards on the market in the nursing and rehabilitation fields with our professional skills and with our innovative and specialised programmes. We intend to participate to a disproportionately large extent in market growth and aim to reach and sustain a position as quality and innovation leader. High-quality, flexible facilities, loyal, motivated and well-trained staff who are committed to the people they care for as well as a clear and straightforward strategy based on the fundamental principles of social responsibility, customer orientation and economic viability guarantee us a sound future.

Segments

		2006|2007	2005|2006
Sales	€ m	164.9	158.5
DVFA result	€ m	12.7	12.9
Employees	Average number	2,985	2,743
Facilities	Number	53	52
Bed capacity	Number on 30.06.07	7,287	7,134
Nursing days	Million	2.3	2.2
Occupancy rate*	%	92.8	91.6

* excluding the facilities that started operation

Nursing care

The nursing division is responsible for all the operations associated with nursing care for the elderly and handicapped. The residents receive personal attention and skilled nursing care in a comfortable home at 53 different facilities. Special nursing concepts take specific account of the needs of the residents.

		2006|2007	2005|2006
Sales	€ m	48.3	47.7
DVFA result	€ m	-2.3	-3.6
Employees	Average number	621	627
Clinics	Number	10	10
Bed capacity	Number on 30.06.07	1,478	1,569
Cases treated	'000	17.0	16.4
Occupancy rate	%	75.9	74.2

Rehabilitation

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

		2006|2007	2005|2006
Sales	€ m	58.5	59.1
Employees	Average number	1,533	1,479

Services

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

Contents

Highlights

The past year at a glance

8,765

Total bed capacity
on 30.06.2007

Applause from the shareholders

107th Annual General Meeting

More than 160 shareholders accept the invitation to attend the Annual General Meeting of Marseille-Kliniken AG that was held at Ludwig Erhard Haus in Berlin on 6 December 2006. They are satisfied with the positive development of the business, which is reflected in an increase of 4.4% in sales and an improvement of almost 4% in earnings. The Management Board Chairman Hölzer explains that the expansion of the core business is continuing and adds that Marseille-Kliniken is making good progress towards becoming the biggest operator of nursing facilities with a stock market listing. The proposal to pay a dividend of €0.45 per ordinary share is approved unanimously.

Supervisory Board Chairman Ulrich Marseille and Management Board Chairman Axel Hölzer (from left to right).

Unimpressive performance by the nursing care system

In Berlin on 21 March 2007, the opinion research institute TNS Emnid presents a survey about the situation in the nursing care field in Germany that was commissioned by Marseille-Kliniken AG. The results are disenchanting and alarm both politicians and the media. According to the survey, every fifth German already has someone who requires nursing care in his or her family environment. The relatives providing the necessary care feel abandoned by state and society in this context. The survey also reveals that the country's citizens are badly informed about how explosive the nursing care issue is and make practically no financial provision for funding nursing care. The extensive public debate is dominated by two conclusions: 1. a reform of the German nursing care system is needed urgently and 2. people dependent on nursing care and their relatives require not only intensive support but also greater transparency about the system and the range of nursing care that is available.

NISZERT
Zertifiziertes QM-System
DIN EN ISO 9001.2000.12

Quality

Trendsetter in quality policy

Marseille-Kliniken is the first market player in nursing care for the elderly that aims to have the management systems at the facilities reviewed to determine their compliance with the DIN EN ISO 9001 standards and, in certain areas, with the KTQ system for nursing care. In order to guarantee and optimise the high quality standards, efficient instruments for reaching objectives successfully are being established, with documentation in the integrated management system OHB. Individual action plans are specified and documented for achievement of each of the quality goals.

"Quality is assured in all areas of our company. Every single employee has personal responsibility for the quality of his work. Specifications made at a higher level are communicated to him and can be consulted at any time", stresses Hölzer.

Presentation of the 2007 nursing science prize

Marseille-Kliniken AG presented the nursing science prize for the fourth time on 26 January 2007 during the "Nursing 2007" congress in Berlin. Prizes were awarded for two research projects due to the high quality of the entries. The prize worth € 7,500 went firstly to Ms Christin Hess, who focusses on the risks of poor nutrition in her project. Professor Birgit Vosseler, who demonstrates in her empirical study that the provision of advice about nursing care at an early stage can help people requiring such care to live more independently, received the second prize.

Management Board Chairman Axel Hölzer presented the 2007 nursing science prize to the two winners in Berlin: Christin Hess (on the left) and Professor Birgit Vosseler.

Highlights

Third sale-and-leaseback transaction

GROSVENOR HOUSE GROUP PLC

Following two transactions in December 2004 and 2005 totalling € 171 million, Marseille-Kliniken sells six more facilities: three from the nursing division and three from the rehabilitation division. They are bought by the investor Grosvenor House Group, which pays € 95.5 million for the homes. Marseille-Kliniken leases the facilities back on long-term contracts at the same time. With the sale, the proportion of Marseille-Kliniken's total portfolio accounted for by owned property decreases to 20%.

Attention should be drawn to the fact that the majority of the transaction volume (more than 60%) is accounted for by the rehabilitation division. The price agreed in this area covers more than 90% of the book value of the rehabilitation division in the company accounts; this means that Marseille-Kliniken is realising hidden reserves in the rehabilitation division and is therefore facilitating the planned sale of the business operations of this division.

290 new employees in the 2006|2007 financial year

Allianz

Company old-age pension scheme

Together with Allianz Pensionskasse AG, Marseille-Kliniken establishes Soziale Dienste e.V. The new concept creates a pension fund for Marseille employees, into which employer and employee pay equal amounts. The pension fund is also open to include further companies that operate in the area of nursing care for the elderly. "Our aim in setting up the pension fund is to reward our staff for their good work, to motivate them and to achieve long-term loyalty to our company", explains Axel Hölzer, Chairman of the Management Board of Marseille-Kliniken AG.

Opening

A unique "feel-good home" opens

February 2007: a unique project starts. Together with the Turkish community in Berlin, Marseille-Kliniken AG opens a nursing home for Turkish immigrants in Berlin-Kreuzberg. Türk Huzur Evi means something like "feel-good home" and the primary aim is for people with a Turkish background who require nursing care to feel good there. 155 single and double rooms are available. Culturally sensitive care is provided. This means that the personnel speak two languages and that men are cared for by men, while women are looked after by women. There is a prayer room that faces Mecca and the Turkish chef prepares the meals according to specific cultural preferences. Freshly prepared, genuine Turkish tea is always served in the tea room, where Turkish music is played in the background. A project that has attracted great attention in the national and international media too. "With the help of this concept, we are providing affordable nursing care and aim to create a financially and culturally appropriate programme for these people" is how Axel Hölzer, Chairman of the Management Board of Marseille-Kliniken AG, summarises his company's involvement.

Türk Huzur Evi: People with an immigrant Turkish background who require nursing are given culturally sensitive care here.

153 new beds in the 2006|2007 financial year

“Our position on the market has improved decisively with the entry into the 2-star home and assisted living segments.”

Dear shareholders and friends of the company,

Repetition is often boring, but it is sometimes very comforting. Looking back on the 2006/2007 financial year, I can say once again that your company is in a phase of steady, innovative optimisation and that the objectives set are being reached successively. Based on fundamental decisions that have been taken in recent years, we are establishing Marseille-Kliniken as the leading private operator of health care facilities and are expanding the company into a brand with unique features on the nursing care market. In our core nursing business, we have adapted the business model to the changes in market conditions and are entering new market segments that have been largely neglected up to now. The rehabilitation division has been reduced to a profitable core with a promising future and the balance sheet has been optimised. Rehabilitation is definitely not a business of strategic importance to us any more, but it does not restrict our scope for further growth in the nursing operations either. The next steps we plan to take are clear. We are working systematically on further optimisation of the business division and aim to find the right partner as quickly as possible.

Marseille-Kliniken AG developed largely as we expected in the 2006/2007 financial year. Group sales increased by about 4% and earnings improved to a disproportionately large extent thanks to the highly profitable nursing division. Following successful adaptation of the portfolio and optimisation of the balance sheet, potential operational and balance sheet risks are very unlikely in future. Group capacity has exceeded the 9,000 bed mark substantially and it appears at the present time that it will be possible to reach the goal of increasing the number of beds operated to 12,000 by 2008 without any difficulty. The average occupancy rate in the Group is more than 90%; in the nursing division it is considerably higher than the market average of 90% at 94%. The extensive restructuring of the property portfolio has been completed to a large extent. In the context of a third sale-and-leaseback transaction, we have sold six more properties – three from the nursing division and three from the rehabilitation division with a total of 1,304 beds – to the British investor Grosvenor House Group PLC and have leased them back on long-term contracts. The breakdown of our property portfolio is now about 20% owned facilities and 80% leased facilities. The proceeds of € 57 million from the sale of the rehabilitation facilities cover 90% of the total book value of this segment in the company accounts. We will be using the proceeds of this sale not only to reduce long-term financial debt but also to fund growth in the nursing division. The stock market responded positively to the progress we have made in all areas throughout the year.

Profitable growth is and remains the core of our strategy. We are operating on a market that is growing very fast for demographic and social reasons. You can read in the section entitled “Market” how the number of people in need of nursing care and the number of inpatient facilities required will be developing in the next few decades. The substantial growth is, however, combined with an increase in the quality demands made by customers. People who need nursing care are no longer willing merely to take what they can get. They expect high-quality services that are in line with their financial resources. The demand reflects differences in income groups and social classes, whose requirements on equipment and furnishing, service and interior design vary. At the same time as this, the increase in the need for nursing care goes hand in hand with a decrease in the proportion of the nursing care charges funded by the nursing care insurance system. About 90% of all nursing care beds correspond to what is defined by the government as the 3-star standard today. People who cannot afford this, receive welfare payments. In view of the decrease in pensions in real terms and the limited resources of the nursing care insurance funds, this system cannot be maintained in the long term at the financial level in the face of a steadily increasing number of people in need of nursing care. As the expert Professor Raffelhüschen says, the traditional all-round standard nursing care package is a model that is becoming obsolete (see page 20).

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

We are anticipating the obvious trend towards market segmentation with a strategic concept that is based on two main elements. On the one hand, we are uncompromising in our emphasis on the achievement and maintenance of high quality. The timeless and comprehensive observance of high quality standards is essential for an operator of nursing facilities with a branch system. Our quality standards also include specialisation on conditions encountered in old age at our facilities. Specialisation as a distinguishing feature is in the meantime a critical success factor on which optimum home occupancy rates depend. Our new AMARITA home Hamburg-Mitte – connected to the nearby Marienkrankenhaus Hospital by a tunnel – is an excellent example of innovative concepts with which it is possible to offer patients in need of nursing care medical services that match the standards of highly respected clinics.

On the other hand, we are segmenting our products and broadening our range. With classification into assisted living and 2-, 3- and 4-star homes for inpatient nursing care, we hold a position that is very different from the market as a whole, with reference exclusively to the standard of home furnishing. We can provide high-quality nursing care and service for practically all income levels and can offer a living environment that is in line with personal wishes and financial resources. We cover all the service requirements of elderly people with our range of assisted living, integrated outpatient and inpatient care concepts and the nursing clinic concept. The 2-star concept has given us the reputation of being the "Aldi" of the nursing care market. Although this honours us at the corporate level, it is factually inaccurate. We do not economise on personnel and do not restrict the programme to a core range either. What we provide is optimum value for money, where the proportion of the nursing care charges accounted for by rent is concerned, no matter how deep the resident's pockets are. We prefer to base our operations on the market behaviour of branch organisations and hotel chains, which have consistent quality standards but classify their hotels by price categories and operate them under different brand names. Payment differences are reflected in the location of the property and its furnishing. We are presenting the hotel concept we have developed from this in detail in a separate chapter.

We are very certain that the nursing market needs good alternatives in the lower price segment. We are investing in this sector in the same way that we are carefully expanding the 4-star segment. We see growing demand at both ends of the market. Our position on the market has improved decisively with the entry into the 2-star home and assisted living segments. A need for nursing care cannot be controlled politically, either in one's own four walls or in an inpatient single room. Flexible help is required when nursing care becomes necessary. This is what we are there for – with a programme that is tailor-made for all social classes, for all levels of nursing care requirements and for all medical conditions.

Marseille-Kliniken is developing well. We are moving in the right direction and unpredictable fluctuations in health policy will not be able to stop us either. We are creating ourselves a competitive edge on the market by introducing concepts today that tackle the problems which will be faced in nursing care for the elderly tomorrow. We would like to express our thanks to you for the confidence you have placed in us and will do everything in our power to justify your trust in future as well. Our thanks go to our staff, whose skills and humanity in looking after our residents and patients are crucial to the success of our operations and deserve great respect. Even the best of facilities is inadequate without a human face. We would also like to thank the Supervisory Board, which discussed our plans with us openly and critically and gave us constructive support in the decisions we made.

Your

Axel Hölzer
Chairman of the Management Board

"Most public and non-profit homes that are making losses ought at long last to be forced to use funds more efficiently, without neglecting quality."

Interview with Axel Hölzer, Chairman of the Management Board of Marseille-Kliniken AG, and Ennio Laviziano, member of the Management Board

Mr Hölzer, negative headlines and reports about slovenliness in German nursing homes for the elderly appear in the media regularly. The accusations nearly always relate to private operators, who are considered to be most likely to try and maximise profits at the expense of their residents and patients.
Firstly: yes, there are black sheep that are bad for the reputation of the industry. Secondly: Marseille-Kliniken is not one of them. On the contrary: our quality standards are unique on the market for the provision of nursing care to the elderly. Thirdly: different standards are frequently applied when assessing private and non-profit operators.

Mr Laviziano, are problems in nursing care for the elderly attributable to a lack of money?
No. We do not need more money – in the short term at least. All we have to do is distribute it properly. Costs need to be reduced rather than covered. The rates negotiated with the insurance funds for the provision of nursing care do not automatically lead to losses. They are adequate if management is carried out efficiently. We demonstrate this. The problem is that every service provided in nursing care for the elderly is paid for, whether it is good or bad. Most public and non-profit homes that are making losses ought at long last to be forced to use funds efficiently, without neglecting quality.

Mr Laviziano, who is supposed to do this? The government?
Of course. Instead of issuing legal regulations about every minor detail of the health system, the government should, on the one hand, change the general conditions in the direction of more market economics and, on the other hand, limit itself to its control functions. Although government agencies already check nursing services, they do so inefficiently, inconsistently and outdatedly. Enormous amounts of money are wasted as a result.

Mr Laviziano, do you think that anything will change here?
If nothing is done, the system will collapse. The discrepancy between costs and benefits is getting bigger and bigger. If you take a look at the survey we commissioned from the institute TNS Emnid, you will see that the people receiving nursing care and their relatives have serious doubts about the quality of the care provided.

Above all, they feel that they have been abandoned by the government and society. There is a tremendous need for action here. I am afraid, however, that most of the industry has still not realised this yet.

Mr Hölzer, how can transparency about the quality of nursing facilities be achieved?
On the one hand, we demand more transparency and more competition. Why are there no official control systems for nursing care for the elderly? We demand a certification process for the roughly 10,000 nursing homes in Germany that is based on the certification procedure for hospitals and rehabilitation clinics. We think that the checks should be carried out of all operators by the medical service departments of the health insurance funds and by the home supervisory authorities at short intervals in particular and that the results of the evaluation of the quality of different facilities should be made available to the members of the public who are interested.

Mr Hölzer, is your hotel concept a reflection of this change in the system?
Yes. At the internal level, we are doing everything in the quality field that we are demanding publicly. We have complex IT systems via which we control all the business operations. We have centralised such major functions as purchasing, financial accounting, personnel planning or facility management, in order to give the staff more freedom to do the job they are really supposed to do – i.e. to care for people. We interview our residents and their relatives, we carry out nursing care risk controlling on an electronic basis, we are making progress in the certification of our facilities. The results of our in-house quality checks and the interviews with relatives are discussed with the relatives and home councils and are made available to the people affected. In 2005, we started for the first time to carry out internal audits, which take all the test criteria issued by the health insurance funds' medical service departments into consideration. It is very definitely the case that the hotel concept and the development of special concepts associated with this are our response to how consistently high quality can be combined with financial viability for people from all social classes who require nursing care.

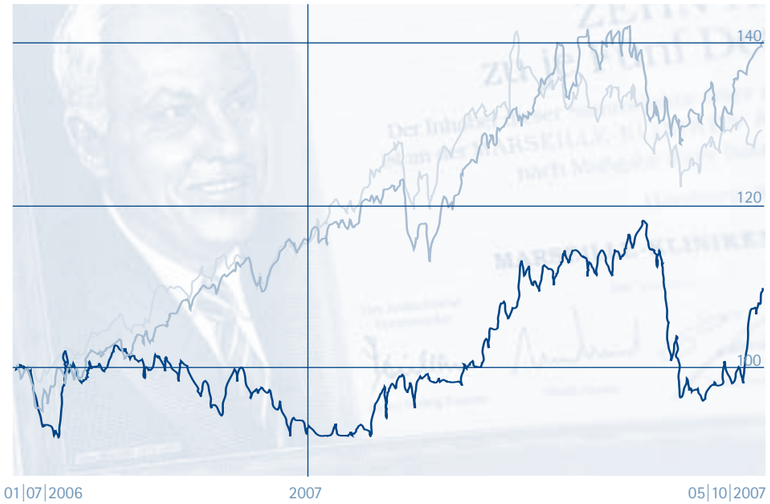
Do you economise – Mr Hölzer – to a disproportionately large extent in the personnel field? Are your employees paid worse than those who work in public and non-profit homes?
Personnel costs account for about 50% of our sales. The figure at public homes is 70%, while it is 60% at non-profit homes. We pay market wages and allowances and add bonuses in recognition of specially good performances. We have also increased our employees' pay indirectly by introducing the pension fund, which ups their too modest state pensions by an average of 30% when they retire thanks to a substantial increase in value.

Mr Laviziano, the government has passed the health reform and a partial reform of the nursing care insurance system. Are you satisfied?
I don't know anyone who is completely satisfied with the political community. Some progress has been made in both reforms. But neither of them solves the basic problem that the demographic development and longer life expectancy as a result of medical advances are creating needs in the health and nursing care fields that are not affordable with the present contribution-based funding system. As far as nursing care is concerned, the situation can be put in a nutshell as follows: the government is increasing the contributions and is postponing dealing with the real problem. What bothers me particularly are specifications made by the politicians that have little to do with the situation as it really is and must be considered populistic at best. The demand that single rooms are provided for all senior citizens is unrealistic, because it is not affordable.

It is not necessary anyway. The success of our 2-star homes demonstrates that the market needs differentiated alternatives and not ideal standards specified by the government. The motto "outpatient care has precedence over inpatient care" is also something that sounds good but is useless. More than 70% of all the people who need nursing care today are looked after at home by relatives or outpatient nursing services. No-one chooses inpatient nursing care voluntarily. The government preference for the outpatient market segment is solely for cost reasons, without control measures of the same kind as in inpatient nursing care being required to even a minimal extent.

In the long run, the increasing demand for nursing care services will be met by professional service providers in the outpatient and inpatient nursing care field. Due to the decrease in birth rates and the increase in the number of working women, relatives will be providing less and less nursing care. Outpatient nursing care by relatives and communal living are an adequate solution for senior citizens who are in good health, but they are not a realistic model for 4.6 million people who need nursing care, 2 million of whom suffer from dementia. As you can see, there is still a great deal for the politicians to do. •••

“Sound growth!”



Marseille-Kliniken
share price development
indexed, 01.07.2006 = 100
— Marseille-Kliniken
— DAX
— Prime Pharma & Healthcare

The price of the Marseille-Kliniken share increased strongly again in the 2006/2007 financial year (30 June) following a substantial increase in value already in the previous year. The share price rose by 14.4% thanks to the company’s clear growth strategy and boosted by a positive stock market environment. Institutional investors from outside Germany proved to be particularly interested in the share, because its price-to-earnings ratio is more attractive than other health care service providers with a stock market listing. Most of the free float shares are in the hands of such international investors in the meantime. Their long-term commitments reflect the Marseille-Kliniken business model, that aims to guarantee good plannability and reliability.

Environment

Stock markets all over the world boomed in the 2006/2007 financial year. The central Deutsche Börse index stood at 5,712.69 points on 3 June 2006 and had risen to 8,007.32 points by 29 June 2007; this represented an increase of 40.2%. The index reached its high for the year on 20 June 2007, when it closed at 8,090.49 points.

Share price development

	30.06.07	30.06.06	Change in %
Marseille share	€ 17.50	€ 15.75	11.1
DAX	8,007.3	5,683.3	40.9
CDAX	722.1	510.4	41.5
Prime All Share	3,036.9	2,160.7	40.5
Classic All Share	3,735.4	2,673.8	39.7
GEX	2,472.9	1,701.8	45.3
Prime Pharma & Healthcare	1,951.3	1,461.0	33.6

The price of the Marseille-Kliniken share increased steadily from the beginning of July 2006 to the end of June 2007 too, rising by 14.4%. Including the dividend payment of € 0.45 in December 2006, the annual return for the shareholders was 17.3%. Another encouraging fact was that the share succeeded in avoiding the volatile fluctuations of the capital market. The share remained largely unaffected by general correction phases, such as in March 2007, and developed stably during this time, in definite contrast to the overall market. The Marseille-Kliniken share started the new financial year at a price of € 15.30. Following an initial sluggish phase combined with an intermediate low of € 13.98 at the end of July, the share price fluctuated between € 13.97 and € 15.74 in the first three quarters. Supported by a flow of positive news, recommendations by analysts, convincing meetings with investors and a buoyant finance market environment, the share increased in value by 16.7% in the fourth quarter and ended the financial year at a price of € 17.50 on 29 June.

Free float

At the suggestion of numerous market players, the Marseille family increased the percentage of shares available for trading to 40% by selling 15% of its shares. This free float is a major decision-making criterion primarily for institutional investors when they are considering whether to acquire an interest. The increase in the free float improved the fungibility of the Marseille-Kliniken share considerably, since trading of larger share packages was facilitated too. The consequence was lively interest on the part of institutional investors from outside Germany. In the meantime, most of the free float shares are held by international investors, whose investment background indicates increasingly long-term orientation.

Coverage

“Buy” continues to be the assessment of practically all the analysts who follow the Marseille-Kliniken share on an ongoing basis. The analysts consider it to be particularly positive that the company is implementing a mature business model in a market that promises steady growth with few fluctuations and low risk for decades. The focus on the core nursing care business and the growth strategy defined in these operations are singled out for positive mention. Another extensive sale-and-leaseback transaction made at the end of the financial year, that is putting the company in a position to eliminate financial debt almost entirely and to exploit hidden reserves in the rehabilitation division for the first time, also had a favourable impact on analysts’ evaluations.

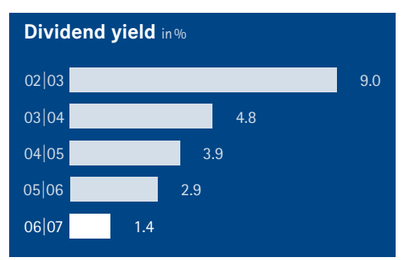
Market capitalisation and trading volume

In line with the increase in the share price, the stock market value of Marseille-Kliniken AG rose from € 191.4 million to € 212.6 million in the year under review. The number of shares in the company that were traded each day at German stock exchanges decreased from 20,808 to 13,125, however. This reduction is attributable to the higher value of the share and does not mean it is any less attractive to investors.

Dividend of € 0.25

The Supervisory Board and Management Board are proposing to the Annual General Meeting that is being held on 4 December 2007 that a dividend of 25 cents per ordinary share is paid for the 2006/2007 financial year. The company decided to adopt a longer-term dividend policy last year. In accordance with this, a dividend payout ratio of 30% of the consolidated net income generated is taken as the basis for the dividend payment, in line with other listed health care service providers.

The total amount distributed for the past financial year is therefore € 3,037,500, which corresponds to 12.15 million shares.



Main figures about the share

		06	07	05	06
Net income	€ m	9.0	9.7
DVFA/SG result	€ m	10.5	9.3
Gross cash flow	€ m	23.0	25.8
Dividend per share	€	0.25	0.45
Dividend yield (net)*	%	1.4	2.9
Total amount distributed (net)	€ m	3.0	2.2
Highest share price	€	17.60	16.10
Lowest share price	€	13.55	9.77
Year-end share price	€	17.50	15.75
Price-to-earnings ratio		20.3	20.7
Market capitalisation*	€ m	212.6	191.4
Number of shares	Million	12.15	12.15

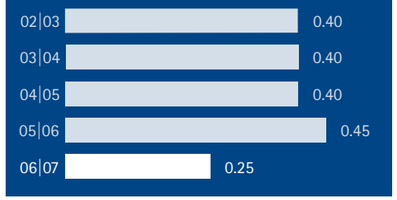
* on 30.06.2007

Investor relations

Marseille-Kliniken AG is committed to providing the public with detailed explanations of the current business situation and the long-term success factors. The investor relations management gives high priority to prompt, regular and credible reporting, with the open provision of information to all market players at the same time in accordance with fair disclosure rules. The transparency campaign is supported every year by a Standard & Poor’s rating, with BB-global being one of the best in the industry. In addition to this, it goes without saying for Marseille-Kliniken to issue a statement of compliance with the German Corporate Governance Code and to commission a well-known auditing firm to audit the financial statements.

In the 2006/2007 financial year, the company continued to expand its contacts to current and potential investors. At events for investors and analysts in Hamburg, Frankfurt, London, Paris and New York as well as at roadshows in Germany, Great Britain, France, Scandinavia, Switzerland and the USA, the company succeeded in persuading further investors to buy Marseille-Kliniken shares. These activities helped to increase awareness of Marseille-Kliniken AG within the financial community and to position the company as an attractive investment for different types of investors.
In addition to this, it is a tradition for the company to give high priority to dialogue with its small shareholders, to whom it is available for questions and suggestions. The Marseille-

Dividend development in € per share



Kliniken management considers intensive and transparent financial market communications to be a central key to a sustained improvement in corporate value and thus in the yield enjoyed by its shareholders.

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

Share information

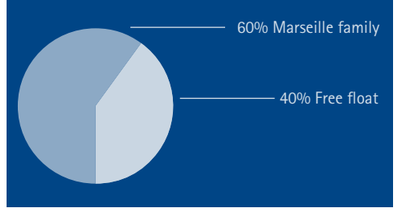
ISIN	DE0007783003
Stock exchange code	MKA.ETR
Reuters code	MKAG
Stock exchange segment	Prime Standard
Trading locations	Xetra, Frankfurt/Main, Hamburg
Designated sponsor	Close Brothers Seydler AG

Financial calendar

for the 2007|2008 financial year

Press conference about the annual results	24 October 2007
Report on the 1st quarter	8 November 2007
Analysts' conference	13 November 2007
Annual General Meeting	4 December 2007
Dividend payment	5 December 2007
Report on the 2nd quarter	8 February 2008
Report on the 3rd quarter	8 May 2008
Annual report 2007|2008	October 2008
Annual General Meeting	December 2008

Shareholder structure



Corporate Governance Code

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

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

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

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

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

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

Statement of compliance with the German Corporate Governance Code

The German Corporate Governance Code that was published by the German Ministry of Justice in the official section of the electronic federal bulletin includes a number of recommendations and suggestions in addition to legal regulations. The Management Board and the Supervisory Board of Marseille-Kliniken AG state in accordance with § 161 of the AktG that the company observed the recommendations made by the "Government Commission/German Corporate Governance Code" as amended on 12 June 2006 from the time when it submitted its last compliance statement in November 2006 until 20 July 2007 and has observed them as amended on 14 June 2007 and published on 20 July 2007 since 20 July 2007, with the exception of the following points:

Invitation to the General Meeting, proxies

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

Co-operation between the Management Board and the Supervisory Board

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

Management Board: composition and compensation

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

Supervisory Board: tasks and responsibilities

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

Supervisory Board: formation of committees

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

Supervisory Board: composition and compensation

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

Transparency

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

Reporting

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

Berlin, October 2007

Marseille-Kliniken Aktiengesellschaft

The Management Board The Supervisory Board

Doesn't mince his words when talking about the future of the nursing care insurance system: Professor Dr Bernd Raffelhüschen.

Cost explosion in the nursing care insurance system: contributions will be increasing drastically

Interview with Professor Dr Bernd Raffelhüschen, Director of the Institute for Financial Management and Economics in Freiburg i. Breisgau

There will be dramatic increases in the costs of nursing care for the elderly in the coming years. This is having a massive impact on the contributions due to the statutory nursing care insurance system too. The government is trying to give the statutory nursing care insurance system a sound future by increasing contributions. Professor Raffelhüschen, are the increases in contributions that have been announced large enough to save the system, in your opinion?
Raffelhüschen: No, the present system does not have a viable future. Like the statutory pension system, the nursing care insurance system is designed to be a contract between the generations, i.e. the working population is basically paying for the elderly. This cannot work. Our society is getting older and older and the proportion of the population accounted for by senior citizens is increasing fast. In 2045, there will be two-and-a-half times as many people in need of nursing care as is the case today. At the same time as this, the working population will be decreasing by about one third – if we are very fortunate, it will only be by a quarter.

How long will the existing system go on working?
Raffelhüschen: Only a few more years. The nursing care insurance system has been spending more money than it receives every year since as long ago as 1999. All of the existing reserves have been exhausted. Since the beginning of 2006, employers have been required to transfer all social security contributions earlier, at the end of the month rather than only in the following month. By introducing this arrangement and thanks to the positive development of the economy, the government has managed to give the nursing care insurance system another reprieve. It is not solving the problem, however.

What else must people expect to happen, apart from the increase of 0.25 percentage point in the contribution to the nursing care insurance system that was decided recently? How long will the system be able to make do with this?
Raffelhüschen: Contributions will have to increase to an extremely large extent in order to continue funding the existing benefits. Employees will have to pay about 7% of their income into the nursing care insurance system in 2045 at the latest. This is an increase of more than 300% compared with the present rate. And that is not by a long way all. The contributions to the health insurance system will be exploding too. The impending consequences: in 2045, the contribution to the old-age pension scheme will be at least 22%, while the statutory health insurance system alone will be charging up to 27% and the unemployment insurance scheme will be demanding another 2.5%. If the individual items are added up, this means that 60% will soon have to be paid in social security contributions. It will no longer be possible to finance the social security system via contribution funding.

How can the impending collapse of the social security system be avoided?
Raffelhüschen: The current system financed by contributions needs to be remodelled into a system funded by taxes that offers minimum provision. Only the financially deprived will continue receiving money in future. More than this is not possible. The government needs at the same time to oblige every one of the country's citizens to make private provision. This should be mandatory.

How will these developments affect nursing care in Germany in your opinion?
Raffelhüschen: We know that demand for inpatient nursing care will be increasing substantially. Since there will not be enough children any more later on who could care for their parents, the considerably less expensive alternative of family care at home will be decreasing emphatically. We need home operators to provide a very differentiated range of inpatient nursing care in particular. The all-round standard nursing care package for everyone in the same form as in the past is a model that is becoming obsolete and cannot be funded by the social security systems any more in future. •••

The German health care market is in a process of radical change

Two of a kind: many residents find new people to talk to and make friends with at the nursing facilities again after a lonely life at home for a long time.

After the reform is before the reform

The German health care market remains an important growth area. The sales and employment figures are confirmation to the political community that health care is not only social policy but also and to a large extent economic and employment market policy too. Very few industries generate more than 90% of their added value inside Germany. Reforms that only take the cost factor into consideration are risking the future of an innovative growth industry.

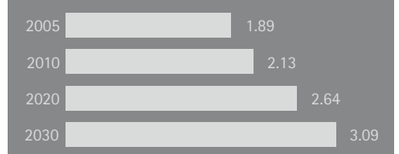
According to the German statistical authorities, the German population spent € 2,900 per capita on health care in 2005. Total health care expenses increased by € 5.6 billion or 2.4% to € 239.4 billion, which corresponds to 10.7% of the gross domestic product. The biggest spender was the statutory health insurance system with € 135.9 billion. Almost every second euro went to outpatient health care facilities, primarily doctor's practices (€ 35.2 billion) and chemist's shops (€ 34.8 billion). Germans spent € 87.4 billion at completely or partially inpatient facilities, € 62.1 billion of this at hospitals and € 18.1 billion at nursing homes. 1.5 million beds are available to patients and residents at about 12,000 health care facilities.

The growing demand for health care services and products is confirmed by the increasing number of jobs too. 27,000 more people than the year before were employed in the health care system last year. Demand is increasing primarily at clinics and nursing homes. The health care system is a job creator. About 4.3 million people are employed at hospitals and doctor's practices, at chemist's shops and pharmaceutical companies, at facilities providing nursing care for the elderly and rehabilitation services.

Concentration, integration, privatisation

The market is being driven by three trends. Firstly, the concentration process is accelerating. The increasing cost and performance pressure on providers is having the effect that standalone facilities have practically no chance of survival in the long term. Developments in the acute hospital field are going particularly fast. At least 10% of the approximately 2,100 German clinics are likely to have no chance of survival. Secondly, medical progress and the steadily decreasing length of inpatient stays necessitate closer links between the different sectors of the health care market. Greater integration of the services is particularly necessary in the acute hospital field as well as in nursing care and rehabilitation. Initial "lighthouse projects", in which different institutions like health insurance funds, hospitals, doctors, medical equipment manufacturers and pharmaceutical companies co-operate, are acting as a catalyst for innovation-driven, efficient medical technology that can be used faster. Thirdly, increasing capitalisation of the health care market is inevitable. Private capital is an essential feature of health policy in order to finance growth. This is attributable primarily to the permanent lack of public funds, as a result of which the public sector is, on the one hand, only able to make urgently needed investments in the facilities to a limited extent, while it is, on the other hand, no longer in a position to absorb the losses made at its homes. It is estimated that the investment backlog in the health system has grown to € 50 to 60 billion. This backlog can only be eliminated with the help of private company structures, that generate sustained profits and establish professional management systems. There are forecasts that about half of the hospital and nursing home market will be in the hands of companies with a stock market listing as early as 2015.

