Better if we are there



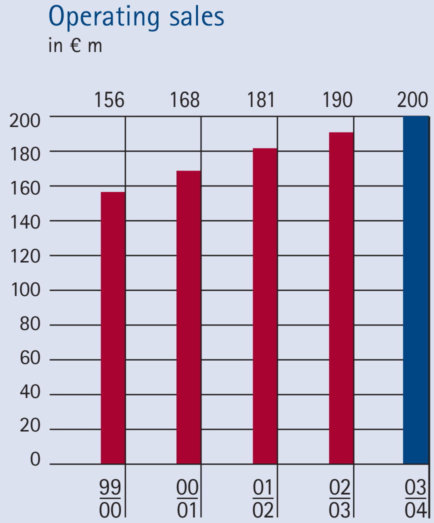
Annual Report 2003/2004

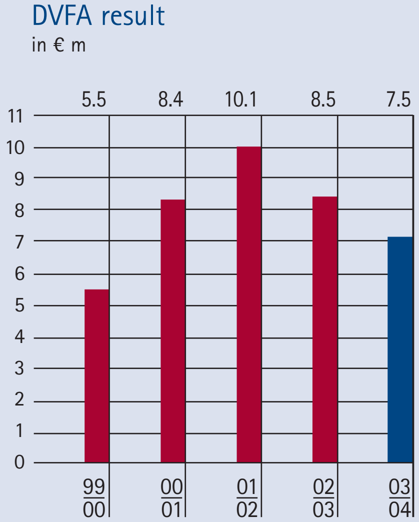
MARSEILLE-KLINIKEN AG

Main Group figures (HGB)

		03 I 04	02 I 03	Change in %	Page
Results					
Operating sales	€ m	200.1	190.0	5.3	51
EBITDAR *	€ m	53.4	56.7	-5.8	56
EBITDA *	€ m	31.4	37.2	-15.8	56
EBIT *	€ m	17.1	22.7	-24.5	56
EBIT margin *	%	8.6	11.9	-28.1	-
Net income	€ m	-12.9	8.7	-	53
RoS *	%	3.7	4.5	-19.7	-
DVFA/SG result	€ m	7.5	8.5	-11.9	53
Gross cash flow *	€ m	17.9	26.2	-31.7	56
Balance sheet					
Fixed assets	€ m	328.0	336.5	-2.5	54
Investments	€ m	12.6	30.8	-59.1	-
Shareholders' equity **	€ m	64.9	81.1	-20.0	55
Equity ratio	%	17.6	20.8	-15.4	55
Return on equity ***	%	11.5	10.6	8.9	-
Financial debt	€ m	224.5	236.3	-5.0	55
Finance ratio	%	60.9	60.5	0.7	-
Per capita sales	€ '000	57.8	57.2	1.1	56
Other key indicators					
Total dividend	€ m	4.8	4.9	-1.6	84
Dividend per share	€	0.40	0.40	-0.8	11
DVFA/SG result per share	€	0.62	0.70	-11.4	11
Employees	Average number	4,380	4,122	6.3	80
Facilities	Number	58	57	1.8	52
Bed capacity	Number on 30.06.04	7,512	7,261	3.5	52
Occupancy rate ****	%	90.0	92.1	-2.3	51

* 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 / Landshut and Montabaur





Segments

Nursing

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 47 different facilities. Individual nursing concepts are developed to meet the specific needs of the residents.

		03I04	02I03
Sales	€ m	147.0	128.3
DVFA result	€ m	11.5	10.2
Employees	Average number	2,277	2,105
Facilities	Number	47	46
Bed capacity	Number on 30.06.04	5,740	5,460
Nursing days	Million	1.9	1.7
Occupancy rate *	%	94.3	95.4

* excluding the facilities that started operation

Rehabilitation

State-of-the-art rehabilitation – that is the concept successfully applied by the 11 psychosomatic and somatic rehabilitation clinics. Individual treatment concepts are provided in the following fields: psychosomatics, cardiology, orthopaedics, gynaecology and oncology.

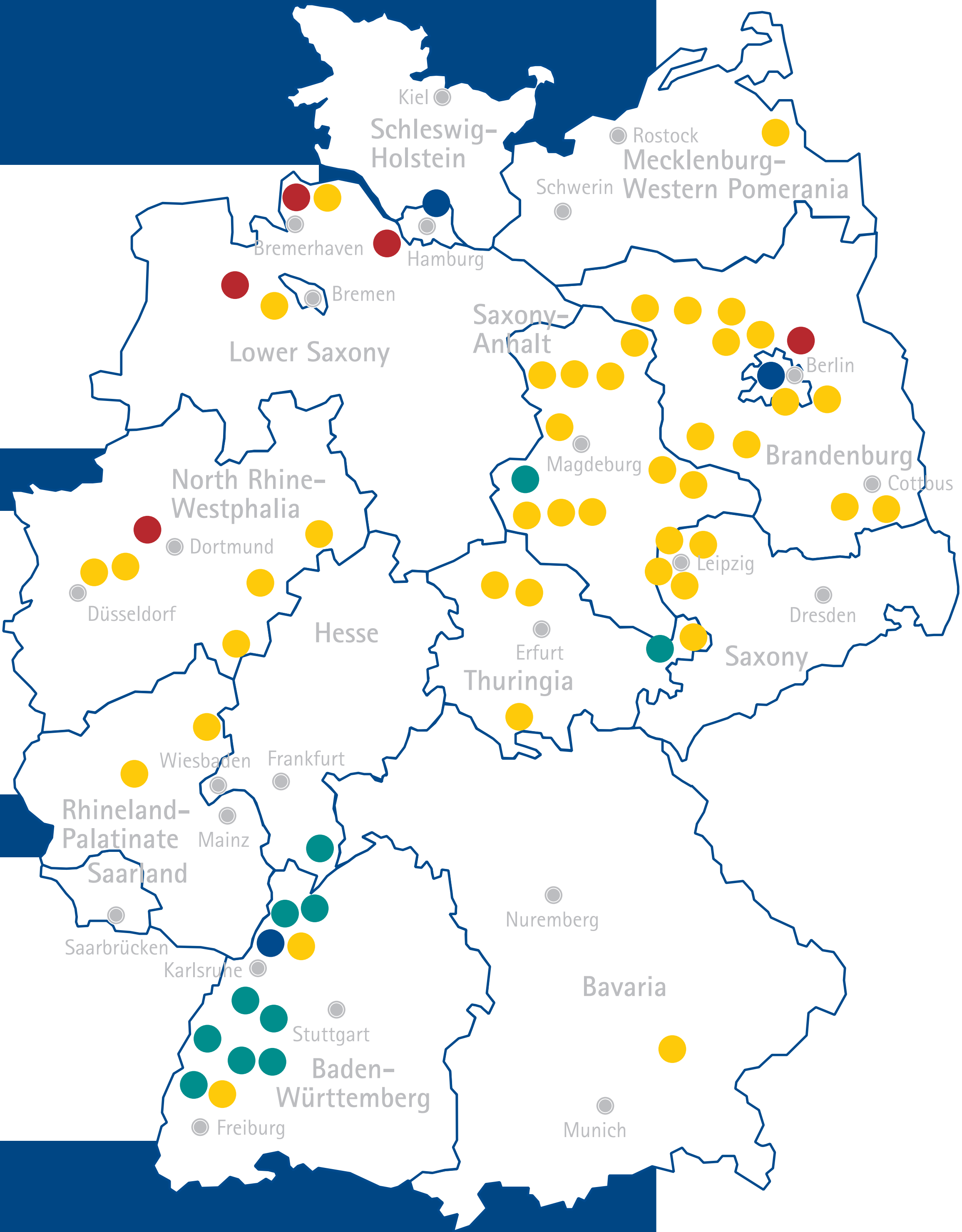
		03I04	02I03
Sales	€ m	53.1	61.7
DVFA result	€ m	-4.0	-1.7
Employees	Average number	727	790
Clinics	Number	11	11
Bed capacity	Number on 30.06.04	1,772	1,801
Cases treated	'000	17.5	19.9
Occupancy rate	%	76.6	83.0

Services

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

		03I04	02I03
Sales	€ m	64.4	52.9
Employees	Average number	1,376	1,227

Locations



- Administration/office
- Senior citizens' residential home
- MEDINA nursing home for the handicapped
- AMARITA and Astor Park
- Rehabilitation clinics

Better if we are there

We have been at the service of our customers throughout Germany for 20 years now. We influence the nursing and rehabilitation segments of the health market by demonstrating high skills and offering innovative programmes for residents to enjoy a decent environment during the final stage of their lives or for promising rehabilitation. With the help of a clear strategy and a comprehensive range of services, we are in this way pursuing our goal of becoming the biggest German operator of nursing homes with a stock market listing.

Contents

Anniversary celebration at the corporate headquarters in Hamburg

Hans-Dietrich Genscher, former German foreign minister and a friend of the Marseille family, speaks at the ceremony held at the Hamburg headquarters in May 2004 to celebrate the 20th anniversary of Marseille-Kliniken AG. Genscher pays particular tribute to Ulrich Marseille's tremendous commitment to what used to be East Germany. Marseille-Kliniken AG has established 36 facilities in the new German states since reunification.

Serving customers for 20 years

The company founder Ulrich Marseille lent a hand on the site himself when the first senior citizens' residential home in Langen was being built. He set new standards in nursing care for the elderly with his customer-oriented business model. Following the reunification of Germany, the relatively small company expanded into the states in the east of Germany and quickly became one of the biggest private operators of nursing homes for the elderly in the country. The foundations for the present Group were laid here; multistorey buildings like in Hennigsdorf erected under the old East German regime have been converted into modern facilities in line with West German standards. After conversion into a public limited company and the start of official stock exchange trading of the company's share on 2. October 1996, the funds were available for further expansion as well. Service companies, training facilities, research institutes and special computer software have fine-tuned the company's branch system, so that it is excellently equipped for the future.

The past year at a glance

Several building projects

The remodelling and thorough renovation of the senior citizens' residential home in Belzig begin in February 2004, while the residents are accommodated at a different location. The oldest resident of a senior citizens' residential home celebrates her 108th birthday at the senior citizens' residential home in Cottbus, which is also being remodelled, on 7. December 2003. TLG Immobilien GmbH starts to build the senior citizen's residential home Am Großen Garten in Dresden, commissioned by its tenant Marseille-Kliniken.

New concepts, new treatment

The first residents move into the senior citizens' residential home in Montabaur in July 2003. A nursing clinic is opened within the senior citizens' residential home, where mainly residents suffering from dementia are looked after and given medical treatment. The senior citizens' residential home in Landshut is provided with a special area for dementia patients too. What used to be the cardiovascular clinic in Waldkirch opens as a cardiological prevention centre in March 2004. The clinic has been renamed "Vitalquelle Waldkirch" and takes account of the medical trend towards concentration on prevention rather than cure.

Harmonious Annual General Meeting

Satisfied participants at the Annual General Meeting in Berlin on 2. December 2003. The shareholders show great interest in the reports presented by Axel Hölzer, the Chairman of the Management Board. The unchanged dividend of € 0.40 per share emphasises the shareholder-oriented dividend policy the company has followed for years.

Scientific research prizes

The Marseille-Kliniken nursing research prize is presented for the first time on 7. November 2003 at the congress held by the German Geriatric Society in Berlin. Karlsruher-Sanatorium-AG awards the rehabilitation research prize for outstanding research projects for the ninth time already. Each of these prizes has a value of € 7,500.

Important visitor in Hennigsdorf too

After years of arguments with the Brandenburg authorities about the charging of investment costs, the hatchet is buried in connection with the building of the AMARITA home in Hennigsdorf. The state and federal governments give Marseille-Kliniken AG generous support and the Minister for Social Affairs Günter Baaske makes sure he appears personally at the topping-out ceremony on 4. August 2004. With our twelfth facility in the state, we are not only providing the geronto-neurological services needed in Brandenburg; we are also one of the largest employers there.

Axel Hölzer, Chairman of the Management Board

Dear shareholders and friends of the company,

All of us who are involved in the health market are experiencing turbulent times. For decades now, politicians have stated that the social security nets are so strong that they will not tear. Reality has now caught up with us and put an end to this wishful thinking. The shortage of funds available in public budgets has made reforms essential across the board. Some progress has been made, but all that the controversial debates which are still going on actually demonstrate is that everyone knows something has to be done, but that it is still unclear what action should be taken. The legislation about modernisation of the statutory health insurance funds that came into force at the beginning of 2004 has shown initial signs of correcting the mistakes made in previous years, while the reform of the loss-making nursing care insurance system has been shelved for the time being with the exception of increases in the contributions paid by the childless.

We are often asked what impact the growing deficits in the nursing care insurance system are having on our business. Basically none. Nursing homes always receive their money in the end. If not from the nursing care insurance system, then from the state welfare authorities. The only difference is that the money comes from a different source. We have a very firm opinion about the direction in which the nursing care insurance system ought to be reformed. You can read the details in the section "The health market". The fact that there continues to be strict control in the specification of payments made for nursing care with the application of what are to all intents and purposes the methods followed in centrally planned economies is the main problem rather than too low a revenue level. The nursing market quite simply needs more competition. The criteria ought, however, to be quality and performance.

We are certain that there will be consolidation of the nursing market in favour of private operators in view of the quality and cost pressure that is being exerted. We are benefitting from this development, because we satisfy the requirements for customer orientation, economic viability and social skills and are aiming to grow in the right areas. Our claim to be a leading operator of private nursing facilities is made no less justified by the unsatisfactory development of Marseille-Kliniken AG in the 2003/2004 financial year. We achieved our goal of increasing sales to more than € 200 million but did not make the large improvement in the DVFA result that we planned. It was € 1.0 million lower than in the previous year at € 7.5 million. The increase in earnings was, on the one hand, depressed by the facilities that started operation and, on the other hand, the rehabilitation operations developed worse than expected and had a considerably more adverse effect. The segment made a loss after reaching a completely inadequate capacity utilisation level at the psychosomatic clinics in particular. The development of the rehabilitation operations and at the new facilities that were in the start-up phase led to a reduction in the occupancy rate for the Group as a whole. The profit on ordinary business activities of - € 8.8 million was attributable to a large extent to the poor operating result generated by the rehabilitation division and the additional extraordinary write-downs of assets and redundancy plan commitments in this division.

The current difficulties in the rehabilitation division are attributable to some extent to the effect of the economic situation on demand. The rule with psychosomatic disorders in particular is: less money and time is spent on health care when the economy is in the doldrums. There have been noticeable changes in application patterns in the rehabilitation field. Economically sound operators with a customer-oriented product and service profile will be coming out of this consolidation process stronger than they were before. We are working on the assumption that the shake-out process in the market will last for about one-and-a-half-years.

There is no doubt that Marseille-Kliniken is one of the rehabilitation providers that will be benefitting from a recovery in demand coupled with a reduction on the supply side. Our clinic portfolio is good and viable. We are restructuring facilities where a long-term recovery cannot be guaranteed. The conversion of the cardiovascular clinic in Waldkirch into the cardiological prevention centre called "Vitalquelle Waldkirch" indicates the direction that is being taken when choosing concepts for alternative uses. We remain committed to rehabilitation and are working intensively on improving the occupancy rate, quality, specialisation and profitability of our clinics.

Your company is celebrating the 20th anniversary of its foundation in 2004. This period of time is too short to justify a claim to be a first mover on the market on this basis alone. Time is, however, only one factor in the history of a company. The marks it leaves on the market are another criterion. We are one of the pioneers of the branch concept in nursing care for the elderly and can become increasingly efficient with increasing size. As a private company in a market that is dominated mainly by welfare associations, we have proved that a socially responsible yet commercially sound approach is no contradiction in nursing care for the elderly either.

We take the success we have achieved in recent years to be a commitment for the future. As a private operator, we will be stimulating the growing market for nursing care for the elderly by introducing innovative new ideas on a regular basis. We are concentrating here on our core skills and work constantly on optimising our business model.

Our capacity has been expanded significantly in the last few years, in blatant contrast to the extreme uncertainty displayed by investors in the senior citizens' and property market. Eight new facilities started operation in 2002/2003 and one more senior citizens' residential home in Montabaur/Rhineland-Palatinate was added in the year under review. Four facilities are in the process of being built at the present time. Our fifth AMARITA home is taking shape in Hennigsdorf near Berlin, while we are developing three more locations in Dresden, Düsseldorf and Hamburg with investors. We are entering a city with more than a million inhabitants for the first time with the facility in the centre of Hamburg.

Ennio Laviziano (60)
Director responsible for nursing and special project strategy
Member of the Management Board of Marseille-Kliniken AG since January 2004
1994-1998 Member of the Management Board of Marseille-Kliniken AG and sole director of Karlsruher-Sanatorium-AG

Axel Hölzer (41)
Chairman of the Management Board
Chairman of the Management Board of Marseille-Kliniken AG since September 2002
2000 Finance Director and COO
1999 Member of the Management Board
1997 Fully authorised representative of the company
1995 Finance Director

Hans Heckmann (57)
Nursing Division Director
Member of the Management Board of Marseille-Kliniken AG since April 1998
1994 Appointed to head the operations in Magdeburg
Chairman of a housing cooperative until 1989

Concentration on the operation of health facilities is a key element in our strategy. For historical reasons, we are in addition to a considerable extent a property investor who also provides nursing care for the elderly. We have made considerable progress in reaching our goals of reducing the amount of property we currently own via the sale-and-leaseback process and of optimising the property portfolio by selling existing facilities and leasing new ones. A well-known international investor intends to enter the German health market for the first time. Fundamental agreement about selling and leasing back 15 of our facilities with about 2,000 beds was reached in October. We are expecting to implement the contract before the end of this year. This transaction is a milestone achievement. The breakdown of owned and leased facilities in the property portfolio is now about 50% to 50%, a ratio that corresponds to such large international operators of nursing facilities as the US companies Sunrise and Beverly. We are streamlining our balance sheet without affecting earnings, are reducing debt and are creating the financial scope for expansion by increasing our equity ratio.

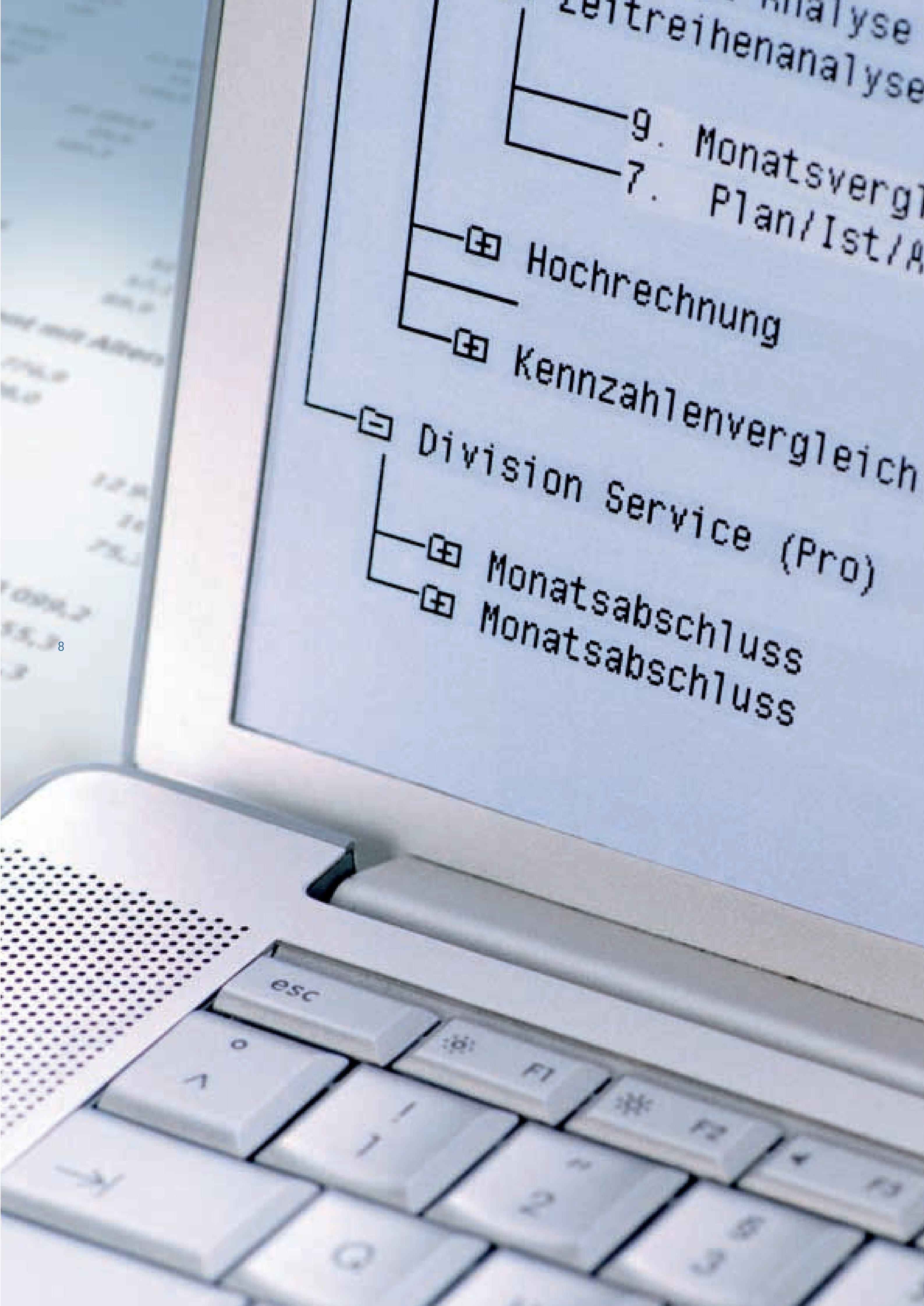
We are gratified to see that the capital market is starting to respond positively again to the convincing strategy we are following and our systematic implementation of it. The share price development is encouraging in the light of the unsatisfactory situation in the rehabilitation division. With a market capitalisation of more than € 100 million, some of the gap that formed last year has been closed again. We share the analysts' view that the high potential of the Marseille-Kliniken share will be reflected in a further increase in the share price.

