Annual Report 2005/2006

Project development skills maximise success

MARSEILLE-KLINIKEN AG

Segments

Nursing care

The nursing division is responsible for all the operations associated with nursing care for the elderly and handicapped. Residents receive personal attention and skilled nursing care in a comfortable home at 52 different facilities. Individual nursing concepts are developed to meet the specific needs of the residents.

		2005/2006	2004/2005
Sales	€ m	162.7	151.0
DVFA result	€ m	12.9	12.5
Employees	Average number	2,743	2,407
Facilities	Number	52	49
Bed capacity	Number on 30.06.06	7,134	5,901
Nursing days	Million	2.2	1.9
Occupancy rate *	%	91.6	90.7

** excluding the facilities that started operation*

Rehabilitation

State-of-the-art rehabilitation – that is the concept successfully applied by the psychosomatic and somatic rehabilitation clinics and one acute clinic. Individual treatment concepts are provided in the following fields: psychosomatics, cardiology, orthopaedics, gynaecology and oncology.

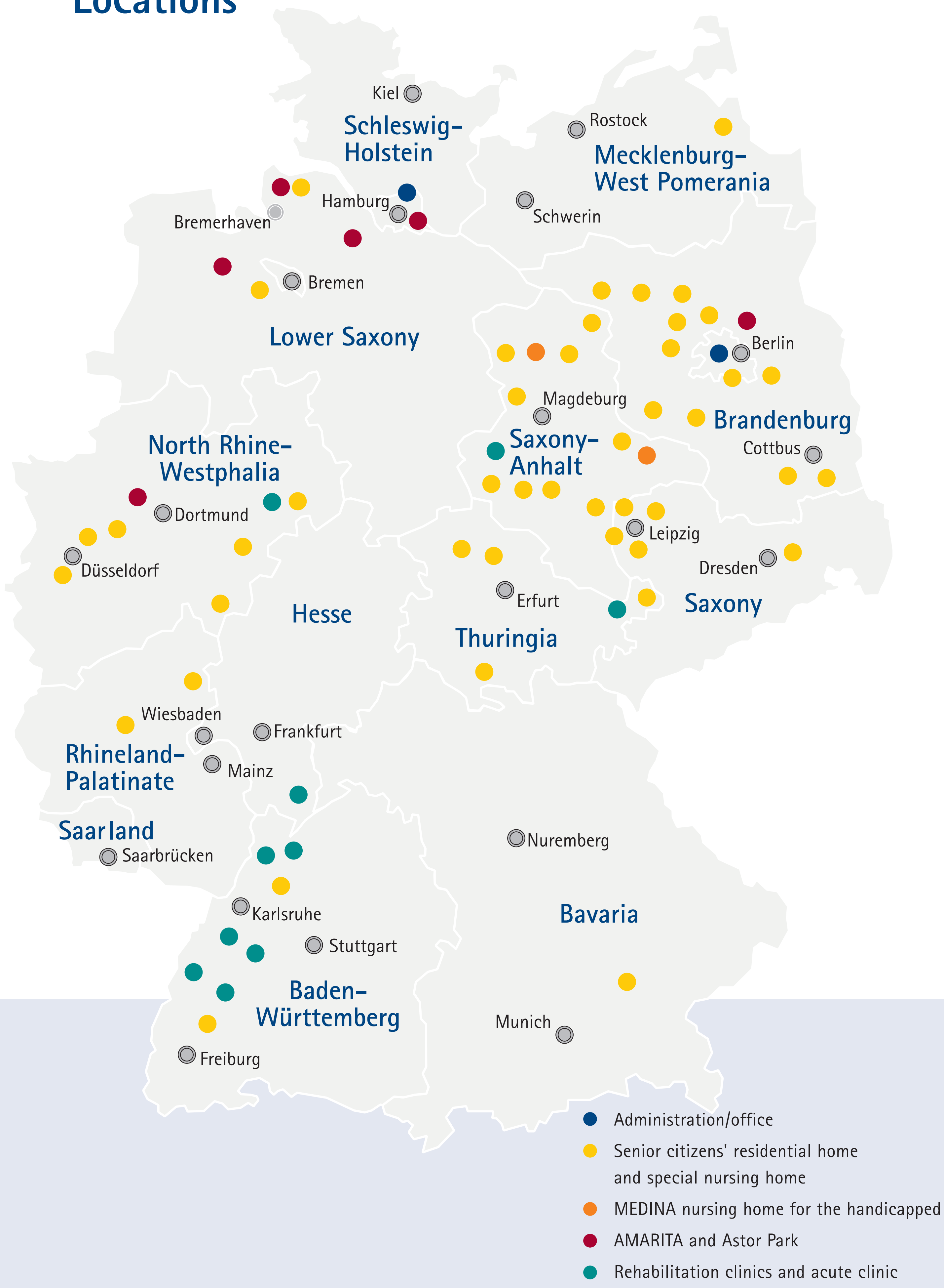
		2005/2006	2004/2005
Sales	€ m	47.7	50.5
DVFA result	€ m	-3.6	-3.6
Employees	Average number	627	639
Clinics	Number	10	11
Bed capacity	Number on 30.06.06	1,569	1,672
Cases treated	'000	16.4	16.1
Occupancy rate	%	74.2	76.6

Services

Our service companies make sure our customers receive optimum catering, housekeeping and laundry services. They are an integrated feature of our medical concepts.

		2005/2006	2004/2005
Sales	€ m	60.7	62.5
Employees	Average number	1,479	1,474

Locations

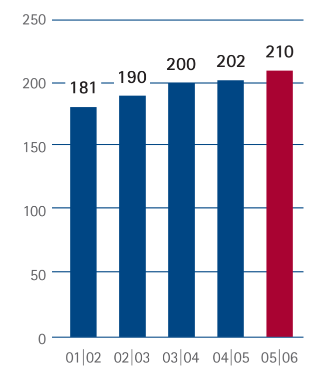


Main Group figures (IFRS)

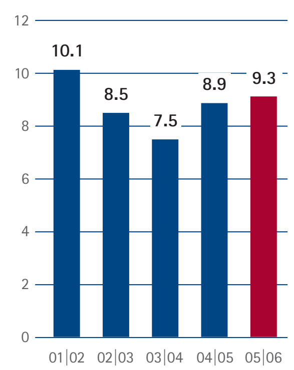
		2005/2006	2004/2005	Change in %	Page
Results					
Operating sales	€ m	210.4	201.5	4.4	52
EBITDAR *	€ m	58.0	55.5	4.4	53
EBITDA *	€ m	30.9	37.4	-17.5	53
EBIT *	€ m	19.4	24.3	-20.1	53
EBIT margin *	%	9.2	12.0	-23.5	–
Net income	€ m	9.7	6.3	54.4	53
ROS *	%	4.4	4.4	-0.6	–
DVFA/SG result	€ m	9.3	8.9	3.8	53
Gross cash flow *	€ m	25.8	23.5	9.8	55
Balance sheet					
Long-term assets	€ m	250.2	332.8	-24.8	55
Investments	€ m	9.3	21.3	-56.3	–
Shareholders' equity **	€ m	66.8	62.5	6.8	54
Equity ratio	%	20.7	15.5	33.5	54
Return on equity ***	%	13.9	14.3	-2.8	–
Financial debt	€ m	129.5	207.5	-37.6	55
Finance ratio	%	40.1	51.6	-22.1	–
Per capita sales	€ '000	56.6	57.5	-1.7	–
Other key indicators					
Total dividend	€ m	2.2	4.9	-55.0	56
Dividend per share	€	0.45	0.40	12.5	56
DVFA/SG result per share	€	0.76	0.73	3.8	53
Employees	Average number	4,849	4,520	7.3	57
Facilities	Number	62	60	3.3	52
Bed capacity	Number on 30.06.06	8,703	7,573	14.9	49
Occupancy rate ****	%	88.2	87.5	0.8	46

** 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: Hennigsdorf, Hamburg and Düsseldorf*

Operating sales
in € m



DVFA result
in € m



Mission statement

Marseille-Kliniken AG is a market-leading, listed company operating on the market for inpatient health care in Germany that has 62 facilities and about 5,000 employees. The company's staff are capable and committed, while the facilities meet high quality standards and have state-of-the-art equipment.

Our corporate philosophy is based on three principles:

Customer orientation

We focus our attention on the customer, whether he is a patient at a clinic, a resident of a senior citizen's residential home, a guest or a relative. Recognising what the customer wants as quickly as possible and fulfilling his wishes in every respect are always given top priority.

Economic viability

Social services and economic viability are not a contradiction in terms. The involvement of private companies in the health care business is both legitimate and necessary. Profitable growth gives us the flexibility and financial resources that we need in order to be able to offer our customers at the nursing homes and rehabilitation/acute clinics attractive surroundings, circumspect assistance and individual help, as well as high-quality somatic and psychosomatic services.

Social responsibility

The nursing of old people who need help requires social responsibility from us. We are entrusted with the weakest members of our society, who have spent their lives contributing to the development of this society and deserve to grow old with dignity in every respect. As a private nursing care provider, we carry out the necessary services for society more efficiently and economically than others. Our activities are not determined by a desire for short-term success; they are instead based on a sound strategy from which everyone benefits: the company, employees, customers, partners, investors and society. We combine social responsibility with economic viability day in, day out.

We generate consistently profitable growth while remaining committed to our high social responsibility, because we stand firmly by our principles and run our business on a thoroughly sound basis.

Contents

Highlights

The past year at a glance

Afraid of the future

Panel discussion in Berlin and Hamburg with Professor Dr Miegel, Mr Hölzer, Freddy Quinn and Dr Schöppner from emnid (from left to right).

A survey of people over 50 commissioned by Marseille-Kliniken attracts great attention. The survey carried out by the opinion research institute TNS Emnid in France, Great Britain, Italy, Spain and Germany comes to the conclusion that the Germans have more definite opinions as regards both their positive assessment of the current situation and their fears about the future. Most of the Germans questioned expect that social security benefits will decrease in the course of the next 20 years. The majority of the Germans interviewed are, however, optimistic about their own future. Emnid boss Klaus-Peter Schöppner: "The Germans prepare for old age extremely well." In comparison with the citizens of other EU countries, they do most sports activities and make sure they have a healthy diet.

Prizes for three students

The delighted prizewinners: Daniela Oertel, Mathias Fünfstück and Anke Herzig (from left to right).

Marseille-Kliniken AG presents the nursing science prize for the third time on 27 January during the "Nursing 2006" congress in Berlin. The prize worth € 7,500 goes to three nursing science students for their "Development of a residential and support concept for dementia patients". In their study, the three prize-winners indicate ways in which nursing staff can solve the constant dilemma they face in dealing with dementia patients between concern for their well-being and maintenance of the greatest possible amount of individual freedom. The concept primarily gives nursing professionals ideas about how to cope with critical situations in everyday nursing.

Applause from the shareholders

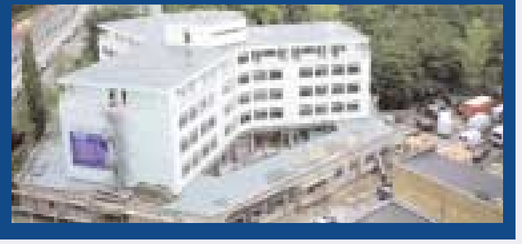
The 106th Annual General Meeting is held in Hamburg on 6 December 2005. Interest is very high. The main issue is the conclusion of a second sale-and-leaseback transaction. The Chairman of the Management Board, Axel Hölzer, informs the participants that the British investor CIT Group Europe has taken over ten

properties from the portfolio for more than € 117 million and that Marseille-Kliniken leased them back at the same time. Two of the properties are somatic rehabilitation clinics. Hölzer emphasises that the deal strengthens the core business and creates financial scope for expansion.

A prayer room and Muslim meals

The first Turkish old people's home in Germany is being opened in Berlin at the end of 2006. The property acquired by Marseille-Kliniken AG is being remodelled to meet the needs of our customers and is to enable 115 patients of Turkish origin to enjoy nursing care that respects their experiences and values. Men and women will be nursed separately and only by staff of their own sex. Meals will be based on the preferences and rules of the customers' home country – without any pork and prepared in the way that is important to Muslims. The interior decoration is being adapted to their style and way of life, including the provision of a prayer room. The Turkish community in Berlin holds a 20% interest in the non-profit company that is running the home.

Mr Hölzer and Mr Altun from the Turkish community in Berlin.
Below: Türk Huzur Evi nursing facility in Berlin-Kreuzberg.



Our flagship in Hamburg

The AMARITA facility Hamburg-Mitte is opened in January 2006. This is the first time that Marseille-Kliniken has established itself in a large city. The facility has 336 beds and meets 4-star hotel standards. The top floors satisfy the most exacting demands on residential and service quality. The nursing home is right next to the well-known Marienkrankenhaus hospital, which specialises in gerontology. There is a tremendous public response to the AMARITA home, stimulated by active marketing involving the Hamburg idol Freddy Quinn. The Düsseldorf-Volksgarten senior citizens' residential home with 95 beds is opened at the end of May too.

The atrium enclosed in the AMARITA home Hamburg-Mitte enables the residents to spend time safely enjoying peace and quiet outdoors.

A new senior citizens' residential home was opened at the end of May near the Volksgarten in Düsseldorf too.

Assisted living in Halle

Since 1 July 2005, Marseille-Kliniken has been acting as an outpatient service provider to elderly people who live in 756 residential units in three blocks of flats in Halle and are mainly in nursing care category one. The company acquired the property when it took over the shares in Allgemeine Dienstleistungsgesellschaft mbH – ADG. Most of the residential units are designed to be single-room flats with between 20 and 35 m^2 of living space and are let for low rent.

The existing shared and functional areas for dining rooms, treatment rooms and offices guarantee the implementation of the "assisted living" concept. Assisted living is in line with many elderly people's desire to remain as independent as possible for as long as possible, even when they have a low income and to feel safe and protected during their old age.

Axel Hölzer,
Chairman of
the Management Board

Since September 2002
Chairman of the Management Board
of Marseille-Kliniken AG

2000 - 2002
Chief Financial Officer and Chief
Operations Officer

1997 - 1999
Fully authorised
company representative

1995 - 1997
Financial Director

Dear shareholders and friends of the company,

Marseille-Kliniken AG is gathering momentum in its development into the market, quality and cost leader in nursing care for the elderly that is provided by private companies. Following the transition year in 2004/2005, we are now entering a new dimension. In spite of the capacity reductions in the rehabilitation operations, sales were increased in the year under review, while a disproportionately large improvement was made in earnings. The strategic foundations have been laid for sustained growth in our core nursing business. The capacity not yet utilised at the facilities in Hamburg and Düsseldorf alone represents potential sales of € 15 million. We have also concluded contracts for a further 1,000 beds that will be coming into operation gradually up to the end of 2008.

In the rehabilitation division, we have initiated the measures to restructure the Schömberg and Bad König rehabilitation clinics so that they return to profit. In doing so, we are creating the basis needed for profitable long-term operation in this segment.

In view of the long-term strategic focus of the company, we have made the necessary preparations for transferring operation of the clinics to third parties promptly, as and when appropriate purchase prices can be achieved. We consider the environment for this to be positive, since various investors are also looking for suitable rehabilitation clinics in connection with their plans in the acute hospital field, with the aim of managing them in combination.

The radical process of change in the German health system requires flexibility and innovative skills. We have both. The sale-and-leaseback transactions that have been concluded in the property field are giving us the necessary freedom to concentrate on the operation of health care facilities, as well as on the expansion programme in the nursing division. We have also established the basic conditions for steady growth by the use and ongoing optimisation of modern IT structures that enable us to control and monitor the business processes at more than 60 facilities in the most cost-effective way on a day-to-day basis. The introduction of a central management system for business operations is raising our company to an efficiency level that is not matched by the competition.

Some may ask what gives us the confidence to make such optimistic forecasts. After all, Marseille-Kliniken operates in a market in which many competitors are hardly able to survive, which is in the stranglehold of government regulations and which will reach the point of financial collapse very soon unless drastic reforms are carried out. All we can do is repeat what we have said before: the market for nursing care for the elderly is largely insensitive to economic developments, its growth parameters are dictated by natural processes that cannot be stopped and its financial stability is not determined by growing deficits and rising contributions. Where insurance cover and old-age pensions are not sufficient to pay for our services, the welfare authorities come up with the difference. It is not the case either that the nursing care rates negotiated with the insurance funds automatically mean that losses have to be made. We prove every year that it is possible to operate highly profitably in the provision of nursing care for the elderly if commercially sound structures are maintained.

Our confidence is also attributable to projects that we have initiated in recent years and that will be producing results in the next few years. We have identified new trends on the nursing market earlier than others and have anticipated them in our strategic concepts. People who require nursing care are no longer in the position of asking for favours; they are demanding customers who want to know very specifically what services and quality they receive for their money. Old people's homes as places where residents are locked away are a thing of the past. Elderly people expect high-quality solutions that match the depth of their purses. This reflects the experiences they have had throughout their lives. On the basis of fixed prices, we stand out from the competition thanks to optimised cost and quality management, a systematic brand policy, a high degree of specialisation and systematic exploitation of the advantages we enjoy due to the implementation of the branch concept in nursing care for the elderly.

The process of change on the nursing market has determined our fundamental strategic decision to restructure the portfolio of facilities and to divide them up into homes with two, three and four stars, in line with the categories used for hotels. We will be expanding in all three categories in the coming years. Our AMARITA concept covers the four-star segment and we intend to continue implementation of the concept in liaison with investors primarily in regions where purchasing power is high. Our new Hamburg-Mitte AMARITA home with 336 beds, which has received a tremendous response from the public, and our first of a total of six facilities in the Düsseldorf area in co-operation with an investor are milestones here. We will be expanding the traditional three-star segment mainly in the context of the continuing process of market consolidation by buying inexpensive properties. We anticipate high growth rates in the new segment of two-star homes for assisted living and inpatient nursing care for the elderly. Assisted living is in line with many elderly people's desire to remain independent for as long as possible even when they have limited financial resources and to feel safe and protected during their old age.

We have made a systematic start on acquiring vacant properties at favourable conditions and transforming them into social facilities. The crucial factor that determines the success of this concept is that considerably lower building costs are passed on to the customers, so that the latter are not required to fall back on the welfare authorities. In Halle, we are acting as an outpatient service provider for 756 residential units in three blocks of flats that are networked with our IT systems. In Potsdam, we are currently implementing an innovative new support concept in a property with 130 beds. This strategy is culminating at the moment in the project with about 160 beds in Berlin-Kreuzberg that is designed solely for elderly Turkish citizens. An operating company established together with the Turkish community in Berlin will be running the facility, the remodelling of which will be completed by the end of this year. At the regional level, we will be expanding in other parts of western Germany with the two-star concept in future, primarily in the Ruhr district. Seven per cent of our nursing beds already meet two-star standards and this figure is to be increased to 20% in the foreseeable future. We aim to reach the same percentage with the higher-quality accommodation in the four-star category.

We are, finally, entering new strategic territory with integrated service concepts that we have implemented for the first time in Büren/Westphalia. The hospital we have taken over is focussing on gerontological illnesses and supplements the services provided for the people who live almost directly opposite in the senior citizens' residential home we operate in the same town. This entry into the acute field is attributable to the current situation on the German hospital market. Opportunities of this kind that involve minimal financial risks will be increasingly strongly in future. The hospital market is full of facilities that are no longer financially viable and can only be rescued if they are turned around by private companies.

The nursing operations are being expanded quickly and circumspectly. In the past two years, we as a Group have prepared five facilities with a total capacity of about 1,000 beds, two of which – the homes in Hamburg and Düsseldorf – with a total of 424 beds have already come into operation. In Meerbusch, North Rhine-Westphalia, we are co-operating with an investor on development of a 150-bed facility specially for patients who suffer from dementia or are in a coma. In Bremerhaven, preparations are being made for a senior citizen's residential home with 200 beds and construction of another home in Düsseldorf has begun. North Rhine-Westphalia will be a regional emphasis in the nursing operations in future alongside Hesse, Rhineland-Palatinate and Baden-Württemberg.

The thoroughly positive forecasts for your company are only offset to a very limited extent any more by the developments in the rehabilitation division, which continue to be unsatisfactory. Although the rehabilitation operations definitely are a weak point, they no longer have the significance to cause us problems in the longer term. They contribute less than 20% of sales and this figure will be continuing to decrease as the expansion programme in the nursing division is implemented. We have made great progress towards our goal of a complete turnaround. We have closed the Waldkirch and Reinerzau locations, which has improved the results generated in the division's operations considerably. The sale of the properties of the somatic clinics in Blankenburg/Saxony-Anhalt and Bad Klosterlausnitz/Thuringia in the context of the transaction with CIT Group Europe has reduced our financial burdens very substantially since February this year. At the Schömberg clinic, one of the last weak points in our operations, great advances have been made in the transformation of 100 of the total of 200 beds into a nursing clinic. With a planned occupancy rate of 90%, the operating losses attributable up to now to considerable shortfalls in capacity utilisation will be eliminated following completion of the remodelling exercise in 2007.

Our strategic priorities are definite anyway, completely irrespective of developments in the rehabilitation operations in future. The core nursing business is extremely stable and remains our major growth driver. We aim to reach the critical number of 12,000 beds in the Group by the end of 2008 by means of our organic expansion programme. The average figure of internationally significant operators is 13,000 beds and we are therefore approaching this level, which guarantees us an international standing among investors. Strong market-driven growth, a position among the leading listed health care providers and significant growth and earnings improvement potential are investment highlights in our opinion. The development of the share price in recent months has already mirrored the development the company has gone through to a large extent. The share price has developed better than all the relevant indices and bucked the trend when the stock market slumped in the early summer of 2006 too.

Your company is on a stable path and will be operating increasingly soundly in the coming years. On behalf of the Management Board, I would like to thank you for the trust you place in our work. We will not cease in our efforts to justify your loyalty and commitment to the company at all times. Our thanks go at the same time to our employees, who look after the interests of the residents and patients at our facilities with impressive professional skill and great humanity. They are our company's face to the customer. We thank the many elderly people who put their trust in our services and give us the feeling that we are doing our job responsibly. And last but not least, we thank the Supervisory Board for challenging us and giving us constructive support in our decision-making processes.

Your

Axel Hölzer
Chairman of the Management Board

The Marseille-Kliniken share

Investors focus on health care shares

Marseille-Kliniken share price development indexed, 01.07.2005 = 100

Marseille-Kliniken *DAX* *Prime Pharma & Healthcare*

Health care shares started to move again last year and are attracting an increasing amount of attention from institutional investors in Germany and abroad. The Marseille-Kliniken share benefitted from this to a particularly large extent. The improvement in the market conditions combined with a clear growth strategy led to a significant increase in the share price. The value of the share rose by 53.8% in the year under review.

Environment

There was a fundamentally positive mood on the finance markets during the last financial year. The main Deutsche Börse index continued its growth pattern from the previous year. The DAX started the second half of 2005 on 4,617.07 points and went up 23.1% to 5,683.31 points on 30. June 2006.

The development of the value of their investment was even more encouraging for the Marseille-Kliniken AG shareholders. With a share price increase of almost 54%, the share developed considerably better than all the indices in which the share was included. Incorporating the dividend payment of € 0.40 in December 2005, the investors recorded growth of 57.7% in the 2005/2006 financial year. The share initially made a slow start to the new financial year at a price of € 10.24. Supported by positive studies and convincing meetings with investors, the share price rose to its first interim high of more than € 14 between the end of September and the beginning of December. Helped by the positive overall stock market development, the share price increased steadily to more than € 15 at the beginning of 2006. Although the market as a whole went through an emphatic correction phase in May, the confidence foreign investors in particular had in Marseille-Kliniken AG continued to grow. The share price reached its high of € 16.10 in early June and settled between € 15 and € 14 until the end of the financial year; the share price on 30 June was € 15.75.

Share price development

	30.06.06	01.07.05	Change in %
Marseille share	€ 15.75	€ 10.24	53.8
DAX	5,683.31	4,617.07	23.1
CDAX	510.40	411.35	24.1
Prime All Share	2,160.74	1,753.16	23.3
Classic All Share	2,673.79	2,138.02	25.1
GEX	1,701.84	1,297.75	31.1
Prime Pharma & Healthcare	1,460.96	1,046.60	39.6

Increase in the free float

For many institutional investors, the proportion of the shares available for trading is a crucial factor that they consider when deciding whether to invest in a share or not. Since Marseille-Kliniken AG obtained its listing in 1996, this proportion – which is known in the financial community as the free float – had been 25%. In response to a suggestion from various market players, the Marseille family fulfilled the request made by institutional investors to increase the free float and broaden the investor base in accordance with their investment criteria in March 2006. With the sale of 15% of their shares to institutional and private investors, the Marseille-Kliniken AG free float increased to 40%: a step that has been received as a positive signal by all market players.

Coverage

Analysts again emphasised in the year under review that Marseille-Kliniken AG operates in a market that promises profitable growth for the next decades. The development in the value of the share confirmed the unanimous investment recommendation "buy". The prospects and the growth strategy have made the company a focal point in the interests of further finance market players and have encouraged well-known research companies to initiate or announce additional coverage.

Market capitalisation and trading volume

In line with the positive development in the share price, the stock market value of Marseille-Kliniken AG increased from € 125.1 million to € 191.4 million in the last financial year. The high level reached in the daily trading volume of 20,551 shares per day on average in the previous year (Xetra and Frankfurt) rose again slightly to 20,808 shares per day in the year under review. This means that the share has become more important to institutional investors, who base their investment decisions on the highest possible market capitalisation and a high trading volume.

Dividend of € 0.45

The Supervisory Board and the Management Board will be proposing to the Annual General Meeting on 06 December 2006 that a dividend of € 0.45 per ordinary share is paid to the free float shareholders for the 2005/2006 financial year. This includes a special dividend of € 0.20 per ordinary share which is being paid due to the positive special effects of the sale-and-leaseback transactions - neutralised by the formation of reserves that is possible under tax law. The Marseille family is waiving its dividend, because it is of the opinion that this decision will accelerate the expansion process, so that the value of the company can continue to rise. On the basis of the final price of € 15.75 on 30. June 2006, the dividend yield is 2.9%. It is a tradition for Marseille-Kliniken AG to pay an attractive dividend. The company has paid an above-average dividend to its shareholders every year since the IPO in 1998.

Main figures about the share

		05/06	04/05
Net income	€ m	9.7	6.3
DVFA/SG result	€ m	9.3	8.9
Gross cash flow	€ m	25.8	23.5
Dividend per share	€	0.45	0.40
Dividend yield (net)	%	2.9	3.9
Total amount distributed (net)	€ m	2.2	4.9
Highest share price	€	16.10	12.39
Lowest share price	€	9.77	6.70
Year-end share price	€	15.75	10.30
Price-to-earnings ratio		20.7	14.0
Market capitalisation*	€ m	191.4	125.1
Number of shares	Million	12.15	12.15

** on 30.06.2006*

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 again 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.

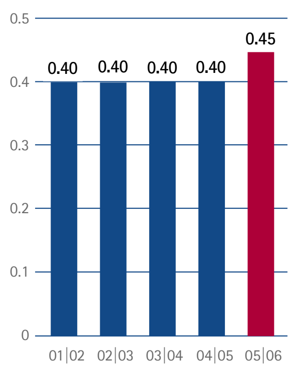
In the 2005/2006 financial year, the company broadened its potential investor base again. The positive response to events for investors and analysts in Frankfurt, Düsseldorf and Hamburg continued at roadshows in Germany, England, Switzerland and

France. The company has strengthened its presence at the major European financial centres considerably as a result. Further expansion of the dialogue with all groups of investors is planned in the new financial year. Marseille-Kliniken AG takes contact with its small investors very seriously too. The company continues to participate in all important investors' events and fairs.

Marseille-Kliniken AG provides up-to-the-minute information about the latest events and about developments in the business figures on the 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. We also send all the shareholders a detailed shareholders' report by post every quarter, which informs them about the current development of the business. 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. •••

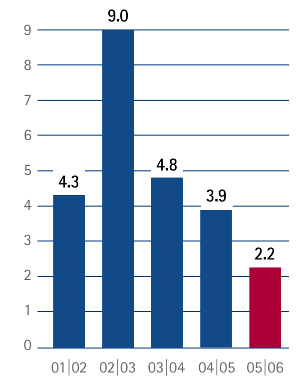
Dividend development

in € m per share

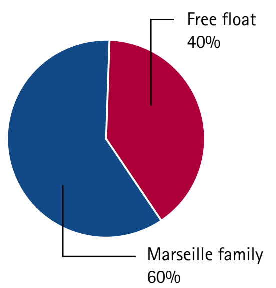


Dividend yield

in %



Shareholder structure



Share information

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

Financial calendar

for the 2006/2007 financial year

Press conference about the annual results	30 October 2006
Report on the 1st quarter	8 November 2006
Analysts' conference	29 November 2006
Annual General Meeting	6 December 2006
Dividend payment	7 December 2006
Report on the 2nd quarter	February 2007
Report on the 3rd quarter	May 2007
Figures about the 2006/07 financial year	October 2007
Annual report	December 2007

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 and the risk situation. 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 on 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 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 Management Board and the Supervisory Board have decided to disclose the compensation received by the members of the Management Board individually for the first time for the 2005/2006 financial year. 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 as amended on 2 June 2005 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 recommendations made by the "Government Commission/German Corporate Governance Code" have been and are being observed, with the exception of the following points:

Invitation to the Annual General Meeting, proxies

The annual report and the invitation to the Annual 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 tantième. The size of the tantième 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. An individualised breakdown of the compensation into fixed and success-based components and components involving a long-term incentive in the notes to the annual accounts is planned for the first time for the 2005/2006 financial year.

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 5 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, the necessary independence required of the auditor, 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 therefore provided.

Transparency

Information about the shares held by the Chairman of the Supervisory Board, Mr Ulrich Marseille, is 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. In view of this, 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

Reports reconciling the Group balance sheet and the Group profit and loss account to IAS/IFRS principles are compiled and published. Preparation of the consolidated financial statements and the interim reports in accordance with internationally acknowledged accounting principles is planned for the first time for the 2005/2006 financial year.

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 2006

Marseille-Kliniken AG

The Management Board   The Supervisory Board

The German health care market is changing

A major building site – but a promising one

Disproportionately fast growth has been generated on the German health care market for years now compared with the gross domestic product. Demand for health services only depends to a very limited extent on economic fluctuations and medical progress is leading to a steady increase in the range of diagnostic facilities and treatment available.

In the meantime, the health system contributes almost 12% of the total economic output in Germany and provides jobs for 10% of all employees. The annual turnover of the industry has reached almost € 250 billion. Hospitals, rehabilitation clinics and nursing homes receive about € 80 billion a year from the health budget; this is more than the sales by the German car industry in Germany. 1.5 million beds are available to patients and residents at about 12,000 facilities. The enormous size of the market explains the tremendous efforts made by market players to defend their positions.

The political community is struggling to find solutions

Up to now, the political community has to a large extent failed to realise that health is primarily a growth factor rather than a cost factor. Very few industries in Germany generate more than 90% of their added value inside Germany. What is at stake in the necessary reforms is less the quality of health protection and more the future of a highly innovative growth industry. There are no signs as yet of any attempts to initiate reform via efficient competition controlled by prices and services. The current debate is focussed essentially on such ideologically based concepts as what are known as "citizens' insurance" or "health premiums" and is concentrating on the funding issue. The viability of the system in future is to be guaranteed mainly by identifying sources of new funds and the establishment of complicated compensation procedures, so that money can be transferred from one place to another. Experts are certain that reforms of this kind cannot work in the long run.

There is no question that the political community is in a difficult situation at the present time. The postponement of a sound reform of the insurance funds for years is now making radical cuts necessary, in order to save the different areas of the social security system. On the other hand, politicians do not want anyone to suffer and aim to solve the problem on the basis of "social justice". Since this is not possible, no progress is being made and people are simply having to come to terms with the fact that everything is going to be more expensive. The pressure to reach an agreement has unsettled everyone who is involved in the health system. Dissatisfaction with one of the most expensive health systems in the world is growing. Patients who are members of the statutory health insurance funds are noticing that services are being reduced in spite of larger contributions to prescription costs and a quarterly charge for consulting doctors. Doctors are critical of income limits and excessive bureaucracy. The pharmaceutical industry, which is being forced to grant discounts, is issuing warnings about a loss of their research capabilities.

Most experts agree that too much in the German health system is centrally planned and too little is left up to the market. The system is suffering from a lack of transparency in funding and extreme state regulation of the contractual relationships. The costs and quality of medical services are not reflected in prices. The state specifies the extent and form of the insurance protection provided to most people. Insurance premiums are determined by income and not by age and health risks. Most of the health insurance fund tariffs offer no incentive to make sparing use of medical resources. There is little competition between the statutory health insurance funds, because they are allowed to make practically no differences in the services and benefits they provide. A financial compensation system between "richer" and "poorer" insurance funds makes sure, in addition, that the premium levels are very similar.

The state only grants freedom of choice to people with a high income. An artificial assessment basis separates Germany into private patients and patients covered by statutory health funds, which is being mirrored to an increasing extent in the range of services provided. In contrast to the statutory health insurance funds, the private health insurance companies charge risk-oriented premiums and form provisions for the people they insure to cover the higher costs incurred in old age. They are therefore protected more effectively against the growing demographic problems than the statutory insurance funds that are funded by a system of contributions in which no reserves are formed. There is, however, a lack of competition between private health insurance companies too. It is practically impossible for customers to change to a different provider, because they are not allowed to take the reserves with them when they move to a competitor.