Development of the nursing care market in millions



Source: German Ministry of Health

New approaches to deal with exploding costs

The market continues to be in need of reform. The "law to strengthen competition in the statutory health insurance system" that came into force on 1 April 2007 will not have been the last reform. Market experts predict that the financial problems which are apparent today are nothing compared to what lies ahead of us. According to a survey by the management consultants PriceWaterhouse Coopers, the costs of the health systems in the 24 countries that are members of the Organisation for Economic Co-operation and Development (OECD) alone will triple to USD 10 trillion by 2020.

The particular problems that are being encountered in Germany can be traced back to political failings in the past and to mistakes in family policy. When the birth rate decreases and life expectancy increases steadily, the population gets not only older and older but also smaller and smaller. These age phenomena will be intensifying from 2020 onwards, when people born between 1960 and 1970 – years when the birth rate was high – retire from working life. Since the elderly pay less into the insurance funds than they take out of it – in contrast to people who are working – two serious problems arise. One of them is that the contribution principle on which the existing social security systems are based cannot work any longer. The politicians appear to have understood this, but they have not yet managed to find the strength to make the change in the system to a capital basis. The other problem is that the demographic development is restricting the financial scope of the public sector more and more, so that it will not be possible to solve budget problems in future by such conventional means as economising, eliminating subsidies, cutting benefits and concealing funding flows.

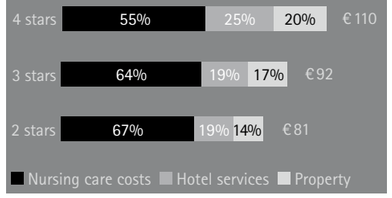
Many scientists and market players are demanding a new approach to deal with the exploding costs. They include treatment of the health system as part of the infrastructure – like the road and railway network – that is there for people's well-being and at the same time represents a significant economic factor. Acknowledgement of the health system as part of the infrastructure necessitates promotion of the prompt use of innovations in this segment, which is becoming increasingly important from the economic point of view. The experts are demanding realignment of the financial incentives, in order to focus to a greater extent on prevention and early detection. The advances made in medical treatment and patient care are paving the way for solutions in which the emphasis is on prevention rather than healing. Health politicians need to consider expenditure on the health system as investments worth supporting rather than as costs that have to be controlled. It is clear in principle to everyone involved in the health system that only serious structural changes have the potential to increase quality and effectiveness and to eliminate supply bottlenecks.

Doubts about the health reform

The law to strengthen competition in the statutory health insurance system that was claimed to be a major reform is a step forward in some areas, but it does not solve any of the basic problems of the health system. Above all, it fails to reach the important goal of harmonising funding of the German health insurance system with growth and employment. Increasing expenditure on health care should not be reflected in higher contributions deducted from wages any more. The different ways to reach this objective proved to be incompatible when the law was being developed. Such ideologically based concepts as "citizens' insurance" and "health premiums" cannot be combined. The need to find a compromise is making it necessary to link what is really mutually exclusive. As in the past, funding is based essentially on contributions calculated from wages, half of which are paid by employees and half by employers. In future, the government will be specifying a uniform contribution rate. From 2009 onwards, the contributions will be paid into a standard

health fund, from which the insurance funds receive special allocations. In addition to this, the statutory insurance funds are allowed to demand limited additional payments from the people insured with them, in order to encourage greater competition. The government has, finally, opened the door for long-term funding of the statutory health insurance system via taxes a crack. In addition to the contributions paid by the people insured, a tax grant is being paid, that is supposed to total about € 14 billion by 2016. It still has to be finalised how this amount is to be financed.

Breakdown of home costs by categories average per day Marseille-Kliniken AG



The timetable for the legal changes

01.04.2007	• People who used to be insured under the statutory health insurance system and are not insured at the moment have to enter the statutory health insurance system again • Mergers between different health insurance funds are possible • More basic hospital treatment on an outpatient basis • Vaccinations and stays at health resorts for fathers/mothers and children are mandatory benefits • The insured pay subsequent costs of beauty operations • Assessment of the costs/benefits of medicines • Provision of individual tablets to patients
01.07.2007	• Better standard tariff offered by private health insurance companies
01.07.2008	• Central health insurance fund association starts operation
01.11.2008	• Legal specification of a uniform contribution rate for the statutory health insurance system
01.01.2009	• Insurance coverage mandatory for everyone • Introduction of a basic tariff by private health insurance companies • Introduction of the "health fund" • Choice of tariffs for sickness benefits
01.01.2011	• Pooling of the collection of contributions in the statutory health insurance system

Public opinion about the health reform is divided. According to a representative poll by the opinion research institute TNS Emnid immediately after the law came into force, 59% of the people interviewed said that the reform was good in principle but that some points ought to be corrected. 32% think that fundamental changes are needed. A majority of 78% believe that subsequent improvements will be made to the health reform during the life of this parliament. The reason for this is that people believe major elements of the reform fail to reach their goals. Only 19% expect that medical innovations will be paid for to a larger extent. Only 20% are convinced that the patients themselves will be given higher priority in medical treatment. The biggest gap between wishful thinking and reality is in relation to such issues as humanity, solidarity, quality and guaranteed access to innovations. What is characteristic of people's general feelings is the fundamental lack of confidence in the social security systems in Germany: 64% think that they are not protected at all by these systems or receive only little protection.

The market for nursing care for the elderly

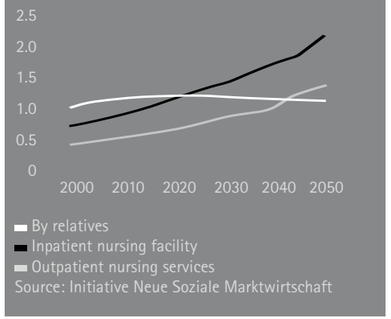
Growth driver

How a society deals with its elderly inhabitants reveals how decent that society is. The services and quality of inpatient nursing care for the elderly in Germany are high by European standards. Quality has its price, however. The next tough challenge facing the political community in the health field following the reform of the statutory health insurance system is optimisation of the nursing care insurance system.

The inpatient nursing care market remains one of the strongest growth factors in the health system. The demographic trend and an increasingly old society are the growth drivers. Major areas of nursing care are being strengthened by the health reform. Nursing care is, for example, being recognised as an equally important factor in the overall health care chain. People in need of nursing care also have a legal right to rehabilitation within the framework of the statutory health insurance system. The concept of the "household" is being expanded in the provision of nursing care at home too. In future, patients can receive nursing care at whatever suitable form of residential accommodation they have chosen, such as communal or assisted living.

The principle that "outpatient care has precedence over inpatient care", which is being promoted at the political level and is desirable at the material level too, is not realistic in practice not only because of the basic laws of nature but also because of the process of change in German families. No-one goes into a home voluntarily. Only about 7% of the elderly live in homes or special senior citizens' flats at the moment. Neither prescriptions nor regulations decide when nursing care is needed. The

Development of nursing care in millions



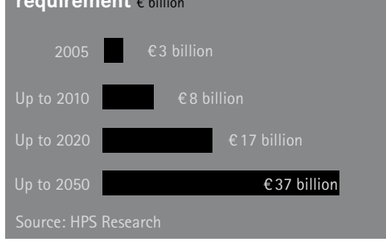
Source: Initiative Neue Soziale Marktwirtschaft

natural ageing process determines the time at which a person is no longer able to organise his or her own life without help from others. The number of people who are nursed in their own home by relatives is decreasing steadily. There are many reasons why demand for the provision of care in nursing facilities is increasing. High mobility means that children often live long distances away from their parents. When they do live within easy reach, they are unable to take the dual strain of nursing care and working life. On the other hand, many elderly people want to be nursed in their own homes, but not by their own children. And, finally, the number of single-person households is increasing.

Many surveys confirm that the number of extremely old people in need of nursing care will be increasing considerably in Germany. The 11th co-ordinated population forecast by the German statistical authorities works on the assumption that the number of people who require nursing care will be more than doubling to 4.7 million by 2050 in view of longer life expectancy. If the number of people needing nursing care is compared with the total population of working age, there were four people in need of nursing care for every 100 people who were able to work in 2005. The figure in 2020 will be 5.8, while it will be increasing to up to 13.1 in 2050, depending on the model used for calculation.

The ageing process in our society combined with people's rising life expectancy is having a serious impact on the nursing care systems. The need for nursing personnel will be growing, on the one hand. Estimates suggest that the annual growth will be 3%. Costs will be increasing, on the other hand, and the gap between state benefits and the amount that the individual person has to pay himself will be widening. Parallel to this, the burdens that have to be borne by the welfare authorities are increasing. If the present system of nursing care insurance contributions was supposed to absorb the effects of this development, contributions of between 4.5% and 5.5% would have to be expected by 2050, depending on the scenario assumed. The large increases in the costs of nursing care have led on the supply side to greater and greater product segmentation. Due to the expectation that patients will be required to pay larger amounts themselves and to the rising burdens that the welfare authorities will have to bear, the market needs programmes that cost less. Marseille-Kliniken AG is acting as the first mover in making distinctions between 4-, 3- and 2-star facilities in its portfolio – similar to the hotel industry – in order to offer customers tailor-made solutions.

Increasing investment requirement € billion



Source: HPS Research

Private investors increasingly active

A substantial expansion in supply is the automatic response to the large increase in the number of people in need of nursing care. Most of the figures are familiar. According to a survey by Ernst & Young, a further 300,000 beds will be necessary by 2020. In addition to this, another 250,000 beds are required to adapt the existing supply to people's growing needs, as many nursing facilities are outdated as far as their range of functional rooms and the number of rooms with several beds are concerned. It is normal in the industry for a facility to require complete modernisation every 30 years. At the present time, only a minority of the nursing facilities satisfies the essential room conditions for specialisation on concepts for dementia, coma and stroke patients, for addiction problems and for palliative treatment.

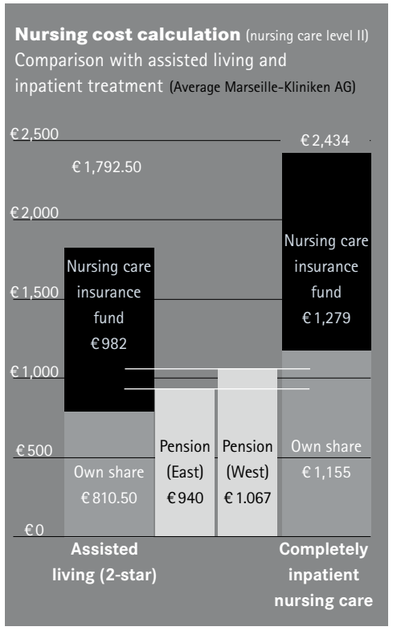
These factors mean that investments of about € 50 billion are required, which the state and local authorities cannot afford. Competitors organised in the form of private companies will (have to) close the gap. Nursing care for the elderly is a profitable business if it is managed efficiently and if consistently high quality is maintained. Estimates indicate that the private market will consist of more than 800,000 beds and will be reaching sales levels of more than € 25 billion by 2050. Privatisation of the market is also being encouraged by the fact that people are increasingly self-confident and sensitive, quite apart from the changes in their health awareness, which the state is supporting by tightening up the requirements on the quality of nursing care. The legally stipulated introduction of a quality management system backed by integrated software solutions is leading to considerable differences on the market. In nursing care for the elderly, the classic run-of-the-mill home that fills residents'

stomachs and keeps them clean is a thing of the past. Future competitive parameters are effective operational management and an optimised room and function range. The process is in full swing. Uneconomic facilities – whether they are run by local authorities, non-profit organisations or private companies – will be closed or taken over by private rivals.

Partial reform of the nursing care insurance system

Although the German government agreed on a partial reform of the nursing care insurance system in mid-2007, it postponed the difficult reform of funding to 2009, after the next general election. The failure to implement a comprehensive reform is attributable to a similar conflict between the members of the coalition government to the one experienced in the health reform. The Conservative Party ("Union") aims to separate the nursing care risk from employment costs and proposes the introduction of a lump-sum payment not determined by income in addition to the contribution to the nursing care insurance system. The Social Democratic Party ("SPD") rejects the idea of a "per capita payment" categorically and wants instead of this to increase the contributions and, above all, to tap the private insurance companies with their large financial reserves. Critics are of the opinion that the coalition government has chosen the worst of all the reform options for the statutory nursing care insurance system: it is increasing the benefits paid by the nursing care insurance funds and is burdening the contributors with new costs, without strengthening the rotten financial foundations of this sector of the social security system properly. At the same time as this, it is placing new burdens on the business community by introducing "nursing time", for which companies are required to release their employees from their duties without pay to provide nursing care at home.

Nursing cost calculation (nursing care level II)
Comparison with assisted living and inpatient treatment (Average Marseille-Kliniken AG)



Elements of the reform

... Benefits:
better treatment is planned for the roughly one million dementia patients in Germany, a large proportion of whom receive no payments at all from the nursing care insurance system today. At the present time, need for nursing care is defined exclusively in relation to physical infirmity. A nursing care level 0 is being introduced for dementia patients and the treatment contribution is being increased to €2,400 per year. In order to improve networking between the programmes for patients in need of nursing care, "nursing care bases" are being set up close to the patients' places of residence too. In future, a case manager is supposed to coordinate the care provided for each patient and act as a contact. Nursing homes will also be receiving a bonus when their efforts have the effect that the person in need of nursing care is classified in a lower nursing care level.

... Nursing care levels:
the nursing care levels are to be dynamised and linked to the increases in the cost of living. The amounts paid for outpatient and inpatient benefits in kind and the payments made for nursing care are being raised in 2008, 2010 and 2012. After this, the amounts are to be adjusted in accordance with inflation every three years. This is being done for the first time in 2015.

... Contributions:
the additional benefits are being financed by higher contributions. The latter are increasing by 0.25 percentage point on 1 July 2008. To make up for this, contributions to the unemployment insurance system are being reduced by 0.3 percentage point on 1 January 2008. This means that the higher contributions to the nursing care insurance system are being more than offset for employees. The losers are old-age pensioners, since they do not benefit from the reduction in the contribution rate for the unemployment insurance system.

... Private insurance:
the improvements in benefits are mandatory in private nursing care insurance as well. In addition to this, a basic tariff is being introduced along the lines of the one planned for private health insurance companies. Anyone who opts for it can take the pension provisions with him if he changes to a different insurance company. There is a reduction for people with low incomes.

"Inaccurate figures"?

Experts accuse the government of operating with "inaccurate figures". Nursing care for the elderly would become dramatically more expensive in the coming years and lead to rising contributions. It was unrealistic to believe that the contribution rate of 2.6% could be kept stable. There is no dispute among scientists that the contribution-funded social security system cannot be financed and needs to be reformed. According to the experts, this is easiest in the nursing care field. Proposals have been made. Everyone born up to 1950 remains in the current system, while everyone born since 1951 leaves the system and obtains capital-based nursing care insurance coverage. The contribution-based system would be wound up in 40 years. The dynamisation of nursing care benefits that has now been agreed makes it more difficult to switch systems, however.

The rehabilitation market

Selection process is continuing

Inpatient rehabilitation still has a firm role to play in the health care system. The rehabilitation market is more strongly affected by economic fluctuations than the nursing market. Medical progress and the growth in outpatient rehabilitation programmes is leading to excess capacities and tougher competition, in spite of rising demand.

The drastic shake-out process in the rehabilitation field is continuing. One important reason for this is the increasing segmentation of the market, which not all market players are in a position to follow. Demand is concentrating primarily on follow-up treatment, which is growing at the expense of general treatment. Providers will only have a chance of survival if they focus on follow-up treatment. Isolated analyses of rehabilitation separately from acute inpatient and outpatient treatment will have to be replaced by comprehensive remuneration for each case of treatment. The selection process is being accelerated by mistakes made in the past too. Particularly before the Seehofer reform between 1996 and 1998, many operators were granted loans carelessly in spite of wrong emphases, because rehabilitation was booming. Numerous loans have not been called in yet in the hope of a return to old times. Since these old times will not be returning any more, however, further insolvencies can be expected, primarily among private operators.

In the longer run, demand for partially inpatient rehabilitation services will be increasing again. On the one hand, patients are getting older and older and rehabilitation at home is getting more and more problematic because of sociocultural changes. On the other hand, patients are leaving hospitals after a shorter time in a state of health that leaves something to be desired due to incomplete therapy and treatment has to be continued or followed up at lower cost in rehabilitation. This is closely associated with the introduction of DRGs. This system of lump-sum payments forces hospitals to be more cost-oriented and to compete for their customers more effectively. Since the DRGs have a fixed value, the number of cases determines income. The consequence will be that acute hospitals will be shortening the time patients stay in hospital even more and will be transferring these patients to qualified rehabilitation clinics for inexpensive post-operative treatment. Whereas only 8% of rehabilitation patients came directly from hospital in 1991, this figure had already reached 35% by 2005. Estimates suggest that the percentages will be a good 75% in 2010 and almost 100% from 2020 onwards. If the assumptions prove to be correct, 15% of all hospital patients will be transferred to a rehabilitation facility after their acute inpatient hospital stay in future.

Rehabilitation is in addition being strengthened by the health reform, in a similar way to nursing care. With the classification of medical rehabilitation services as mandatory, they are included in the statutory health insurance system's compensation procedure to offset structural risks. This reduces the financial burden borne by the health insurance funds and means that rehabilitation measures are likely to be approved more easily in future. The classification of stays at health resorts for parents and children as a mandatory benefit in the statutory health insurance system will probably strengthen this area as well, which has declined seriously in the past. In addition to this, promotion of mobile rehabilitation is in line with the general trend towards more mobile services in all areas of health care. The inclusion of geriatric services in the range of mandatory services may lead to new mobile rehabilitation programmes in future as well as to cost reductions.

Strategic thinking is required

Providers are facing considerable adaptation processes as a result of the stronger integration of rehabilitation in acute inpatient treatment. The most urgent assignments are capacity expansion and co-operation with acute facilities. Satisfaction of these requirements depends on capital resources, high flexibility and strategic thinking, attributes that are mainly found among providers organised as private companies. High medical skills are essential in downstream rehabilitation operations when the length of time spent in hospitals is shortened. Operators also have to expand the range of their services and give high priority to closeness to patients and the acute clinics in order to maximise value for money. The future of an operator in the rehabilitation field will be decided by the following factors: a mix of outpatient and inpatient programmes, a mix of private and public funding organisations, a mix of patient sources (acute hospitals, outpatient facilities and patients who take the initiative themselves), a choice of specialised programmes, locations close to patient's homes and to hospitals, sound cost structures and high investment potential. The rehabilitation market offers good long-term prospects to providers who achieve this status. The growing interest that is being shown by investors, who have avoided the rehabilitation market to a large extent in the past, demonstrates that the market is in the process of establishing such structures. Experts estimate that private players will reach almost 80% of the market by 2020. This private market will be concentrating on a few large, national players with a stock market listing, whose name is a brand and guarantees quality.

Quality management pioneers

Good nursing care needs to be organised effectively

The demands made by funding organisations for transparent and economic service provision, the steadily growing specifications issued by the government and, not least of all, the increases in customers' expectations make it essential to improve quality considerably in all areas of the health system. Marseille-Kliniken AG was quick to initiate activities to tackle these challenges. The extensive quality management system adopted by the company is based first and foremost on successful implementation of the quality policy. What are involved here are, on the one hand, systematisation, but also and most importantly, on the other hand, constant improvement of all services and processes throughout the Group.

Quality management is documented in a separate, integrated process management system, in which all the business processes of the company as well as the organisation are covered. The objective is continuous improvement of the company's process and performance quality, constant and systematic monitoring of the efficiency of individual organisational units, ongoing qualification of staff and increases in the social skills of the staff in their dealings with our customers and residents. We have established a department that is unique in the industry for operational implementation of the specifications of the quality management system as well as for the central control and co-ordination of all the activities that promote and maintain quality. About 39 staff work on implementation of these objectives as part of the central business and quality development department. In addition to the Business Development Director, who is responsible for controlling and co-ordinating business quality development and all of the Group's corporate development projects, the central department has four other organisational units. The private institute for evaluation and quality assurance in the health and social security system eqs.-Institut carries out research and development projects in the nursing and rehabilitation fields and is responsible for application of the latest scientific findings in the process environment of our company. The unit in charge of quality management and regional quality managers is responsible for operational management of the Group's quality activities and measures, planning and implementation of audit projects and operation of the management system. The in-house consulting unit is responsible for internal consulting with respect to planning, optimisation and implementation of new concepts as well as project and opportunity management. Marseille-Akademie GmbH, finally, heads staff training and provides support in the case of organisational changes.

Mother and daughter, both of whom find our concept convincing. All of our facilities receive good marks in our interviews with relatives.

The core business: nursing care for the elderly

The young are still looking after the old. The contract between the generations has a very unsound basis, however.

Continuation of the growth strategy

Marseille-Kliniken AG is a leading provider of inpatient nursing care for the elderly. The company philosophy is based on the three principles of customer orientation, economic viability and social responsibility. Our corporate mission is to enable old people and patients in need of nursing care to enjoy as decent an environment as possible during this final stage of their lives and to give them the feeling of independence for as long as possible.

Nursing and caring for old people is becoming an increasingly important assignment in Germany, an ageing society. Nursing care for the elderly is the fastest-growing segment in the German health system. Marseille-Kliniken AG has an outstanding position in this market. We are growing steadily, are operating profitably and are in the process of reaching an optimum size. Growth is not a matter of course, however. Operators of nursing facilities will only be successful in future if they provide high-quality nursing care and demonstrate constant willingness to adopt innovative new approaches. We aim to reach the position of quality and innovation leader in the industry.

Quality is the issue that has become the centre of attention in the debate about reorganisation of nursing services and the nursing care insurance system. Greater public interest is in general being devoted to nursing care for the elderly than used to be the case only a few years ago. Provision for old age and the need for nursing care have in the past been subjects that younger people in particular have been keen to ignore. In view of an age pyramid that has been turned upside down and the realisation that the rapidly increasing requirements cannot be financed in the long term, a process of rethinking has begun. Private individuals, politicians and the media are recognising the fact that nursing care for the elderly will be an issue of central significance in future.

The debate was given an additional boost in the spring of 2007 by a survey we commissioned from the opinion poll institute TNS Emnid. Media response to presentation of the survey was overwhelming – at national, regional and local level. The report about the situation of the elderly and their relatives gave the political community plenty to think about. Far more people are in need of nursing care in Germany than are officially registered. Every fifth German has someone in his family who needs nursing care; this adds up to almost 4.5 million households. Almost three quarters of these people are looked after at home and two thirds of the relatives providing the nursing care feel they have been abandoned by the state and society. A third of the people nursed at home do not move into a home because they cannot afford it. The interviews with the generation 50 + revealed that the gap between expectations on nursing care and the real situation is continuing to increase. More than half of those interviewed are dissatisfied with nursing care for the elderly in Germany. Although 94% consider it a matter of course that people receiving nursing care need to be treated not just as medical cases but also as people, only 42% think that this really is the case. The general assessments of the criteria that are considered most important ("well-trained personnel" and "quality of nursing care") are very sceptical. 47% are dissatisfied with the assistance provided, while this figure is 48% with respect to personnel qualifications and 54% where the general quality of nursing care is concerned.

Marseille-Kliniken has the answers

For Marseille-Kliniken AG, the 2006/2007 financial year (30 June) was a year of rapid expansion and major progress in optimising the occupancy rates at our facilities. A crucial factor that determines the success of our company is that we respond flexibly to the different requirements of the market. Our programme includes not only specialisation in certain areas but also differences in the furnishing of the facilities, which correspond to the general economic conditions at the location and its population structure. Our customers can choose from different building concepts according to their requirements and financial resources, without having to make any sacrifices where the exacting principles of nursing care at Marseille-Kliniken AG are concerned. The "star" classification of the properties and thus the differences in the prices of our facilities take account of the process of divergence that is taking place on the market. With the new programmes in the 2-star segment and the assisted living field as well as with such integrated treatment concepts as the hospital in Büren and the nursing clinic concept, we cover almost all the service requirements of the older generation.

Expansion in urban areas

The establishment of operations in new segments of the market – such as assisted living – is accelerating our expansion in the core business of nursing care for the elderly. At the end of the financial year, Marseille-Kliniken AG had 53 nursing facilities with about 9,000 beds. The new facilities that are scheduled to open in the coming two years are good examples of our strategy of expanding to a larger extent in urban areas of West Germany. New locations are being prepared in Meerbusch with 150 beds, in Düsseldorf, Lehrte and Oberhausen each with 80 beds and in Bremerhaven with 200 beds. In addition to this, conversion of 100 beds at the Schömberg rehabilitation clinic into a nursing clinic is about to be completed. Definite talks are being held about the creation of facilities for nursing care for the elderly and assisted living at other locations. Our experience in the Düsseldorf area with its strong economic base confirms our location strategy. Demand for beds in modern, new nursing facilities is great. The senior citizens' residential home Düsseldorf Volksgarten, which was opened in mid-2006, is full and will support the new facility (Düsseldorf Lessingplatz), which is being created in the building next door. The joint venture between Marseille-Kliniken AG and the Turkish community in Berlin – Türk Huzur Evi – has been accepting bookings since February 2007 following approval by the building authorities. The emphasis in the year under review was on publicising the facility and obtaining residents from within the Turkish population as well as via Turkish organisations, Turkish doctors and hospitals. The lengthy occupancy process by comparison with German facilities is attributable to the need for information and persuasion. We are expecting the occupancy rate at the facility to develop positively in the 2007/2008 financial year.

Adopting new approaches: assisted living and culturally sensitive care.

Hotel concept

FROM DISCOUNT NURSING HOME TO LUXURY RESIDENCE

There have been massive changes in the importance and perception of health in recent decades. Almost all areas of modern society are affected by the reasons for and impact of this process of change: state, business, politics, science, medicine and, in the final analysis, every single person.

Individual requirements have, on the one hand, increased. People have developed an increasing interest in their physical and emotional well-being, which is due not least of all to the fact that treatment and prevention capabilities have improved with technical progress. Health is no longer understood to mean merely the absence of illness; it is instead defined as a quality in itself to a growing extent. This development is forcing society to face important questions, on the other hand. In the final analysis, they relate to the fact that it is not possible for all social classes to take individual prevention measures or to pay for high residential comfort if and when nursing care is needed, because of different economic and social living conditions.

The more exacting demands people are making have also had the effect that more services are being obtained. The increase in health care costs represents a major challenge for Western societies and is leading to immense cost pressure, since changes in demography are going hand in hand with shortfalls on the income side. The existing health care systems consisting of health insurance and nursing care insurance will therefore only be able to guarantee basic provision of absolutely necessary but adequate medical assistance and accommodation. Not just in the health care system in general but also in nursing care for the elderly, this is making it necessary to provide more differentiated products. New funding models affecting the nursing care insurance funds, the business community, service providers and every individual to an equal extent will become more and more important. Efficiency and the achievement of sustained added value are becoming central issues for nursing home operators.

This expansion in the understanding of what health means is blurring the distinctions between the sickness and health markets. Health care and in particular nursing care for the elderly are being transformed into "consumer goods". Residents of nursing facilities and their relatives are becoming customers who demand specific services, examining and choosing what they are offered more deliberately and critically.

The residents at the facilities are not merely supposed to be comfortable there; they are meant to feel really at home. Places to spend time, to chat and to go for a stroll in a pleasant atmosphere are therefore essential.

Operators of nursing homes are required to adapt and reposition in the light of these changes in the market conditions. Marseille-Kliniken and all other market players face the challenge of providing the services even more efficiently in view of the rising costs, making sure they remain affordable for the customers. We also have to document the effectiveness and benefits of treatment and our general provision of services in increasing detail.

In view of this, new accommodation concepts are required in the nursing care field, in which the only factor that has to remain unchanged is the quality of the nursing care and services. An affordable range of services needs to be available to all social classes in the long term. An attractive if difficult market comparable to the hotel industry is developing here with the requirement that all accommodation alternatives with different quality standards where the property is concerned always guarantee impressive service skills and high-quality personal and medical assistance.

Globalisation and economic constraints are affecting the health care market too – and the market for nursing care for the elderly in particular. Service providers have to face the market mechanism of price vs. added value. This is true of doctors and hospitals, of nursing home operators and rehabilitation clinics. Cost pressure in the health system is increasing not only because it is necessary to provide more inexpensive products, but also because increasingly tough demands are being made by the customer on the quality of the product and evidence of its specific added value. Industrial processes are being used to an increasing extent in the health system in general and in nursing care for the elderly in particular. The operators of nursing homes are well advised to learn from concepts applied in the hotel industry. Positioning as a familiar, immediately recognised brand is becoming an increasingly important competitive parameter in the market for nursing care as supply broadens and competition grows. So far, only a few brands have managed to establish themselves successfully in the nursing field. Distinction by criteria like in the hotel industry is apparent at most in a kind of polarisation in the current service ranges available on the nursing market: on the one hand, the standard range consisting half-and-half of double rooms and single rooms furnished to average standards and, on the other hand, luxury residences with large individual living areas, high-quality furnishing and appropriate comfort. A comprehensive range of services like in the hotel industry with 1-star to 5-star standards and the quality of property furnishing acting as the distinguishing criterion has not been available on the market for nursing care for the elderly up to now. Classification by the hotel system has not been possible so far because of the lack of assessment criteria. Minimum requirements like those specified in the German regulations about minimum building standards are not an appropriate basis for such differentiation.

The differences in the development of people's purchasing power and the changes in consumers' behaviour patterns make it particularly possible, however, to create distinctions in the extent of the services provided and the individual's personal freedom in the market for nursing care for the elderly, which – after all – has an impact on people's existential needs. Concepts that enable us to exploit the tremendous latent potential of the market for nursing care for the elderly for our own growth are therefore becoming central features of our strategy. In addition to continuous increases in efficiency, we are pursuing a clear strategy of differentiation between 2-star standards and the higher 4-star standards. The only distinguishing feature is residential comfort. Nursing and service quality remains at a high level in all the facilities. The key players in the competitive environment are the residents or their relatives as self-assured customers who demand authentic services with high quality standards in accordance with their personal economic situation. This is in line with what they have experienced throughout their lives.

A warm colour scheme also helps to create enjoyable surroundings.

The 4-star homes have special high-quality furniture.

✶✶✶✶

4-star home

MODERN NURSING CARE AND SOPHISTICATED RESIDENTIAL CULTURE

Our AMARITA concept provides high 4-star standards with 90% single rooms. About 20% of our current capacity meets these standards. We provide the dominant average comfort standards, which correspond to the 3-star category in the hotel industry, with our senior citizens' residential homes, which account for 60% of our capacity. We have started to establish the 2-star category in recent years with the nursing facilities in Herne, Berlin-Kreuzberg, Leipzig and Potsdam as well as the assisted living concept in Halle. This residential concept takes account of the combination of the greatest possible amount of independence with comparatively low rent demanded by our customers, coupled at the same time with the direct possibility of making use of nursing services.

In our completely inpatient nursing operations, we are registering growing demand for an affordable product that makes sacrifices on residential quality but not on the quality standards provided in medical and other services. No comparable concept exists in the current product range available on the nursing care market, if the run-of-the-mill homes with high repair requirements are disregarded, which are available on the market as standard homes because of the present payment system.

The increasing demand for 2-star homes is not due exclusively to the growth in lower-income social classes. It is also a reflection of a development in society which is making price an increasingly important argument. In areas of business like the retail, hotel or air travel markets, acceptance of the products supplied is being determined more and more by

A nursing home can make an eye-catching impression thanks to modern architecture too.