We are making good progress. The trials and tribulations on the health market are only affecting us marginally and the shadows the economy is casting on our company are short. The nursing division, which contributes almost 75% of our added value, is operating stably, expansively and highly profitably. The situation will be improving even more this year. In the rehabilitation division, we have taken the necessary steps to make sure we will benefit comprehensively from the increase in demand following the anticipated market shake-out.

On behalf of the Management Board, I would like to express our thanks to you, our shareholders, for the confidence you have placed in our work and for your loyalty to the company. We thank our employees, who demonstrate great professional and social skill, high commitment and an impressive sense of personal responsibility in helping us to carry out our assignments. Our thanks also go to the people at our facilities for their trust in our work and, finally, to the Supervisory Board, which gave us the same constructive and purposeful support it always has throughout the years.

Your

Axel Hölzer
Chairman of the Management Board


Zeitreihenanalyse
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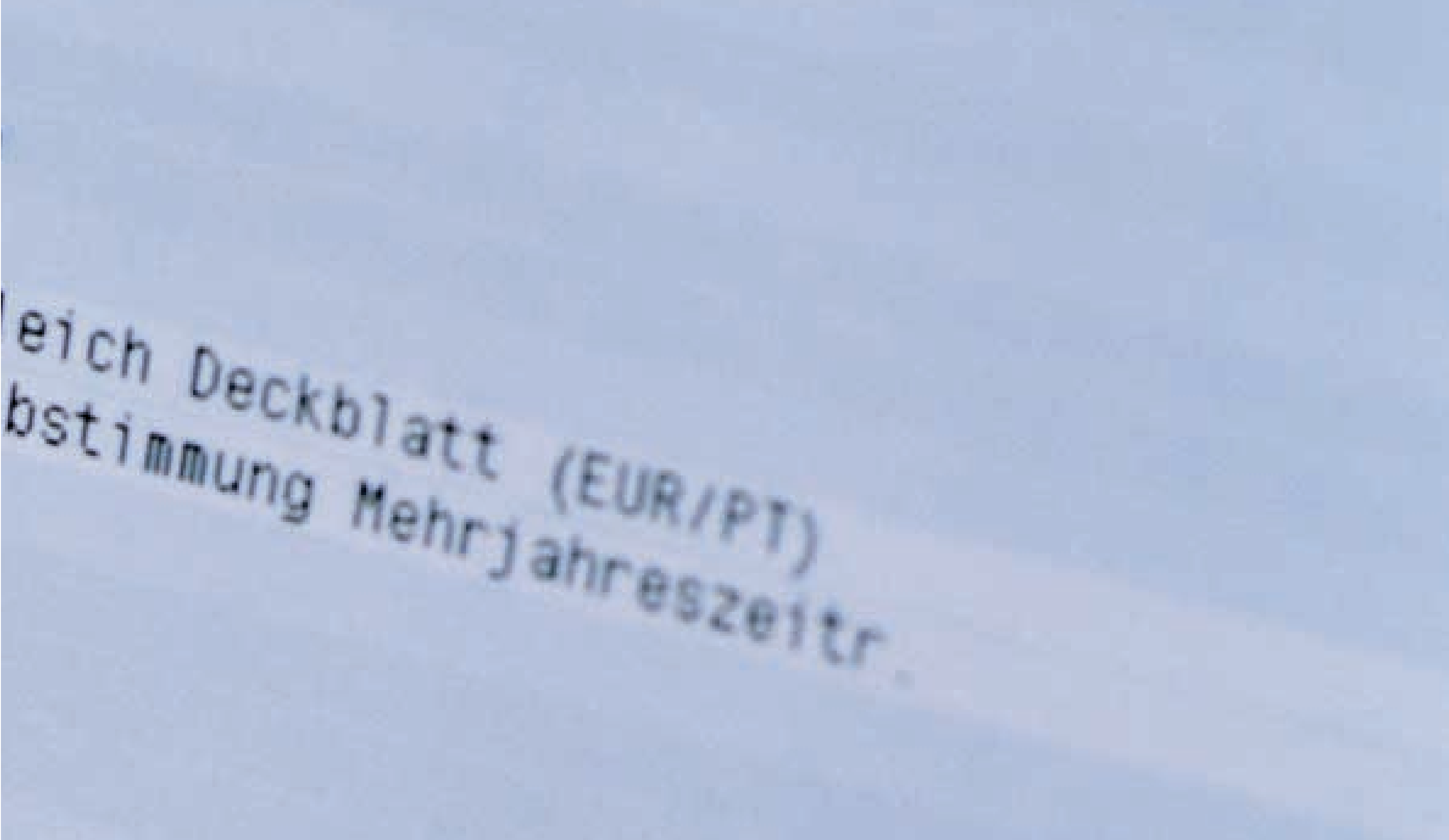


All the Marseille-Kliniken homes and service centres are linked via an SAP system. This means that access to all the relevant data from individual locations or complete groups is possible at all times for corporate control purposes. The early implementation of this comprehensive IT system is giving us a clear lead over other players as well as a strategic competitive edge.

The Marseille-Kliniken share

"Consistency pays"

The stock markets all over the world recovered in the 2003/2004 stock exchange year and increased substantially again for the first time after three consecutive years. The Marseille-Kliniken AG shareholders had not just one but two reasons to be satisfied with their investment. They benefitted on the one hand from a traditionally shareholder-oriented dividend policy, while the recovery process also brought them a disproportionately large increase of more than 90% in the value of their share.

The stock market situation has improved

While the global political circumstances remained uncertain in the first half of 2003, confidence about an economic recovery in Germany increased in the middle of the year and formed the basis for investors to put their trust back in the German stock market and be more willing to take risks again.

The DAX started the second half of 2003 on 3,147 points and rose to 3,965 points by 31.12.2003. The stock market situation improved to such an extent that a new high of 4,152 points was reached in the first half of 2004 and the market was open to new IPOs again. The DAX was up 28.8% on 30.06.2004.

The Marseille-Kliniken share listing was changed as well in connection with the resegmentation exercise carried out by Deutsche Börse AG at the beginning of 2003. It is now listed in the Prime Standard and is included in the CDAX, Prime All Share, Classic All Share and Prime Pharma & Healthcare indices.

The analysts' recommendation: buy

In the period under review, the Marseille-Kliniken share benefitted to a disproportionately large extent from the positive mood on the stock market and developed considerably better than all the indices. This achievement is attributable to the sustained success of our business model. The share price increased significantly by comparison with our competitors who have a stock market listing. The first price in the 2003/2004 year under review was € 4.32 and represented the low for the entire financial year.

The price developed to € 7.0 by the Annual General Meeting on 2. December 2003. After the dividend was distributed, the price decreased to € 5.46 with low trading volumes. When several studies recommending that the share is bought were published at the beginning of 2004, the share continued its positive trend with a high trading volume and climbed to a new high of € 9.25 in April.

According to the analysts covering us, this does not mean that our company is adequately valued yet; all of them continue to recommend that the share is bought.

Market capitalisation and trading volume

The stock market value of Marseille-Kliniken AG reached € 101 million in the year under review; this is almost twice as much as in the previous year. The daily trading volume increased from an average of 17,600 shares per day last year to an average of 19,600 shares per day in the year under review. Institutional investors, who require certain minimum market capitalisation and trading volume levels before they take investment decisions, have devoted considerably more attention to the Marseille-Kliniken share again as a result. With a ranking of 108 in market capitalisation and 118 in trading volume, we have taken a major step towards our goal of returning to the SDAX quality index for small caps in the medium term.

Dividend continuity

We have paid our shareholders an attractive dividend every year since the IPO in 1996. We will be continuing this shareholder-oriented dividend policy. The Supervisory Board and Management Board of Marseille-Kliniken AG will be proposing to the Annual General Meeting that a dividend of 40 cents per ordinary share is paid for the 2003/2004 financial year.

Investor relations

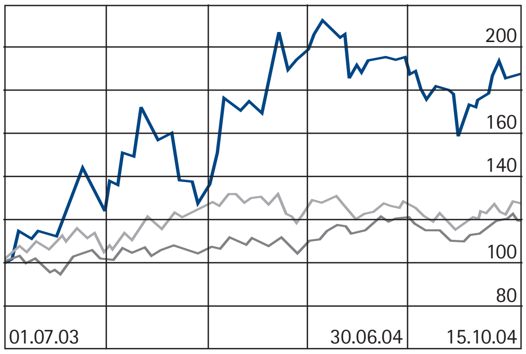
The investor relations activities carried out by Marseille-Kliniken AG has a long-term focus and supports the Group strategy, which aims to continue increasing corporate value.

Share price development

	30.06.2004	01.07.2003	Change in %
Marseille share	€ 8.29	€ 4.33	+91.5
DAX	4,052.7	3,146.6	+28.8
Prime Pharma & Healthcare	913.7	752.5	+21.4

Marseille share price development

Indexed, 01.07.2003 = 100



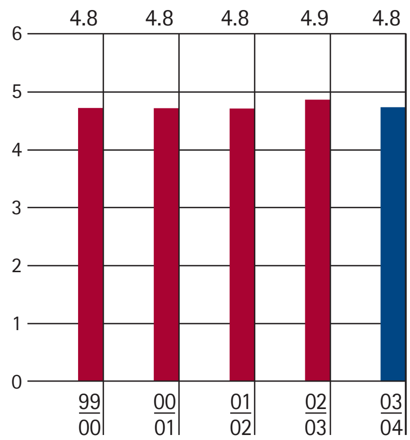
Main figures about the share

		03|04	02|03
Net income	€ m	-12.9	8.7
DVFA/SG result	€ m	7.5	8.5
Gross cash flow	€ m	17.9	26.2
Dividend per share	€	0.40	0.40
Dividend yield (net)	%	4.8	9.0
Total amount distributed (net)	€ m	4.8	4.9
Highest share price	€	9.23	8.88
Lowest share price	€	4.32	3.79
Year-end share price	€	8.29	4.44
Price-to-earnings ratio		13.9	6.3
Market capitalisation *	€ m	100.7	53.9
Number of shares	Million	12.15	12.15

* (on 30.06.2004)

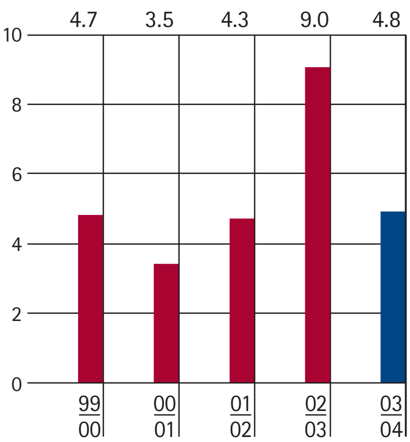
Dividend development

in € m

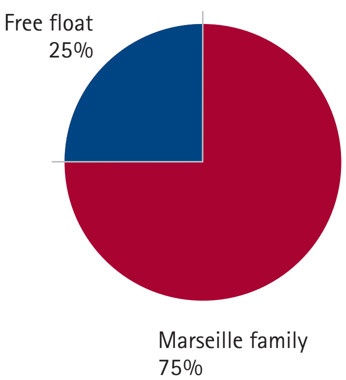


Dividend yield

in %



Shareholder structure



We operate in a market that promises us excellent opportunities for profitable growth in the next few decades. The well-known rating agency Standard & Poor's has confirmed the BB–/neutral outlook rating that it issued last year, which shows that the valuation of the company is good – particularly by comparison with national and international competitors. On the basis of these facts, our share is an attractive investment with sustained growth potential.

It is our job to explain these long-term success factors in detail to the capital market in general and to give analysts and investors an extensive insight into our growth strategy. We are supporting the transparency campaign by intensifying our investor relations activities even more. In our communications policy, we give 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. It is the safest way to develop a basis for long-term trust in our company and our share.

The Management Board and company directors take the fair disclosure principle very seriously. In the year under review, we extended our contacts beyond institutional investors to include small investors. We took part in numerous events for analysts and investors and participated in an investors' fair for the first time. The strong interest shown in our share is reflected in a growing number of personal meetings held at roadshows. We reported about current and future developments at the company via telephone conferences and letters to our shareholders and entered virgin territory with a presentation to investment clubs for the first time; the response was encouraging.

In order to continue developing public understanding of and confidence in our profitable business model, we maintain a constant dialogue with journalists from business magazines and newspapers, whose reporting increased substantially in the year under review.

New media

The Internet is becoming an increasingly important corporate communication medium for us. In addition to extensive information about the company and its share, our website www.marseille-kliniken.de includes corporate presentations that can be downloaded by analysts. The article "Positive assessment of the Marseille share by analysts" on our website gives you access to the latest assessments by experts and the studies they have compiled. Shareholders and anyone else interested in the company can also be informed directly about current events at Marseille-Kliniken AG by e-mail. The entire investor relations team can be contacted personally at all times.

Share information

Security identification no.	778300
ISIN	DE0007783003
Stock exchange code	MKA.ETR
Trading locations	Frankfurt a. M., Hamburg
Designated sponsor	Seydler AG

Financial calendar

for the 2004/2005 financial year

Press conference about the annual results Berlin	05.11.2004
Report on the 1st quarter	08.11.2004
Event for analysts Frankfurt a. M.	November 2004
Annual General Meeting Berlin	24.01.2005
Dividend payment	25.01.2005
Report on the 2nd quarter	09.02.2005
Event for analysts Frankfurt a. M.	March 2005
Report on the 3rd quarter	07.05.2005
Annual report 2004/2005	October 2005
Report on the 1st quarter 2005/2006	08.11.2005
Annual General Meeting 2005/2006 Berlin	December 2005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Marseille-Kliniken AG plays a pioneering role on the health market. We make it possible for our customers to enjoy the final stage of their lives in a decent environment, by providing programmes customised to meet target group needs, by implementing innovative concepts, by following a clear strategy and by taking the economic consequences of market requirements into account. The success achieved is attributable to a large extent to constant monitoring of the market and the identification of new developments. Interviews at our homes and public opinion polls to determine expectations about old age round off these activities.

Pressure on the health system to reform – private operators on the advance

The health reform that came into force at the beginning of 2004 is the dominant feature of the German health market. There are doubts about the practical effectiveness of the reform. If anything, only such trends as fewer visits to doctors and less demand for medicine have become apparent so far. It remains to be seen whether they will lead in practice to the sustained cuts in health insurance premiums that are anticipated.

Impact of the reforms questionable

The statutory health insurance funds have enormous debts and are legally obliged to pay off their liabilities. There is a danger that the reform, which focusses primarily on the reallocation of costs rather than on cost-cutting measures, will not bridge the gap between costs and benefits in the long run. After the reform is before the reform.

There is no alternative to privatisation

No bastion that is based on restriction and regimentation can withstand the cost inflation in the health system. An increasingly old population combined with medical and technical progress that is leading to longer life expectancy is exerting stronger and stronger pressure. The fact that people are living longer has an impact not only on system financing but also on expenditure. On the one hand, the proportion of the population accounted for by the employed, who carry the main load in financing the statutory health insurance system, is going down. On the other hand, costs are higher the older we get because of more intensive medical treatment. Experts such as the head economists at the insurance company Allianz agree that more market and competition are necessary to satisfy the increasing demand for services in the health field in view of the trend towards a decrease in public sector financial resources. The emphasis in both the hospital system and nursing care for the elderly will be shifting towards private operators with the gradual withdrawal of states and local authorities from their positions of responsibility for the health system. The privatisation process will be speeded up even more by the cost edge the private operators hold over public or non-profit facilities. It is estimated that private operators are 20% to 30% more efficient. Private operators also have solutions for financing the urgently needed investments. The standard practice followed in the past by local authority and non-profit funding organisations to provide massive investment cost subsidies for their facilities cannot be maintained any longer. Whereas the private operators have to allocate all the investment costs to the residents, homes financed by public or non-profit organisations have been able to charge nursing care rates incorporating smaller investment amounts. A large proportion of the homes that are not run privately is unable to cope with the need to adapt to new cost structures and with the growing pressure to allocate all the costs of replacement and expansion investments to the residents as well. The advantages of the consistent cost structures of professionally managed facilities are becoming increasingly evident in price-performance comparisons. The criteria that play a crucial role in the choice of inpatient nursing care facilities, which is made primarily by relatives, are the atmosphere of the facility, how attractive the rooms are and the amount of the nursing care charge that goes beyond the reimbursement made by the nursing care insurance fund. The level of acceptance of private facilities is growing considerably because of these factors.

As the process of change is starting, financial and strategic investors from outside Germany are also beginning to look at the market more closely. This is particularly true of chains with international operations that are being formed to an increasing extent in the hospital field as well as in nursing care for the elderly. Market observers are certain that large US operators already have a discreet presence on the German market under different names.

Health policy in a predicament

German health policy is in an awkward situation. It is on the one hand unable to stop the long-term increase in expenditure and is forced on the other hand to fight an erosion of its funding basis. The rational way to deal with this situation is to make the problems the subject of public debate. There are no easy solutions. If the quality of medical care for all is to be maintained or even raised, everyone has to be prepared to pay more for this too. If there is no willingness to do this, then cuts in quality are the unavoidable consequence. A clear picture of these alternatives is not being presented in the current debate about health and social policy. This debate is proving to be more a source of confusion than a means to bring about the necessary changes in the system. Symptomatic of this is the insistence of the Rürup Commission on the nursing principle that "outpatient care has precedence over inpatient care". This principle is reversed by the conditions encountered in practice for nursing care that meets the needs of the elderly.

Health – a market with an exciting future

In spite of its outdated structures, the health market is one of the few large growth markets in Germany and is one of the backbones of economic development. Health expenditure has increased by 44.6% to about € 243 billion in the past 10 years. This is more than the German car industry's domestic sales. The Gross Domestic Product, which is the basis for assessing overall economic performance, has only increased by 28.7% to € 2,129 billion during the same period. The health system contributes almost 11% of the Gross Domestic Product. Hospitals, rehabilitation clinics and nursing facilities receive about € 85 billion from the health budget for outpatient, inpatient and part-time inpatient care alone. About 12,000 facilities provide more than 1.5 million beds for patients and residents.

Hospitals, rehabilitation clinics and nursing facilities receive about € 85 billion from the health budget for outpatient, inpatient and part-time inpatient care alone. The health market will continue to be a large growth market in future as well.

Nursing care for the elderly a growth factor

There has been no change in the trends on the nursing market. The market is growing and offers great opportunities for private operators in particular. The growth is being driven on the one hand by demographic developments. By 2050, average life expectancy will be increasing to 81.1 years for men and 86.6 years for women. The consequence of this is that one third of the entire population will be over 60 by 2050. 12% of the population will be over 80; the figure today is 3.9%. The DIW estimates that the number of people requiring nursing care will be exploding from 1.93 million (1999) to 4.73 million by 2050. The number of people requiring inpatient care will be increasing disproportionately fast to 1.57 million home residents. The private operators are being helped in this development by the fact that the state is encouraging the change in people's health awareness and the increase in their self-confidence by making increasingly strict requirements on the quality of nursing care. The legally planned implementation of a quality management system, covered appropriately by integrated software solutions, will separate the wheat from the chaff on the nursing market even more effectively in future. Value for money is becoming an increasingly important competitive parameter. The establishment of economic and functional units, specialisation, integrated treatment programmes and the professional exploitation of synergy benefits are essential if nursing facilities are to operate successfully.

The inevitable consequence of this is that the nursing market will be consolidating too. No matter whether they are run by local authorities, non-profit organisations or private companies, uneconomic facilities will disappear or be taken over by competitors. Only strong companies organised with clear structures like Marseille-Kliniken AG will satisfy future requirements and end up even stronger.

High pent-up demand

Demographic developments make it necessary to increase supply on the nursing market by about 300,000 beds by 2020. Adaptation of the current supply situation to the increasingly exacting demands people are making will create a need for a further 250,000 beds. 55 per cent of nursing beds are still in rooms with two or more beds. Residents make it clear, however, that they want single rooms. One third of all nursing facilities is in need of thorough renovation too. All the experts are working on the assumption that the establishment and modernisation of the necessary capacities will involve investments of about € 50 billion, which it will not be possible to finance without a substantially higher inflow of private capital.