The clinic in Reinerzau was converted into a nursing clinic in the financial year in response to changes in the economic situation.

Advocates of enterprising reform are putting pressure on the political community to review the entire system and to use the private insurance companies as a model for the statutory insurance funds. The thrust of their reform proposals is to base the statutory health insurance system on the system used by the

Our future when we are old

What will happen to Germany when we have finally become a society of old people? And when we experience something uniquely new in our history because of the large demographic shift: i.e. that almost 40% of Germans will soon be over 60.

It is becoming a fact that the people who are still largely ignored in advertising are turning into the biggest group of consumers. It is also becoming a fact that consumption will then be dictated by a section of the population that is anxious and lethargic. Because our society, which is still dominated by what interests the young will be turned upside down in the near future by anxious old people and pessimistic expectations of life.

private health insurance companies, to incorporate the competitive elements they include gradually and to enable a transition to be made to a capital-based system in this way. This would put an end to the unjust transfer to young contributors of the health costs of an ageing population – which will be increasing in future – as well as to the arbitrary, income-based limit that divides the country's citizens up into people who are free to choose their insurance and people who have no choice.

It is evident that such a change in the system is asking much too much of the political community and, probably, electors too at the present time. The legislation introduced in 2004 to modernise the statutory health insurance funds, the burdens of which have been borne almost exclusively by the insured and the patients, is having practically no impact any more. And experts are of the opinion that the new reform which has been announced with the title "law to strengthen competition in the statutory health insurance system" is unlikely to achieve what the title suggests in the present form.

In the summer of 2006, the government specified the central elements of the health reform and announced that the nursing care insurance system will be reformed in 2007. In the statutory health insurance system, the plans for the reform involve an increase in competition and transparency, reorganisation of the relationship between statutory and private insurance, a combination of the "citizens' insurance" and "premium" models, expansion of prevention to make it an independent sector of the health system and extension of seed funding for integrated treatment. The core of the reform is a fund solution. Under this system, people who are required to make social security contributions and employers pay health insurance premiums into a fund. The health insurance funds receive a lump sum per member from this fund, with which they pay the costs of the treatment provided. If this amount is not large enough, the health insurance provider charges its members an additional lump sum. Taxes are also paid into the fund, which are to be financed via an additional solidarity tax for health purposes. The details of these plans have not been settled yet.

Three trends are determining the market

Whatever the details, the reform solutions will not change the three dominant trends on the market at all. Firstly, the concentration process will be continuing. Smaller, independent providers in particular will no longer be able to satisfy the steadily increasing quality requirements in view of the growing cost pressure exerted at the same time. Estimates about the acute hospital market alone

All-round medical treatment in the immediate vicinity is becoming increasingly important for the older generation - like St. Nikolaus Hospital in Büren that is directly opposite the senior citizens' residential home.

suggest that ten per cent of the roughly 2,150 clinics in Germany will not survive. Secondly, cost pressure and a lack of personnel require new forms of co-operation between the different sectors of the health market. Greater integration of acute, nursing care and rehabilitation services is essential. Thirdly and finally – and this is probably the most important trend as far as the future of the health market is concerned – the investment backlog, which has grown to about € 50 to 60 billion, can only be eliminated with sustained profitability guaranteed if private company structures are introduced. Due to the lack of funds available in the public sector, necessary investments in facilities are only being made to a limited extent and losses are not being assumed any longer. The political community depends on private capital to fund growth in the health system. Some experts even go as far as to predict that about half of the German clinic and nursing market will be accounted for by companies with a stock market listing by 2015. •••

Enclosed courtyard for dementia patients at the AMARITA home Hamburg-Mitte.

Development

According to the fifth report about the situation of the elderly in Germany issued by the German ministry for family affairs, senior citizens, women and youth, the main features of population development up to 2050 will be as follows (according to the forecasts by the German statistical authorities): the total population will decrease by about 9 per cent by 2050 and the number of people of working age will probably be up to 20 per cent lower, while the number of people over 65 and over 80 will increase by 54 per cent and 174 per cent respectively. They will then account for 29.6 per cent and 12 per cent of the total population respectively.

Social security systems and demographic change

Interview with Professor Dr Meinhard Miegel

Progress – we associate innovation, speed and youth with this word. "Old" is the most accurate way to describe Germany in future, however. Is the demographic development in Germany as dramatic as it is frequently made out to be?

Professor Miegel: It depends what is meant by "dramatic". It is an undeniable fact that the proportion of old people in the total population will be increasing very sharply in the coming years and decades, while the proportion of the population accounted for by young people will be decreasing considerably. One of the reasons for this is the steady increase in individual life expectancy. In the 20th century, life expectancy worldwide increased by about 30 years – and the upward trend is continuing. On the other hand, the birth rate has declined substantially in the countries where the industrial revolution happened earliest. This is a global trend too. Experts are working on the assumption that the world population will be rising from 6.5 billion today to about 9.3 billion in 2050. Population growth will probably slow down then, however, and is likely to come to a complete stop by 2070. This means that an increase in the proportion of old people in the total population is inevitable. What it means for Germany is that the number of inhabitants will probably decline by seven million up to 2040 – in spite of continuing immigration. Almost every second adult will be more than 60 years old then. Nine million people will be over 80 and about 1.6 million over 90.

Will our social security systems survive this development or will they collapse in the foreseeable future?

Professor Miegel: What was known as the "contract between the generations" was the foundation for the social security systems for a number of generations. The generation of working age helped to look after those who were no longer able to work by sharing their income with them. This was an effective solution as long as the number of working people was large and the number of people supported was small. The situation is different now. Although the number of children that have to be supported is smaller than ever before, the number of old people who need support is increasing from year to year. That would not be too much of a problem, if old people – financially speaking – were just as "expensive" as children. This is not the case, however. Since old people not only want to lead their own lives but are also ill and require nursing care very much more frequently than young people, their costs are about twice as high as those of children. Our social security systems need to take account of this. In order to make sure that the coming generations do not have to shoulder unreasonable financial burdens, all the social security systems must be cut back to basic support. Such basic support will make more exacting demands on those in active working life in future than the current funding of support that maintains existing standards of living. The consequence of this: with the exception of the economically deprived, who only have basic support even now, everyone else will have to make a considerably more individual provision for old age than in the past.

What political action do you think needs to be taken urgently as a damage limitation exercise?

Professor Miegel: It is important that politicians inform people in detail about the changes and point out the consequences. Initial attempts are being made to do this, but they are not adequate yet. Most people have probably understood in the meantime that old people are accounting for an increasingly large proportion of the population. It is still unclear to many what this really means. Politicians and society as a whole must assume that there will be fewer shoulders to carry the load in the coming generation than in the current working population. It is therefore essential, for example, that the enormous debts in public budgets are eliminated now and the social security systems are consolidated now – not at some distant time in the future. There will be substantial cuts. Anything else is unrealistic.

What do these demographic developments mean for individuals? And how can they prepare for them?

Professor Miegel: The consequence for the individual of these demographic developments is that they can rely far less on the state or social institutions than in the past. There will simply be too many who want to be supported. I have already said that people will have to look after themselves to a greater extent in future. This requires a fundamental change in attitude. There is no alternative, however. The cuts in the social security systems are already being felt. The purchasing power of old-age pensions is decreasing and the benefits organised by the state are being reduced in the other areas too. Nothing else can be expected in future either. This is particularly the case because public budgets need to be consolidated. Put in simple terms, society and every individual will have to accept that a golden age has to some extent come to an end and is being followed by a new, somewhat tougher era. There are plenty of opportunities in this era too, when life will certainly be worth living. The precondition is, however, that the challenges are accepted honestly and changes are not put off any longer.

Background information: The TNS Emnid study "Expectations of the generation 50+ on their old age" was compiled on behalf of Marseille-Kliniken AG.

Professor Dr Meinhard Miegel

Professor Meinhard Miegel was born in Vienna/Austria in 1939.

He studied philosophy, sociology and law. Miegel was head of the central department for politics, information and documentation at the CDU headquarters when Kurt Biedenkopf was secretary general.

Since 1977, he has headed the institute for economic and social affairs in Bonn. He is a member of the advisory boards of various scientific institutions that focus on political issues relating to the future of society and is regularly consulted by the political and business communities.

In his bestsellers "Epochenwende" and "Die deformierte Gesellschaft", he makes a thorough examination of German society. He criticises the economic and social systems and demands a dramatic change in the foundations of our society.

The market for nursing care for the elderly

A growing field for private investors

Satisfaction in old age

Satisfaction with life in old age depends on various factors. Firstly on things that we can determine ourselves to at least some extent, such as our financial situation and our social contacts. And secondly on such state welfare benefits as the general health care conditions, residential facilities in line with the needs of senior citizens and the provision of nursing care when this is required.

Growth in the health market as a whole is being generated to a large extent by inpatient nursing care. The demographic trend and the ageing process in society are the major growth drivers.

The 10th co-ordinated population forecast submitted by the German statistical authorities in 2003 has two central messages. The German population will, on the one hand, only be growing until 2012. In the years following 2012, there will be an accelerating decrease in the population. In 2020, the German population will be at the same level as today, while it will be about 10% lower at 75 million in 2050. The ageing process is more dramatic than the decrease in the population. Whereas there are a good 13 million people over 65 years old today, this figure will already be 17 million in 2020 and as many as more than 21 million in 2050. In the middle of the century, almost 30% of the population would then be over retirement age. The development in the number of extremely old people is even more dramatic. About 3.5 million people over the age of 80 live in Germany today. The figure will be 5.7 million in 2020 and almost 9 million in 2050; this represents an increase of almost 200%. These changes have far-reaching consequences for the social redistribution systems in the country, particularly in view of the fact that the decrease in the population will be taking place mainly among younger people. Fewer and fewer people of working age will have to finance more and more old-age pensioners and patients who need nursing care.

Age is the main factor that determines who requires nursing care and the probability of becoming a nursing care patient increases considerably after the age of 60. The German statistical authorities have predicted that the number of people in need of nursing care will be growing by about 800,000 by 2020 and will be more than doubling to 4.3 million by 2050. It is likely to be possible for 500,000 of the additional nursing care patients up to 2020 to be nursed at home, while a good 300,000 will need inpatient nursing care. About 7% of the elderly live in homes and special flats for old people at the present time. By 2050, the number of people requiring inpatient care will be increasing from the current level of 640,000 to 1.57 million home residents.

These ageing phenomena have serious consequences for the nursing personnel and nursing beds required in future. About half a million additional jobs could be created in nursing care for the elderly by 2050. According to a study by Ernst & Young, a further 300,000 nursing beds will be required by 2020. Another approximately 250,000 beds will be needed due to adaptation of the existing capacities to the growing demands people are making. The whole of the interior of nursing homes needs to be modernised completely at least every 30 years. Many of the nursing facilities in operation today are outdated and are not in line with modern market requirements with regard to room size and furnishing. Only a minority of the facilities is in a position to implement the necessary specialisation in concepts for people suffering from dementia, coma, strokes and alcohol problems or in need of palliative care.

The investments required to modernise and expand nursing capacities are estimated to amount to about € 50 billion, which the states and local authorities cannot afford. The time has come for competition based on private companies here. With efficient management and high quality, nursing care for the elderly is an economically viable business. Forecasts suggest that the number of private beds will be growing to more than 800,000 by 2050. Expansion of the private sector is being encouraged in addition by the stricter requirements the state is making on nursing quality. The legally stipulated implementation of a quality management system backed by integrated software solutions is separating the wheat from the chaff to an increasing extent. Differentiation between players on the market is in full swing and will be speeding up the concentration process. •••

A comfortable and stylish living environment, like here at the senior citizens' residential home Leipzig - Stadtpalais.

The rehabilitation market

Progress in consolidation

The rehabilitation market is suffering from an economic problem and a structural problem. In contrast to the nursing market, rehabilitation is affected substantially by economic developments.

Patients who feel uncertain because of the overall economic conditions and are worried about their jobs either postpone treatment that is not an absolute medical necessity or keep their stay at a rehabilitation clinic as short as possible. In addition to this, the funding organisations are applying far stricter standards in their reimbursement of costs than they used to years ago. Psychosomatic rehabilitation for the treatment of such conditions as eating disorders, traumatic experiences or addictions is being hit particularly hard by the major changes in application and approval patterns.

The structural problem is a consequence of the Seehofer reform between 1996 and 1998. Until the mid-90s, the rehabilitation market was quite simply a gold mine. In view of the large amounts of money available to the social security authorities and old-age pension funds, rehabilitation measures were approved without a review of how worthwhile and necessary they were. Many new rehabilitation clinics opened since full utilisation of their capacities was to all intents and purposes guaranteed. This was the time when rehabilitation measures were the equivalent of "fango - tango" events at the expense of the

Nursing care insurance system about to collapse

The nursing care insurance system that was introduced eleven years ago to create a "new support culture" has been a success when judged by the social goals set for it. For all its shortcomings, the model is the most progressive solution in Europe, because it guarantees the same treatment for everyone who needs it. There is, however, a threat to its future viability, due to the serious flaws inherent in the system. The primary flaw is the lack of effective market mechanisms that enable the funds to be distributed appropriately. The differences in efficiency from operator to operator and the surpluses and shortfalls in bed capacity from region to region are not taken into account in the pricing structure. The development of a market price as a regulatory instrument is not possible in a system that focusses on the reimbursement of costs and this leads to inefficiency and unnecessary costs for all insured. For example, the statutory nursing care insurance funds reimburse personnel costs that account for 70% of total expenditure at facilities run by public authorities, 60% at facilities run by non-profit organisations and 50% at privately run facilities. Remuneration systems tied to the collective agreement for the civil service, like the collective agreement for federal employees (BAT), which does not link payment to performance and does not include any working time arrangements, are extreme cost drivers. The requirements made by home legislation, according to which at least half the personnel has to consist of skilled staff, without taking internal organisation structures into account, also intensify the cost problem without creating any real benefits. The provisions of German building legislation lead by international standards to considerably higher property construction costs too, without any obvious benefits for customers.

The nursing care insurance system generated surpluses until 1998, with which reserves were formed. Income and expenditure were roughly equal until 2001 and since 2002 the insurance system has been running at a steadily increasing loss. The deficit in 2004 was € 823 million and the statutory nursing care insurance system did not manage to break even in 2005 either, in spite of the new surcharge of 0.25% for childless members. Expenditure exceeded income by € 364 million and the financial reserves decreased to only just under € 3 billion, which corresponds to the nursing benefits paid in two months.

Always up to date: a chip system that guarantees dementia patients in particular greater safety and independence has already been integrated in some facilities.

The government has postponed the urgently needed reform of the nursing care insurance system until 2007. The coalition has agreed the main points of the reform to a large extent. They involve a moderate increase in the contribution level, supplementation of the premium payment system by the development of capital reserves, the introduction of financial compensation between statutory and private nursing care insurance providers, improvements in the benefits for dementia patients in particular and greater priority for the principles of "rehabilitation has precedence over nursing care" and "outpatient care has precedence over inpatient care". Experts fear that the planned decisions are pointing in the wrong direction in the nursing care insurance system too. Attempts to turn the system around which focus mainly on expenditure rather than on income are likely to be short-lived.

general public. The government put a stop to this in the mid-90s. The solution found by Seehofer included higher payments by patients, drastic reductions in expenditure by old-age pension funds on rehabilitation measures and an increase in the interval between two stays at rehabilitation clinics. Occupancy rates slumped from one day to the next.

The excess capacities that still exist today on the market are due essentially to facilities that have not changed their "fango - tango" status. Demand in the area of follow-up treatment after serious illnesses and complicated operations will be increasing particularly fast in future and will probably exceed the capacities available at qualified clinics that provide such follow-up treatment. Demand for rehabilitation measures will be concentrating in future on high-quality rehabilitation clinics that have a permanent quality management system and are highly specialised. Small and medium-sized facilities with unfavourable cost structures and conventional programmes will not be able to stand the cost and performance pressure. The shake-out that has already begun in the acute hospital field will be continuing in the rehabilitation field. The consolidation process is leading to increasing occupancy rates for the remaining providers, which prove to be efficient co-operation partners for the acute hospitals and which have specialised their services.

Inpatient rehabilitation will continue to play a firm role in the health system in future too. The principle of "outpatient care has precedence over inpatient care" propagated by the political community for the rehabilitation field does not have a sound basis in view of the demographic developments and, above all, the socio-cultural changes in German families. Anyone who wants to make outpatient care a higher priority needs, for example, to find an answer to the question of how a hospital patient who lives alone and is released from hospital five days after an operation is supposed to be given outpatient care in his own home, which may even be on the fifth floor of a block of flats.

DRGs are the key to the future of the somatic rehabilitation market. The lump-sum payment system, which was introduced in 2005 and to which all clinics will be committed by 2008, creates incentives for more quality and efficiency. Payment of fixed prices calculated on the basis of the average costs of treatment is forcing hospitals to be more cost-oriented and to attract patients. With the DRGs having fixed amounts, the number of cases will be dictating income in future. A major consequence will be that the acute hospitals will be shortening the time patients spend in hospital considerably and will be transferring them to high-quality rehabilitation

Exercises to encourage motor skills are a feature of the nursing care based on the activation principle that is provided by perfectly trained staff.

clinics for less expensive follow-up treatment after operations. Estimates indicate that hospital stays will be shortening from about 8.7 days in 2004 to 5 to 6 days in 2010. This means that about 50 million patient-days or about one third of the total market will be eliminated at hospitals.

The rehabilitation market is still highly fragmented, but this situation will not be continuing much longer in view of the above. As in the acute field, larger units will develop that have a brand name which stands for quality and efficiency. The future of stand-alone facilities is very uncertain. The remaining service providers must demonstrate high flexibility, in order to stand out on the market with new programmes for patients and funding organisations. The rehabilitation market offers providers who reach this status excellent longer-term prospects. This applies not only to operators but also to private investors, who have avoided the market up to now to a large extent because of the problems in the past and the forthcoming market shake-out. It is foreseeable that a similar situation to the one which already exists in the acute market and the market for nursing care for the elderly will be developing in the rehabilitation market in the medium term. On the basis of growing interest from investors, experts predict that the private market will be doubling to a volume of more than € 14 billion by 2020 and that private operators will account for almost 80% of the market. •••

Expansion in the nursing segment

People age – we are there

Marseille-Kliniken AG's corporate mission is clearly defined. We aim to enable old people and patients who require nursing care to enjoy as decent an environment as possible during the final stage of their lives and to stay independent in well cared-for surroundings for as long as possible.

Nursing care will always be needed and demand for it will be increasing even more in future. Nursing care is the biggest growth segment in the entire health system. The nursing division will continue to be the decisive growth driver for the Marseille Group too. The increases in the bed capacity that have already been made and are still planned are clear evidence of the significance of this area of the company's operations. Rapid expansion was again an outstanding feature of the 2005/2006 financial year.

In the process of reaching an internationally competitive size

New regional focus in western Germany

Marseille-Kliniken now runs an extensive chain of senior citizens' residential homes and AMARITA facilities with hotel standards. We are one of the pioneers of the branch concept in nursing care for the elderly. In the year under review, the number of beds we provide increased by 1,100 to almost 7,000 as a result of takeovers and the opening of new facilities. In addition to the takeover of ADG, the outpatient nursing care service provider in Halle with 756 beds, two new facilities were opened in regions with high purchasing power. These newly opened facilities are located in the western German cities of Hamburg and Düsseldorf. Our new Group flagship Hamburg-Mitte opened in December 2005. The home is built in an atrium style to high AMARITA standards and has 336 beds, 298 of them single rooms and 19 double rooms on four floors. The senior citizens' residential home Düsseldorf-Volksgarten with 95 beds opened in June 2006.

These new homes are examples of our current strategy of expanding in western Germany and in urban areas. The focus is on the states of North Rhine-Westphalia, Hesse, Rhineland-Palatinate and Baden-Württemberg. The need for modern four-star homes and social legislation that has advantages for operators are reasons for the choice of these locations. About 1,000 beds are in the pipeline throughout the Group at the present time, the majority of them in North Rhine-Westphalia. The opening of two facilities in Meerbusch and another home in Düsseldorf is planned for 2007.

Assisted living

People with individual wishes need customised solutions: from single and double rooms to assisted living - we offer all the options.

Together with investors and professional project developers, we are investigating locations for new building projects with clearly defined criteria. We are familiar with the location, the social environment, the needs, the purchasing power and the employment market. The building cells are in line with our standards. We think that there is growth potential primarily in the above-mentioned states of what used to be West Germany. There is a combination here of high, financially sound demand and supply that no longer satisfies the increasingly exacting requirements in many cases.

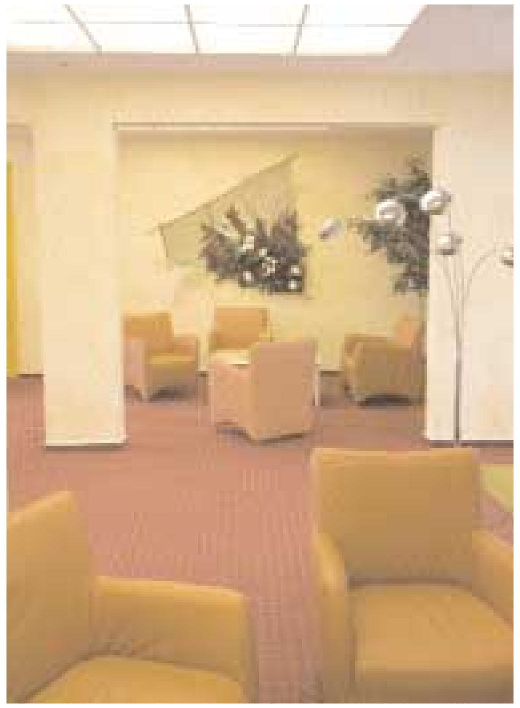
We are, finally, taking advantage of the forthcoming process of market consolidation to achieve external growth. About 2,000 of the total of 8,700 nursing facilities in Germany, a large majority of which – about 5,800 – are making ongoing losses, are of interest to us as potential target properties. They have a commercially viable size of more than 100 beds and the sales prices are reasonable, because the calculations of their value are based only on book values and not on future profits. •••

Marseille-Kliniken provides what customers want

Hotels instead of unattractive institutions

For a long time, only standard products were available in the German health system for the accommodation of people who required nursing care. The necessary changes to the services provided in response to new market trends have only been made very hesitantly, if at all.

People's demand patterns in the nursing care field have, however, changed considerably, due to differences in purchasing power development among the population and due to the desire to maintain the standard of living that has been reached. The demand reflects differences in income levels and social classes, with variations in the equipment, furnishing, service range and personal freedom required. We are taking account of this development by dividing the portfolio of our facilities up into hotels with different stars. Our services take the differences in people's economic situations into consideration, not only where the average comfort standards are concerned that have been dominant up to now but also at the upper and lower financial ends of the scale in the customer base. The substantially higher "four-star standard" is represented by our AMARITA concept. The



Two-star concept: the facade is being renovated at the senior citizens' residential home Leipzig - Am Kirschberg. Inside, the rooms, lounges and bathrooms have already been renovated and modernised.

"two-star concept" aims at customers who are unwilling to do without intensive, permanent nursing assistance while living on a very largely independent basis and paying comparatively low rent.

We think that the lower-cost "two-star segment" has substantial growth potential and will be giving priority to the provision of such facilities. The price paid to acquire the property used is a major factor determining the costs of a nursing bed. The nursing services provided and the quality of them are no different at a two-star home than they are at a three or four-star home. In order to gain a foothold in this market niche, which is slowly establishing itself, we have started to acquire suitable properties at favourable prices when the owners are insolvent or in financial difficulties and turn them into nursing facilities. Our initial experiences have shown that such homes can come onto the market at only a good 40% of the total costs that are normal otherwise.

"Assisted living" in Halle and Potsdam

756 residential units in three blocks of flats: assisted living in Halle (Saxony-Anhalt).

Assisted living fulfils the desire many elderly people have to stay independent in old age even when money is tight, while feeling safe and protected at the same time. These expectations cannot be met with conventionally structured nursing homes. A comprehensive concept for concentrating this type of customer at a single location is needed in order to create appropriate, commercially viable structures. The preconditions are building units with at least 100 residential units, with a large proportion of single-room flats and with a living area of between 20 and 35 m^2 that can be made available in an attractive location in larger towns or cities at the normal rent level there in the low-price segment. The "assisted living" concept also requires attractive shared and functional areas in the building units, where restaurants and treatment rooms can be provided. Outpatient nursing services are organised for these building units, that are on call round the clock and to all practical purposes guarantee the standard services in inpatient nursing care for the elderly of the kind available at our senior citizen's residential homes.

We provide 756 residential units in three blocks of flats at the location in Halle (Saxony-Anhalt), where we have taken over an outpatient nursing care service that has already been operating successfully for years to give the necessary support. The process of networking with our IT systems has been completed to a large extent. In Potsdam, we have acquired a suitable property with 130 beds for a low price, in which we will be implementing the assisted living concept in early 2007.

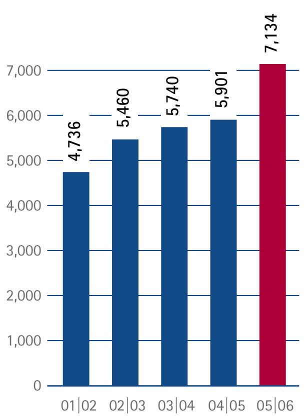
Nursing home Türk Huzur Evi

We have gone an innovative stage further in our Berlin concept. The first old people's home in Germany in the 2-star category designed exclusively for Turkish residents is being set up in the Kreuzberg district of the city in co-operation between Marseille-Kliniken and the Turkish community. The home with about 160 beds, which we bought at favourable conditions and is costing about € 5 million to remodel, will be opening at the end of this year. Men and women will be nursed separately at the facility and most of the 90 jobs will be filled by staff who speak both German and Turkish. Meals will be prepared in the way important to Muslims – without any pork and taking Turkish preferences and customs into account. The interior decoration is also being adapted to their style and way of life, including the provision of a prayer room. The Turkish community in Berlin owns 20% of the non-profit operating company, while Marseille-Kliniken holds 80%. The home is different from conventional facilities at the price level too, in that the rates are 20% lower.

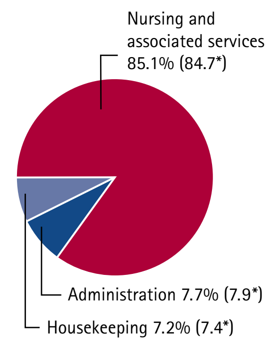
The first Turkish nursing facility in Berlin-Kreuzberg is being opened in December 2006.

Bed capacity

Number on 30.06.2006*



Number of employees



* Figure in the previous year

Special concepts are the key to the future

Marseille-Kliniken's services are determined strictly by the requirements of the market. Depending on the location, we offer nursing and care concepts that are adapted to the needs in each case. We are certain that high-quality special concepts will be a major success factor in future as competition for customers intensifies considerably. In line with this trend, we have developed a wide range of medically approved, special care concepts that we revise and update regularly. We exploit market potential actively and open up new fields by establishing these concepts. In the pursuit of our goal to set new standards in these areas, we have initiated an extensive project in co-operation with our private institute for evaluation and quality assurance in the health and social security system eqs.-Institut. Many of the facilities have integrated separate residential units, in order to implement specialised care concepts to treat conditions like dementia/ Alzheimer's disease, multiple sclerosis and strokes, to provide palliative care and to look after coma patients.

When memory slowly fades

There is a frightening increase in dementia in Germany. It is certainly the case that dementia has not yet set in when something is forgotten on isolated occasions or when a name occasionally slips the mind. Signs of memory problems and disorientation should, however, be taken seriously when they are suffered by elderly people in particular. It is possible to improve the quality of life with this illness. We have been proving this since May 2005 at the state-of-the-art nursing facility in Hennigsdorf/Brandenburg, which has specialised in the most serious dementia cases. A team of about 40 staff works round the clock. The patients are helped to feel at home by careful design of the surroundings. There are cosy corners and old furniture from the last century in the lounges. In the relaxation room, music, a water bed and appropriate lighting guarantee experiences and sensations that increase well-being. Specially trained staff and very intensive psychological support help to satisfy the residents' particular nursing requirements. The occupancy rate at the facility confirms that the market response to this concept is good.

We have in addition introduced what is known as the dementia chip concept with great success at individual facilities. Residents suffering from severe dementia wear a chip on their bodies, which makes the entrance door to the facility close automatically whenever the resident approaches it. The chip ensures that the resident cannot leave the facility unprotected. Whereas patients suffering from severe dementia are only allowed to move freely in restricted, self-contained areas in conventional care concepts, patients can walk around the whole of the facility on their own in our concept.

We have established further special concepts at various facilities in the areas of patients who are suffering from addiction (Korsakoff´s syndrome), strokes and Alzheimer's disease or are in a coma.

Synergies in the acute field

At the acute clinic St. Nikolaus in Büren, we are specially equipped to treat gerontological disorders.

Integrated treatment concepts of the kind we have established in Büren/Westphalia are also where the future lies. In Büren, we have taken over a hospital in financial difficulties, the survival of which is to be guaranteed by adding special programmes. The focus will be on gerontological disorders and will supplement the services provided for the people who live in the Westphalian town right next door in our senior citizens' residential home there. Opportunities of this kind that involve minimal financial risk will be available to us quite often in future. The German hospital market is about to go through a huge consolidation process, which will not be successful unless the initiative is taken by privately run companies. •••

Good nursing care needs good management

Highly organised operations

High efficiency and profitability distinguish us from the competition in the industry. The internal structures we have developed and our networked IT facilities are not matched in nursing care for the elderly anywhere else in Germany.

No other competitor is in a position to implement the branch concept in nursing care for the elderly in the way we do. The core element of our modern structure is the elimination of the previous regional manager structure and the establishment of a central management system with a front office and a back office. The main aims of this organisational structure are, on the one hand, optimisation of the current and future occupancy situation and, on the other hand, the development of strategies to safeguard cost and revenue items in the long run. The central management is also responsible for the development of special concepts for safeguarding the locations of our facilities. The front office and the operational managers there are responsible for active occupancy management as well as for proactive control of all the facilities. The back office is responsible for purposeful reporting on the basis of a cockpit facts information system that reports deviations from standards and benchmarks electronically and enables recommendations for specific action to be made for the business operations. The central management system was integrated in the nursing and rehabilitation divisions in 2005, while this was not the case in the services division since January 2006.

All the information and questions from the facilities are fed into the central management department, which is staffed so that know-how about human resources, nursing care rates and quality is pooled. All the issues are dealt with in the team and lead to specific decisions following intensive discussions between the specialised departments responsible. The central management department informs the division management and the Management Board about the current situation at the facilities at short notice, works actively on identifying weak points at all the facilities and develops concerted countermeasures. As a result of the completion and optimisation of the IT-based reporting system, which uses an innovative intranet system of key indicators, central control of the facilities has been improved considerably.

Networked transparency

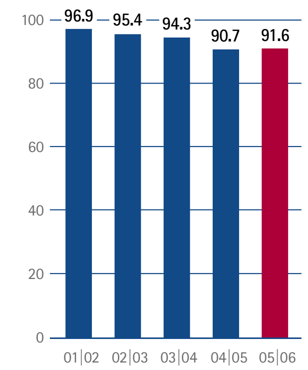
The synergy benefits that we enjoy thanks to the fast availability of information and short chains of command are based on IT architecture that has developed organically. In addition to SAP R/3 as the leading system, the facilities are equipped with decentralised systems that submit all the data with management relevance on a daily basis via an information warehouse and report deviations from specifications electronically. The data can be used to optimise occupancy and costs.

We exploited substantial savings potential in the year under review thanks to the intranet ordering workflow system (IBW) that was introduced throughout the Group in 2005. All the orders placed in the Group are processed via IBW. Electronic recording of the entire ordering process right from the start saves time and increases transparency. On the basis of the pre-opening management system that we have developed, we can integrate new facilities in the Group at short notice with sustained success. As the Group's internal auditing and advisory body, the central quality management department is supported by software solutions for nursing care and human resources management. This means that we already satisfy the far stricter requirements that the government has made on nursing care providers. All the facilities are managed with commercial efficiency with the help of the SENATOR 4 nursing management program that is supported by SAP R/3. We use the integrated personnel planning software PePone, with which complete staff deployment plans, time recording and time management are possible, for the human resources management assignments that play a crucial role in determining cost effectiveness and operational success. By accessing data from the SENATOR 4 system, we carry out personnel requirement planning that can be controlled by our facilities in accordance with the criteria that are necessary in practice.

Modern management programs keep us informed faster.

Occupancy rate

in % excluding the facilities that started operation



The complaints box, ...

No facility can satisfy everyone completely. Where people are involved, mistakes are made. We want to learn from these mistakes. The complaint management system that we have established is unique in our industry. The biggest problem is to lower the barrier that the customer has to overcome in order to make a complaint. It is necessary to stimulate complaints, because many customers only talk about what has annoyed and disappointed them privately. We encourage our residents to submit complaints to us personally and make sure they are not afraid of reprisals. A complaints box has been installed at every facility. The complaints received there are processed by the facilities in co-operation with the regional quality managers and the central management staff. Every written complaint receives a written reply. Complaints that are applicable to the entire Group are settled in the context of the quality management system.