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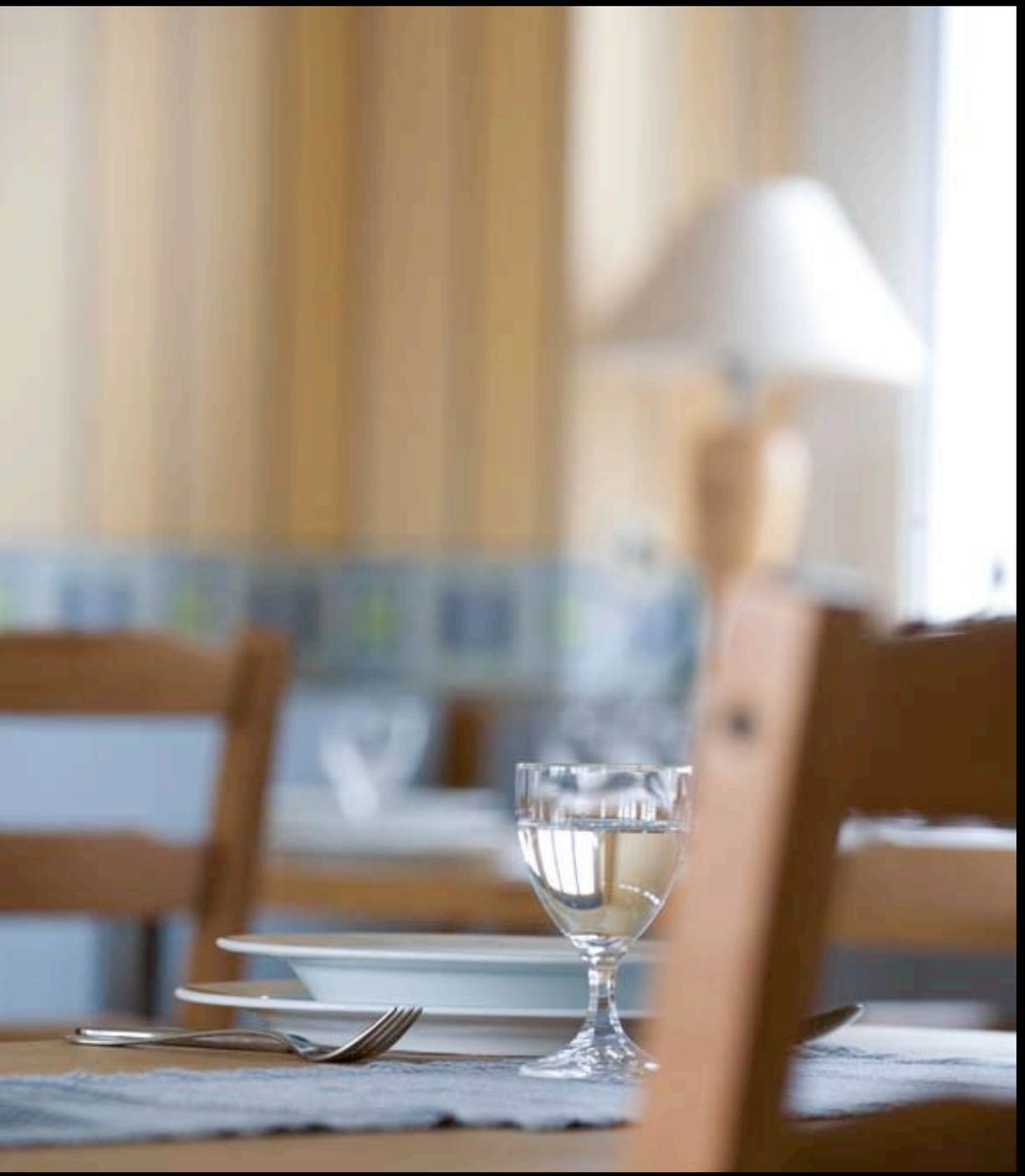
3-star home

MODERN NURSING CARE IN A COSY ATMOSPHERE

consumers' price awareness. An advertising slogan like "Cheap is sexy" guarantees success, because hunting for bargains no longer has negative associations; cheap and clever shopping is instead considered to be chic and cool. Smart shoppers no longer allow themselves to be blinded by loss leaders; they demand quality at low prices. Hotel groups, airlines and, above all, retail chains demonstrate how markets can be shaken up with quality at rock-bottom prices. The keys to the economic viability of these concepts are furnishing, comfort and location.

We are certain that segmentation will be continuing in nursing care for the elderly too and that the market will be growing fastest at the top and bottom ends of the star scale in future. We think that there is substantial growth potential in the less expensive 2-star segment and

Modern but inexpensive even so: the 3-star homes provide both a pleasant atmosphere and good service.



Appearances are important. So caring and attractive decoration is also part of everyday life at the Marseille-Kliniken AG homes

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2-star home
MODERN NURSING CARE AT REASONABLE PRICES

will be giving the provision of such facilities particular priority. So far, 2-star homes account for about 20% of our range. Successful locations like Halle, Potsdam, Leipzig or Bad Langensalza are impressive evidence of the increase in the company's expertise in this field, that we aim to exploit. Our key to the costs of a nursing bed is the price paid to acquire an existing property. The services that are provided and the quality of them are no different at a 2-star home than they are at a 3- or 4-star home. At the investment cost level, however, differences in price of 25% to 30% are achieved between a 2-star and a 3-star home, with a difference of roughly 30% between a 3-star and a 4-star home.

Simple furniture, but always adapted to the residents' individual wishes – that is the concept. Good-quality nursing care remains a matter of course.

Marketing sets new standards in nursing care

In spite of its major social and economic significance, nursing care for the elderly is one of the few industries in Germany that have not yet developed efficient marketing. This is particularly remarkable, because people who are in need of nursing care are to an increasing extent turning into customers who want to be convinced by performance and quality and who search the market for dependable providers. Whereas the leading manufacturers of branded products in the consumer goods industry developed benchmarks for the main marketing and communication criteria a long time ago, the image values of many brands and labels in the nursing care segment are diffuse and do not facilitate identification.

New member of the team: the brand manager – Fredrik Nilsson, Marketing & Advertising Director.

We are certain that branding and brand development will be taking on greater and greater importance in nursing care too. Communication needs to focus increasingly on unique selling propositions, which enable clear distinctions to be presented on the market. Our marketing concept is setting new standards in nursing care for the elderly by establishing Marseille-Kliniken AG as an unmistakable and unique brand on the market. The aim is for customers and suppliers, funding organisations and patient sources to identify the company with such "hard" success factors as quality, service, price, product profile, closeness to the market and special concepts but also to feel appealed to by the brand at the emotional level. The core messages need to be clearly defined and communicated understandably, convincingly and self-confidently.

The main objective in all the efforts that are being made is to increase familiarity with the Marseille-Kliniken brand. Ideally speaking, potential customers are always supposed to think of the Marseille-Kliniken brand first, as a kind of synonym for nursing care for the elderly. It is, however, also important to be firmly established in the limited brand range of a decision-maker. Marseille-Kliniken AG must always be available as a convincing choice among several alternatives. Marseille-Kliniken as a strong corporate brand gives our sub-brands AMARITA, senior citizen's residential home, Astor Park, nursing clinic and Medina the support they need.

Customers today are knowledgeable and self-confident, selecting the leading and, above all, most innovative brand from the range of different nursing home operators rather than "any old nursing home". We take account of this trend in many different ways. We are adopting completely new approaches in product policy and are accessing potential new target groups as a result. We are trendsetters in such areas as the treatment of addictions, culturally sensitive nursing care, dementia with chip systems and quality management. We have established a completely new market segment with Türk Huzur Evi in Berlin. Optimum value for money in the different nursing segments enables us to approach new target groups too. We include what are known as "smart shoppers" here – a new type of customer to whom the combination of quality and value for money is extremely important. We demonstrate our role as a trendsetter by giving strong brands from entirely different areas an opportunity to co-operate with us in accordance with the win-win principle. We are opening our facilities for their marketing, in order to benefit from the values of their brand in return.

We have developed an extensive range of different measures for our marketing activities. We carry out traditional marketing with advertisements, mailshots, commercials and the involvement of artists and celebrities. We are developing a one-stop shopping channel in the Internet, the aim of which is to enable visitors to obtain all the important information about our nursing care programme for the elderly with just a few mouse clicks. In order to attract greater attention to Marseille-Kliniken AG, we are also adopting unusual new approaches outside the conventional advertising media, however. Guerilla marketing and comparative advertising are not taboo where we are concerned. We encourage our employees to embody the brand and image value of Marseille-Kliniken AG outside the facilities too. We see our facility managers as hotel directors, who are not merely responsible for internal administration but also maintain contact with all the relevant social groups in their region and play a prominent role in selling our services. Lobbying and networking are among the most important features of our marketing exercises at regional level. The values that we communicate at national level (macromarketing) reach all the local levels via micromarketing. •••

Increasing skills via e-learning

Marseille-Akademie is the central partner for all ongoing vocational training within the Group. Following complete realignment and introduction of an SAP learning management system, Marseille-Akademie is a modern service provider that is unique in the industry.

The assignments of Marseille-Akademie include not only the operation and optimisation of the learning management system but also the provision, outsourcing and arrangement of training courses to guarantee observance of the company's commitment to organisational care and other central legal regulations. It is responsible for constant optimisation of corporate know-how and the skills of all Group staff via a blended learning concept. Training that requires staff to be present physically will only account for 20% of all the courses here. At the system level, the e-learning activities in all the training courses are supported by the SAP learning solution SAP LSO®. The emphasis here is on maximising staff enthusiasm and motivation. Every single employee can complete the training courses provided either via specially equipped e-learning rooms at the facilities or at his own PC workplace. The success achieved in training is validated by means of tests and rewards are given for excellent performances. Providers of training courses at which staff are required to be present physically and qualification measures for staff are evaluated and selected in accordance with specified quality criteria.

MARSEILLE-AKADEMIE

E-learning

Ongoing training guarantees quality

Innovative concepts for the future are being implemented in all areas of the company's operations. In order to guarantee rapid but high-quality staff training, we are one of the first companies in Germany to implement a comprehensive e-learning concept. Learning studios have been set up at our facilities, where staff practice specified contents on personal computers. A test at the end documents how effectively they have learned. We are adopting new approaches in the selection of employees and in the maximisation of staff loyalty. Applicants complete an extensive selection procedure that is standardised throughout the Group, which enables us to detect more reliably than in the past whether new employees meet Marseille-Kliniken AG's high quality standards.


E-learning is an important feature of the corporate quality assurance system in the meantime.

The company management receives additional advice from the Marseille-Kliniken AG scientific advisory board, which provides the company with support in all strategic issues relating to the health care and nursing market and assesses new nursing concepts. Various instruments are used to monitor the viability of the quality management system.

The range of different instruments

... Auditing

Every facility and clinic is audited once a year and the results are evaluated on an ongoing basis. Individual departments and processes are audited as well when there are specific reasons to do this. Every audit is planned, supported by appropriate forms and the basis for an electronically backed catalogue of activities. The audits are carried out on-site by trained auditors.

... Certification

The clinics in the rehabilitation division have quality management systems that comply with DIN EN ISO 9001:2000. External certification has already been obtained for some of the quality management systems. They act as both a management instrument and a directive for process organisation. An organised audit system makes sure process quality is maintained here too. We are in addition planning to have the entire Group certified in the form of combined certification of compliance with DIN EN ISO 9001:2000.

... Complaint management

All the complaints that are received are documented and sorted according to their causes. Individual action plans or preventive measures are developed from them. Implementation of the measures is monitored by the quality management department and the effectiveness of the measures is validated. The improvements have an impact on process organisation and guarantee continuous improvement.

... Reporting

An efficient and completely IT-based reporting system provides information about the quality of our processes and services at all times. The nursing documentation and planning systems and other information are the basis for an efficient system of key indicators, which is used to control the facilities. In the nursing division, for example, the quality management department compiles a risk report, a nursing care level distribution report and a quality report about the facilities. Data from the nursing planning tool is processed in the risk report. It gives the facilities and the management an overview of the residents and their potential risks as well as of the overall risk to which the Group is exposed in the nursing care field. The nursing care level distribution and upgrading report is compiled every day and is the basis for the number of staff deployed in the areas in which nursing care is provided. What is primarily involved here is the provision of resources according to requirements and their development at the facilities. The quality report by the facilities gives an overview of performance and nursing quality throughout the division, of the most recent audit results as well as of the measures chosen and implemented as a result.

... Interviews with relatives

Customers' assessments are an important yardstick in quality management. Since many of the residents of the nursing facilities are no longer able to provide information themselves, e.g. because of advanced dementia, we have arranged for eqs.-Institut to interview their relatives or guardians about their evaluation of the quality of nursing care provided once a year since 2000. In June 2007, we completed the eighth relative interviewing exercise, in which all the relatives of the residents were asked to express their opinion. The interviews with relatives provide the facilities and the corporate management with many relevant key indicators and are a central element of internal quality management. The aims of the interviews are to obtain a comprehensive assessment of the quality of the facilities in all the relevant areas, to make comparisons between the facilities and to determine the positive and negative differences from the results achieved in the previous year. A standardised, anonymous questionnaire about such issues as "nursing and general care", "personnel" or "co-operation with relatives" developed by eqs.-Institut is used to interview the relatives. These interviews with relatives are a sound basis for the development of specific measures. Shortly after the benchmarking reports are presented, the areas in which quality deficits have been identified and the countermeasures that need to be taken are identified for every facility. The results are announced at evenings organised for relatives and the action taken to bring about improvements is discussed. The interviews with relatives also indicate, on the other hand, facilities that have achieved particularly high service quality in certain areas and are appropriate examples for the "learning from the best" process.

A satisfied relative.

All in all, the Marseille-Kliniken AG facilities were given good marks in 2007 as well, with a grade of 2.2.

Dealing with nursing risks

Nursing the elderly involves many different challenges in making sure optimum care is provided, while it is of course associated with specific risks that have to be controlled too. We therefore implement an extensive risk management system, the basis for which is a comprehensive description of all the nursing processes with a subsequent risk analysis. Following an assessment of the potential consequences and the specification of key indicators, we have specified and documented individual risk control procedures. They are incorporated in the Group-wide management system and are communicated in periodic staff training measures. Risk communication is another essential feature of the risk management system. It determines in what cases information needs to be exchanged between which groups involved – e.g. between nursing care and catering – and links everyone involved in the processes in a concerted battle to eliminate risks.

The system of key indicators is monitored by the central Group management and potential risks are communicated to the central quality management department for further processing. Regular reporting at corporate management level including the benchmarking of all facilities also helps to guarantee consistent, uniform quality in processing and controlling specific nursing risks.

A strong team pools all the information: the central management department at the administrative headquarters in Hamburg controls the information from all the facilities.

Specialisation of the nursing facilities

Treatment that the market wants

eqs.-Institut has developed ten general concepts for the specialisation of our nursing facilities. They have a flexible structure and can be adapted to the local conditions by the quality management department and the staff at the facilities. The specialisation of nursing homes is one of our responses to the current developments on the health care market. Changes in clinic funding (introduction of DRGs), the creation of new treatment structures such as integrated treatment or the increase in the average age of the nursing facility residents are associated with more exacting and special requirements, for example. The necessary specialisation is being carried out on the basis of a focus on selected areas in which there is particular market demand. They include professional, concept-based care for people suffering from dementia, various kinds of addiction, strokes, multiple sclerosis, Parkinson's disease and behavioural abnormalities. eqs.-Institut has developed concepts for palliative care, short-term nursing care and intensive care too.

The dementia concept

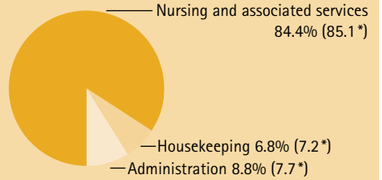
Number of dementia patients

Age group	Average prevalence rate	Estimated number of cases in Germany
65-69 years old	1.2%	48,000
70-74 years old	2.8%	99,000
75-79 years old	6.0%	171,000
80-84 years old	13.3%	173,000
85-89 years old	23.9%	272,000
Over 90 years old	34.6%	172,000
Over 65 years old	**7.2%**	**935,000**

(Bickel 2000)

The special feature of dementia is, on the one hand, that memory problems increase, while powers of judgement and orientation deteriorate. These problems are so severe that the people affected find it difficult or even impossible to carry out their normal everyday activities. On the other hand, people suffering from dementia continue to experience their own personality. Their perception of themselves is still in the context of their personality and they are able to experience and register feelings and to respond to needs. This very complex disorder represents a particularly tough challenge to nursing staff in their dealings with the residents concerned.

Number of employees



* Figure for the previous year

Our facilities that have decided to specialise in residents with dementia either set up special living areas for them or look after the residents concerned in separate groups during the day. The main objective of their work is to maintain or improve the quality of life and participation of our residents. The care provided and the general conditions are arranged in such a way that the focus is on the quality of life and well-being of the residents and that participation in communal activities can be maintained as long as possible. The facilities have a variety of different nursing and care approaches to choose from here, which are binding on all the facilities to some extent but which also provide scope for individual variation. What they all have in common is milieu-therapeutic arrangement of the environment and biographical orientation in the everyday activities. Special forms of nursing and care are implemented when residents are being looked after individually.

... Milieu therapy

Milieu therapy is a special form of therapeutic care that involves adaptation of the material and social environment to the changes in dementia patients' perception due to their illness. A milieu that is as normal as possible to the dementia residents is created. This includes consideration of aspects of the social environment, such as resident structure, involvement of relatives and person-centred care, as well as of the physical environment, such as furniture, resident-oriented design of the communal rooms or carefully chosen colour schemes.

... Biographical orientation

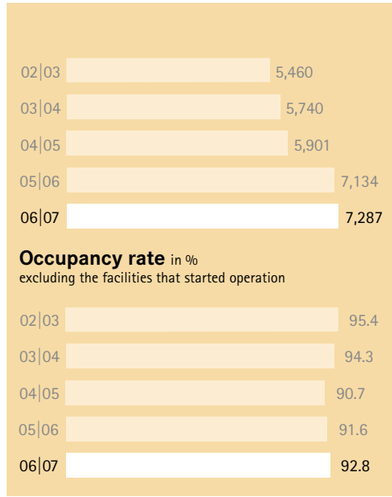
Biographical orientation is an integrated feature of work with dementia patients and means investigation of the life story of our residents and incorporation of it in the nursing and care process. We aim to find out about the resident's previous life, understand the way he is and acts now, identify the way he communicates needs, accompany him individually, give support and maintain long-established rituals, in order to provide security and build trust.

... Integrative validation

Validation is a special way of holding conversations and establishing contact with residents. We use it to express a basic attitude of appreciation to the resident, to increase the perception skills of the nursing staff by enabling them to listen attentively and to observe the old people's body language. What is important in this context is that the nurse approaches the dementia patient at his own communicative level to reach him where he happens to be at the time.

... 10-minute activation

10-minute activation consists of short but concerted activities. It takes into account the fact that long-term memory is frequently still accessible and that specific memories can be activated by key stimuli, such as the recitation of poems learned at school, knitting socks, crocheting hot pad patterns. The activities are linked with the old people's biography and are offered for short periods every day.



... Safety

The safety of dementia residents is an important concern to us alongside the different nursing and care approaches. It is frequently the case that people suffering from dementia are unable to guarantee their own safety any more. One particular feature of the disorder that influences this danger most is the distinct tendency to wander off. At some of our facilities, we provide a special safety system that is based on the use of a chip in a bracelet. The use of this chip system stops people from leaving the facility unnoticed. The necessary technology is almost invisible and is hardly noticed by the user. In all the special concepts, our programmes are rounded off by the active or passive involvement of external staff who co-operate closely with our facilities. By doing this, we make sure that the residents have access to necessary services that we cannot or may not provide ourselves. The successful implementation of special concepts depends on the availability of trained personnel. We keep strictly to the rule that experienced personnel who are trained appropriately for the specialisation concerned are deployed at every facility.

Interview

with Bodo Lindemann, founder member of the organisation Forum Gehirn e. V. and chairman of the organisation La Speranza – die Hoffnung e. V.

Personal information: Bodo Lindemann lives in Hamburg and is the father of a severely injured daughter, who was in a coma for a year in 1991 following a serious car accident. The doctors' forecast at the time was that there was no chance of rehabilitation and gave her up. A decision that proved to be wrong. Bodo Lindemann's daughter participates in normal family life, can move around in a wheelchair to a large extent today, can communicate completely and continues to make small progress in her ongoing development day by day. Bodo Lindemann displays great commitment in taking advantage of his professional know-how about IT technology and the health system combined with his many years of personal experience to make sure the issue of coma patients is brought to the attention of the public.

Mr Lindemann, why are you so committed to the issue of patients who have brain injuries and/or are in a coma?
Lindemann: Because of my many years of personal experience and numerous inaccurate assessments made in medical, therapeutic and nursing environments and in the assistance provided to relatives or third parties.

What do you mean by this exactly?
Lindemann: On many occasions, I have experienced a lack of information and/or wrong information about this condition in general and about the chances of rehabilitation. People have said: "There is nothing else that can be done." Experience with my daughter and many other examples have, however, shown me that people suffering from these problems frequently have a chance of improving their condition and quality of life by means of adequate nursing care, intensive therapy and assistance.

So you think that patients are given up too quickly?
Lindemann: The special feature of this syndrome is that a positive development cannot be predicted. It is possible that the condition of patients may improve considerably or partially, but this is not necessarily the case. No promises can be made, but the patient concerned should at least be given a chance.

What is your assessment of the way coma patients are treated in Germany today?
Lindemann: The problem is that many relatives of coma patients are left on their own at the end of the acute phase and/or when patients with brain injuries have completed a rehabilitation programme. About 100,000 of the roughly 200,000 to 300,000 people who suffer from brain injuries per year have severe problems, about 50% of whom are under 26 years old. As a relative, you are faced with the question: where does the person go if he has not made enough progress in rehabilitation? There are many too few places to go in Germany. About 75% of people with extremely severe brain injuries are cared for at home.

The AMARITA nursing facility operated by Marseille-Kliniken AG in Hamburg-Mitte opened a ward with 15 beds for coma patients in March. You were there and know the home well. What is your impression?
Lindemann: I do not normally think much of the "random bed principle". What I mean by that is when nursing facilities make a bed available for these patients here and there. AMARITA has appropriately trained personnel, however, and the ward is separate. That has been done well. In September, I will be liaising with the facility manager, Ms Buro, to contribute to the establishment of a self-help group there for relatives of patients with brain injuries. It is extremely important to support the relatives, because there is a regular need for information in the relationship between relatives and the personnel providing treatment and care and in making sure the patient receives the assistance he requires.

More than 80% of the 53 nursing facilities run by Marseille-Kliniken AG throughout Germany provide special forms of treatment in the meantime: not only for coma patients but also for stroke, dementia, palliative patients etc. What do you think about this development?
Lindemann: Specialisation is an issue that is becoming increasingly important. In my opinion, your approach is exactly the right way to provide appropriate care, treatment and assistance, so that the people concerned enjoy a decent quality of life.

Strength and stamina training to get fit again. Treatment of all kinds is standard at the Marseille-Kliniken AG homes.

Innovation thanks to new therapy measures

Dr Christoph Löschmann, Director of eqs.-Institut, explains aspects of new medical/vocational orientation in rehabilitation.

Dr Löschmann, what developments is the rehabilitation division going through at the moment in your opinion?
Developments that are leading to greater professionalism and goal orientation in rehabilitation are taking place in the medical rehabilitation field. They include, for example, what is known as "medical/vocational orientation" in rehabilitation. The treatment funded by the German pension system is supposed to facilitate reintegration in working life by adapting the treatment more effectively to vocational problems and opportunities. Features from the medical/vocational orientation field are therefore being implemented to an increasing extent at the rehabilitation clinics operated by Marseille-Kliniken AG too. One example of this is the co-operation between Schömberg psychosomatic clinic and a local vocational training organisation, in the context of which vocational and stress tests can be carried out during rehabilitation, for instances.

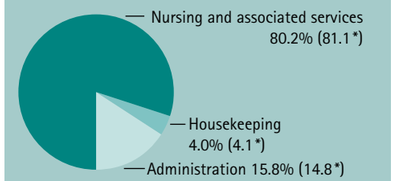
"Innovation" is a concept that generally sounds very abstract. Can you give us examples of successful new instruments?
The admission diagnostic procedure at the psychosomatic rehabilitation clinics has been standardised to some extent using a software solution developed by eqs.-Institut. Treatment planning is also being standardised and accelerated with the help of this EDP-based diagnostics routine, which produces an informative profile form for every patient. More time is available for purposeful therapy as a result. The success of the treatment can be determined for every patient reliably and by means of recognised procedures too as a result of a further standardised process at the end of every course of rehabilitation treatment. This means that transparency in the services provided is created with respect to the funding organisations and patients as well. Account is also taken of the current debate about patient orientation and shared decision-making by involving the rehabilitation patient in therapy planning.

What instruments does Marseille-Kliniken use for quality assurance purposes?
An extensive monitoring system has been developed and optimised at the Marseille-Kliniken AG rehabilitation clinics, which enables important key indicators to be controlled on an ongoing basis. It can, for example, be checked how intensively the rehabilitation patients are being treated or how long it takes for medical reports to be issued when patients are released. As a result of this system of internal key indicators, it is also possible to comply with the process guidelines that the German pension system is currently developing.

Realignment of the rehabilitation operations

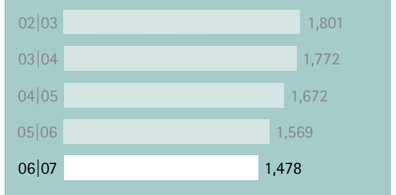
Diagnosis comes before treatment.

Number of employees



* Figure for the previous year

Bed capacity Number on 30.06.2007



Occupancy rate in %, excluding the facilities that started operation

Restructuring exercise largely completed

The concentration process on the German rehabilitation market is continuing. The economic prospects for this part of the health system, which still has an important role to play, are positive. Growth is expected to be driven primarily by the need for follow-up treatment. This is closely associated with the new system of lump-sum payments (DRGs) in the acute field. The reduction in the length of stays at acute hospitals is making it necessary to carry out vertical integration of rehabilitation in acute inpatient treatment concepts. The operators of rehabilitation clinics need to make considerable changes as a result.

The restructuring exercise in the rehabilitation division of the Marseille-Kliniken Group has been completed to a large extent. The foundations for an improvement in performance have been laid. The occupancy rate in the nine clinics still operated in this field is recovering steadily and the losses are decreasing substantially.

Due to serious technical faults in the buildings, the leased clinic in Bad König with 195 beds cannot be operated economically in the long term. We have therefore ended the rental contract both with and without notice, about which a legal dispute is in progress. We are working mainly on the assumption that it will be possible to reach a settlement about the rental contract in the current financial year. Final discussions about a redundancy plan are being held with the staff. Irrespective of all the progress made in the restructuring project and the positive outlook for the somatic treatment programmes in particular, rehabilitation will only be of secondary importance to the Group in future, however. The logical consequence of the systematic strategic focus on nursing care for the elderly is basically that we are initiating a divestment of the rehabilitation business in a way that is acceptable to everyone concerned. Following the spin-off of the clinics into independent operating companies last year, we have two options in the marketing strategy: we can sell the division either as a whole or in parts.

As has already been announced, Schömberg is a weak point that was eliminated in August 2007. The processes of change on the rehabilitation market have made it impossible to achieve full occupancy of a clinic with 229 beds. To solve this longstanding problem, we have divided the location up and leased 100 of the total of 229 beds to the nursing division of Marseille-Kliniken AG. The facility will be operated by the proven concept of a nursing clinic of the kind we have already been operating at the Bad Schönborn location since 1999. There is enough demand for nursing care for the elderly in the region and this will have the effect that it will be possible to raise the occupancy rate of the Schömberg location in total back to a level of more than 90% in the short term, returning it to the black too Schömberg is an officially recognised clinic that will be retaining its wide range of psychosomatic treatment with the reduced bed capacity and will be generating synergy benefits in connection with the expansion of the location concept.

Buildings at the Schömberg psychosomatic clinic. Since 1 September 2007, they have been part of the new Schömberg nursing clinic for people suffering from geriatric disorders.

Exploitation of hidden reserves in rehabilitation

The Schömberg clinic is one of the three rehabilitation clinics that we have sold to an international investor within the framework of a third sale-and-leaseback transaction. The sale of clinic properties is a central feature of our strategic realignment and an important part of our restructuring measures in the rehabilitation division. Following three social property transactions, we can claim that we have become innovation leader for the entire industry in this investment segment too at the present time.

The decision to make a fundamental change in our property structure is attributable primarily to the growing cost pressure on operators of nursing facilities. The development of the industry makes it essential to keep on finding internal improvement and cost-cutting potential and to exploit this potential on a sustained, ongoing basis. In recent years, we have focussed on personnel as the main cost factor as well as on the optimisation of business processes combined at the same time with quality improvements. Parallel to this, property has been included at the strategic level as a major company resource and the second-largest cost area after personnel.

The Marseille-Kliniken Group had high external debt in the past for historical reasons. This debt was associated with the structure of the property portfolio. In the early years, it was standard practice for the major operators of health care facilities to be owners of the social properties too. This explained the former dominance of owned properties in our portfolio of more than 70% until the end of the last millennium. This percentage is not, incidentally, typical of our industry alone; the situation is the same at almost all big German corporate groups, which own an average of 70% of the properties they use for their business operations. The figure in the USA is 30%. One of the reasons for these significant differences in management philosophy is certainly that international financial investors could not be obtained in Germany on a large scale as sources of funding until the sale-and-leaseback transaction was agreed between GE and our company. The economic significance of the property assets is confirmed by substantial hidden reserves at Marseille-Kliniken AG too and is in addition documented by the costs incurred in portfolio management, which can reach the level of the manufacturing costs after about 10 to 15 years.

We took initial opportunities to optimise the costs of the properties we use in our business operations in the 2004/2005 financial year, when a facility management strategy was introduced and we pooled all the property management operations at the subsidiary Pro Tec. In a second stage, we have begun to exploit the value creation potential of our corporate property assets. The basis for this was the systematic obtainment of fundamental data by recording and analysing portfolio information, formulating a property strategy derived from the corporate strategy and determining the current market values of the properties. The corporate property management operations we have established have made crucial contributions to value-oriented corporate management in recent years. This is particularly the case in view of the fact that changes in general corporate conditions – such as the reform of the nursing care insurance system and the combin-

ation of performance/quality requirements and stagnating nursing care rates associated with this – are having an impact on the requirements on the property portfolio.

In the last three financial years, we have exploited considerable value creation potential in our property portfolio by carrying out three sale-and-leaseback transactions. Following the initial transactions that were implemented successfully in the 2004/2005 and 2005/2006 financial years with General Electric/USA and CIT Group PLC/Great Britain and that were supported by Goldman Sachs where long-term external financing was concerned, another transaction was arranged in the year under review with the experienced international investor Grosvenor House Group, which was backed by the Barclays Capital bank and involves a volume of € 95.5 million. The three transactions together amount to a total volume of about € 284 million and are having the effect that the property we own is decreasing to the standard international level of 20% of the total portfolio. Achievement of this major strategic objective is helping us to reach three further goals: we are creating ourselves options for cost-efficient, functional expansion, we are generating cash flow and we are carrying out value-oriented optimisation of the properties we need for our operations.

The transactions also guarantee the maintenance and improvement of the value of the company and support our corporate strategy. This side-effect is attributable to the fact that the well-known investors, all of whom are implementing a long-term strategy, convinced themselves of the market value of our property assets in the course of comprehensive due diligence reviews of all the different areas of the company. The purchase prices reflect the development potential of the company, taking the possible risks, our market and competitive position, the quantity and quality of the services provided, organisation and financial accounting, management and personnel and, not least of all, our innovative skills in the market for nursing care for the elderly into consideration.

Two rehabilitation clinics from our existing portfolio in Blankenburg and Bad Klosterlausnitz were already sold in the context of the first two transactions. The package now sold to the Grosvenor House Group includes three more rehabilitation clinics in Bad Schönborn (Gotthard-Schettler Clinic and Sigmund-Weil Clinic), in Kinzigtal (Gegenbach Clinic) and in Schömberg. The rehabilitation clinics account for the majority (62%) of the purchase price paid for the total transaction. It proves that there are substantial hidden reserves in the double-digit million range in the property assets held in the rehabilitation segment too, which have now been exploited, and that the transactions are leading to optimisation of the assets held in this segment. It is of considerable importance above and beyond this that the investor has taken account of our long-term strategy of divesting the business operations of the rehabilitation division too and that the assumption of corporate liability for leasing the properties back by Marseille-Kliniken AG is no longer necessary.

The Sigmund Weil and Gotthard-Schettler rehabilitation clinics at the Bad Schönborn location.

Rehabilitation

Same quality standards as in nursing care

The purpose of the central quality management system established in the rehabilitation division too is to keep a critical eye on the quality of practical daily care, making sure it is controlled, maintained and, if necessary, improved. Establishment of an internal quality management system in accordance with the DIN EN ISO 9001 standard was completed at four clinics (Kinzigtal, Schömberg, Gotthard-Schettler and Sigmund-Weil Clinics) with the obtainment of certification in the year under review. The remaining clinics are being certified in the current financial year. We are also taking requirements into account that are specified in the integrated quality management programme (IQMP) manual for rehabilitation. All the quality management projects are being supported by eqs.-Institut, Hamburg. The clinics are also participating in external quality assurance programmes organised by the German pension system and the statutory health insurance funds. They are, finally, incorporated in extensive, ongoing evaluation research that is being carried out by eqs.-Institut in co-operation with various university institutes. These research activities focus on sound assessment of the effectiveness and benefits of the rehabilitation treatment that has been provided.

Modern and innovative range

The patients at our clinics are treated by modern, state-of-the-art therapy concepts. In addition to consideration of the requirements made by the funding organisations, this means staying informed about the latest scientific findings and integrating effective new therapies in the range of treatment provided. New requirements are also identified and professional programmes are compiled for new target groups.

Somatoform pain disorders – Patients suffering from these disorders complain of constant pain without any physical symptoms and have frequently had long periods of illness and visits to many doctors behind them. Treatment of this target group makes exacting demands on the diagnostic and therapy facilities at our Kinzigtal rehabilitation clinic. Psychological therapy and medical treatment are linked on the basis of comprehensive biopsychosocial diagnostics. The therapy models include psychodynamic therapy, groups for specific disorders, behavioural medicine programmes, relaxation therapy as well as such physical measures as movement therapy, physiotherapy or balneotherapeutic measures.

Oncological rehabilitation – The central elements are extensive diagnostics and individual therapy planning. Cancer always involves a major change in a patient's life. The operations that follow the initial diagnosis and curative therapies like radiation or chemotherapy are an additional burden on the patients. The rehabilitation programmes offered at Teufelsbad Fachklinik take account of this and provide help at all the relevant levels. Social and frequently vocational aspects too are covered in addition to physical ailments and mental problems and fears, in order to enable the patients to enjoy a high degree of activity and participation. Oncological rehabilitation at the modern Teufelsbad Fachklinik is based on an interdisciplinary team that offers the patients a therapy programme specific to their particular disorder. The therapy focusses on treatment of the illness and its consequences, on the one hand, and tries to mobilise the patient's self-healing powers, on the other hand.

The winners of the 2007 rehabilitation research prize had € 7,500 to look forward to: Dr Erik Farin and Dr Rolf Georg Fiedler.

Work–life balance – The Schömberg clinic is adopting new approaches with this concept. Mental illnesses are becoming increasingly significant both in absenteeism and early retirement because of illness. Demands made by the fast changes in the working world are playing an important role here. The aim of the work-life balance concept is to enable working people to cope with the requirements they face at their workplace more effectively. The concept is based on the principles of salutogenesis, the active establishment or support of factors that promote health. Better stress management, mental stabilisation, an improvement in self-perception and the feeling of self-worth and a reduction in symptoms of physical illness are the aims of the programme.