Large-scale nursing care insurance reform postponed

The large-scale reform of the nursing care insurance system, which has been operating at a loss since 1999, has been postponed for the time being. The "relative reduction of the burden" on parents with children compared with childless members of the nursing care insurance system that has been demanded by the German Constitutional Court is being implemented in isolation by imposing an increase of 0.25% in the premium paid by childless members of the system. The main points of the postponed large-scale reform are dynamic increases in nursing care payments, higher payments for members of the nursing care insurance system, larger benefits in cash and in kind for outpatient nursing care and corresponding reductions in nursing home care in the lower care categories. It has not been decided when and whether the reform will be made in this form.

A digression: lost in the bureaucratic jungle

The provision of nursing care for the elderly is a business that involves sacrifices and requires composure, patience, understanding and an optimistic outlook. Governments do not always make it easy for the operators of nursing facilities to meet their commitments without unnecessary expense. They have created a bureaucratic jungle and a mass of regulations, many of which are senseless and do not really produce anything except costs. The regulations vary from region to region too and distort competition. There are about 900 legal rules and regulations in the health system. It would take more space than we have available in our annual report to list the regulations that are relevant to nursing homes. We will restrict ourselves to examples.

The state of North Rhine-Westphalia (NRW) is particularly innovative. One regulation there stipulates that the social welfare authorities do not pay a residential allowance for recipients of social welfare benefits at a new nursing home that is built with more than 80 beds. A sensible reason for this upper limit is not given. There is no economic justification for it. The optimum size of a nursing facility is between 120 and 150 beds. NRW also plays a pioneering role in its introduction of stricter rules than the federal German regulations about minimum building standards for homes. Whereas single rooms are required to have a size of at least 12 m² (excluding bathroom and hallway) at the federal level, the figure in NRW is 14; the difference with double rooms is 18 m² to 24 m². NRW has specifications about free space too, for which the federal rules do not include any requirements. A minimum area of 320 m² is required for an 80-bed home; this corresponds to the size of three single-family houses.

In view of the mass of rules and regulations, it will come as nothing of a surprise that politicians enact laws that contradict each other directly. The chaos is made complete by differences in the regulations between the individual German states.

The federal German regulations about minimum building standards make questionable demands too. A shared bathroom is required for 20 residents. This adds up to eight such bathrooms for a home with 150 beds. They are empty most of the time, because new buildings include a separate shower bathroom for practically every resident. A contradictory fire protection regulation is progressing through the legislative process too. It specifies that all residents are to be pushed out of the home in their beds if there is a risk of fire. The only way to do this from the upper floors is to use the lift, which the fire brigade says should be avoided at all costs when there is a fire risk. It could be a death trap if the power supply is interrupted.

Bureaucracy in particular creates high barriers to efficient home management. This is especially true of controls and new applications. The association of German nursing care for the elderly and handicapped points out that nursing homes are checked by the home supervisory authorities, the nursing care insurance fund, the medical service of the health insurance funds, the health authorities, the business inspection authorities, the occupational health and safety authorities, the food monitoring agency, the work safety association, the water authorities, the building supervisory authorities, the technical control authorities and the fire protection authorities. Some of these organisations are interested in the same things but have different standards. The chaos is made complete by differences in the regulations between the individual German states.

In view of this mass of rules and regulations, it will come as nothing of a surprise that politicians enact laws that contradict each other completely. § 8 Paragraph 8 of the nursing home act says that the contract with the home operator ends when a resident dies, but that continuation of payment of residential and investment costs can be agreed for up to two further weeks. This corresponds approximately to general rental law. § 87a Paragraph 1 of the XI. code of social law specifies, on the other hand, that all payment obligations end on the day when the home resident dies.

Federal German home legislation stipulates that employees with the appropriate official qualifications have to make up half of the personnel. Most operators have empirical proof that this level is not necessary in all areas. Much can be done by considerably less expensive staff without these official qualifications. Many of them have been in the profession for ten years or longer and are at least as skilled as trained nursing staff. The qualification systems that are applied in other fields do not, however, exist in the nursing field. An untrained waiter is allowed to call himself a fully trained waiter after five years' professional experience and a three-month training course. A similar arrangement in the nursing market would eliminate the shortage of skilled staff at one go and enable experienced staff without the official qualifications to earn a better income.

Varied prospects in rehabilitation

In connection with the introduction of a comprehensive fixed-price system in the form of diagnosis-related groups (DRGs), hospitals will to an increasing extent be starting to discharge patients for follow-up treatment more quickly for cost reasons. The market shake-out that is expected in the acute hospital field will be leading to higher occupancy rates at the surviving hospitals as well as to closer co-operation with rehabilitation providers. There will be a general shift in patient days from acute hospitals to rehabilitation clinics. This means further stabilisation and an improvement in capacity utilisation for Marseille-Kliniken AG's five somatic clinics, which are already operating profitably.

The importance of rehabilitation measures in certain areas is, however, decreasing as the process of medical change continues. This is particularly true of cardiology. Facilities that specialise in follow-up treatment have the best prospects.

The rehabilitation market is, however, influenced by economic fluctuations, in contrast to the nursing market. This applies especially to demand for services in connection with psychosomatic disorders. Widespread anxiety about possible redundancy has changed application patterns substantially. This is exacerbated by the fact that the insurance companies are adopting a very restrictive approval policy in view of the poor overall economic conditions. Which is in complete contrast with the actual need for medically important rehabilitation treatment, which is growing constantly.

There will therefore be consolidation in this field and supply will be adapting to demand. The market is likely to have bottomed out in about 18 months' time. Up to one third of the operators will probably have withdrawn from the market by then. We are working on the assumption that the Marseille-Kliniken AG rehabilitation division has good long-term prospects, because the tougher conditions in the acute sector and the pressure to adapt in the psychosomatic field offer the larger clinic chains considerable market advantages and thus good long-term survival potential. Medical trends like the growth in withdrawal treatment because of the increase in addictions, greater demand for follow-up treatment as DRGs are introduced and the expansion of outpatient rehabilitation are further factors that improve the outlook.

The interview

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

Mr Hölzer, you say that it was a good and right move to introduce nursing care insurance and that it has proved to be a success. But isn't the system creaking and groaning alarmingly?
I stand by what I said. We have a very innovative model in Germany that is working smoothly and guarantees everyone is treated equally. There is no other system in Europe that is so extensive.

But surely the problem is that the nursing care insurance system is about to collapse financially?
I doubt that as well. The state has got its thinking wrong if it reckons that more money always needs to be found in order to finance the health system. We do not need more money, in the short term at least. We just need to distribute it correctly. Our job is not to cover the costs but to reduce them.

And how is that supposed to be done?
There are many different ways. The cake that has to be divided up is gigantic. More than € 230 billion are spent on the health market every year. In contrast to other growth markets, however, the state is heavily involved in pricing policy. Take nursing care as an example. The operators of senior citizens' residential homes are not simply allowed to specify prices according to the laws of supply and demand. The nursing care rates are negotiated with the insurance companies and local welfare benefit funding organisations every year. What are involved here, however, are not just the nursing services themselves, for which there are upper limits anyway in the nursing categories 1 to 3, but also the costs of catering and accommodation every day.

While the margins for food and drink are within relatively narrow limits at all facilities, there is a substantial price range where accommodation is concerned. It is determined by the equipment and furnishing of the home and its location. A home out in the country in East Germany costs less than a comparable facility in a West German city. This leads to nursing care rates within an average range of € 2,000 to € 3,000. The operators are obliged to demand these prices irrespective of whether the home occupancy rate is low and the operator really ought to reduce the prices or whether a facility could charge higher prices because there is strong demand for beds. It is rather like telling Daimler-Chrysler dealers how much they are allowed to charge for a Mercedes.

What is your suggestion?
The prices for catering and accommodation must be taken out of the nursing care rates and be left up to the operators themselves. There is considerable cost-cutting potential here. The nursing homes that are less good will be forced either to raise their standards or lower their prices. It is a serious flaw of the system that market processes are eliminated.

You are advocating a withdrawal of the state from the health market?
All the experts who are looking for efficient solutions are doing this. The state should limit itself to its control function, such as regular reviews of the quality of nursing care. Although government bodies are already doing this, they are doing it inefficiently, inconsistently and out of tune with the times. Enormous amounts of money are being wasted here. A change in the system could have the effect that there are nursing homes with different equipment and furnishing standards, similar to one-star to five-star hotels. The quality of the nursing care itself is the same everywhere. Only the surroundings and the additional services vary.

Personnel costs currently account for about 70% of total costs at public facilities and 50% at homes run by private operators. How can these high costs be controlled?

There are many different possibilities. The biggest obstacle is the collective agreement for federal employees (BAT), which raises pay at regular intervals irrespective of performance. I simply cannot see any reason why an employee has to earn € 50 to € 160 more per month just because he is two years older, although he is doing the same work as before. Individual occupational groups are paid at disproportionately high rates too. Cooking and cleaning staff earn considerably more at nursing facilities than on the free market because they have to be classified on the basis of the BAT system. This discrepancy is aggravated by the annual negotiations about the civil service collective agreement, on which the BAT pay scales are based. People who have nothing at all to do with the business processes at nursing facilities agree on higher wages and salaries here, in complete isolation from the economic developments in the fields affected. This means that the personnel costs increase, but the nursing care rates that are paid don't.

Cooking and cleaning staff earn considerably more at nursing facilities than on the free market because they have to be classified on the basis of the BAT system. This discrepancy is aggravated by the annual negotiations about the civil service collective agreement.

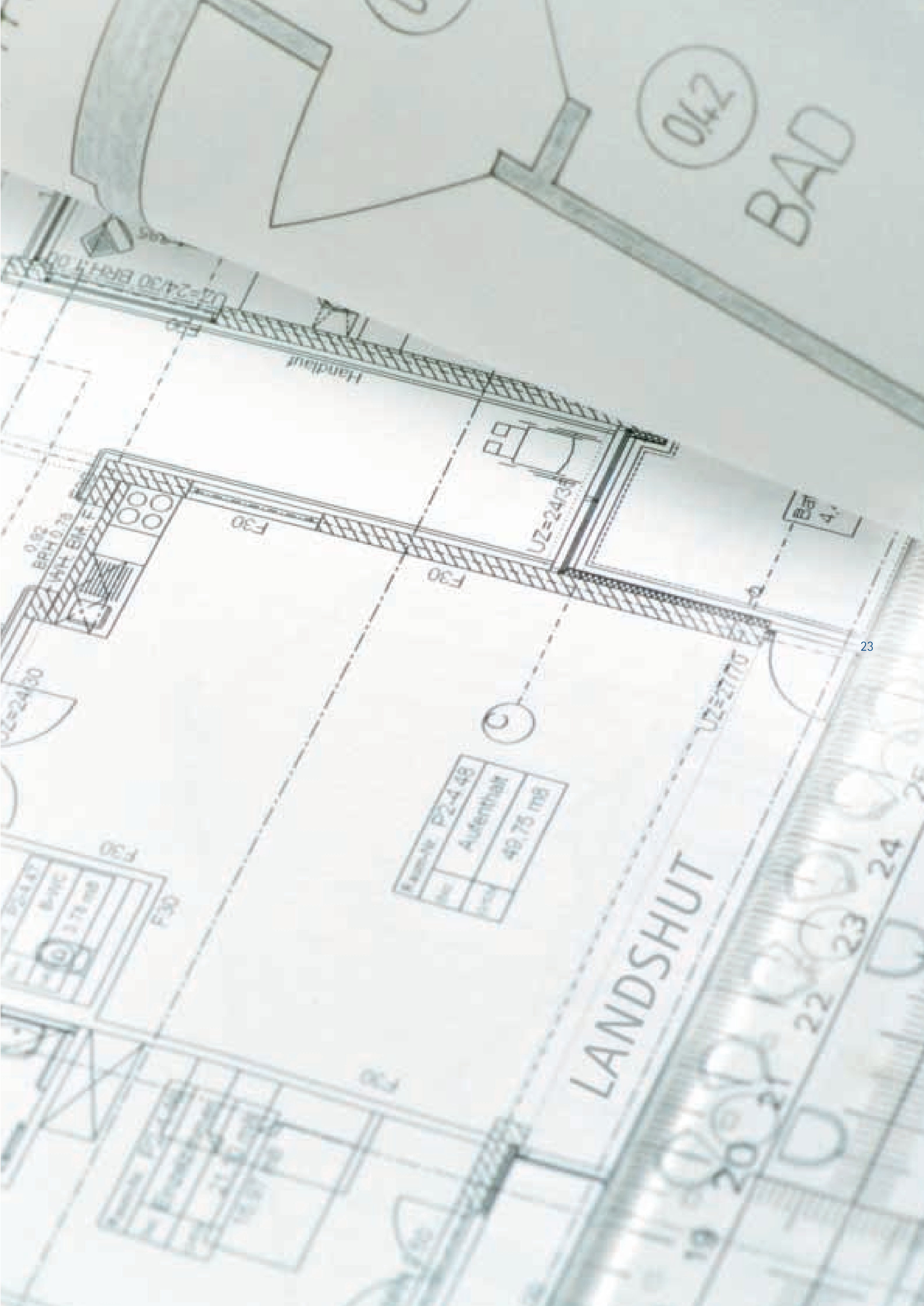
The business community throughout Germany is demanding more flexible working times. What is your position on this?

I agree, because the BAT system has another serious disadvantage. It is rigid and does not permit any flexibilisation of working times. Expenditure can be reduced substantially in the area of work organisation. Private operators like us spun off all the non-nursing assignments to subsidiaries a long time ago. They are responsible for organising building engineering, cleaning, catering, maintenance and accounting. The expensive nursing staff are supposed to do what they have been specially trained for – the provision of nursing care.

You have implemented software programs at the company which permit daily personnel planning. What advantages does this have?

Nursing care is something that can be allocated effectively. Like in a school timetable, all staff receive a list of assignments that they have to carry out. They are free to arrange some of the time themselves. If a resident is still asleep, then he is not woken up simply because it is his turn. At the same time as this, a handheld minicomputer makes it possible to document the services provided precisely. The nurse makes an entry in the computer she carries with her almost as soon as she has completed the assignment. The Ministry of Health estimates that administration accounts for about 40% of nursing time. The handheld computers reduce this workload very substantially.

The Marseille-Kliniken nursing homes satisfy the needs of elderly people and the requirements of modern health care. We have specific ideas about how buildings for customers who are suffering from dementia or a lack of mobility need to be designed, for example. Our experts are already closely involved as consultants when facilities are still being planned and contribute their know-how throughout the building phase, so that leased homes meet our demands.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A convincing strategy – strong position on the market

Inpatient services in the areas of nursing care for the elderly and rehabilitation are our core business. We are not represented in the acute field, which dominates the rest of the market. Inpatient nursing care is the most important sector of our business and the focal point of the strategy for further growth. The 47 senior citizens' residential homes that we currently operate satisfy people's demands for residential comfort and high-quality nursing care.

Further areas of operation

Medical rehabilitation is the second core business. Rehabilitation services have been part of our programme since 1994. The company provides follow-up treatment with the emphasis on psychosomatics, orthopaedics, cardiology and oncology at 11 clinics. Due to the way the market has developed, we cover a wide range of different services. Separate companies are responsible for catering, cleaning, laundry and staff training. Marseille-Kliniken is the leading supplier of private nursing care services and the third-largest clinic operator in Germany with a stock market listing.

Our strengths on the market are modern facilities, capable and committed staff and a clear, straightforward strategy that is based on the principles of customer orientation, economic viability and social responsibility. They give the company an unmistakable identity and culture. The ongoing generation of economies of scale is a major goal. This does not mean that we aim to grow at all costs. Economic viability is more important than expansion. We only make acquisitions if they make commercial sense in the long term too. We are firmly committed to our principles and run the business very soundly and circumspectly. This is the reason why we are growing steadily.

Nursing care for the elderly is our future

The structures in the core nursing care business are oriented towards sustained growth. Our medium-term goals up to 2008 have been outlined clearly. We think that the critical number of beds for us – the point at which the marginal costs are the same as the average costs and no further economies of scale can be achieved – is 12,000. The planned increase in capacity will put us in an internationally competitive position and will take us closer to our goal in Germany of becoming the biggest private provider of inpatient nursing care. Achievement of growth with no change in overhead and service costs maximises economies of scale, which play a central role in optimising the administration costs per bed.

Three ways to enter a new dimension

We take advantage of three different options in order to achieve higher coverage in the area of senior citizens' residential homes: the building of AMARITA residential homes like in Hennigsdorf, the leasing of new facilities like in Hamburg, Düsseldorf and Dresden and the take-over of existing facilities like the Refugium homes in 2003. The AMARITA concept focusses on regions with high purchasing power. It is the first standardised product in the field of nursing care for the elderly. The clear building concept allows the internal structure to be arranged

We are committed to the provision of appropriate nursing care to the elderly. The enclosed central courtyard is a special building concept for residents suffering from dementia.

variably, the basic standard to be adapted to different special concepts and the deployment of the home to be customised extensively to meet the individual needs. We have been very successful in introducing the concept for the integrated care of dementia patients.

The leasing of new facilities is the second important option in our growth strategy. We define very specific location criteria for new building projects in co-operation with professional project developers and investors. We have firm ideas about the location, the social environment, the demand and the purchasing power in the region. We specify standards for the building cells too. The advantages of leasing are obvious. We concentrate on our core skill –

We intend to expand considerably and influence the market consolidation process by taking over selected existing facilities that are up for sale.

the operation of nursing care facilities – are not liable for building risks and save our financial resources, because we are not responsible for interim financing of the facilities when they are being built.

We adopt a selective approach when taking over existing facilities. There is a large amount of choice. Many facilities are up for sale because they are too small, are not operating profitably or need to be renovated thoroughly at high expense. In the face of fast growth in requirements, these capacities need to be either replaced by the development of new locations or taken over by providers who are in a position to run the homes economically. It is part of our expansion strategy to influence the market consolidation process. Long-term satisfaction of our quality and profitability criteria is a precondition for taking over existing facilities.

Marseille-Kliniken: the brand on the nursing care market

We pursue a purposeful marketing policy in order to distinguish ourselves from the competition. We do not just talk about more competition; we actively practice what we preach. The aim is for funding organisations and customers to associate Marseille-Kliniken with specialisation, standardisation, quality assurance and customer orientation. We have not reached the end of the road at the conceptional level; on the contrary: we are extending, strengthening and modernising our business model. Innovative thinking is part of our corporate culture. We have developed integrated care concepts at our facilities, primarily for dementia patients; we are establishing the new senior citizens' residential home in Montabaur/Rhineland-Palatinate as a nursing clinic that combines nursing services and medical services under the same roof. We are including particularly comfortable rooms or complete wards with such rooms at new facilities, in order to justify larger price differences via specialisation. In a study commissioned from the institute TNS Emnid, we have had an investigation made of the expectations people who are currently 40 to 60 years old have about their future when they grow old. The findings are being incorporated in our future nursing care concepts. To strengthen our position on the market, we are co-operating with acute clinics and other non-profit and public funding organisations. We have formed an alliance with the Southern Brandenburg regional association of the Arbeiterwohlfahrt organisation to submit a bid in a tender. We are obtaining experienced partners for our expansion programme via close co-operation with investors.

Customers instead of patients

We are making Marseille-Kliniken a brand in the nursing care market. Brands develop relationships to people. In our corporate philosophy, people who need nursing care are customers of our facilities. Hotel standards are being introduced at the senior citizens' residential homes. Instructors at the company's own training centre CASA hold specialised courses based on the service guidelines of the international hotel industry, at which the issues of service and customer orientation are communicated to the staff professionally. We are optimising our sales and marketing concept to make it a hotel programme strategy that includes nursing care and medical services.

Rehabilitation as a second pillar

Improved capacity utilisation, clear concepts focussed on the funding organisations and customers and more intensive co-operation with acute hospitals remain the strategic emphases in the rehabilitation division. The introduction of the lump-sum payment system in the acute field will lead to discharging patients earlier and thus to larger patient volumes, as the operators of acute clinics have to reduce the number of their partners at the same time for quality assurance reasons. The rehabilitation clinics are sound and competitive and will be returning to profit when the market problems have been solved. The strategic importance of the rehabilitation division is decreasing, however. Our longer-term plan is to incorporate the rehabilitation operations in a larger organisation, giving up the equity interest if necessary. We do not have the critical mass to apply the same kind of Group-wide brand strategy as in the nursing division, which generates a competitive edge on a consolidated health market.

Leasing instead of building

The realignment of our growth financing is in line with the most important element of our strategy: to focus Marseille-Kliniken systematically on the management and operation of health care facilities. We are a private company that operates on the health market and is owner of most of its social property too for historical reasons. This status quo conflicts with our mission. One of the objectives we have defined is to make a substantial reduction in the proportion of the property portfolio that we own in the long term. We intend to finance the repayment of our debts, which are attributable exclusively to the structure of our property portfolio, primarily by running our business with a lower level of committed financial resources. Two of the ways for us to reach this

An AMARITA facility for 336 residents is being built in Hamburg-Hohenfelde with a direct connection to the Marienkrankenhaus hospital by the end of 2005.