... the questionnaires

The chronically ill and people in need of nursing care can only be given appropriate, high-quality treatment that is in line with their requirements if the opinions of the residents and patients concerned and their relatives are taken into account in the development of the products and services. Marseille-Kliniken sets standards in Germany with the questionnaires it distributes to customers and has been playing a pioneering role in the health system in this area for years. In 2005/2006, eqs.-Institut interviewed relatives for the fifth time in succession. Relatives are one of our company's many customers. Their satisfaction is, on the one hand, a quality criterion of crucial importance and, on the other hand, a major competitive factor. Questioning them enables us to identify strengths, weaknesses, specific requests of residents or acute problems at an early stage and also makes it possible to integrate and advise relatives at different levels as and when required.

The interviews with relatives are based in the internal quality management department and are therefore incorporated in the PDCA cycle for the ongoing optimisation of service quality that is applied throughout the Group. PDCA stands for plan, do, check and act. The cycle basically means that improvement measures have to be developed (plan) and implemented (do) in the light of the results of the interviews held beforehand at the facilities. Repetition of the interviews (check) demonstrates in what areas improvements have in actual fact been made and in what areas further action (act) needs to be taken.

The results of the interviews are presented clearly but with the necessary distinctions in extensive individual reports. The evaluation standards defined in advance facilitate interpretation: results with an average of less than 2.0 are classified as "very good" or "good"; an average of 2.5 is defined as a "critical threshold" that identifies borderline cases. Results that are worse than 3.0 are interpreted as "quality problems" that require the particular attention of the internal quality management department. Comparisons between the facilities are also made (benchmarking) and are presented in a separate report.

... and quality audits

Following an appropriate test phase, internal audits with an audit form developed in house were carried out for the first time in the year under review, taking all the requirements of the health insurance funds' medical service organisations as well. In future, we intend to audit each facility at least once a year. The 171 questions in nine different categories and 35 sub-categories are marked by the German school grade principle. Every facility that is audited receives a report afterwards in which the results are summarised in writing. Each audit involves an action plan that includes a timetable for implementation of the individual points. The regional quality manager responsible makes sure that the action plan is implemented. The overall evaluation exercise for the nursing supervisors from all the facilities is held at joint management meetings. The aim is to give the home managers an opportunity to take over "best practice". Our objective is for the facilities to learn from each other and to make constant improvements.

Our goal is to combine comfort with nursing care: the 4-star-PLUS AMARITA home Hamburg-Mitte.

Patients are customers

Marseille-Kliniken – a brand in nursing care for the elderly

Appealing testimonials from the folk music scene: Marianne & Michael.

The AMARITA home Hamburg-Mitte is launched in the heart of Hamburg with the help of Freddy Quinn.

Our organisation as a branch operator enables us to establish Marseille-Kliniken as an unmistakable brand on the nursing care market. Customers and suppliers associate the Marseille-Kliniken name with specific success factors: closeness to the market, product profile, quality, customer orientation and economic viability.

We are committed to the modern service concept and have set up a customer relationship management (CRM) system that represents an integrated approach to customer identification, acquisition and loyalty. The CRM system supplies important data for optimisation of the strategy by means of ongoing tests, evaluations and feedback exercises. A customer service centre acts as the central Marseille-Kliniken AG call centre and supports the facilities in marketing and acquisition activities. If they dial toll-free numbers divided up into different brand categories (senior citizens' residential homes, Medina, AMARITA, rehabilitation and Marseille-Kliniken), potential customers can obtain initial information about the company and individual facilities. The service centre gives customers the feeling that they are communicating with a single, unified company. We inform external customers and prospective customers via the call centre, via the Internet, by post, by fax and via personal contacts.

On the nursing market today, it is no longer enough simply to be there. People in need of nursing care are customers who expect to be convinced by performance and quality. We approach customers by carrying out targeted marketing activities. We advertise in newspapers and organise mailing campaigns. Commercials are shown on the n-tv channel with the aim of presenting Marseille-Kliniken transparently to investors too. We book time for information and advertising slots on regional television stations. We have obtained the services of artists and celebrities as advertising partners for individual facilities. The singer Freddy Quinn supported us during the opening phase of the AMARITA home Hamburg-Mitte and the folk music stars Marianne & Michael are testimonials used in the local advertising activities of our facilities. We advertise to customers actively at the location of each of our facilities. We encourage employees to represent Marseille-Kliniken in their visual appearance outside the facilities too and commission staff with marketing skills to take over responsibility for the commercial management of the senior citizens' residential homes. •••

Impressed by the hotel comfort at the AMARITA home Hamburg-Mitte.

If we didn't know before, the emnid "Marseille-Kliniken Study" has made it perfectly clear now: it is more vital than ever before for the political community to take action. Giving people direction, safety and solidarity in old age are assignments that cannot be put off any longer.

Partly to take advantage of the opportunities of active old age: because old people will be an increasingly significant economic factor: senior citizens' households already spend € 300 billion on private consumption. This figure will be rising exorbitantly soon too. Good if this valuable asset is not destroyed by pessimism and uncertainty.

How to complete a project successfully

Property development in nursing care for the elderly – a challenging assignment

The supply chain for property in the area of nursing care for the elderly, which consists of the development, building and purchase or renting of the property, is a challenge in the context of the economy in general. Demand for social property is determined primarily by the demographic development in a society. The main features of the current demographic situation in most industrialised countries are low birth rates and a decreasing population. Immigration from other countries can at best delay but not stop, let alone reverse, this development in the long term. There is another important factor that influence demand. Life expectancy is rising as a result of major progress in the medical field. In combination with decreasing birth rates, the age structure of the population is changing as a result and is leading to an increasing need for property for senior citizens and support programmes that are tailored to meet the requirements of the elderly. This effect is being intensified by decreasing willingness on the part of families to look after elderly family members in their own home. An ageing society requires different property than a young society.

The economic success of a property for senior citizens depends to a large extent on its location. At the planning stage, regional influencing factors have to be considered and use concepts need to be developed that take account of the requirements of the relevant target groups. As far as the choice of location is concerned, what counts is more the absolute increase in the senior citizen population of a region and less the relative increase. For people who are potentially in need of nursing care, geographical closeness to relatives and their living environment to date are extremely important. Social integration continues to be a high priority, irrespective of the general weakening of traditional family relationships. Participation in social life is more important than scenic attractions or cultural programmes.

Berlin-Kreuzberg - the first Turkish nursing facility in Germany will be opening at the end of 2006.

Solutions must remain affordable

The probability that nursing care will be needed increases with age. Current opinion polls indicate that most people prefer to be nursed in their own home. What they often fail to take into consideration here is that the situation changes when they need nursing care. The reliability of medical treatment becomes the most important factor and makes the solution of moving into a home more acceptable to the people in need of

nursing care and their relatives. All the experts are working on the assumption that the demand for inpatient nursing facilities will be increasing fast. The growing demand might at most be limited by financial restrictions. The alarming financial situation of the nursing care insurance system and the current debate about the health reform demonstrate that affordable solutions need to be found not only for the services but also for the investment costs in the property area. The reform of the nursing care insurance system must not be restricted to the income side. What is involved on the expenditure side are primarily additional benefits rather than savings. On the one hand, the patients who are entitled to financial support for nursing care must be increased to include those who are suffering from dementia. On the other hand, there has not up to now been a system for increasing the benefits that takes the rising personnel and non-personnel costs in the nursing care insurance scheme into consideration. The decrease in the value of the benefits in real terms means that not only the income but also the benefits need to be increased on the basis of specified rules.

"We modernise the old properties with our future residents in mind."

Demand is following new trends

Marseille-Kliniken AG's focus on the core business of nursing care for the elderly makes it a strategic necessity to optimise the range of services provided and to adapt them to market requirements. In the recent past, there have been drastic changes in customers' demand patterns, not only because of the difference in purchasing power development in the population but also because of people's desire to maintain the standard of living they have achieved. The goal of a large proportion of the demand is in the meantime to continue living independently for comparatively low rent combined with the constant provision of intensive assistance in line with care requirements. This development makes it necessary for us to make distinctions in our service programme for specific target groups. Providers of nursing care for the elderly need to take account of many people's determination to live for as long as possible in their familiar surroundings and to stay as independent as possible in their own home by creating appropriate environments.

Location and concept determine success

The success of nursing properties depends to a crucial extent on the location and on a care concept that meets the requirements of the region in question. Experience in the 90s demonstrates that new building projects which are not in line with the demand because of the wrong location, inadequate concepts and excessively high construction costs very quickly find themselves in financial difficulties. The ability of the operator to implement trendsetting concepts, create commercially viable structures and demonstrate extensive expertise in property development determines the success of nursing properties. The choice of the location of the property is tremendously important. Properties in urban areas generally have the advantage of a larger catchment area. However, there is as a rule already a good and adequate supply in cities. The acquisition of an existing property is preferable to the building of a new one here. Investments in structurally underdeveloped areas are attractive when an excessively large supply of existing properties leads to decreasing prices. •••

Potsdam - a building close to the city centre is being restored and modernised completely to turn it into a 2-star facility. One of many trendsetting concepts being implemented by Marseille-Kliniken AG.

Growing portfolio in the 2-star field

The market for nursing property is expanding. There is a trend towards greater professionalism. The operator structure will be consolidating in the direction of larger units and special concepts will be establishing themselves on the market. The properties need to have flexible ground plans in order to be able to respond to new technical developments or to facilitate changes in use.

On the basis of its experiences over the past 20 years, Marseille-Kliniken has developed appropriate concepts for both simple and exclusive standards. What both concepts have in common is, firstly, comprehensive optimisation of all the workflows within the nursing facilities, with the aims of minimising the amount of time needed for care assignments and of increasing quality as well as the residents' well-being. Secondly, the efficient use of alternative energy sources and energy-saving wall systems and, thirdly, the economic buying of materials and services by means of integration in general contracts concluded by the Group as a whole.

As far as the simple 2-star-standard sector is concerned, we are working on the assumption that we will be able to develop a thoroughly sound property portfolio by means of the inexpensive acquisition of former hotels and what were once the living quarters companies or hospitals provided for their staff. Investment costs that are saved by the low price can be passed on to customers after modernisation and make professional nursing care affordable for a clientele with lower incomes too.

Implementation with in-house architects

The architects at the Group's own project management company Held Bau Consulting GmbH (HBC) are essentially responsible for the property planning and modernisation exercises as well as for the tendering/commissioning procedures for all the building services needed for these existing properties. These assignments also include valuation of the existing property. The designs produced by the architecture department are used as the basis for the development of ground plans and functional allocations at short notice in liaison with the nursing division. HBC has compiled an internal system manual, in which all the workflows and work processes are outlined and clear specifications are made for all areas of the nursing home. This standardisation facilitates the optimum allocation of nurses' offices, laundry areas, kitchens and dining rooms. Once the design documents have been confirmed by the nursing division and the Group management, HBC clears the applications for building permission and for changes in use with the building authorities and initiates the modernisation activities.

Development skills for assisted living

In accordance with the principle "Living in one's own home, but with the security of possible assistance close by", Marseille-Kliniken has developed the 2-star assisted living segment. What is involved here primarily is the modernisation of existing properties that are acquired for a low price, are modernised and remodelled inexpensively and are then made available to elderly residents. They are mainly smaller residential units in existing blocks of flats, located close to town or city centres, with a good infrastructure and within easy reach of shopping, recreation and leisure facilities. Modernisation includes rearrangements inside the existing property. The single-room flats have about 36 m² of space and have a built-in kitchen, as well as a bathroom with a toilet. Outpatient nursing stations are incorporated in the facilities, which give the residents security in spite of the fact that they live independently in their own flats.

In the 2-star segment, HBC has also developed a clearly structured, simple, modular, ground-floor new building system that enables single-room flats to be constructed on what could be described as a greenfield basis, as close as possible to existing facilities. Energy-efficient wall systems such as klimaPOR wall systems or Liaver expanded glass wall systems are one core element of these projects. The high efficiency of these buildings and their clearly arranged structure enable these project systems to be reused, so that inexpensive construction of the new buildings is possible.

Quality has priority in selection of the properties. It is a fundamental rule that properties are only acquired if they have an average useful life of more than 50 years. HBC's expert staff screen and examine the properties, taking static aspects and inclusion of the outside wall systems in energy-saving models into account. Other decision-making criteria for acquisitions are the location of the properties, the economic development in the region, the competition in the immediate vicinity and the rent level. The chances of interesting investors in the projects are also analysed. •••

Düsseldorf - Volksgarten. The facility has been in operation since May of this year. A second facility will be opening in October 2007.

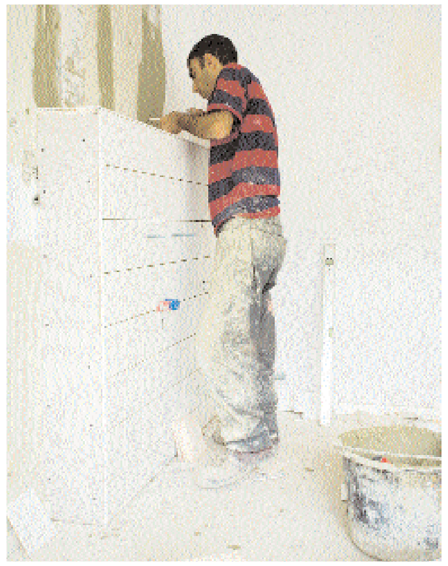
Our building modernisation exercises include bathroom equipment that satisfies state-of-the-art technical nursing standards. Large window fronts help to make the rooms particularly pleasant to live in.

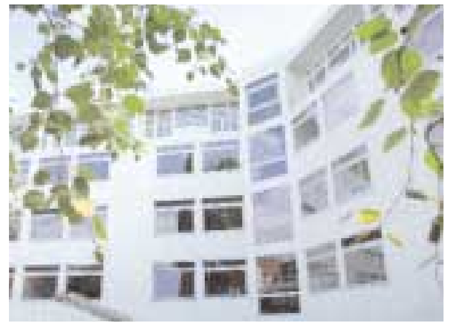
Berlin-Kreuzberg

Equipment and furnishings – inviting, high quality, safe

The expansion, renovation and modernisation of the Marseille-Kliniken facilities are carried out to extremely high building technology standards. Dependable craft businesses and companies that have a track record of excellent workmanship are always commissioned to provide modernisation services. In the case of existing properties, the window areas are replaced completely, the rooms are remodelled in such a way that they observe the directives of the regulations about minimum building standards in homes, and bathrooms are equipped for use by the handicapped. All the wall areas receive new coverings in the form of wallpaper or paint, while high-strength, hard-wearing new composition flooring is laid that is finished with carpeting or plastic coverings. The colour scheme makes sure the bathrooms and living rooms have a pleasant atmosphere and the hallways are designed to meet the requirements of elderly people by being equipped with handrails. The doors to the rooms guarantee easy access for the handicapped, are soundproofed and comply with the fire protection requirements. The heating systems are energy-efficient and guarantee the necessary hot water supply, the radiators can be controlled via thermostats, and the pipe systems installed contain no pollutants and are in line with the latest state of the art. The bathroom and plumbing equipment includes supports to hold onto in the WC and washbasin areas as well as all-round handrails and supports in the shower. The shower systems are flush with the floor to eliminate the risk of stumbling. All the rooms are provided with emergency communication systems.

The HBC planning departments make sure the lobby areas are appropriate and representative. The atrium structure is particularly important; a square shape that makes it possible for residents suffering from dementia to go for walks. Glass or panel finishing is used for external facade design.

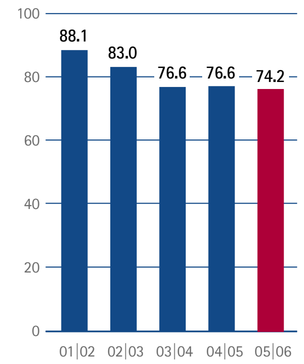




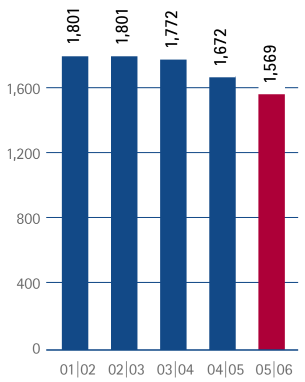
Restructuring in the rehabilitation division – market-oriented and competitive

The wheat is separating from the chaff

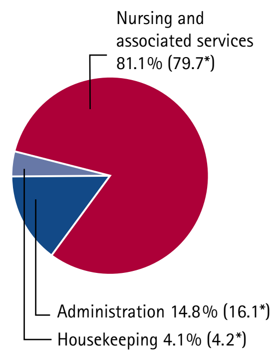
Occupancy rate
in %



Bed capacity
Number on 30.06.2006



Number of employees



* Figure in the previous year

In Bad Schönborn, we have two rehabilitation clinics that offer different treatment at one location - medical skills combined with first-rate facilities.

The shake-out process in the rehabilitation market is starting to accelerate. The increasing cost and performance pressure is making it essential to exploit synergy benefits, so that substantial cost reductions can be achieved while quality is improved at the same time. In future, suppliers will have to be flexible enough to stand out on the market with new, specialised programmes for patients and funding organisations.

The prospects for the market vary. Whereas demand for general medical treatment will continue to decrease, follow-up treatment is about to experience a growth spurt. This is closely connected with the new system of lump-sum payments in the acute field. The future of the rehabilitation market will be determined to a very large extent by the DRGs. The system by which fixed lump sums are charged for specified treatment is shortening the time spent in hospitals and is leading to correspondingly longer courses of follow-up treatment. There are two consequences of a comprehensive DRG system: additional capacities are needed to meet the increasing demand for follow-up medical treatment and medical skills in the rehabilitation field must improve.

Suppliers have to adapt to this increasing vertical integration in acute inpatient treatment. An ability to co-operate with the acute hospitals, flexibility, capital and strategic thinking are preconditions for this. Attributes that can be found primarily among private providers, whose market share will be increasing substantially in the coming years. The future of an operator of rehabilitation clinics will depend, on the one hand, on a sound blend of outpatient and inpatient programmes, of funding organisations (social security authorities and private companies) and of patient allocation sources (acute, outpatient and private). On the other hand, specialisation, closeness to hospitals, cost items and financial resources are other decisive criteria.

Restructuring largely completed

Strong, independent units

Spinning off the Karlsruher-Sanatorium-AG (KASANAG) clinics into operating companies that are responsible for themselves – a process that was completed in the year under review – is a core element of our restructuring strategy. The independent status guarantees short chains of command and clear allocation of responsibilities. It gives the operating companies considerably greater entrepreneurial flexibility. KASANAG continues to carry out the central functions of a holding company and owns the property.

The operating companies will have the following names in future:

- Onkologische Fachklinik Bad König GmbH
- Psychosomatische Fachklinik Gengenbach GmbH
- Fachklinik für psychische Erkrankungen Ortenau GmbH
- Psychosomatische Fachklinik Schömberg GmbH
- Gotthard-Schettler-Klinik GmbH, Bad Schönborn
- Siegmund Weil-Klinik GmbH, Bad Schönborn
- Klinik Bad Herrenalb GmbH

The spin-off process is a response to the serious changes on the market. We are certain that only highly flexible rehabilitation clinics that have a large enough number of beds, impressive medical skills, first-class equipment and a good infrastructure can survive in the cut-throat market. Spinning off the clinics not only eliminates administrative barriers and cuts material and personnel costs but also enables new strategic approaches to be developed in order to improve capacity utilisation levels. All the locations are benefitting from the appointment of a clinic sales manager who is responsible for occupancy. In introducing this function, we have created a position that makes sure the funding organisations and other business partners receive optimum support. The portfolio of our clinics with a large programme for patients requiring somatic follow-up treatment and with a smaller psychiatric / psychosomatic sector is in line with market needs and charges competitive prices following the sale-and-leaseback transactions in 2005 and 2006.

High quality

As is the case in the nursing operations, we aim to increase quality on an ongoing basis in the rehabilitation division too. The aims of the central quality management system that is being created for the rehabilitation operations as well are critical examination, control and, if necessary, improvement of the quality of practical, day-to-day treatment. Establishment of the internal quality management system in accordance with the DIN EN ISO 9001 standard will be completed in 2006/2007 with the certification procedure. In addition to our fundamental alignment with the DIN ISO standard, we also take requirements into account that are described in the manual for the integrated quality management programme in rehabilitation (IQMP). All the quality management projects are supported by eqs.-Institut in Hamburg. The clinics participate in external quality assurance programmes organised by the German pension authorities and the statutory health insurance funds. They are involved in the ongoing patient interview exercises carried out by organisations internally and question staff themselves at regular intervals. They also contribute to extensive, constant evaluation research that is headed by eqs.-Institut in Hamburg in co-operation with various university faculties. The aim of these research activities is a sound assessment of the effectiveness and usefulness of the rehabilitation measures that have been completed. The studies help to optimise the quality of medical and therapeutic treatment too.

A very high level of medical treatment is guaranteed for the patients at the clinic locations in Gengenbach and Schömberg following the appointment of acknowledged specialists to be the new medical directors there.

Rehabilitation research prize

Karlsruher-Sanatorium-AG (KASANAG) has been awarding the rehabilitation research prize since 1994. KASANAG presented the prize, which is worth € 7,500 and plays an established role in the rehabilitation research community, for the eleventh time in 2005. The winner of the prize was Dr Harald Baumeister for his project "Mental disorders suffered by patients with chronic somatic illnesses: prevalence rates and risk estimates compared with the general population and healthy people".

Schömberg psychosomatic clinic. The nursing clinic concept is being integrated here in future too in response to the changes on the health care market.

Nursing clinics as a regulator for excessively large rehabilitation capacities

The Schömberg clinic in the north of the Black Forest is a large rehabilitation clinic with 229 beds. The general occupancy shortfalls at psychosomatic clinics in particular have made Schömberg a constant problem. The process of change on the rehabilitation market is making it impossible to reach full capacity utilisation at clinics of comparable size. We have taken action in response to this situation and have rented 100 beds and the relevant buildings to the nursing division of Marseille-Kliniken AG. The nursing division's decision to conclude a rental contract is based on a market analysis that gives the new 100-bed nursing clinic the prospect of excellent occupancy levels. The occupancy rate of the remaining 129 rehabilitation beds at the Schömberg clinic is far more than 90% following the measures we have taken, so the clinic is profitable. The restructuring exercise at the nursing clinic has created 45 attractive new jobs in the Schömberg area. •••

Returning to profit

The primary aim of the efforts we are making in the rehabilitation operations is to return all the clinics to profit. We have set ourselves the target of achieving the final turnaround in 2007/2008. The division will only be depressing Group earnings to a minor extent, even in the 2006/2007 financial year. The rehabilitation operations no longer have the significance that would be necessary to cause us major problems within the company anyway. They now account for less than 20% of sales, a figure that will be continuing to decrease as the nursing division grows rapidly. The logical consequence of the strict strategic concentration on nursing care for the elderly is that we are initiating a careful and responsible withdrawal from the rehabilitation business. Spinning the clinics off into independent operating companies enables us to sell the division in individual units rather than as a complete entity. The individual marketing strategy guarantees that the restructured clinics with their respective areas of specialisation can be offered at market conditions.

Sale-and-lease-back – the elegant way to eliminate debt Expansion partners

In recent years, the Marseille-Kliniken Group was burdened by large debts, for which there are historical reasons associated with the structure of the property portfolio. In the years when the company was founded, it was standard practice for large operators of health care facilities to own the social properties as well. This explains the dominance of owned properties in our portfolio, which used to amount to more than 70%.

Our strict strategic concentration on the management and operation of health care facilities prompted us to try and make a fundamental change in this property structure. Selling properties that we own to investors is the way we have chosen to eliminate debt.

2004/2005 was a milestone for Marseille-Kliniken in this respect. At the beginning of 2005, we sold seven existing properties from the nursing division with about 925 beds to the US investor GE Commercial Finance and leased them back on long-term contracts. The transaction had a volume of € 72 million. Almost twelve months later, we concluded another sale-and-leaseback deal with a volume of more than € 101 million with the British investor CIT Group Europe involving the sale of seven of our properties with a total of about 1,200 beds that we also leased back on long-term contracts. As a result of this, we have reached our objective of a portfolio breakdown of about 30% owned properties and 70% leased facilities.

The sale-and-leaseback transactions have a dual effect. On the one hand, they make a major contribution to the elimination of debt, enable the balance sheet to be optimised as required while improving the equity ratio and increase the financial scope available for expansion in the nursing division. Following the complete implementation of both transactions, our net financial debt has decreased to less than € 100 million. On the other hand, they are attracting attention to the market for social property. The growth potential of the German nursing market, which we have always stressed, has now been discovered by professional foreign investors too for the first time.

Cost reductions in the rehabilitation division

The transactions have not only made their mark on the nursing market, however. Two of the ten properties sold to CIT Group Europe come from the somatic rehabilitation operations: Teufelsbad Fachklinik in Blankenburg (Saxony-Anhalt) and ALGOS Fachklinik in Bad Klosterlausnitz (Thuringia). The transfer of these clinics to an institutional finance investor proves that well-managed clinics with good future prospects are considered to be an attractive financial investment in the rehabilitation field as well. Up to now, the rehabilitation market has been largely avoided by investors, due in particular to the problems in the past and the forthcoming market shake-out.

Completion of the sale-and-leaseback transaction and the reduction in debt associated with this has led to substantial cost reductions since February 2006 at both the somatic clinics and is helping them to return to profit. This resounding success strengthens our confidence that it will in particular be possible to arrange sale-and-leaseback transactions for our larger clinics in Bad Schönborn, Gengenbach and Schömberg too following final implementation of all the restructuring measures. •••

Teufelsbad Fachklinik in Blankenburg (Saxony-Anhalt).

Algos Fachklinik in Bad Klosterlausnitz (Thuringia).

Rehabilitation: a market full of chances for good operators

Interview with Matthew Horgan, Managing Director of CIT Group Europe

Matthew Horgan, Managing Director of CIT Group Europe

As part of a sale-and-lease-back transaction, you have acquired seven nursing care properties and two rehabilitation facilities from Marseille-Kliniken AG. What do you believe are the advantages of investing in German real estate?

Germany is Europe's most populous country and its largest economy. It also has a robust and dynamic real estate market, which is among the most liquid in the world. All of these factors are attractive to a real estate investor.

Germany has also struggled in recent years through sluggish economic performance, relatively high unemployment and tepid consumer demand. These conditions have hurt the value of an investment in real estate, because they have kept rents and occupancy levels low in many German submarkets (office and retail). While they are somewhat ambiguous, there are however, signs that these negative trends are turning. The prospects for the German economy are looking healthier, unemployment is declining and the German consumer appears to be willing to spend more. As (or if) these trends gather steam, rents and occupancy levels in commercial real estate should nudge upwards, with a resulting improvement in real estates values.

Against which background do you currently see the development potential in the area of health care services real estate?

First, our general view about the German elderly health care market.

Germany has the most rapidly aging population in Europe. Consequently, stronger demand for nursing home beds is inevitable over the coming years. This increase in demand, however, is coinciding with the increasing inability of the public sector to finance good quality elderly care. This is already happening. Big cracks – holes even! - in the public financing of nursing and rehabilitation in Germany are opening up, and changes have to be made to the capitalisation of this business and these facilities to ensure that the demand is properly met in the future. And while I'm not exactly sure how Germany will in the future find the money for the building, maintenance and operation of all the nursing homes which it will need, I'm absolutely convinced that the money will be found. For the alternative is impossible. I also think that the money will increasingly come from private sources, and that the whole business will be based more and more on sound economic principles, with less and less dependence on public largesse and handouts.

Within this changing landscape, I think the capitalisation of the business will become more sophisticated. And the real estate investor will play an increasingly important role as this happens, because he will provide the money for the purchase and building of new homes and clinics. In the United Kingdom, you already see very creative ways in which health care operators generate funding for their businesses – sale-leasebacks, borrowing secured by cash flows, tapping the public markets for equity, etc. And the real estate investor plays a big part in this process. I think Germany will move at its own pace in the same direction. This is good for the market, because it will increase the liquidity and value of health care assets, which will make it easier for operators to find the capital they need to improve their businesses.

The rehabilitation sector is particularly shunned by investors and is literally "talked to death" within the industry. Why have you nevertheless decided to acquire rehabilitation assets?

We appreciate that there have been excesses in the rehabilitation sector that have created problems. A big reason for this has been the past availability of public or social security funds for treatments of questionable necessity. This helped create an oversupply of rehabilitation facilities in the mid-90's. And in recent years there has been fallout, because money to pay for rehabilitation is increasingly being channelled away from areas that really don't deserve public support into new areas that do.

Looking ahead, we think that there is a sound business basis for rehabilitation centres in Germany and that, if well managed, these centres can do well. For example, a major trend in healthcare today is the emphasis on reducing the numbers of days spent in hospital by patients recovering from an illness or some treatment. Hospital beds are expensive, but the cost of staying in a rehabilitation facility can be a third or more less. Legislation has been enacted in Germany establishing financial incentives for hospitals to move patients on, and cleverly run rehabilitation facilities can be big beneficiaries of this.

The two rehabilitation facilities which our group owns and which Marseille manage are somatic facilities that are doing quite well. The occupancy levels are high because Marseille management devote a lot of their energy to maintaining strong links with local hospitals. This link provides the flow of patients that keeps the beds full. It is our impression as well that Marseille is also always thinking about the right mix of care to offer the market in their rehab centres, be it more doctors or beds for cancer treatment, orthopedics, pain therapy, cardiovascular ailments, or what have you. Marseille adjusts to meet the changing demands of the market, which is good for the market, and it's also good for Marseille, because it keeps their occupancies and revenues up.

Running these facilities well does require initiative and aggressive management. But with the right ingredients and the right people running them, we think rehabilitation facilities can have a good future in Germany.

Why exactly did you choose to do a deal with Marseille-Kliniken AG?

Let me answer this question first from a general point of view, and then with a view to Marseille Kliniken in particular.

First, from a general perspective, as I've already indicated, we believe the private sector will play an increasingly significant role in nursing care and rehabilitation. Future trends in the way nursing homes are operated and financed in Germany favour strong private operators such as Marseille Kliniken. An under-funded insurance system and excessive staff costs dictated by rigid labour contracts have led to a decline in the market share of public and local authority operators, and we expect this to continue. In addition, we anticipate that smaller private operators will not be able to compete with the larger private companies who, with economies of scale and access to the public markets, will be able to provide superior facilities and service at lower cost. This has been a notable trend in the United Kingdom over the past 10 years, where the private sector now represents more than 60% of the market share. Therefore, from a general perspective, our preferred vehicle through which to invest in the German health care market would be strong private operators like Marseille Kliniken.

As to Marseille in particular, in the course of our due diligence in this transaction we were impressed by a number of qualities exhibited by the company. The homes we have purchased are without exception in excellent condition and well run by experienced and professional staff. We were struck by how the atmosphere in the centres was always open and cheerful. Centre managers also consistently showed a keen focus on how to maintain or improve performance, for example by strengthening relationships with nearby hospitals, by spending money on refurbishment, by adjusting the offered health care provision, by examining their targeted patient groups. We were also impressed with the company's senior management. From an economic perspective, the company has a sophisticated financial model through which it tracks the financial performance of its homes on a daily basis (this made our financial due diligence easier). Indeed, a prime example of the company's innovative approach is the very fact of its entering into a sale-leaseback. This is a sophisticated form of financing that is well accepted and widespread in the United Kingdom but is still a very new concept in Germany.

Having closed this transaction, we value our new relationship with Marseille and look forward to the possibility of pursuing other business opportunities together in the future.

How will your purchase of the facilities affect the patients?

Our purchase of these facilities should help the patients throughout the Marseille portfolio of homes and rehabilitation clinics. Marseille Kliniken's core business is to provide high-quality health care services to its customers, not to make or manage real estate investments. Before the transactions with GE Capital and CIT Group Europe, Marseille had too much capital locked up in real estate. These sale-and-lease-back transactions release capital for the company to invest in its core business, whether by expansion into new centres or through investment in the operation and infrastructure of existing facilities. That can only be a good thing for Marseille's patients.

Services

Integrated source of service skills

The Marseille-Kliniken AG service companies guarantee residents a quality of life that satisfies the increasingly exacting demands thanks to their know-how and ongoing optimisation activities.

Day-to-day life

According to the fifth report about the situation of the elderly in Germany issued by the German ministry for family affairs, senior citizens, women and youth, day-to-day life is of central importance to senior citizens. In addition to the traditional forms of living, there are many "new" alternatives with which senior citizens are confronted. In the inpatient nursing care field, thinking is being done about concepts that provide comprehensive assistance but give residents plenty of independence in spite of their need for intensive help, such as in residential groups. The communities of up to eight people are given support in organising their everyday lives themselves.

With the activities that it carries out, the services division makes sure that the facilities are relieved of specific assignments and the staff are given the freedom to concentrate on their core skills in nursing, rehabilitation and general care by providing customers with a complete range of hotel services.

The service companies are an elementary part of our medical concepts and guarantee optimum housekeeping services for customers. The comprehensive scope of our system, which is unique in the industry, reflects our strategic profile as a branch-based provider of nursing care for the elderly.