Rehabilitation research prize

Karlsruher-Sanatorium-AG has been promoting rehabilitation science and research for many years now by awarding the rehabilitation research prize. The increasing demands on the professionalism and effectiveness of rehabilitation treatment, on the one hand, and the increasing shortage of resources, on the other hand, make it essential to provide an evidential basis for the services offered. Medical rehabilitation is required to submit proof of its effectiveness and efficiency. As an operator of inpatient rehabilitation clinics, Karlsruher-Sanatorium-AG has a keen interest in providing its patients with the best possible services, taking the principle of economic viability into consideration. Research projects of excellent quality are awarded the prize annually on this basis.

The prize worth € 7,500 was presented to the two scientists Dr Erik Farin (Freiburg) and Dr Rolf Georg Fiedler (Münster) in March 2007. The project carried out by Erik Farin about "Adaptive, ICE-oriented questionnaire about mobility and self-treatment MOSES" is based on the International Classification of Functioning, Disability and Health (ICF) developed by the World Health Organisation (WHO). Disorders are registered with respect to special ICF categories with the help of the MOSES form. In his dissertation, Rolf Georg Fiedler developed and validated the "Diagnostic instrument for work motivation (DAIMO)". The questionnaire makes it possible to plan rehabilitation measures more precisely on the basis of an assessment of the work motivation of patients.

The independent jury, which consisted of the professors Jürgen Bengel (Freiburg), Uwe Koch (Hamburg), Bernhard Greitemann (Bad Rothenfelde) and Dr Ferdinand Schliehe (Osnabrück), chose the research projects carried out by the prizewinners from a large number of entries. Experts from both the Marseille-Kliniken scientific advisory board and the German Society of Rehabilitation Sciences were represented on the jury. In what has already become a tradition in the meantime, the presentation ceremony was held at the biggest congress for rehabilitation science in Berlin, which is organised by the German pension system.

Healthy food

More than just a meal – trained chefs focus on healthy cuisine

Human beings need food to live, in the same way that they need air to breathe. For millennia, people have succeeded in feeding themselves – even without any scientific findings, based solely on experience and regular adaptation to the range of products offered by nature. Eating habits have been determined by what experience has shown to be good rather than by consideration of how healthy the food is.

Our residents have their favourite meals, different eating habits and different memories of food they have eaten in their lives. Some require a special diet, whereas some have already decided that they are ready to die, so that they are no longer interested in eating. Our primary assignment is to combine these various factors, while maintaining the quality of the food provided. The elderly in particular have very special demands on their food; their wishes and requirements change. Thirst and appetite decrease.

We make sure the menus we prepare are healthy, balanced and varied and provide seven meals a day. Once a week, we offer a very special meal as requested by one of the residents. Our recipe library includes special energy- and micronutrient-defined, variable recipes for feeding residents who have lost weight for medical reasons or have allergic reactions to certain food ingredients. Neither industrially manufactured products nor genetically modified foods are used.

Trained chefs and specialised diet cooks guarantee the correct combination of all the components and meals and offer a varied, efficiently applicable range, from traditional to seasonal and regional food. We respond to decreasing appetites by providing portions of appropriate sizes and nutrient content levels, with appetising starters, fresh drinks and pleasant surroundings.

Eating is part of culture in old age. We are committed to making it a memorable experience. •••

Served fresh: starter, main course, dessert – like in a hotel.

Our five service companies

The new clothes Marseille-Kliniken AG's staff wear at work are both chic and comfortable.

The Marseille-Kliniken service companies are a vital element of our medical concepts and guarantee optimum housekeeping services for our customers. The comprehensive scope of our system, which is unique in the industry, is a result of our strategic profile as a branch-based provider of nursing care for the elderly. The companies are an essential feature of our growth strategy.

The aim of the operations of the companies is to give the staff the freedom to concentrate on their core skills in nursing, rehabilitation and general care by providing a complete range of hotel services, as a result of which the facilities are relieved of specific individual assignments. Due to the steady growth of the Group, the companies provide their services almost exclusively to our own facilities. Services are only provided to third parties in exceptional cases. Five service companies provide their range of services in the following areas: catering, cleaning, laundry supply, facility management and data processing.

ProF&B GmbH

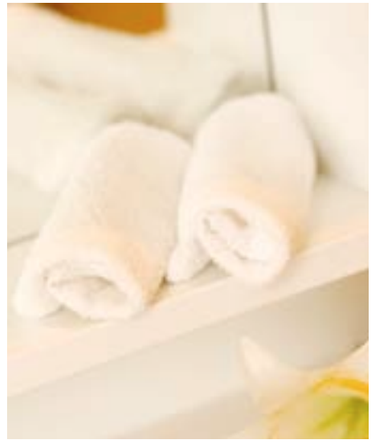
The company provides a complete professional catering service system for the Marseille-Kliniken facilities. ProF&B is responsible for feeding the patients, residents, guests and staff. A total of 600 employees serve about 7,500 customers.

In old age, healthy eating and drinking involve consumption of the right quantity of all the necessary nutrients via suitable food. Ongoing maintenance and optimisation of our catering programme as well as constant awareness of the special needs (appropriate diet for elderly people, diabetes, dementia, chewing or swallowing problems, nutritional deficiencies) are essential in this context. The basic menu takes the "healthy diet" guidelines issued by the German Nutrition Society into consideration and is supplemented by special seasonal and regional dishes. Individual nutritional programmes and diets are compiled on the basis of the latest scientific findings. Strict quality controls and careful selection of suppliers give the customers a high degree of security.

ProWork GmbH

This company is responsible for professional cleaning and laundry storage services at the facilities. ProWork plays a key role in facility acceptance. Moving to a nursing facility represents a drastic change in elderly people's lives. They need to be given a feeling of comfort and care. Their own four walls as an oasis to which they can retreat are of essential importance. In our staff planning, we always try to assign the same staff to the same areas and rooms, in order to maintain continuity and build relationships and trust. Regular staff training in line with their needs and the use of state-of-the-art equipment and environmentally sound cleaning agents help to guarantee high hygiene and quality standards.

ProMint GmbH



The company carries out all the laundry supply services for the Group. More than 8.5 tonnes of laundry are washed every day. ProMint looks after not only the residents' private laundry but also the facility laundry. Washing processes that have been checked to make sure that they have as little impact on skin and the environment as possible are used. External reviews by Hohensteiner Institute – a recognised research and service centre that covers the entire textile chain – are carried out regularly without any complaints being made. External customers like hospitals and hotels take advantage of the company's expertise about industrial washing processes and gentle textile processing too.

ProTec GmbH

Facility management for all the Group facilities is concentrated at this company. ProTec provides building and equipment maintenance and repair services and is also responsible for Group energy management. This includes the inexpensive obtainment of energy sources, optimum alignment of the property infrastructure and energy cost controlling with the aim of consumption and cost optimisation.

DaTess Gesellschaft für Datendienste mbH

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

Geriatric disorders and diet

Our residents are old and this frequently leads to a deterioration in their physical and mental functions. Problems that are encountered very often are geriatric diabetes, difficulties in swallowing and chewing, digestion and metabolic problems as well as changes in liver and kidney functions. An appropriate, medically co-ordinated diet can alleviate the problems or make them bearable in many cases.

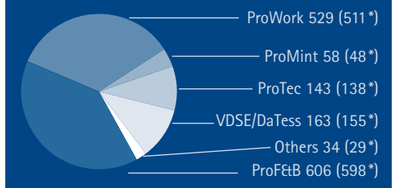
Special menus

Geriatric diabetes is given maximum attention at our facilities. The nursing staff provide notification when a resident starts suffering from the disorder. The doctor responsible specifies how the necessary carbohydrates (carbohydrate exchange) need to be spread over all the meals. The home management makes sure this information reaches the kitchen, which produces special meal cards for the resident. It includes the doctor's instructions. The meal card is enclosed with every meal that is served. It keeps staff aware; they are specially trained to look after people suffering from diabetes and are instructed by specialised personnel. The food for diabetics is produced separately. At larger facilities, a separate menu containing only diabetic food is prepared. Basic changes need to be made in procurement and production. When the food is being prepared, care must be taken to make sure that the "carbohydrate exchange" (12 g of convertible complex carbohydrates) specified by the doctor is observed.

Swallowing is an extremely complicated process and problems here make appropriate eating very difficult. The addition of cold and warm thickening agents to the food can help. Chewing disorders as a result of the loss of teeth or dentures that fit poorly lead to an unbalanced diet. Soft and, if necessary, puréed food are a solution here.

A fundamental objective that we aim to achieve at our facilities is to counteract the many different disorders and, above all, metabolic problems by providing adapted food products and to improve the quality of life and satisfaction of the residents as a result. Notwithstanding all the restrictions, our chefs do their best every day to prepare fresh, tasty and varied food. All of them have seen for themselves that good food can help to improve health.

Number of employees



* Figure for the previous year

IT has entered all areas of the company's operations. Including the kitchen. All the recipes can be accessed at a mouse click. Cooking is always carried out in accordance with the residents' requirements.

Quality assurance with modern it support

Our professional subsidiary ProF&B has been co-operating closely with ProCare Management GmbH since 2003. The ordering and procurement procedures have been transformed completely since then. Whereas it used to be the case that all the facilities maintained business relationships of their own to different suppliers and the orders were processed via manual lists, the newly installed ordering program EMPro makes it possible to conclude national contracts with the suppliers and to combine all the articles in a database irrespective of the suppliers involved. This enables similar products to be compared – with an indication of the best price – so that the most cost-effective articles can be chosen quickly when orders need to be placed. The integrated central storage management system can access the orders placed in order to determine stocks, which leads to considerable simplification and time savings. A specially developed module for recording incoming invoices by cost centres, for invoicing and for costing of the catering day gives a prompt overview of the costs incurred and makes it possible to pass data on consistently.

We have introduced a new module in the goods management system in which recipes are recorded centrally and daily/weekly plans are compiled. In connection with the ordering system, product costs per catering day can be determined in advance and counter-measures can be taken to avoid excessively high costs by optimising the menu, if and when this is necessary. In addition to this, we are working on production of the menus with an indication of the nutrient levels and planning proposals, with which it is possible to calculate prices and nutrient levels automatically for the relevant catering day on the basis of the recipes and meals stored. This means that ProF&B can provide the information needed about nutrients and additives in the catering operations, from individual articles to weekly averages for complete categories of food, in a consistent layout.

We have obtained additional IT support for ordering work clothing. It is no longer possible to provide our staff with new work clothing efficiently without technical support, in view of the many different articles and items involved. The software SoCom, a computer-based textile organisation system, is a convenient and easily handled system, that makes it simple for staff to place orders and satisfies the organisation's internal requirements.

An attractive employer

Untiring in his efforts to promote training: Nicolaus Rademacher from Marseille-Akademie visits the facilities and explains e-learning there.

In more than 20 years of steady growth, Marseille-Kliniken AG has developed not only into one of the biggest private service providers in the German health system but also into a major employer of more than 5,200 staff at over 60 locations throughout Germany. This process of steady expansion is accompanied by continuous training of the staff employed in the corporate group and by an ongoing search for qualified personnel. The company is constantly creating new jobs and apprenticeships.

The expectations on our employees are high – as regards both their daily performance and their willingness to improve their skills. We communicate this message very clearly across all the staff hierarchies. In return, we provide modern workplaces that enable high-quality services to be provided and satisfaction to be enjoyed. A clear indication of the high level of staff commitment is the substantially lower sickness level than is normal in our industry. It remains a central objective of the human relations operations to maximise staff identification with their own assignments, with their own facility and with their employer.

The training campaign is in full swing

The main purpose of the basic training we provide is to cover our own personnel requirements. Practically all our present 200 apprentices who complete their training with the grades "good" or "very good" are offered a job. In order to professionalise the start on internal career development up to the position of facility manager, existing internal trainee programmes are optimised on an ongoing basis and are fine-tuned to meet the requirements. We also train nurses and run a management trainee programme.

The contents of the e-learning programme, which are an excellent supplement to conventional events requiring the staff's physical presence and are already more important than the latter, are growing all the time. This expansion is attributable to new scientific findings, the implementation of special nursing concepts, the use of modern communication facilities in nursing documentation and the exacting demands made on internal quality in all company operations. E-learning makes it possible to respond promptly to requirements that are identified. Complete teaching units are available for productive use within only a short time after requirements have been specified. The possibility of individualisation and thus the high flexibility in deployment at the facilities are leading to considerable economies in the training field. Effectiveness and efficiency are no contradiction in terms; they are instead the result of a need-oriented training campaign based on a modern e-learning system.

E-learning maximises know-how and skills. Direct availability of result data in e-learning allows immediate comparisons to be made between the results from the different facilities or different residential areas of one facility. Since the level of learning success is evaluated promptly, further training requirements can be determined in detail and action developed from this can be initiated concertedly rather than comprehensively. The outcome of this is a steady improvement in the quality level. A welcome side-effect of this procedure is a consistently high quality level all over Germany. The statement "Better if we are there" is not merely a motto; it is the implementation in practice of the claim we make – at all the facilities.

The capabilities and commitment of the staff remain the key that guarantees the success of our company. They deserve recognition and appropriate rewards. In future, we intend to extend bonus models of the kind that already exist for facility managers, so that all the nursing staff can help to determine how much they are paid to a not inconsiderable extent by their own performance. The basis for this will be not only an appraisal by the superior but also the achievements demonstrated in the qualification field. Combination of the qualification and remuneration modules is in line with our corporate principles and is therefore only logical.

Responsibility to society

Marseille-Kliniken AG is a company that is not a self-contained organisation which carries out its business operations in the market environment independently of everything that is going on around it. It is integrated in society, the changes in which it registers and anticipates. We therefore maintain contact with the public and comply with what is required of us: transparency and commitment. Everyone benefits from what we achieve together as a company. Society, because we help to shoulder the economic costs of old age; the state, because we pay taxes; investors, because we operate profitably; staff, because we provide secure jobs and create new ones; and, lastly, we ourselves, because we are growing.

Helping and sponsoring

Social responsibility is an empty phrase unless it is applied in practice. As a company that operates on a decentralised basis, we are part of the regional social structure at more than 60 different locations in Germany. We are committed to support local social projects as a result.

In Neuruppin, for example. For years now, the senior citizens' residential home there has been participating in the "Ruppiner Tafel", which provides a hot meal and food to the homeless, socially deprived families and the destitute. Every Monday, the facility sponsors and supplies a hot meal to the organisation. Since the spring of 2007, the facility management has issued regular invitations to children from socially deprived families to spend a pleasant and entertaining afternoon with the residents of the senior citizens' residential home. It is often the little gestures that demonstrate social commitment and build bridges between the generations.

At AMARITA Hohen Neuendorf, for example. The home has assumed responsibility to pay for music lessons for two children following severe setbacks suffered by the family. The girl and the boy play the flute and violin with great enthusiasm and ambition. The two young musicians are members of the "Musikwerkstatt Eden" organisation and regularly visit AMARITA Hohen Neuendorf with their orchestra and delight the residents with their music.

At Aschersleben senior citizens' residential home, for example. Our catering manager there is a passionate and successful sportsman, who has been German champion on several occasions as well as being runner-up in the world championships several times too as a member of the FSV 1895 Magdeburg team. Marseille-Kliniken has sponsored the club for years by providing it with training suits.

Protection of the environment

It is one of society's basic duties to make careful use of resources. Any community will die if it fails to protect the environment. Sustainable management, avoidance of waste, economical use of water and energy are core issues in our environmental management system. The processes that have an impact on the environment have been defined at all the service companies and are monitored constantly. Left-over food, compostable waste, fats and oils are recycled by special disposal companies. Strict separation of waste throughout the Group makes sure that the volume of waste we produce decreases steadily. There is no chance of pathogens being transferred to food in the kitchen operations. Personal hygiene, covered hair, avoidance of jewellery, clean work utensils, kitchen equipment in perfect condition and hygienic working surfaces are standard features of our operations. In housekeeping, we have switched the cleaning process to dry cleaning and have reduced water consumption drastically. In our choice of cleaning agents, we opt for hygiene service products with tensides on a vegetable basis. Special machines and environmentally responsible detergents are used in our laundry operations. ProMint has a water processing and recycling plant of its own. In the construction of our facilities, we commit the builders to the use of technical solutions that consume as little energy as possible and of building materials that have minimum health impact. •••

Security in old age

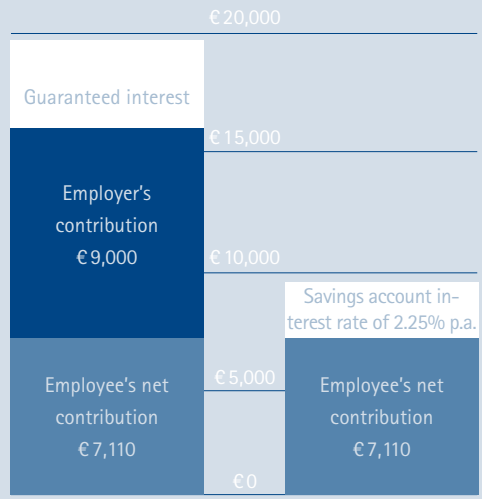
The anticipated deterioration in the benefits provided by the state old-age pension system has been the subject of public debate for years now.

Reasons for this, apart from the general demographic development, are longer education and training periods, higher life expectancy and the relative increase in the proportion of the total population accounted for by old-age pensioners. It is indisputable that the state pension will be decreasing substantially and will only represent an absolutely basic provision for old age in future. This means that additional private and corporate provision for old age will be essential for employees. In the business community, forms of company old-age pension provision are establishing themselves to an increasing extent that are supported by the state in the context of the taxation and social security systems. The term "company old-age pension provision" covers all the benefits that the employer promises his employee relating to old-age pension provision, provision for survivors or provision for disability. This means that company old-age pension provision is becoming a major element in social security for the employee and his family.

As far as the employer is concerned, company old-age pension provision has the positive side-effect that staff motivation and loyalty to the company are increased. The high personnel turnover that is normal in care professions in particular is a fundamental problem. Employees who have worked for other employees so far need to be raised to the consistently high level that is standard at the Marseille-Kliniken facilities. Additional expense and effort are nearly always required in this context. Alongside all the other measures, the new pension fund introduced on 1 July 2007 is helping to encourage greater staff loyalty to the Marseille-Kliniken Group, while it at the same time demonstrates our conviction that we have a social responsibility not only to our residents and patients but also to our employees.

In liaison with capable partners, we have opted for what is known as an alternative pension fund. "Soziale Dienste e.V.", the pension fund established together with Allianz AG, is serving as the basis for company old-age pension provision. It arranges the contents and benefits of the old-age pension provision between the Allianz pension fund and Marseille-Kliniken AG via a group insurance contract. The individual companies in the Marseille-Kliniken Group, in turn, have a legal relationship to their employees with respect to old-age pension provision. The employer and the employee each pay half of the contribution to the pension fund up to a specified maximum amount. The payments are tax-deductible for the employer as business expenses and the employee has the option of making larger voluntary payments. If it is assumed that he makes payments of monthly amounts of between € 20 and 50 for about 20 years, an average employee can obtain additional pension rights of up to 40% of his rights under the state pension system. The pension fund is open to include other companies from the nursing care industry.

Woman, 40 years old, tax bracket III, one child
Contribution paid by the employer: € 30
Contribution deducted from the employee's gross salary: € 30



Financial information

Report by the Supervisory Board

1 2 3 4

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

The Supervisory Board held a total of six meetings in the 2006/2007 financial year, at which it was informed in detail by the Management Board about the situation of the company and the Group as well as about the strategic alignment of them and monitored the conduct of the business by the Management Board, providing it with appropriate support and advice. On these occasions, the Management Board presented oral and written reports to the Supervisory Board in particular about such issues as corporate and Group planning, profitability and liquidity, the progress made in business operations, the situation of the company and the Group, risk management and compliance and the transactions that have considerable impact on company profitability or liquidity. The members of the Management Board also reported to the Chairman of the Supervisory Board regularly about major business transactions, particularly those that required the approval of the Supervisory Board, outside the meetings. The Supervisory Board passed resolutions about these business transactions, including those that involved personnel issues, at its meetings. Due to the regular reports presented to the Chairman of the Supervisory Board by the

Management Board, the Supervisory Board was informed about all the activities and business transactions of major importance and involved in the decision-making processes in good time. All the members of the Supervisory Board attended the meetings of the Supervisory Board in the 2006/2007 financial year, with the exception of the meetings on 20 October 2006 and 7 November 2006, to the resolutions voted on at which the members of the Supervisory Board who had provided notification in advance that they would be unable to attend (Dr Peter Danckert and Professor Dr Matthias P. Schönermark) gave their approval in writing, however, and the meeting on 12 June 2007, to the resolutions voted on at which the Chairman of the Supervisory Board, Mr Ulrich Marseille, who had provided notification in advance that he would be unable to attend, gave his approval in writing, however. The finance committee formed by the Supervisory Board met twice in the 2006/2007 financial year. No conflicts of interest arose within the Supervisory Board in the past financial year with respect to members of the Supervisory Board.

The documents prepared by the Management Board about the 2005/2006 financial year were reviewed at the meetings of the Supervisory Board that were held on 10 and 20 October 2006. The Management Board outlined the main results, background facts and information with respect to the documents for the 2006/2007 financial year and answered the Supervisory Board's questions about them. One important point involved the explanations by the Chairman of the Management Board about the annual accounts for 2005/2006 and by the auditors about their audit report about the (Group) annual accounts and the (Group) management report for the 2005/2006 financial year, which was included in the Supervisory Board's discussion, as were the comments and explanations given about it by the auditors. On completion of the review by the Supervisory Board, the annual accounts and the Group annual accounts for the 2005/2006 financial year were approved at the meeting held on 20 October 2006, as were the documents prepared by the Management Board for the Annual General Meeting in December 2006.

At the meeting of the Supervisory Board on 10 October 2006, Dr Peter Danckert announced that he was resigning from the Supervisory Board on 31 December 2006 for personal reasons. Another important point at the meetings was the approval of the Supervisory Board for the conclusion of the third sale-and-leaseback transaction with the investor Grosvenor House Group. In addition to this, the Supervisory Board was informed essentially about the developments in the nursing, rehabilitation, building & facility management and expansion operations and questions about them that were asked by the Supervisory Board were answered. Reports were also presented about individual legal transactions from the finance, contracts and personnel fields that required approval and resolutions were passed.

At the meeting on 7 November 2006, the Supervisory Board concentrated not only on various legal transactions that required its approval but also and in particular on the financial and investment plans of the Management Board for the 2006/2007 financial year and approved these plans.

The main emphasis at the meeting of the Supervisory Board on 5 December 2006 was a discussion with the Management Board about the contents and organisation of the Annual General Meeting on 6 December 2006.

At its meeting on 27 February 2007, the Supervisory Board focussed on a review of the report about the first half of the year and the economic development of the company up to 31 December 2006. The Management Board reported to the Supervisory Board and answered its questions about these subjects. The Supervisory Board was also informed about the developments in the nursing, rehabilitation, service, building & facility management and expansion operations. In addition to this, the Management Board presented the medium-term planning up to the 2008/2009 financial year to the Supervisory Board and reports were given about legal transactions that required approval, following which resolutions were passed. The Supervisory Board was also informed in detail about the offers submitted for the establishment of a pension fund and the impact of this on the main Group figures and resolutions were passed to conclude contracts and establish a pension fund with Allianz Pensionskasse AG.

At the meeting on 12 June 2007, the Supervisory Board received and reviewed the report about the 3rd quarter of the current financial year and the Management Board's explanations of it, including the development of the main business figures since the 1st quarter. The Management Board answered the Supervisory Board's questions about the quarterly report. The Supervisory Board received the reports about the current developments in the nursing, rehabilitation, service, building & facility management and expansion operations in the 3rd quarter. The reports were explained by the Management Board when it was asked to do so by the Supervisory Board, checked against the objectives and strategies for the different operations and compared with the results of the developments up to the 3rd quarter.

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

past financial year that would have made it necessary for the Supervisory Board to take any action above and beyond the measures outlined above.

The Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report compiled by the Management Board for the 2006/2007 financial year (including the bookkeeping records) were audited by the auditors chosen at the Annual General Meeting held on 6 December 2006, BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hamburg, at the request of the Supervisory Board. An unqualified certificate was issued, with the addition of an informative note. The auditors took part in the Supervisory Board's discussions about the documents submitted by the Management Board at the meetings of the Supervisory Board on 9 October and 16 October 2007 and reported about the results of their audit. The audit reports by the auditors were submitted to the Supervisory Board and were included in the review by the Supervisory Board of the documents submitted by the Management Board. The Management Board presented the main items in the accounts, commented on the management report and explained risks and liability issues as well as the expectations for the current financial year. The Management Board answered questions put to it about the documents by the Supervisory Board. The Supervisory Board approved the outcome of the audit by the auditors. The Supervisory Board shares the evaluation and assessment made by the Management Board in the management report. All in all, the Supervisory Board did not have any reason on the basis of its internal review in the context of the Supervisory Board meetings, including the audit reports by the auditors and the results achieved in the 2006/2007 financial year, to think that the documents submitted by the Management Board might be incomplete or incorrect or needed to be questioned for any other reasons. The Supervisory Board therefore had no objections to raise after it completed its review of the Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report for the 2006/2007 financial year. The Supervisory Board agreed with the results of the audit by the auditors. The Supervisory Board approved the annual and Group accounts prepared by the Management Board as per 30 June 2007 and accepted the proposal made by the Management Board for the appropriation of the profits for the 2006/2007 financial year.

The review of the documents submitted by the Management Board at the meetings held on 9 and 16 October 2007 included the report about relationships to affiliated companies compiled by the Management Board as stipulated by § 312 of the German Companies Act (AktG). The auditors audited the report by the Management Board too and informed the Supervisory Board about their findings. The auditors issued the following certificate about the report:

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

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

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

The Supervisory Board would like to express its thanks to the Management Board and all employees for their commitment and hard work in the 2006/2007 financial year.

Berlin, October 2007

Marseille-Kliniken Aktiengesellschaft
The Chairman of the Supervisory Board

Ulrich Marseille

Management report and Group management report for the financial year 2006|2007

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

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

Summary of the highlights and main figures

The Marseille-Kliniken Group continued to grow in the financial year 2006/2007. Operating sales rose to € 214.8 million from € 210.4 million in the previous year. The core division of nursing continues to secure sales and earnings. Nursing capacity was expanded by 153 beds from 7,134 to a total of 7,287 beds.

The rehabilitation division has 1,478 beds compared to 1,569 in the previous year and has been restructured as a competitive core business with the option for sale of part or all of the operations.

In this financial year, we made a sale-and-leaseback transaction with the Grosvenor House Group plc. (GHG) regarding a property portfolio which includes two nursing care and two rehabilitation properties. The sale of the property in Schömberg (rehabilitation and care clinic) will follow in the financial year 2007/2008. This will reduce our net financial debt from € 111.3 million to € 32.6 million and achieve an equity ratio of over 30%.

Net Group profit was € 9.0 million after € 9.7 million in the previous financial year. Earnings per share amounted to € 0.75 after € 0.73 in the previous year.

Occupancy rate of beds provided by the Group was 89.7% after 88.2% in the previous year. With 63 facilities and about 5,160 employees, the Marseille-Kliniken Group is a market-leading listed company operating on the market for inpatient health care in Germany.

Business operations and strategy

Group organisation and control

Marseille-Kliniken AG has been listed on the stock exchanges in Frankfurt and Hamburg since 1996. The individual companies in the nursing, rehabilitation and services divisions are run as independent legal entities in the form of private limited companies (GmbH) led by the parent company Marseille-Kliniken AG. The three above-mentioned divisions comprise the reporting segments for International Financial Reporting Standards (IFRS) purposes. They are managed by independent department heads and supported by centralised service providers for human resources, finance and controlling, accounting, taxes, information technology, organisational management and marketing.

The completion of integrated networking of all information and decision processes on a Group-wide basis allows for effective and efficient management which has proven successful in daily operations.

The basis of the planning and control system is the rotationally revised strategic planning of the Group which is adjusted to take account of expected marketing results, state-of-the-art information technology and financial opportunities available to the Group. Plans are normally made for a period of up to five years, but budget planning is made in detail for the following financial year. The budget sets targets for monthly reporting about the asset situation, financial position and profitability of each individual company in the Group and for the Group as a whole. Monthly reports also include wide-ranging controlling data and detailed information for ensuring proper control of business and so that risks of failing to attain strategic corporate targets will be recognised even where they are not immediately clear from the figures. These reports provide important information and form the basis for decision-making by the Management Board and the Supervisory Board.

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

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

Marseille-Kliniken AG strategy

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

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

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

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

New facilities are being developed in Meerbusch (150 beds), in Düsseldorf, Lehrte and Oberhausen (each with 80 beds) and in Bremerhaven (200 beds). Part of the rehabilitation clinic in Schömberg is being remodelled to provide 100 beds for a nursing care facility for the elderly and will be completed and ready to open in September 2007.

Strategic effort is being concentrated at the two-star level as we see considerable scope for growth potential in this sector. In our opinion, there is considerable growth potential particularly in the assisted living sector. The example of Halle, where we have provided nursing services to 756 competitively priced apartments in three complexes since mid-2005, shows the success of this market niche. A further assisted living facility with 130 beds will open in Potsdam in September 2007. We will continue to scour the market for suitable properties for conversion to this kind of care concept.

We have plans to increase care capacity by the end of the calendar year 2008 to a contractually secured capacity of 12,000 beds. The preconditions necessary for the financial flexibility are a balance sheet structure in line with the capital market and a long-term refinancing strategy. We are developing concepts for a medium-term refinancing strategy with the goal of using the possibilities offered by the market to finance growth by investors and international partners. We can offer our know-how as an operator and in change management, and our partners can generate attractive returns in the property sector on the capital they invest.

We have reduced capacity on the rehabilitation area to a total of 1,478 dedicated beds, and capacity remains positive due to the favourable developments in general employment conditions. Measures which need to be taken to maintain the successful market positioning of the portfolio of nine clinic facilities have been undertaken. We also have the goal of seeking to transfer operations business of these individual clinics when we are able to offer attractive conditions.

After the successful sale-and-leaseback transaction with GHG of two nursing care and two rehabilitation properties, the breakdown of the Group's property portfolio at balance sheet date amounted to about 22% owned and 78% leased properties which, by international standards, is a healthy comparison.

General economic conditions

German economic growth sustainable

German economic growth in 2006/2007 was stronger than for many years and forecasts expect this growth to continue in the near future. The prognosis for 2007 before current turbulence in the capital and financial markets began ranged from 2.5% by the Institut der deutschen Wirtschaft (German economic institute) to 3.2% by the Institut für Weltwirtschaft (global economic institute). The International Monetary Fund increased its growth forecast for 2007 to 2.6% and predicts growth of 2.4% for 2008. Due to favourable economic conditions and higher tax revenue, Germany will be able to avoid taking out any significant further debt for the first time in recent years in 2007. The federal deficit of most likely 0.6% of gross domestic product for this year should be almost zero by next year. The effects of the substantial upswing are also visible in the employment market. The annual average unemployment figure of about 3.8 million will be under four million for the first time since 2001 and the unemployment rate, which was still 10.6% in 2006, will sink to about 8.7%.

The weakening of economic growth in the middle of 2007 is viewed by economic experts as a temporary period of weakness, which should not endanger economic growth in the second half of 2007. The causes of the slump are the strong value of the euro, high energy costs, slowing of growth in the USA and increases in base rates of the European Central Bank. There is uncertainty as to what effect the international bank liquidity crisis of August 2007 will have on global economic conditions. There seem to be dangers for the American economy, which traditionally has been a motor for global growth.

Growth within Germany varies from region to region. Whereas in Bavaria and Baden-Württemberg strong exports have transferred to the domestic economy and led to above-average growth rates, Eastern Germany trails this performance despite favourable industrial growth. In addition to sustained strong exports, recovery has also reached most areas of the domestic economy. The increase in VAT has not yet led to an excessive increase in prices as many companies have not passed on the tax increase in full. In the first half of 2007, only the automobile industry was significantly affected. Nevertheless, economists estimate that growth in this financial year without additional burdens will be around 0.5% higher. However, there is evidence of a considerable rise in the inflation rate and a substantial increase in prices for many basic food items.

Upheaval in the health care market

On 1 April 2007, the law to increase competition in statutory health insurance (Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung) came into force. Experts are divided as to how far this reform will succeed in solving the problems of the German health care system. Opinion is mostly undivided on the belief that the health reform has failed to achieve its most important goal, namely to ensure that financing for health care does not influence growth and employment in the German economy. The compromise reached, whereby financing remains as before on the basis of salary-related contributions divided between employees and employers, stands in conflict with the political parameter that increasing health care expenditure should not in future result in increasing contributions from salaries. However, the government has conceded consideration of financing of the statutory health care system by way of financing under taxes. As from 2009, in addition to contributions by insured persons, there will also be a tax credit to the general health care system which will amount to € 14 billion by 2016. However, the financing of this amount is not yet secured. In principle, there is agreement that the expected increase in demand for services cannot continue to be served by the present closed system. Patients of the statutory health insurance funds will need increasingly to purchase private health insurance in order to receive the level of medical care they desire and which meets the ever higher medical standards.