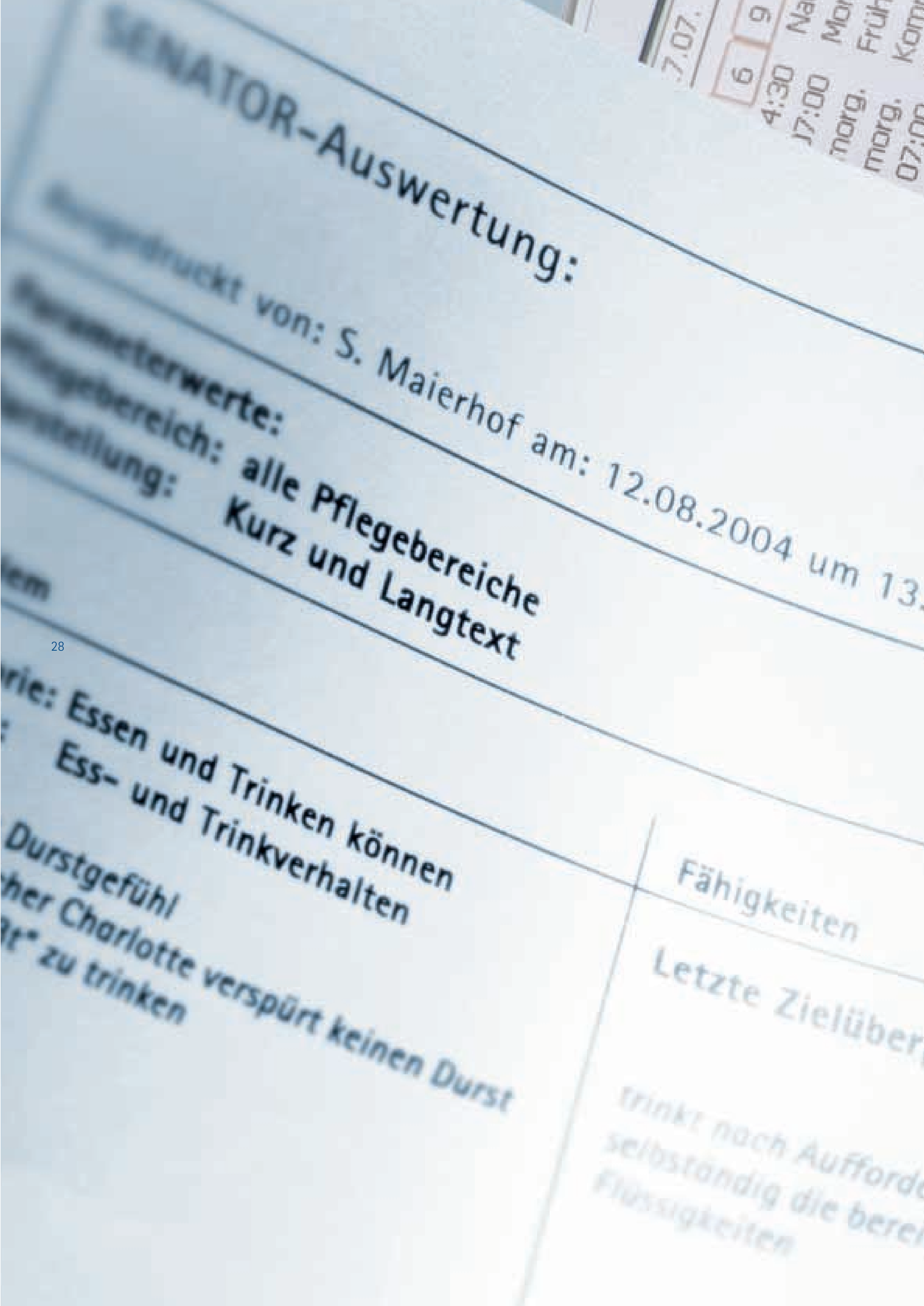
goal are to make a rule of leasing new facilities and to sell large proportions of the property portfolio that is currently owned to property investors. We are making progress in both areas. With the exception of a share of our own that is necessary, the AMARITA facility in Hennigsdorf near Berlin is being implemented largely with subsidies. We are developing the facilities that are being built in Düsseldorf, Dresden and Hamburg with investors. In view of the agreement reached in October with a major international financial investor, we are expecting to sell 15 of our facilities, that we will lease back to operate, before the end of this year. This transaction is reducing the proportion of the total portfolio that we own to what is a normal level by international standards.

In the implementation of our property strategy, we are bucking the social property trend. Spectacular negative reports from operators who have miscalculated the scope for economic nursing care models have frightened off investors. In our opinion, the cost calculations are arguments in favour of nursing care property investments. Initial yields from the rental income of 4.5% to 5% are considered to be standard on the market where the concepts meet the requirements, while returns of 6.5% to 8% are even achieved in areas where intensive nursing care is provided. Our concept gives investors the prospect of an attractive return with a low risk that can be quantified. We are contributing to the rediscovery of social property as a viable form of investment by means of our professional and transparent approach. The BB–/neutral rating issued by the agency Standard & Poor's is helping us to obtain investors. It documents our capabilities to existing and potential investors.

Basis for profitable growth

The growth strategy is being accompanied by optimisation of the Group structure. No competitor has the equivalent of our internal organisation and our IT environment. One important element is efficient pre-opening management, which enables us to integrate new facilities in the Group with sustained success at short notice thanks to the immediate implementation of our corporate and quality standards (including the necessary systems technology). A structured quality management system for the Group has created a consistent quality culture within the company. At the system level, we support both the central and decentralised quality management systems at the corporate headquarters and the individual facilities with software solutions for the nursing care and personnel management fields. All the facilities are managed with commercial efficiency on the basis of the nursing care management program SENATOR 4, which is backed by SAP R/3. The integrated personnel planning software PEPone developed with our partner Lufthansa Systems enables us to compile complete staff deployment schedules, make time records and carry out time management assignments. With our modern software tool, we have a unique product that on the one hand optimises the cost- and success-critical personnel management sector and on the other hand documents provision of the legally stipulated nursing care quality. We have invested € 15 million in the IT systems in recent years. According to a study by Roland Berger, about € 3 million per year are saved at Marseille-Kliniken as a result of the IT systems.

The complex assignments in our core businesses require extensive know-how and high qualification. Future-oriented personnel development is one of our elementary strategic assignments. Our long-term strategic concept is helping to make the profession of nursing care for the elderly more attractive and is safeguarding the supply of qualified personnel.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Nursing, rehabilitation and services. Our corporate operations in these three areas have made us one of the leading players on the health market. Clearly defined work processes, regular quality control and interviews with customers every year distinguish us from many of our competitors. Our aim is not only to be better than others but also to offer our customers more for the same money.

Nursing care for the elderly – hotel standards are being introduced

Marseille-Kliniken is one of the leading providers of inpatient nursing care for the elderly and handicapped. The aims we are trying to achieve with our extensive range of services are to accompany, encourage and look after the residents at our facilities and to enable them to remain independent as long as possible by doing so.

Complete range of services

Our main focus is on full-time inpatient nursing care for the elderly. We apply the principle of comprehensive activation in our nursing operations and aim to maintain as much independence as possible while giving as much assistance as necessary. Our nursing services range from minor care to intensive nursing. At many of our facilities, we have integrated specialised nursing concepts for such different conditions as dementia, Alzheimer's disease and multiple sclerosis as well as for coma and palliative treatment. We combine individual care with many leisure activities that take account of the differences in the residents' abilities. Short-term care at our homes gives guests an opportunity to take advantage of the high-quality nursing and care services for a specific period of time. Two of our facilities specialise in looking after handicapped people. The services are rounded off by such programmes as daytime care, outpatient care and assisted living.

Expansion in West Germany

The nursing division is the source of Group growth. The expansion plans are ambitious. Capacity is to be increased to about 10,000 beds by 2008. Seven new facilities with a total of 724 beds started operation in the 2002/2003 financial year. In July 2003, we increased our presence in the state of Rhineland-Palatinate by opening the senior citizens' residential home in Montabaur with 241 beds. The senior citizens' residential home in Landshut with 158 beds is our first facility in the state of Bavaria. The expansion into West Germany is continuing. Two more facilities with a total of more than 550 beds that are being opened at the end of 2005 are taking shape in Hamburg and Düsseldorf in co-operation with investors. At the present time, a facility in Saxony with 128 beds and an AMARITA home in Hennigsdorf with 110 beds are also being built. These facilities will be completed in the middle and at the end of the 2004/2005 financial year.

The newly established pre-opening management department plays an important role in guaranteeing corporate growth and rapid integration of the new homes. Its assignments are the professional co-ordination and control of the operations and processes that are necessary when new facilities open. The successful integration of the facilities in Rhineland-Palatinate and Bavaria, which are new locations for us, reflects the efficiency and flexibility of the pre-opening management department. Shortly after the senior citizens' residential homes in Montabaur and Landshut opened, the pre-opening management department and the facility managements had to adjust to the changes made in the conditions on the health market. The introduction of lump-sum payments at hospitals has led to an increase in demand for short-term nursing beds as well as to more exacting demands on the medical know-how of the nursing personnel. When the nursing personnel was being recruited, high priority was given to in-depth professional skills, which explains the large proportion of staff accounted for by fully qualified nurses.

The problems encountered in Landshut and Montabaur in the initial stages depressed earnings in the nursing division even so. Since both of these facilities are the first Marseille-Kliniken AG homes in their respective states, the networks developed in other states where a larger number of facilities already operate are not available yet and have had to be created first. This process has in the meantime been completed to a large extent, as the steadily increasing occupancy rates show. Both homes have established themselves in their local community.

The remodelling of the Cottbus and Belzig facilities involving temporary relocation of the residents also had a negative impact on earnings, because the remodelling project led to additional costs for substitute buildings and a lower occupancy rate as the construction work reduced the appeal of the homes. While the work has already been completed in Cottbus, this will not be the case in Belzig until the end of the year. The investments have been worthwhile in spite of the inconvenience for the residents and the staff. The rooms now have bathrooms of their own and have been upgraded to the latest standards, which guarantees that both homes will remain attractive in the long term as well.

Subsidies

A lengthy dispute in Brandenburg has been ended. Following years of arguments, the state government has recognised that Marseille-Kliniken AG is a reliable and efficient partner. Günter Baaske, the Minister for Social Affairs, appeared personally at the topping-out ceremony for the AMARITA home in Hennigsdorf, for the construction of which the state is paying a subsidy amounting to almost 90 per cent of the costs, and saw for himself how the funds have been invested effectively to guarantee the provision of appropriate care for the patients who require nursing attention.

The struggle with the state government about subsidies is still going on in Saxony-Anhalt. After the local court gave approval for payment of the subsidy to Marseille-Kliniken AG in the first instance, the company lost the case in the second instance when it was heard at the district court. We do not think there is objective justification for this decision and will be continuing to fight systematically for our rights through the courts.

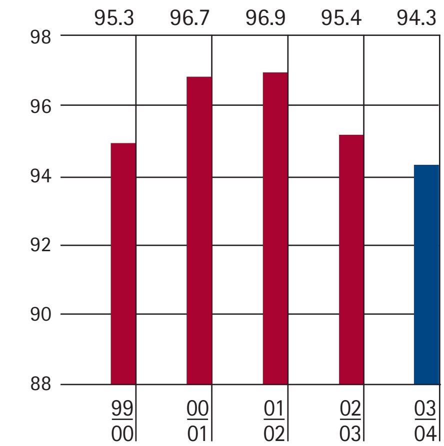
Integrated treatment concepts

Experts agree that an expanding network in the health system has considerable advantages not only for patients but also for service providers and funding organisations. In practice, however, this networking process is only being carried out slowly and with dogged preparation. We have intensified our talks with clinics and doctors running specialised practices with the aim of achieving results that have an immediate impact in moderate steps.

The rapid development of networks is being driven by the new funding system in the hospital field. The charging system involving diagnosis-related groups (DRGs) will lead to substantial changes in the structure of the German health system. The government has several aims in introducing this system: reduction of hospital costs while increasing quality at the same time, elimination of beds that are no longer needed, strengthening of outpatient treatment

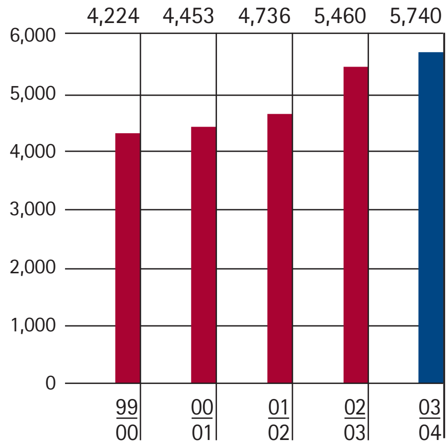
Occupancy rate

in % excluding the facilities that started operation

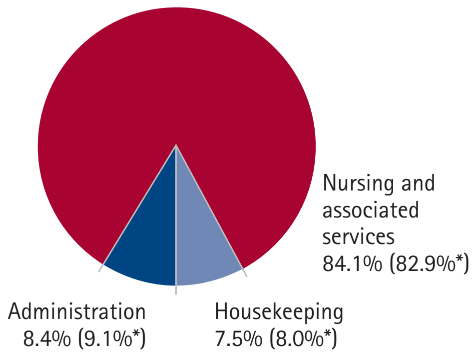


Bed capacity

Number on 30.06.2004



Number of employees



* Figure in the previous year

by hospitals and the establishment of an integrated treatment system.

The central feature of the new funding system is that payment is no longer determined by the length of time the patients are in the hospital; instead of this, fixed lump-sum payments are made for the treatment of specific disorders. The system was introduced in the USA years ago now and has cut the length of time spent in American hospitals by up to 50%. This development, which is anticipated in Germany too, creates considerable opportunities for operators of inpatient nursing facilities. As a potential co-operation partner, they can liaise with hospitals to guarantee treatment of the patients that meets both the qualitative and economic requirements. There is the risk of warranty claims being made on hospitals after the early discharge of patients if the patient has to be admitted again for treatment of the same problem. Our facilities are presenting themselves to hospitals as optimum co-operation partners in order to protect them against the economic risk of "revolving door" cases. The co-operation is based on the high-quality follow-up treatment concepts that have been developed by our central quality management staff. On the basis of market analysis data, we are holding talks with specific hospitals that fit into the concept of each individual facility.

We are already co-operating with acute hospitals at many different locations in the area of hospital follow-up and prevention treatment. The senior citizens' residential home Erkner, for example, has arranged to co-operate with Woltersdorf Hospital with the aim of enabling a smooth transition to be made between the hospital and the nursing home by means of improved interface management and the co-ordinated discharging of patients. Regular consultations are held between nursing experts. This co-operation is worthwhile and valuable for both partners, because shorter stays in hospital mean more intensive nursing care in the nursing facility and effective interface management avoids interruption in treatment.

The nursing clinic

The concept of the nursing clinic that we have developed is attributable to the fact that the number of very old people in our society is increasing rapidly and medical assistance for them at our nursing facilities has to be guaranteed by the constant presence of doctors. The availability of permanent medical care gives the residents a feeling of greater security and thus improves their quality of life. In addition to this, it reduces admissions to hospital – which frequently involve high emotional strain – to the absolute minimum that is medically necessary. A positive side-effect is that the avoidance of unnecessary, expensive stays in hospital leads to economic improvements for the funding organisations and service providers, while the quality of treatment is increased at the same time.

Our nursing clinics provide constant medical supervision and personal attention in a pleasant atmosphere.

The successes that we are achieving with the establishment of nursing clinics at selected facilities are encouraging us to integrate the concept gradually at more homes. At the newly opened senior citizens' residential home in Montabaur, nursing care is supplemented by two doctors, with whom we have concluded co-operation agreements. They cover the entire medical range, from general medicine to anaesthetics, pain treatment and neurology, and make daily visits, like in hospital. One of the doctors has his practice at the senior citizens' residential home. Further specialists are available in a theory-practice transfer system and increase the efficiency of this new programme even more.

Higher security levels

We take account of the intensive need elderly people have for greater security by equipping our buildings appropriately too.

In a pilot project, we have started to install a camera surveillance system outdoors on the site of a senior citizens' residential home. We are planning to install systems of this kind at all the facilities if the response is positive.

Nursing facilities are getting more comfortable

The trend is unmistakable. More and more old people do not want to give up the high standard of living they have developed over the years when they are about to move into a nursing home. The demand for solutions that are above the level accepted and paid for by the nursing care insurance funds is increasing steadily in the area of full-time inpatient nursing care. We are responding systematically to this trend and are providing hotel-like comfort more and more at our nursing facilities. We offer our residents a whole series of different ways to arrange the final stage of their lives in accordance with their personal requirements, not only regarding the equipment and furnishing chosen for our individually designed comfort rooms but also concerning the services provided. A standard feature for all customers at all times is cooking with fresh seasonal dishes and an extensive buffet for breakfast and the evening meal. Detailed programmes of events with attractions around the facilities are tailor-made for individual interests. They include small artistic and musical performances as well as big seasonal festivities or day trips in the local area. We also offer residents the opportunity to spend several days on holiday in Germany with the necessary assistance.

Benefits of quality management are being felt

The central quality management department, the decentralised quality assurance functions (in the form of the quality managers) and the quality management structures that have been established at the facilities have proved to be the right way to implement the latest findings of nursing research. Definition of the interfaces and control of the procedures have led to a steady improvement in the quality of the nursing care and assistance provided. The central quality management department acts as the interface between the Management Board and the company staff in the joint implementation of improvement activities. It specifies the alignment of the system strategy and content.

A major feature of the whole quality management system is the quality management manual, which is based on DIN ISO 9000:2000 and covers the most important processes in nursing care. The quality of the processes and results is reviewed on a regular basis by the Private Institute for Evaluation and Quality Assurance in the Health and Social System – the eqs.-Institut. Satisfaction interviews with residents, relatives and employees give us valuable information that helps us to maintain the quality standards we have set ourselves. The Management Board, the central quality management department and the quality managers at the facilities make use of the results to exploit optimisation potential in the context of the quality circles established at facility level.

Quality management at the inpatient facilities is supported by the software solutions for nursing and personnel management that are used throughout the company. Nursing planning on the basis of the nursing cycle approved by nursing scientists and resource-oriented personnel deployment planning are central elements of the entire quality management system. They guarantee nursing quality at the system technology level and lead at the same time to an optimised cost structure at the facilities.

Nursing research prize awarded for the first time

Marseille-Kliniken does a great deal for society. We provide services that are essential for the health system, we train young people, we create jobs, we pay taxes. We also help to make sure that progress is made in developments in nursing care for the elderly, gerontology and geriatrics – for the benefit of mankind. In November last year, we awarded the nursing science research prize with a value of € 7,500 for the first time. This prize is awarded for outstanding scientific and conceptional work in the area of nursing care for the elderly. The prize went to a task force from the Institute for Nursing Science at Bielefeld University for its study about "Nursing requirements and service structure in full-time inpatient nursing facilities". Gertraude Boye, who studied nursing sciences at Martin Luther University in Halle/Wittenberg, received an additional prize as the best up-and-coming scientist for her graduation thesis "Analysis of access paths in full-time inpatient nursing facilities for nursing category 1 patients".

Rehabilitation – the wheat is separating from the chaff

Following the Seehofer reform in 1997-1999, the rehabilitation market is now going through another economic downswing. The number of applications submitted and approved has decreased noticeably and is causing providers of rehabilitation services considerable capacity utilisation problems. Marseille-Kliniken is being affected by this development too. The prospects for the rehabilitation division remain good even so. The clinics have high medical skills, are modern and competitive. Marseille-Kliniken will be among the winners when the expected market shake-out is over.

A specialised service profile

Marseille-Kliniken AG operates 11 rehabilitation and prevention clinics with a total of 1,772 beds. We provide our customers with high-quality medical treatment that is based on the latest scientific findings. The clinics are highly specialised. Six clinics treat somatic problems in the specific areas of cardiology, orthopaedics and oncology. Their services also include special programmes that range from chronic heart failure treatment and dermatology to dialysis and drug dependence treatment. The five specialised psychosomatic clinics are equipped to deal with practically all conditions. Psychiatrics and psychosomatics account for almost 40% of the bed capacity in the rehabilitation division.

The market in a process of radical change

The future of the rehabilitation market is closely associated with DRGs. This lump-sum payment system in the acute field will be shortening the length of time patients spend in hospital drastically and will be leading to correspondingly longer periods of follow-up treatment. There are already indications of a shortage of treatment opportunities for patients who are discharged at an early stage but still require extensive convalescence, because there is hardly enough capacity available on the market that is capable of covering the demand for follow-up medical treatment after an inpatient stay at an acute hospital. The comprehensive introduction of DRGs depends on considerable additional capacities being provided in the medical nursing field. The market players are already responding. Rehabilitation clinics are starting to add short-term nursing care to their programmes, while hospitals are making intensive efforts either to provide rehabilitation services themselves or to co-operate with external rehabilitation clinics. The cut in the duration of hospital stays will lead to an increase in demand for full- and part-time inpatient rehabilitation. This development is being supported by demographic changes. Patients are getting older and older and rehabilitation at home is becoming increasingly difficult in view of socio-cultural changes.

The length of time patients spend in hospital will be shortening drastically. This will be leading to longer periods of follow-up treatment, which will therefore be increasing demand for rehabilitation.

The current situation in the rehabilitation operations is attributable, on the one hand, to a noticeable change in patients' application patterns. Anxiety about their jobs has prompted many potential applicants to postpone rehabilitation measures. This is particularly the case with rehabilitation in the psychosomatic field, which can be timed to fit in with personal circumstances – in contrast to somatic problems. Pension authorities are, on the other hand, becoming more and more restrictive about paying the costs. Experts are working on the assumption that the pension authorities as the source of funding will be withdrawing from the financing of rehabilitation measures to an increasing extent at the expense of the health insurance funds. We are adapting to this change in the payment structure by intensifying our co-operation with the health insurance funds.