Five service companies form the core of the division:

- **The operations of Pro F&B include the entire service system provided by professional caterers.**

- **PRO Work is responsible for laundry storage services at the facilities as well as for other housekeeping services.**

- **PROMINT is responsible for laundry supply services within the Group. External customers such as hospitals and hotels also take advantage of its expertise about industrial laundry processes and gentle textile treatment.**

- **ProTec is responsible for facility management at all the Marseille-Kliniken AG facilities. ProTec provides building and equipment maintenance and repair services and is also responsible for Group energy management. This involves not only the inexpensive obtainment of energy sources but also the optimum alignment of the property infrastructure and energy cost controlling with the aim of consumption and cost optimisation.**

- **DaTess Gesellschaft für Datendienste mbH, which is based in Pritzwalk, is responsible for the payroll accounting operations needed for the roughly 5,000 employees in the Group as well as for the financial accounting required by the over 80 different companies with business operations that are consolidated in the Group accounts. •••**

Case study: meals

A varied diet and special campaigns

The provision of an appropriate, varied, balanced and high-quality diet is one of the central assignments of Pro F&B. The basic menu is a guideline that is adapted according to regional and seasonal needs. Account is taken in this context of the requests made by residents themselves and the home residents' council. The catering managers at the facilities and the division managers make sure that a balanced diet is maintained and that the residents, patients, guests and employees enjoy varied meals with a high vitamin content. In addition to the special meals provided on public holidays, the service company holds other campaigns planned by the division and company management. In such a campaign as "Home cooking", the residents can help to compile the menu. A special snack menu was produced for the World Cup.

The kitchens at our facilities are equipped to the latest technical standards.

Diet and health

Representative menus are available to all the facilities and every employee in digital form, with the aims of providing residents and guests suffering from nutritional deficits with specific carbohydrates at the meals and of documenting this. A basic, eight-week menu is compiled for the senior citizens' residential homes, which Pro F&B calculates with the help of the Prodi Expert 4.5 diet program. All the information in the menus, recipes and individual calculations is kept is computerised records and can be processed easily at the facilities. Portion sizes and bread units are indicated in the recipes. This information is subject to minimal seasonal and regional fluctuations. These measures go far beyond the requirements made by the authorities.

The facilities also provide special food that the catering managers produce in their own kitchens on the basis of specified recipes and nutrient calculations. The use of industrial products is avoided as a result. Thickening agents are available to residents who have swallowing problems, while patients with disorders that make a high-protein diet necessary receive food with specific amounts of added protein.

Electronically controlled buying

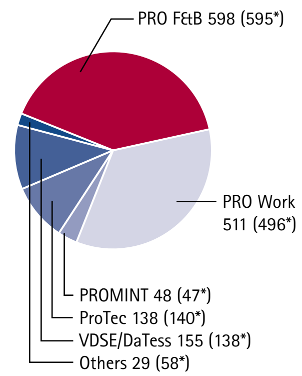
The EMPro buying program includes a customer-specific ordering function with a list of suppliers and the range available from them. The ordering system makes it possible to carry out efficient planning control both quickly and clearly. Individual storage structuring guarantees simple recording and evaluation of stocks in accordance with legal regulations. The buying controlling system with clear reporting procedures enables economic viability to be monitored on an ongoing basis. The cost review function in the ProZent module is based on the invoice and cash records, with evaluations of meals at daily intervals.

Various new features were integrated in the EMPro buying program for Pro F&B in the year under review. The user's manual is being replaced by an implemented Windows help function that can be accessed from anywhere in the program. At the beginning of 2006, a timer was integrated that draws attention to incomplete transactions and enables recurring orders to be produced automatically. A new self-control budget function monitors product costs as soon as orders are placed. Electronically readable order data help to save time when the supplier records the order and lead to better conditions as a result. A production module has been installed at initial facilities to cost menus and to record nutrients and ingredients at recipe level.

Quality assurance instruments

The quality management system is an elementary element of day-to-day facility operations. Staff come into contact with the quality management instruments all the time. Internally, the system is divided up into hygiene, cleaning and organisation. The quality assurance instruments include the quarterly questionnaire. After the end of a quarter, the facility managers receive an e-mail with a questionnaire compiled by Pro F&B. The facility management answers the questions about satisfaction with individual areas of all the various ser-

Number of employees



* Figure in the previous year

Corporate clothing - the company's face to the customer

Corporate clothing is an important feature of corporate identity. How staff behave, the visual impression they make and the way they present Marseille-Kliniken AG on the service market as a result determine the success of the company to a large extent. Employees identify themselves with the company by wearing the same clothing. Attractive corporate clothing communicates professionalism externally, while it encourages team spirit internally. Functional design and fashionable elements increase well-being too. There are collections for nursing, reception, housekeeping and technical staff.

Marseille-Kliniken AG presents itself in three colours here. The classic Hanseatic blue colour stands for the company as a brand. YLight blue as the standard colour used for the facility personnel symbolises our core skill in nursing care for the elderly. A warm red worn by the service providers reflects the hotel character of the facilities. The colour white documents the assignments of the medical personnel and stands for cleanliness, expertise and trust. The logos on the clothing are particularly important. Identification of the personnel by name increases confidence in dedicated care and constant approachability.

vices provided by Pro F&B by issuing grades based on the German school system. The central management department analyses these data and documents critical results. A sensory test is made daily at every facility. Numerous management staff are required to give their assessment of the taste test. eqs.-Institut questions relatives once a year in the nursing division and once a quarter in the rehabilitation division. The answers are also given using the school grade system. Critical points are recorded and are eliminated on the spot - if at all possible - or improvements are made. Every facility visit is, finally, documented by the division manager responsible in the form of an agenda. Critical issues are tackled and monitored.

E-learning - popular and flexible

In the year under review, we completed the restructuring of the training processes, in order to guarantee the high level of staff qualification in a comprehensive, controllable and sustainable way. The structure of the CASA training centre has changed due to the switch to e-learning at all the facilities. We have closed the training location in Bad Oeynhausen and transferred it to Hamburg in a smaller form. On the one hand, the training provided by CASA involving personal presence at its centre, which has been very successful in the past, will only account for 20% of all the training activities in future following the introduction of e-learning. On the other hand, close co-operation with and physical closeness to the experts at the headquarters in Hamburg are essential for fast and effective implementation of the strategic decision in favour of e-learning.

Cost-efficient and central control of all human resources development processes that takes account of the latest requirements of the health care market and enables strategic decisions taken by the Group management to be implemented promptly was the specification made for the restructuring process. In its reorganised form, CASA now offers all staff the opportunity to participate in training courses and units via a blended learning concept. At the system level, we support e-learning in the administration and implementation of all the advanced training measures with the SAP Learning Solution®. The emphasis is on increasing staff enthusiasm and motivation. Any member of staff can book the training provided either via specially established e-learning rooms at the

Regular training via e-learning helps to improve quality.

facilities or at his or her own PC workplace. The success of the training is validated by means of tests taken at the end, while rewards are also made for excellent performances. We pay a bonus of € 100 for consistently good results, combined with the offer of further training to become a nursing supervisor. The concept gives staff a constant incentive to continue training for the good of the company. It guarantees the company staff with high potential and sustainable maintenance of the quality of our corporate processes.

Energy costs under control

In times when energy prices are rising fast, Marseille-Kliniken continues to offer its residents the same high quality of life. This is made possible by constant monitoring of the markets and by exploitation of all the possible ways to make the cost and consumption structures even more economic. They include reductions in consumption, more effective use of the existing energy and optimisation of tariffs. We have concluded a general agreement for our heating oil supply that guarantees buying on the basis of the current daily price on an international trading platform. There is a general contract for buying electricity covering the whole of Germany too; when liberalisation of the natural gas markets is finalised, we will be concluding an appropriate general contract for gas supply as well.

At the facilities, the use of state-of-the-art technology and regular checks of equipment settings make sure energy is used sparingly. Systematic reviews of our consumption figures - supported by modern software - give us an early warning when deviations and irregularities occur. Intensive investigation of deviations enables sources of high energy consumption to be detected and eliminated by replacing the relevant equipment or parts. Process optimisation at the facilities also helps to reduce costs. Good management at the facilities makes sure that not all large electrical appliances like washing machines, dryers and cooking stoves are in operation at the same time and cause high electricity consumption peaks. And, finally, we are constantly considering and testing innovative and unconventional ideas, which we implement in practice when economically positive results are produced. This applies, for example, to the use of combined heating and power plants, heating with wood chips, thermomats and radiator reflectors.

Deployment of mobile electricians

The facility management department intensified the training of mobile teams in the year under review, in order to carry out more services internally and reduce the volume of outsourced services. The deployment of mobile electricians in particular has increased considerably. ProTec now carries out in house checks of nursing beds, equipment used at different locations, emergency power generation equipment, emergency lighting (including escape route lighting), standard and roll-up gates, hand fire extinguishers and standpipes. The same is true in the caretaking field. It is very important for caretakers to have skills in many different technical fields. Most of the repairs needed at the facilities are done in house in the meantime; the costs incurred are limited primarily to the ordering of spare parts. Fire protection and safety systems are a high priority for us. All the caretakers have completed the basic fire protection seminar and have obtained the necessary qualifications to act as fire protection assistants and lift maintenance staff. Most of the caretakers are also in a position to carry out the regular checks of fire protection flaps. One of the caretakers at each facility has received the training required to be technical safety officer. •••

Cutting costs by having company personnel carry out specific assignments quickly.

Corporate responsibility

Safe jobs

Thinking ahead

Marseille-Kliniken is safeguarding the future by investing in its staff. Alternative models for additional provision for old age and professional training for employees create long-term staff loyalty to the company.

The consequence of the demographic imbalance in the industrialised countries of Western Europe, that is reflected in decreasing birth rates and increasing life expectancy, is a constant increase in the average age of the population. The long-term outcome of this is a growing need for nursing facilities and, above all, nursing personnel. This need is developing steadily and inexorably. In contrast to practically all other markets, the health care market is subject to no fluctuations for either seasonal or economic reasons.

As one of the leading private companies operating in the area of nursing care for the elderly in Germany, Marseille-Kliniken AG is in a position to give its staff an opportunity to benefit from this outlook for the employment market on a long-term basis. Our steady growth not only enables us to offer more and more elderly people a new home; more and more employees can be given a safe new job too. We are interested in staff who stay with the company in the long term, because they guarantee consistent quality in the provision of services and because they are evidence of a high level of staff satisfaction. It remains the main assignment of our personnel policy to maintain and improve this continuity.

Social responsibility

Problems involved in financial provision for old age and the excessive demands made on our state social security systems are pressing issues of public and political debate. They mean that employers have a social responsibility to their own staff. We are committed to this and give our employees an opportunity to make additional financial provision for old age alongside the state old-age pension system by using some of their pay for this purpose, which is then exempt from tax and social security contributions within officially specified limits. We have developed an attractive pension fund model with a strong corporate partner. The employer and the employee each pay half of the contribution to this pension fund. As a result, an average employee can build up additional pension rights amounting to up to 25 per cent of his entitlement from the state pension scheme, on the assumption that he pays in a monthly amount of between € 20 and 50 for about 20 years. For the employer, Marseille-Kliniken AG, the payments into the pension fund are tax-deductible operating expenses. Positive effects that are already being felt after only a short time, such as an increase in staff loyalty and satisfaction, confirm the correctness of our decision.

Safe jobs in uncertain times: a good feeling that is easy to pass on.

Knowledge is essential for a successful future

Knowledge management is one of the central issues in our corporate policy. What is involved here is, on the one hand, the safeguarding of internal Group know-how and, on the other hand, the development and expansion of employees' existing knowledge. All the corporate processes are documented in our Marseille-Kliniken management system. This system is an instrument for the Group management and for the managements of our facilities, clinics and service companies, but it is also a directive for our staff including clear specifications and procedures. It acts as the basis for testing the quality of the nursing processes too, because it documents all the nursing operations and concepts. The management system is made available in digital form at every workplace and can be accessed by every employee.

Our training activities and corporate processes are expected to reach extremely high quality standards and are reviewed regularly. The latest medical findings about nursing care are in particular incorporated in the development of new service processes immediately. The Group's own eqs.-Institut, which is a leading player in rehabilitation and nursing research and gives us a crucial edge over our competitors, plays a central role in this context. The most important assignments of eqs.-Institut are to develop standardised nursing concepts customised to meet Marseille-Kliniken's specific needs that are implemented at our facilities and to make sure the latest findings of nursing science are integrated in our existing nursing concepts. Interviews that are held with customers on a regular basis give us information about satisfaction with the action taken, while the parallel staff training guarantees consistent service quality, which is monitored constantly via internal audits too.

Purposeful support

Making sure we are fit for the future involves another important aspect at the personnel policy level. It requires us to keep staff prepared for the changing needs on the health care market and to support them purposefully as changes are made. We meet this obligation we have to our employees by providing a comprehensive range of training measures. We also give committed staff an opportunity to do advanced training, in order to develop skilled personnel for the Group from within our own ranks. In spite of the lack of skilled staff on the German nursing market, we have succeeded for years now in filling management positions mainly with members of our own staff. In the nursing division, we have a qualification process to become a home manager, residential sector manager and nursing supervisor. The expansion of our e-learning concept is increasing our training programme all the time, adapting it to the new requirements made by the market, the government or the company's own operations.

We are part of society

Active sponsoring

As a branch-based company with decentralised operations, Marseille-Kliniken is part of the regional social structure at more than 60 different locations. We have been making donations to volunteer fire brigades, preschools, sports clubs and non-profit organisations that support people suffering from particularly serious illnesses for years now - and did so again in the year under review. One major project in the year under review was the support given to the Leipzig Bachviertel organisation. This organisation has set itself the goal of rejuvenating the Bachviertel district. Our senior citizens' residential home, which is located in this district, considers itself to be part of the local community and has therefore contributed to the campaign.

Environmental protection begins at home

A society dies if it does not protect the environment. An undamaged environment is good for health, safety and well-being. Careful use of resources is one of the basic values of the Marseille-Kliniken Group. Our concepts aim to protect our customers' immediate surroundings by avoiding thoughtless waste. We believe in sustainable management and use water, electricity, gas and oil as energy sources on a consumption-oriented basis. We deploy special machines and environmentally responsible detergents in our laundry operations. Our service company PROMINT has a water processing and recycling plant of its own.

Agreements with our suppliers make sure that the proportion of outer and disposable packaging is kept low. We prefer hygienic returnable containers; individual and very small packs are only used for residents and patients if this is necessary for medical or hygiene reasons. The volume of waste we produce is decreasing steadily as a result of the strict separation of waste throughout the Group. In the building of our facilities, we insist on the use of technical solutions that consume as little energy as possible as well as of building materials that have minimum health impact. The design of our buildings is determined by the requirements of residents and staff and not by the company's own preferences.

Responsibility to society

We have tremendous responsibility as a company operating in the health care field. Not only to our employees, who have a demanding profession. We are also responsible for our residents, guests and patients as well as their relatives. We are part of society as a whole, the changes in which affect our company directly as well. Transparency and commitment are demanded of us as part of the social environment. We satisfy both these requirements. Everyone benefits from the results of our corporate activities: the general public, because we reduce the economic costs of old age, the state, because we pay taxes, the investors, because we operate profitably, the employees, because we offer safe jobs and, last but not least, we ourselves, because we remain competitive. •••

Better if we are there

Report by the Supervisory Board

The Supervisory Board

(from the left) Dr Peter Schneider
Hans-Hermann Tiedje
Dr Peter Danckert
Ulrich Marseille (Chairman)
Mathias Kampmann
Professor Dr Matthias P. Schönermark

The Supervisory Board held a total of five meetings in the 2005/2006 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 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 2005/2006 financial year, with the exception of the meeting on 21 April 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 (Mr Hans-Hermann Tiedje, Dr Peter Danckert and Professor Dr Matthias P. Schönermark) gave their approval in writing. The finance committee formed by the Supervisory Board met three times in the 2005/2006 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 2004/2005 financial year were reviewed at the meeting of the Supervisory Board that was held on 4 October 2005. The Management Board outlined the main results, background facts and information with respect to the documents for the 2005/2006 financial year and answered the Supervisory Board's questions about them. The auditors explained their audit report, 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, as were the documents prepared by the Management Board for the Annual General Meeting in December 2005. The Management Board also presented reports about the developments in the nursing, rehabilitation, building & facility management and expansion operations and answered the Supervisory Board's questions about them.

The main subject at the meeting of the Supervisory Board on 6 December 2005 was the report by the Management Board about the completion of the second sale-and-leaseback transaction with the British CIT Group and the bases for further expansion created as a result. The contents and organisation of the Annual General Meeting and the presentation by the Management Board to the Annual General Meeting about the results generated in the 1st quarter of the 2005/2006 financial year were also discussed with the Management Board.

At its meeting on 21 February 2006, the Supervisory Board focussed mainly on the alignment and specification of the strategy for the further restructuring exercises and the further plans for reducing the rehabilitation operations. The Supervisory Board also reviewed the report by the company about the first half of the year that ended on 31.12.2005 and the explanations about it given by the Management Board. The Management Board answered the Supervisory Board's questions about this and reported in addition about the current developments and prospects in the nursing, rehabilitation, building & facility management and expansion operations. The reports were explained by the Management Board when it was asked to do so by the Supervisory Board and the current objectives and strategies in the different operations were agreed with the Supervisory Board and compared with the results in developments to date.

The Supervisory Board concentrated on forthcoming decisions it needed to take about personnel issues at its meeting on 21 April 2006.

The Supervisory Board's questions about the budget presented by the Management Board for the 2006/2007 financial year were discussed at the meeting on 23 May 2006. The Supervisory Board also 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 and prospects in the nursing, rehabilitation, 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 and the current objectives and strategies in the different operations were agreed with the Supervisory Board 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 2005/2006 financial year (including the bookkeeping records) were audited by the auditors chosen at the Annual General Meeting held on 6 December 2005, 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 meeting of the Supervisory Board on 20 October 2006 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 and in this context also made a close examination of the informative note added to the auditors' certificate as well as of the information provided by the Management Board in the management report about the situation and prospects of the rehabilitation division. 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 2005/2006 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 2005/2006 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 2006 and accepted the proposal made by the Management Board for the appropriation of the profits for the 2005/2006 financial year.

The review of the documents submitted by the Management Board at the meeting held on 20 October 2006 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 review and evaluation of the report by the Management Board about relationships to affiliated companies in the 2005/2006 financial year, 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, and
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 2005/2006 financial year.

Berlin, October 2006

Marseille-Kliniken Aktiengesellschaft
The Chairman of the Supervisory Board

Ulrich Marseille

Management report and Group management report Summary of the highlights and main figures

The main Group figures for the 2005/2006 financial year confirm the forecast: the Marseille-Kliniken Group is continuing to grow and is improving its earnings disproportionately fast. Taking into account the new facilities in Hamburg-Mitte, Düsseldorf, Halle and Büren that were consolidated for the first time, operating sales increased by 4.4% to € 210.4 million (previous year: € 201.5 million). The nursing division remains the sales and earnings growth driver. The net Group profit for the year rose from € 6.3 million to € 9.7 million. Earnings per share amounted to € 0.73 after € 0.53 in the previous year.

Completion of the sale-and-leaseback transactions led to a further reduction in the financial debt ratio: in addition to finalisation of the arrangements for 2 properties from the transaction with GE Financial Services, CIT Group bought 7 properties from the portfolio of the nursing and rehabilitation segments for about € 101 million, which improved the economic equity ratio considerably from 15.5% to 20.7%. The core nursing segment was expanded by a further 1,233 beds to a total of 7,134 beds. The occupancy rate of the beds provided by the Group reached 88.2% compared with 87.5% in the previous year. The Marseille-Kliniken Group is a market-leading, listed company operating on the market for inpatient health care in Germany that has 62 facilities and about 4,850 employees. The company's staff are capable and committed, while the facilities meet high quality standards and have state-of-the-art equipment.

Marseille-Kliniken AG presented the prize for innovative scientific projects in the area of nursing care for the elderly, that is worth € 7,500, for the 3rd time on 27 January 2006 during the "Nursing 2006" congress.

The first Turkish nursing facility in Germany is opening in Berlin-Kreuzberg at the end of 2006. If it proves to be successful, the opening of further Turkish facilities or homes specialising in other ethnic groups is planned.

Business operations and strategy

Group organisation and control

Marseille-Kliniken AG is a holding company that has had a stock market listing in Frankfurt and Hamburg since 1996. The individual companies in the nursing, rehabilitation and services divisions are run as independent legal corporations in the form of private limited companies linked to Marseille-Kliniken AG as their parent company. The corporate divisions carry out operating business assignments and represent the segments in compliance with the International Financial Reporting Standards (IFRS). They are controlled by divisional headquarters that are responsible for their own operations. The operating divisions are supported by central service providers covering human resources, finance and controlling, accounting, taxes, information technology, organisational development and marketing.

The Supervisory Board and Management Board liaise with each other to agree and specify the strategy. The Supervisory Board advises the Management Board and monitors its conduct of the business. The Supervisory Board and the Management Board have issued the statement of compliance with the recommendations of the "Government Commission/German Corporate Governance Code" in accordance with § 161 of the German Companies Act (AktG) and have made it available to the shareholders on a permanent basis on the company website at www.marseille-kliniken.de.

The clinic operator is a leading private company that provides nursing care for the elderly all over Germany. Information about the locations can be found on the website.

Marseille-Kliniken AG strategy

The growth strategy focusses on inpatient nursing care for the elderly. The objective is to become market and cost leader in this segment.

Marseille-Kliniken is to be established as an unmistakable brand on the nursing market and is to be associated with specific success factors: closeness to the market, product profile, quality, flexibility, customer orientation and economic viability.

It is planned to increase the total number of beds to 12,000 by the end of 2008. The expansion strategy continues to concentrate on three different elements: additions to the chain of AMARITA homes by concluding rental contracts about new building projects in the 4-star field, takeover of existing facilities in the 3-star field and restructuring of suitable existing residential properties for the 2-star segment. The preconditions for the financial flexibility that is essential in this context are an optimum balance sheet structure and a long-term refinancing strategy. Alongside the operating cash flow, it is necessary to reduce the funds committed in the business operations. We are working on concepts for a medium-term refinancing strategy, with the aims of co-operating with international partners to take advantage of the opportunities available on the market and to pool strengths. While our contribution is our know-how as an operator and in change management, our partners can generate attractive returns on their capital employed.

The breakdown of the Group property portfolio is currently about 30% owned property and 70% leased facilities, which is in line with the company's target and the international average.

The growth potential has in the meantime been recognised by professional foreign investors too. Following the American company GE Healthcare (December 2004), another foreign investor, the British CIT Group (December 2005), has carried out a sale-and-leaseback transaction.

As a result of the transactions with GE and CIT, Marseille-Kliniken AG has reduced long-term financial debt, improved the equity ratio considerably and created further financial potential for implementation of the growth strategy.

The company will be withdrawing from the rehabilitation field gradually. The capacities available in these operations have already been reduced to less than 20% of the total number of beds provided and will be decreasing further due to the expansion programme in the nursing division. The action that needs to be taken with the portfolio of eight clinic locations, five of which are still owned following the sale-and-leaseback transactions, to make sure that they are positioned on the market successfully in the long term have been completed to a large extent. We are therefore working on the assumption that it will be possible to continue reducing the negative contributions to earnings gradually.

In this context, we are making active attempts to divest the business operations of individual clinics, provided that the general conditions are attractive. If this is successful, divestment of the property would also be possible via another sale-and-leaseback transaction.

Integration of the rehabilitation management activities in the central management system that has already been established successfully in the nursing division is enabling the day-to-day clinic operations to be controlled more efficiently. Spinning the business operations of the subsidiary KASANAG with six rehabilitation clinics off into legally independent private limited companies facilitates divestment of the operations and/or ownership of individual clinics to prospective customers as and when this is required.

A new level of efficiency is being achieved thanks to a substantial improvement in communication within the company. Transparency and faster response are leading to potential savings that will be felt emphatically in this financial year.

Future-oriented personnel development remains one of the most urgent strategic assignments. It increases the appeal of the profession of nursing care for the elderly and makes sure that the qualified personnel required is available. The Group's own CASA training centre for hotel and social professions focusses on ongoing staff training.

General economic conditions

German economy is gaining momentum

In the first few months of 2006, the German economy grew faster than it has done for years. Following the only moderate growth of 1.1% in 2005, the forecasts for 2006 are growth of more than 2%. The German government is still expecting growth of 1.6%, but intends to review this forecast in the autumn. The domestic market is the main growth driver. Whereas export trade is growing less dynamically than before, the economic recovery is attributable primarily to investments in buildings and equipment. The building industry in particular is catching up on the backlog that built up due to the unusually long winter. The fact that the domestic economy has started to recover soundly after years of stagnation is due to companies' willingness to invest more again because of strong demand from abroad. The moderate pay rises agreed over a period of years are also producing results to an increasing extent, because companies in Germany have become more competitive and are winning export orders.

However, economic experts draw attention to the fact that the good economic situation is also attributable to important special factors. The building industry is benefitting this year from the end of the government grant system for the construction of private homes, while the retail trade is being boosted by purchases made before the VAT rate is increased in 2007. These factors will no longer apply next year. Lower export demand and lower order intake from abroad are already further indications that the world economy is slowing down. Experts doubt that the domestic economy can develop enough momentum to weather the tax increases in 2007 and a weaker global economy. A sustained upswing is not definite in their opinion.

Uncertainty on the health care market

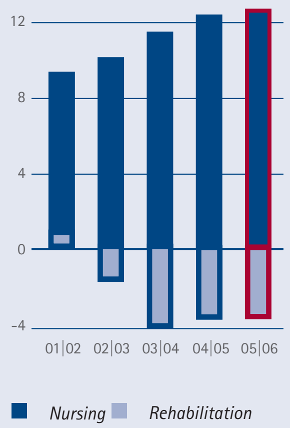
The German health care market is still growing. In the meantime, the health system contributes almost 12 per cent of the gross domestic product and provides jobs for 10 per cent of all employees. The annual turnover of the industry has reached almost € 250 billion. Hospitals, rehabilitation clinics and nursing homes receive about € 80 billion a year from the health budget. 1.5 million beds are available to patients and residents at about 12,000 facilities.

The German health system, which is among the most expensive in the world, has a shaky future, however. There is too much central planning and too little market in the system.

There are no signs as yet of any attempts to initiate reform via efficient competition controlled by prices and services. Since the political community sees health primarily as a cost factor rather than as a growth factor,

DVFA result by divisions

in € m



what is at stake in the reforms is less the quality of health protection and more the future of a highly innovative growth industry.

Health policy is in a dilemma. On the one hand, the postponement of a sound reform of the statutory health insurance funds for years is now making radical cuts necessary, in order to rescue the social security systems. On the other hand, politicians do not want anyone to suffer and aim to solve the problem on the basis of "social justice". Since this is not possible, the debate is restricted to ideologically based concepts and people are simply having to come to terms with the fact that everything is going to be more expensive. The pressure to carry out radical reform has unsettled everyone who is involved in the system.

The main thrust of the proposals made by very bold reformers is to base the statutory health insurance system on the system used by the private health insurance companies, to incorporate the competitive elements they include gradually and to enable a transition to be made to a capital-based system in this way. The political community does not have the courage to make such a serious change in the system. Time is increasingly short, however. The legislation introduced in 2004 to modernise the statutory health insurance funds, the burdens of which have been borne almost exclusively by the insured and the patients, has failed to reach its goals to a large extent. In the summer of 2006, the government specified the central elements of the next health reform and gave the reform package the title "law to strengthen competition in the statutory health insurance system". Experts say that, in the present form, the contents are the complete opposite of the title. How serious the internal doubts are is demonstrated by the decision taken by the coalition to postpone approval of the reform until the second quarter of 2007.

Irrespective of the debate about health policy, there are three increasingly strong trends on the market. Firstly, the concentration process is intensifying. Many providers of health services are unable to satisfy the steadily increasing quality requirements in view of the growing cost pressure exerted at the same time. Secondly, cost pressure and a lack of personnel require greater integration of the acute, nursing care and rehabilitation services provided. Thirdly, it is becoming more and more clear that the investment backlog, which has grown to about € 50 to 60 billion, can only be eliminated if private company structures are introduced. The market depends on private capital to fund growth in the health system.

Business development and economic situation

Further progress by Marseille-Kliniken AG

The company sharpened its profile considerably in the 2005/2006 financial year. New approaches have been adopted in the expansion of the dominant core business of nursing care for the elderly, in order to exploit potential in associated areas of operation. The networking of the Group with innovative and intelligent IT systems involves new structures that are improving the controllability of the business significantly. The establishment of networked structures is giving the company a competitive edge that is difficult for rivals to match because of their lack of comparable IT environments.

The two sale-and-leaseback transactions with foreign investors are a milestone. The breakdown of the property portfolio is now 70% leased properties and 30% owned properties. Marseille-Kliniken AG is one of the first companies in this industry to co-operate with foreign financial investors. The sale and subsequent leaseback of the properties improve the company's balance sheet and reduce the non-operating property management activities substantially. Marseille-Kliniken has used the proceeds of these transactions mainly to reduce debt. Net financial debt has decreased to less than € 100 million for the first time.

In the meantime, the Group operates 62 facilities: 52 nursing facilities, 9 rehabilitation clinics and, since 1 January 2006, St Nikolaus Hospital in Büren. With the expansion of the nursing division by 1,233 beds, from 5,901 to 7,134, due to the opening of the new facilities in Düsseldorf and Hamburg as well as to the takeover of Allgemeine Dienstleistungsgesellschaft mbH in Halle a.d.S., which focusses on assisted living, with the shutdown of the Reinerzau clinic location and with the consequent reduction in the number of beds by 103, from 1,672 to 1,569, rehabilitation beds now account for less than 20% of the total of 8,703 beds provided by the Group (previous year: 7,573). The conversion of 100 beds at the Schömberg clinic to a nursing clinic will accelerate this trend even more.

The core business of nursing care for the elderly has continued to develop positively and progress has been made in the capacity expansion programme. There has been no change in the aim of increasing the number of beds to 12,000 by the end of 2008. The company has established itself in a large city for the first time with the AMARITA home in Hamburg-Mitte. The new market segment consisting of what are known as two-star hotels for assisted living and inpatient nursing care for the elderly has taken shape and promises additional growth in future.

There is no longer any danger that the ongoing reduction in the size of the rehabilitation division will cause the Group problems in the long term, since this division only contributes about 20% of sales. Fast progress is being made in turning the division around. The sale of the properties of the somatic clinics at the locations in Blankenburg (Saxony-Anhalt) and Bad Klosterlausnitz (Thuringia) has reduced the financial burdens and led to better earnings. The last weak point in our operations, the Schömberg psychosomatic clinic, is being eliminated by dividing it up into a nursing section and a rehabilitation section. Spinning the business operations of the subsidiary KASANAG with six clinics off into legally independent private limited companies is creating strategic options for the future alignment of the rehabilitation division.

Description and development of the divisions

Market for nursing care for the elderly is growing steadily

Inpatient nursing care for the elderly remains the strongest growth factor in the overall market. Developments in this field are being accelerated by the demographic trends and the ageing process in society. The ageing phenomena have serious consequences for the nursing personnel and nursing beds needed in future. The number of new and modernised beds needs to be increased considerably. The investments required to modernise and increase the nursing capacities are likely to amount to about € 50 billion, which state governments and local authorities are unable to fund. Whether the political community likes it or not, efficient, high-quality nursing care for the elderly will not be possible in the long run without competition organised in the form of private companies.

The government has announced that it plans to reform the nursing care insurance system, which is about to collapse, in early 2007. The system recorded a deficit of € 823 million in 2004 and one of € 364 million in 2005 as well. The reserves have decreased to just under € 3 billion, which correspond to the nursing benefits paid in two months. The main points of the reform have been specified, but experts fear that they will fail to have the desired effect here too.

Nursing care the growth driver

Marseille-Kliniken AG was established in 1984. The founder, Ulrich Marseille, introduced a completely new concept in nursing care for the elderly. The clinic operator is now one of the largest private service providers in the German health system.

Sound growth in the nursing division has been the objective ever since the company was founded. This profitable area of operation now accounts for about 80% of the company's sales. 52 facilities with 7,134 beds and 2,743 employees are currently operated in this division, which represents an average increase of 1,233 beds over the previous year. About 50% of the facilities were acquired via takeovers. Annual sales amounted to about € 162.7 million. This corresponds to an increase of 7.8% (previous year: € 151.0 million).

The nursing facilities and residential homes can be divided up into the AMARITA senior citizens' nursing homes, senior citizens' residential homes, nursing clinics providing medical treatment, the MEDINA facilities for the handicapped and the ASTOR PARK assisted living facility.

The additions made in the year under review were the senior citizens' residential home Düsseldorf-Volksgarten with 95 beds, the AMARITA home in Hamburg-Angerstrasse with 336 beds and the assisted living operations with 756 beds in Halle. A facility with 150 beds in Meerbusch (NRW) and another one in Düsseldorf with 80 beds are in the process of being built, while a senior citizens' residential home with 200 beds is being prepared in Bremerhaven.

A completely new project is the establishment of a facility with 160 beds for Turkish customers in Berlin-Kreuzberg. The remodelling exercise will be completed by the end of 2006 and will be a major option for further cities if it proves to be a success. Another facility for assisted living with 130 beds is already planned for Berlin-Potsdam and will be coming into operation in the spring of 2007.

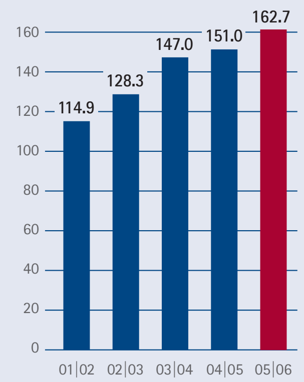
The sales and earnings potential has not yet been exhausted at the present occupancy level and will be exploited even more effectively in the near future by optimising the facilities that start or have started operation.