After the reform of the statutory health care system, the next issue in health care politics is the reform of nursing care insurance. Despite being only twelve years old, the nursing care insurance system is already unable to meet the changing and growing demands of insured persons and coming years will see further increasing expectations. Not only is the number of people who are unable to take care of themselves without outside help increasing, but there are also fewer families who are willing or able to look after their family members. The government agreed a partial reform in mid-2007, but has deferred the critical reform until 2009. The failure to achieve a unified one-time reform results from the line of conflict between the coalition parties that was also reflected in the health care reform. Whereas the CDU party wants to separate care risk from labour costs and would like to see a fixed sum which is not income-related, the SPD party rejects the idea of "head money" and is arguing for an increase in contributions and inclusion of higher financial reserves for private insured persons. The result is a solution which is surely not sustainable in the long term: services provided by the care insurers are being extended and contributions will be raised from July 2008 by 0.25 percentage points. To compensate for contribution increases, contributions for unemployment insurance are to be reduced from January 2008 by 0.3 percentage points. This will result in increased funds for nursing care of about € 2.5 billion per year. In 2006, income was € 18.49 billion and expenses were € 18.03 billion. The excess resulted from changes to payment dates by which 13 monthly payments had to be made to health insurance companies instead of the previous 12 payments. In the light of good general economic conditions, increasing income and more employees liable to make social security contributions, politicians expect that this reform will stabilise the insurance system until about 2015. Experts find this assumption unrealistic and believe that a social security system financed by contributions is unsustainable and that contributions must be replaced by an insurance system backed by capital reserves.

These financing problems accelerate the situation to the effect that the German health market promises future growth, particularly for private insurance companies. Health care is also an important employment factor. Hospitals and medical practices, chemists and drug companies, care homes for the elderly and rehabilitation employ about 4.3 million people. The industry is growing and market trends are unchanged. Consolidation pressure is growing, increased integration of the services of all market participants becomes more important and the advance of private health care providers continues unabated. Financing the health care system without private capital is impossible.

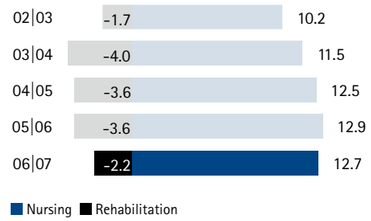
Profitability of the Marseille-Kliniken Group

Sales

Operating sales of the Group rose in the financial year 2006/2007 to € 214.8 million as against € 210.4 million in the previous year. This represents an increase of 2.1%.

The positive sales trend of previous years has continued in this financial year with growth of € 4.4 million.

DVFA result by divisions in € m



In the Group's 63 facilities, there was a bed capacity of 8,765 beds, an increase of 62 beds. This represents an increase in bed capacity in the nursing care division of 153 beds against a reduction in rehabilitation beds of 91. Group capacity figures were also improved at 89.7% as against the previous year's figure of 88.2%. This is due mainly to the forced move towards specialisation of select facilities for conditions such as persistent vegetative state, strokes and dementia, and to increased marketing activities.

Special factors in Group operating result

Special factors in the Group operating result refer to expenses for Berlin-Kreuzberg (until it was sold), and for the renovation in Bad Langensalza, Potsdam and in Schömberg. Furthermore, the Group has developed new software (mainly for hospital information systems, calculation of nursing care rates, and ordering).

Other operating income

Other operating income for the Group was reduced from € 38.8 million to € 28.3 million. The reduction results mainly from the income shown in the previous year from realised sales of a total of nine properties to GE (two) and CIT (seven) for € 27.9 million. In the past financial year there were book profits from the sale of four properties to GHG which realised a book profit of € 16.4 million. All other operating income was at the previous year's level of about € 12 million.

Group performance

Total Group performance amounted to € 253.5 million as against € 249.3 million in the previous year. If the book profits from sale-and-leaseback transactions are excluded, this results in a Group performance of € 237.1 million after € 221.4 million in the previous year. This amounts to an increase of € 15.7 million or 7.1%.

Expenses

Due to increased sales, costs of raw materials, consumables and supplies rose by € 0.9 million to € 24.2 million from € 23.4 million in the previous year. The cost of purchased services rose from € 7.6 million to € 11.9 million. This was due to the commission of third party services, particularly with regard to the remodelling of care facilities in Berlin-Kreuzberg, Bad Langensalza, Schömberg and Potsdam for a total of € 6.8 million. The increase in purchased services over the previous year was € 4.6 million. Without this increase, purchased services have declined slightly as against the previous year.

Personnel expenses increased by € 7.3 million to € 114.0 million due mainly to the start-up of new facilities, the targeted growth of the services division, the valuations of pension obligations and higher provisions for personnel, particularly for social security plan compensation. The average number of employees in the financial year 2006/2007 was 5,139 after 4,849 in the previous year.

Depreciation of intangible and tangible assets were reduced by € 3.8 million to € 9.3 million. This was due mainly to extraordinary depreciation planned for one property in the previous year and the property sales made in the previous year to GE and CIT which did not have full effect until the past financial year.

Other operating expenses were reduced from € 72.6 million in the previous year to € 70.5 million. Despite a rise in rental and leasing expenses from € 27.8 million to € 36.9 million and the value adjustments for receivables of € 5.3 million (€ 1.4 million in the previous year), other operating expenses were reduced. In particular legal and consultancy costs were reduced by € 2.1 million to € 4.9 million and advertising and representation costs were reduced by € 1.2 million. Further reductions are divided between other expense costs.

Special factors in operating result

Earnings before tax amount to € 13.2 million, as against € 14.2 million in the previous year. Earnings were affected as in the previous year by positive special factors of net book profits arising from the sale of properties. The result was also influenced in a negative way by one-off expenses from value adjustments, extraordinary expenses for empty properties, social security compensation expenses and start-up costs for various facilities.

In detail:

- € 16.4 million book profits from the sale of four properties to GHG.
- € 4.1 million one-off expenses from value adjustments.
- € 4.5 million extraordinary expenses and losses arising mainly from the currently empty properties in Waldkirch, Reinerzau, Bad König and Bad Oeynhausen (€ 3.2 million), compensation and social security plans in connection with the restructuring of the Onkologische Fachklinik IA GmbH, Bad König (€ 1.0 million) and others (€ 0.3 million).
- € 1.5 million one-off expenses from the premature repayment of a loan and remodelling costs in Leipzig.
- € 7.0 million preliminary and start-up costs for new facilities such as the AMARITA facility in Hamburg (€ 4.2 million), the facility in Berlin-Kreuzberg (€ 0.6 million) and preliminary costs for facilities to open in 2007/2008 in Potsdam, Düsseldorf and Schömberg (€ 2.2 million).

The sum total of positive and negative special factors amounts to € 0,7 million net as against € -6.6 million in the previous year.

derivation at DVFA/SG results financial year 2006|2007 in € m	Nursing	Rehab.	Group
operating income per division	13.7	-0.4	13.3
tax expenses	-3.9	-0.4	-4.3
DVFA effects	2.9	-1.5	1.4
minorities	0.0	0.1	0.1
DVFA result per division	12.7	-2.2	10.5
DVFA result per share in €	1.05	-0.18	0.86

After consideration of taxes in the amount of € 4.3 million but before minority interest shares, there is a Group net profit for the year in the amount of € 9.0 million (previous year: € 9.7 million) before minority interests and € 9.1 million (previous year: € 8.8 million) after minority interests. The earnings per share amount to € 0.75 as against € 0.73 in the previous year.

Operating result and main figures

Due to the deferral of financing costs (depreciation and interest expenses) and leasing expenses after the sale-and-leaseback transaction, EBIT was reduced from € 25.8 million in the previous year to € 23.6 million, and EBITDA was reduced from € 38.9 million to € 32.9 million. EBITDAR rose from € 66.7 million to € 69.8 million.

The EBIT margin sank from 12.3% to 11.0%, the EBITDA margin of 15.3% is under the previous year's level of 18.5%, and the EBITDAR margin rose from 31.7% to 32.5%.

Financial result

The financial result is € -10.3 million, an improvement of € 1.3 million on the previous year. This is due to the reduction in debt arising from the repayment of loans after the property transactions of the previous year.

Tax expenses

At € 4.3 million, tax expenses are below the previous year's level of € 4.5 million and the tax ratio is therefore 32.3% (previous year: 31.8%). The reason behind the rising ratio is the utilisation of deferred tax assets. Against this, there was a claim for reimbursement of taxes from equity charged with corporation tax under § 37 Corporation Tax Act (KStG). Incorporation of the lower tax rates from the corporation tax reform of 2008 on deferred tax assets both on the assets side and on the liabilities side was not possible as of 30 June 2007. Incorporation of these lower rates would have resulted in a claim for reimbursement of taxes of about € 4.5 million, but this will now not be included until the financial year 2007/2008.

Net profit

The after-tax net profit amounts to € 9.0 million as against € 8.9 million in the previous year.

Earnings per share / dividends

Earnings per share amount to € 0.75 as against € 0.73 in the previous year. The distribution of a dividend of € 0.25 (previous year: € 0.45) per share entitled to draw dividends has been suggested.

Profitability and development of Group divisions

The Group now operates 63 facilities, 53 being nursing care homes, nine rehabilitation facilities and one a specialised clinic. The opening of a new facility in Berlin-Kreuzberg signalled the successful expansion of the nursing care division by 153 beds from 7,134 to a total of 7,287 beds. Together with the renovation in Schömberg, there will be a further 100 beds for nursing care for the elderly. This will also reduce bed capacity in the rehabilitation and clinical division from the current 1,478 beds to 1,378 beds from September 2007. The share of clinic beds is currently at 17% of the total 8,765 beds (previous year: 8,703 beds).

The occupancy rate in nursing care (adjusted for facilities under construction) of 92.8% is higher than the average sector occupancy of 90%, according to a study carried out by HSH Nordbank AG at the end of 2006.

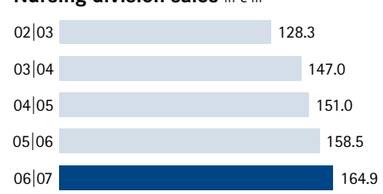
The company continued to gain market share and quality standards in the financial year 2006/2007. In extending the dominant and successful core division of nursing care for the elderly, we are justifying our claims to be an innovation leader and have found new ways to extend our potential into contiguous business areas and to promote our levels of specialisation. The completion of IT-supported systems for information and decision-making structures have secured a competitive edge for the Group.

The rehabilitation division is no longer as important to the Group and it now contributes less than 20% of Group sales and occupation fluctuations do not weigh heavily on Group results. The partial remodelling of the Schömberg clinic into a nursing care clinic signifies that the restructuring of the rehabilitation division shall be completed by September 2007.

Growth in nursing care division

The core division on nursing care for the elderly has continued to develop positively and extension of capacity is continuing. The goal remains for bed capacity to be extended to 12,000 by the end of the calendar year 2008. The new product area of two-star standard of care for assisted living and inpatient nursing care for the elderly has been successfully established in the market and has confirmed our expectations of growth for the future.

Nursing division sales in € m



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

The specialisation in Hamburg-Mitte with a capacity of 336 nursing care beds has been made in conjunction with the neighbouring Marienkrankenhaus. The opening of a centre for patients in persistent vegetative state and for care of dementia patients allows Marseille-Kliniken AG to offer our quality-assured, safe and patient-oriented chip-concept and contributed to an improvement with a continuing and sustained increase in occupancy rates (July 2006: 100 beds, August 2007: 226 beds).

Our concept of differentiated four, three and two-star standards of care whilst maintaining the highest standards of supervision and care has been recognised as excellent by the market. The two-star facility in Berlin-Kreuzberg which opened in February 2007 and is designed to take account of the religious and cultural needs of the Turkish population has already proven to be a success.

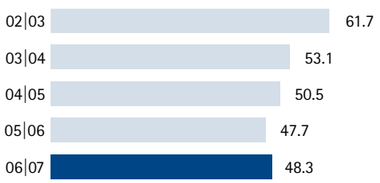
Sales in the care division have risen by € 6.4 million to € 164.9 million (previous year: € 158.5 million). The available bed capacity of 7,287 beds (previous year: 7,134 beds) had average occupancy rates of 92.8% (previous year: 91.6%).

Rehabilitation performing well

The successful restructuring in the previous financial year of six clinical operations into legally independent operating companies allowed us to decide whether to continue to operate the clinics successfully ourselves or to sell then either in whole or in part to established operating companies or investors. The pending restructuring of a clinic in Schömberg into a nursing care facility with 100 beds will return this location to profitability.

After the rehabilitation division was affected by the doctors' strike in the first half of the year, occupancy rates have improved. Together with the specialised clinic in Büren and the boost afforded by the sales activities of rehabilitation management, this meant that sales increased to € 48.3 million (previous year: € 47.7 million) despite reduced capacity.

Rehabilitation division sales in € m



Available bed capacity of 1,478 beds enjoyed an average occupancy rate of 75.9% (previous year: 74.2%). The first signs of success came in the second half of the year, which had positive operating results.

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

The service provision division was further extended. It remains an important part of Group medical strategy and secures optimal coverage of at-home needs of our customers.

This area is not just an important part of our growth strategy of improving the whole supply chain, but it is also critical to our quality strategy. Its activities are based on the basic principle that providing our customers with a wide-ranging product span of hotel-type services will serve to reduce pressure on our facilities. This will free employees to concentrate on their core competencies in the areas of nursing care, rehabilitation and supervision.

Always bearing in mind the customer focus of our brand and product policy, we have concentrated on the development, control and maintenance of our headline quality standards in comparison with competitive products. Our corporate organisation is based on transparency and quality management and consists of a central, uniform quality control for daily operations, regular audits, constructive complaint processes and careful human resources policies in all areas of the company.

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

The service companies Pro F&B, ProMint, ProWork, ProTec and Held Bau Consulting provide an excellent complement of services based on the quality standards of the parent company, Marseille-Kliniken AG.

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

Services division sales in € m

of ever-rising scientific standards.

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

Sales within this division are almost exclusively with other Group companies but they also achieved external sales in this financial year of € 2.4 million (previous year: € 7.1 million).

Asset situation of the Group

The number of companies included in the Group consolidation in the financial year rose with 47. This extended number had no significant effect on the asset situation, financial position and profitability of the company.

There was a reduction in non-current assets as of 30 June 2007 by € 56.7 million to € 193.5 million due mainly to the property transaction with GHG (€ 48.5 million), to the restructuring of the property Schömberg, which is to be sold shortly, to the sale of non-current assets held for sale (€ 4.2 million), to the reduction of deferred tax assets (€ 2.8 million) and other financial assets (€ 2.1 million). Intangible assets rose from € 32.6 million to € 33.6 million.

Current assets amounted to € 115.5 million, which represents an increase over the previous year of € 43.1 million. Inventories rose against the previous year by € 7.3 million. This is due mainly to development of the property in Potsdam (€ 4.1 million) and to increased work in progress and unfinished goods (€ 3.2 million). While trade receivables were reduced by € 1.0 million, other receivables in particular rose to € 76.0 million due to the € 65.8 million purchase price from GHG. Tax claims have risen due to claims for reimbursement of taxes from equity charged with corporation tax in accordance with § 37 Corporation Tax Act (KStG). Cash and cash equivalents were reduced by € 22.4 million to € 9.8 million.

Commercial equity amounted to € 34.8 million (previous year: € 29.1 million). Equity plus 73.6% of differentiated investment subsidies amounts to € 71.2 million after € 66.8 million in the previous year. The ratio was 23.0% after 20.7% in the previous year. The share of non-current loan capital in the balance sheet total amounted to 63.4% (previous year: 71.5%). Non-current liabilities were reduced from € 230.8 million to € 195.9 million, due mainly to the reduction of non-current liabilities to banks and the reduction in deferred tax assets on the liabilities side. Current liabilities have been increased by € 15.7 million and amount to € 78.4 million after € 62.7 million in the previous year.

Financial position of the Group

Financing

The financing of further expansion is secured. The Group will use either financial resources of its own or will work in conjunction with property investors, from whom the new facilities are to be leased long-term. There are also other lines of short and long-term credit with several independent credit providers which cover anticipated financial needs. The Group's current account lines are unchanged at € 25.1 million of which € 9.5 million was being utilised at balance sheet date. There is also another credit line for purchases in the amount of € 5 million.

Cash flow

cash flow statement € '000	30.06.07 € '000	30.06.06 € '000
earnings before interests and taxes (EBIT)	**23,586**	**25,755**
financial results	-10,339	-11,564
tax expenses	-4,282	-4,511
earnings after tax (EAT)	**8,965**	**9,680**
non-cash item outgo/income	-8,804	-5,470
decrease/increase assets/liabilites	-2,641	16,929
net cash flow from investing activities	-7,613	89,520
net cash flow from financing activities	-12,393	-83,148
decrease (previous year: increase) monetary equivalents	**-22,486**	**27,511**
increase/decrease of cash and cash equivalents	-22,486	27,511
cash and cash equivalents at 01.07.06	32,245	4,734
cash and cash equivalents at 30.06.07	**9,759**	**32,245**
the composion of cash and cash equivalents	9,759	32,245
	9,759	**32,245**

The cash flow from business operations is € -2.5 million. The reason for this is an increase in inventories, due mainly to the property under development and unfinished services.

The cash flow from investment activities is negative at € -7.6 million, as the sales proceeds from the sale-and-leaseback transaction in the amount of € 65.8 million will not be realised in the financial statements for liquidity purposes until October of the next financial year.

The cash flow from financing activities is negative in the amount of € -12.4 million due to the attribution of bank liabilities. The result is a net outflow in the amount of € 22.5 million. In summary, the asset situation, financial position and profitability of the company has not changed substantially since the management report was prepared.

Investments of the Group

The bulk of investment volume of Marseille-Kliniken AG was in the nursing care division. Total investment in intangible assets (€ 2.4 million) and tangible assets (€ 3.0 million) was € 5.5 million. Disposals refer to property disposed of under the sale-and-leaseback transaction. For the financial year 2007/2008, we plan an investment volume in line with that of the previous year.

Research and development

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

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

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

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

The foundation of the Marseille-Akademie für Hotel- und Sozialberufe during the last financial year was a further milestone for Marseille-Kliniken AG. The academy aspires to quickly transform new findings and guidelines into practice, requiring precise communication, training and employee qualifications. This allows the Marseille-Akademie to target information and know-how management in the Group and requires uniform quality of training for all employees in order to meet the requirements of the health care market.

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

Further factors affecting earnings

Quality and product offensive

With its sector-leading quality concept, its brand strategy, product expansion and diversification and unique marketing and service mix, Marseille-Kliniken AG has created demand in the German market for nursing care for the elderly which will be crucial to the further dynamic and profitable growth of the Marseille-Kliniken Group and will further increase the present level of satisfaction of our customers and business partners with our performance and reliability. The positive benefits emanating from this are visible in the company's key figures.

Winning new customers and customer care

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

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

Procurement

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

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

Employees

As of 30 June 2007, the Group employed 5,158 employees (previous year: 4,828 employees). Employee loyalty and experience play an important role in our success.

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

The concept provides employees with the incentive to further their qualifications for the benefit of the company. The company guarantees high-level potential for development to employees and a sustainable guarantee of performance in the company's facilities and our corporate processes.

Marseille-Kliniken AG has set up a pension fund for all its employees with Allianz Pensionskasse AG. Employee and employer pay equal shares of contributions into the pension fund. The pension scheme enables employees to increase their statutory pension rights by up to 40%. Thus Marseille-Kliniken AG offers its employees a crisis-proof and highly-effective addition to their statutory pension provision. This model encourages the long-term commitment of employees to the company which is critical for us as service providers.

Individual financial statements of Marseille-Kliniken AG

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

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

Sales of the Marseille-Kliniken AG of € 16.7 million were slightly above the previous year's level of € 16.4 million. As in the previous year, these result from nursing care facilities.

Other operating income rose from € 15.5 million to € 25.9 million. This resulted mainly from higher leasing income of subsidiaries of a total of € 18.4 million (previous year: € 12.4 million). This is set off in other operating expenses by rising leasing expenses arising from the leaseback arrangements relating to the properties sold in the previous financial year to CIT and GE with Marseille-Kliniken AG acting as head tenant for the total financial year. The book profits from the sale of the property in Leipzig raised other operating income by € 6.6 million. The related setting aside of a provision pursuant to § 6b Income Tax Act (EStG) is shown in the amount of € 5.9 million under other operating expenses.

Personnel expenses have increased minimally over the previous year to € 9.2 million (previous year: € 9.0 million).

Depreciation of intangible assets and tangible assets has been reduced from the previous year to € 0.7 million (previous year: € 1.0 million).

In the reporting year, there was no comparatively high depreciation on current assets such as was recorded in the previous year (€ 9.4 million for bad debt expenses).

Other operating expenses have increased from € 22.8 million in the previous year to € 35.4 million, due to higher leasing expenses and the setting aside of a provision pursuant to § 6b Income Tax Act (EStG).

The financial result of € 12.7 million (previous year: € 11.9 million) result from investment income of € 0.9 million (previous year: € 0.3 million), the net difference between income from profit sharing agreements and expenses from assumption of losses in the amount of € 11.3 million (previous year: € 11.1 million) and from the balance from interest income and expenses in the amount of € 0.5 million (previous year: € 0.4 million).

In the individual financial statements, there are improved earnings from business operations from € -2.7 million to € 5.8 million.

The net profit of the AG amounts to € 3.8 million (previous year: net loss of € -2.4 million).

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

The assets of Marseille-Kliniken AG have been reduced by the sale of property to GHG and despite increases in loans to affiliated companies. Total assets amounted to € 110.1 million (previous year: € 110.4 million).

Receivables and other assets includes € 85.4 million (previous year: € 65.6 million) against affiliated companies. Other assets include the purchase price receivable for the Leipzig property in the amount of € 12.1 million.

Working capital was reduced at balance sheet date by € 2.0 million to € 6.5 million (previous year: € 8.5 million). Net liquidity, or working capital less liabilities to banks, has been reduced from € -35.2 million in the previous year to € -52.5 million. This will improve in the first quarter next year due to loan repayments from the GHG sale.

Provisions for pension obligations amount in the previous year to € 0.5 million. Other provisions are composed of provisions for taxes in the amount of € 6.9 million (previous year: € 7.7 million) and other provisions in the amount of € 2.1 million (previous year: € 2.3 million).

Liabilities include liabilities to banks in the amount of € 59.0 million (previous year: € 43.7 million). Other liabilities include € 85.9 million (previous year: € 76.9 million) of liabilities to affiliated companies.

Total assets amount to € 223.5 million (previous year: € 193.7 million) and 73.5% (previous year: 72.5%) is financed by loans: € 9.5 million is made up of provisions (previous year: € 10.5 million) and € 152.3 million (previous year: € 128.9 million) arises from liabilities.

Risk report

Integrated risk management system of Marseille-Kliniken AG

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

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

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

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

Several specialist departments take care of legal regulations.

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

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

External and sector risks

The economic situation remains unchanged and is marked by continuing dynamic sampling of competition and market consolidation, increasing quality demands by customers and patients and legislators.

Legally required stipulations of qualified employees in our facilities can lead to an increase in salary costs as finding qualified personnel remains a persistent problem.

The settlement of the doctors' strike in the acute clinics ended the dip in occupancy in our rehabilitation division for follow-up therapies. However, further strikes by doctors could represent a risk for occupancy rates in the rehabilitation division for limited periods of time.

Economic performance risks

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

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

Surveys of relatives by way of questionnaires and auditing by our central quality management allow us to form an opinion about services provided and how they have been perceived.

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

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

Financial risks

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

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

Legal risks

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

The introduction of the nursing care insurance system is viewed positively by all social groups. However, the reform planned for 2008 is a point of controversy amongst experts but should not provide any challenge to the comfortable risk estimation of Marseille-Kliniken AG.

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

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

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

Individual companies of the Marseille-Kliniken Group are involved in both active and passive legal actions. The prospects of success in most of these are considered good. If the company was to lose individual cases, this would not have any impact on the asset situation, financial position and profitability of the company.

Other risks

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

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

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

Strategic risks and risk situation of Group

Marseille-Kliniken AG is the first company in the inpatient nursing care market to obtain a rating from the international rating agency Standard & Poor's (S&P). Only 8% of German companies listed on the stock exchange have a rating. Investors and banks which provide refinancing for the company regard this independent external rating in a positive light and consider it a basic prerequisite for acceptance as a sound business partner. By international standards, Marseille-Kliniken AG has a good S&P rating of "BB-, neutral outlook". The company has the same rating as the American company Beverly Enterprise, which is the market leader for nursing care in the USA with 50,000 beds, and has a better rating than the international peer group company Sunrise Senior Living, which also based in the USA.

The rehabilitation division performance was still negative in this financial year but was returning positive earnings in the last months of the financial year. Even if targets were not reached, we expect a positive result for this financial year.

The property assets included in the balance sheets of the nine rehabilitation facilities amounted on 30 June 2006 to € 48.9 million. After the sale of the properties in Bad Schönborn and Gengenbach in the financial year 2006/2007, only € 11.7 million remained in the balance sheets on 30 June 2007. The further sale of the property in Schömberg in 2007/2008 will reduce this by a further € 4.2 million. The remaining operational rehabilitation clinics in Zell and Bad Herrenalb have a book value of € 7.4 million and are regarded as intrinsically valuable due to relevant profitability calculations.

We stand by the principles of our unchanged budget calculations and expect that an average occupancy rate of more than 90% will be attained in the clinics in the financial year 2008/2009. Due to recent business development in the clinics and existing budgetary plans, we see no reason to doubt the profitability of this division.

Profitability estimations in connection with the impairment test were made on the basis of a discounting interest rate of 8%. Profitability of the assets in the rehabilitation division is dependent on the valuations used in budgetary planning.

It is currently planned to convert the facilities at Reinerzau (book value € 3.4 million), Bad Oeynhausen (book value € 5.5 million) and Blankenburg (old clinic book value € 4.5 million) into nursing care/assisted living facilities in order to make better returns from these properties. As long as no negative results emerge from our market and demand analyses, we see no substantial risks from this restructuring.

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

We expect our AMARITA Hamburg-Mitte PLUS facility to reach profitability at the latest by the financial year 2008/2009 on the basis of our marketing activities and our cooperation with the Marienkrankenhaus, and the specialisations we introduced for the treatment of dementia patients and persistent vegetative state patients.

The rehabilitation division is becoming less and less important for the profitability of the Group as a whole. The above-average performance in the nursing care division is the axis around which further Group profitability is centred.

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

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

Events after the end of the financial year

There were no significant events after the end of the financial year 2006/2007 which could affect the situation as detailed in the Group financial statements or could have significant effects on the business operations of Marseille-Kliniken AG or the Group.

Remuneration report

The remuneration report for the financial year 2006/2007, which sets out the principles for remuneration of the Management Board and the Supervisory Board, is published in the notes to these annual financial statements.

Dependent companies report by the Management Board

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

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

Care was taken to ensure that appropriate payment was made. Costs and prices correspond to work done and/or conditions for comparable transactions with third parties. The Management Board also affirms that Marseille-Kliniken AG received appropriate consideration for all legal transactions and was not taken advantage of in any of the transactions undertaken or not undertaken or, if so, such transactions were compensated. The report includes all business transactions requiring notification of which the Management Board was aware."

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

Composition of subscribed capital

As of 30 June 2007, subscribed capital of the Marseille-Kliniken AG amounted to € 31,100,000.00, divided into 12,150,000 bearer shares. The shares are fully paid up. Each share has one vote.

Limitations affecting voting rights or the transfer of shares

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

Investments exceeding more than 10% of voting rights

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

Shares with special control rights

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

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

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

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

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

Regulations regarding amendments to the articles of association

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

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

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

At the Annual General Meeting held on 6 December 2006, the Management Board was authorised to buy back its own shares. The authorisation is limited to 18 months until 6 June 2008 and to 10% of the share capital. The time limit applies to the time of purchase of the shares, not to the holding of the shares beyond this period in time. Purchases made with the intention of trading the shares and continual price management are not authorised. The authorisation can be exercised for all or part of the shareholdings, and exercised on one or more occasions, either by Group companies or by third parties acting on their behalf or on behalf of their legal successors in title. Buy-back can be made on the stock market or by public offer. The nominal value for the purchase of the shares (excluding incidental costs) may not exceed or fall short by more than 5% of the average value of the closing share price for similar shares on the Frankfurt Stock Exchange for the last five trading days before the shares were bought. The Management Board was authorised, with the approval of the Supervisory Board, to sell the buy-back shares whilst excluding subscription rights for shareholders if the buy-back shares can be sold for an amount which may not fall short by more than 5% of the average value of the closing share price for similar shares on the Frankfurt Stock Exchange for the last five trading days before the shares were sold. This authorisation is limited to a maximum 10% of the share capital. The authorisation applies also to the sale of own shares for the purchase of investments in companies. On the basis of the resolution made, the Management Board is authorised to buy the own shares with the approval of the Supervisory Board but without further requirement for approval from the Annual General Meeting. The buy-back can be made one or more times. The Supervisory Board is authorised to amend the articles of association in order to amend the scope of the redemption.

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

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

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

Compensation agreements in case of a merger offer

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

Prospects

The financial year 2006/2007 was eventful and the company is determined to exploit the positive trends of the Marseille-Kliniken Group. There was a raft of new initiatives which will unleash significant potential for sales and earnings over the coming months and years. The market environment in which the company operates looks positive. Diverse nursing home operators cannot survive the competitive price erosion.

This will accelerate consolidation in the nursing care market. Marseille-Kliniken AG will emerge on the winning side of this consolidation process and take over additional facilities from the private, municipal and non-profit operators.

In the next two financial years, the company expects a considerable improvement in operative earnings. Positive developments in the nursing care division and improved occupancy in expansion-facilities will lead to reductions in start-up losses and to acceleration of profit growth. A positive result is also expected for the rehabilitation division.

In comparison with the previous year, the company expects above-average sales and earnings growth for the next two financial years. For sales development, this means average growth in the next two years of 8.5%. Adjusted earnings should rise disproportionately, as positive occupancy rates have a disproportionate effect on coverage of the fixed costs structure. The increase in capacity and reliable growth dynamics of the nursing care division will contribute to this. At present, 1,000 new beds are already subject to contract.

The focus will be on further facilities in North-Rhine Westphalia and in northern and eastern Germany. Contracts have already been concluded for location in Düsseldorf II, Bremerhaven, Meerbusch, Lehrte, Oberhausen and Eberswalde. The goal of Marseille-Kliniken AG is to extend its bed capacity in the new financial year to a total of 9,500 beds.

The above-average performance in the nursing care division provides the focus and direction for further profitable growth for the Group.

The nursing care division should deliver profits before taxes of at least 8.5%. Rehabilitation, which now makes up only about 20% of Group sales, has a decreasing effect on the profitability of the Group. After years of losses, the company has set a positive result as a target for this financial year. The company also intends to withdraw from the rehabilitation segment in the short to middle-term by way of partial or total sale of existing facilities.

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

On the basis of budget planning made in conjunction with location analysis and cost-efficiency studies, the company is convinced that it will have reached its target of 12,000 contractually secured beds by the end of 2008.