The wheat will be separating from the chaff within the very short term in the rehabilitation market due to the growing cost and performance pressure that is being exerted on the service providers. Crucial factors for a successful future are: a sound mix in the case structure (outpatient/inpatient), in the funding organisations (private insurance companies/welfare authorities) and in patient sources (acute hospitals/outpatients/private patients) as well as the service range, location (attractive surroundings/close to residential areas/hospitals), costs and financial resources. These criteria are arguments in favour of increasing privatisation and concentration. Capital, flexibility and strategic thinking are essential if the necessary changes are to be made in the capacities and the programmes and if willingness to co-operate with the acute facilities is to be developed. These are major characteristics of private operators.

Growth areas in rehabilitation

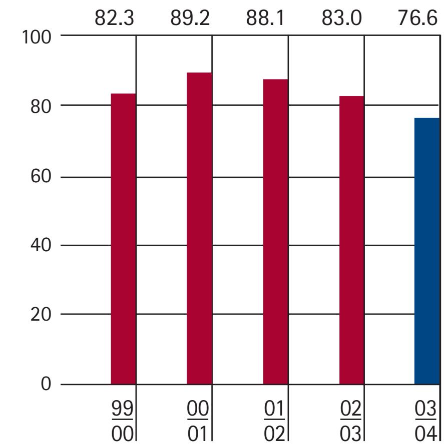
Follow-up treatment has been expanding for years now. It accounts for almost a quarter of all rehabilitation measures. The increase in application figures is based partly on greater acceptance of these services and partly on the steady decrease in the duration of stays in acute hospitals.

Networking of acute treatment and rehabilitation facilities, pooling of full- and part-time inpatient and outpatient treatment programmes and the creation of medical treatment centres are areas in which there is tremendous development potential for rehabilitation providers. A consistent upward trend is apparent in the addiction field. Drug dependence treatment, which is expensive because of the relatively long periods of treatment, makes up about 16% of all rehabilitation expenditure. Treatment concepts for medical rehabilitation with the aim of vocational integration have high potential too.

Outpatient medical rehabilitation is being boosted by the politically propagated principle that “outpatient care has precedence over inpatient care”. The pension insurance authorities are expecting that the current proportion of five per cent of total rehabilitation will be continuing to increase. Arguments in favour of an increase in outpatient rehabilitation are good value for money and the scientific finding that no difference in quality can be determined

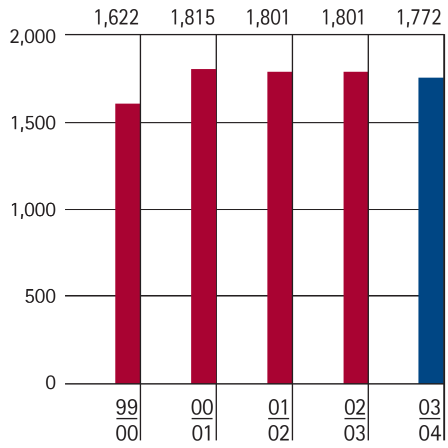
Occupancy rate

in %

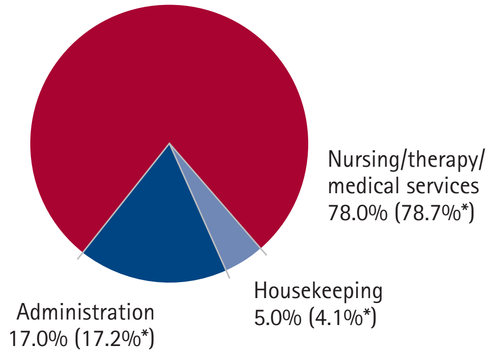


Bed capacity

Number on 30.06.2004



Number of employees



* Figure in the previous year

between inpatient and outpatient treatment when outpatient rehabilitation is prescribed. Arguments against it are the demand for considerably higher medical skill following the introduction of shorter stays in acute facilities as well as the increasing inability and lack of willingness to nurse people at home.

Networks in somatic medicine

The operational management and strategic alignment of our clinics are based strictly on the conditions specified by the market. The strategic approaches for stabilising and improving occupancy rates differ in the somatic and psychosomatic fields. At our somatic clinics, where the average occupancy rate in the past financial year was good at 90.6% and a large proportion of the patients receive follow-up treatment, we are expanding the content and scope of the co-operation agreements with local specialised clinics, university hospitals and the funding organisations that send patients. Programmes that combine flexible stay corridors with periods of inpatient and outpatient treatment are boosting the appeal of our somatic clinics. The adjustment of treatment concepts to solve the problems caused by DRGs in upstream acute hospitals is making us a suitable partner if lump-sum payment systems for complete cases are introduced at a later date – not only for the acute hospital, but also for the funding organisation.

Numerous co-operation agreements are evidence of the progress we are making in the development of regional networks and demonstrate that we are a suitable supplier for statutory and private partners such as funding organisations and specialised clinics.

We are intensifying the depth of treatment provided in the somatic field during stays of identical or shorter length and give the funding organisations definite cost information in the context of patient allocation procedures. We are achieving further patient selection by establishing additional outpatient rehabilitation at specific somatic locations. This addition of outpatient stays to our range is being made partly with the aim of actively covering the outpatient rehabilitation segment.

One of the specific goals in the somatic operations is to form local network structures involving the specialist in his own practice, the acute facility, the rehabilitation clinic and the funding organisation. We are also broadening our business partner structure by concluding agreements with new partners that are both statutory health insurance funds and private health insurance companies.

The contracts and co-operation agreements signed in the year under review demonstrate the progress we have made in developing networks. We arranged to co-operate with IKK in Saxony-Anhalt, KKH in Hanover and BBK Wolfsburg and prepared the conclusion of a contract about lump-sum payments for complete cases with the BKK state association for the east of Saxony-Anhalt and the Harz clinic. The co-operation agreement with AOK Thuringia was also renewed, while a new contract was negotiated with Barmer Ersatzkasse Wuppertal. The Odenwald clinic in Bad König is working on further co-operation agreements.

Expansion of the position of the psychosomatic clinics

The objective at the psychosomatic clinics, that are suffering from capacity utilisation problems (average occupancy rate in the year under review: 63.4%), is to maintain and improve the competitive position by demonstrating high professional skill and an innovative product and service profile. The lump-sum payment per case concept we have developed, which gives high priority to quality and value for money and which we have agreed in writing with numerous funding organisations, is an important element. When it is implemented, it provides general and corporate health insurance funds with reliable invoicing figures and an attractive quality level. We are in the process of concluding co-operation agreements about this with selected pension insurance authorities too.

In order to increase the number of patient sources and to improve the occupancy rate in the medium term, we have compiled modified service packages, with which we are approaching such new partners as work safety associations, aid bodies or civil service insurance funds. We will be ending the monoculture at a selection of psychosomatic clinics that have only treated psychosomatic

We have developed a new concept for "Vitalquelle Waldkirch": fighting illness before it begins. This includes a healthy diet and appropriate physical activities.

patients up to now by adding treatment in another appropriate field. We think that it will be possible to reach individual agreements with the insurance companies here. Cooperation agreements with Bahn BKK in Frankfurt, BKK Gesundheit in Balingen, the agricultural health insurance fund in Stuttgart and the state association of corporate health insurance funds in Rhineland-Palatinate, which have reached an advanced state of completion, are playing a pioneering role in this.

New approaches in Waldkirch and Reinerzau

We closed the cardiovascular clinic in Waldkirch at the end of 2003 and introduced a new concept for use of it. Closure of it was attributable directly to the construction of a rehabilitation facility in the immediate vicinity of our location by the German employees' insurance authorities. We have converted the post-operative clinic into the cardiological prevention centre known as "Vitalquelle Waldkirch". The business model involves the option of a systematic examination and determination of the status quo by capable trained personnel and guidelines for a healthier way of life and diet, while the one-week stay is combined with an attractive leisure programme. The "Vitalquelle Waldkirch" with its approximately 200 beds, which makes a significant contribution towards relieving the pressure on the health system, has been received well by the target groups after only a short time on the market.

The psychosomatic clinic in Reinerzau, where an adequate long-term occupancy rate cannot be guaranteed, will be relocating its treatment programmes to the Schömberg clinic on 30. September 2004. We are in the process of evaluating an alternative concept for Reinerzau for which there is considerable demand.

Rehabilitation research prize

The Karlsruher-Sanatorium-AG rehabilitation research prize, which also has a value of € 7,500, was awarded for the ninth time already in March 2004. We present this prize to scientists to honour them for work that is helping to a particularly large extent to achieve further progress in rehabilitation research. The prize was won by the psychologist Kerstin Hafen for her project "Development of a questionnaire for patients to determine rehabilitation motivation". This questionnaire is in the meantime one of the instruments that is used most frequently in rehabilitation research, no matter what illness the patient is suffering from.

Services – optimum housekeeping

The Marseille-Kliniken AG service companies are an integrated part of our business model. They provide our customers and guests with housekeeping services of a quality that is higher than what is normal on the market.

The vision: hotel standards

The services division plays a vital role in our policy of concentration on core businesses and skills. The provision of a comprehensive range of hotel-standard services to our customers and guests relieves the facilities of specific assignments and enables the staff to concentrate entirely on their core skills in nursing, rehabilitation and general care. The division is a fundamental element of our growth strategy. It focusses to a large extent on serving our own facilities and has limited the services it provides to third parties considerably as the nursing operations in particular have grown rapidly.

A healthy diet has high priority

PRO F&B Gastronomische Dienstleistungsgesellschaft mbH is one of the core companies in the division. It provides a complete professional catering service system. It caters for the Group's 58 own facilities. A physiologically appropriate, varied, balanced and high-quality diet is the main objective. A newly implemented EDP programme makes it possible to serve products of better quality by replacing products used in the past. The basic menu takes the "Healthy Diet" guidelines issued by the German nutrition association (DGE) into account and is optimised with seasonal and regional specialities. The recipe library includes special variable recipes with a defined energy and micronutrient content for meals that strengthen residents who have lost weight for medical reasons. "Drinking oases" in the living areas and the dining rooms encourage the residents to drink regularly. We give residents who are suffering from dementia six to seven smaller meals a day. Systematic implementation of the hygiene and quality management system has led to a considerable increase in satisfaction and has helped to reassure residents, patients, guests and relatives.

Cleanliness and hygiene more important than anything else

PRO Work Dienstleistungsgesellschaft mbH provides professional housekeeping services. In addition to cleaning the senior citizens' residential homes and nursing facilities as well as the rehabilitation and prevention clinics, PRO Work is responsible for laundry distribution, window cleaning, plant care and other housekeeping services. The particular aim of the services developed by PRO Work is to have a positive impact on the all-round well-being of elderly residents and people who need nursing care. Optimum quality is guaranteed by regular internal and external staff training. All the facility managements received intensive training about disinfectant cleaning in the year under review, so that they can respond directly in cases of medical or hygienic need.

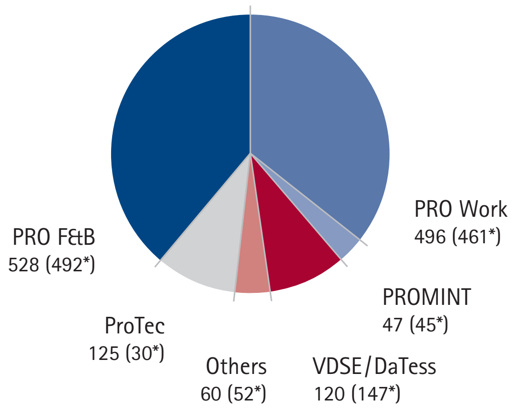
Laundry services for third parties too

PROMINT Dienstleistungsgruppe Neuruppin provides the laundry services required within the Group. It also carries out the same assignments for such external customers as hospitals and hotels. The facilities receive advice from PROMINT about all the issues involved in the laundry process. There are plans to farm some of the steadily increasing laundry operations out to external service providers for cost reasons.

CASA – the exception in the industry

The purpose of the CASA hotel and training centre is to provide basic and advanced theoretical and above all practical staff training about nursing care for the elderly and handicapped as well as qualification courses for the rehabilitation division. Even more customer-oriented planning of the content and timing of the training has led to a distinct improvement in treatment and nursing care at the senior citizens' residential homes and clinics in the Group. Utilisation of the seminar capacity doubled in the year under review. A start has been made on establishing a school to provide training in nursing care for the elderly and nursing supervision, which will be accepting its first pupils in 2004/2005 to train them into appropriately qualified staff in this field. With its impressive skills in basic and advanced training, the CASA hotel and training centre is an exception in our industry.

Number of employees



* Figure in the previous year

Exploitation of synergy benefits and facility management

The newly established company ProTec, in which we have pooled facility management for all the nursing homes and rehabilitation clinics, has made a successful start. ProTec is only providing building and equipment services within the company to begin with, but is prepared to extend its activities to include external customers as well. The company has 127 employees and manages 420,000 m² of building space and an outdoor area of 500,000 m² at the 58 facilities. It bought 19 million kWh of electricity, 42 million kWh of heating oil, 25 million kWh of natural gas and 8 million kWh of district heating for Marseille-Kliniken AG in the year under review. In spite of an increase in purchasing prices, the annual costs were still lower than in the previous year thanks to constant monitoring of the market, measures to reduce consumption, concentration on fewer suppliers, condition negotiations and the introduction of an energy controlling function. Optimisation of the personnel resources and purchasing volumes led to substantial savings in the year under review. We are expecting the standardisation of our facility management operations to improve quality even more and to generate cost-cutting potential.

Data centre has moved

DaTess Gesellschaft für Datendienste mbH, which acts as the data processing centre for the entire Group, moved from Tessenow in Mecklenburg-Western Pomerania to Pritzwalk in Brandenburg in August 2004. The administration building bought there is enabling the company to extend its premises and functions and implement the Group expansion strategy more effectively. DaTess is responsible for all the Group financial and payroll accounting and is supported in this task by SAP R/3 software. It is also continuing to develop skills in the preparation of the annual accounts of all the companies. An additional benefit is that Marseille-Kliniken AG is creating further jobs again in an economically depressed region.

Pragmatic research

eqs.-Institut based in Karlsruhe is of outstanding importance to the Marseille-Kliniken Group. It advises the company's nursing homes and rehabilitation clinics in such areas as quality management as well as in the development of treatment and facility concepts. As the interface between scientific research and practical, clinical nursing care, the institute guarantees the practical implementation of research results as well as pragmatic research. The interviews that are held regularly with relatives and staff give us valuable indications of shortcomings in our performance.

eqs.-Institut also co-ordinates the two scientific advisory boards it initiated for Marseille-Kliniken AG and Karlsruher-Sanatorium-AG (KASANAG). Experts from the fields of nursing care for the elderly and geriatrics/gerontology contribute their know-how to development of the company and the work done at the facilities. Their most important function is to give capable professional advice to the Management Boards, with particular emphasis on the development of innovative new concepts as well as scientific backing for and improvement of existing concepts. The scientific advisory boards help the company to choose medical and administrative superintendents, produce expert reports about the development potential of individual clinics and have just developed a concept for the payment of lump sums per case at psychosomatic clinics, which has already led to co-operation agreements with individual health insurance funds.


Liebe Bewohner
Wohnpark Neuruppin

A healthy diet, tasty food and consideration of individual health requirements – our catering operations aim to satisfy these three demands. The provision of balanced meals to elderly people is a major feature of our commitment to their well-being. The meals that residents share involve not just eating together, however; they are also an opportunity for our customers to meet and communicate. We aim to make these moments highlights every day.

Corporate responsibility – attitude is what makes the difference

Marseille-Kliniken AG has a very responsible task as a company operating in the health system. It has a responsibility, on the one hand, to society, to which the residents, guests and patients at our nursing facilities and rehabilitation clinics as well as their relatives belong. On the other hand, we have an internal responsibility to our staff. It is they who put our mission "Better if we are there" into practice and create a spirit at the company that distinguishes us from others.

Excellent marks for the company's employees

Our employees tackle the exacting demands they face at the nursing and rehabilitation facilities day in, day out. They carry out complex assignments that require extensive, high qualification as well as physical and mental strength. Most of their day-to-day assignments involve dealing with elderly people who are ill and require nursing care. They find fulfilment in their work, because they are flexible, versatile and open in doing their job and never forget the human touch.

Interviews held by eqs.-Institut with relatives confirm that our staff are reliable, friendly and well-qualified. The relatives rate their verbal contact with the residents particularly highly. The judgement relatives make is important to us and is a strategic indicator about the quality of the nursing facilities. It is in many cases relatives who take the final decision and stand up for the needs and rights of the residents. Relatives play a central role in the relationship between the resident and the nursing facility and help to spread our reputation and image. We would like to take this opportunity to thank our employees for their skills and

Nursing care for the elderly is a profession that demands great sensitivity, patience and experience. Regular training of our staff to familiarise them with the latest treatment methods is extremely helpful in this context.

unreserved willingness to implement our corporate mission on the basis of the principles of customer orientation, economic viability and social responsibility. The future of the company depends on our ability to keep the quality and commitment of our employees up to a high level, to create an encouraging, positive social environment and to make sure the necessary new personnel is available.

New scientific findings make further training, specialisation of nursing know-how and extra qualifications necessary. Demand for qualified, trained staff is increasing, because the proportion of the population that is old and requires nursing care is growing.

The nursing profession is changing

The nursing profession ranges from basic care or comprehensive assistance and attention for old and infirm people to activating measures. Although nursing basics that have been acquired at some point are essential, they are no longer enough. New scientific findings make further training, specialisation of nursing know-how and extra qualifications necessary. Nursing care for the elderly is a profession that is going through a process of change. People are getting older and need more nursing care. Post-operative or part-time inpatient treatment and short-term nursing care are becoming more important in rehabilitation at the same time. Nursing care and medical assignments are becoming central priorities. The distinctions between nursing care for the sick and for the elderly are blurring. Demand for qualified, trained staff is growing. The German Institute for applied nursing research estimates that there is a shortage of about 20,000 nurses for the elderly in Germany. The profession is only rarely what young people dream of doing for their living. It is considered to be hard work and a strain and requires a very well-developed ability to build relationships.

New training standards

The amended federal German nursing law that came into force in August 2003 and has replaced 16 different state laws is a milestone in the health system. The contents have been modified to take account of the changes in the circumstances: more medicine, more practical assignments, less occupational therapy. The nursing process as a whole is becoming the centre of attention. The law makes it possible to raise nursing care for the elderly to a considerably higher level, incorporating the findings of international nursing science. There is a right to payment as an apprentice during the three-year training period.

Marseille-Kliniken at the forefront

As a leading, innovative company in the health system, Marseille-Kliniken AG has immediately started to adopt the new approaches in the training field and to contribute to further improvements in quality. We tripled the number of apprentices to 150 in the year under review. On the basis of a new training concept, the young people are familiarised not just with the standard fields but also with a wide range of additional areas by changing their training stations. Payment depends on performance. The basic salary can be increased by up to 50%, according to the person's grades. Apprentices who pass the examination after three years with grade two or three are guaranteed a job in the company.

We have concluded co-operation agreements about the training of qualified staff with regional schools that provide training in nursing care for the elderly. We are supplementing this co-operation by establishing a school of our own to provide training in nursing care for the elderly at the location of our CASA hotel and training centre in Bad Oeynhausen. We will be providing training in nursing care for the elderly and nursing supervision in accordance with the legal regulations for the first time at the school from the autumn of 2004 onwards and will at the same time be familiarising the pupils with the modern software that is used throughout the Group in the nursing operations and personnel management. Alternating phases of theoretical and practical training enable the apprentices to implement theoretical knowledge directly in practice. We are also arranging the training in such a way that the Marseille-Kliniken AG concept of customer orientation and service are communicated to the apprentices right from the start. The school providing nursing care for the elderly is integrated in the CASA hotel and training centre, at which we promote ongoing staff qualification by means of both standardised and individually customised training courses. By carrying out this project, we are countering the shortage of skilled staff in the industry and are making sure at an early stage that young recruits are available who have been trained to meet the company's requirements.

Searching for the best

The recruitment of new staff has high priority in our personnel development activities, in view of the growing demand and the bottlenecks that exist at the same time in the nursing segment of the employment market. We take advantage of the entire range of personnel marketing instruments. We visit schools and trade fairs, participate in training shows, offer placements and scientific projects and co-operate with universities. The local managers, who are responsible for choosing the right people and integrating them in the teams quickly, have a central function in the search for new employees.

We are going international to an increasing extent following the expansion of the EU into Eastern Europe too and are investigating whether it is conceivable and possible to deploy foreign staff at the nursing facilities. The legal regulations and transition periods do not make it clear yet when initial pilot projects and test phases can take place. In the light of our growth strategy, we are continuing to look for recruits internationally as well, while expanding our basic and advanced training within the Group at the same time.

Sensibly structured work planning is the only way to contain the extreme cost driver that personnel represents. Our efficient, multifunctional special software PEPone helps to do this by calculating such factors as overtime, times when the employee is absent and salary details.