No clear trend on the rehabilitation market

The rehabilitation market is going through a process of radical change. It is being depressed by an ongoing economic problem as well as a structural problem. Hesitance on the part of applicants and the funding organisations responsible for the approval of treatment is hitting psychosomatic rehabilitation facilities particularly hard. The structural problem is attributable to the reform carried out in the years 1996 to 1998, which has led to a drastic reduction in occupancy and to 30 to 50% excess capacity in this rehabilitation segment today. The excess capacities are concentrated primarily at facilities that no longer satisfy the more exacting requirements made by the market. Where post-operative follow-up treatment is concerned, on the other hand, demand for qualified clinics is already higher than the supply available. In view of the steadily growing cost and performance pressure, a clinic shake-out of the kind already in progress in the acute hospital field will be starting in the rehabilitation field too.

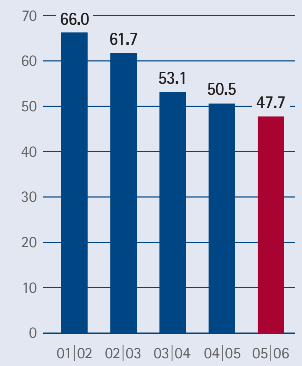
Nursing division sales

in € m



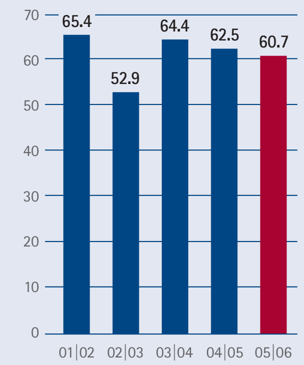
Rehabilitation division sales

in € m



Services division sales

in € m



The future of the somatic rehabilitation market will be determined by what are known as diagnosis-related groups (DRGs). The system of lump-sum payments, in which the income of hospitals will depend in the future on the number of cases treated, is forcing acute hospitals to focus more intensively on costs, to take action to attract patients and, above all, to reduce the length of time that patients stay in hospital. The somatic clinics that carry out constant quality management have impressive medical skills and specialise in the treatment the market requires will benefit to a particularly large extent from the faster transfer of post-operative patients to clinics where follow-up treatment is provided less expensively.

Decreasing importance of the rehabilitation division

The rehabilitation division was established in the Group in 1996, when Karlsruher-Sanatorium-AG (KASANAG), a clinic chain based primarily in Baden-Württemberg, was bought. The operations consist to equal extents of somatic and psychosomatic clinics.

The operating sales in the rehabilitation division decreased by € 2.8 million or 5.6% to € 47.7 million last year. This means that the significance of the rehabilitation operations in the Group is decreasing steadily: whereas the division once accounted for almost 50% of sales, this figure is now less than 20% and will be decreasing even more as the nursing operations are expanded.

The overall occupancy rate in the rehabilitation division amounted to 74.2% (previous year: 76.6%). The main reason for the reduction was the extremely poor occupancy level in January of 63.1% (previous year: 79.0%). The occupancy rate increased again to 74.5% and 74.3% in February and March. The lower occupancy rate led to an additional shortfall in operating revenues and earnings that could not be compensated for, so that a loss of € 2.2 million was made in the 3rd quarter of the financial year alone.

A total of 16,361 patients were treated at the rehabilitation clinics (previous year: 16,091). This represents an increase of 1.7%, which is due essentially to the reduction in the length of patients' stays from about 27 to 25 days, taking the hospital in Büren into consideration for the first time.

One of the major assignments in the turnaround concept was to integrate the rehabilitation operations in the central management system, an assignment which has already been completed entirely in the nursing division. The southern German regional management function has been discontinued, so that it was already possible to control all the operations centrally in the year under review.

In recent years, we have already been successful on several occasions at either converting clinics that are not competitive to nursing clinics or divesting them to third parties. With effect from 30 June 2005, the locations in Waldkirch and Reinerzau with a total of 285 beds were closed and were leased to an operator of rehabilitation clinics with effect from 1 October 2005. Provision was already made in the previous year's accounts for the Waldkirch location, involving necessary write-downs to the value of the site as confirmed in experts' reports. The operator has not been able to implement the business model established at the Waldkirch location successfully because of the shortage of cardiologists and the lengthy doctors' strike. We will therefore be selling the locations in attractive surroundings to third parties now.

The remaining clinics that are operating at a loss will gradually reach break-even point and, in the medium term, generate profits as a result of a series of different measures. The turnaround concept includes measures to optimise personnel and non-personnel cost management, the option of combining further facilities and the concentration of clinic locations with low occupancy rates on special programmes for market niches. As has already been communicated in quarterly reporting, the capacity available at the clinic in Schömberg is being divided up. Some of the capacity (100 beds) is being operated as a nursing clinic in future. Following the receipt of the relevant building permit, the property can be remodelled in stages from the end of the year onwards until 30 June 2007, when it will be coming into operation. The remaining clinic portfolio at eight locations is in a generally sound and future-oriented condition. The new structures are the basis for a sustained turnaround. Looked at in isolation, this is positive news for the Group. We nevertheless intend to sell the rehabilitation operations to investors in stages, taking the restructuring measures that still have to be carried out and the market situation into consideration.

Service companies as part of the growth strategy

The Marseille-Kliniken AG service companies are an essential feature of the medical concepts and guarantee optimum housekeeping services for customers.

A number of service companies were established for this purpose in 1997, which provide their services to make sure the facilities operate effectively.

The structure is associated with our strategic profile as a branch-based provider of nursing care for the elderly. The division is an important element in the Group's growth strategy, that enables the entire supply chain to be covered. The division's activities are based on the fundamental principle of relieving the facilities of specific assignments by providing customers with a complete range of hotel services. This gives the staff the freedom to concentrate on their core skills in nursing, rehabilitation and general care. The growth in the Group has had the effect that the service subsidiaries are focussing their operations to an increasing extent on the Group's own facilities.

The service companies generate savings that are boosted by increasing standardisation of the operations.

Sales, which are generated almost exclusively with Group companies, decreased by € 1.8 million to € 60.7 million. This was mainly attributable to the discontinuation of operations at the Waldkirch location.

Pro F&B

Pro F&B is the source of the entire service system provided by professional caterers. The subsidiary of Marseille-Kliniken AG was established in 1997 and is responsible for meeting all the catering needs of the residents and patients at all of the company's 59 facilities. Almost 600 employees serve a total of about 7,500 customers.

ProMint

ProMint is based in Neuruppin and makes sure the nursing facilities are supplied with the necessary laundry from there. The laundry stocks belong to the company and are rented out to the facilities. For cost reasons, not all the Marseille-Kliniken AG homes are supplied by ProMint. The laundry company also has customers outside the Group, such as hospital and hotels.

ProWork

ProWork is a professional provider of housekeeping services. The subsidiary of Marseille-Kliniken AG has more than 500 employees. In addition to all the standard cleaning, ProWork provides a comprehensive service system to the nursing facilities and clinics and has specialised in such services as laundry cleaning and distribution, glass cleaning and carpet/upholstery cleaning.

ProTec

ProTec has 138 employees and the company is responsible for facility management in all the Marseille-Kliniken AG operations. ProTec provides building and equipment maintenance services. The facility management services for all the operations have been concentrated at ProTec. Noticeable improvements in quality and decreasing energy costs have already been achieved only two years after implementation of this concept.

VDSE

VDSE - Verwaltungsdienstleister sozialer Einrichtungen - gives the nursing facilities and clinics in the Group support in all areas of administration and organisation.

Held Bau Consulting

Held Bau Consulting is the company that is responsible for co-ordination, organisation and implementation of the Marseille-Kliniken AG building projects and operates independently in this field to control all of the projects until the property is handed over ready for customers to move in.

DaTess

DaTess Gesellschaft für Datendienste was established in Pritzwalk, Brandenburg, in 2000 and carries out all of Marseille-Kliniken AG's payroll and financial accounting from there. In its capacity as a data processing and computer centre, it plays a prominent role in the efficient control of the Group. It is responsible for staff wage and salary accounting as well as for the financial accounting required by the over 80 different companies that are consolidated in the Group accounts. The building and site infrastructure, which can be extended, takes account of the growth strategy.

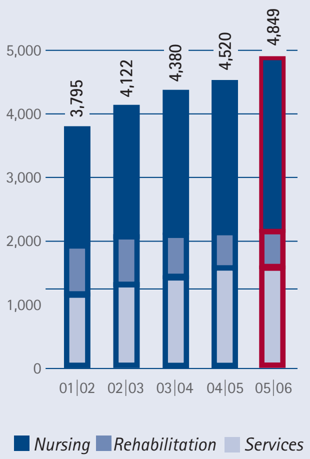
CASA

Staff training and qualification are guaranteed by the specially established CASA training centre for hotel and social professions. The programme offered by the CASA training centre for hotel and social professions, which is an exception in the industry, has been extended. The school established in the previous years to provide training in nursing care for the elderly trained its first pupils to be appropriately qualified nursing staff and nursing supervisors in this field in the year under review. The training centre is currently in the process of being restructured in connection with the introduction of e-learning.

The eqs.-Institut

Evaluation and quality assurance have become very important in the health and social security system in recent years. In view of the general economic conditions on the market, the different service providers are expected to an increasing extent to make the efficiency of their operations transparent and to assure the quality of their services. Since facilities will only be able to survive on the service market if they realise that quality and quality assurance are a crucial competitive factor, the company established an institute of its own in May 1997 to carry out research activities in the areas of social and rehabilitation science. The name of the company is "Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH" and is known by its abbreviation eqs.-Institut. The objective of the institute is to optimise the Marseille-Kliniken facilities on an ongoing basis, taking the latest scientific findings into consideration.

Development in the number of employees



Profitability of the Marseille-Kliniken Group

Sales and earnings development

In the 2005/2006 financial year, the Marseille-Kliniken Group generated operating sales of € 210.4 million. This represents an increase of 4.4% (previous year: € 201.5 million), taking into account the new facilities in Hamburg-Mitte, Düsseldorf, Halle and Büren that were consolidated for the first time. The positive sales trend in the previous years continued with growth of € 8.9 million in the year under review. The growth is attributable exclusively to the nursing division. The total operating sales in the nursing segment (including services) increased by € 11.7 million to € 162.7 million.

The senior citizens' home in Düsseldorf-Volksgarten with 95 beds, the AMARITA home in Hamburg with 336 beds and the assisted living project in Halle with a total of 756 beds started operation in the year under review. Capacity of 8,703 beds was available at the 62 facilities run by the Group; this represents a substantial increase of 1,130 beds. In spite of the initially negative effects of the start-up of the new facilities, the occupancy rate was improved too, from 90.7% in the previous year to 91.6%. This is attributable essentially to the specialisation of selected facilities on concepts to look after patients in a coma or suffering from a stroke and dementia.

In the rehabilitation division, the ongoing stagnation on the employment market led to continued reluctance to seek medical services that can be postponed, particularly at psychosomatic clinics. The doctors' strikes also caused a reduction in follow-up treatment at the rehabilitation facilities.

The operating sales in the rehabilitation division decreased by € 2.8 million or 5.6% to € 47.7 million. The reduction in the operating sales is attributable not only to the elimination of the sales contributed by the Waldkirch and Reinerzau clinics (€ 1.4 million) but also to an extremely poor 3rd quarter, in which the sales generated were € 3.8 million lower than in the previous year. Disregarding the Waldkirch and Reinerzau locations, the average occupancy rate was 74.2%, which was lower than in the previous year (76.6%). 16,361 people (previous year: 16,091) were treated at the rehabilitation clinics in total; this represents an increase of 1.7% over the previous year. The average stay of 25 days was shorter than in the previous year (27 days). The number of nursing days increased from 1,896,898 to 2,217,589. Assisted living accounted for 56,379 of these days (previous year: 57,879), with 261,705 days of the total being contributed for the first time by outpatient days.

Expansion of the services division is continuing. In the year under review, sales of € 60.7 million were generated by this division - almost exclusively with Group companies - compared with sales of € 62.5 million in the previous year. This reduction is due essentially to the closure of the clinic location in Waldkirch and is being compensated for again by the gradual increase to full occupancy at the facilities that have started operation.

Special factors in the operating result

Group earnings before tax amounted to € 14.2 million (previous year: € 8.8 million). The positive special factors that affected the earnings, such as the net book profits from the property sales, were offset not only by special expenses and losses attributable to the closure of rehabilitation clinics and the ongoing operating loss in the rehabilitation operations of € 4.2 million (previous year: € - 4.5 million) but also, as the other main cause, by the start-up losses incurred at our new locations in Hamburg and Büren.

The adjusted Group profit on ordinary business activities amounted to € 7.6 million. The difference of € 6.6 million between the earnings before tax of € 14.2 million and the adjusted earnings before tax of € 7.6 million can be broken down as follows:

- € - 17.6 million profits on the sale of the remaining two properties to GE and all seven properties to CIT.
- € 4.2 million special expenses and losses at the Waldkirch and Reinerzau locations, which have been shut down (2.2), severance payments and redundancy plans in the context of the restructuring of the rehabilitation division and extraordinary depreciation of land and buildings (1.3) due to the revaluation of a clinic after the spin-off exercise.
- € 4.6 million non-recurring preliminary and start-up costs for the new facilities Hamburg-Mitte (3.0), Büren (0.6), Düsseldorf and the special nursing home in Hennigsdorf, which will be decreasing considerably in the current financial year following the planned developments in the occupancy rates.
- € 1.2 million extraordinary remodelling costs in the context of the general modernisation of the existing facilities, primarily at the senior citizens' residential home in Leipzig - Am Kirschberg, which is being completed in the current financial year.
- € 1.0 million extraordinary write-downs of loans (0.6) and expenses in connection with the preparation for and establishment of bookkeeping and reporting in accordance with the specifications of the international accounting standards (International Financial Reporting Standards - IFRS).

Taking the special factors and taxes of € 4.5 million into account, a Group net profit for the year of € 9.7 million was made (previous year: € 6.3 million). As far as the earnings per share are concerned, this means an increase of € 0.20 to € 0.73 compared with € 0.53 in the previous year. EBIT increased from € 23.1 million in the previous year to € 25.8 million, while EBITDA rose from € 37.9 million to € 38.9 million and EBITDAR from € 56.3 million to € 66.7 million.

The EBIT margin increased from 11.5% to 12.3%, the EBITDA margin was slightly lower than the 18.8% achieved in the previous year and the EBITDAR margin went up from 27.9% to 31.7%. These figures are above average by international standards.

Development of the main earnings figures

In spite of a poor third quarter in the rehabilitation division, the adjusted operating result in the Group was higher than in the previous year (€ 8.9 million) at € 9.3 million because of the improvement in the occupancy rate in the nursing division. The accumulated adjusted earnings per share of € 0.76 were therefore higher than the level of € 0.73 reached in the previous year. The increase of € 0.4 million in earnings by the nursing division to € 12.9 million means that the adjusted earnings per share were € 1.06 (previous year: € 1.02). The loss per share in the rehabilitation division was € 0.01 higher than in the previous year (€ 0.29) at € 0.30.

The adjusted earnings before interest and tax (EBIT) were € 4.9 million lower at € 19.4 million because of the increase in rental expenses due to the sale-and-leaseback transactions, while EBITDAR (earnings before tax, interest, depreciation, amortisation and rental expenses), which are a more accurate reflection of operating performance, increased by € 2.5 million to € 58.0 million.

Other income and expenses

The other operating income within the Group increased from € 23.3 million to € 38.8 million. The increase is due essentially to the book profits from the completion of the sale of a total of 9 properties to GE (2) and CIT (7).

Calculation of the DVFA/SG result 2005/2006 financial year

€ m

	Nursing	Rehab.	Group
Division earnings	8.8	-4.2	4.5
Special effects, deferred taxes	4.8	0.6	5.4
Total	13.6	-3.6	10.0
Minus minority interests, taxes	-0.7	0.0	-0.7
DVFA division result	12.9	-3.6	9.3
DVFA result per share in €	1.06	-0.30	0.76

The other operating expenses increased from € 52.4 million in the previous year to € 72.6 million. The increase is attributable essentially to the property transactions carried out with GE and CIT as well as to the rise in rental and leasing expenses from € 21.2 million to € 30.6 million due to the newly rented nursing facilities in Hamburg and Düsseldorf and the ancillary costs incurred in connection with the transactions (legal and consultancy costs) of € 1.5 million.

The cost of raw materials, consumables and supplies increased to € 23.4 million from € 21.7 million in the previous year. Energy costs were 11.8 percentage points higher than in the previous year and accounted for € 1.1 million or 65% of this increase. The cost of purchased services decreased, on the other hand, by € 0.7 million to € 7.6 million.

Personnel expenses were € 2.2 million higher at € 106.7 million, essentially because of the start-up of new facilities.

The growth in personnel at the facilities without any change in overhead costs and with a reduction in the personnel cost rate from 51.9% to 50.7% emphasises the dynamic growth of the Group, which is leading to a further decrease in fixed costs.

Depreciation of intangible and tangible assets decreased by € 1.7 million to € 13.1 million. The property sales to CIT and GE are the main reason for this, with this factor being offset by extraordinary depreciation of land and buildings amounting to € 1.3 million due to the revaluation of a clinic following the spin-off exercise. The Group financial result improved by € 2.7 million to € 11.6 million thanks to the further reduction in property loans.

The taxes on income and earnings of € 4.5 million were higher than in the previous year (€ 2.6 million), essentially because of the formation of deferred tax liabilities.

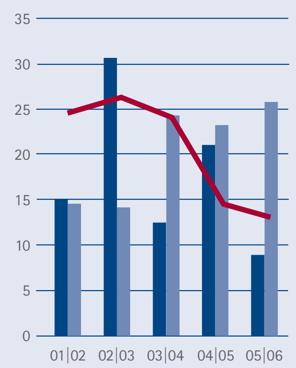
Asset situation and financial position

Improvement in the balance sheet structure – development of the non-current and current assets

The tangible asset disposals involving a total of 9 facilities and a sales volume of € 135.0 million associated with the GE and CIT transactions were offset essentially by investments in the non-current assets of € 6.2 million and of € 3.1 million in the current assets. Including the scheduled depreciation of € 11.8 million, tangible assets decreased by € 98.5 million, from the previous year's level of € 294.0 million to € 195.5 million.

Development of investment/depreciation/cash flow

in € m



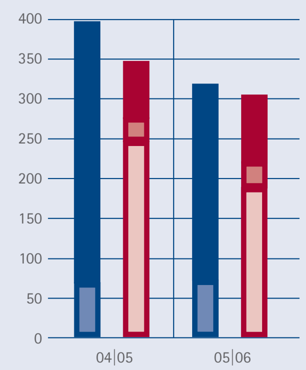
Investment volume

Depreciation of fixed assets

Gross cash flow after DVFA/SG adjustments

Balance sheet structure

in € m



Assets

Fixed assets

Current assets*

Liabilities

Shareholders' equity

Provisions

Liabilities*

* including deferred charges and prepaid expenses as well as deferred income

The total current assets increased from € 69.7 million to € 72.4 million, essentially because of the property transactions, which led to an increase from € 4.7 million to € 32.2 million in the cash in hand and at banks item. This was offset by the reduction in other receivables from € 28.8 million to € 22.7 million and the asset disposal relating to the properties sold in Hennigsdorf and Aschersleben (St Elisabeth operating location) amounting to € 21.5 million, which were reclassified to the balance sheet item "non-current assets held for sale" in the previous year.

The other receivables were substantially lower than in the previous year (€ 28.8 million) at € 22.7 million, which is due essentially to the reclassification of the shares held in the company ADG, Allgemeine Dienstleistungsgesellschaft mbH of € 12.8 million, which were now consolidated in full in the Group accounts in the past financial year. This item also included property held for sale in the short term amounting to € 3.9 million.

The other receivables also included a receivable from the Trump Organization, New York, relating to a capital contribution that has not been paid, which amounts to € 1.5 million following a write-down of € 0.5 million. Legal action to collect this receivable was filed at the end of 2004 and is still pending. The company is working on the assumption that the legal action will be successful.

Development of the equity and liabilities

Implementation of the second sale-and-leaseback transaction with CIT led to a further considerable improvement in the equity ratio. The balance sheet equity amounted to € 29.1 million compared with € 24.0 million in the previous year, which represents an equity ratio of 20.7% (previous year: 15.5%) after inclusion of a net share of 73.6% of the special item for allocated investment grants.

The special items for investment grants for land and buildings, which form part of commercial equity, decreased by € 1.2 million to € 51.1 million due to releases. The provisions increased to a minor extent by € 0.4 million, from € 10.9 million to € 11.3 million. The current tax liabilities decreased by € 2.0 million, from € 5.1 million to € 3.1 million.

Financial debt decreased again in the year under review because of the completion of the further sale-and-leaseback transaction with CIT. Bank loans and overdrafts went down by € 78.0 million from € 207.5 million to € 129.5 million thanks to scheduled repayments as well as unscheduled repayments using the proceeds of the property transactions with GE and CIT. The financial debt ratio as the ratio of non-current bank loans and overdrafts to the balance sheet total amounted to 36.3% on 30 June 2006 compared with 42.5% in the previous year. The loan capital ratio, which represents the proportion of the balance sheet total accounted for by total liabilities, decreased from 84.5% to 79.3%.

Statement of cash flow

in € '000

	05/06	04/05
Earnings before interest and tax (EBIT)	25,755	23,145
Taxes on income and earnings/financial result	-16,075	-16,874
Decrease/increase in assets/liabilities	11,459	12,809
Cash flow from investment activities	89,520	29,936
Cash flow from financing activities	-83,148	-46,076
	27,511	2,940
Increase/decrease in cash and cash equivalents	27,511	2,940
Cash and cash equivalents at the beginning of the financial year	4,734	1,794
Cash and cash equivalents at the end of the financial year	32,245	4,734
Breakdown of the cash and cash equivalents at the end of the financial year		
Cash in hand and at banks	32,245	4,734
	32,245	4,734

Funding

The funding of further expansion is guaranteed. The Group either provides the necessary funds from its internal resources or co-operates with property investors, from whom the new facilities are leased on long-term contracts. There are also short- and long-term credit lines with several banks that are independent of each other and cover the anticipated funding requirements. The Group's current account lines were increased from € 15.2 million in the previous year to € 25.1 million, € 7.9 million of which had been used on the balance sheet date.

Statement of cash flow

Following adjustment, gross cash flow increased from € 23.5 million to € 25.8 million.

The free cash flow, which represents the increase in net monetary assets, was positive (€ 27.5 million). The positive cash flow from investment activities was higher than in the previous year (€29.9 million) at € 89.5 million. As was the case with the gross cash flow too, the improvement is attributable essentially to the reduction in the tangible assets due to the sale-and-leaseback transaction.

Investments

As in the previous years, most of the investments made by Marseille-Kliniken AG were in the nursing division. The main purposes of the investments were to maintain the high quality of the facilities and to increase the bed capacities. In view of the disposals of a total of 14 properties connected with the GE transaction and, in particular, the CIT transaction (9 of them in the 2005/2006 financial year), investments (excluding ADG) decreased to € 9.3 million in the 2005/2006 financial year. € 3.1 million of the investments in the year under review related in the nursing division to the new facilities in Potsdam and Kreuzberg as well as the modernisation project in Leipzig-Am Kirschberg. A gerontological clinic was acquired in Büren for € 2. The services division accounted for further investments of € 1.6 million. The investment projects essentially involved the relocations of the service companies to Hamburg as part of the centralisation exercise and investments of € 1.1 million in the development of new electronic security technology.

Assets

The stability of the Marseille-Kliniken Group balance sheet structure increased again in the year under review because of the sale-and-leaseback transactions. The positive business development in the nursing division had considerable impact on the asset situation of the Group too.

The non-current assets decreased by € 82.6 million to € 250.2 million due to the transactions with GE and CIT. The intangible assets increased from € 21.9 million to € 32.6 million.

The current assets amounted to € 72.4 million and were therefore € 2.7 million higher than in the previous year. While the other receivables decreased by € 6.0 million to € 22.8 million, cash in hand and at banks increased by € 4.7 million to € 32.2 million.

Marseille-Kliniken AG accounts

Marseille-Kliniken AG reports a reduction in the profit on ordinary business activities from € 11.9 million to € - 2.7 million. Reserves were formed at the level of subsidiaries in accordance with § 6b of the German Income Tax Act (EStG), as a result of which the company is only being charged € 0.2 million in current corporation/trade income taxes for the year under review.

The other operating income increased from € 3.9 million to € 15.5 million, which is due essentially to the sale of the property of the Aschersleben senior citizens' residential home (St Elisabeth operating location) and the sale of improvements by tenants to the operating location of the Bad Schönborn nursing clinic within the framework of the sale-and-leaseback transaction with CIT. This item also includes rental income from subsidiaries of € 12.4 million, which corresponds essentially to the increase in rental expenses in the other operating expenses, since Marseille-Kliniken AG is acting as the main tenant within the framework of the leaseback arrangements for the properties sold to CIT and GE.

The net balance of the income from profit transfer agreements and the expenses from the assumption of losses decreased from € 18.8 million to € 11.1 million. The reserves formed at the level of the subsidiaries in accordance with § 6b of the EStG are the main reason for this.

The net profit/loss for the year at the AG was € - 2.4 million (previous year: profit of € 10.2 million).

It is planned that a dividend of € 0.45 per share will be distributed to the shareholders eligible. This includes a special non-recurring dividend of € 0.20 per share that is being paid out because of the positive special effects of the sale-and-leaseback transactions. The amount that is being distributed as dividends is decreasing by € 2.6 million, from € 4.8 million to € 2.2 million. This is due to a waiver by the majority shareholders Mr Ulrich Marseille and Ms Estella-Maria Marseille, who are leaving their share of the dividends in the company to improve the equity ratio and thus to fund further growth.

The main balance sheet changes were in the tangible assets, which decreased from € 27.6 million to € 19.5 million, and in the bank loans and overdrafts, which decreased from € 57.2 million to € 43.7 million. Both of these developments are associated with the sale-and-leaseback transactions with GE and CIT.

In addition to this, the financial assets increased from € 76.0 million to € 90.3 million due to the re-classification of the shares in the company ADG, Allgemeine Dienstleistungsgesellschaft mbH in Halle a.d.S. amounting to € 12.8 million, which were included in the other assets in the previous year.

Further factors affecting earnings

Procurement/services

Procurement management plays an important role. In order to be able to work on the basis of exactly the same quality with exactly the same purchasing conditions throughout Germany, Marseille-Kliniken AG has joined the purchasing co-operative Pro Care Management, as a result of which the company enjoys additional benefits in its buying activities.

Laundry supply is another factor that affects earnings in the services division. 48 employees of the Marseille-Kliniken AG subsidiary ProMint in Neuruppin are responsible for the entire laundry provision process, from sorting, washing, folding and ironing to delivery.

Sales and customers

Marseille-Kliniken AG focusses its attention on the customer, whether he is a clinic patient or a nursing facility resident. The company's aim here is to recognise what the customer wants as quickly as possible and to fulfil his wishes as far as possible. A customer relationship management centre (CRM) has been set up in Hamburg specially for this purpose. It means that the company is in a position to respond to customers' needs flexibly and quickly, 365 days a year. The CRM also assists the facilities with the planning and implementation of marketing and sales activities and assesses the success of them.

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 developments in the medical field, which sometimes go very fast.

Nursing care for the elderly needs to have a sound scientific basis more than ever before today. The situation in this area still needs to be optimised in many cases; it is still the exception for scientific findings to be implemented in practice. Good scientific and at the same time practically viable work needs to be developed at universities here in the coming years. Marseille-Kliniken AG would like to contribute to this by supporting outstanding projects.

There is already a lengthy tradition of research in the rehabilitation field. Karlsruher-Sanatorium-AG has played a pioneering role here too. From the mid-80s onwards, eqs.-Institut was a major player in the completion of extensive evaluation studies - known as the "Zauberberg studies" - particularly in the area of psychosomatic rehabilitation. They were among the first to be carried out in Germany and were compiled in co-operation with different universities.

The results of research projects enjoy particularly high priority at the company in the development of new treatment and furnishing concepts, from which the residents and patients benefit in the final analysis.

The development of an IT-based security concept for the nursing facilities should be mentioned in this context too. Before the end of the current financial year, it will already be possible at selected locations for visitors in particular to obtain access to their relatives who need nursing care outside normal visiting hours with a special identity card.

Another area that is being optimised all the time is e-learning, with the help of which it is being guaranteed that all employees receive training of consistent quality via the service company CASA.

In the year under review, we completed the restructuring of the training processes, in order to guarantee the high level of staff qualification in a comprehensive, controllable and sustainable way. The structure of the CASA training centre has changed due to the switch to e-learning at all the facilities. We have closed the training location in Bad Oeynhausen and transferred it to Hamburg in a smaller form. On the one hand, the training provided by CASA involving personal presence at its centre, which has been very successful in the past, will only account for 20 per cent of all the training activities in future following the introduction of e-learning. On the other hand, close co-operation with and physical closeness to the experts at the headquarters in Hamburg are essential for fast and effective implementation of the strategic decision in favour of e-learning.

Cost-efficient and central control of all human resources development processes that takes account of the latest requirements of the health care market and enables strategic decisions taken by the Group management to be implemented promptly was the specification made for the restructuring process. In its reorganised form, CASA now offers all staff the opportunity to participate in training courses and units via a blended learning concept. At the system level, we support e-learning in the administration and implementation of all the advanced training measures with the SAP Learning Solution. The emphasis is on increasing staff enthusiasm and motivation. Any member of staff can book the training provided either via specially established e-learning rooms at the facilities or at his or her own PC workplace. The success of the training is validated by means of tests taken at the end, while rewards are also made for excellent performances. The concept gives staff a constant incentive to continue training for the good of the company. It guarantees the company staff with high potential and sustainable maintenance of the quality of our corporate processes.

Increase in the number of employees

The employees of Marseille-Kliniken AG looked after the interests of the residents and patients at the facilities with impressive professional skill and great humanity. They are the guarantee that the promise made by the company - "Better if we are there" - is kept.

The number of employees in the Group increased again following the opening of new facilities and takeovers. There were 4,849 employees (full-time equivalent/FTE including part-time staff) on average in 2005/2006. This is 329 more than in the previous year. The nursing division had 2,743 employees, while the rehabilitation and acute clinics had 627 (previous year: 639) and the service/administration companies had 1,479 (previous year: 1,474). The increase in personnel within the nursing division amounted to 336 employees. Personnel expenses increased by 2.1% to € 106.7 million, which is lower than the increase of 7.3% in the number of employees and is attributable to economies of scale due to the maintenance of the same personnel level at the administrative units. The overall personnel cost rate in the Group decreased from 51.8% to 50.7%. This means that productivity per employee increased again, in spite of the negative impact of facilities that started operation and the reduction in sales by the rehabilitation division.

Risk report

Marseille-Kliniken AG risk management system

With the establishment of a central management system, risk management is a prominent feature of our operations and is optimised on an ongoing basis. A multiple-stage planning and control system guarantees that consistent risk principles are implemented and maintained. Deviations from targets that have been set are detected immediately and are eliminated directly at the facilities in liaison with the local personnel. Our own specialised departments deal with issues relating to tax, competition and environmental legislation. In addition to this, the Group has codes of conduct and directives that apply throughout the Group and make sure potential risk factors are tackled and communicated consistently.

A Group-wide reporting system ensures that the decision makers are always kept informed accurately and quickly. It indicates the extent to which goals have been reached at all times and acts as an issuer of early warnings about changes in quality and competition on the market.

Risks associated with the general environment and market in which we operate

Increasingly dynamic competition, consolidation and more exacting quality requirements made by residents, patients and the government are the main features of the economic environment.

The legally specified provision of qualified staff at the facilities may, for example, lead to an additional increase in wage costs, because qualified personnel is a factor that is becoming more and more of a bottleneck.

The doctors' strike at the acute clinics that began in March has had some effect on occupancy rates in the rehabilitation division where follow-up treatment is provided. Further doctors' strikes would represent a risk that could influence occupancy in the rehabilitation division for a limited period of time.

The forthcoming VAT increase and the steadily rising energy costs will lead to higher non-personnel costs, which the company cannot pass on directly to the patients and residents. The company has to renegotiate the nursing care rates to take account of these increases. We have initiated the appropriate action here and have already submitted the necessary applications for all the facilities.

Risks associated with the corporate strategy

As expected, the rehabilitation division reported negative earnings for the year under review. The objectives are therefore clearly defined: we will be completing the restructuring measures that are still necessary as quickly as possible, in order to reach break-even with the entire rehabilitation portfolio. We will also be concentrating on divestment of the operations of our clinics on the market and will be carrying out further sale-and-leaseback transactions for our clinics too if we are successful.

The basic assumption in the planning calculations continues to be that an average overall occupancy rate of more than 90% will be reached at the clinics from the 2008/2009 financial year onwards. The introduction of DRGs and the implementation of the alternative concepts for the former clinics in Waldkirch and Reinerzau are major preconditions for this.

Risks associated with service quality

Risks connected with the quality of the nursing services, treatment and care provided are countered by means of ongoing staff development and training on the basis of the latest scientific findings and methods. Steady improvement and optimisation of state-of-the-art EDP-based systems also have high priority. The questioning of relatives and tests carried out at the facilities by our central quality management department enable us to assess the quality of the services provided, on the basis of objective and subjective criteria.