Hamburg, 1 October 2007

The Management Board

Annual financial statements

Consolidated balance sheet at 30 June 2007 and previous year	30.06.2007 €	30.06.2007 €	30.06.2006 €	Note Page
assets				
non-current assets				93/94
intangible assets	33,595,811.82		32,594,718.89	94
property, plant & equipment	152,444,633.02		195,527,141.23	95
investment property	0.00		9,708,935.44	95
other long-term assets	3,117,822.48		5,199,863.18	95
deferred tax assets	4,374,381.00		7,208,558.03	95
		193,352,648.32	**250,239,216.77**	
current assets				
inventories	9,496,004.67		2,216,116.58	95
accounts receivables	12,627,624.50		13,631,333.28	96
other receivables, other assets	76,016,968.43		22,751,051.66	96
tax receivables	3,409,929.82		1,552,971.30	96
cash on hand, bank balances	9,758,176.33		32,245,118.85	96
non-current assets held for sale	4,226,020.49		0.00	96
		115,534,724.24	**72,396,591.67**	
total assets		**309,067,372.56**	**322,635,808.44**	
shareholder's equity				
capital stock	31,100,000.00		31,100,000.00	96
capital reserve	15,887,038.24		15,887,038.24	97
revenue reserve	627,105.53		627,105.53	97
treasury stock	-63,030.00		0.00	97
consolidated loss	-13,738,809.99		-19,153,232,41	
minority status	941,529.15		682,793.29	97
		34,753,832.93	**29,143,704.65**	
non-current liabilities				
deferred benefits from public authorities	49,509,621.73		51,122,435.82	97
longterm interest bearing loan	87,165,147.60		117,096,416.88	97
provisions, accruals for pensions	18,268,095.00		17,570,363.76	98
deferred tax liabilities	17,010,848.90		20,407,984.64	98
other long-term liabilities	23,933,777.66		24,597,045.65	99
		195,887,490.89	**230,794,246.75**	
current liabilities				
short-term interest bearing loan	33,981,814.92		12,397,170.93	99
other provisions	15,269,790.92		11,273,187.60	99
trade payables	10,157,614.12		8,328,793.60	99
accrued taxes	1,380,381.39		3,140,338.08	
other stort-term liabilities	17,636,447.39		27,558,366.83	99
		78,426,048.74	**62,697,857.04**	
total equity and liabilities		**309,067,372.56**	**322,635,808.44**	

Consolidated income statement for the year 2006|2007 and previous year	2006|2007 €	2006|2007 €	2005|2006 €	Note Page
revenues	214,840,615.85		210,430,859.42	100
change in inventories of finished goods and work in progress	1,062,156.56		0.00	100
company-produced additions to plant and equipment	9,305,897.88		0.00	100
other operating income	28,297,392.63		38,823,045.47	100
total revenues		**253,506,062.92**	**249,253,904.89**	
Cost of materials				
a) raw materials and consumables used	-24,252,678.01		-23,422,893.94	100
b) draw benefits expenses	-11,865,569.26		-7,628,499.90	100
		-36,118,247.27	**-31,051,393.84**	
personnel expenses				
a) salaries and wages	-94,165,771.36		-87,400,014.53	100
b) expenditure for company pension funds and pensions paid	-19,835,848.89		-19,323,153.76	100
		-114,001,620.25	**-106,723,168.29**	
depreciation and amortisation		**-9,324,938.06**	**-13,124,720.61**	101
other operating expense		**-70,475,630.23**	**-72,599,276.49**	101
earnings before interest and taxes (EBIT)		**23,585,627.11**	**25,755,345.66**	
financial result				
interest income	1,154,007.64		1,269,232.19	101
interest expenses	-11,492,867.12		-12,832,928.13	101
		-10,338,859.48	**-11,563,695.94**	
earnings before taxes (EBT)		**13,246,767.63**	**14,191,649.72**	
tax expenses		-4,029,254.64	-4,274,626.96	102
other taxes		-252,956.31	-236,005.93	
net profit after taxes		**8,964,556.68**	**9,681,016.83**	
minority interests		88,770.86	-817,882.21	
net profit for the year		**9,053,327.54**	**8,863,134.62**	
profit per share				
undiluted profit per share in €		**0.75**	**0.73**	

Consolidated statement of changes in equity for the year 2005|2006

	Capital stock €	Capital reserve €	Revenue reserve €	Consolidated loss €	Treasury stock €	shares Marseille-Kliniken AG €	Minorities Minority interest €	Consolidated Group Total equity €
Balance on 01.07.2005	31,100,000.00	15,887,038.24	1,335,561.06	-24,137,872.97	-53,779.75	24,130,946.58	-111,120.24	24,019,826.34
Dividends paid	0.00	0.00	0.00	-4,860,000.00	0.00	-4,860,000.00	0.00	-4,860,000.00
Other changes	0.00	0.00	-708,455.53	163,623.73	53,779.75	-491,052.05	1,611,795.74	1,120,743.69
Profit of the year	0.00	0.00	0.00	9,681,016.83	0.00	9,681,016.83	-817,882.21	8,863,134.62
Balance on 30.06.2006	31,100,000.00	15,887,038.24	627,105.53	-19,153,232.41	0.00	28,460,911.36	682,793.29	29,143,704.65

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

	Capital stock €	Capital reserve €	Revenue reserve €	Consolidated loss €	Treasury stock €	shares Marseille-Kliniken AG €	Minorities Minority interest €	Consolidated Group Total equity €
Balance on 01.07.2006	31,100,000.00	15,887,038.24	627,105.53	-19,153,232.41	0.00	28,460,911.36	682,793.29	29,143,704.65
Dividends paid	0.00	0.00	0.00	-2,232,774.00	0.00	-2,232,774.00	-28,414.86	-2,261,188.86
Distribution of earnings (ADG) to senior-shareholders	0.00	0.00	0.00	-1,069,175.00	0.00	-1,069,175.00	0.00	-1,069,175.00
Other changes	0.00	0.00	0.00	-336,956.12	-63,030.00	-399,986.12	375,921.58	-24,064.54
Profit of the year	0.00	0.00	0.00	9,053,327.54	0.00	9,053,327.54	-88,770.86	8,964,556.68
Balance on 30.06.2007	31,100,000.00	15,887,038.24	627,105.53	-13,738,809.99	-63,030.00	33,812,303.78	941,529.15	34,753,832.93

Balance sheet Marseille-Kliniken AG at 30 June 2007 and previous year

ASSETS	30.06.2007 €	30.06.2007 €	Previous year € '000
A. Non-current assets			
I. Intangible assets			
Franchises, industrial property rights and similar rights and values		**530,377.03**	**614**
II. Properties, plants and equipment			
1. Real estate	17,427,250.18		19,098
2. Furniture and office equipment	348,038.26		415
3. Deposits paid and construction in progress	4,471.80		
		17,779,760.24	**19,513**
III. Financial assets			
1. Shares in affiliated companies	85,862,510.73		85,862
2. Loans to affiliated companies	5,821,253.97		4,361
3. Investments	65,912.58		66
		91,749,677.28	**90,289**
		110,059,814.55	**110,416**
B. Current assets			
I. Inventories			
Raw materials and supplies		**61,943.13**	**53**
II. Receivables and current assets			
1. Trade accounts receivable	623,992.60		512
2. Trade accounts receivable (affiliated companies)	85,358,104.00		65,556
3. Other receivables	20,805,967.60		8,640
		106,788,064.20	**74,708**
III. Stocks			
Treasury stock		**63,030.00**	**0**
IV. Cash and short-term deposits		**6,499,019.67**	**8,498**
C. Deferred expenses and accrued income		**46,003.91**	**29**
		223,517,875.46	**193,704**

EQUITY AND LIABILITIES	30.06.2007 €	30.06.2007 €	Previous year € '000
A. Shareholders' equity			
I. Issued capital		**31,100,000.00**	**31,100**
II. Capital reserve		**15,887,038,24**	**15,887**
III. Revenue reserve			
1. Statutory reserve	207,073.21		207
2. Treasury stock (reserve)	383,715.27		384
		590,788.48	**591**
IV. Retained earnings		**5,637,836.95**	**4,021**
		53,215,663.67	**51,599**
B. Special item for investment grants for properties and buildings as per official subsidy notes		**2,077,139.66**	**2,163**
C. Special reserve with an equity portion		**5,913,992.14**	**0**
D. Provisions and accruals			
1. Accrual for pensions	480,619.00		488
2. Provisions for taxation	6,887,448.37		7,721
3. Other provisions	2,109,759.76		2,302
		9,477,827.13	**10,511**
E. Liabilities			
1. Bank debts	59,023,454.59		43,686
2. Trade payables	685,614.16		742
3. Trade payables (affiliated companies)	85,935,372.11		76,937
4. Trade payables (associated companies)	56,663.96		54
5. Other liabilities	6,584,732.90		7,489
- therefrom taxes: € 82,538.38 previous year: € 125,000) - - therefrom social security: € 8.248,45 (previous year: € 29,000) -			
		152,285,837.72	**128,908**
F. Deferred income and accrued expenses		**547,415.14**	**523**
		223,517,875.46	**193,704**

Income statement Marseille-Kliniken AG for the year 2006|2007 and previous year

	2006|2007 €	2006|2007 €	previous year € '000
Revenues		16,691,707.13	16,448
Other operating income		25,910,480.24	15,503
Purchases			
a. Raw materials and consumables used	1,196,438.57		1,174
b. Draw benefits expenses	3,078,610.79		3,175
		4,275,049.36	4,349
		38,327,138.01	**27,602**
Employee expenses			
a. Salaries and wages	7,580,263.46		7,528
b. expenditure for			
company pension funds and pensions paid - therefrom expenses relating to pension plans	1,573,818.71		1,458
and employee benefits € 180,379.08 (previous year: € 103,000) -			
		9,154,082.17	8,986
Depreciation and amortisation			
a. on intangible assets and properties, plant and equipments	654,025.33		1,016
b. on current assets	0.00		9,426
		654,025.33	10,442
Other operating expense		35,421,202.08	22,822
- therefrom allocation special reserve with an equity portion € 5,913,992.14 (previous year: € 0) -			
Income from investments		892,657.08	310
- therefrom dividends from associated companies: € 892,469.28 (previous year: € 310,000) -			
Income from profit transfer agreement		14,807,085.47	20,001
- therefrom affiliated companies: € 14,807,085.47 (previous year: € 20,001,000) -			
Interest income		5,203,916.22	5,550
- therefrom affiliated companies: € 4,795,380.54 (previous year: € 5,116,000) -			
Expenses from transfer of losses		3,449,150.93	8,857
- therefrom affiliated companies: € 3,449,150.93 (previous year: € 8,857,000) -			
Interest expenses		4,732,312.29	5,101
- therefrom affiliated companies: € 4,732,312.29 (previous year: € 1,811,000) -			
Earnings before taxes (EBT)		5,820,023.98	-2,745
Income tax expenses		**1,939,759.19**	**-349**
Other taxes		31,015.93	18
Profit of the year (loss of the year)		**3,849,248.86**	**-2,414**
Accumulated income		4,021,362.09	10,587
Withdrawal from reserve for treasury stock		0.00	708
Distribution of profit		2,232,774.00	4,860
Retained earnings		**5,637,836.95**	**4,021**

Consolidated cash flow statement (IFRS)

	2006|2007 € '000	2005|2006 € '000
operating activities		
earnings before taxes (EBT)	23,586	25,755
taxes on income and earnings	-4,282	-4,511
financial result	-10,339	-11,564
net profit after taxes	**8,965**	**9,681**
proceeds of the disposal of assets (profit)	-17,312	-18,588
depreciation and amortisation	9,325	11,825
change standard of evaluation	0	1,800
other invalid payment (profit/loss)	796	655
Release of the deferred benefits from public authorities	-1,613	-1,162
increase/decrease in inventories	-7,280	-639
increase/decrease in provisions and accruals for pensions	698	-1,850
increase/decrease in other provisions	3,997	399
changes in net current assets *2,3	-56	19,019
net cash flow from operating activities *	**-2,481**	**21,139**
investing activities		
changes in basis of consolidation *2	1,464	-10,171
investment in intangible assets	-2,429	-1,856
investment in property, plant and equipment	-3,055	-16,982
investment in financial assets	-70	-4,764
increase in non-current assets held for sale	-4,226	0
paid-in of asset disposals		
- intangible assets	15	368
- property, plant and equipment*3	0	121,847
- financial assets	688	1,079
net cash flow from investing activities	**-7,613**	**89,521**
financing activities		
increase in medium and long-term bank liabilities	2,058	2,749
decrease in medium and long-term bank liabilities	-31,989	-83,778
increase in short-term bank liabilities	32,609	6,687
decrease in short-term bank liabilities	-11,025	-3,644
increase/decrease in other liabilities	-603	-605
other changes in shareholder's equity	-1,182	303
dividends paid (thereof to minorities € 28,000, previous year: € 0)	-2,261	-4,860
net cash flow from financing activities	**-12,393**	**-83,148**
net increase/decrease in cash and cash equivalents	**-22,487**	**27,511**
net increase/decrease in cash and cash equivalents	-22,487	27,511
cash and cash equivalents at 01.07.	32,245	4,734
cash and cash equivalents at 30.06.	**9,758**	**32,245**
cash on hand, bank balances	9,758	32,245

* The negative net cash flow from operating activities primarily results from investing activities in inventories.

*2 The change of the net cash flow from the enlargement of the basis of consolidation marginal corresponds with the cash flow from changes in net current assets.

*3 The sales profit from € 65,812,000 of the third sale-and-leaseback transaction has been realized in October 2007 and is consequently liquidy-related in 2007/2008.

Notes to the consolidated financial statements

Background information about the company

The consolidated financial statements for the financial year from 1 July 2006 to 30 June 2007 were approved for publication on 8 October 2007 by resolution of the Management Board of Marseille-Kliniken AG.

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

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

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

Accounting and valuation principles

Basis of preparation of the financial statements

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

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

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

Declaration about compliance with IFRS

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

Basis of consolidation

The consolidated financial statements of Marseille-Kliniken AG consist of the annual financial statements of Marseille-Kliniken AG and its subsidiaries to 30 June of each financial year. All annual financial statements of Group companies are prepared to the balance sheet date of Marseille-Kliniken AG, 30 June 2007, in accordance with IAS 27.28 and prepared in accordance with the same uniform accounting and valuation principles as are used by the parent company.

As of 30 June 2007, there were 136 companies included in the Group.

Pursuant to IAS 27, the consolidated financial statements include all subsidiaries on which Marseille-Kliniken AG can exercise a controlling interest (control principle). These are all companies for which the Marseille-Kliniken AG Group exercises control over the financial and business policies of the company, normally indicated by a voting share holding of over 50%. The existence and influence of potential voting rights which are currently exercisable or transferable are taken into account when determining whether there is control.

All intra-Group balances, transactions, income, expenses and earnings from intra-Group transactions which are included in the book value of assets have been eliminated in full.

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

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

For company acquisitions, assets and liabilities of the relevant subsidiaries are valued at fair value at the time of acquisition. If acquisition costs exceed the fair value attributed to the identifiable assets and liabilities acquired, the difference is shown as goodwill. Each negative difference between acquisition cost of the company acquisition and the value attributed to the identifiable assets and liabilities acquired is charged to earnings in the period in which the acquisition was made. The minority interests are shown with the proportion of the fair values of the assets and liabilities included which corresponds to the size of the minority interest. Any losses which can be attributed to the minority interest and exceed the minority interest are then offset directly against the shares of the parent company.

Minority interests are shown separately in the profit and loss account and in the equity section of the balance sheet of the consolidated financial statements.

Income and expenses from companies are included for the first time in the consolidated financial statements from the balance sheet date of first inclusion. Results from subsidiaries acquired or disposed of during the course of the financial year are included in the Group profit and loss account from the actual date at which they were acquired or up until the actual disposal date. Companies set up during the financial year are included in the consolidated financial statements from the date of formation.

Group companies

As of 30 June 2007, Marseille-Kliniken AG and all of the following 135 subsidiaries were included in the consolidated financial statements:

	Share	Subscribed capital	Equity	Annual result, after profit transfer or assumption of losses where applicable	
			30 June 2007	2006|2007	2005|2006
	in %	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark Langen GmbH, Langen	100	102	102	0	0
Senioren-Wohnpark Lemwerder GmbH, Langen	100	26	26	0	0
Astor Park Wohnanlage Langen GmbH, Langen	100	26	26	0	0
Senioren-Wohnpark Hennigsdorf GmbH, Hennigsdorf	100	102	102	0	0
Senioren-Wohnpark Radensleben GmbH, Radensleben	100	26	26	0	0
Senioren-Wohnpark Neuruppin GmbH, Neuruppin	100	26	26	0	0
Senioren-Wohnpark Treuenbrietzen GmbH, Treuenbrietzen	100	26	26	0	0
Senioren-Wohnpark Erkner GmbH, Erkner	100	26	26	0	0
Teufelsbad Fachklinik Blankenburg GmbH, Blankenburg	100	26	26	0	0
Senioren-Wohnpark Tangerhütte GmbH, Tangerhütte	100	26	44	0	0
Senioren-Wohnpark Kyritz GmbH, Kyritz	100	26	26	0	0
Senioren-Wohnpark Thale GmbH, Thale	100	26	26	0	0
Senioren-Wohnpark Wolmirstedt GmbH, Wolmirstedt	100	26	26	0	0
Senioren-Wohnpark Aschersleben GmbH, Aschersleben	100	26	42	0	0
Senioren-Wohnpark Coswig GmbH, Coswig	100	26	26	0	0
Senioren-Wohnpark Stützerbach GmbH, Stützerbach	100	26	26	0	0
Senioren-Wohnpark Schollene GmbH, Schollene	100	26	26	0	0
Senioren-Wohnpark Bad Langensalza GmbH, Bad Langensalza	100	26	32	0	0
Senioren-Wohnpark Ballenstedt GmbH, Ballenstedt [1]	100	26	26	0	0
Senioren-Wohnpark HES GmbH, Hamburg [1]	100	26	26	0	0
Pro F&B Gastronomische Dienstleistungsgesellschaft mbH, Hamburg	100	26	26	0	0
Senioren-Wohnpark Klausa GmbH, Klausa	100	26	26	0	0
Senioren-Wohnpark OES GmbH, Hamburg [1]	100	26	26	0	0
Senioren-Wohnpark Friedland GmbH, Friedland	100	26	26	0	0
Senioren-Wohnpark ZES GmbH, Hamburg [1]	100	26	26	0	0
Senioren-Wohnpark Klötze GmbH, Klötze	100	38	38	0	0
Algos Fachklinik Bad Klosterlausnitz GmbH, Bad Klosterlausnitz	100	26	26	0	0
Senioren-Wohnpark Leipzig - Am Kirschberg GmbH, Leipzig	100	26	26	0	0
Senioren-Wohnpark soziale Grundbesitzgesellschaft mbH, Hamburg [1]	100	26	-84	0	0
AMARITA Buxtehude GmbH, Buxtehude	100	26	26	0	0
PRO Work Dienstleistungsgesellschaft mbH, Cottbus	100	26	26	0	0
Senioren-Wohnpark Cottbus - SWP - GmbH, Hamburg	100	26	26	0	0
Atrium Senioren-Wohnstift Nr. 19 GmbH, Bremerhaven [1]	100	26	-115	-98	-15
Marseille-Klinik-Delta GmbH, Hamburg	100	26	26	0	0
Marseille-Klinik-Omega GmbH, Hamburg [1]	100	26	25	0	0
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gGmbH, Neuruppin [1]	100	26	17	56	0
Senioren-Wohnpark soziale Altenbetreuung gGmbH, Langen	100	26	4,233	397	757
Allgemeine soziale Dienstleistungen gGmbH, Langen	100	26	-1,050	-401	-103
Medina soziale Behindertenbetreuung gGmbH, Wolmirstedt	100	38	171	542	271
MK "Vorrat Nr. 26" Vermögensverwaltungs GmbH, Berlin [1]	100	51	-11	35	-3
"Villa Auenwald" Seniorenheim GmbH, Böhlitz-Ehrenberg	100	26	26	0	0

	Share	Subscribed capital	Equity	Annual result, after profit transfer or assumption of losses where applicable	
			30 June 2007	2006|2007	2005|2006
	in %	€ '000	€ '000	€ '000	€ '000
VDSE GmbH - Verwaltungsdienstleister sozialer Einrichtungen GmbH, Hamburg	100	26	108	0	0
PROMINT Dienstleistungsgruppe Neuruppin GmbH, Neuruppin	100	51	51	0	0
Senioren-Wohnpark Hennigsdorf - SWP - GmbH, Hennigsdorf	100	26	26	0	0
Held Bau Consulting Projekt Steuerungsgesellschaft mbH, Hamburg	100	26	1,031	404	130
SCS Standard Computersysteme Entwicklungsgesellschaft mbH, Hamburg [1]	100	51	54	0	0
SIV Immobilien-Verwaltungsgesellschaft mbH, Hamburg	100	26	26	0	0
DaTess Gesellschaft für Datendienste mbH, Pritzwalk	100	25	25	0	0
Karlsruher-Sanatorium-Aktiengesellschaft, Hamburg	93.8	12,271	10,657	6,541	993
Mineralquelle Waldkirch GmbH, Hamburg [1] [7]	100	26	46	3	2
Mineralquelle Waldkirch Verwertungsgesellschaft mbH, Hamburg [3]	88.5	2,557	-2,249	-222	1,728
Reha-Klinik Sigmund Weil GmbH, Hamburg [3]	93.5	5,113	8,155	763	1,798
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg [3]	88.5	26	-194	-26	-167
EQS Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Hamburg	100	26	86	-98	67
Ausgleichs- und Bürgschaftsgesellschaft im Heim- und Pflegewesen mbH, Bremerhaven	100	25	18	-1	-1
Betrium Nr. 20 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	19	-1	0
Cetrium Vermögensverwaltungs-GmbH, Hamburg [1]	100	25	-5	-1	-2
Senioren-Wohnpark Friedland - SWP - GmbH, Friedland	100	25	24	0	0
Marseille-Akademie GmbH (formerly: CASA Trainingszentrum für Hotel- und Sozialberufe GmbH), Bad Oeynhausen	100	25	-1,425	59	0
Betrium Nr. 29 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	17	-1	0
Senioren-Wohnpark Leipzig "Stadtpalais" GmbH, Leipzig	100	25	25	0	0
Senioren-Wohnpark Leipzig "Eutritzscher Markt" GmbH, Leipzig	100	25	25	0	0
Senioren-Wohnpark Lichtenberg GmbH, Berlin	100	25	25	0	0
Senioren-Wohnpark Neuruppin - SWP - GmbH, Neuruppin [1]	100	25	18	-1	-1
Cefugium Betriebsmanagement GmbH, Bremerhaven [1]	100	25	15	-2	-1
Betrium Nr. 35 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	17	-1	0
Betrium Nr. 36 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	16	-1	0
MHCC - Marseille Health Care Consulting GmbH (formerly: Betrium Nr. 37 Vermögensverwaltungs-GmbH), Hamburg [1]	100	25	18	-1	0
Senioren-Wohnpark Landshut, Landshut	100	25	-523	0	0
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Tessenow	100	25	-8	-38	-43
Tessenow Vermögensverwaltungs GmbH, Tessenow	100	25	-7	-6	1
AMARITA Datteln GmbH, Datteln	100	25	25	0	0
AMARITA Hohen Neuendorf GmbH, Hohen Neuendorf	100	25	25	0	0
Teufelsbad Residenz Blankenburg GmbH, Blankenburg	100	25	24	0	0
Betrium Nr. 44 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	22	0	0
Sport- und Rehabilitationszentrum Harz GmbH (formerly: Betrium Nr. 45 Vermögensverwaltungs-GmbH), Blankenburg [1]	100	25	32	9	0
Marseille-Kliniken-Beteiligungsgesellschaft Nr. 46 GmbH, Tessenow [1]	100	25	-46	-65	-3
Marseille-Kliniken R.S.A. GmbH, Bremerhaven [1]	100	25	15	-1	0
Betrium Nr. 48 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	22	0	0
Betrium Nr. 49 Vermögensverwaltungs-GmbH, Pritzwalk [1]	100	25	-840	-578	-284
Betrium Nr. 50 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	19	-1	-2
Betrium Nr. 51 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	13	-1	0
Betrium Nr. 52 Vermögensverwaltungs-GmbH, Bremerhaven [1] [4]	100	25	1,225	1,429	-223
Betrium Nr. 53 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	25	0	0
MobiRent Vermietung GmbH, Pritzwalk [1]	100	25	23	0	0
Betrium Nr. 55 Vermögensverwaltungs-GmbH, Bremerhaven [1]	100	25	18	0	0
WK Grundstücksgesellschaft Nr. 50 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 51 GmbH, Pritzwalk [1]	100	25	25	0	0 [2]
WK Grundstücksgesellschaft Nr. 52 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 53 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 54 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 55 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 56 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 57 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 58 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
WK Grundstücksgesellschaft Nr. 59 GmbH, Pritzwalk [1]	100	25	24	-1	0 [2]
TÜRK HUZUR EVI Pflegeeinrichtung Berlin-Kreuzberg gGmbH, Berlin [6]	80	50	-594	-643	-1
Atrium Senioren-Wohnstift Nr. 21 GmbH, Bremerhaven [1] [4] [6]	100	51	-296	-74	-16
AMARITA Oldenburg GmbH, Oldenburg [6]	100	51	100	0	0
Spezial-Pflegeheim Hennigsdorf gemeinnützige GmbH, Hennigsdorf [6]	100	51	-658	500	-564
Atrium Senioren-Wohnstift Nr. 24 GmbH, Bremerhaven [4] [6]	100	51	48	4	-7
VSE Vermietungsgesellschaft für soziale Einrichtungen mbH, Hamburg [1] [4] [6]	100	51	52	0	1
Atrium Senioren-Wohnstift Nr. 26 GmbH, Bremerhaven [1] [3] [6]	100	51	-24	-4	-2
Atrium Senioren-Wohnstift Nr. 27 GmbH, Pritzwalk [1] [6]	100	51	9	-5	-4
Senioren-Wohnpark Montabaur GmbH, Montabaur [6]	100	51	-3,114	-1,431	260
Senioren-Wohnpark Lessingplatz GmbH (formerly: Atrium Senioren-Wohnstift Nr. 29 GmbH), Düsseldorf [6]	100	51	-69	-78	-1
AMARITA Hamburg-Mitte PLUS GmbH, Hamburg [6]	100	51	-1,688	-1,832	385
Atrium Senioren-Wohnstift Nr. 31 GmbH, Bremerhaven [1] [3] [6]	100	50	-29	-15	-13
Atrium Senioren-Wohnstift Nr. 32 GmbH, Bremerhaven [1] [3] [6]	100	50	-10	-5	-3
SWP Düsseldorf - Volksgarten GmbH, Düsseldorf [6]	100	50	-434	67	-380
Atrium Senioren-Wohnstift Nr. 34 GmbH, Bremerhaven [4] [6]	100	50	46	-1	-3
Collateral Transparency GmbH, Pritzwalk [1] [6]	100	50	29	1	-1
Sozialimmobilien „Südharz" GmbH, Wolmirstedt [1] [6]	100	50	47	1	1
SWP Dresden „Am Großen Garten" GmbH, Dresden [6]	100	50	-151	179	0
Atrium Senioren-Wohnstift Nr. 42 GmbH, Bremerhaven [1] [3] [6]	100	25	-7	-8	-1
Senioren-Wohnpark Arnsberg GmbH, Arnsberg [6]	100	25	-90	0	0
Senioren-Wohnpark Büren GmbH, Büren [6]	100	25	359	0	0
Senioren-Wohnpark Kreuztal-Krombach GmbH, Kreuztal [6]	100	25	-115	0	0
Senioren-Wohnpark Lutzerath GmbH, Lutzerath [6]	100	25	25	0	0
CareAktiv GmbH, Hamburg [6]	100	25	577	180	134
Onkologische Fachklinik IA GmbH, Bad König [7]	100	26	-4,062	-2,636	-1,446
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg [6]	100	25	389	351	259
Psychosomatische Fachklinik Gengenbach GmbH, Gengenbach [7]	100	26	143	17	57
ProTec Dienstleistungsgesellschaft mbH, Schwerin [6]	100	25	25	-414	0
Fachklinik für psychische Erkrankungen Ortenau GmbH, Zell a. H. [7]	100	26	148	273	-315
Psychosomatische Fachklinik Schömberg GmbH, Schömberg [7]	100	26	-37	997	-1,178
Gotthard Schettler Klinik GmbH, Bad Schönborn [7]	100	26	538	43	347
Klinik Bad Herrenalb GmbH, Bad Herrenalb [7]	100	26	122	109	-108
Marseille-Projektgesellschaft "Bremerhaven" GmbH, Berlin	100	25	39	9	14
Allgemeine Dienstleistungsgesellschaft mbH - ADG, Tessenow	100	26	26	0	1,606
Grundstücksgesellschaft Nikolaus Büren mbH, Büren	100	25	-133	-103	-49
St. Nikolaus-Hospital Büren GmbH, Büren	100	25	-56	447	-523
MK "Vorrat Nr. 23" GmbH, Bremerhaven	100	25	19	-1	-1
Medina Fördergesellschaft sozialer Einrichtungen gGmbH, Wolmirstedt	100	25	-4,130	-2,321	-1,831
MK IT-Entwicklungs GmbH, Hamburg	100	25	25	0	-186

[1] No current business operation

[2] The company was not set up until this financial year, so there are no comparisons with previous years

[3] Shares are held partly by Karlsruher-Sanatorium-AG and partly by Marseille-Kliniken AG

[4] The registered office is Bremerhaven

[5] Group share after deduction of direct and indirect minority interests

[6] Shares of Marseille-Klinik-Delta GmbH

[7] Subsidiary of Karlsruher-Sanatorium-AG

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

At the balance sheet date of 30 June 2007, there were a total of 56 profit and loss transfer agreements with Marseille-Kliniken AG, Berlin, as the controlling company and eight profit and loss transfer agreements between MK-Delta GmbH as the controlling company and its subsidiaries.

In comparison with the previous year there were no substantial changes to the companies included in the Group.

Changes to accounting and valuation principles

New accounting regulations published but not implemented before required date

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

Amendments to
IAS 1: Presentation of financial statements
IAS 23: Borrowing costs
IFRS 7: Financial instruments: disclosures
IFRS 8: Operating segments
IFRIC 10: Interim Financial Reporting and Impairment
IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
IFRIC 12: Service Concession Arrangements
IFRIC 13: Customer Loyalty Programmes
IFRIC 14: Limit on a Defined Benefit Asset

Implementation for the first time of the amendments to IAS 1 and IFRS 7 will lead to further disclosures being made in the notes. Marseille-Kliniken AG is currently investigating the effect of IFRS 8 on the consolidated financial statements. Implementation for the first time of the other regulations should not have any significant effect on the presentation of the financial statements.

Corporation tax reform 2008

In its 835th sitting on 6 July 2007, the Bundesrat (Upper House of the German parliament) approved the Corporation tax reform law 2008. The reduction in corporation tax rates for Marseille-Kliniken AG, Berlin, from 25% to 15% will have considerable effects on deferred taxes in the following year. The taxes will in future be calculated at 15.825% (including solidarity taxes) instead of at the current 26.375% (including solidarity taxes). At the Group level this will affect the deferred taxes liabilities in the financial statements in the amount of about € 3.6 million. By contrast, there will be about € 1.9 million of deferred tax assets as allowed expenses at Group level. At the individual level of Marseille-Kliniken AG, Berlin, there will probably be a positive effect on earnings in the amount of € 2.7 million.

Significant discretionary assumptions and estimations

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

- goodwill,
- tangible fixed assets,
- provisions for pensions and similar obligations,
- deferred tax assets, particularly for losses carried forward.

At least once per year, the Group checks whether goodwill has decreased in value. This demands an estimation of the use value of income-generating units on which the goodwill is based. In estimating use value, management must estimate probable future cash flows from the income-generating units and choose an appropriate discount rate in order to determine the cash value of the cash flows. The book value of goodwill on 30 June 2007 was € 28,712,000 (previous year: € 28,452,000). Further details can be found under goodwill in the notes.

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

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

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

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

Summary of important accounting and valuation principles

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

With the exception of goodwill, **intangible assets** are valued by the purchase method at acquisition or production cost. Intangible assets are subject to scheduled depreciation over an average useful life of three to eight years. Loan interest is not included in production costs. Development costs are shown as self-produced intangible economic assets so long as the developments are new developments and there is some certainty that the asset will generate revenue inflows and attributable expenses can be determined with certainty.

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

Goodwill is shown at acquisition cost, adjusted for value reduction. Pursuant to IFRS 3 and IAS 36 there is no scheduled depreciation for these assets.

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

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

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

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

Leasing contracts in accordance with IAS 17 are classified and depreciated as **finance leases** when preconditions for finance leases are met. The economic ownership of leasing objects is attributed under IAS 17 to the lessee if all essential risks and opportunities associated with ownership are transferred to the lessee by the leasing contract. Where economic ownership is attributable to the lessee, this is included in the financial statements from the time the contract is concluded at the cash value of the leasing payments plus any ancillary costs paid by the lessee. This is assumed when the present value of minimum leasing payments essentially corresponds to the cash value of minimum leasing payments, and Marseille-Kliniken AG assumes the lowest level to be at least 90% of fair value.

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

Leasing contracts are classified as **finance leases** under IAS 17 if all essential risks and opportunities associated with ownership are transferred to the lessee by the leasing contract. This is assumed when the cash value of minimum leasing payments essentially corresponds to the fair value of the leased asset. The lower limit for this is considered to be 90% of the fair value. Assets held as finance leases are shown as Group assets at fair value or at the cash value of minimum leasing repayments, whichever is lower at the beginning of the leasing contract. The relevant liability to the lessor is shown in the balance sheet as a finance lease commitment. Leasing payments are broken down in such a way that interest expenses and reduction in leasing obligations are divided so that interest commitments remain constant. Interest expenses are included directly in the profit and loss account unless they can be assigned clearly to a qualified asset. In such circumstances, the interest expenses are capitalised.

All other leasing contracts are classified as **operating leases**. Leasing payments made in connection with operating leases are included in the profit and loss account on a straight-line basis over the term of the relevant leasing contract.

In the case of **sale-and-leaseback transactions** that lead to a finance leasing arrangement, the amount by which the proceeds of the sale exceed book value are allocated and are included in the profit and loss account over the term of the leasing contract.

Properties held as financial investments were first valued in accordance with IAS 40 at acquisition or production cost including ancillary costs. The book value includes costs for the replacement of part of an existing property held as a financial investment at the point at which such costs arise and providing they fulfil basic criteria. The book value does not include costs for maintaining these properties. Properties held as financial investments are valued at fair value upon revaluation. Fair value reflects market conditions at the balance sheet date. Gains or losses arising from

changes in the fair value are included in earnings in the period in which they occur.

Properties held as financial investments are deleted from the financial statements when they are disposed of or when they are no longer in permanent use and no further economic benefit can be expected from their disposal. Profits and losses from the closure or the disposal of a property held as a financial investment are shown in the year of the closure or disposal.

The Group uses **derivative financial instruments** in the form of futures to secure fair value of its interest risks from assets or liabilities shown in the financial statements. Derivative financial instruments are not held for trading purposes. Inclusion in the financial statements as other non-current assets or as other provisions is made at the time of acquisition or at fair value in case of revision of value. Reference is made to publicly quoted market rates on the open market to determine current value. Inclusion of profits and losses arising from changes to fair value is made in the profit and loss account.

Valuation of **inventories** is made at the lower of acquisition or production costs or net residual value. Determination is made by means of weighted average. Depreciation is made where there is a lower residual value at the balance sheet date. Production costs include all directly attributable costs of materials and production overheads. General administrative costs and sales costs are not included in inventories. Valuation of unfinished services is made in accordance with degree of completion of individual costs plus costs of materials and production overheads.

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

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

Treasury shares are deducted from equity. The purchase, sale, issue or buyback of treasury shares is neutral for accounting purposes. All consideration given or received is directly recorded in equity.

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

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

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

The first-time inclusion of **financial assets** is shown at fair value of consideration received. Subsequently, financial assets are valued at amortised acquisition costs. In accordance with IAS 23.7, borrowing costs are included in the period in which they arise.

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

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

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

In accordance with IAS 12, temporary differences between the book values of assets and liabilities for tax balances required by various regulations require the setting aside of **deferred taxes** both on the assets side and on the liabilities side. Tax losses carried forward for a company included in a consolidation lead to the formation of deferred tax assets, provided that the relevant company is likely at some future date to generate income against which the losses carried forward can be set off. If it does not seem likely that the company will at some future date generate income in order to be able to utilise the tax reduction, appropriate value adjustments can be made to deferred tax assets. According to business plans, we assume that there will be no difficulties in setting off tax losses carried forward against future profits.