Flexibility is reality

The growing satisfaction among the company's employees is attributable to working conditions we have developed in the Group that take staff needs into account. Jobs in the nursing care field are safe, the pay structures are fair and the bonus systems for management staff are extra motivation. The need for flexibility at work that is regularly demanded has been a reality at our company for a long time now. Sensibly structured work planning is the only way to contain work as an extreme cost driver. The special software PEPone that has been implemented is considerably more efficient and multifunctional than conventional work planning. When the computer logs on in the morning, this is registered as the time when work began. The computer also calculates overtime, times when the employee is absent and salary details. Handheld computers enable straightforward documentation of the nursing services provided, in the form that legislation requires.

Flexible working models make it possible to combine job, family and leisure activities.

Practical concern for the environment

Social responsibility means to a large extent helping to protect the environment. We take account of this requirement in all areas by applying ingenious concepts. We use water, electricity and gas as energy sources on a strictly consumption-oriented basis. We deploy special machines and environmentally responsible detergents in our laundry operations. The dishwashers at our facilities are optimised to run in accordance with the specific requirements and minimise the consumption of dishwasher detergent. We make sure that our suppliers keep the proportion of outer and disposable packaging low. We are making increasing use of hygienic returnable containers. Individual and very small packs are only used for residents and patients if this is necessary for medical or hygienic reasons. Food is normally supplied to the kitchens using returnable packaging systems.

Gentle textile treatment and excellent washing performance combined with optimum water and energy consumption are a priority too. PROMINT has a water processing and recycling plant of its own. We make sure we use technical solutions that consume as little energy as possible in the building of our facilities too.


MARSEIL
AKTIE
ZEH
zu je Fün
Der Inhaber dieser Sammela
ist an der MARSEILLE-KL
nach Maßgabe
MARSEILLE-K
Der Vor
Der Aufsichtsrat
Vorsitzender
Dr. h.c. Ludwig Poullain
Ulrich Hansel
Theo Marseille 1919-1991

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

Report by the Supervisory Board

The Supervisory Board held a total of five meetings in the 2003/2004 financial year, at which it was informed in detail about the situation of the company and the Group by the Management Board. On these occasions, the Management Board reported to the Supervisory Board in particular about fundamental corporate and Group planning issues, about profitability, about the progress made in business operations, about the situation of the company and Group in general and about the transactions that have considerable impact on company profitability or liquidity. The review that the Supervisory Board is required to make of these reports that were submitted to it showed that no objections need to be raised about the conduct of the company's business by the management during the 2003/2004 financial year. The finance committee formed by the Supervisory Board met twice in the 2003/2004 financial year.

The Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report compiled by the Management Board for the 2003/2004 financial year (including the bookkeeping records) have been audited by the auditors chosen at the Annual General Meeting held on 2. December 2003: Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Hamburg, and Ebner, Stolz, Mönning GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, at the request of the Supervisory Board. An unqualified certificate has been 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 and reported about the main results of the audit. The Supervisory Board has approved the outcome of the audit.

The Supervisory Board had no objections to raise after its review of the Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report for the 2003/2004 financial year. The Supervisory Board approves the annual and Group accounts prepared by the Management Board as per 30. June 2004 and accepts the proposal made by the Management Board for the appropriation of the retained earnings.

The Management Board has compiled the report about relationships to affiliated companies stipulated in § 312 of the German Companies Act (AktG). The auditors have audited the report by the Management Board and have presented a report to the Supervisory Board about their findings. The auditors have issued the following certificate about the report:

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

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

The Supervisory Board accepts the results of the audit carried out by the auditors and declares following the completion of its review 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 2003/2004 financial year.

Berlin, October 2004

Marseille-Kliniken Aktiengesellschaft
The Chairman of the Supervisory Board

Ulrich Marseille

Management report and Group management report

Stable upswing of the global economy

The world economy bottomed out in 2002 and slowly recovered in 2003. The European economy, on the other hand, made no progress until the autumn of 2003. Domestic demand was not strong enough to produce a sustained upswing and the impact of the growth in the global economy was too slight to have a positive effect.

Economic developments in Germany were disappointing again in 2003. Demand decreased in practically all areas. Gross Domestic Product growth was negative for the first time since 1993 at -0.1%. The gap between Germany and the other, fast-growing economic regions was not reduced significantly in the first half of 2004 either. The dynamic development of the export economy is still not triggering growth in the domestic economy. Industry is very reluctant to invest and private consumption is not proving to be a driving force. Incidental labour costs continue to be high and are depressing the competitive position. The institutes estimate that growth will amount to 1.5% to 1.8% in 2004. The employment market remains the key to further developments. A change from export-driven growth can only be achieved if growth leads to the creation of jobs. The business community is pinning its hopes for a solution of the structural problems on the government's reform programme known as the "Agenda 2010". The struggle about the Hartz IV section of this programme indicates, however, that there is increasing willingness in large areas of the German population to support the adaptation of the economy to the accelerating process of structural change. According to the experts, a more competitive basis, employment market flexibility and confidence in the country's own abilities are essential if Germany is to participate in the global upswing.

Health market in need of reform

A process of radical change is taking place in German health policy. On the one hand, the long-term increase in costs needs to be stopped, while on the other hand there is still dispute in society about the future funding basis. The controversial debates show that there are no simple, painless solutions. Maintenance or even improvement of the level of medical treatment depends on a willingness to pay more for medical services. Cuts in services are inevitable if this willingness is not demonstrated. There has been a lack of clear direction about this in the debate about social policy in Germany so far. The postponement of the urgently needed reform of the nursing care insurance system is unmistakable evidence of the problems the political community is having in tackling the difficult situation in the short term. This system is suffering from an unhealthy mixture of central planning and free market economics. Such criteria as quality and performance play only a secondary role in the payments made for nursing services. The amount of money that is available – which is large enough in principle – is being consumed by an excessively large administrative apparatus.

Although the legislation about modernisation of the statutory health insurance funds that has come into force in 2004 is starting to reduce the insurance funds' costs, it does not have the potential to eliminate all the mistakes made in past years. The primary aim of the reform is not to cut costs; like all the other reforms in the past, the main thrust is instead a reallocation of the costs from one sector to another. The experts are unanimous in saying that the cost explosion in the health system cannot be stopped by more and more extensive restrictions and regulations. Costs are being driven by an increasingly old population and fast medical and technical progress, which is leading to a significant increase in average life expectancy. More market and more competition are essential in order to cover the growing requirement for health services. The bureaucratic structure of the health market can only be overcome by accelerating the privatisation process. The cost advantages held by private suppliers, which are already considerable today, need to be exploited to make the necessary improvements in efficiency on the health market. The health reform is not an adequate answer to the question of how appropriate value for money can be guaranteed in the long term. It will only be possible to finance the current investment backlog, which is estimated to amount to about € 60 billion, by increasing the inflow of private capital.

In spite of its structural problems, the health market – which is largely unaffected by economic fluctuations – is a mainstay of the German economy and will continue to be a growth area in future as well. Health expenditure in the last ten years has increased far more quickly than overall economic output. The health system accounts for almost 11% of the Gross Domestic Product with sales of about € 243 billion. Nursing care for the elderly is an important growth factor that offers tremendous opportunities to private suppliers in particular. DIV estimates that 4.73 million people will be in need of nursing care in Germany in 2050.

The quantity and quality of the existing facilities are not high enough to cover this requirement. Experts expect that a total of about 550,000 beds will have to be either added or adapted to meet people's growing needs by 2020. The investments required are estimated to be about € 50 billion. In view of the changes in the general conditions, value for money and the ability to generate private capital are becoming increasingly important competitive parameters. The shift in the provision of nursing care from non-profit organisations to private companies that is associated with this will be encouraged even more by the increasingly exacting demands made on the quality of nursing care. As cost awareness grows, a pioneering role will need to be played by those nursing care providers who offer patients and funding organisations a cost-effective range of treatment programmes that meets the performance requirements following the introduction of lump-sum cost payments per case.

Rehabilitation is going through a process of complete change. Clinics have started to close in this market, most of them in the psychosomatic field and particularly clinics that are not part of a financing organisation. Small and medium-sized facilities are no longer able to survive the competitive pressure, which focusses on performance and costs. There has been a distinct increase in bankruptcy cases. The cut-throat competition favours providers with modern structures that can co-ordinate their added value potential effectively and efficiently and are in a position to quote and adhere to cost- and performance-based lump sums per case.

Marseille-Kliniken AG strengthens its position

In the year in which it celebrated its 20th anniversary, the company increased the bed capacity of its nursing division and strengthened its position as a leading private operator of nursing facilities. The business operations in the two nursing and rehabilitation divisions developed very differently.

While the profitable nursing division – which dominates Group business – continued to develop positively, the rehabilitation division suffered from very poor occupancy rates at the five psychosomatic clinics in particular. All the main figures reported by the divisions reflect the diametrically opposite development in the two divisions. Inpatient nursing care for the elderly remains the focal point of the growth strategy and will continue to be expanded in the next few years, on the basis of a critical and intensive evaluation of new locations. The strategic focus in the rehabilitation operations is on specialised follow-up treatment as well as on improvements in profitability while maintaining high quality. As far as the psychosomatic clinics are concerned, high professional skills and innovative product and service profiles are of crucial importance to stay competitive. One key element is our lump-sum payment concept, which gives top priority to the quality and value for money funding organisations require. This concept is being received very positively as a distinctive feature of our company's activities in the current market environment. As the Group concentrates more and more on the management and operation of health facilities, the proportion of owned property will be reduced further in favour of leased property, so that sound financial structures are available for additional growth.

Nursing division records further growth

In the 2003/2004 financial year, the Marseille-Kliniken Group generated operating sales of € 200.1 million. This represents an increase of 5% (previous year: € 190.0 million). The growth is attributable exclusively to the nursing division. The positive sales trend in previous years continued in the year under review with an increase of € 18.7 million. The total operating sales in the nursing segment, including services, increased by 15% to € 147.0 million.

The senior citizens' residential home in Montabaur/Rhineland-Palatinate started operation in the year under review. The 47 nursing facilities run by the Group had an average capacity of 5,700 beds available; this corresponds to an increase of 657 beds. The longer running-in phase at the new senior citizens' residential homes in Landshut and Montabaur (opened in June and July 2003) by comparison with other locations is due to the fact that they are the first facilities in the German states of Bavaria and Rhineland-Palatinate. These facilities reached an occupancy rate of 41% at the end of the financial year (average: 28.4%). Taking the Belzig and Cottbus homes into account, where remodelling exercises were carried out, the occupancy rate at the existing nursing facilities was still only slightly lower than in the previous year at 95%.

Weakness in the rehabilitation division

The sluggish overall economy and a continuation of the low level of applications for treatment had an adverse impact on business operations in the rehabilitation division. The poor ongoing development of the employment market led to a substantial decline in demand for medical services that can be postponed at our five psychosomatic clinics in particular. The operating sales in the rehabilitation division decreased by € 8.6 million or 14% to € 53.1 million. The average occupancy rate of 77% was 6% points lower than the figure achieved in the previous year, which was already unsatisfactory. The capacity available in the rehabilitation division fell slightly from 1,801 beds to an average of 1,676 beds due to the change in the use made of the clinic in Waldkirch.

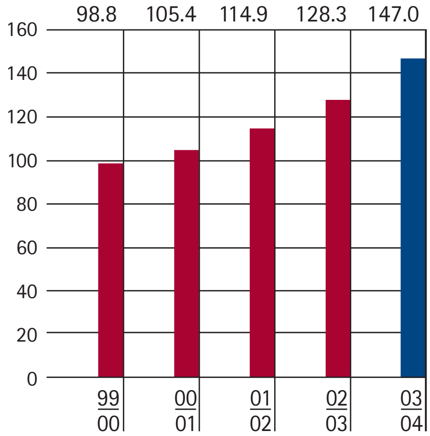
The sales of the services division, which provides its services almost exclusively to Group companies, increased by € 11.5 million to € 64.4 million. This was attributable in particular to the transfer of facility management to the newly established company ProTec. ProTec recorded sales of € 8.9 million in its first complete financial year.

Marseille-Kliniken operated 47 senior citizens' residential homes with a total of 5,740 beds (on 30. September 2004) in the year under review. The number of facilities increased by one and the number of beds by 280 on the balance sheet date. 2,392 of the beds (previous year: 2,118) were leased. The number of rehabilitation clinics remained unchanged at 11. The number of beds dropped to 1,772 (previous year: 1,801) following the realignment of the clinic in Waldkirch. 195 beds were leased, as in the past.

17,452 people in total were treated at the rehabilitation clinics; this corresponds to a reduction of 12% over the previous year. The average stay of 25.3 days was roughly the same as in the previous year (26.6 days). The number of nursing days increased from 1,727,729 to 1,873,614. Assisted living accounted for 56,608 days of this (previous year: 57,698).

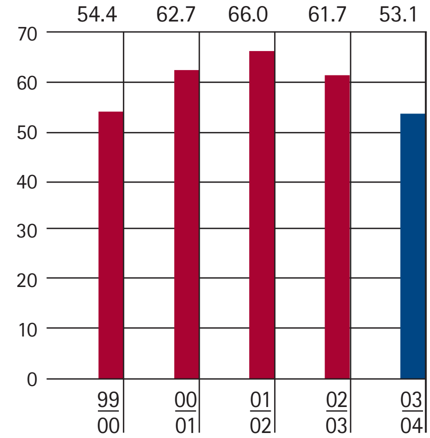
Nursing division sales

in € m



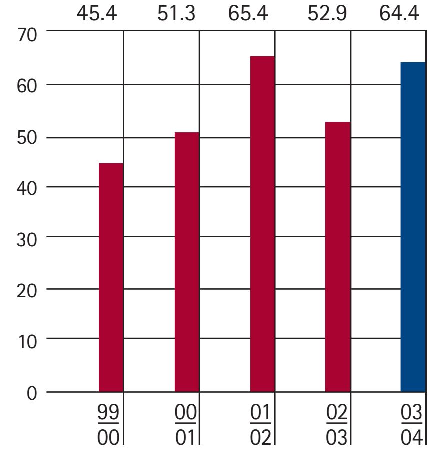
Rehabilitation division sales

in € m



Services division sales

in € m



Special factors in the operating result

The profit on ordinary business activities was negative (- € 8.8 million; previous year: € 13.6 million). It is influenced strongly by special factors. In view of the difficult market environment at the present time, unscheduled depreciation of the fixed assets at the rehabilitation clinics totalling € 5.1 million was necessary. The operating result also includes write-downs of equity interests amounting to € 2.4 million, receivables from companies in which a participating interest is held of € 2.1 million and restructuring costs of € 2.4 million at the clinic in Waldkirch. Further total expenditure of € 2.6 million relates, among other things, to depreciation charges for improvements made in connection with the move by DaTess to the new administration building in Pritzwalk and costs incurred in modernisation of the facilities in Cottbus and Belzig. This was only compensated for by income of € 1.0 million from the sale of securities. The adjusted profit on ordinary business activities amounted to € 4.8 million and was € 6.3 million lower than the adjusted Group earnings before tax in the previous year of € 11.1 million after taking the special factors into account.

The operational deviation in the DVFA/SG result is due essentially on the one hand to operating losses of € 4.0 million in the rehabilitation division and on the other hand to running-in losses of € 3.3 million at the new facilities that were opened in Landshut and Montabaur.

Taking the special factors and taxes of € 4.1 million into account, a Group net loss of - € 12.9 million was made (previous year: Group net income of € 8.7 million). EBIT decreased from € 25.3 million to € 3.6 million, EBITDA from € 39.9 million to € 28.0 million and EBITDAR from € 59.4 million to € 50.5 million.

Marseille-Kliniken AG reports a decrease in the profit on ordinary business activities from € 6.5 million to € 4.8 million.

Net income at the AG was € 1.4 million (previous year: € 4.7 million). The disproportionately large reduction in the net income by comparison with the earnings before tax is attributable to a substantially higher tax charge than in the previous year of € 3.4 million (€ 1.8 million). The main reason for the higher tax charge is the formation of a provision of € 1.3 million for the audit by the tax authorities of the years 1998 to 2000.

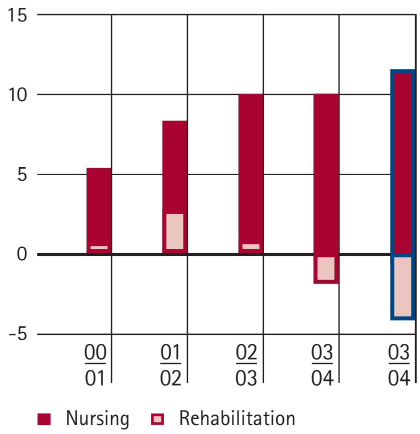
Other income and expenses

The other operating income within the Group decreased from € 24.0 million to € 10.5 million. The other operating income reported in the previous year included the extraordinary release of special items amounting to € 13.3 million. The other income was at the same level as in the previous year if this special factor is disregarded.

The other own work capitalised increased to € 3.5 million (previous year: € 1.3 million), because the building projects in Leipzig, Cottbus and Belzig had not yet been completed on the balance sheet date.

DVFA result by divisions

in € m



Calculation of the DVFA/SG result

in € m

2003/2004 financial year

	Nursing	Rehab.	Group
Division earnings	11.0	-6.6	4.4
Special effects, deferred taxes	0.3	1.7	2.0
Total	**11.3**	**-4.9**	**6.4**
Minus minority interests, taxes	0.2	0.9	0.8
DVFA division result	**11.5**	**-4.0**	**7.5**
DVFA result per share in €	**0.95**	**-0.33**	**0.62**

The other operating expenses went up by € 8.4 million to € 53.3 million. The main increase was in rent and leasing expenses for the new facilities in Landshut and Montabaur, which were € 3.0 million higher.

The cost of raw materials, consumables and supplies and of goods purchased remained almost exactly the same as in the previous year (€ 20.2 million) at € 20.4 million. Expenditure per bed was down by almost € 150.00 when this figure is related to the average capacity available within the Group. The increase of € 2.3 million in purchased services to € 7.2 million is due to the commissioning of external services in connection with the building projects in Cottbus, Belzig and Leipzig.

Personnel expenses were € 5.2 million higher at € 105.1 million. This is attributable to the increase in the average number of employees over the year of 258 to 4,380.

The growth in personnel at the operating units without changing the lean administrative structures emphasises the dynamic growth of the Group, which is being concentrated on an improvement in the quality of the services provided to the residents and patients at our facilities and clinics.

Depreciation of intangible and tangible fixed assets as well as of capitalised expenses for the expansion of business operations increased by € 6.2 million to € 20.5 million. Write-downs of the assets of Mineralquelle Waldkirch Verwertungsgesellschaft mbH and of the old building at Teufelsbad Fachklinik Blankenburg GmbH totalling € 5.1 million were the main reason for this.

The depreciation of current assets amounting to € 1.9 million (previous year: € 6.6 million) includes depreciation charges of € 1.3 million relating to claims against TD Trump Deutschland AG and of € 0.6 million relating to claims against SCS Standard Computersysteme AG.

The depreciation of financial assets includes the unscheduled write-down of the 50% interest in TD Trump Deutschland AG.

The Group interest balance deteriorated slightly by € 0.7 million to € 12.4 million. The small decrease is the result of the change over the previous year in the allocation of the property of the Hennigsdorf senior citizens' residential home to fixed assets and thus the inclusion of the pro rata interest expenses in the interest balance.

The tax charge was € 0.8 million lower than in the previous year. Provisions of € 1.3 million were made for the audit of the years 1998 to 2000 that has been completed by the tax authorities.

Lower fixed assets

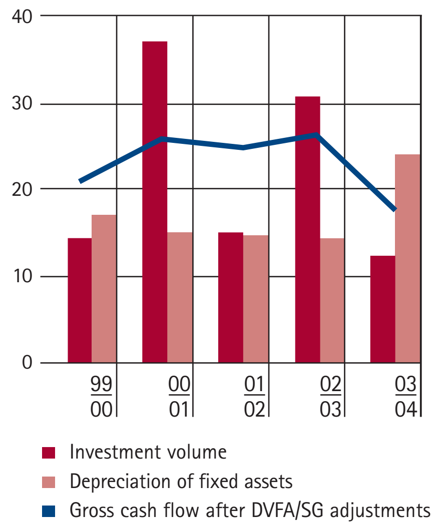
Fixed assets decreased by € 8.5 million to € 328.0 million.

The additions to fixed assets were € 19.3 million lower at € 11.5 million. The investment ratio fell from 9.1% to 3.5% and the depreciation reinvestment ratio was 0.5% (previous year: 1.5%).

The additions of € 30.8 million in the previous year included € 17.3 million relating to the reversal of the sale of the property of the Hennigsdorf senior citizens' residential home that was carried out with no impact on income and expenditure. The main additions in the year under review were for payments on account for assets under construction, which increased by € 6.8 million to € 12.5 million. The most important building projects were at the Leipzig, Belzig and Cottbus facilities.

Development of investment/ depreciation/cash flow

in € m



The land and buildings item was € 13.0 million lower at € 280.8 million due to both scheduled depreciation and unscheduled depreciation of property in the clinic field (€ 5.1 million).

When the projects in Cottbus, Leipzig and Belzig with total investments of € 16.0 million have been finished, practically all of the existing facilities will have been updated and will satisfy the increasing quality requirements made by the residents. The additional location in Hennigsdorf near Berlin, for which a funding commitment totalling € 7.3 million has been received, will probably be opened at the beginning of the next calendar year.