The introduction of a complaint management system within the Group and the intensification of the co-operation with the home residents' councils at the individual locations as well as with the Group home residents' council enable a process of continuous improvement to be carried out by responding to customers' requests.

The opinion research institute TNS Emnid has compiled the first internationally comparable survey about "Expectations of the 50+ generation on their old age" on behalf of Marseille-Kliniken AG. The survey concludes not only that senior citizens today are better off than ever before, but also that they feel their quality of life will be decreasing. Their assessment of developments in the social field is negative, particularly in Germany. The "50+ generation" is extremely pessimistic about financial security when nursing care is needed as well as about health care service provision. With its concept of facilities providing services of varying quality classified by the hotel star system, Marseille-Kliniken AG is anticipating the tremendous change in society that is being brought about by the situation unique in our history that the average age of a complete society is increasing rather than a single generation getting older.

Financial risks

The financial burdens have been reduced by the sale of the properties of the somatic clinics at the locations in Blankenburg and Bad Klosterlausnitz within the framework of the transaction with CIT Group Europe and this is leading to an improved financial profile.

Legal risks

Marseille-Kliniken AG faces very limited risks in connection with changes in legislation about the social security systems. New attempts are regularly made to give the system financial stability by means of legal regulations. In view of the general political conditions, the risks involved in changes to the existing legislation are assumed to be very limited. The introduction of the nursing care insurance system is, on the other hand, considered to be positive by all social groups. The successful introduction and application of DRGs is important to guarantee the survival of clinics in an increasingly tough competitive environment. In the course of our company's history, we have battled our way through repeated disputes with individual local and state government authorities when this has appeared to be necessary for the benefit of our customers and society in general, so that discrimination is not allowed by comparison with public and non-profit organisations. If the government changes the general conditions for Germany as a whole in future, we are convinced that we will be able to maintain our leading position in the competitive environment due to our overall focus on the customer and economically viable operation.

To cover risks, decisions and the organisation of business processes are in general based on comprehensive legal and tax advice.

The company is involved in a number of active and passive court cases. The prospects of success in the passive court cases are considered good; if the company was to lose individual cases, this would not have any material impact on the asset situation, financial position and profitability of the company.

Miscellaneous 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 responsible detergents are deployed in the laundry operations. Dishwashers are optimised to run in accordance with the specific requirements and minimise the consumption of dishwasher detergent. Returnable packaging is used in most cases. 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.

Risk situation of the Group

Marseille-Kliniken AG is the first company on the inpatient nursing care market to obtain a rating from the international rating agency Standard & Poor's (S&P) every year. All in all, only 8% of the companies in Germany with a stock market listing have a rating. The banks that refinance the company and investors not only consider this independent external rating to be a positive factor; at the same time, they also consider it to be a basic precondition for being accepted as a sound partner. Marseille-Kliniken AG has a good rating by international standards with its S&P rating of BB- with a 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 a better rating than the international peer group company Sunrise Senior Living, which is also based in the USA.

The low occupancy rate in the rehabilitation division and the loss of € 2.2 million made by the rehabilitation operations in the 3rd quarter of the financial year as a result is not endangering the success of the restructuring concept that will be returning this division to profit.

Following the closure of clinics and conversion into nursing homes, all the facilities that are being operated satisfy the cost and occupancy requirements. This means that a sound basis has been created for making Marseille-Kliniken AG more independent of occupancy fluctuations.

The rehabilitation division is becoming less and less important to the profitability of the Group as a whole. The outstanding performance in the nursing division confirms the alignment of our operations, which continue to be focussed on further profitable growth of the Group.

A review of the current risk situation has revealed that no risks were faced in the year under review which might jeopardise the survival of the company and that none are apparent with respect to the future either.

The following measures have been taken as a precaution in view of apparent risks that might have an adverse effect on company development:

Due partly to the earnings situation in the rehabilitation segment, which continues to be unsatisfactory from the overall economic point of view, receivables from Karlsruher-Sanatorium-AG worth € 5.2 million were written off in the accounts of Marseille-Kliniken AG. The fixed assets of Karlsruher-Sanatorium-AG were also written down by an amount of € 1.3 million at Group level following the revaluation exercise within the framework of the spin-off of the operations; this write-down related to the clinic location in Bad Herrenalb.

As in the previous year, the value of the assets of the clinics and the rehabilitation segment in general was determined on the basis of planning calculations using the discounted cash flow method in accordance with the standards of the German Institute of Auditors (IDW).

As in the previous year, the basic assumption of the planning calculations was still to achieve full utilisation of the remaining clinic beds in the medium term, i.e. from the 2008/2009 financial year onwards, when the restructuring measures have been completed and when the market shake-out is over. Apart from further intensification of the sales activities and the successful application of DRGs, the main success factors on which this depends are:

- The conversion of 100 beds at the location in Schömberg to a nursing clinic, that is in the process of being implemented.

- Further restructuring of the segment.

As in the previous year, the value of capitalised earnings was determined by applying a discount interest rate of 8.0%.

Fulfilment of the planning assumptions continues to depend to a large extent on business development at the Kinzigtal clinic in Gengenbach, the Gotthard-Schettler clinic in Bad Schönborn and the Schömberg clinic. These three clinics on their own represent the value assumed for the participating interests. While the Gotthard-Schettler clinic is already reaching full occupancy, as in the past, the targets set will be reached at the beginning of the next financial year following the completion of the conversion of some of the capacities in Schömberg to a nursing clinic.

The extent to which the value of the assets committed in the rehabilitation division is maintained depends on the extent to which the planning assumptions on which valuation was based are fulfilled.

Events after the end of the financial year

No events have occurred since the end of the 2005/2006 financial year that affect the picture of the situation of the Group presented in the Group annual accounts.

Reference does, however, need to be made in this context to the fact that 100 of the total of 229 beds at the psychosomatic clinic in Schömberg are now being converted to a nursing clinic following the balance sheet date.

Dependent companies' report

A report about the legal and business relationships to all affiliated companies in accordance with § 312 of the AktG has been compiled that 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 of the specified payments as well as in the information given and received in the context of contacts. Care was taken to make sure that appropriate payment was made. Costs and prices correspond to the work done and/or the conditions for comparable business transactions with third parties. The Management Board also confirms that Marseille-Kliniken AG received appropriate consideration for all the legal transactions and was not placed at a disadvantage in any of the measures that were taken or not taken or, if it was, the disadvantages were compensated for. The report includes all the business transactions and measures that require notification of which the Management Board was aware."

Prospects

2005/2006 was an eventful financial year and the company is determined to take advantage of the positive trend of the Marseille-Kliniken Group. A large number of new projects have been developed that will be generating significant sales and earnings potential in the coming months and years. The market environment can also be expected to help the company. Various nursing home operators are unable to stand the increasing price pressure. The process of consolidation on the nursing market will be accelerating again as a result. Marseille-Kliniken AG will be one of the winners of the consolidation process and will be taking over additional facilities from private operators, local authorities and non-profit organisations.

The company anticipates a substantial improvement in operating results in the next two financial years. The positive development in the nursing division and the increase in the occupancy rate at the new facilities that have been added will be leading to smaller start-up losses and thus to faster profit growth. In the rehabilitation division, better earnings than in the previous year are already expected for the new financial year following the end of the doctors' strike due to the increases in the occupancy rates that have already been achieved.

For the next two financial years, the company is working on the assumption of above-average sales and earnings growth over the previous year. As far as sales development is concerned, this means average growth of 8.5% in the next two years. Adjusted earnings should increase disproportionately fast, as a positive development in occupancy has a disproportionately strong impact on coverage of the essentially fixed cost structure. This will be attributable mainly to the expansion in capacity and the dynamic growth that can be expected to continue in the nursing segment. At the present time, contracts have been signed for about 1,000 new beds.

The focus is on further facilities in North Rhine-Westphalia, Berlin and Hamburg. Contracts have already been concluded for the locations in Kreuzberg, Potsdam, Düsseldorf II, Bremerhaven and Meerbusch.

The overall goal Marseille-Kliniken AG is pursuing in the new financial year is to increase its bed capacity to a total of 9,000 beds.

The excellent performance in the nursing division confirms the alignment of our operations, which continue to be focussed on further profitable growth of the Group. The company is therefore expecting a pre-tax return of at least 8.5% in the nursing segment. The rehabilitation operations, which only contribute about 20% of Group sales in the meantime, are becoming less and less significant as far as the profitability of the Group as a whole is concerned. The company has set itself the goal for this division of reducing the loss made in the previous year considerably in the new financial year. The company also intends to withdraw from the rehabilitation segment in the short to medium term by selling facilities gradually.

In view of the location analysis and profitability calculation on which the growth planning is based, the company is convinced that it will reach a total capacity of 12,000 beds by the end of 2008.

Berlin, October 2006

Marseille-Kliniken Aktiengesellschaft

The Management Board

Annual accounts

Group profit and loss account (IFRS) for the 2005/2006 financial year and the previous year

	2005/2006 €	2005/2006 €	2004/2005 €	Note
Sales	210,430,859.42		201,527,055.37	26
Other operating income	38,823,045,47		23,322,311.94	27
Total performance		249,253,904.89	224,849,367.31	
Cost of materials				28
a) Cost of raw materials, consumables and supplies	-23,422,893.94		-21,713,17.32	
b) Cost of purchased services	-7,628,499.90		-8,269,350.64	
		-31,051,393.84	-29,982,524.96	
Personnel expenses				29
a) Wages and salaries	-87,400,014.53		-86,058,733.97	
b) Social security and pension/welfare costs	-19,323,153.76		-18,435,889,18	
Depreciation		13,124,720.61	-14,782,421.64	30
Other operating income		-72,599,276.49	-52,444,378.49	31
Earnings from business operations		**25,755,345.66**	**23,145,419.07**	
Financial result				32
Other financial income	1,269,232.19		1,068,883.74	
Other financial expenses	-12,832,928.13		-15,377,421.08	
		-11,563,695.94	-14,308,537.34	
Earnings before tax		14,191,649.72	8,836,881.73	
Tax expenses		-4,510,632.89	-2,565,148.74	33
Net Group profit		9,681,016.83	6,271,732.99	
Minority interests' share in the net Group profit		-817,882.21	148,136.32	34
Net Group profit attributable to the Marseille-Kliniken AG shareholders		**8,863,134.62**	**6,419,869.31**	
Earnings per share				35
Undiluted earnings per share in €		**0.73**	**0.53**	
Diluted earnings per share in €		**0.73**	**0.53**	

Group balance sheet (IFRS) at 30 June 2006 and 2005

	30.06.2006 €	30.06.2006 €	30.06.2005 €	Note
Assets				
Non-current assets				
Intangible assets	32,594,718.89		21,854,829.11	1
Tangible assets	195,527,141.23		294,008,894.36	2
Properties held as financial investments	9,708,935.44		5,551,029.48	3
Other financial assets	5,199,863.18		5,672,698.91	4
Deferred tax assets	7,208,558.03		5,677,758.23	5
		250,239,216.77	332,765.210.09	
Current assets				
Inventories	2,216,116.58		1,577,308.26	6
Trade receivables	13,631,333.28		12,928,844.32	7
Other receivables	22,751,051.66		28,757,564.39	8
Current tax assets	1,552,971.30		173,080.96	9
Cash and cash equivalents	32,245,118.85		4,733,910.58	10
Non-current assets available for sale	0.00		21,466,581.22	
		72,396,591.67	69,637,289.73	
Total assets		**322,635,808.44**	**402,402,499.82**	
Shareholders' equity				
Subscribed capital	31,100,000.00		31,100,000.00	11
Capital reserve	15,887,038.24		15,887,038.24	12
Revenue reserves	627,105.53		1,335,561.06	13
Accumulated Group loss	-19,153,232.41		-24,137,872.97	14
Treasury shares	0.00		-53,779.75	
Minority interests	682,793.29		-111,120.24	15
		29,143,704.65	24,019,826.34	
Allocated investment grants		51,122,435.82	52,284,502.26	16
Non-current liabilities				
Non-current financial debt	117,096,416.88		170,997,805.49	17
Pension commitments	17,570,363.76		19,419,922.00	18
Deferred taxes	20,407,984.64		17,060,332.67	19
Other non-current liabilities	24,597,045.65		25,201,646.64	20
		179,671,810.93	232,679,706.80	
Current liabilities				
Current financial debt	12,397,170.93		9,354,419.77	21
Current provisions	11,273,187.60		10,874,608.50	22
Trade payables	8,328,793.60		8,786,904.66	23
Current tax liabilities	3,140,338.08		5,137,657.60	24
Other current liabilities	27,558,366.83		32,137,211.07	25
Liabilities directly connected with non-current assets held for sale	0.00		27,127,662.82	
		62,697,857.04	93,418,464.42	
Total shareholders' equity and liabilities		**322,635,808.44**	**402,402,499.82**	

Group statement of cash flow (IFRS)	2005/2006		2004/2005		Change
	€ '000	€ '000	€ '000	€ '000	€ '000
Cash flow from business operations					
Earnings before interest and tax (EBIT)	25,755		23,145		2,610
Taxes on income and earnings	-4,511		-2,565		-1,946
Financial result	-11,564	-16,075	-14,309	-16,874	2,745
Expenses/income that have no impact on payment		9,680		6,271	3,409
Proceeds of the disposal of assets (profit/loss)	-18,588		-3,881		-14,707
Depreciation	11,825		14,243		-2,418
Changes due to valuation exercises	1,800		0		1,800
Other income and expenses that have no impact on payment	655		359		296
Payments made to acquire consolidated companies	-1,850		1,389		-3,239
Increase/decrease in other provisions	399		-7,729		8,128
Changes in net current assets	17,218	11,459	8,428	12,809	8,791
Decrease/increase in assets/liabilities		21,139		19,080	2,059
Net cash flow from business operations					
Cash flow from investment activities					
Change in the companies consolidated (ADG)	-10,171		0		-10,171
Additions to intangible assets	-1,856		-1,373		-483
Addition to tangible assets	-16,982		-20,946		3,964
Additions to financial assets	-4,764		-5,646		882
Proceeds of asset disposals					
Intangible assets	368		232		136
Tangible assets	121,847		56,776		65,071
Financial assets	1,079		892		187
Net cash flow from investment activities		89,520		29,936	59,584
Cash flow from financing activities					
Increase/decrease in medium- and long-term bank liabilities	-81,029		-34,055		-46,974
Increase/decrease in short-term financial liabilities	3,043		515		2,528
Increase/decrease in other long-term liabilities	-605		-7,473		6,868
Other changes in shareholders' equity	303		-202		505
Distribution of profits	-4,860		-4,860		0
Net cash flow from financing activities		-83,148		-46,076	-37,072
Increase in cash and cash equivalents		27,511		2,940	24,571
Increase/decrease in cash and cash equivalents		27,511		2,940	24,571
Cash and cash equivalents at the beginning of the financial year		4,734		1,794	2,940
Cash and cash equivalents at the end of the financial year		**32,245**		**4,734**	**27,511**
Breakdown of the cash and cash equivalents at the end of the financial year					
of which cash in hand and at banks		32,245		4,734	27,511

Group equity schedule (IFRS)

	Subscribed capital € '000	Capital reserve € '000	Revenue reserves € '000	Group loss € '000		Treasury shares € '000	Marseille-Kliniken AG shares € '000	Minority interests € '000	Total equity € '000
Balance on 01.07.2004	**31,100**	**15,887**	**1,335**	**-25,550**		**0**	**22,772**	**-259**	**22,810**
Dividends paid	0	0	0	-4,860		0	-4,860	0	0
Other changes	0	0	0	0		-54	-54	0	0
Net Group profit for the year	0	0	0	6,272		0	6,272	148	0
Balance on 30.06.2005	31,100	15,887	1,335	-24,138		-54	24,130	-111	24,019

	Subscribed capital € '000	Capital reserve € '000	Revenue reserves € '000	Group loss € '000		Treasury shares € '000	Marseille-Kliniken AG shares € '000	Minority interests € '000	Total equity € '000
Balance on 01.07.2005	**31,100**	**15,887**	**1,335**	**-24,138**		**-54**	**24,130**	**-111**	**24,019**
Dividends paid	0	0	-708	-4,860		0	-4,860	0	0
Other changes	0	0	0	164		54	-490	1,611	0
Net Group profit for the year	0	0	0	9,681		0	9,681	-817	0
Balance on 30.06.2006	31,100	15,887	627	-19.153		0	28,461	683	29,144

Notes to the annual accounts for the 2005/2006 financial year

Background information and methods

These notes were compiled about the Group annual accounts of Marseille-Kliniken AG, Berlin. The Group annual accounts to which they relate were approved by the Management Board on 17 October 2006.

Marseille-Kliniken AG has its registered office in Berlin (HRB 86329).

The purpose of Marseille-Kliniken AG is to build, acquire and/or operate hospitals, rehabilitation clinics, spa facilities, nursing facilities, senior citizen's residential homes, service companies in the social and charitable field and accommodation companies in Germany and other countries.

The administrative headquarters are in rented premises in Hamburg (Sportallee 1).

The present Marseille-Kliniken AG Group annual accounts were prepared for the first time in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, that applied on the balance sheet date, taking the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) into consideration. The IASC rules were applied for the first time in accordance with the IFRS 1. Accounting and valuation were therefore converted to the IFRS/IAS with effect from 01 July 2004 with no effect on earnings, either increasing or decreasing the Group revenue reserves.

The Marseille-Kliniken AG Group annual accounts were prepared in accordance with the provisions of German commercial law ("HGB Group annual accounts") for the last time as per 30 June 2005. Where there are differences between the HGB and IFRS accounting, valuation and consolidation principles, appropriate corrections were made to comply with the IFRS rules. This applies to both the period under review and the period with which comparison is made.

The Group annual accounts were prepared 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). All the International Financial Reporting Standards (IFRS) - formerly International Accounting Standards (IAS) - that have to be applied to the financial year starting on 1 July 2005 and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) - formerly Standing Interpretations Committee (SIC) - were taken into consideration. No accounting and valuation methods in accordance with German law were used that are not in agreement with the IFRS/IAS or IFRIC/SIC. The Group annual accounts comply with the European Union directives about Group accounting (directive 83/349/EEC). New standards approved by the IASB are applied from their effective date onwards.

Preparation of the Group annual accounts in accordance with the IFRS requires assumptions and estimates to be made that have an impact on the values stated for the assets, liabilities, income and expenses included in the accounts. These assumptions and estimates relate, among other things, to the accounting and valuation of provisions, with the discounting factor for provisions for pensions and similar commitments representing a major estimation factor.

The goodwill impairment test is based on key assumptions about the future. Changes to these key assumptions did not lead to a reduction in the book values of the cash generating units above their recoverable amount and thus to a change in the book values in the next financial year. The individual planning calculations of the subsidiaries / participating interests were the basis for determining this. Working on the assumption of a sustained capital market return of 5.5%, a risk-adjusted capitalisation interest rate of 8.0% was applied.

The specification of the economic useful life of the tangible assets and the residual value of these assets at the end of this useful life are also based on assumptions. These assumptions are determined with the help of external sources. Estimates about the recoverable amount are also made in accordance with IAS 36, with reports about the land and buildings being produced by external experts in some cases.

The provisions for bad debts, the deferred tax assets relating to losses carried forward and the valuation of the other provisions are also based on appropriate assumptions and estimates by the management that were made taking the latest dependable information that was available into consideration.

All the assumptions and estimates are based on the circumstances and assessments on the balance sheet date. In addition to this, the future development of the economic environment in the industry and regions in which the Group operates that was assumed to be realistic at this time was taken into consideration with regard to the anticipated development of the business in future. The actual figures may differ from the estimates made due to developments in these general conditions that deviate from the assumptions. In such cases, the assumptions and, if necessary, the book values of the assets and liabilities concerned are adjusted accordingly. At the time when the Group annual accounts were prepared, there was nothing to suggest the need for a major change to the assumptions and estimates made, so that no major adjustment of the book values of the assets and liabilities stated is to be expected in the 2006/2007 financial year as the situation appears at present.

Due to the application of the IFRS/IAS for the first time, the following main changes were made from the accounting and valuation principles applied in the HGB Group annual accounts in the past with effect from 1 July 2004:

- The terminology used for the items in the balance sheet and profit and loss account were adapted to the IFRS/IAS
- In accordance with IAS 1 (Presentation of Financial Statements), the assets and liabilities in the balance sheet are structured according to whether they are current or non-current
- Deferred charges/prepaid expenses and deferred income are included in other current assets and other current liabilities
- Change in the inclusion of other provisions and current liabilities in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)
- Discontinuation of the scheduled depreciation of goodwill and obligation to carry out an impairment test at least once a year in accordance with IFRS 3 (Business Combinations)
- Capitalisation of assets and inclusion of the relevant liabilities as such on the basis of finance leasing contracts in accordance with IAS 17
- No inclusion of provisions for expenses (provision for failure to carry out maintenance)
- Valuation of pension and anniversary provisions by the projected unit credit method, taking future salary and pension developments and current biometric probabilities into account in accordance with IAS 19 (Employee Benefits)
- Tax allocation in accordance with the liability method on the basis of IAS 12 (Income Taxes)
- Inclusion of services in progress as a receivable due for services that have not been charged yet in accordance with IAS 18 (Revenue).

The Group annual accounts are prepared in euros. All the amounts are indicated in thousand euros (€ '000) unless information is provided to the contrary. There are no derivative financial instruments. Business transactions in foreign currencies are of only minor importance and there are no material exchange rate risks. Business transactions that are carried out in different currencies than the euro are included at the current exchange rate on the date of the business transaction. Assets and liabilities in foreign currencies are converted at the exchange rate on the balance sheet date. The cost summary method was chosen for the profit and loss account.

The company complies with the requirement to report about events after the balance sheet date in the management report.

Accounting and valuation principles

The companies included in the Group annual accounts apply the same consistent accounting and valuation principles in accordance with the provisions of the HGB as in the previous year, which are converted to IFRS principles at Group level.

With the exception of goodwill, the **intangible assets** are stated at historical costs less scheduled depreciation. Software developed in the Group does not represent an internally generated intangible asset, because the statement criteria specified in IAS 38.57 are not fulfilled. The research and development expenses incurred in this context are immaterial in the Group.

The **goodwill** generated within the framework of consolidation represents the amount by which the historical costs of an acquired company exceed the Group's share of the fair value of the identifiable assets and liabilities of a subsidiary on the acquisition date. The goodwill generated by company acquisitions before the IFRS transition date was taken over from the previous HGB accounts, with an impairment test being carried out at this time. The goodwill that was depreciated in previous periods was not recovered. The goodwill is subjected to an impairment test as per 30 June every year. If there are signs that impairment has taken place, appropriate unscheduled depreciation to the recoverable amount is made.

The **tangible assets** are included at historical costs less scheduled depreciation. The total amount of the assets depreciated in this way in the year under review is shown in depreciation.

Scheduled **depreciation** of the Group tangible assets and intangible assets with a limited useful life is based on the following useful lives:

Franchises, industrial property rights and licences	3 to 8 years
Buildings	50 years
Technical plant and machinery	6 to 30 years
Fittings and equipment	3 to 15 years

Depreciation charges were made on a straight-line basis according to the standard useful life. In accordance with the definition given in IAS 16.6, depreciation of buildings is to a residual value that amounts to 10% of the historical or production costs.

A systematic impairment test of the book value of all the intangible assets and tangible assets is carried out at least at the end of each financial year.

The impairment test made of the book values of the properties in the rehabilitation division is based on valuation by an independent expert, who has appropriate professional qualifications and current experience about the location and nature of the properties requiring valuation. Valuation is carried out in the expert's reports in accordance with a standardised process.

When there are signs that the book values of goodwill may be too high, an impairment test is carried out. Goodwill is subjected to an impairment test at least once a year irrespective of whether there are any signs of a reduction in value or not. Unscheduled depreciation is charged in cases when the recoverable amount is lower than the book value of a cash generating unit to which the goodwill has been allocated.

Government **grants** are allocated to equity and liabilities. These grants are released over the useful life of the acquired assets and the amounts released are shown in other operating income.

With the exception of interest incurred during the construction phase, **borrowing costs** in accordance with IAS 23.10 are included as expenses in the profit and loss account in the period in which they are incurred. Interest charged during the construction phase for money borrowed is included in production costs in accordance with IAS 23.11. No interest costs were incurred during construction in the year under review, so no capitalisation occurred accordingly either.

Leasing contracts in accordance with IAS 17 are classified as **finance leases** when essentially all the risks and opportunities associated with ownership are transferred to the lessee as a result of the leasing conditions. This is assumed when the present value of the minimum leasing payments essentially corresponds to at least the fair value of the object leased. 90% of the fair value is considered to be the lower limit for this. Assets held in the context of finance leases are included as Group assets with the lower of their fair value or the present value of the minimum leasing payments at the beginning of the leasing contract. The relevant liability to the lessor is shown in the balance sheet as a finance lease commitment. The leasing payments are broken down in such a way into interest expenses and reductions to the leasing commitment that interest on the remaining commitment is constant. Interest expenses are included directly in the profit and loss account, unless they can be assigned clearly to a qualified asset. In this case, 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 sale exceed the book value are allocated and are included in the profit and loss account over the term of the leasing contract.

Participating interests (including shares in affiliated companies) are stated at historical costs. Depreciation is made to a lower fair value to the extent that a permanent reduction in value can be assumed.

Properties held as financial investments are properties that are held to generate rental/leasing income and/or with the expectation that their value will increase. They are included with their fair value (or historical costs, in which case an appropriate valuation method is indicated) on the balance sheet date. Gains or losses arising from changes in the fair value of the properties held as financial investments are included in earnings in the period in which they occur.

Inventories are valued at historical or production costs.

When a current financial asset is **included for the first time**, it is stated with the historical costs, which correspond to the fair value of the consideration paid including ancillary historical costs.

Receivables that are not held for trading purposes are included with their current historical costs. Receivables without a fixed maturity date are valued with their historical costs. Provisions for doubtful receivables are formed on a general basis; uncollectible receivables are written off.

In accordance with IAS 18.20, the receivables due for services that have not been charged yet are estimated reliably. The services are charged on the basis of either daily rates or lump sums per case, which can be converted into fictitious daily rates. Uncollectible or doubtful amounts do not lead to reductions in revenue; instead of this, they are included as expenses in accordance with IAS 18.22. The receivables are included with their current historical costs. Provisions for doubtful receivables are formed on a general basis; uncollectible receivables are written off.

Cash and cash equivalents include cash in hand, sight deposits, other current, highly liquid financial assets with an original maximum term of three months and current account credit balances. Current account overdrafts are shown as current financial debt in the bank loans and overdrafts item.

Non-current assets that are classified as **available for sale**, are valued with the lower of the book value and the fair value less disposal costs. Non-current assets and groups of assets are classified as available for sale when their book value can be achieved better by sale than by continued use. This condition is only considered to be fulfilled if sale is highly probable and the asset (or the group of assets that are available for sale) is available for immediate sale in its current state. The company management must be committed to the sale, a condition that is fulfilled when completion of the sale is recorded within one year starting on the date of allocation.

The special items for fixed assets (special items for investment grants for land and buildings, as per official subsidy note) are shown as a liability item on the balance sheet and have to be posted as income in the course of the periods needed to offset the relevant expenses they are supposed to compensate for.

Non-current financial debt is included in liabilities with the historical costs and is stated with the current historical costs in the subsequent periods. When loans are included for the first time, they are stated with their historical costs that correspond to the fair value of the consideration received less the costs associated with the obtainment of the loan. The loans on which interest is charged are valued in the subsequent periods at current historical costs, applying the actual interest rate method. Gains and losses are included in the results for the period when the debt is deleted, written down or amortised.

Pension and anniversary commitments are included by the projected unit credit method, taking future salary and pension developments and current biometric probabilities into account in accordance with IAS 19.

Payments for **contribution-based pension schemes** are included as expenses when due.

In accordance with IAS 37, the **other provisions** are formed to the extent that there is a current commitment to a third party from a past event that is likely to lead to an outflow of resources in future and can be estimated reliably. The provisions are made for the apparent risks and uncertain commitments with the amounts that will probably be incurred and are not offset against recourse claims. The total amount also includes the cost increases that need to be taken into consideration on the balance sheet date. Discounting is carried out if there is a material interest effect.

Liabilities are shown with their repayment amount. Bank loans for which interest is charged are stated with the amount of the loan. Gains and losses are included when liabilities are deleted.

The payments received on account from customers and **deferred income** are shown in other liabilities.

Taxes on income are accounted for and valued in accordance with IAS 12. **Deferred taxes** are the anticipated tax payments and/or relief from the differences between the book values of assets and liabilities in the annual accounts and the value stated in the calculation of the taxable income. The balance sheet-oriented liability method is applied in this context.

Deferred tax liabilities are in general included for all controllable temporary differences to the extent that it is probable that controllable profits will be available, for which the deductible temporary differences can be used. Such assets and liabilities are not included if the temporary difference is attributable to goodwill or the inclusion for the first time (except in the case of company mergers/business combinations) of other assets and liabilities that result from transactions which affect neither the taxable income nor the net Group profit for the year.

The book value of the deferred tax assets is checked every year on the qualifying date and is reduced if it is no longer probable that enough taxable income will be available to take full or partial advantage of the claim. Deferred taxes are determined on the basis of the expected tax rates that apply at the time when the liability is settled or the asset is realised. Deferred taxes are included in the profit and loss account, except for the items that are posted directly in equity. The deferred tax assets and liabilities are based on a tax rate of 26.375% (25% corporation tax plus 5.5% solidarity tax).

Severance payments are made when the employment contract is terminated if an employee is made redundant before the normal retirement age or ends the employment contract voluntarily in return for a severance payment. The Group includes severance payments in the accounts if it can provide evidence that it has to make severance payments when employees terminate the employment contract.

Bonus payments and profit-sharing arrangements lead to the inclusion of a liability in the cases where there is a contractual commitment.

There are no **share-based payments** as defined in IFRS 2.

Sales are valued with the fair value of the consideration that has been received or is to be received and represent the amounts that can be received for goods and services in the regular course of business. Discounts, sales taxes and other taxes associated with the sale have to be deducted. Internal sales within the Group are eliminated. Sales from the provision of services are posted in the financial year in which the services are provided in accordance with the progress made in the provision of the service concerned as a ratio of the amount of the service already provided to the total service that is supposed to be provided. Sales of assets are stated on delivery and transfer of the title.

Operating expenses are included in the profit and loss account when the service is provided or at the time when it is caused. Since essentially no input tax is deducted, the expenses also include VAT at the legally stipulated rate.

Write-ups, gains on the **disposal** of assets, **income from the release of provisions** and other **income attributable to different periods** are included in other operating income.

Unscheduled depreciation charges, losses on the **disposal** of assets and other **expenses attributable to different periods** are included in other operating expenses.

Interest income is allocated to the correct period, taking the outstanding loan amount and the interest rate that is charged into account. The interest rate that is charged is exactly the interest rate that discounts the estimated future inflows of funds over the term of the financial asset to the net book value of the asset.

Dividend income from financial investments is included at the time when the shareholder's legal claim to payment arises.

Reconciliation statements

Reconciliation of Group equity from HGB to IAS/IFRS for previous years

	30.06.05 € '000	01.07.04 € '000
Group equity – HGB	32,851	33,037
Pension provisions	- 4,088	- 2,619
Finance leases	- 5,638	- 7,024
Neutralisation of goodwill depreciation	893	0
Deferred taxes	- 312	- 2,601
Others	313	2,017
Group equity – IFRS/IAS	24,019	22,810

Reconciliation of profit for the year from HGB to IAS/IFRS

	04/05 € '000
Net Group profit for the year – HGB	4,674
Finance lease	1.386
Pension expenses	- 1,469
Neutralisation of goodwill depreciation	893
Deferred taxes	2,290
Others	-1.502
Group profit for the year – IFRS/IAS	6,272

Consolidation principles

The Group annual accounts include not only Marseille-Kliniken AG but also the companies on which Marseille-Kliniken Aktiengesellschaft is able to exert a controlling influence as specified in IAS 27. Control as specified in IAS 27 is exerted if it is possible to determine the financial and business policy of a company in order to obtain benefits from its operations. Inclusion in the Group annual accounts takes place at the time at which a controlling influence starts to be exerted. Subsidiaries of minor importance are not included. The list of shareholdings owned by the Marseille-Kliniken Group is kept in the commercial register at Berlin local court (HRB 86329).

A list of the main subsidiaries can be found on pages 60 ff.

SWP Soziale Grundbesitzgesellschaft mbH, Atrium Senioren-Wohnstift GmbH Nr. 24 GmbH and Atrium Senioren-Wohnstift Nr. 34 GmbH were included in the companies consolidated in accordance with the IFRS for the first time in the 2004/2005 financial year.

Betrium Nr. 49 Vermögensverwaltungs-GmbH, Betrium Nr. 52 Vermögensverwaltungs-GmbH, MobiRent Vermietungs GmbH, AMARITA Hamburg Mitte PLUS GmbH, SWP Düsseldorf - Volksgarten GmbH, Onkologische Fachklinik Bad König GmbH, Psychosomatische Fachklinik Gengenbach GmbH, Fachklinik für psychosomatische Erkrankungen Ortenau GmbH, Psychosomatische Fachklinik Schömberg GmbH, Klinik Gotthard Schettler GmbH, Klinik Bad Herrenalb GmbH, MediCargo GmbH, Marseille-Projektgesellschaft "Bremerhaven" GmbH, ADG mbH, Grundstücksgesellschaft Nikolaus Büren GmbH, St. Nikolaus-Hospital Büren GmbH, Medina Fördergesellschaft soz. Einrichtungen gGmbH and MK - IT Entwicklungs GmbH were included in the companies consolidated in accordance with the IFRS for the first time in the 2005/2006 financial year.