The tax rate for deferred taxes is still 26.375%. Departing from how it was dealt with in the consolidated balance sheet in the previous year, a setting off of deferred tax assets was made against those on the liabilities side due to balance sheet latencies for each company provided that the necessary conditions were fulfilled. Deferred tax assets for losses carried forward were not included in this offsetting. Changes to the balance sheet for offsetting are insignificant.

The **profit and loss account** is classified according to the total costs method. The profit and loss account includes income when it is clear that this income has been or will be received for the economic benefit of the company and the amount of the income can be determined with some certainty.

Sales are realised upon performance of the service which transfers definitive risks and opportunities to the recipient and it is sufficiently likely that the economic benefit from performance will flow to the Group. Sales are reduced by rebates, customer cash discounts and incentives. Unfinished services are included in the balance sheet depending on their degree of completion.

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

Events after the balance sheet date

There were no significant events after the balance sheet date.

Explanatory notes to the consolidated balance sheet

Consolidated balance sheet – ASSETS

Intangible assets	AC/PC 01.07.2006 € '000	Additions € '000	Disposal € '000	AC/PC 30.06.2007 € '000	Book value 30.06.2006 € '000	Book value 30.06.2007 € '000
Franchises, trademarks, patents licences and similar rights	1,131	612	0	1,743	266	735
Software	8,266	1,558	57	9,768	3,876	4,149
Total	**9,397**	**2,170**	**57**	**11,511**	**4,142**	**4,884**

Additions to software refer mainly to purchases for software programs for VDSE GmbH for human resources, time recording, customising (SAP) accounting and for the creation of new programs.

In the financial year 2007 there were € 550,000 (previous year: € 0) of capitalised development costs.

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

All depreciation on intangible assets has been included in the profit and loss account as depreciation.

Goodwill

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

Unscheduled depreciation is made for goodwill when the cash value of expected cash inflows is less than the net book value of the cash-generating unit including goodwill or when there are other criteria for a value reduction. In the financial year 2007, no depreciation was made in respect of goodwill.

No further division was possible for companies included in the consolidated financial statements for the first time as such criteria were not normally applicable.
Goodwill is as follows:

	01.07.2006 € '000	Additions € '000	Disposals € '000	Depreciation € '000	30.06.2007 € '000
ADG GmbH	10,055	0	0	0	10,055
SWP Aschersleben	3,479	0	0	0	3,479
SWP Neuruppin	3,177	0	0	0	3,177
Fachklinik Blankenburg	1,115	0	0	0	1,115
SWP Bad Langensalza	1,163	0	0	0	1,163
SWP Thale	1,015	0	0	0	1,015
Kasanag	876	0	0	0	876
SWP Klausa	800	0	0	0	800
SWP Schollene	796	0	0	0	796
Algos Fachklinik	722	0	0	0	722
Astor Park	596	0	0	0	596
VDSE	553	0	0	0	553
SWP Erkner	512	0	0	0	512
other derivative goodwill (< € 500,000)	3,594	259	0	0	3,853
	28,453	**259**	**0**	**0**	**28,712**

Tangible assets

Tangible assets are classified as follows:

	AC/PC 01.07.2006 € '000	Additions € '000	Reclassi-fication € '000	Disposals € '000	AC/PC 30.06.2007 € '000	Book value 30.06.2006 € '000	Book value 30.06.2007 € '000
Land, leasehold rights and buildings including buildings on non-owned land	227,735	107	9,061	71,093	165,810	154,992	114,783
Financial leases	31,680	0	0	0	31,680	23,737	22,382
Technical equipment, plant and machinery	2,745	221	0	312	2,654	456	441
Other equipment, fixtures and fittings	50,002	2,110	0	2,032	50,081	13,173	12,978
Advance paxments and work in progress	3,708	617	648	2,964	2,010	3,169	1,860
Total	**315,870**	**3,055**	**9,709**	**76,400**	**252,235**	195,527	**152,445**

Additions refer in particular to inclusion for the first time of properties owned by subsidiaries in the amount of € 102,000, other equipment, fixtures and fittings in the amount of € 333,000 and advance payments and work in progress in the amount of € 306,000.

Disposals of land and buildings in this financial year refer mainly to considerable property transactions undertaken in the course of sale-and-leaseback transactions. During this financial year, four properties were sold to the Grosvenor House Group and long-term leaseback agreements secured our operational business.

Reclassification of properties and buildings refers to amounts of € 9,709,000 arising from properties held as investments and € -648,000 from the subsequent item work in progress, which refers to properties sold or disposed of.

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

A detailed statement of tangible assets can be found in the attached schedule of fixed assets.

Properties held as financial investments

Properties held in the previous year as financial investments were valued by the historical cost model and have been reclassified in this financial year 2007 as tangible assets.

Other financial assets

In the reporting year, other financial assets amounted to € 3.1 million after € 5.2 million in the previous year and are composed as follows:

	AC/PC 01.07.2006 € '000	Additions € '000	Disposals € '000	AC/PC 30.06.2007 € '000	Book value 30.06.2006 € '000	Book value 30.06.2007 € '000
Investment	133	70	0	203	91	161
Reinsurance of pensions	2,568	0	394	2,175	2,568	2,175
Other loans	1,077	0	294	782	1,077	782
Other	1,973	0	1,973	0	1,464	0
Total	**5,751**	**70**	**2,661**	3,160	**5,200**	**3,118**

Additions to investments include the Atrium Senioren-Wohnstift Nr. 35 GmbH in the amount of € 25,000, Atrium Senioren-Wohnstift Nr. 36 GmbH in the amount of € 20,000, MediCargo GmbH in the amount of € 25,000 and TD Artos Immobilien AG.

The reduction in reinsurance of pensions connects directly with the corresponding reduction in pensions provisions on the liabilities side. This refers to the asset value of Karlsruher-Sanatorium AG in the amount of € 895,000, Marseille-Kliniken AG in the amount of € 481,000, Mineralquelle Waldkirch Verwertungsgesellschaft mbH in the amount of € 241,000, Psychosomatische Fachklinik Gengenbach GmbH in the amount of € 232,000 and Fachklinik für psychische Erkrankungen Ortenau GmbH in the amount of € 113,000.

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

Other financial assets in the previous year included the subsidiaries of Marseille-Kliniken AG, Berlin, which were not yet fully included in consolidated financial statements in the financial year 2006/2007. These subsidiaries have now been fully included and this led to a disposal under this item in the amount of € 1,973,000.

Deferred tax assets

Deferred tax assets were made for the first time exclusively for tax losses carried forward for Group companies. Other deferred tax assets, arising due to balance sheet latencies, were set off against deferred tax liabilities calculated by balance sheet latencies and shown under liabilities.

As of 30 June 2007, there were corporation tax losses carried forward in the amount of € 17,753,000. These were carried forward as deferred tax assets, so long as it was sufficiently probable that these losses would be able to be applied against taxable earnings at a future date. On the basis of internal budgetary planning, it was likely that losses carried forward would be able to be used.

The following table shows deferred tax assets and tax losses carried forward which are available for use:

	Difference		Tax on this amount	
	2007 € '000	2006 € '000	2007 € '000	2006 € '000
Pension commitments, non-current	0	2,367	0	624
Tax losses carried forward, non-current	16,585	18,319	4,374	4,832
Financial leases	0	5,145	0	1,357
Other	0	1,497	0	395
Total	**16,585**	**27,328**	**4,374**	**7,208**

Inventories

The inventories item amounts to € 9.5 million in this financial year (previous year: € 2.2 million) and includes mainly one property under development in the amount of € 4.1 million, shown under unfinished services and work in progress. In addition, raw materials, consumables and supplies amounted to € 1.6 million (previous year: € 1.6 million), finished goods and merchandise totalled € 2.2 million (previous year: € 0.1 million) and payments on account amounted to € 1.6 million (previous year: € 0.5 million).

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

Trade receivables

Trade receivables amounted on 30 June 2006 to € 13,631,000, and were reduced by € 1,003,000 to € 12,628,000 on 30 June 2007. Trade receivables include value adjustments for determinable bad debts of € 1,594,000.

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

Current tax assets

Current tax assets amount to € 3.4 million (previous year: € 1.6 million) and consist of receivables from prepayments in the amount of € 0.8 million and corporation tax including solidarity tax totalling € 2.6 million.

Other receivables

Other receivables totalling € 76,017,000 (previous year: € 22,751,000) are composed as follows:

	30.06.07 € '000	30.06.06 € '000
Receivables due from SALB transaction Karlsruher-Sanatorium AG	45,712	0
Receivables due from SALB transaction Marseille-Kliniken AG	12,206	0
Receivables from SALB transaction Betrium Nr. 52	7,981	0
Loan to Mrs Marseille	2,566	2,436
SCS loan	2,323	2,323
Receivables from Trump Organisation	1,529	1,529
Employee loans	358	445
Interest receivables	95	1,469
Other receivables from affiliated companies	110	108
Accrued items	679	1,943
Prepayments employers' liability	282	338
Receivables from affiliated companies	0	4,526
Berlin property	0	1,800
Potsdam property	0	1,400
Other	2,176	4,434
	76,017	**22,751**

Receivables due from the SALB (sale-and-leaseback) transaction with Karlsruher-Sanatorium AG refer to the properties sold in Bad Schönborn (Gotthard-Schettler-Klinik, Klinik Sigmund Weil) and the Klinik Kinzigtal in Gengenbach. Sales were made by notarial deed of 29 June 2007, transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007. Conditions for the settlement of the purchase price were met at the time of preparation of the balance sheet (September 2007) and the purchase price is therefore due. The simultaneous leaseback of the properties was made with effect from 1 July 2007.

Receivables from the SALB transaction of Marseille-Kliniken AG refers to the property in Leipzig. Sale was made by way of notarial deed dated 29 June 2007, transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007. Conditions for the settlement of the purchase price were met at the time of preparation of the balance sheet (September 2007) and the purchase price is therefore due. The simultaneous leaseback of the properties was made with effect from 1 July 2007.

Receivables from the SALB transaction of Betrium Nr. 52 Vermögensverwaltungs GmbH refer to the property in Berlin. Sale was made by way of notarial deed dated 29 June 2007, transfer of benefits, encumbrances, rights and obligations became effective on 30 June 2007. Conditions for the settlement of the purchase price were met at the time of preparation of the balance sheet (September 2007) and the purchase price is therefore due. The simultaneous leaseback of the properties was made with effect from 1 July 2007.

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

Cash and cash equivalents

Cash and cash equivalents in this financial year include cash balances of € 375,000 (previous year: € 388,000) and cash in banks in the amount of € 9,383,000 (previous year: € 31,857,000).

Non-current assets held for sale

Non-current assets for sale The Schömberg property is reported here.

By deed dated 29 June 2007 a written offer was made for the sale of property (document register no. 714/2007 and document register no. 715/2007, notary Dr Wolfgang Hanf). On 17 September 2007 the offer was accepted (document register no. 1060/2007/H and document register no. 1061/2007/H, notary Dr Wolfgang Hanf). The purchase price amounts to a total of € 13,736,000. The book value of the non-current assets held for sale amounts to € 4,226,000. Existing debts associated with the Schömberg property are not transferred and will remain with the Group.

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

Consolidated balance sheet – LIABILITIES

Equity

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

Subscribed capital

Subscribed capital (share capital) of the parent company Marseille-Kliniken AG remains unchanged at the balance sheet date 30 June 2007 at € 31,100,000.00 and is divided into 12,150,000 bearer shares at par value with a nominal value per share of € 2.56. The subscribed capital is fully paid-up.

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

At the Annual General Meeting held on 24 January 2005, the Management Board was authorised to buy the company's treasury shares. This authorisation was limited to 18 months until 6 June 2007 and to a maximum 10% of the share capital.

At the Annual General Meeting held on 6 December 2006 the authorisation to buy the company's shares granted to the Management Board by the Annual General Meeting held on 24 January 2005 was withdrawn. The Management Board was then authorised to buy its own shares. This authorisation is limited to 18 months until 6 June 2008 and to a maximum 10% of the share capital.

Capital reserve

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

Revenue reserves

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

Treasury shares

Treasury shares are deducted from equity. Purchase or sale of treasury shares is shown without affecting the result. All consideration given or received is shown directly under equity.

The Management Board was authorised by the annual general meeting held on 6 December 2006 to buy treasury shares up to an amount of 10% of the share capital. The authorisation was made so that the company could act quickly, flexibly and costeffectively when buying companies or investments in companies.

In 2007 a total of 4,202 shares (previous year: 0 shares) were purchased at an average share price of € 15.00.

The amount of equity reduction resulting from the treasury shares amounts to a total of € 63,030.00, and as of 30 June 2007 there were 4,202 treasury shares. This represents a proportion of share capital of less than 0.1% (previous year: 0.0%).

Minority interests

The percentage of share capital shown for minority shareholders of subsidiaries is shown under minority interests. As of 30 June 2007, minority interests shown amounted to € 0.9 million (previous year: € 0.7 million).

Allocated investment grants

The following table shows government grants:

	30.06.07 € '000	30.06.06 € '000
Beginning of the financial year	51,122	52,285
granted in this financial year	0	0
utilised and shown in result	1,612	1,163
End of the financial year	49,510	51,122
thereof non-current	49,510	51,122
thereof current	0	0

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

Non-current financial debt

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

Liabilities to banks in the amount of € 88.4 million (previous year: € 86.6 million) are secured by mortgages, ownership assignments and third-party guarantees (including local authority guarantees). In order to secure liabilities to banks incurred in connection with the purchase of shares in the previous financial year, 7,050 shares of Karlsruher-Sanatorium-AG were pledged.

As of 30 June 2007, loans in the amount of € 111,210,000 (previous year: € 117,096,000) can be seen in the following table. Amounts due within one year of a total of € 24,045,000 (previous year: € 12,397,000) are shown as current liabilities. This leaves non-current financial debt of € 87,165,000 (previous year: € 117,096,000):

	Original amount € '000	Currency € '000	thereof < 1 year € '000	thereof > 1 year € '000
Liabilities to banks	155,202	111,210	24,045	87,165

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

Of the non-current financial debt, an amount of € 17.1 million is subject to variable interest rates.

The following table shows the conditions with the terms of the loans (weighted interest), the original amounts and book values:

Term of interest rate	Interest rate %	30.06.07 Original amount € '000	Original amount Book value € '000
Liabilities to banks			
30.06.2008	5.73	102,719	75,972
30.06.2009	4.55	4,108	1,977
30.06.2010	0	0	0
30.06.2011	6.20	2,089	1,901
30.06.2012	5.87	2,745	1,191
30.06.2013	5.59	11,004	7,605
30.06.2014	5.76	32,537	22,564
		155,202	**111,210**

Pension commitments

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

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

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

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

	2006|2007 € '000	2005|2006 € '000
Cash value of commitments as of beginning of the financial year	17,570	18,884
Service cost	58	68
Interest expenses	762	333
Pension payments	-1,256	-816
Earnings from anticipated and actual total commitment	1,134	-1,259
Fair value of total commitment to beginning of the financial year	18,268	17,210
Commitments with similar character to pensions	0	360
	18,268	**17,570**

As in the previous year, calculations are made on the basis of an actuarial interest rate of 4.40% and expected fluctuation of 10.00%.

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

Deferred tax liabilities

Deferred tax liabilities in the amount of € 17,011,000 (previous year: € 20,408,000) result from the negative balance of deferred tax assets set off against deferred tax liabilities, where this setting-off is permissible and the tax claims or liabilities are governed by the same tax authority. When this setting-off results in a positive amount, this is shown as a non-current asset.

As in the previous year, this is based on a tax rate of 26.375%.

Deferred tax liabilities are made up as follows:

		Difference		thereof for
	2007 € '000	2006 € '000	2007 € '000	2006 € '000
Additional tax depreciation/buildings	6,452	16,622	1,702	4,384
Land and buildings	14,528	15,908	3,832	4,196
Provision § 7f Income Tax Act (EStG)	2,531	11,951	668	3,152
Provision § 6b Income Tax Act (EStG)	37,495	32,516	9,889	8,576
Other	3,489	378	920	100
Total	**64,495**	**77,375**	**17,011**	**20,408**

Other non-current liabilities

Other non-current liabilities are composed of the non-current share of liabilities to leasing companies for leased assets in the amount of € 23,687,000 (previous year: € 24,272,000) and other amounts of € 247,000 (previous year: € 325,000).

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

Trade payables

Trade payables in the amount of € 10.2 million have increased by € 1.9 million over the previous year's figure of € 8.3 million. This represents an increase of about 20%.

Current interest-bearing loans

This item refers to short-term use of overdrafts at various credit institutions in the amount of € 9.9 million and to short-term loans due within one year in the amount of € 24.0 million. Due dates fall within one year and amount in this financial year to € 33.9 million as against € 12.4 million in the previous financial year.

Other provisions

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

	01.07.2006 € '000	Allocation € '000	Release € '000	Use € '000	30.6.2007 € '000
Tax provisions	0	3,006	0	0	3,006
Litigation risks	700	710	50	650	710
Outstanding incoming invoices	2,747	1,708	0	2,705	1,750
Holiday bonus	2,933	1,997	572	1,561	2,797
Christmas bonus	1,062	1,062	0	1,019	1,105
Legal and consultancy costs	533	574	4	520	583
Professional/trade association	470	476	0	470	476
Disability contributions	0	132	0	0	132
Overtime pay	956	1,220	0	956	1,220
Personnel severence payments	405	620	0	405	620
Emoluments	582	640	69	513	640
Other	885	2,231	25	860	2,231
	11,273	**14,376**	**720**	**9,659**	**15,270**

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

Tax liabilities in the amount of € 3.0 million (previous year: € 2.2 million) include corporation tax and solidarity tax payable to the tax authorities in the amount of € 1.5 million and trade tax in the amount of € 1.5 million. They cover in full the liabilities of the current financial year and the previous financial year.

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

Provisions for professional/trade association include all planned professional/trade association contributions for the financial year 2007. The amount of the provision is dependent on several variables which are reviewed by the professional/trade association annually. Allocation of the provisions was made on the basis of unchanged parameters from the financial year 2006. professional/trade association contributions are due for payment in May of the following year.

Disability contributions (included in the previous year under other) must be made when government quotas for the employment of disabled employees are not met. As this affects several Group companies, provisions have been set aside to cover this eventuality.

The **provision for emoluments and bonuses** refers to the 2007 results and the performance-related payments due to managers and employees of Group companies. Authorisation and payment of these amounts are generally made in the second quarter of the following financial year.

The **other provisions** consist of provisions for safekeeping obligations, staging the 2007 annual general meeting, and a provision for costs of the annual financial statements, which includes the costs for preparation and audit of the annual financial statements and the consolidated financial statements for 2007 and the preparation of tax returns for 2007.

Other current liabilities

The following table shows other current liabilities:

	30.06.07 € '000	30.06.06 € '000
Social security contribution liabilities	0	431
Salary liabilities	27	31
Nursing care liabilities	779	765
Loans received from third parties	2,449	1,158
Rent deposits and securities received	61	231
Deferred income	6,802	8,660
Liabilities to participating interests	0	54
Liabilities to affiliated companies	0	3,314
Other current liabilities	7,518	12,914
	17,636	**27,558**

The other item under other current liabilities refers to deferred purchase price payments for SWP Bad Langensalza in the amount of € 3.3 million (previous year: € 3.3 million).

As in the previous year, deferred income refers mainly to deferred profits from Sale-and-leaseback transactions, which are classified as finance leases.

Explanatory notes to consolidated income statement

Sales

Sales are shown according to individual company divisions in the segment report. In this financial year, Group sales for the various divisions increased by about 2.1% from € 210 million to € 215 million.

Changes to completed services and work in progress

Changes to completed services and work in progress in the amount of € 1,062,000 consist of € 735,000 for carrying out works contracts and € 327,000 for services not yet invoiced.

Company-produced and capitalised assets

Company-produced and capitalised assets within the Group refer mainly to capitalised expenses up until sale for Berlin-Kreuzberg and for the remodelling in Bad Langensalza, in Potsdam and in Schömberg. In addition, the Group has developed new software applications. This refers mainly to hospital information systems, calculation of nursing care rates and ordering.

Other operating income

In this financial year, other operating income amounted to € 28.3 million (previous year: € 38.8 million) and is composed as follows:

	2006|2007 € '000	2005|2006 € '000
Income from asset disposals	16,843	27,905
Income from release of investment grants	1,769	1,976
Income from exchange rate diffences	794	0
Income from release of provisions	595	908
Income from other accounting periods	1,412	1,562
Grants for personnel	899	717
Rental and leasehold income	668	0
Other refunds	348	0
Neutral income	674	455
Other	4,295	5,300
	28,297	**38,823**

Cost of materials

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

The cost of raw materials, consumables and supplies increased from € 23.4 million by € 0.8 million to € 24.2 million.

The cost of purchased services has increased from € 7.6 million by € 4.3 million to € 11.9 million.

Personnel expenses

Personnel expenses are as follows:

	2006|2007 € '000	2005|2006 € '000
Wages and salaries	93,056	86,266
Emoluments and bonuses	1,109	1,134
Professional/trade association	979	1,001
Social security contributions	18,858	18,322
	114,002	**106,723**

There was no share-based remuneration in accordance with IFRS 2 (share-based payment).

The average number of full-time employees is shown in the following table:

FTE figures	2006|2007	2005|2006
Doctors	154	169
Nursing staff	2.857	2.661
Medical-technical staff	15	12
Total medical staff	**3,026**	**2,842**
Housekeeping staff	1,434	1,369
Technical staff	155	150
Administrative staff	524	488
Other staff	0	0
	2,113	**2,007**
Total	**5,139**	**4,849**

The number of employees has increased by 290 employees from 4,849 employees on 30 June 2006 to 5,139 employees on 30 June 2007.

Depreciation

Total depreciation for the financial year amounted to € 9.3 million (previous year: € 13.1 million), only around 70% of the previous year's level. The reduction was due mainly to the successful sale-and-leaseback transactions.

Of total depreciation, € 1,413,000 (previous year: € 1,257,000) arose from intangible assets and € 7,912,000 (previous year: € 11,868,000) from tangible assets. There were no value adjustments for goodwill.

Other operating expenses

In this financial year, other operating expenses were reduced by € 2.1 million or about 3% from € 72.6 million to € 70.5 million.

Other operating expenses can be seen in the following table:

	2006|2007 € '000	2005|2006 € '000
Rent, lease payments	36,910	27,802
Repair and maintenance costs	4,926	4,718
Legal and consultancy costs	4,904	7,019
Administration requirements	6,221	6,270
Annual General Meeting, annual report, advertising and representation expenses	3,527	4,724
Economic requirements ProMint	2,125	2,133
Value adjustments/write-offs	5,301	1,471
Expenses from other accounting periods	1,167	1,434
Fees, contributions	378	423
Car and aircraft costs	1,008	1,050
Other expenses	4,009	15,555
	70,476	**72,599**

The increase in rent and lease payments within other operating expenses is due mainly to the increase in the number of leased properties resulting from the successful sale-and-leaseback transactions.

Value adjustments include value adjustments to receivables of Siekertal-Betriebs GmbH.

The other services item under other operating expenses consists of travel costs, training and continuing education, training courses and other personnel-related costs (such as work clothing).

Legal and consultancy costs consist of outstanding fees for the auditors (including expenses and value-added tax) for the consolidated financial statements to 30 June 2007:

	2006|2007 € '000	2005|2006 € '000
audit of financial statements	440	340
other certification and valuation services	0	0
tax advice	0	0
other services	0	0
	440	**340**

Financial result

The breakdown of the financial result is as follows:

	2006|2007 € '000	2005|2006 € '000
Interest from capital investments	1,154	1,269
Financial income	**1,154**	**1,269**
Expenses from assumption of losses	7	13
Interest charged on loans	9,716	11,028
Interest charged for finance leases	1,770	1,792
Financial expenses	**11,493**	**12,833**
Financial result	**-10,339**	**-11,564**

Taxes on income and earnings

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

	2006|2007 € '000	2005|2006 € '000
Earnings before taxes	**13,247**	**14,192**
Theoretical income tax charge	**3,494**	**3,743**
Non-deductible expenses	106	41
Compensation for losses made before single tax entity	0	312
Release of deferred tax assets on tax losses carried forward	-2,834	1,531
Taxes from other accounting periods	3,263	-1,352
Actual income tax charge	**4,029**	**4,275**
Actual tax rate	30.41%	30.12%

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

	2006|2007 € '000	2005|2006 € '000
Deferred taxes	2,049	1,355
Actual tax charge	1,980	2,920
Actual income tax charge	**4,029**	**4,275**

Group earnings

The net profit for the financial year 2007 amounts to € 8,965,000 (previous year: € 9,681,000) of which € 9,053,000 is due to the shareholders of the parent company and € -89,000 is due to minority shareholders.

Segment report

Segment allocation

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

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

The Group is organised into three business segments:

Nursing care
The nursing care segment includes senior citizen care homes and the provision of nursing care services.

Rehabilitation
The rehabilitation segment includes medical follow-up treatment services and therapies.

Administration and services
This segment consists of the centralised provision of services. This includes management, financial services, asset administration and IT services, construction and project management and further services such as food and beverage services, laundry, maintenance cleaning and facility management.

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

Segment earnings statement

The following table shows the segment earnings statement including segment results for the financial year 2006/2007 and a comparison with the previous year's figures:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000
External sales	164,067	157,190	48,345	47,692	2,430	5,549	0	0	214,843	210,431
Internal sales to other segments	799	1,271	0	11	56,024	53,570	-56,823	-54,852	0	0
Other operating income	10,405	12,724	11,519	10,948	39,024	4,450	-22,283	10,702	38,665	38,823
Total	**175,271**	**171,185**	**59,865**	**58,651**	**97,478**	**63,568**	**-79,105**	**-44,150**	**253,508**	**249,254**
Cost of materials	-38,323	-15,968	-14,912	-12,526	-19,500	-15,218	36,616	12,661	-36,118	-31,051
Personnel expenses	-60,558	-55,603	-22,117	-21,924	-31,327	-30,889	0	1,693	-114,002	-106,723
Other operating expenses	-57,832	-37,241	-15,396	-13,130	-39,739	-37,739	42,489	15,512	-70,478	-72,599
Scheduled depreciation	-5,066	-5,288	-3,020	-3,852	-1,774	-2,685	535	0	-9,325	-11,825
Depreciation of goodwill	0	0	0	-1,300	0	0	0	0	0	-1,300
Earnings from business operations	**13,493**	**57,085**	**4,420**	**5,919**	**5,138**	**-22,963**	**535**	**-14,285**	**23,586**	**25,755**
Earnings from interest and financial investments	2,029	578	719	161	17,846	471	-19,440	60	1,154	1,269
Interest and similar expenses	-8,991	-3,631	-4,337	-4,284	-7,419	-3,070	9,254	-1,848	-11,493	-12,833
Earnings before tax	**6,531**	**54,033**	**803**	**1,795**	**15,564**	**-25,563**	**-9,651**	**-16,073**	**13,247**	**14,192**
Taxes on income and earnings	-1,131	-556	1,764	-2,365	-4,663	-1,348	0	0	-4,029	-4,268
Other taxes	-209	-185	-18	-26	-26	-31	0	0	-253	-242
Net Group profit/loss	**5,191**	**53,292**	**2,549**	**-596**	**10,875**	**-26,941**	**-9,651**	**-16,074**	**8,965**	**9,681**
EAT	**5,191**	**53,292**	**2,549**	**-596**	**10,875**	**-26,941**	**-9,651**	**-16,074**	**8,965**	**9,681**
EBT	**6,321**	**53,847**	**785**	**1,769**	**15,538**	**-25,594**	**-9,651**	**-16,073**	**12,994**	**13,949**
EBIT	**13,283**	**56,900**	**4,403**	**5,892**	**5,112**	**-22,994**	**535**	**-14,285**	**23,333**	**25,513**
EBITDA	**18,349**	**62,188**	**7,422**	**11,044**	**6,886**	**-20,309**	**0**	**-14,285**	**32,658**	**38,638**

Segment balance sheet structure

The following table shows segment reporting including segment balance sheet structure to 30 June 2007. These are compared to the figures for the previous year:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	30.06.2007 € '000	30.06.2006 € '000	30.06.2007 € '000	30.06.2006 € '000	30.06.2007 € '000	30.06.2006 € '000	30.06.2007 € '000	30.06.2006 € '000	30.06.2007 € '000	30.06.2006 € '000
shareholders' equity	5,395	365	22,199	19,529	62,884	53,800	-55,723	-44,551	34,754	29,144
liabilities	192,656	184,801	110,225	153,230	161,608	210,369	-190,111	-254,907	274,377	293,492
non-current assets	106,268	97,410	31,322	75,345	100,814	119,892	-44,871	-42,408	193,533	250,239
current assets	91,782	87,756	101,102	97,414	123,678	144,275	-201,027	-257,048	115,535	72,397
total assets	**198,051**	**185,166**	**132,424**	**172,759**	**224,491**	**264,168**	**-245,898**	**-299,457**	**309,067**	**322,636**

Other segment information

The following table shows additional segment reporting data for financial year 2006/2007 and a comparison with the previous year's figures:

	Nursing care		Rehabilitation		Services incl. AG		Setting-off		Total	
	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000	2006|2007 € '000	2005|2006 € '000
Investments(+) / Disposals(-)	-11,061	17,704	-37,438	11,767	-1,602	3,518	0	0	-50,102	32,989
Other neutral expenses(+)/income(-)	-9,039	26,429	-9,886	7,436	796	11,198	0	0	-18,129	45,063

Earnings per share

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

In calculating diluted earnings per share, the portion of the profit attributable to shareholders of the parent company (after deduction of interest on convertible preference shares) is divided between the weighted average number of shares in circulation during the financial year, and the weighted average number of shares which would have been in circulation had all potential common shares been converted.

Undiluted earnings per share amount to € 0.75 (previous year: € 0.73). There is no difference between the diluted and the undiluted earnings per share since no other potential share rights have been issued.

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

Dividends paid and proposed

Due to another positive Group result for the financial year 2006/2007 with a net profit of € 9.1 million (previous year: € 9.7 million), payment of a dividend has again been recommended for the financial year 2006/2007.

The net profit of Marseille-Kliniken AG, Berlin, amounts to € 5,638,000 (previous year: € 4,021,000). It is proposed to distribute a total of € 3,036,449.50 to profit-bearing shares and to carry the amount of € 2,601,387.45 forward. Therefore, a payment of a dividend of € 0.25 (previous year: € 0.45) per profit-bearing share is proposed.

The Marseille family, which holds 60% of the company's shares, did not elect to draw its dividend entitlement in the last financial year. This reduced the payable dividend amount by € 3.3 million to € 2.2 million. The Marseille family is electing to leave its dividend share in the company in order to use these additional funds to accelerate the growth of the company and to increase its value.

Statement of changes in equity

The statement of changes in equity shows developments in equity.

Group statement of cash flow

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

The cash flow from financing activities is compared in detail with the previous year. The single amount shown in the previous year for increases and decreases to medium-term and long-term liabilities and for increases and decreases to short-term financial liabilities has been split in this financial year into increase and decrease under the relevant positions.

Financial funds as of 30 June 2007 shown as cash and cash equivalents of € 9,758,000 (previous year: € 32,245,000) included cash in the amount of € 375,000 (previous year: € 388,000) and cash in banks in the amount of € 9,383,000 (previous year: € 31,857,000).

Interest amounts paid during the reporting year amounted to € 11.5 million (previous year: € 12.8 million) and interest received from capital investments amounted to € 1.2 million (previous year: € 1.3 million).

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

Miscellaneous

Contingent liabilities

Marseille-Kliniken AG has issued absolute guarantees to secure loans made to subsidiaries totalling € 18,348,000 (previous year: € 48,333,000).

Parent company guarantees were issued by Marseille-Kliniken AG by way of guaranteeing obligations of individual subsidiaries under leasing contracts.

This refers to the lease agreement made on 28 September 1994 between Senioren-Wohnpark Tangerhütte GmbH and DS-Rendite-Fonds GmbH & Co. Nr. 42 Alten- und Pflegeheim Tangerhütte KG, Dortmund, and the lease agreement between Logo 7. Grundstücksverwaltungs mbH, SWP Landshut GmbH and AMARITA Oldenburg GmbH and non-Group leasing companies. Leasing obligations arising from these agreements up until the earliest possible date of termination of the leasing agreements are shown in the table under other financial commitments.

A further unlimited parent company guarantee was made on behalf of DaTess and ProTec so that these companies could at all times meet their obligations arising from current operations and lease obligations (ProTec) and from loan obligations (DaTess). The parent company guarantee on behalf of Pro Tec expired on 30 June 2006 and was not extended.

An unrestricted liquidity undertaking was given on behalf of SWP Klötze GmbH, so that it could meet its obligations arising from a property leasing agreement.

An unrestricted parent company guarantee was also issued on behalf of M. Held GmbH & Co. Betreuungs KG, which is involved in litigation with a former subcontractor.

The limited parent company guarantee made on behalf of Held Bau Consulting Projektsteuerungsgesellschaft mbH for the outfitting of a facility is no longer significant since the project has already been completed.

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

Leasing

Lessees – finance leases

Properties leased by the company include land, buildings and other installations and facilities. The most important obligations undertaken during the term of lease agreements, apart from lease payments, are the maintenance costs for the premises and facilities, insurance contributions and property taxes. Terms for leasing agreements for land, buildings, premises and equipment normally range from 10 to 25 years and include renewal options subject to various conditions. Rental costs under finance leases in this financial year 2006/2007 amounted to € 2,794,000 (previous year: € 3,135,000). They were shown as an expense under the heading other operating expenses and interest, in the period in which they arose.

A total of six (previous year: seven) property leasing agreements were classified as finance leases on the basis of the cash value test. The following is a table showing assets which were used for finance leases:

	30.06.07 € '000	30.06.06 € '000
Land and buildings less:	31,680	31,680
accumulated depreciation	-9,299	-7,943
Net book value	**22,382**	**23,737**

Future minimum leasing payments until 30 June 2007 for the above finance leases amount to:

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

Lessees – operating leases

Marseille-Kliniken AG, Berlin and its subsidiaries have concluded various operational leases for buildings, office fittings and other equipment and fittings. Total commitments for the group for such agreements for this financial year amount to € 715 million (previous year: € 634 million).