Development of current assets

Current assets went down by € 13.0 million to € 38.0 million. Trade accounts receivable decreased from € 13.8 million to € 13.0 million and the accounts due from affiliated companies from € 3.5 million to € 1.5 million. The other assets were € 7.9 million lower at € 19.9 million. The reduction is attributable essentially to payment of claims to the purchase price of property and securities totalling € 4.2 million and to lower receivables from investment grants of € 0.9 million. This item also includes receivables from loans of € 11.1 million and pension surrender values of € 3.2 million in connection with the company old-age pension scheme.

The total value of the securities was reduced to € 0.1 million due to the depreciation charge of € 2.0 million made as a precaution with respect to the interest in TD Trump Deutschland AG. A write-up of the interest could be made if the planned legal action to obtain damages from the city of Stuttgart is successful.

The cash in hand available at the end of the year was € 1.8 million (previous year: € 1.2 million).

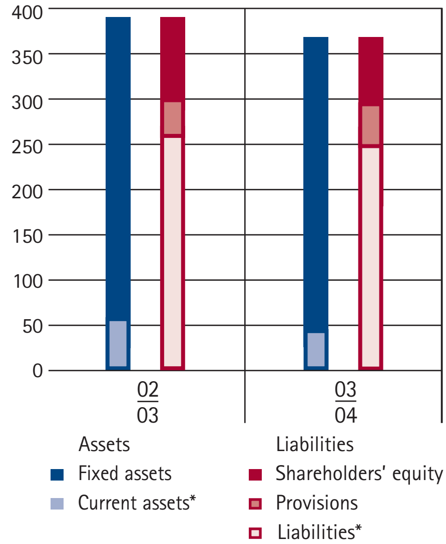
Stable balance sheet structure

The Marseille-Kliniken Group balance sheet structure is still stable, in spite of the special factors taken into account in earnings. The ratio of fixed assets to current assets increased from 6.6 to 8.6 because of the disproportionately large reduction in the current assets following the decrease in other assets. Asset intensity was 2.9% points higher at 89.0% as a result. Long-term coverage of fixed assets by shareholders' equity and long-term loan capital was 1.0 (previous year: 1.1). The equity ratio decreased from 20.8% to 17.6%, while the loan capital ratio increased from 79.2% to 82.4%.

The special items for investment grants for land and buildings, which form part of commercial equity, increased by € 1.9 million to € 43.2 million. The additions relate to the Belzig, Cottbus and Hennigsdorf facilities, for which subsidies are being received. Due partly to the increase of € 2.8 million in tax provisions to € 16.6 million, the provisions went up from € 38.8 million to € 44.0 million.

Balance sheet structure

in € m



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

Bank loans and overdrafts decreased by € 11.8 million to € 224.5 million thanks to scheduled repayments.

Financing

Total loans of € 8.4 million secured by long-term mortgages are available to finance the remodelling and expansion projects at the senior citizens' residential homes in Cottbus, Leipzig and Belzig. € 3.2 million of these loans were used in the year under review.

Total subsidies of € 4.3 million were received for the building projects in Cottbus, Belzig and Friedland as well as for the extension to the senior citizens' residential home in Hennigsdorf.

The Group's current account credit lines still amount to € 15.2 million.

Development in earnings

Group earnings before tax (EBT) adjusted to take account of special factors decreased by € 1.0 million to € 7.5 million. This corresponds to earnings per share of € 0.62 (previous year: € 0.70). The two nursing and rehabilitation divisions developed very differently. Earnings in the nursing division improved by € 1.3 million to € 11.5 million or € 0.95 per share in spite of the running-in losses of € 3.3 million incurred at the Landshut and Montabaur facilities. The loss made in the rehabilitation division increased from - € 1.7 million to - € 4.0 million or - € 0.33 per share (previous year: - € 0.14).

Adjusted earnings before interest and tax (EBIT) were € 5.6 million lower at € 17.1 million, whereas EBITDAR (earnings before interest, tax, depreciation and rent expenditure) – which are more informative about operating performance – went down by € 3.3 million to € 53.4 million. The equity ratio based on adjusted earnings amounted to 11.5% compared with 10.6% in the previous year. The return on sales after tax decreased from 4.5% to 3.7%.

Statement of cash flow

The expenses/income with no cash effect increased as a result of higher depreciation of intangible and tangible assets (€ 6.1 million) and larger special items (€ 2 million). The reduction in assets/liabilities by comparison with the previous year is due essentially to a decrease of € 13.6 million in receivables and other assets and to a further € 3.8 million in tax and other provisions. The negative cash flow from investing activities of € 11.9 million is due primarily to additions of € 10.1 million to tangible assets for the Cottbus, Leipzig and Belzig facilities. The negative cash flow from financing activities is attributable mainly to an only minimal increase in medium- and long-term liabilities combined with dividend payments. More detailed explanations about these and the previous items can be found in the notes to the Group annual accounts.

Statement of cash flow

in € '000

	03/04	02/03
Net Group profit/loss for the year	-12,882	8,738
Expenses/income with no cash effect	23,082	8,011
Decrease/increase in assets and liabilities	19,072	-6,736
Cash flow from investment activities	-11,997	-25,811
Cash flow from financing activities	-3,692	16,825
	13,583	**1,027**
Increase/decrease in liquid funds	13,583	1,027
Liquid funds at the start of the financial year	-25,879	-26,906
Liquid funds at the end of the financial year	**-12,296**	**-25,879**
Breakdown of liquid funds at the end of the financial year		
Cash in hand and at banks	1,791	1,156
Short-term bank loans and overdrafts	-14,087	-27,035
	-12,296	**-25,879**

Increase in the number of employees

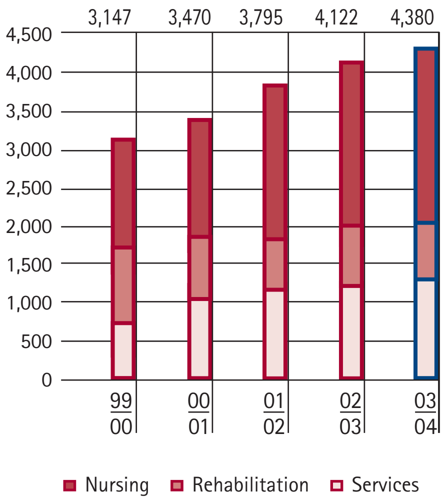
The number of employees (full-time equivalent/FTE) increased from an average for the year of 3,321 to 3,459. The nursing division had 1,881 FTE employees (103 more). The number of staff in the rehabilitation division decreased from 642 to an average of 574 FTE employees. The services division and the miscellaneous administration companies had 1,004 FTE employees, an average of 103 more than in the previous year.

Personnel expenses increased by 5% to € 105.1 million because of the larger number of employees. Per capita operating sales increased slightly from € 57,200 to € 57,800, in spite of the facilities that started operation and the reduction in sales in the rehabilitation division.

Environmental protection/quality assurance

The building of new AMARITA facilities and the leasing of property with AMARITA standards continue to be an impressively innovative achievement as far as environmental protection is concerned. Sparing use is already

Development in the number of employees



made of resources at the building planning stage by optimising the space available while maximising individual comfort at the same time. The ratio of building volume to building area is excellent. Consumption of energy, water and effluent is being reduced steadily by using state-of-the-art computerised control systems, optimised consumption arrangements and building heat insulation measures. This applies to all the senior citizens' residential homes and clinics in the Group.

In the year under review, average water consumption increased by 4.4%, while average electricity consumption was almost 7.6% higher. This increase was disproportionately small compared with the expansion of 13.0% in average bed capacity, particularly in view of the fact that additional consumption was caused by remodelling projects combined with continued operation of the facilities concerned at alternative locations to some extent. Measures were taken to save energy and water as well as to reduce CO_2 emissions.

Electricity and heating oil consumption continues to be optimised. Outline agreements concluded with well-known energy supply companies for all the facilities form the basis for this. Consumption will drop again considerably in the coming years due to the installation and operation of the latest control technology and central monitoring of it by the newly established Group company ProTec GmbH. In its capacity as facility management service provider, ProTec has created consistent Group quality standards for choosing, measuring and optimising consumption equipment. They lead to Group-wide comparability and are the basis for consistent control.

Environmental protection costs money. In a market that is developing and changing dynamically, it needs to be made sure that environmental protection measures are economically viable.

All the relevant factors within the Group, such as the costs of the measures, potential savings, subsequent costs and sustainability, are included in the analyses so that economic resources are saved too.

Assurance of the quality standards has high priority. Quality assurance in the Group is carried out in a standardised and centralised form. The central quality management system makes it possible to monitor a large number of organisational factors in a systematic and future-oriented way. The focus is always on the resident and patient. Consistent quality standards are assured via the newly compiled quality management manual as well as via a general code of behaviour.

Further growth was the highlight of the 2003/2004 financial year. There was another increase in the number of employees. In the face of steady growth, great efforts need to be made to integrate new staff. This integration exercise is carried out by all the employees. Extensive dialogue is the basis for the high commitment demonstrated by the company's staff day in, day out as they provide services to the people in their care. A start was made in the year under review on the purposeful expansion of training, development and motivation programmes, most of which take place at the Group's own CASA training centre in Bad Oeynhausen.

Risk report

Increasingly dynamic competition and steadily increasing quality requirements made not only by residents and patients but also by the government are the main features of the economic environment in which Marseille-Kliniken AG operates. In order to exploit the opportunities available in a market structure dominated by the public sector/non-profit institutions, risks have to be taken in all corporate activities.

Risks need to be detected at an early stage, so that suitable action can be taken to minimise or eliminate them. The risk management system, that we have continued to develop every year, is of central importance in this process. This system is not merely documented; it is also put into practice within the company. Management and all other staff display a tremendous sense of responsibility as they do their jobs.

The opportunities and risks of the business activities are processed, analysed and evaluated to determine their strategic and operational significance within the framework of a regular planning process. Measures are agreed that reach the specified objectives when they have been implemented, efficiently monitoring and controlling the risk structures. The multiple stages of the planning and control system guarantee that consistent risk principles are implemented and maintained throughout the Group.

A centralised Group-wide system of reporting to the Executive Board makes sure that the Executive Board is always kept informed accurately and quickly. The establishment of a second level of management that has been initiated in recent years is being continued intensively. The reporting system presents the extent to which goals have been reached at all times and acts as an issuer of early warnings about market changes in quality and the competitive environment. General criteria and indicators that are specific to our particular business are used to observe the critical success factors on an ongoing basis, so that negative developments can be identified in good time and counter-measures can be initiated promptly.

We counter the risks relating to nursing, treatment and service quality on the one hand by training our staff regularly on the basis of the latest scientific findings and methods. The relevant programmes are developed and implemented by the Group's own eqs.-institute and the central quality management system. On the other hand, we make use of state-of-the-art EDP-based systems in the operational and administrative sectors. Constant improvement and development have high priority.

To cover risks connected with social legislation as well as with tax, competition and environmental regulations, we base decisions about and the organisation of business processes on comprehensive legal and tax advice. We consult not only our own specialised departments but also respected external experts for this purpose.

Codes of conduct and guidelines that guarantee consistent treatment and communication of potential risk factors are applied throughout the Group and are further integrated features of our risk management system.

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 to the earnings situation in the rehabilitation division, which is unsatisfactory from the overall economic point of view and – in the case of the clinic in Waldkirch – because of the location of the facility, the hidden reserves of € 4.0 million in the Group that were attributable to Waldkirch were written off. The interest in Karlsruher-Sanatorium-AG was written down by € 0.6 million in the Marseille-Kliniken AG annual accounts.

The value of the participating interest book values of € 45.0 million shown in the annual accounts as well as of the committed Group assets of the remaining clinics and the rehabilitation division 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.

The basic assumption of the planning calculations and the key to the long-term maintenance of value is the achievement of full utilisation of the capacity of our clinics in the medium term when the market shake-out is over. The main success factors on which this depends are:

- The successful introduction and application of DRGs that guarantee the survival of our clinics in an increasingly fierce competitive environment.

- The successful implementation of the concept for the alternative use of our clinic in Waldkirch, which has been operated as a cardiological prevention centre since April 2004.

- The successful relocation of the indication of the Reinerzau clinic to Schömberg and the establishment of an alternative concept in Reinerzau, for which there is considerable demand.

Since there is only minimum scope for increases in the rates paid for nursing care, we also need to exploit significant additional cost-cutting potential in the short to medium term, including the areas of both personnel and non-personnel costs. The emphasis will be on the flexible adaptation of personnel structures to the business volume as well as the flexibilisation and optimisation of working times and compensation. These concepts are already being implemented in other parts of the health system as well as in other areas of the German economy at the present time, so we consider them to be realistic.

Statement of compliance with the German Corporate Governance Code

The German Corporate Governance Code published by the German Ministry of Justice in the official section of the electronic Federal Bulletin includes not only legal regulations but also a number of recommendations and suggestions. Marseille-Kliniken AG decided to deviate from the recommendations of the Code in a few points.

The Management Board and Supervisory Board of Marseille-Kliniken AG state in accordance with § 161 of the German Companies Act (AktG) that they comply with the recommendations of the "Government Commission German Corporate Governance Code", unless anything to the contrary is stated below.

The annual report and the invitation to the Annual General Meeting, which includes the agenda, are published on the company's website. Further compulsory documents are not published in the Internet, but are sent to the shareholders on request instead. The invitation, the annual report and the other compulsory documents are not sent electronically.

The company has obtained D&O insurance cover for the Management Board and the Supervisory Board, but without arranging a deductible.

In line with the recommendations made by the Government Commission, the compensation rules for the members of the Management Board provide for fixed and variable elements in the form of a tantième. The size of the tantième is tied to success goals agreed individually with each member of the Management Board. Stock options and comparable forms of variable compensation have not been arranged with the members of the Management Board. Since stock option plans or comparable forms of variable compensation have not been arranged, there is no need for information about them to be published on the website or in the annual report and there is no need for the Chairman of the Supervisory Board to explain them at the Annual General Meeting. An individualised breakdown of the compensation into a fixed element, performance-related components and elements that act as a long-term incentive is not given in the notes.

The Supervisory Board does not consider a fixed age limit for members of the Management Board of the company to be necessary at the present time. The members of the Management Board are appointed for a maximum period of 5 years. The Supervisory Board decides about re-appointment in every individual case. The age of a member of the Management Board is just one of several different decision-making criteria considered by the Supervisory Board in this context.

Issues relating to accounting, risk management, the independence of the auditors, the commissioning of the auditors, the specification of emphases in the audit and the agreement of the fee are discussed by the finance committee; a special Supervisory Board audit committee has not been set up for this purpose.

The fixed and variable elements of the compensation for the members of the Supervisory Board are governed by the company's articles of association. The variable element of the compensation for the members of the Supervisory Board complies with the legal stipulation of § 113 Paragraph 3 of the German Companies Act (AktG). An individualised breakdown is not given of the compensation, including any other compensation or any benefits granted for services provided personally.

Information about the shares owned by the Chairman of the Supervisory Board, Mr Ulrich Marseille, has been published on the website of the German financial services supervisory agency (BAFIN) – www.bafin.de – in accordance with § 21 of the German Securities Trading Act (WpHG). Individualised information about the shares owned by the Chairman of the Supervisory Board has not therefore been given in the notes as well.

Marseille-Kliniken AG has issued the statement with the above content stipulated by § 161 of the German Companies Act (AktG) and has made it accessible to the shareholders on a permanent basis. The statement has been published in the Internet at www.marseille-kliniken.de.

Events after the end of the financial year

No events have occurred since the end of the 2003/2004 financial year that affect the picture of the situation of the Group presented in the Group annual accounts.

Dependent companies' report

A report about the legal and business relationships to all affiliated companies in accordance with § 312 of the German Companies Act (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

There was no major improvement in the German economic situation in the 2003/2004 financial year. The domestic economy was not stimulated in any significant way by the distinct recovery of the global economy. The competitive disadvantages of the German economy, which are due to the fact that solution of the existing structural problems is overdue, have increased even more and mean that Germany occupies one of the last places in Europe as far as growth and compliance with debt criteria are concerned. The impact of this is being felt particularly strongly on the employment and health market.

We are working on the assumption that the financial problems the federal government, the states, the towns and cities and the local authorities are already facing will be intensifying and that there will be further reductions in public investment. The consequence will be a significant increase in cost and quality pressure on public and non-profit service providers. There is a growing realisation that Germany will not overcome the problems without reforms. The signs of a change in attitude which could trigger off decisive progress are still only faint, however.

The rehabilitation division is being affected most directly by this development. Strict budget restrictions, a reform backlog where the long-term general conditions are concerned as well as in the funding of the health market and low demand from patients, who are afraid of losing their jobs, are leading to a substantial reduction in the number of applications and lower occupancy rates. In this context and in view of the increasing cost awareness demonstrated by patients and funding organisations, we think that there are good chances of us assuming a pioneering role and producing a sustained competitive edge by developing efficient DRG programmes. It will only be possible to make isolated price increases in this segment.

The health reform does not go far enough to achieve a significant improvement in the financial position of the statutory health insurance funds and other insurance companies. The market shake-out, that has already started among psychosomatic clinics in particular and is likely to be completed by the end of 2005, combined with an internal programme of our own which is to make the personnel costs more economically viable in relation to the occupancy rates and market prices, will help the division to return to profit in the medium term.

In the nursing division, we face the challenge of accelerating the integration of new facilities and of generating growth while maintaining the highest possible quality standards. We are convinced that we will reach these goals with the help of all our staff.

We anticipate further growth in the 2004/2005 financial year. The complete integration of the facilities that have started operation and the implementation of new locations will lead to a substantial increase in sales. We will be continuing the successful expansion policy involving the parallel increase of capacities by means of locations we develop ourselves and the leasing or take-over of externally financed facilities. This approach enables us to achieve above-average growth rates and improve our market position considerably, while increasing our equity ratio and without incurring additional debt. The location analyses, the profitability calculations and the search for investors on which the growth plans are based have reached an advanced stage and give the targets a realistic background.