Consolidation principles for the Group annual accounts

Subsidiaries are all the companies in which the Group has control over the financial and business policy, combined as a rule with more than 50% of the voting rights. The existence and effect of potential voting rights that can be exercised or converted at the present time are taken into consideration when assessing whether control is exercised or not. Up to the preparation of Group annual accounts for the last time in accordance with the HGB rules, capital consolidation was carried out on the basis of the book value method, by offsetting the shares belonging to the parent company against the amount of the share-holders' equity of the subsidiary accounted for by these shares. The date of acquisition or, in the case of newly established companies, the date on which the company was founded, was the time at which all subsidiaries were consolidated for the first time. Differences on the assets side after completion of this offsetting exercise were included as goodwill on the assets side of the Group balance sheet and scheduled depreciation of them was carried out on a straight-line basis over 15 years, in accordance with valuation in the individual annual accounts, or over 30 years in the case of goodwill from initial consolidation.

The figures disclosed under commercial law as per 30.06.2004 were included in the IFRS opening balance sheet as per 01.07.2005. In accordance with IFRS 3 (Business Combinations), scheduled depreci-ation of goodwill is no longer carried out over the useful life; instead of this, an impairment test is made at least once a year, which can lead to a reduction in the value (impairment only approach). The individual operating locations are defined as "cash generating units" according to IAS 36 in this context. Shares in non-consolidated affiliated companies are included in the accounts as participating interests at current historical costs. If hidden reserves or hidden liabilities have been allocated in capital consolidation, deferred taxes on these differences are formed in accordance with IAS 12.

When companies are acquired, the assets and liabil-ities of the relevant subsidiaries are valued at their fair value at the time of acquisition. If the historical costs of the company acquisition exceed the fair values of the identifiable assets and liabilities acquired, the difference is shown as goodwill. Any negative difference between the historical costs of the company acquisition and the identifiable assets and liabilities acquired (i.e. a discount on acquisition) is charged to earnings in the acquisition period. The minority interests are shown with the proportion of the fair values of the assets and liabilities included that corresponds to the size of the minority interests. Any losses that can be attributed to the minority interests and exceed the minority interest are then offset directly against the shares of the parent company.

The results of the subsidiaries acquired or disposed of in the course of the year are included in the Group profit and loss account accordingly from the actual acquisition date onwards or until the actual disposal date.

If necessary, the annual accounts of the subsidiaries are adapted to match the accounting and valuation principles to those applied in the Group.

Receivables and payables between the companies included in the Group annual accounts, expenses and income from mutual business transactions as well as intercompany profits and losses are eliminated.

Explanatory notes about the statement of cash flow

The statement of cash flow is in general prepared by the indirect method in accordance with IAS 7 and is divided up into cash flows from business operations, investment activities and financing activities.

The elements relating to the investment and financing activities are determined by the direct method in the Marseille-Kliniken AG statement of cash flow. The cash and cash equivalents consist of the cash in hand and at banks. The cash flows from interest received and paid and from taxes on income and earnings are allocated to the business operations section.

The change in deferred taxes that has an impact on earnings but not on payment amounted to € 1.4 million in the year under review. The taxes on income and earnings paid in the year under review totalled about € 2.0 million.

The interest paid in the year under review amounted to € 11.0 million, while the interest received from capital investments was € 1.3 million.

The increase in the cash flow from investment activ-ities is attributable primarily to the property trans-actions successfully completed with GE and CIT in the year under review. Most of the proceeds of the sale of the properties were used to pay back the loans obtained to finance the properties concerned. The cash flow from financing activities therefore decreased accordingly.

The Marseille-Kliniken AG statement of cash flow was compiled consistently with the previous year with respect to the breakdown of the cash and cash equivalents, the way in which the statement is presented and the possible options exercised.

Segment report

The segment report was compiled in accordance with IAS 14, satisfying all the requirements of the standard. The aim of the standard is to present the specific profitability, growth prospects and risks of the different areas of operation on the basis of the combined data included in the Group accounts.

IAS 14 specifies that the report must be structured exclusively by business segments. In accordance with the stipulations of the risk and rewards approach in IAS 14, the segment must be defined as the primary reporting format that has a major impact on the risks and return on equity of the company.

Marseille-Kliniken AG provides medical rehabilitation services (follow-up and medical treatment) and nursing services, so that Marseille-Kliniken AG has chosen sectoral segmentation into the rehabilitation segment (post-acute) and nursing facilities (nursing care) as the primary reporting format.

In addition to this, there is the administration sector, which consists primarily of the central services. They include building, general services, asset management and EDP.

All in all, the services division includes the following companies:

Marseille-Kliniken AG, Berlin
SWP soziale Grundbesitzgesellschaft mbH, Hamburg
Pro F&B Gastronomische Dienstleistungs-gesellschaft mbH, Hamburg
PRO Work Dienstleistungsgesellschaft mbH, Cottbus
Marseille-Klinik-Delta GmbH, Hamburg
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gemeinnützige GmbH, Neuruppin
VDSE GmbH - Verwaltungsdienstleister sozialer Einrichtungen GmbH, Hamburg
PROMINT Dienstleistungsgruppe Neuruppin GmbH, Neuruppin
Held Bau Consulting Projekt Steuerungsgesellschaft mbH, Bremerhaven
SCS Standard Computersysteme Entwicklungs-gesellschaft mbH, Hamburg
SIV Immobilien-Verwaltungsgesellschaft mbH, Hamburg
DaTess Gesellschaft für Datendienste mbH, Tessenow
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg
EQS Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Karlsruhe
CASA Trainingszentrum für Hotel- und Sozialberufe GmbH, Bad Oeynhausen
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Tessenow
Tessenow Vermögensverwalungs GmbH, Tessenow
CareAktiv GmbH, Bremerhaven
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg
ProTec Dienstleistungsgesellschaft mbH, Schwerin
Betrium Nr. 49 Vermögensverwaltungs GmbH, Hamburg
MobiRent Vermietung GmbH, Hamburg
Betrium Nr. 52 Vermögensverwaltungs GmbH, Hamburg
Atrium Senioren-Wohnstift Nr. 24 GmbH, Hamburg
Atrium Senioren-Wohnstift Nr. 34 GmbH, Hamburg
MediCargo GmbH, Hamburg
Marseille-Projektgesellschaft "Bremerhaven" mbH, Hamburg
Grundstücksgesellschaft Nikolaus Büren mbH, Hamburg
MK IT-Entwicklungs GmbH, Hamburg

The income and expenses of these companies that it was not possible to allocate directly were allocated to the services segment for the purposes of clarity. The sales are also structured by internal and external sales, with the former playing a minor role. The total results tally with the balance sheet and profit and loss account.

The business transactions between the segments are carried out at standard market conditions, i.e. care was taken to make sure payment was appropriate. The costs and prices correspond to the expenses and conditions in comparable business transactions with third parties.

Sectoral (primary) segmentation

IAS 14 requires segmentation not only by areas of operation but also by geographical areas, which have different opportunities and risks and need to have a defined minimum size. Marseille-Kliniken AG operates exclusively on the German market, which represents a consistent economic environment due to the legal regulations that apply throughout Germany, so that the operations are exposed to the same risks and have the same opportunities of success irrespective of their location. The preconditions for further regional segmentation do not therefore exist.

Segments in 2006

	Segment figures							
	Nursing		Rehabilitation		Services		Total	
	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000	05/06 € '000	04/05 € '000
External sales	155,601	145,675	47,692	50,536	7,138	5,316	210,431	201,527
Internal sales (consolidated)	2,838	68	11	38	53,570	57,142	56,419	57,248
Segment earnings	**53,292**	**19,554**	**-596**	**431**	**-26,941**	**3,160**	**25,755**	**23,145**
Including:								
- Earnings from sale-and-leaseback transactions	21,531	2,445	-856	0	-303	3,336	20,372	5,781
- Scheduled depreciation	5,288	7,197	3,852	5,572	2,685	2,013	11,825	14,782
- Unscheduled depreciation	0	0	1,300	0	0	0	1,300	0
Other items with no effect on payment								
Income from the release of allocated investment grants	1,285	1,402	134	0	557	307	1,976	1,709
Provisions for bad debts	3,613	1,750	8,158	1,368	10,944	3,605	22,715	6,723
Balance sheet								
Assets	176,204	203,566	174,477	179,377	211,971	235,071	562,652	617,960
Liabilities	167,113	205,246	147,629	152,741	146,572	172,168	461,314	530,155
Investments	17,704	10,880	11,767	642	3,518	11,116	32,989	22,638

Reconciliation of major items

	2005/2006 € '000	2004/2005 € '000
Sales		
Sales to external third parties of the segments	210,431	201,527
Sales according to the accounts	210,431	201,527
Earnings before tax		
Segment earnings	25,755	23,145
Interest income	1,269	1,069
Interest expenses	-12,833	-15,377
Earnings adjustments from other consolidation entries	1	0
	14,192	**8,837**
Earnings before tax according to the accounts	**14,192**	**8,837**
Balance sheet total		
balance sheet total, segments	562,652	617,960
Consolidation	-240,016	-215,558
	322,636	**402,402**

Explanatory notes about the Marseille-Kliniken AG Group balance sheet

Non-current assets

1. Intangible assets

	Franchises, licences € '000	Software € '000	Goodwill € '000
Historical costs on 01.07.2005	1,131	7,102	22,394
Additions	0	1,404	10,623
Transfers	0	169	0
Disposals	0	- 409	0
Historical costs on 30.06.2006	1,131	8,266	33,017
Accumulated depreciation on 01.07.2005	722	3,553	4,497
Disposals	0	210	0
Change in value due to revaluation	0	0	0
Depreciation	143	1,046	68
Accumulated depreciation on 30.06.2006	865	4,389	4,565
Balance sheet value on 30.06.2005	409	3,549	17,897
Balance sheet value on 30.06.2006	266	3,877	28,452

The additions of € 1.4 million to software relate essentially (€ 0.9 million) to purchases of software programs by VDSE GmbH in the areas of human resources, time recording and customising for IFRS as well as purchases of new versions.

€ 28.4 million (previous year: € 17.9 million) of the goodwill total are accounted for by asset differences from capital consolidation. Most of the additions to the goodwill in the year under review (€ 10.1 million) are attributable to the consolidation for the first time of Allgemeine Dienstleistungsgesellschaft mbH - ADG.

In the previous year, the acquisition of the interest in Allgemeine Dienstleistungsgesellschaft mbH - ADG was shown in the other receivables item.

The goodwill relates primarily to ADG mbH (€ 10.1 million), SWP Aschersleben GmbH (€ 3.5 million), SWP Neuruppin GmbH (€ 3.2 million), Fachklinik Blankenburg GmbH (€ 1.2 million), SWP Bad Langensalza (€ 1.2 million) and SWP Thale GmbH (€ 1.0 million).

2. Tangible assets

	Land, buildings € '000	Technical plant and machinery € '000	Other fixtures, fittings and equipment € '000	Payments for account and assets under construction € '000
Historical costs on 01.07.2005	385,363	2,747	52,063	3,715
Additions	2,247	13	13,686	1,035
Transfers	- 20	- 2	22	- 169
Disposals	- 128,175	- 134	- 15,769	- 873
Historical costs on 30.06.2006	259,415	2,745	50,002	3,708
Accumulated depreciation on 01.07.2005	110,786	2,186	36,551	357
Impairment in accordance with IAS 36	1,300	0	0	0
Additions	750	110	9,524	182
Disposals	- 32,150	- 7	- 9,246	0
Accumulated depreciation on 30.06.2006	80,686	2,289	36,829	539
Balance sheet value on 30.06.2005	274,577	561	15,512	3,358
Balance sheet value on 30.06.2006	178,729	456	13,173	3,169

The land and buildings item includes € 23.7 million (previous year: € 25.1 million) that represent leasing contracts classified in accordance with IAS 17, to the extent that they have to be considered as finance leasing contracts.

The land and building disposals in the year under review are attributable primarily to extensive property transactions in the context of a sale-and-leaseback deal. In the year under review, they involved the sale of two properties to GE and seven properties to CIT and their leaseback for facility operation via long-term leasing contracts.

Government grants for the funding of investments are posted on the equity and liabilities side of the balance sheet in accordance with IAS 20.

3. Properties held as financial investments

The buildings held exclusively as a financial investment were valued by the historical cost method. The market value of the Siekertalklinik building in Bad Oeynhausen on 30 June 2006 was € 5.6 million and the market value of the property in Waldkirch was € 4.0 million. These market values were determined solely on the basis of the report compiled by an independent expert.

	Land, buildings € '000
Historical costs on 01.07.2005	14,051
Additions (reclassification)	16,134
Historical costs on 30.06.2006	30,185
Accumulated depreciation on 01.07.2005	8,500
Depreciation	11,976
Accumulated depreciation on 30.06.2006	20,476
Balance sheet value on 30.06.2005	5,551
Balance sheet value on 30.06.2006	9,709

4. Other financial assets

The other financial assets amounted in the year under review to € 5.2 million (previous year: € 5.7 million).

	Shares in affiliated companies € '000	Participating interests € '000	Pension commitment assets € '000	Other loans € '000
Historical costs on 01.07.2005	1,800	133	3,210	1,080
Additions	605	0	0	0
Transfers	0	0	0	0
Disposals	-432	0	-642	-4
Historical costs on 30.06.2006	1,973	133	2,568	1,076
Accumulated depreciation on 01.07.2005	509	42	0	0
Depreciation	0	0	0	0
Accumulated depreciation on 30.06.2006	509	42	0	0
Balance sheet value on 30.06.2005	1,291	91	3,210	1,080
Balance sheet value on 30.06.2006	1,464	91	2,568	1,076

5. Deferred tax assets

Deferred tax assets are due to the temporary differences between the IAS balance sheet amounts and the tax values on which the taxes charged for assets and liabilities are based. IAS 12.53 stipulates that deferred taxes must not be discounted. 26.375% (corporation tax, solidarity tax) were taken as the relevant tax rate.

Deferred taxes are included for losses carried forward to the extent that it is probable advantage can be taken of them via taxable income in future. Most of the losses can be carried forward for unlimited periods of time; some Group companies can carry losses forward for several years.

	Difference		Tax on this amount	
	2006 € '000	2005 € '000	2006 € '000	2005 € '000
Pension commitments, non-current	2,367	4,089	624	1,078
Tax losses carried forward, non-current	18,319	12,518	4,832	3,302
Finance leases	5,145	5,080	1,357	1,340
Others	1,497	- 160	395	- 42
	27,328	**21,527**	**7,208**	**5,678**

Current assets

6. Inventories

The inventories item amounted to € 2.2 million in the year under review (previous year: € 1.6 million) and includes raw materials, consumables and supplies totalling € 1.6 million (previous year: € 1.4 million), finished goods and merchandise totalling € 0.1 million (previous year: € 0.1 million) and payments for account totalling € 0.5 million (previous year: € 0.1 million).

The raw materials, consumables and supplies essentially consist of stocks of medical products.

7. Trade receivables

The remaining term of the receivables is up to one year.

	30.06.06 € '000	30.06.05 € '000
Total receivables	13,631	12,929

No interest is charged on trade receivables and they are included at current historical costs, which as a rule correspond to the nominal value less an appropriately estimated provision for bad debts. Additions to the provisions in the financial year are shown in the profit and loss account as other operating expenses, while releases and write-ups are included in other operating income. Write-ups are made when the reason for specific provisions no longer applies. The company is of the opinion that the book value of the trade receivables and other receivables corresponds approximately to their fair value.

8. Other receivables

The breakdown of the other receivables is as follows:

	30.06.06 € '000	30.06.05 € '000
Receivables from affiliated companies	4,526	2,438
Other assets	16,282	24,107
Deferred charges/ prepaid expenses	1,943	2,212
	22,751	**28,757**
of which from related companies and individuals	2,658	2,560

The other assets essentially include a loan to Ms Marseille of € 2.4 million, a loan to SCS AG of € 2.3 million, a receivable from the Trump Organization of € 1.5 million, a loan to Siekertal Betriebs GmbH of € 0.5 million, a WCM clearing account (€ 0.5 million) and further loans as well as miscellaneous other receivables. Due to the additions to the companies consolidated in accordance with the IFRS, the land for development is also shown in this item for the first time in the year under review. The property in Berlin accounts for € 1.8 million of the amount, while € 1.4 million relate to the property in Potsdam.

What are shown are financial assets, which are included at their current historical costs. No provisions needed to be made for apparent risks. The remaining term of the receivables is up to one year. The amount posted corresponds to the fair value.

9. Current tax assets

The current tax assets amounted to € 1.6 million in the year under review (previous year: € 0.2 million) and consist of receivables from deductible taxes, prepayments made where the taxes actually charged were lower and VAT.

10. Cash and cash equivalents

In the year under review, the cash and cash equivalents consisted exclusively of cash in hand and at banks.

Shareholders' equity

11. Subscribed capital

The subscribed capital (share capital) of the parent company Marseille-Kliniken AG is divided up into 12,150,000 bearer shares with no par value.

Authorised capital

At the Annual General Meeting held on 2 December 2003, the Management Board was authorised to increase the share capital of Marseille-Kliniken AG - with the approval of the Supervisory Board - on one or more occasions up to 2 December 2008 by a total of € 3.11 million by issuing new bearer shares with no par value in return for the injection of cash and/or physical assets (authorised capital).

At the Annual General Meeting held on 24 January 2005, the Management Board was authorised to buy treasury shares. The authorisation is limited to 18 months up to 6 June 2007 as well as to a maximum of 10% of the share capital.

12. Capital reserve

The capital reserve is attributable to the premium from the injections of cash made in connection with the capital increases, which was allocated directly in accordance with § 272 Paragraph 2 Number 4 of the HGB.

13. Revenue reserves

The revenue reserves include an unchanged amount that represents the statutory reserves; apart from this, other revenue reserves are involved.

14. Group loss

The Group loss amounted to € 19.2 million (previous year: € 24.1 million).

15. Minority interests

The minority interests amounted to € 0.7 million (previous year: € - 0.1 million).

€ 0.8 million of the Group earnings for the year are accounted for by minority interests (previous year: € 0.1 million).

Non-current liabilities

16. Allocated investment grants

The item relates essentially to subsidy commitments received for land and buildings, as per official subsidy notice relates essentially to subsidy commitments received for Senioren-Wohnpark Hennigsdorf GmbH, 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.

17. Non-current financial debt

	30.06.06 € '000	30.06.05 € '000
Bank loans and overdrafts	117,096	170,998

The reduction in the bank loans and overdrafts is essentially due to the inflow of funds from the sale-and-leaseback transactions completed in the year under review.

€ 86.6 million (previous year: € 187.4 million) of the bank loans and overdrafts are secured by mortgages, ownership assignments and security provided by third parties (e.g. guarantees given by local authorities). 7,050 shares in Karlsruher-Sanatorium-Aktiengesellschaft have been pledged as security for the liabilities to banks entered into in connection with the purchase of the shares.

18. Provisions for pensions and similar commitments

The Group has promised some employees regular payments after retirement in connection with the company old-age pension scheme; what are involved here are almost exclusively 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 provision (BetrAVG). Eligible employees receive a pension in the case of disability or at the latest as of their 65th birthday (in the case of men) or their 60th birthday (in the case of 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 in connection with the preparation of the IFRS accounts. The Group's commitments include not only regular pensions that are already being paid, but also rights to pensions that are to be paid in future. The pensions are generally calculated on the basis of the length of service with the company and the pensionable pay. The pension provisions are valued actuarially by the projected unit credit method in accordance with IAS 19 (Employee Benefits), taking the future development into consideration.

Calculation of the defined benefit obligations was based on a discounting rate of 4.40% (previous year: 4.75%). The companies are working on the assumption of no annual pension increase rate (previous year: 1.0%). Natural wastage was distributed over the 20-45 years age range on a decreasing balance using the appropriate average values. Dr Klaus Heubeck's 2005 mortality tables were used as the basis for the biometric calculations.

The following table shows the development of the pension provisions in the course of the financial year.

The total pension expenses are charged to personnel expenses. The employer's pension liability insurance does not satisfy the criteria of IAS 19 for pension scheme assets.

	2006 € '000	2005 € '000
Present value of the total commitment on 01.07.	18,884	17,412
Service cost	68	75
Interest expenses	333	890
Pension payments	- 816	- 924
Earnings from the anticipated and actual total commitment	- 1,259	1,431
Fair value of the total commitment on 30.06.	17,210	18,884
Commitments with a similar character to pensions	360	536
	17,570	**19,420**

19. Deferred tax liabilities

Deferred tax liabilities are due to the temporary differences between IAS balance sheet amounts and the tax values on which the taxes charged for assets and liabilities are based. IAS 12.53 stipulates that deferred taxes must not be discounted. 26.375% (corporation tax, solidarity tax) were taken as the relevant tax rate.

They are attributable to:

	Difference		Tax on this amount	
	2006 € '000	2005 € '000	2006 € '000	2005 € '000
Additional tax depreciation/buildings	16,622	29,027	4,384	7,656
land and buildings	15,908	24,824	4,196	6,547
Special item with equity portion	11,951	11,951	3,152	3,152
Reserve § 6b EStG	32,516	0	8,576	0
Miscellaneous	378	- 1,119	100	- 295
	77,375	**64,683**	**20,408**	**17,060**

20. Other non-current liabilities

The liabilities shown as other non-current liabilities can be broken down as follows:

	30.06.06 € '000	30.06.05 € '000
Liabilities to leasing companies	24,272	25,202
Others	325	0
	24,597	**25,202**

With respect to the liabilities to leasing companies, we draw attention to the information we provide in the miscellaneous notes.

Current liabilities

21. Current financial debt

The item relates solely to bank loans and overdrafts with a residual term of less than one year and amounted to € 12.4 million in the year under review (previous year: € 9.4 million). The book values of the securities are included in the information provided about non-current financial debt.

The reduction in the bank loans and overdrafts is due essentially to the sale-and-leaseback transactions completed in the year under review.

22. Current provisions

The current provisions item includes the other provisions of € 11.3 million (previous year: € 10.9 million). The breakdown and development of the other provisions are shown in the following table:

	30.06.2005 € '000	Added € '000	Used / released € '000	30.06.2006 € '000
Litigation risks	1,600	0	900	700
Outstanding incoming invoices	1,798	1,082	133	2,747
Holiday bonus	2,503	430	0	2,933
Christmas bonus	1,359	0	297	1,062
Legal and consultancy costs	850	0	317	533
Work safety association	459	11	0	470
Overtime pay	729	227	0	956
Personnel severance payments	457	0	52	405
Tantièmes	497	85	0	582
Miscellaneous	623	387	125	885
	10,875	**2,222**	**1,824**	**11,273**

23. Trade payables

The trade payables of € 8.3 million were 5.68% or € 0.5 million lower than in the previous year.

24. Current tax liabilities

	05/06 € '000	04/05 € '000
Corporation tax, solidarity tax and trade tax liabilities	2,237	4,196
Income and church tax liabilities	862	823
VAT liabilities	41	119
	3,140	**5,138**

The current tax liabilities shown have a residual term of less than one year and are included in the accounts at their repayment value.

The tax liabilities of € 2.2 million (previous year: € 4.2 million) include the corporation tax plus solidarity tax and trade tax that have to be paid to the tax authorities. They cover the commitments from the current financial year and the previous years.

25. Other current liabilities

	30.06.06 € '000	30.06.05 € '000
Social security contribution liabilities	431	2,647
Salary accounting liabilities	31	26
Nursing service liabilities	765	665
Loans received from third parties	1,158	1,668
Rent deposits and securities received	231	240
Deferred income	8,660	8,518
Liabilities to participating interests	54	52
Liabilities to affiliated companies	3,314	1,540
Miscellaneous other liabilities	12,914	16,781
	27,558	**32,137**

The miscellaneous other liabilities essentially include a deferred purchase price payment of € 3.3 million (Senioren-Wohnpark Bad Langensalza), liabilities to Mr Marseille and companies associated with him (€ 2.3 million), a loan repayment instalment of € 0.8 million and a loan of € 0.7 million to SCS Betrium GmbH.

The deferred income item mainly includes the allocated book profits from the sale-and-leaseback business transactions that were classified as finance leases.

Explanatory notes about the Group profit and loss account

26. Sales

Sales in the nursing segment amounted to about € 162.7 million in the financial year (previous year: € 151.0 million). Rehabilitation segment sales totalled € 47.7 million (previous year: € 50.5 million).

27. Other operating income

The other operating income amounted to € 38.8 million in the year under review (previous year: € 23.3 million). The increase is due essentially to the income generated by the sale of the properties to GE and CIT in the year under review.

A breakdown of the amounts over € 0.5 million in the other operating income item can be found in the following table:

	05/06 € '000	04/05 € '000
Income from asset disposals	27,905	12,564
Income from the release of investment grants	1,976	1,708
Income from the release of provisions	908	1,649
Income attributable to different periods	1,562	1,627
Grants for personnel	717	855
Bonuses received from third parties	596	169
Neutral income	455	87
Miscellaneous	4,704	4,664
	38,823	**23,323**

28. Cost of materials
The cost of raw materials, consumables and supplies went up by € 1.7 million or 7.8%, from € 21.7 million to € 23.4 million.

The cost of purchased services decreased by € 0.7 million or 8.4%, from € 8.3 million to € 7.6 million.

29. Personnel expenses
Personnel expenses increased by € 2.2 million or 2.1%, from € 104.5 million to € 106.7 million, particularly because of the takeover of ADG mbH and the hospital in Büren. € 87.4 million of the personnel expenses were accounted for by wages and salaries (previous year: € 86.1 million), while € 19.3 million were required for social security and pension/welfare costs (previous year: € 18.4 million).

30. Depreciation
The total depreciation charge in the year under review was € 13.1 million (previous year: € 14.8 million). In addition to this, unscheduled depreciation of € 1.3 million (previous year: € 0) was made in accordance with IAS 36 in relation to a property, because the capacity utilisation level included in the planning assumptions was changed to correspond to more recent market conditions.

31. Other operating expenses
The other operating expenses increased by € 20.2 million or 38.5% in the year under review, from € 52.4 million to € 72.6 million.

A breakdown of the other operating expenses can be found in the following table:

	05/06 € '000	04/05 € '000
Rent, leasing payments	30,552	21,173
Repair and maintenance costs	4,718	4,053
Legal and consultancy costs	7,019	6,367
Administration requirements	6,270	8,303
Annual General Meeting, annual report	3,419	2,359
Promint business requirements	2,133	1,996
Write-downs/-offs	1,360	1,345
Expenses attributable to different periods	1,434	1,453
Advertising and representation expenses	1,305	1,028
Car, aircraft, ship costs	1,050	1,066
Other expenses	13,339	3,301
	72,599	**52,444**

Most of the increase in the other operating expenses is associated with the increase in the number of leased properties resulting from the successfully completed sale-and-leaseback business transactions.

No major expenses were incurred in the year under review to end legal disputes.

The write-downs/-offs item includes a write-down of € 0.5 million involving the Trump Organization, New York (previous year: € 0).

32. Financial result
The breakdown of the financial result is as follows:

	05/06 € m	04/05 € m
Interest from capital investments	1,269	1,069
Financial income	**1,269**	**1,069**
Expenses from the assumption of losses	13	41
Interest charged on loans	11,028	13,489
Interest charged in connection with finance leases	1,792	1,848
Financial expenses	12,833	15,378
Financial result	**– 11,564**	**– 14,309**

33. Taxes on income and earnings
The tax expenses consist of the current taxes on income and earnings of € 3.1 million (previous year: € 4.3 million) and deferred taxes of € 1.4 million (previous year: € – 1.8 million).

Reconciliation of the earnings before taxes on income and earnings to the taxes paid on income and earnings is as follows:

	05/06 € '000	04/05 € '000
Group earnings before taxes	14,192	8,837
Theoretical tax charge	3,743	2,331
Tax effect of:		
Compensation for losses made before the single tax entity was established	312	83
Non-deductible expenses	41	17
Taxes from previous years and miscellaneous	416	134
Actual tax expenses	4,511	2,565
Tax rate in %	**31.79**	**29.02**

34. Minority interests
What are involved here are shares of profits to which the minority shareholders are entitled.

35. Earnings per share
The undiluted earnings per share are calculated by dividing the profit attributable to the shareholders by the average number of shares issued during the financial year.

		05/06	04/05
Earnings attributable to the shareholders	in € '000	8,863	6,419
Average number of shares issued	in thousands	12,150	12,150
Undiluted earnings per share	€ per share	0.73	0.53

Miscellaneous notes

Leasing
Lessee – finance leases
The properties leased by the company include land, buildings and miscellaneous equipment. The main commitments entered into during the term of the leasing contract apart from the leasing payments themselves are the maintenance costs of the operating locations and equipment, insurance premiums and property taxes. The terms of the leasing contracts for land, buildings, fittings and equipment range in general from 10 to 25 years and include extension options at different conditions. The leasing costs associated with finance leases amounted to € 3,135,000 in 2005/2006 and to € 3,264,000 in 2004/2005. They were included as expenses in the depreciation and interest items in the period in which they were incurred.

Seven property leasing contracts were classified as finance leases on the basis of the present value test. A list of the assets that were used within the framework of finance leases is given below:

	30.06.06 € '000	30.06.05 € '000
Land and buildings	31,680	31,680
less:		
Accumulated depreciation	– 7,973	– 6,600
Net book value	**23,707**	**25,080**

The future minimum leasing payments for the above-mentioned finance leases amount to:

	€ '000
During the first year	2,750
1st to 5th years	11,000
After 5 years	33,989
Minimum leasing commitments	**47,739**

	€ '000
During the first year	2,522
1st to 5th years	7,384
After 5 years	16,559
Present value of the minimum leasing commitments	**26,465**

Lessee – operating leases
The company and its subsidiaries have concluded various operating lease arrangements for buildings, office equipment and other plant and equipment. The leasing expenses for such contractual arrangements amounted to € 633.8 million in the year under review.

Sale-and-leaseback transactions
Five facilities were sold to the GE Capital Group in the 2004/2005 financial year, while seven facilities were sold to the CIT Group and two to GE Capital Group in the 2005/2006 financial year. These facilities were leased back on the basis of leasing contracts. At the same time, two other facilities that had already been operated for many years were sold to the CIT Group by the lessor to date and were leased back on the basis of contracts. The terms of the leasing contracts amount to 25 years with the option of an extension totalling 10 years in each case. The leasing payments for the properties increase by 1% per year and are reviewed after 10 years in accordance with the development of the consumer price index (70% of the increase).

None of the contracts for facilities that were concluded with respect to the sale-and-leaseback transactions in the 2004/2005 and 2005/2006 financial years were classified as finance leases.

Number of employees

A breakdown of the average number of employees (full-time equivalent) without the Management Board, directors and apprentices is given in the following table:

	05/06 € '000	04/05 € '000
FTE figures		
Doctors	169	166
Nursing staff	2,635	2,413
Medical-technical staff	17	14
Total medical staff	2,820	2,592
Housekeeping staff	1,480	1,361
Technical staff	150	149
Administrative staff	393	474
Other staff	15	50
	2,038	2,034
Total	**4,858**	**4,626**

Contingent liabilities and other financial commitments

Contingent liabilities

Marseille-Kliniken AG has issued what are mainly absolute guarantees as security for loans made to subsidiaries totalling € 31,034,000.

The following kinds of letters of support have been issued by Marseille-Kliniken AG too. Five letters of support have been issued by Marseille-Kliniken AG guaranteeing the claims from the rental contracts concluded by individual subsidiaries. This relates to the rental contract concluded on 28 September 1994 between Senioren-Wohnpark Tangerhütte GmbH and DS-Rendite-Fonds GmbH & Co. Nr. 42 Alten- und Pflegeheim Tangerhütte KG, Dortmund, and to the rental contracts concluded between Logo 7. Grundstücksverwaltungs mbH and SWP Landshut and the rental companies that do not belong to the Group. The rental commitments arising from these contracts up to the time when they can be terminated for the first time are included in the table of the other financial commitments.

In the case of two letters of support that have been issued by Marseille-Kliniken AG, the financial commitments are limited to € 5,181,000 in each case.

An unlimited letter of support has been issued in addition to M. Held GmbH & Co. Baubetreuungs KG concerning a legal dispute with a former subcontractor.

There were no other major contingent liabilities on the balance sheet date.

Other financial commitments

The total commitments of the Group arising from rental, leasing and service contracts amounted to € 682 million in the year under review (previous year: € 336 million). Properties leased on long-term contracts accounted for € 667 million of this total (previous year: € 309 million). In view of their contractual basis, these 21 properties leased on long-term contracts have to be classified as operating leases in accordance with IAS 17 and are included in the lessor's accounts. The rental contracts covering them have a term of 25 years. The annual leasing payments due on the basis of the contracts amounted - without any deductions - to € 15.8 million in the year under review. The leasing payments increase by 1% per year and are reviewed after 10 years. The leasing payments are specified on the basis of 70% of the increase in the consumer price index up to the time in question.

The leasing expenses in the financial year for such movables as vehicles, office equipment and software amounted to € 4,523,000 (previous year: € 5,424,000). These leasing contracts have terms between 3 and a maximum of 5 years. Since the contracts are extended on a revolving basis, Marseille-Kliniken works on the assumption that the Group's total commitments from these rental and leasing contracts will total comparable amounts in the next few years.