Contingent liabilities and other financial commitments

Total commitments for the Group from rental and leasing agreements and service agreements amounts in this financial year to € 750 million (previous year: € 682 million).

Of this amount, € 715 million (previous year: € 543 million) applies to long-term property rentals. The long-term agreements covering these 38 rented or leased properties are classified as operating leases by IAS 17 and are included in the accounts of the lessor. The relevant rental agreements have terms of 20 to 25 years. Annual leasing payments arising from the lease agreements amount – unabridged – in this financial year to € 33.4 million (previous year: € 15.8 million). Rents rise each year by 1% and are redetermined after ten years. This determination is made on the basis of 70% of the increase to that date of the consumer price index.

Leasing agreements are mainly for the properties in Langen, Schollene, Buxtehude, Hohen Neuendorf, Datteln, Hennigsdorf, Aschersleben, Thale, Wolmirstedt, Medina Klötze, SWP Klötze, Teufelsbad Fachklinik, Bad Langensalza, Lemwerder, Algos Fachklinik, Hamburg Angerstraße, Leipzig am Kirschberg, Coswig, Berlin-Kreuzberg, Waldkirch, and Bad Schönborn.

Service agreements cover obligations from service agreements with Pro Work, Pro F & B, Promint and ProTec and agency agreements with VDSE GmbH.

Leasing agreements for movables such as vehicles, office equipment and software amounting to € 4,059,000 (previous year: € 4,523,000) were employed during this financial year. The leasing agreements have terms of between three and five years.

	2006|2007	Remaining term		
		up to 1 year	1 - 5 years	> 5 years
	€ '000	€ '000	€ '000	€ '000
Rental, leasing and service agreements	750,383	41,151	172,333	536,899
thereof operating leases	714,936	37,236	148,241	529,459
Building lease obligations	5,731	97	389	5,245
	756,114	**41,248**	**172,722**	**542,144**

As of 30 June 2007, the cash value of other financial commitments at a discount rate of 4.5% amounted to € 515,530,000 (previous year: € 464,048,000).

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

Financial risk management

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

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

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

Derivative financial instruments exist in the form of two oil derivatives/ interest swaps. In a commodity-swap transaction, the difference between the preagreed fixed price for a particular period is tied to the variable oil price (reference price) during this period. Marseille-Kliniken AG pays a fixed amount to protect itself against rising oil prices.

Reference parameter for the swap is the predefined, fixed amount of oil and the determination of the calculation period, in this case from 1 December 2007 to 31 December 2007 (for 1,400,000 litres) and from 1 June 2008 to 30 June 2008 (for 1,300,000 litres).

The fixed price for the first transaction in December 2007 was € 0.4127/ litre and € 0.4097/litre for the second transaction. If the fixed prices are higher than the reference prices on settlement day, Marseille-Kliniken AG receives a payment or credit in the amount of the difference. If the price has fallen, there is a loss.

Valuation of the two commodity swaps was made on 29 June 2007, based on the fixed prices at the time of the valuation for each transaction. If the swaps had been sold at the end of the financial year, this would have resulted in a loss of € 31,000, of which € 12,000 resulted from the first transaction and € 19,000 from the second transaction. A provision of € 31,000 has been set aside to cover these deals.

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

It was agreed that interest payments on the loan would amount to a fixed rate of 5.6% from inception until 31 December 2010 or, as an alternative to a fixed interest rate, to choose binding interest periods of three or six months and during these periods to have a variable interest rate based on Euribor plus a margin of 2.0% p.a.

At the time these financial statements were being prepared, the 3-monthly Euribor was at 2.55%. At present, Marseille-Kliniken AG foresees rising interest rates for short-term borrowing. This has been confirmed in a survey, of important market participants, who foresee a moderate rise in short-term interest rates to 2.80%. Management also expected a rise in long-term rates, estimating that this rise would however be lower in the future. This is also covered in the aforementioned survey, which predicts a rise in long-term refinancing rates from banks for 2006 to 4.35% or 4.50% on average.

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

In an interest-swap transaction, the difference between the fixed rate for a particular period is tied to the variable actual rates during that period. Marseille-Kliniken AG is the payer of the swap rate (fixed rate) in order to protect itself against rising interest rates. This results in a fixed interest payment in the amount of the swap rate plus agreed credit margin.

The advantage of an interest swap is that, in comparison with a fixed rate credit, it can be bought in advance and there is no prepayment penalty upon disposal. The price is determined by the market price of the swap. In this transaction the swap can be sold to 30 September of each year.

Valuation of the interest derivative as of 30 June 2007 shows that Marseille-Kliniken AG would make a profit of € 87,000 if it had sold the swap. This was based on the 3-month Euribor at 4.164%. Current prognoses for short-term and medium-term interest rates show that further interest rate rises can be expected. On 31 July 2007, the 3-month Euribor was 4.260%. By the end of January, the average rate is expected to have risen to 4.5%.

The interest rate swap was shown in the profit and loss account as of 30 June 2007 at a value of € 68,782.

No transactions have been made to cover currency risks since there are few foreign currency transactions.

Investments in Marseille-Kliniken AG, notified to the company pursuant to § 21(1) or § 21(4) of the Securities Trading Act (WpHG)

By letter dated 15 January 2007, we were informed that the shareholding of Julius Baer Americas Inc., New York, USA, had reached 5.08% on 10 January 2007 and had, therefore, exceeded the 5% threshold.

No other notifications have been made to Marseille-Kliniken AG, pursuant to § 21 (1) or (4) of the Securities Trading Act (WpHG).

Directors' Dealings

Pursuant to § 15a of the Securities Trading Act (WpHG), persons who hold a management position in a company which issues shares, or have a close relationship with such as person, are required to notify if they trade in such shares or financial instruments based thereon, if the total amount of the transactions exceeds € 5,000.00 per annum.

Persons required to make notifications are members of the Management Board and of the Supervisory Board of Marseille-Kliniken AG, other persons who have regular access to insider in-formation or important corporate decision-making about Marseille-Kliniken AG in the sense of the Securities Trading Act (WpHG) and persons in close relationships with the above-mentioned persons.

No current notifiable share transactions have been made pursuant to § 15a Securities Trading Act (WpHG).

Supervisory Board

The members of the Supervisory Board are:

Ulrich Marseille, Businessman, Hamburg, Chairman
Chairman of supervisory boards: Karlsruher-Sanatorium-AG, Hamburg
SCS Standard Computer Systeme AG, Hamburg
Member of supervisory board: WMP EuroCom AG, Berlin
Chairman of comparable body: REHA-Klinik Sigmund Weil GmbH, Hamburg,

Hans-Hermann Tiedje, Media Entrepreneur, Berlin, Deputy Chairman
Chairman of the board: WMP EuroCom AG, Berlin

Dr Peter Danckert, Lawyer, Notary Public, Berlin
(until 6 December 2006)

Uwe Bergheim, Communications business administrator
Düsseldorf (from 6 December 2006)

Mathias D. Kampmann, Business Administrator, Hamburg

Professor Dr Med. Matthias Schönermark, University Professor, Consultant, Hanover,

Dr. Peter Schneider, Doctor, Berlin-Hennigsdorf.

In the financial year 2006/2007, members of the Supervisory Board received remuneration in the amount of € 252,000 (previous year: € 304,000).

Management Board

The members of the Management Board are:

Axel Hölzer, Hamburg, Businessman, Chairman

Ennio Laviziano, Hamburg, Businessman, Board member

The company may be represented by two Management Board members or by one Management Board member and an authorised signatory. If only one Management Board member has been appointed, s/he shall represent the company alone. The Supervisory Board may free members of the Management Board from the restrictions of § 181 of the German Civil Code (BGB). Mr Hölzer has been freed from these restrictions under § 181 BGB.

The following remuneration was paid in 2006/2007 for active and passive members of the Management Board:

	fixed	variable	total
Management Board	€ '000	€ '000	€ '000
Axel Hölzer (Chairman of the Board)	350	150	500
Ennio Laviziano (Board member)	210	100	310

Remuneration for members of the Management Board in the financial year 2006/2007 was paid exclusively by Marseille-Kliniken AG. No loans had been made by the company to members of the Management Board either during the course of the year or at the balance sheet date.

Pension payments to former Management Board members and their surviving dependents amounted to € 67,000 (previous year: € 67,000), provisions in the amount of € 481,000 (previous year: € 488,000) have been set aside. Marseille-Kliniken AG does not bear any expenses from these obligations as they have been assumed by WCM Beteiligungs- und Grundbesitz AG, Hamburg.

Statements required by German Companies Act (AktG)

Pursuant to § 160 (1)(8) of the German Companies Act (AktG), Ulrich Marseille and Estella-Maria Marseille, Hamburg, hold a direct or indirect shareholding in Marseille-Kliniken AG, Berlin, in the amount of 60.00% of the voting shares.

Transactions with related persons and companies

Business transactions between companies and their subsidiaries, which are related persons, were set off during consolidation and are not detailed in these notes. Business transactions between companies and subsidiaries and associated companies are disclosed in the individual annual financial statements of the parent company.

Trading transactions

During this financial year, Group companies undertook the following transactions with related persons and companies, which do not belong to the Group:

	Sale of goods and services		Purchase of goods and services		Receivables from related companies		Liabilities to related companies	
	2006|2007	2005|2006	2006|2007	2005|2006	2006|2007	2005|2006	2006|2007	2005|2006
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Ulrich Marseille	0	0	0	4,221	2,414	1,056	3,220	2,277
Estella-Maria Marseille	25	91	989	718	2,525	2,401	0	215

The sale of goods and services to related persons and companies is made under market conditions. Transactions between parties were made at market prices, less normal bulk discounts and other discounts.

Outstanding amounts were not secured and are settled in cash. No guarantees were given, nor were any received. No value adjustments were made with respect to amounts owed by related persons.

The other assets in the consolidated financial statements of Marseille-Kliniken AG include receivables due from Ulrich Marseille and companies related to him in the amount of € 2,414,000, which result mainly from a loan and interest totalling € 91,000 and loans to companies related to him in the amount of € 2,323,000. In the financial year 2006/2007, Mr Marseille did not have any traditional trade receivables due to the company (previous year: € 780,000).

The goods and services provided by Mrs Marseille refer to consultancy services provided by her law firm.

Other liabilities to Mr Marseille and companies related to him in the amount of € 3,220,000 (previous year: € 2,277,000) refer to dividends still due from the financial year 2004/2005.

Receivables and liabilities are due within one year and attract interest, with the exception of the above-mentioned loan. The balances are not secured and repayment is made by way of settlement.

Statement of compliance with Corporate Governance Code

(§ 161 German Companies Act (AktG))

The most up-to-date compliance statements made by Marseille-Kliniken Aktiengesellschaft pursuant to § 161 of the German Companies Act (AktG) have been made available to shareholders on a permanent basis on the company's website.

The Management Board believes that the asset situation, financial position, profitability and cash flows shown in the consolidated financial statements to 30 June 2007 present an accurate view of the actual position of the company.

The consolidated financial statements are expected to be approved by the Supervisory Board on 9 October 2007.

The parent company of the largest and smallest groups of companies included in the consolidation is Marseille-Kliniken AG, Berlin (registration office: Berlin-Charlottenburg HRB no. 86329). The parent company of the smallest group of companies included in the consolidation is Karlsruher-Sanatorium-AG, Hamburg (registration office: local court Hamburg HRB no. 65626).

The consolidated financial statements for the financial year 2006/2007 will be notified to the official Business Register and published in the electronic German Federal Gazette (Bundesanzeiger).

Explanatory notes to the statement of changes in equity

Changes in assets
Marseille-Kliniken AG per 30 June 2006

	Historical and production costs					Accumulated depreciation					Book values	
	1 July 2005 €	additions €	transfers €	disposals €	30 June 2006 €	1 July 2005 €	additions €	transfers €	disposals €	30 June 2006 €	30 June 2006 €	30 June 2005 €
I. Intangible assets												
1. Concessions	1,131,362.16	0.00	0.00	0.00	1,131,362.16	722,585.49	142,756.06	0.00	0.00	865,341.55	266,020.61	408,776.67
2. Software	7,102,035.58	1,403,811.39	168,762.19	409,146.86	8,265,462.30	3,552,923.09	1,046,491.06	0.00	210,071.63	4,389,342.52	3,876,119.78	3,549,112.49
3. Goodwill	22,394,331.13	10,623,408.74	0.00	4,565,161.37	28,452,578.50	4,497,391.18	67,770.19	0.00	0.00	0.00	28,452,578.50	17,896,939.95
	30,627,728.87	**12,027,220.13**	**168,762.19**	**4,794,308.23**	**37,849,402.96**	**8,772,899.76**	**1,257,017.31**	**0.00**	**4,565,161.37**	**5,254,684.07**	**32,594,718.89**	**21,854,829.11**
II. property, plant & equipment												
1. Real estate	353,683,601.76	2,246,852.49	-19,791.70	128,175,413.87	227,735,248.68	104,185,904.42	707,645.20	3,683.44	32,146,587.58	72,743,278.60	154,991,970.08	249,497,697.34
2. Finance lease	31,680,348.58	0.00	0.00	0.00	31,680,348.58	6,600,010.25	1,343,164.58	0.00	0.00	7,943,174.83	23,737,173.75	25,080,338.33
3. Plant and machinery	2,747,339.85	13,412.08	-2,374.40	13,412.08	2,744,965.45	2,185,988.01	110,636.34	1,335.60	6,035.45	2,289,253.30	455,712.15	561,351.84
4. Furniture and office equipment	52,062,525.96	13,686,785.65	22,166.10	15,768,983.55	50,002,494.16	36,551,087.53	9,524,216.67	-5,019.04	9,251,052.47	36,829,270.77	13,173,223.39	15,511,438.43
5. Deposits paid and construction in progress	3,715,300.59	1,035,134.85	-168,762.19	873,338.71	3,708,334.54	357,232.17	182,040.51	0.00	0.00	539,272.68	3,169,061.86	3,358,068.42
	443,889,116.74	**16,982,185.07**	**-168,762.19**	**144,831,148.21**	**315,871,391.41**	**149,880,222.38**	**11,867,703.30**	**0.00**	**41,403,675.50**	**120,344,250.18**	**195,527,141.23**	**294,008,894.36**
III. Non-current assets held for sale	**5,551,029.48**	**4,157,905.96**	**0.00**	**0.00**	**9,708,935.44**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**9,708,935.44**	**5,551,029.48**
IV. Other long-term assets												
Shares in affiliated companies	1,799,926.81	605,737.94	0.00	432,454.13	1,973,210.62	509,213.86	0.00	0.00	0.00	509,213.86	1,463,996.76	1,290,712.95
Investments	132,912.58	0.00	0.00	0.00	132,912.58	41,999.00	0.00	0.00	0.00	41,999.00	90,913.58	90,913.58
Requirements from liability insurance	3,210,714.94	0.00	0.00	642,358.72	2,568,356.22	0.00	0.00	0.00	0.00	0.00	2,568,356.22	3,210,714.94
Other financial assets	1,080,357.44	0.00	0.00	3,760.82	1,076,596.62	0.00	0.00	0.00	0.00	0.00	1,076,596.62	1,080,357.44
	6,223,911.77	**605,737.94**	**0.00**	**1,078,573.67**	**5,751,076.04**	**551,212.86**	**0.00**	**0.00**	**0.00**	**551,212.86**	**5,199,863.18**	**5,672,698.91**
Total	**486,291,786.86**	**33,773,049.10**	**0.00**	**150,884,030.11**	**369,180,805.85**	**159,204,335.00**	**13,124,720.61**	**0.00**	**46,178,908.50**	**126,150,147.11**	**243,030,658.74**	**327,087,451.86**

Changes in assets
Marseille-Kliniken AG per 30 June 2007

	Historical and production costs					Accumulated depreciation					Book values	
	1 July 2006 €	additions €	transfers €	disposals €	30 June 2007 €	1 July 2006 €	additions €	transfers €	disposals €	30 June 2007 €	30 June 2007 €	30 June 2006 €
I. Intangible assets												
1. Concessions	1,131,362.16	612,061.12	0.00	0.00	1,743,423.28	865,341.55	142,756.06	0.00	0.00	0.00	735,325.67	266,020.61
2. Software	8,265,462.30	1,558,141.07	0.00	56,865.03	9,766,738.34	4,389,342.52	1,270,170.13	0.00	41,462.39	5,618,050.26	4,148,688.08	3,876,119.78
3. Goodwill	28,452,578.50	259,219.57	0.00	0.00	28,711,798.07	0.00	0.00	0.00	0.00	0.00	28,711,798.07	28,452,578.50
	37,849,402.96	**2,429,421.76**	**0.00**	**56,865.03**	**40,221,959.69**	**5,254,684.07**	**1,412,926.19**	**0.00**	**41,462.39**	**6,626,147.87**	**33,595,811.82**	**32,594,718.89**
II. property, plant & equipment												
1. Real estate	227,735,248.68	106,965.71	9,060,942.26	71,093,033.47	165,810,123.18	72,743,278.60	2,204,605.22	0.00	23,921,195.15	51,026,688.67	114,783,434.51	154,991,970.08
2. Finance lease	31,680,348.58	0.00	0.00	0.00	31,680,348.58	7,943,174.83	1,355,347.84	0.00	0.00	9,298,522.67	22,381,825.91	23,737,173.75
3. Plant and machinery	2,744,965.45	220,526.46	0.00	311,588.36	2,653,903.55	2,289,253.30	214,512.32	0.00	291,174.82	2,212,590.80	441,312.75	455,712.15
4. Furniture and office equipment	50,002,494.16	2,110,029.23	0.00	2,031,936.30	50,080,587.09	36,829,270.77	3,955,505.98	0.00	3,681,955.03	37,102,821.72	12,977,765.37	13,173,223.39
5. Deposits paid and construction in progress	3,708,334.54	617,236.52	647,993.18	2,963,898.95	2,009,665.29	539,272.68	182,040.51	0.00	571,942.38	149,370.81	1,860,294.48	3,169,061.86
	315,871,391.41	**3,054,757.92**	**9,708,935.44**	**76,400,457.08**	**252,234,627.69**	**120,344,250.18**	**7,912,011.87**	**0.00**	**28,466,267.38**	**99,789,994.67**	**152,444,633.02**	**195,527,141.23**
III. Non-current assets held for sale	**9,708,935.44**	**0.00**	**-9,708,935.44**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**9,708,935.44**
IV. Other long-term assets												
Shares in affiliated companies	1,973,210.62	0.00	0.00	1,973,210.62	0.00	509,213.86	0.00	0.00	509,213.86	0.00	0.00	1,463,996.76
Investments	132,912.58	70,100.00	0.00	0.00	203,012.58	41,999.00	0.00	0.00	0.00	41,999.00	161,013.58	90,913.58
Requirements from liability insurance	2,568,356.22	0.00	0.00	393,644.16	2,174,712.06	0.00	0.00	0.00	0.00	0.00	2,174,712.06	2,568,356.22
Other financial assets	1,076,596.62	0.00	0.00	294,499.78	782,096.84	0.00	0.00	0.00	0.00	0.00	782,096.84	1,076,596.62
	5,751,076.04	**70,100.00**	**0.00**	**2,661,354.56**	**3,159,821.48**	**551,212.86**	**0.00**	**0.00**	**509,213.86**	**41,999.00**	**3,117,822.48**	**5,199,863.18**
Total	**369,180,805.85**	**5,554,279.68**	**0.00**	**79,118,676.67**	**295,616,408.86**	**126,150,147.11**	**9,324,938.06**	**0.00**	**29,016,943.63**	**106,458,141.54**	**189,158,267.32**	**243,030,658.74**

Statements required by German law (Commercial Code (HGB))

Pursuant to § 315a of the German Commercial Code (HGB) a Group required to use international accounting standards must add the following information in the notes:

§ 313 (2)(1) Commercial Code (HGB):
The names and registered offices of the companies included in the consolidated financial statements. The share in the capital of the subsidiary belonging to the parent company and the subsidiaries included in consolidation. See also the notes to companies included in the consolidation.

§ 314 (1)(4) Commercial Code (HGB):
The average number of employees covered by the consolidated financial statements during the financial year, and the personnel expenses incurred during the financial year. See notes to personnel expenses.

§ 314 (1)(6) and § 314 (2)(2) Commercial Code (HGB):
Total remuneration paid to members of the Board, Supervisory Board, Advisory Board or any similar body of the parent company to recompense work undertaken by them on behalf of the company and its subsidiaries during the financial year must be disclosed, broken down between the various organisational groups. In addition to remuneration paid during the financial year, any other remuneration made during the year but not disclosed in any consolidated financial statements, must be disclosed. See notes to company bodies.

§ 314 (1)(8) Commercial Code (HGB):
Each listed company included in the consolidated financial statements needs to make a declaration pursuant to § 161 of the German Companies Act (AktG) and make this available to shareholders. See notes to the Corporate Governance Code.

§ 314 (1)(9) Commercial Code (HGB):
Where it concerns a parent company, which is listed on an organised market in the sense of § 2 (5) of the Securities Trading Act (WpHG), fees paid to the auditors of the consolidated financial statements pursuant to § 319 (1)(1) and (2) of the Commercial Code (HGB) for the financial year must be disclosed and broken down to show costs of
a. audit of financial statements,
b. other certification and valuation services,
c. tax advice,
d. other services,
provided for the parent company or a subsidiary. The information required is included in the notes under other operating expenses.

Berlin, 1 October 2007

Marseille-Kliniken AG

The Management Board

Auditors' report

We have issued the following unqualified reports signed in Hamburg on 5 October 2007 about the versions of the annual accounts and Group annual accounts, the combined management report about the company and the Group prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, for the financial year that began on 1 July 2006 and ended on 30 June 2007 that are enclosed with this report as Appendices I (management report), II (annual accounts) and III (Group annual accounts):

Marseille-Kliniken AG:
"We have audited the annual accounts - consisting of the balance sheet, profit and loss account and notes - including the bookkeeping records and the management report about the company and the Group prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, for the financial year that began on 1 July 2006 and ended on 30 June 2007. The company's legal representatives are responsible for keeping the bookkeeping records and for compiling the annual accounts and the management report about the company and the Group in accordance with the regulations specified by German commercial law. Our assignment is to make a judgement about the annual accounts (including the bookkeeping records) and the management report about the company and the Group on the basis of the audit we have completed.

We have made our audit of the annual accounts in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors (IDW). According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the annual accounts (in compliance with the principles of proper bookkeeping) and by the management report about the company and the Group are identified with sufficient certainty. Information about the company's business operations and its economic and legal environments as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the bookkeeping records, the annual accounts and the management report about the company and the Group are checked mainly by taking random samples in the course of the audit. The audit consists of an analysis of the accounting principles applied and of the main elements of company management by the legal representatives as well as an evaluation of the overall presentation of the annual accounts and the management report about the company and the Group. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised.

On the basis of the findings of the audit, we conclude that the annual accounts comply with the legal regulations and the principles of proper bookkeeping and provide an accurate and true picture of the asset situation, financial position and profitability of the company. The management report about the company and the Group is consistent with the annual accounts, gives an appropriate overall description of the situation of the company and presents the possible future opportunities and risks in an accurate way.

Without qualifying this report, we draw attention to the following: maintenance of the book values of the participating interests in the rehabilitation division - a not inconsiderable proportion of the receivables from affiliated companies (particularly rehabilitation facilities but also facilities that started operation in the nursing division) - that are indicated in the individual annual accounts compiled for MK AG and the assets reported in the Group annual accounts and/or committed in the rehabilitation division depend on implementation of the planned measures. In the combined management report about the company and the Group, the Management Board pointed out accurately in this context, for example in the "Risk report" section, that maintenance of the value of the committed assets of the rehabilitation division depends on the correctness of the planning assumptions on which the valuation has been based."

Marseille-Kliniken Group:
"We have audited the Group annual accounts - consisting of the balance sheet, profit and loss account, equity schedule, statement of cash flow and notes - prepared by Marseille-Kliniken Aktiengesellschaft, Berlin, as well as the management report about the company and the Group for the financial year that began on 1 July 2006 and ended on 30 June 2007. The company's legal representatives are responsible for compiling the Group annual accounts and the management report about the company and the Group in accordance with the IFRS that have to be applied in the EU and the additional regulations specified by commercial law that have to be applied in accordance with § 315a Paragraph 1 of the German Commercial Code (HGB). Our assignment is to make a judgement about the Group annual accounts and the management report about the company and the Group on the basis of the audit we have completed.

We have made our audit of the Group annual accounts in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors (IDW) as well as the International Standards on Auditing (ISA). According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the Group annual accounts (in compliance with the accounting regulations that have to be applied) and by the management report about the company and the Group are identified with sufficient certainty. Information about the Group's business operations and its economic and legal environments as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the Group annual accounts and the management report about the company and the Group are checked mainly by taking random samples in the course of the audit. The audit consists of an analysis of the annual accounts of the companies included in the Group annual accounts, of the specification of the companies consolidated, of the accounting and consolidation principles applied and of the main elements of company management by the legal representatives as well as an evaluation of the overall presentation of the Group annual accounts and the management report about the company and the Group. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised.

On the basis of the findings of the audit, we conclude that the Group annual accounts comply with the IFRS that have to be applied in the EU and the additional regulations specified by commercial law that have to be applied in accordance with § 315a Paragraph 1 of the HGB and provide an accurate and true picture of the asset situation, financial position and profitability of the Group while observing these regulations. The management report about the company and the Group is consistent with the Group annual accounts, gives an appropriate overall description of the situation of the Group and presents the possible future opportunities and risks in an accurate way.

Without qualifying this report, we draw attention to the information provided by the Management Board in the combined company and Group management report, where it is pointed out in the "Risk report" section that maintenance of the value of the committed assets of the rehabilitation division depends on the correctness of the planning assumptions on which the valuation has been based."

We have submitted the above report in compliance with the legal regulations and the principles of proper company and Group audit reporting.

Hamburg, 5 October 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Auditor

zu Inn- u. Knyphausen
Auditor

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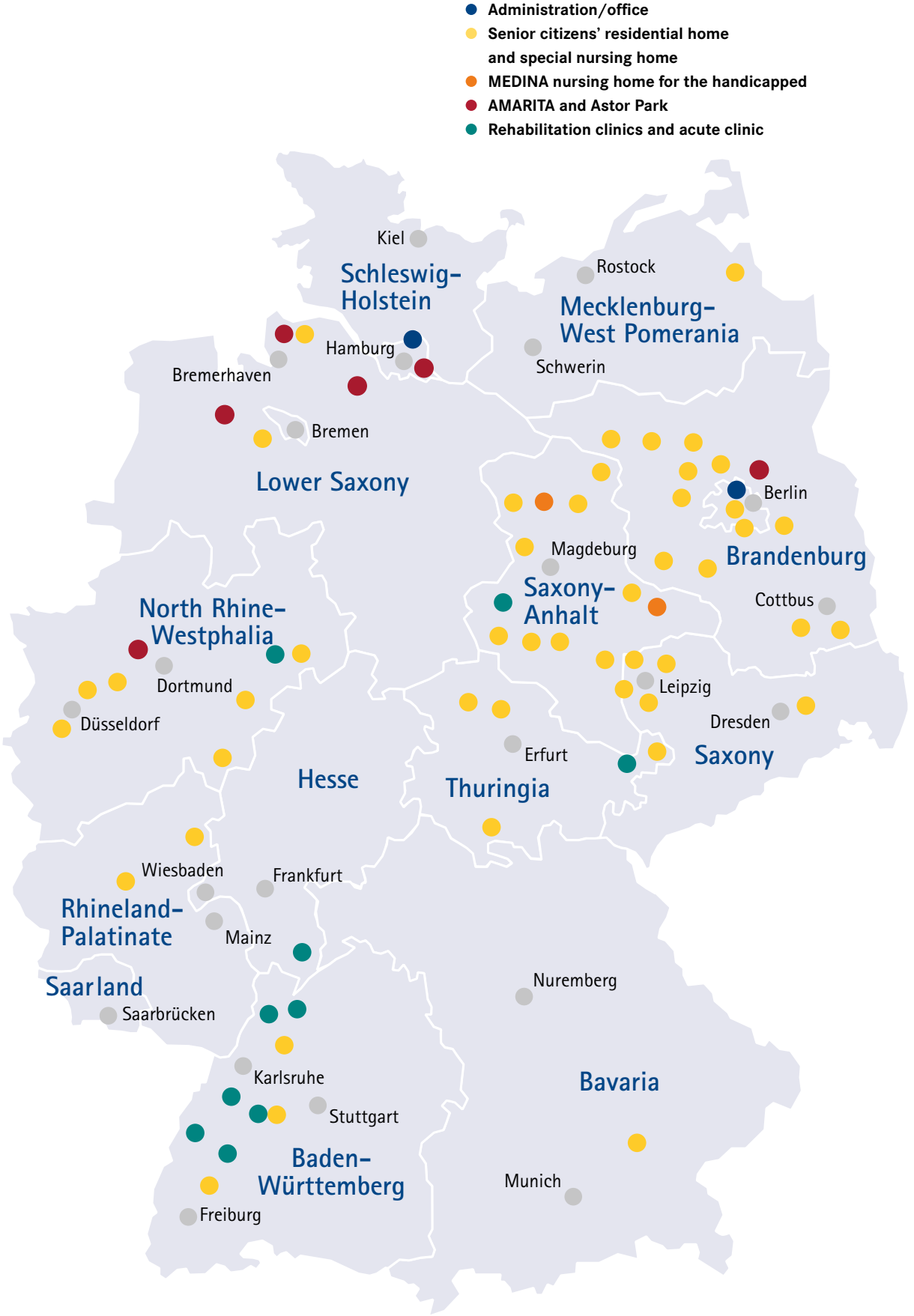
Published by: Marseille-Kliniken AG
Contact: Corporate Communications
Internet: www.marseille-kliniken.com

The annual report is published in German and English and is available on request from Marseille-Kliniken AG, Corporate Communications.

Locations


Administration/office
Senior citizens' residential home and special nursing home
MEDINA nursing home for the handicapped
AMARITA and Astor Park
Rehabilitation clinics and acute clinic
Kiel
Schleswig-Holstein
Rostock
Mecklenburg-West Pomerania
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5-year summary

Group IFRS (until 2003|2004 German-GAAP)		2006|2007	2005|2006	2004|2005	2003|2004	2002|2003
Results						
Operating sales	€ m	214.8	210.4	201.5	200.1	190.0
Cost of materials	€ m	36.1	31.1	30.0	27.6	25.1
Personnel expenses	€ m	114.0	106.7	104.5	105.1	99.9
Depreciation	€ m	9.3	13.1	14.8	24.4	21.0
Net Group profit/loss for the year	€ m	9.1	8.9	6.4	-12.1	8.2
EBIT *	€ m	20.2	19.4	24.3	17.1	22.7
EBITDA *	€ m	28.9	30.9	37.4	31.4	37.2
EBITDAR *	€ m	61.8	58.0	55.5	53.4	56.7
EBIT margin *	%	9.4	9.2	12.0	8.6	11.9
ROS	%	4.9	4.4	4.4	3.7	4.5
DVFA/SG result	€ m	10.5	9.3	8.9	7.5	8.5
Gross cash flow *	€ m	23.0	25.8	23.5	17.9	26.2
Cash flow from current business operations	€ m	-2.5	21.1	19.1	19.1	-6.7
Cash flow from investment activities	€ m	-7.6	89.5	29.9	-12.0	-25.8
Balance sheet						
Fixed assets	€ m	193.5	250.2	332.8	328.0	336.5
Investments in tangible assets	€ m	5.5	9.3	21.3	10.1	29.9
Working capital	€ m	26.4	25.7	18.2	16.3	28.7
Investments in financial assets	€ m	0.1	0.6	0.1	1.1	0.0
Other key indicators						
Dividend	€ m	3.0	2.2	4.9	4.8	4.9
Dividend yield	%	1.4	2.9	3.9	4.8	9.0
Number of shares	Million	12.15	12.15	12.15	12.15	12.15
Market capitalisation	€ m	212.6	191.4	125.1	100.7	53.9
Return on equity **	%	14.7	13.9	14.3	11.5	10.6
Return on total assets	%	3.4	2.9	2.2	2.0	2.2
Year-end share price	€	17.50	15.75	103.30	8.29	4.44
Personnel expenses ratio	%	53.1	50.7	51.9	52.5	52.6
Adjusted cost of materials ratio	%	16.8	14.8	14.9	13.8	13.2
DVFA/SG earnings per share	€	0.86	0.76	0.73	0.62	0.70
Gross cash flow per share	€	-1.85	2.26	1.93	1.47	2.16
Employees	Average number	5,139	4,849	4,520	4,380	4,122
Facilities	Number	63	62	60	58	57
Bed capacity	Number on 30.06.07	8,765	8,703	7,573	7,512	7,261
Occupancy rate ***	%	89.7	88.2	87.5	90.0	92.1

* taking DVFA/SG adjustment items into account
** DVFA result/Group shareholders' equity
*** excluding the facilities that started operation: Hamburg, Berlin and Düsseldorf

MARSEILLE-KLINIKEN AG

Management
Alte Jakobstrasse 79/80 • 10179 Berlin • Germany • tel. +49 (0)30/2 46 32-400 • fax +49 (0)30/2 46 32-401

Administration
Sportallee 1 • 22335 Hamburg • Germany • tel. +49 (0)40/5 14 59-0 • fax +49 (0)40/5 14 59-709
www.marseille-kliniken.com • info@marseille-kliniken.com

If you have any questions about the company or would like to receive further information,
just phone us free of charge (0800 / 47 47 200).