There were no other major financial commitments on the balance sheet date.

	Total € '000	Remaining term: up to 1 year € '000	1 to 5 years € '000	over 5 years € '000
Rental, leasing and service contracts	681,556	36,095	153,154	492,297
Leasehold right commitments	5,828	97	389	5,342
	687,374	**36,192**	**153,543**	**497,639**

Financial risk management

In view of its business operations, the Group is exposed primarily to a credit risk as well as a liquidity and refinancing risk. Credit risk means the risk of insolvency or a deterioration in the credit standing of a contractual partner. Since Marseille-Kliniken generates almost all of its sales (about 98%) with old-age pension insurance organisations as well as statutory and private health insurance funds, this risk must be considered minimal. Liquidity risk means the danger that Marseille-Kliniken is unable to meet its present and future payment commitments in time or in full. The refinancing risk is a special form of liquidity risk, which arises when the liquidity needed cannot be obtained at the expected conditions when it is required.

There are also interest rate risks attributable to possible changes in the market interest rate level. This risk is countered by the arrangement of appropriate terms. Precautions are also taken to avoid risks by means of cautious liquidity management, including the maintenance of sufficient reserves of liquid funds and agreed credit lines for adequate amounts. Another security measure is the provision of liquidity throughout the Group by a central cash pool management system. Free liquid funds are invested as short-term time deposits. Derivative financial instruments, e.g. in the form of interest rate swaps, have not been used up to now.

Supervisory Board

The members of the Supervisory Board are:

Ulrich Marseille, businessman, Hamburg, Chairman
Chairman of the Supervisory Board:
Karlsruher-Sanatorium-AG,
SCS Standard Computersysteme AG
Member of the Supervisory Board:
WMP EuroCom AG, Berlin
Chairman of comparable bodies:
REHA-Klinik Sigmund Weil GmbH

Hans-Hermann Tiedje, media entrepreneur, Berlin
Deputy Chairman
Chairman of the Management Board:
WMP EuroCom AG, Berlin
Deputy Chairman of the Supervisory Board:
Com & Con AG, Grünwald

Dr Peter Danckert, lawyer, notary public, Berlin

Mathias D. Kampmann, business administrator, Hamburg

Professor Dr Matthias Schönermark, university professor, management consultant, Hanover

Dr Peter Schneider, doctor, Berlin-Hennigsdorf

Management Board

The members of the Management Board were:

Axel Hölzer, Hamburg, Businessman, Chairman
Ennio Laviziano, Hamburg, Businessman,
Member of the Board

The company is represented by two members of the Management Board or by one member of the Management Board together with one other authorised officer. If the Management Board consists of only one person, then this person represents the company alone. The Supervisory Board is entitled to approve exemption from the restrictions of § 181 of the German Civil Code (BGB). Mr Hölzer is exempted from the restrictions of § 181 of the BGB.

Remuneration paid to the Management Board and the Supervisory Board

The following total remuneration was paid to current and former members of the Management Board and the Supervisory Board for 2005/2006 and 2004/2005:

	05/06 € '000	04/05 € '000
Management Board	799	762
of which fixed	553	604
of which variable	246	158
Supervisory Board (fixed and variable)	304	121
	1,103	**883**

The remuneration for the Management Board in the 2005/2006 financial year was paid exclusively via Marseille-Kliniken AG. The loan granted to the members of the Management Board in the previous year was repaid in full in the year under review. To the extent that interest still had to be paid, this interest was charged at standard market conditions.

The pension payments for former members of the Management Board and their surviving dependents amount to € 67,000; provisions of € 587,000 have been made for future commitments. Marseille-Kliniken AG does not incur any expenditure as a result of these long-standing commitments, because WCM Beteiligungs- und Grundbesitz AG, Hamburg, has assumed responsibility for them.

Interests in Marseille-Kliniken Aktiengesellschaft, which have been notified to the company in accordance with § 21 Paragraph 1 or Paragraph 4 of the German Securities Trading Act (WpHG):

"The proportion of the voting rights in Marseille-Kliniken AG dropped below 75% on 28. March 2006. The Marseille family now holds 60% of the voting rights either directly or indirectly."

Related party disclosures in accordance with IAS 24

Business transactions between the company and its subsidiaries that are related parties were eliminated in the consolidation process and are not explained in this note. Business transactions between the company and its subsidiaries and associated companies are disclosed in the individual accounts of the parent company.

Transactions with goods and services

In the course of the financial year, Group companies carried out the following transactions with related companies and individuals who do not belong to the Group:

	Sale of goods and services 05/06 € '000	Sale of goods and services 04/05 € '000	Purchase of goods and services 05/06 € '000	Purchase of goods and services 04/05 € '000	Receivables from related companies 05/06 € '000	Receivables from related companies 04/05 € '000	Payables to related companies 05/06 € '000	Payables to related companies 04/05 € '000
Ulrich Marseille	0	210	4,221	14,900	1,056	1,059	2,277	15,066
Estella-Maria Marseille	91	109	718	711	2,401	2,307	215	203

The goods and services were sold to related companies and individuals at standard market prices. Purchases were made at market prices less standard volume discounts and deductions because of the relationships between the parties.

The receivables are unsecured and are paid in cash. Guarantees were neither given nor received. No provisions were made for the amounts owed by related parties.

The other assets in the Marseille-Kliniken AG Group annual accounts include receivables from Mr Ulrich Marseille and companies associated with him of € 276,000, while the trade receivables include an amount of € 780,000. The other liabilities also include payables to Mr Marseille amounting to € 2,277,000.

The receivables and payables are due within one year and no interest is charged on them. The balances are unsecured and are settled by payment.

Loans have been granted to certain employees to buy shares in the company. Interest of 7.5% p.a. is charged for these loans at the present time. The shares bought with the loans act as securities.

Exemption in accordance with § 264 III

The companies listed in the "Main participating interests" section which were consolidated in full in the Marseille-Kliniken AG Group annual accounts are exercising their right to exemption from the commitment to prepare, audit and disclose annual accounts and a management report in accordance with the regulations for companies limited by shares.

Directors' dealings

The members of the Supervisory Board and the Management Board as well as their spouses and first-degree relatives are legally obliged by § 15a of the German Securities Trading Act (WpHG) to disclose major purchases or major disposals of Marseille-Kliniken AG shares, options or derivatives. The following reports were published in 2005:

Person required to submit a report	Axel Hölzer
Transaction	Trading date 27.04.2006
WKN security identification no./ISIN	WKN 778300 DE0007783003
Description	Marseille-Kliniken AG bearer shares with no par value
Nature of the business transaction	Sale
Place	Off the floor
Number	99,296
Price	€ 14.40
Rights	
Type	Ordinary shares

Statement of compliance with the German Corporate Governance Code (§ 161 of the German Companies Act/AktG)

The latest version of the compliance statement issued by Marseille-Kliniken Aktiengesellschaft in accordance with § 161 of the German Companies Act (AktG) has been and always is made available to the shareholders on a permanent basis on the company's website.

Auditor's fee

The following fees were paid to the auditing company in the financial year for auditing and other services and were posted as expenses:

	05/06 € '000
Audit of the annual accounts	340
Other auditing or evaluation services	0
Tax consultancy	0
Other services	0
	340

Proposal for appropriation of the profits

The accumulated profits of Marseille-Kliniken AG, Berlin, amounted to € 4,021,362.01 on 30 June 2006. It is proposed that € 2,232,774.00 of the accumulated profits are distributed as dividends and that € 1,788,588.01 are carried forward to a new account.

Berlin, 17 October 2006

Fixed assets movements schedule for the Marseille-Kliniken AG Group at 30.06.2006

	Historical and production costs				
	Balance on 1 July 2005 €	Additions €	Transfers €	Disposals €	Balance on 30 June 2006 €
I. Intangible assets					
1. Franchises	1,131,362.16	0.00	0.00	0.00	1,131,362.16
2. Software	7,102,035.58	1,403,811.39	168,762.19	409,146.86	8,265,462.30
3. Goodwill	22,394,331.13	10,623,408.74	0.00	0.00	33,017,739.87
	30,627,728.87	12,027,220.13	168,762.19	409,146.86	42,414,564.33
II. Tangible assets					
1. Land, leasehold rights and buildings, including buildings on non-owned property	353,683,601.76	2,246,852.49	-19,791.70	128,175,413.87	227,735,248.68
2. Finance leases	31,680,348.58	0.00	0.00	0.00	31,680,348.58
3. Technical plant and machinery	2,747,339.85	13,412.08	-2,374.40	13,412.08	2,744,965.45
4. Other fixtures, fittings and equipment	52,062,525.96	13,686,785.65	22,166.10	15,768,983.55	50,002,494.16
5. Payments on account and assets under construction	3,715,300.59	1,035,134.85	-168,762.19	873,338.71	3,708,334.54
III. Properties held as financial investments	443,889,116.74	16,982,185.07	-168,762.19	144,831,148.21	315,871,391.41
IV. Other financial assets	5,551,029.48	4,157,905.96	0.00	0.00	9,708,935.44
Shares in affiliated companies	1,799,926.81	605,737.94	0.00	432,454.13	1,973,210.62
Participating interests	132,912.58	0.00	0.00	0.00	132,912.58
Asset values of pension commitments	3,210,714.94	0.00	0.00	642,358.72	2,568,356.22
Miscellaneous loans	1,080,357.44	0.00	0.00	3,760.82	1,076,596.62
	6,223,911.77	605,737.94	0.00	1,078,573.67	5,751,076.04

	Accumulated depreciation						
	Balance on 1 July 2005 €	Additions €	Transfers €	Disposals €	Balance on 30 June 2006 €	Book values 30 June 2006 €	Book values 30 June 2005 €
I. Intangible assets							
1. Franchises	722,585.49	142,756.06	0.00	0.00	865,341.55	266,020.61	408,776.67
2. Software	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	4,497,391.18	67,770.19	0.00	0.00	4,565,161.37	28,452,578.50	17,896,939.95
	8,772,899.76	1,257,017.31	0.00	210,071.63	9,819,845.44	32,594,718.89	21,854,829.11
II. Tangible assets							
1. Land, leasehold rights and buildings, including buildings on non-owned property	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 leases	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. Technical plant and machinery	2,185,988.01	110,636.34	1,335.60	6,035.45	2,289,253.30	455,712.15	561,351.84
4. Other fixtures, fittings and equipment	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. Payments on account and assets under construction	357,232.17	182,040.51	0.00	0.00	539,272.68	3,169,061.86	3,358,068.42
III. Properties held as financial investments	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
IV. Other financial assets	0.00	0.00	0.00	0.00	0.00	9,708,935.44	5,551,029.48
Shares in affiliated companies	509,213.86	0.00	0.00	0.00	509,213.86	1,463,996.76	1,290,712.95
Participating interests	41,999.00	0.00	0.00	0.00	41,999.00	90,913.58	90,913.58
Asset values of pension commitments	0.00	0.00	0.00	0.00	0.00	2,568,356.22	3,210,714.94
Miscellaneous loans	0.00	0.00	0.00	0.00	0.00	1,076,596.62	1,080,357.44
	551,212.86	0.00	0.00	0.00	551,212.86	5,199,863.18	5,672,698.91

Further information

Main participating interests

Main participating interests on 30 June 2006

Marseille-Kliniken AG, Berlin, holds direct or indirect interests in the following subsidiaries which have been included in the Group annual accounts (the shareholding indicated and the voting rights are identical):

	Share-holding	Subscribed capital	HGB shareholders' equity	HGB annual result, if applicable after profit transfer or assumption of losses	
			30.06.2006	2005/2006	2004/2005
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark Langen GmbH, Langen [2]	100.0	102	102	0	0
Senioren-Wohnpark Lemwerder GmbH, Langen [2]	100.0	26	62	0	0
Astor Park Wohnanlage Langen GmbH, Langen [2]	100.0	26	26	0	0
Senioren-Wohnpark Hennigsdorf GmbH, Hennigsdorf [2]	100.0	102	102	0	0
Senioren-Wohnpark Radensleben GmbH, Radensleben [2]	100.0	26	26	0	0
Senioren-Wohnpark Neuruppin GmbH, Neuruppin [2]	100.0	26	26	0	0
Senioren-Wohnpark Treuenbrietzen GmbH, Treuenbrietzen [2]	100.0	26	26	0	0
Senioren-Wohnpark Erkner GmbH, Erkner [2]	100.0	26	26	0	0
Teufelsbad Fachklinik Blankenburg GmbH, Blankenburg	100.0	26	35	0	0
Senioren-Wohnpark Tangerhütte GmbH, Tangerhütte [2]	100.0	26	44	0	0
Senioren-Wohnpark Kyritz GmbH, Kyritz [2]	100.0	26	26	0	0
Senioren-Wohnpark Thale GmbH, Thale [2]	100.0	26	26	0	0
Senioren-Wohnpark Wolmirstedt GmbH, Wolmirstedt [2]	100.0	26	26	0	0
Senioren-Wohnpark Aschersleben GmbH, Aschersleben [2]	100.0	26	-34	0	0
Senioren-Wohnpark Coswig GmbH, Coswig [2]	100.0	26	26	0	0
Senioren-Wohnpark Stützerbach GmbH, Stützerbach [2]	100.0	26	26	0	0
Senioren-Wohnpark Schollene GmbH, Schollene [2]	100.0	26	26	0	0
Senioren-Wohnpark Bad Langensalza GmbH, Bad Langensalza [2]	100.0	26	26	0	0
Senioren-Wohnpark Ballenstedt GmbH, Ballenstedt [1,2]	100.0	26	26	0	0
Pro F&B Gastronomische Dienstleistungsgesellschaft mbH, Hamburg [2]	100.0	26	26	0	0
Senioren-Wohnpark Klausa GmbH, Klausa [2]	100.0	26	26	0	0
Senioren-Wohnpark Friedland GmbH, Friedland [2]	100.0	26	26	0	0
Senioren-Wohnpark Klötze GmbH, Klötze [2]	100.0	38	38	0	0
Algos Fachklinik Bad Klosterlausnitz GmbH, Bad Klosterlausnitz	100.0	26	26	0	0
Senioren-Wohnpark Leipzig - Am Kirschberg GmbH, Leipzig [2]	100.0	26	26	0	0
Senioren-Wohnpark soziale Grundbesitzgesellschaft mbH, Hamburg [1,2]	100.0	26	-69	0	0
AMARITA Buxtehude GmbH, Buxtehude [2]	100.0	26	26	0	0
PRO Work Dienstleistungsgesellschaft mbH, Cottbus [2]	100.0	26	26	0	0
Senioren-Wohnpark Cottbus - SWP - GmbH, Hamburg [2]	100.0	26	26	0	0
Marseille-Klinik-Delta GmbH, Hamburg [2]	100.0	26	26	0	0
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gGmbH, Neuruppin [1,2]	100.0	26	-39	0	0

	Share-holding	Subscribed capital	HGB shareholders' equity	HGB annual result, if applicable after profit transfer or assumption of losses	
			30.06.2006	2005/2006	2004/2005
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark soziale Altenbetreuung gGmbH, Langen [2]	100.0	26	3,835	757	308
Allgemeine soziale Dienstleistungen gGmbH, Langen [2]	100.0	26	-649	-103	-79
Medina soziale Behindertenbetreuung gGmbH, Wolmirstedt [2]	100.0	38	-371	271	189
"Villa Auenwald" Seniorenheim GmbH, Böhlitz-Ehrenberg [2]	100.0	26	26	0	0
VDSE GmbH - Verwaltungsdienstleister sozialer Einrichtungen GmbH, Hamburg	100.0	26	107	0	0
PROMINT Dienstleistungsgruppe Neuruppin GmbH, Neuruppin [2]	100.0	51	51	0	0
Senioren-Wohnpark Hennigsdorf - SWP - GmbH, Hennigsdorf [2]	100.0	26	26	0	0
Held Bau Consulting Projekt Steuerungsgesellschaft mbH, Hamburg [2]	100.0	26	627	130	262
SCS Standard Computersysteme Entwicklungsgesellschft mbH, Hamburg [1,2]	100.0	51	51	0	0
SIV Immobilien-Verwaltungsgesellschaft mbH, Hamburg [2]	100.0	26	26	0	0
DaTess Gesellschaft für Datendienste mbH, Pritzwalk [2]	100.0	25	25	0	0
Karlsruher-Sanatorium-Aktiengesellschaft, Hamburg	93.8	12,271	18,275	993	-5,084
Mineralquelle Waldkirch Verwertungsgesellschaft mbH, Hamburg [3]	88.5	2,557	-1,903	1,783	744
Reha-Klinik Sigmund Weil GmbH, Hamburg [3]	93.5	5,113	9,190	-1,904	877
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg [3]	88.5	26	-168	-177	-3
EQS Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Hamburg [2]	100.0	26	184	67	-8
Senioren-Wohnpark Friedland - SWP - GmbH, Friedland [2]	100.0	25	24	0	0
CASA Trainingszentrum für Hotel- und Sozialberufe GmbH, Bad Oeynhausen [2]	100.0	25	-1,485	0	0
Senioren-Wohnpark Leipzig "Stadtpalais" GmbH, Leipzig [2]	100,0	25	15	0	0
Senioren-Wohnpark Leipzig "Eutritzscher Markt" GmbH, Leipzig [2]	100.0	25	25	0	0
Senioren-Wohnpark Lichtenberg GmbH, Berlin [2]	100.0	25	25	0	0
Senioren-Wohnpark Landshut, Landshut [2]	100.0	25	-523	0	0
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Tessenow [2]	100.0	25	30	-43	68
Tessenow Vermögensverwaltungs GmbH, Tessenow [2]	100.0	25	-1	1	91
AMARITA Datteln GmbH [2]	100.0	25	25	0	0
AMARITA Hohen Neuendorf GmbH, Hohen Neuendorf [2]	100.0	25	25	0	0
Teufelsbad Residenz Blankenburg GmbH, Blankenburg [2]	100.0	25	24	0	0
Betrium Nr. 49 Vermögensverwaltungs-GmbH [1,2,4]	100.0	25	-262	-284	0
Betrium Nr. 52 Vermögensverwaltungs-GmbH [1,2,4]	100.0	25	-204	-223	-4
MobiRent Vermietung GmbH, Pritzwalk [1,2]	100.0	25	23	0	0
Atrium Senioren-Wohnstift Nr. 21 GmbH [1,2,4]	100.0	51	-222	-16	-254
AMARITA Oldenburg GmbH, Oldenburg [2,6]	100.0	51	100	0	0

	Shareholding	Subscribed capital	HGB shareholders' equity	HGB annual result, if applicable after profit transfer or assumption of losses	
			30.06.2006	2005/2006	2004/2005
	%	€ '000	€ '000	€ '000	€ '000
Spezial-Pflegeheim Hennigsdorf gemeinnützige GmbH, Hennigsdorf [2,6]	100.0	51	-1,159	-564	-369
Atrium Senioren-Wohnstift Nr. 24 GmbH [2,4,6]	100.0	51	44	-7	1,243
Senioren-Wohnpark Montabaur GmbH, Montabaur [2,6]	100.0	51	-1,683	260	169
AMARITA Hamburg - Mitte PLUS GmbH, Hamburg [1,2,6]	100.0	51	144	385	-145
SWP Düsseldorf - Volksgarten GmbH, Düsseldorf [2,6]	100.0	50	-501	-380	-14
Atrium Senioren-Wohnstift Nr. 34 GmbH [2,4,6]	100.0	50	47	-3	984
SWP Dresden "Am Großen Garten" GmbH, Dresden [2,6]	100.0	50	-330	0	0
Senioren-Wohnpark Arnsberg GmbH, Arnsberg [2,6]	100.0	25	-90	0	0
Senioren-Wohnpark Büren GmbH, Büren [2,6]	100.0	25	359	0	0
Senioren-Wohnpark Kreuztal-Krombach GmbH, Kreuztal [2,6]	100.0	25	-115	-186	-143
Senioren-Wohnpark Lutzerath GmbH, Lutzerath [2,6]	100.0	25	16	0	0
CareAktiv GmbH [2,4,6]	100.0	25	398	134	238
Onkologische Fachklinik Bad König GmbH, Bad König [2,7]	100.0	26	-1,426	-1,446	0
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg [2,6]	100.0	25	38	259	-13
Psychosomatische Fachklinik Gengenbach GmbH, Gengenbach [2,7]	100.0	26	126	57	0
ProTec Dienstleistungsgesellschaft mbH, Schwerin [2,6]	100.0	25	-390	0	0
Fachklinik für psychische Erkrankungen Ortenau GmbH, Zell a. H. [2,7]	100.0	26	-125	-306	0
Psychosomatische Fachklinik Schömberg GmbH, Schömberg [2,7]	100.0	26	-1,034	-1,174	0
Gotthard Schettler Klinik GmbH, Bad Schönborn [2,7]	100.0	26	495	353	-1
Klinik Bad Herrenalb GmbH, Bad Herrenalb [2,7]	100.0	26	12	-101	0
MediCargo GmbH, Nutzetal [2,8]	100.0	25	-39	-38	-22
Marseille-Projektgesellschaft "Bremerhaven" GmbH, Berlin [2]	100.0	25	30	14	-4
Allgemeine Dienstleistungsgesellschaft mbH - ADG, Tessenow [2]	100.0	26	653	1,606	1,606
Grundstücksgesellschaft Nikolaus Büren mbH, Büren [2]	100.0	25	26	7	0
St. Nikolaus-Hospital Büren GmbH, Büren [2]	100.0	25	-507	-523	0
Medina Fördergesellschaft sozialer Einrichtungen gGmbH, Wolmirstedt [2]	100.0	25	-1,809	-1,831	0
MK IT-Entwicklungs GmbH, Hamburg [2]	100.0	25	-166	-186	0

[1] No business operations at the present time
[2] Advantage was taken of the exemption provisions stipulated in § 264 Paragraph 3 and § 264b of the HGB
[3] Some of the shares are held by Karlsruher-Sanatorium-AG and some by Marseille-Kliniken AG
[4] The registered office of the company is Bremerhaven
[5] Group share after deduction of the direct and indirect minority interests
[6] Shares held by Marseille-Klinik-Delta GmbH
[7] Subsidiary of Karlsruher-Sanatorium-AG
[8] Shares held by PROMINT Dienstleistungsgruppe Neuruppin

Marseille-Kliniken AG, Berlin, also holds direct or indirect interests in the following subsidiaries which have not been included in the Group annual accounts because they are of no material significance:

	Shareholding	Subscribed capital	HGB shareholders' equity	HGB annual result, if applicable after profit transfer or assumption of losses	
			30.06.2006	2005/2006	2004/2005
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark HES GmbH, Hamburg [1,2]	100.0	26	26	0	0
Senioren-Wohnpark OES GmbH, Hamburg [1,2]	100.0	26	26	0	0
Senioren-Wohnpark ZES GmbH, Hamburg [1,2]	100.0	26	26	0	0
Atrium Senioren-Wohnstift Nr. 19 GmbH [1,2,3]	100.0	26	-17	-15	-45
Marseille-Klinik-Omega GmbH, Hamburg [1,2]	100.0	26	25	0	0
MK "Vorrat Nr. 26" Vermögensverwaltungs GmbH, Berlin [1,2]	100.0	51	-46	-3	-4
Mineralquelle Waldkirch GmbH, Hamburg [1,2,5]	100.0	26	43	2	2
Ausgleich- und Bürgschaftsgesellschaft im Heim und Pflegewesen [1,2,3]	100.0	25	19	-1	0
Betrium Nr. 20 Vermögensverwaltungs-GmbH [1,2,3]	100.0	25	20	0	0
Cetrium Vermögensverwaltungs-GmbH, Hamburg [1,2,3]	100.0	25	-3	-2	-2
Betrium Nr. 29 Vermögensverwaltungs-GmbH [1,2,3]	100.0	25	18	0	0
Senioren-Wohnpark Neuruppin - SWP - GmbH, Neuruppin [1,2]	100.0	25	19	-1	0
Cefugium Betriebsmanagement GmbH [1,2,3]	100.0	25	17	-1	-1
Betrium Nr. 35 Vermögensverwaltungs-GmbH [1,2,3]	100.0	25	17	0	0
Betrium Nr. 36 Vermögensverwaltungs-GmbH [2]	100.0	25	17	0	0
Betrium Nr. 37 Vermögensverwaltungs-GmbH [2]	100.0	25	19	0	0
Betrium Nr. 44 Vermögensverwaltungs-GmbH [2]	100.0	25	22	0	0
Betrium Nr. 45 Vermögensverwaltungs-GmbH [2]	100.0	25	23	0	0
Marseille-Kliniken-Beteiligungsgesellschaft Nr. 46 GmbH [2]	100.0	25	19	-3	-1
Marseille-Kliniken R.S.A. GmbH [2]	100.0	25	15	0	-7
Betrium Nr. 48 Vermögensverwaltungs-GmbH [2]	100.0	25	22	0	0
Betrium Nr. 50 Vermögensverwaltungs-GmbH [2]	100.0	25	19	-2	0
Betrium Nr. 51 Vermögensverwaltungs-GmbH [2]	100.0	25	13	0	0
ANG Grundstücksgesellschaft mbH [2]	100.0	25	25	-3	-4
Betrium Nr. 55 Vermögensverwaltungs-GmbH [2]	100.0	25	18	-1	0
VSE Vermietungsgesellschaft für soziale Einrichtungen, Hamburg	100.0	51	52	1	1
Atrium Senioren-Wohnstift Nr. 26 GmbH [1,2]	100.0	51	-20	-2	0
Atrium Senioren-Wohnstift Nr. 27 GmbH [1,2]	100.0	51	13	-4	-1
Atrium Senioren-Wohnstift Nr. 29 GmbH [1,2]	100.0	51	9	-1	-14
Atrium Senioren-Wohnstift Nr. 31 GmbH [1,2]	100.0	50	-14	-13	0
Atrium Senioren-Wohnstift Nr. 32 GmbH [1,2]	100.0	50	-5	-3	0
TD Artos Verwaltungsgesellschaft mbH, Hamburg [1]	50.0	50	48	0	0
TD Artos Artos Fonds-Management GmbH, Hamburg [1]	40.0	50	47	0	0
Collateral Transparency GmbH, Pritzwalk [1]	100.0	50	28	-1	0
Sozialimmobilien "Südharz" GmbH, Wolmirstedt [1]	100.0	50	52	1	-11
Türk Huzur Evi Pflegeeinrichtung, Berlin-Kreuzberg gGmbH, Berlin [1,2]	80.0	25	25	0	0
Atrium Senioren-Wohnstift Nr. 41 GmbH [1,2]	100.0	25	21	-1	0
Atrium Senioren-Wohnstift Nr. 42 GmbH [2]	100.0	25	1	-1	-3
MK "Vorrat Nr. 23" GmbH [2]	100,0	25	20	-1	0

[1] No business operations at the present time
[2] Advantage was taken of the exemption provisions stipulated in § 264 Paragraph 3 and § 264b of the HGB
[3] The registered office of the company is Bremerhaven
[4] Shares held by Marseille-Klinik-Delta GmbH
[5] Subsidiary of Karlsruher-Sanatorium-AG

Marseille-Kliniken Aktiengesellschaft, Berlin, also holds interests in the following companies, which are not included in the accounts by the equity method because they are of no material significance:

	Share-holding	Subscribed capital	HGB shareholders' equity	HGB annual result, if applicable after profit transfer or assumption of losses	
			30.06.2006	2005/2006	2004/2005
	%	€ '000	€ '000	€ '000	€ '000
TD Artos Immobilien AG, Berlin [1) 2)]	40.0	100	-725	14	-115
SCS Standard Computersysteme AG, Hamburg					
Kurbetriebsgesellschaft Bad Klosterlausnitz mbH	1.6	3.211	339	-471	-660
Bad Klosterlausnitz	49.5	52	93	53	1

[1] Provisional and unaudited result
[2] Shares of Held Bau Consulting Projektsteuerungs-gesellschaft

Profit and loss accounts (HGB) for the 2005/2006 and 2004/2005 financial year

	2005/2006 € '000	2004/2005 € '000
1. Sales	16,448	17,286
2. Other operating income	15,502	3,940
3. Cost of materials	4,349	4,182
4. Personnel expenses	8,986	8,812
5. Depreciation of intangible and tangible fixed assets	10,442	3,437
6. Other operating expenses	22,822	11,308
7. Financial result	11,904	18,410
8. Profit on ordinary business activities	-2,745	11,897
9. Taxes on income and earnings	349	1,676
10. Other taxes	17	28
11. Net profit for the year	-2,414	10,193
12. Retained earnings brought forward	10,587	5,392
13. Transfers from/to reserve for treasury shares	708	139
14. Distribution of profits	4,860	4,860
15. Retained earnings	**4,021**	**10,586**

Marseille-Kliniken AG balance sheet (HGB)
at 30 June 2006 and 30 June 2005

Assets	2006 € '000	2005 € '000
A. Fixed assets		
I. Intangible assets	614	698
II. Tangible assets	19,513	27,610
III. Financial assets	90,289	75,952
	110,416	104,261
B. Current assets		
I. Inventories	54	43
II. Receivables and other assets	74,707	89,302
III. Securities	0	54
IV. Cash in hand and at banks	8,498	69
	83,258	89,468
C. Deferred charges and prepaid expenses	29	33
	193,704	193,762

Liabilities	2006 € '000	2005 € '000
A. Shareholders' equity		
I. Subscribed capital	31,100	31,100
II. Capital reserve	15,887	15,887
III. Revenue reserves	591	1,299
IV. Retained earnings	4,021	10,587
	51,599	58,873
B. Special item for investment grants for land and buildings, as per official subsidy note	2,163	2,261
C. Provisions and accrued liabilities	10,511	12,233
D. Liabilities	128,908	119,868
E. Deferred income	523	527
	193,704	193,762

Auditors' report

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 2005 and ended on 30 June 2006. 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."

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, Berlin, for the financial year that began on 1 July 2005 and ended on 30 June 2006. 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 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 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 audit reporting.

Hamburg, 17 October 2006

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rohardt	**zu Inn- u. Knyphausen**
Auditor	Auditor

Board members

The Management Board

Axel Hölzer
Chairman

Ennio Laviziano

The Supervisory Board

Ulrich Marseille
Businessman
Chairman

Hans-Hermann Tiedje
Media entrepreneur
Deputy Chairman

Dr Peter Danckert
Lawyer

Dr Peter Schneider
Medical consultant

Professor Dr
Matthias P. Schönermark
University professor

Mathias Kampmann
Business administrator,
self-employed businessman

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5-year summary

Group (IFRS)

		2005/2006	2004/2005	2003/2004 *	2003/2002 *	2001/2002 *
Results						
Operating sales	€ m	210.4	201.5	200.1	190.0	180.9
Cost of materials	€ m	31.1	30.0	27.6	25.1	36.4
Personnel expensens	€ m	106.7	104.5	105.1	99.9	93.5
Depreciation	€ m	13.1	14.8	24.4	21.0	14.8
Net Group profit/loss for the year	€ m	9.7	6.3	-12.9	8.7	7.1
EBIT **	€ m	19.4	24.3	17.1	22.7	23.3
EBITDA **	€ m	30.9	37.4	31.4	37.2	38.1
EBITDAR **	€ m	58.0	55.5	53.4	56.7	53.9
EBIT margin **	%	9.2	12.0	8.6	11.9	12.9
ROS	%	4.4	4.4	3.7	4.5	5.6
DVFA/SG result	€ m	9.3	8.9	7.5	8.5	10.1
Gross cash flow **	€ m	25.8	23.5	17.9	26.2	24.9
Cash flow from current business operations	€ m	21.1	19.1	19.1	-6.7	3.7
Cash flow from investment activities	€ m	89.5	29.9	-12.0	-25.8	-12.8
Balance sheet						
Fixed assets	€ m	250.2	332.8	328.0	336.5	324.9
Investments in tangible assets	€ m	9.3	21.3	10.1	29.9	11.7
Working capital	€ m	25.7	18.2	16.3	28.7	39.9
Investments in financial assets	€ m	0.6	0.1	1.1	0.0	0.7
Other key indicators						
Dividend	€ m	2.2	4.9	4.8	4.9	4.8
Dividend yield	%	2.9	3.9	4.8	9.0	4.3
Number of shares	Million	12.15	12.15	12.15	12.15	12.15
Market capitalisation	€ m	191.4	125.1	100.7	53.9	112.4
Return on equity ***	%	13.9	14.3	11.5	10.6	11.9
Return on total capital	%	2.9	2.2	2.0	2.2	2.7
Year-end share price	€	15.75	10.30	8.29	4.44	9.25
Personnel expenses ratio	%	50.7	51.9	52.5	52.6	51.7
Adjusted cost of materials ratio	%	14.8	14.9	13.8	13.2	12.4
DVFA/SG earnings per share	€	0.76	0.73	0.62	0.70	0.83
Gross cash flow per share	€	2.12	1.93	1.47	2.16	2.05
Employees	Average number	4,849	4,520	4,380	4,122	3,795
Facilities	Number	62	60	58	57	50
Bed capacity	Number on 30.06.06	8,703	7,573	7,512	7,261	6,537
Occupancy rate ****	%	88.2	87.5	90.0	92.1	94.3

* *According to the German Commercial Code (HGB)*
** *taking DVFA/SG adjustment items into account*
*** *DVFA result/Group shareholders' equity*
**** *excluding the facilities that started operation: Hennigsdorf, Hamburg and Düsseldorf*

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