Annual Accounts

Group profit and loss accounts (HGB)
for the 2003/2004 and 2002/2003 financial years

	2003 I 2004 € '000	2002 I 2003 € '000
1. Sales	200,082	191,080
2. Increase/decrease in the level of finished work and work in progress	137	-11
3. Other own work capitalised	3,535	1,288
4. Other operating income	10,431	23,972
5. Cost of materials		
a) Cost of raw materials, consumables and supplies and of goods purchased	20,370	20,227
b) Cost of purchased services	7,239	4,919
6. Personnel expenses		
a) Wages and salaries	86,163	82,257
b) Social security and pension/welfare costs of which for pensions: € 1,370,000 (previous year: € 1,053,000)	18,954	17,695
7. Depreciation		
a) of intangible and tangible fixed assets and of capitalised expenditure for the expansion of business operations	20,431	14,318
b) of current assets to the extent that they exceed normal depreciation at the company	1,895	6,634
8. Other operating expenses	53,306	44,881
9. Income from participating interests	75	75
10. Income from profit transfer agreements of which from affiliated companies: € 16,000 (previous year: € 0)	16	0
11. Other interest and similar income of which from affiliated companies: € 330,000 (previous year: € 318,000)	1,495	1,963
12. Depreciation of financial assets and securities held as current assets	2,073	151
13. Expenses from the assumption of losses of which from affiliated companies: € 230,000 (previous year: € 17,000)	230	17
14. Interest and similar expenses of which to affiliated companies: € 118,000 (previous year: € 89,000)	13,887	13,626
15. Loss/profit on ordinary business activities	**-8,776**	**13,642**
16. Taxes on income and earnings	3,812	4,710
17. Other taxes	294	194
18. Net Group loss/profit for the year	**-12,882**	**8,738**
19. Accumulated profits/losses of the Group brought forward	1,662	-1,837
20. Minority interest share of losses/profit	**821**	**-514**
21. Transfer from reserve for own shares	452	132
22. Transfer to reserve for own shares	414	0
23. Distribution of profits	4,823	4,857
24. Accumulated losses/retained earnings	**-15,184**	**1,662**

Group balance sheet (HGB) at 30. June 2004 and 2003

Assets

Assets	2004 € '000	2003 € '000
A. Fixed assets		
I. Intangible assets		
1. Franchises and similar rights and assets and licences from these rights and assets	4,459	3,811
2. Goodwill	17,950	19,215
	22,409	**23,026**
II. Tangible assets		
1. Land, leasehold rights and buildings including buildings on non-owned property	280,836	293,857
2. Technical plant and machinery	667	774
3. Other fixtures, fittings and equipment	9,010	11,510
4. Payments for account and assets under construction	12,468	5,688
	302,981	**311,829**
III. Financial assets		
1. Shares in affiliated companies	1,422	1,547
2. Participating interests	112	109
3. Miscellaneous loans	1,080	0
	2,614	**1,656**
	328,004	336,511
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	1,285	1,567
2. Work in progress	244	107
3. Finished goods and merchandise	98	36
	1,627	**1,710**
II. Receivables and other assets		
1. Trade accounts receivable	12,991	13,815
2. Accounts due from affiliated companies	1,529	3,498
3. Accounts due from companies in which there is a participating interest	84	548
4. Other assets	19,885	27,773
	34,489	**45,634**
III. Securities		
1. Shares in affiliated companies	101	101
2. Own shares	0	408
3. Other securities	0	2,003
	101	**2,512**
IV. Cash in hand and at banks	1,791	1,156
	38,008	51,012
D. Deferred charges and prepaid expenses	2,694	3,107
	368,706	390,630

LIABILITIES	2004 € '000	2003 € '000
A. Shareholders' equity		
I. Subscribed capital	31,100	31,100
II. Capital reserve	15,887	15,887
III. Revenue reserves		
1. Statutory reserves	243	243
2. Reserve for own shares	953	992
	1,196	**1,235**
IV. Consolidated balance sheet loss/profit	-15,184	1,662
V. Minority interests	37	870
	33,036	**50,754**
B. Special item for investment subsidies for fixed assets	**4**	**15**
C. Special item for investment grants for land and buildings, as per official subsidy notice	**43,224**	**41,298**
D. Provisions and accrued liabilities		
1. Pension provisions	15,411	15,503
2. Tax provisions	16,636	13,807
3. Other provisions and accrued liabilities	11,914	9,472
	43,962	**38,782**
E. Liabilities		
1. Bank loans and overdrafts	224,457	236,262
2. Payments received on account	743	281
3. Trade accounts payable	10,733	9,357
4. Accounts due to affiliated companies	1,667	1,157
5. Accounts due to companies in which there is a participating interest	0	46
6. Other liabilities of which for taxes: € 1,217,000 (previous year: € 1,105,000) of which for social security contributions: € 2,521,000 (previous year: € 4,269,000)	6,731	10,348
	244,331	**257,451**
F. Deferred income	**4,149**	**2,330**
	368,706	**390,630**

Group statement of cash flow (HGB)

Income from/expenditure on business operations
Net Group profit for the year
Corrections for reconciliation of the net Group profit to the income/expenses
Depreciation of intangible assets and expenditure for the expansion of business operations
Depreciation of tangible assets
Depreciation of financial assets
Net transfers to/release of special items with an equity portion and/or for grants/subsidies
Net transfers to/release of provisions for pensions and similar commitments
Transfer to deferred taxes
Decrease/increase in assets and liabilities
Inventories
Trade accounts receivable
Accounts due from affiliated companies
Accounts due from companies in which there is a participating interest
Securities held as current assets
Other assets
Tax provisions
Other provisions
Trade accounts payable
Accounts due to affiliated companies
Accounts due to companies in which there is a participating interest
Other liabilities
Advances received
Miscellaneous items
Net income from business operations
Cash flow from investment activities
Additions to
Intangible assets and expenditure for the expansion of business operations
Tangible assets
Financial assets
Asset disposals (at net book values)
Intangible assets and expenditure for the expansion of business operations
Tangible assets
Financial assets
Cash flow from financing activities
Increase/decrease in medium- and long-term bank liabilities
Changes in minority interests (excluding share of losses)
Distribution of profits
Increase in liquid funds
Liquid funds at the beginning of the financial year
Liquid funds at the end of the financial year
Breakdown of the liquid funds at the end of the financial year
Cash in hand and at banks
Short-term bank loans and overdrafts

	2003|2004		2002|2003		Change
	€ '000	€ '000	€ '000	€ '000	€ '000
	-12,882		8,738		-21,620
	2,777		1,985		792
	17,654		12,333		5,321
	70		151		-81
	1,914		-9,455		11,369
	-91		-153		62
	758	23,082	3,148	8,009	-2,390
		10,200		**16,747**	**6,547**
	84		-169		253
	824		-1,243		2,067
	1,969		273		1,696
	464		22		442
	2,411		-871		3,282
	7,888		10,641		-2,753
	2,072		613		1,459
	2,442		-17,913		20,355
	1,376		2,722		-1,346
	510		-156		666
	-46		3		-49
	-3,617		17		-3,634
	462		36		426
	2,232	19,072	-710	-6,735	2,942
		29,272		**10,012**	**19,260**
	-1,418		-840		-578
	-10,064		-29,925		19,861
	-1,106		0		-1,106
	-2		116		-118
	517		4,638		-4,121
	76	-11,997	200	-25,811	-124
		17,275		**-15,799**	**33,074**
	1,143		22,458		-21,315
	-12		-774		762
	-4,823	-3,692	-4,858	16,826	35
		13,583		1,027	33,439
		13,583		**1,027**	**12,556**
		-25,879		-26,906	1,027
		-12,296		**-25,879**	**13,583**
		1,791		1,156	635
		-14,087		-27,035	12,948
		-12,296		**-25,879**	**13,583**

Group equity schedule (HGB)

	Parent company Subscribed capital € '000	*Parent company* Capital reserve € '000	*Parent company* Group equity generated € '000
Balance on 30.06.2002	31,100	15,887	-470
Dividends paid	0	0	-4,858
Other changes	0	0	0
Net Group profit for the year	0	0	8.224
Balance on 30.06.2003	31,100	15,887	2,896

	Parent company Subscribed capital € '000	*Parent company* Capital reserve € '000	*Parent company* Group equity generated € '000
Balance on 30.06.2003	31,100	15,887	2,896
Dividends paid	0	0	-4,823
Other changes	0	0	0
Net Group profit for the year	0	0	-12,061
Balance on 30.06.2004	31,100	15,887	-13,988

Parent company Equity according to Group balance sheet € '000	*Parent company* Own shares that are not to be included € '000	*Parent company* Equity € '000	*Minority interests* Minority capital € '000	Group Equity € '000
46,517	1,123	45,394	1,131	46,525
-4,858	0	-4,858	0	-4,858
0	-132	132	-774	-642
8,224	0	8,224	514	8,738
49,883	**991**	**48,892**	**871**	**49,763**

Parent company Equity according to Group balance sheet € '000	*Parent company* Own shares that are not to be included € '000	*Parent company* Equity € '000	*Minority interests* Minority capital € '000	Group Equity € '000
49,883	991	48,892	871	49,763
-4,823	0	-4,823	0	-4,823
0	-38	38	-13	25
-12,061	0	-12,061	-821	-12,882
32,999	**953**	**32,046**	**37**	**32,083**

Notes to the Group annual accounts

for the 2003/2004 financial year

1. General information

The Group annual accounts as per 30. June 2004 have been prepared in accordance with the provisions of § 290 ff. of the German Commercial Code (HGB) and §§ 150 ff. of the German Companies Act (AktG).

The balance sheet as per 30. June 2004 has been structured in accordance with § 266 of the HGB; the cost summary method has been applied in compiling the profit and loss account in accordance with § 275 of the HGB.

Senioren-Wohnpark Landshut GmbH and Senioren-Wohnpark Montabaur GmbH have been included in the Group annual accounts for the first time. These two facilities made start-up losses of about € 3.3 million on sales of about € 3.6 million. Group earnings for 2003/2004 were also depressed by € 746,000 due to depreciation of the goodwill of these two companies.

2. Accounting and valuation methods

All the companies included in the Group annual accounts apply consistent accounting and valuation principles.

Intangible and tangible fixed assets are valued at historical costs less scheduled depreciation. Depreciation is generally charged using the straight-line method based on the useful lives specified in tax legislation. It is a standard rule that newly constructed buildings are depreciated over a period of 50 years. In accordance with the tax simplification regulations, additions to movable fixed assets during the first half of the year have been depreciated at the full annual rate, while additions in the second half of the year have been depreciated at half the annual rate. Interest charged on loan capital during the construction phase has been included in the production costs in accordance with § 255 Paragraph 3 of the HGB.

Goodwill is generally depreciated over 15 years using the straight-line method, in accordance with the valuation principles applied in the individual company accounts. *Goodwill arising from initial consolidation* is depreciated over 30 years starting in the financial year of initial consolidation, in accordance with § 309 Paragraph 1 Sentence 2 of the HGB.

In accordance with § 301 Paragraph 3 Sentence 3 of the HGB, differences of € 14,000 on the liabilities side due to capital consolidation have been offset against the differences on the assets side in the goodwill item.

Minor-value assets costing up to € 410 net are depreciated over a useful life of 5 years where the initial equipment installed in senior citizens' residential homes is involved. All other minor-value assets are written off in full in their year of acquisition.

Financial assets are valued at historical costs (shares in affiliated companies and participating interests). The miscellaneous loans are included in the accounts with their nominal value. They are written down to a lower fair value when it can be assumed that their value has been reduced on a permanent basis. In accordance with medium-term capacity utilisation forecasts, no write-downs have been made to allow for temporary fluctuations in value (§ 279 Paragraph 1 of the HGB) either in the individual accounts of the company or at the subsidiaries included in the Group annual accounts.

Inventories are valued at historical costs. The principle of the lower of cost or market is observed. Fixed values have been specified for medical equipment at the clinics.

Receivables and other assets are stated at their nominal values less reasonable reductions to cover apparent risks. General and specific allowances for bad debts are made where necessary.

Securities held as current assets are stated at their historical costs or their lower fair value.

The *special item for investment subsidies for fixed assets* is included with the actual amounts granted and the pro rata depreciation charge made in relation to the assets subsidised is released annually.

Pension provisions are stated on a partial value basis. Their value is calculated in accordance with the 1998 mortality tables compiled by Professor Dr Klaus Heubeck, applying an interest rate of 6%.

A provision is formed for *deferred taxes* on differences arising from the methods applied to depreciate buildings under commercial and tax law.

Considered by rational business reviews the *other provisions* take all apparent risks and contingent liabilities into account.

All the *liabilities* are shown at their repayment amounts.

Liabilities in foreign currencies have been translated at the higher of the selling rate on the qualifying date or the historical rate.

3. Companies consolidated

Marseille-Kliniken AG, Berlin, holds direct or indirect interests in the following subsidiaries which have been included in the Group annual accounts:

	Shareholding	Subscribed capital	Shareholders' equity	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management	
			30. June 2004	2003/2004	2002/2003
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark Langen GmbH, Langen [2]	100.00	102	102	0	0
Senioren-Wohnpark Lemwerder GmbH, Langen [2]	100.00	26	62	0	0
Astor Park Wohnanlage Langen GmbH, Langen [2]	100.00	26	26	0	0
Senioren-Wohnpark Hennigsdorf GmbH, Hennigsdorf [2]	100.00	102	102	0	0
Senioren-Wohnpark Radensleben GmbH, Radensleben [2]	100.00	26	26	0	0
Senioren-Wohnpark Neuruppin GmbH, Neuruppin [2]	100.00	26	26	0	0
Senioren-Wohnpark Treuenbrietzen GmbH, Treuenbrietzen [2]	100.00	26	26	0	0
Senioren-Wohnpark Erkner GmbH, Erkner [2]	100.00	26	26	0	0
Teufelsbad Fachklinik Blankenburg GmbH, Blankenburg	100.00	26	26	0	0
Senioren-Wohnpark Tangerhütte, Tangerhütte GmbH [2]	100.00	26	44	0	0
Senioren-Wohnpark Kyritz GmbH, Kyritz [2]	100.00	26	26	0	0
Senioren-Wohnpark Thale GmbH, Thale [2]	100.00	26	26	0	0
Senioren-Wohnpark Wolmirstedt GmbH, Wolmirstedt [2]	100.00	26	26	0	0
Senioren-Wohnpark Aschersleben GmbH, Aschersleben [2]	100.00	26	42	0	0
Senioren-Wohnpark Coswig GmbH, Coswig [2]	100.00	26	26	0	0
Senioren-Wohnpark Stützerbach GmbH, Stützerbach [2]	100.00	26	26	0	0
Senioren-Wohnpark Schollene GmbH, Schollene [2]	100.00	26	26	0	0
Senioren-Wohnpark Bad Langensalza GmbH, Bad Langensalza [2]	100.00	26	26	0	0
Senioren-Wohnpark Ballenstedt GmbH, Ballenstedt [1] [2]	100.00	26	26	0	0
PRO F&B Gastronomische Dienstleistungsgesellschaft mbH, Hamburg [2]	100.00	26	26	0	0
Senioren-Wohnpark Klausa GmbH, Klausa [2]	100.00	26	26	0	0
Senioren-Wohnpark Friedland GmbH, Friedland [2]	100.00	26	26	0	0
SWP Senioren-Wohnpark Klötze GmbH, Klötze [2]	100.00	38	38	0	0
Algos Fachklinik Bad Klosterlausnitz GmbH, Bad Klosterlausnitz	100.00	26	26	0	0
Senioren-Wohnpark Leipzig – Am Kirschberg GmbH, Leipzig [2]	100.00	26	26	0	0

	Share-holding %	Subscribed capital € '000	Shareholders' equity 30. June 2004 € '000	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management 2003/2004 € '000	 2002/2003 € '000
Atrium Senioren-Wohnstift Nr. 20 GmbH, Bremerhaven [2]	100.00	26	-44	0	0
PRO Work Dienstleistungsgesellschaft mbH, Cottbus [2]	100.00	26	26	0	0
Senioren-Wohnpark Cottbus – SWP – GmbH, Hamburg [2]	100.00	26	26	0	0
Marseille-Klinik-Delta GmbH, Hamburg [2]	100.00	26	25	0	0
Senioren-Wohnpark soziale Altenbetreuung gemeinnützige GmbH, Langen [2]	100.00	26	2,771	-54	197
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gemeinnützige GmbH, Neuruppin [1] [2]	100.00	26	18	-1	-0
Allgemeine soziale Dienstleistungen gemeinnützige GmbH, Langen [2]	100.00	26	-467	-160	-19
Medina soziale Behindertenbetreuung gemeinnützige GmbH, Wolmirstedt [2]	100.00	38	-831	-2	-20
"Villa Auenwald" Seniorenheim GmbH, Böhlitz-Ehrenberg [2]	100.00	26	-218	0	0
VDSE GmbH – Verwaltungsdienstleister sozialer Einrichtungen GmbH, Hamburg	100.00	26	107	0	0
PROMINT Dienstleistungsgruppe Neuruppin GmbH, Neuruppin [2]	100.00	51	51	0	0
Senioren-Wohnpark Hennigsdorf – SWP – GmbH, Hennigsdorf [2]	100.00	26	26	0	0
Held Bau Consulting Projekt Steuerungsgesellschaft mbH, Bremerhaven [2]	100.00	26	234	223	501
SCS Standard Computersysteme Entwicklungs-gesellschaft mbH, Hamburg [1] [2]	100.00	51	54	0	0
SIV Immobilien-Verwaltungsgesellschaft mbH, Hamburg [2]	100.00	26	26	0	0
DaTess Gesellschaft für Datendienste mbH, Tessenow [2]	100.00	25	25	0	0
Karlsruher-Sanatorium-Aktiengesellschaft, Hamburg	93.78	12,271	8,293	-12,180	418
Mineralquelle Waldkirch Verwertungsgesellschaft mbH, Hamburg [3]	89.5 [4]	2,557	-4,499	-3,086	-1,365
REHA-Klinik Sigmund Weil GmbH, Hamburg [3]	93.53 [4]	5,113	8,081	689	763
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg [2]	89.5 [4]	26	-2	15	-18
Senioren-Wohnpark Friedland-SWP-GmbH, Friedland [2]	100.00	25	23	0	0
EQS Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Karlsruhe [2]	100.00	26	125	37	61
CASA Trainingszentrum für Hotel- und Sozialberufe GmbH, Bad Oeynhausen [2]	100.00	25	-1,787	120	143
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Tessenow [2]	100.00	25	5	-130	109

	Share-holding	Subscribed capital	Shareholders' equity	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management	
			30. June 2004	2003/2004	2002/2003
	%	€ '000	€ '000	€ '000	€ '000
Tessenow Vermögensverwaltungs GmbH, Tessenow [2]	100.00	25	-93	-19	-33
Atrium Senioren-Wohnstift Nr. 22 GmbH, Bremerhaven [2] [5]	100.00	51	255	145	24
Senioren-Wohnpark Lichtenberg GmbH, Berlin [2]	100.00	25	25	0	0
Betrium Nr. 41 Vermögensverwaltungs GmbH, Bremerhaven [2]	100.00	25	25	0	0
Betrium Nr. 42 Vermögensverwaltungs GmbH, Bremerhaven [2]	100.00	25	25	0	0
Teufelsbad Residenz Blankenburg GmbH, Blankenburg [2]	100.00	25	23	0	0
Atrium Senioren-Wohnstift Nr. 21 GmbH, Bremerhaven [2] [5]	100.00	51	48	66	51
Senioren-Wohnpark Leipzig "Stadtpalais" GmbH, Leipzig [2]	100.00	25	15	0	0
Senioren-Wohnpark Leipzig "Eutritzscher Markt" GmbH, Leipzig [2]	100.00	25	25	0	0
Senioren-Wohnpark Arnsberg GmbH, Arnsberg [2] [5]	100.00	25	-284	-89	-218
Senioren-Wohnpark Büren GmbH, Büren [2] [5]	100.00	25	122	254	-155
Senioren-Wohnpark Kreuztal-Krombach GmbH, Kreuztal [2] [5]	100.00	25	29	82	-76
Senioren-Wohnpark Lutzerath GmbH, Lutzerath [2] [5]	100.00	25	-19	99	-141
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg [2] [5]	100.00	25	-208	11	-243
ProTec Dienstleistungsgesellschaft mbH, Schwerin [2] [5]	100.00	25	-1,532	-1,523	-32
Senioren-Wohnpark Landshut GmbH, Landshut [2]	100.00	25	-523	0	0
Senioren-Wohnpark Montabaur GmbH, Montabaur [2] [5]	100.00	51	-2,111	0	0

[1] No business operations at the present time
[2] Advantage was taken of the exemption provision stipulated in § 264 Paragraph 3 and § 264 b of the German Commercial Code (HGB)
[3] Some of the shares are held by Karlsruher-Sanatorium-AG and some by Marseille-Kliniken AG
[4] Group share after deduction of the direct and indirect minority interests
[5] Share of Marseille-Klinik-Delta GmbH

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 in accordance with § 296 Paragraph 2 of the HGB and, in the case of Atrium Senioren-Wohnstift Nr. 24 GmbH and Atrium Senioren-Wohnstift Nr. 34 GmbH, in accordance with § 296 Paragraph 1 No. 3 of the HGB.

	Share-holding	Subscribed capital	Shareholders' equity	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management	
			30. June 2004	2003/2004	2002/2003
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark HES GmbH, Hamburg [1) 8)]	100.00	26	26	0	0
Senioren-Wohnpark OES GmbH, Hamburg [1) 8)]	100.00	26	26	0	0
Senioren-Wohnpark ZES GmbH, Hamburg	100.00	26	26	0	0
Senioren-Wohnpark soziale Grundbesitz-gesellschaft mbH, Hamburg [5) 8)]	100.00	26	-84	0	0
Atrium Senioren-Wohnstift Nr. 19 GmbH, Bremerhaven	100.00	26	-167	-14	-14
Marseille-Klinik-Omega GmbH, Hamburg [8)]	100.00	26	25	0	0
MK "Vorrat Nr. 26" Vermögensverwaltungs GmbH, Berlin	100.00	51	-38	-4	-4
Mineralquelle Waldkirch GmbH, Hamburg [1) 2)]	100.00	26	39	1	2
Atrium Senioren-Wohnstift Nr. 23 GmbH [3) 4)]	100.00	51	-226	112	-18
Atrium Senioren-Wohnstift Nr. 24 GmbH [3) 4)]	100.00	51	337	222	225
VSE Vermietungsgesellschaft für soziale Einrichtungen mbh, Hamburg [3) 4)]	100.00	51	51	0	1
Atrium Senioren-Wohnstift Nr. 26 GmbH [3) 4)]	100.00	51	-18	16	-57
Atrium Senioren-Wohnstift Nr. 27 GmbH [3) 4)]	100.00	51	18	-7	-3
Atrium Senioren-Wohnstift Nr. 29 GmbH [3) 4)]	100.00	51	24	-3	-5
Atrium Senioren-Wohnstift Nr. 30 GmbH [3) 4)]	100.00	51	-97	92	-10
Atrium Senioren-Wohnstift Nr. 31 GmbH [3) 4)]	100.00	50	-2	186	-188
Atrium Senioren-Wohnstift Nr. 32 GmbH [3) 4)]	100.00	50	-2	51	-73
Atrium Senioren-Wohnstift Nr. 33 GmbH [3) 4)]	100.00	50	-106	-138	-7
Atrium Senioren-Wohnstift Nr. 34 GmbH [3) 4)]	100.00	50	420	233	234
TD Artos Verwaltungsgesellschaft mbH, Hamburg previously Bremerhaven [3) 5)]	70.00	50	48	0	1
TD Artos Fonds-Management GmbH, Hamburg previously Bremerhaven [3) 6)]	64.00	50	47	0	0
Sozialimmobilien "Ohre Elbe" GmbH, Wolmirstedt [3)]	100.00	50	29	0	0
Sozialimmobilien "Südharz" GmbH, Wolmirstedt [3)]	100.00	50	62	33	-5
Sozialimmobilien "St. Elisabeth" GmbH, Wolmirstedt [3)]	100.00	50	2	-1	-1
Atrium Senioren-Wohnstift Nr. 41 GmbH [3) 4)]	100.00	25	22	-1	-0
Atrium Senioren-Wohnstift Nr. 42 GmbH [3) 4)]	100.00	25	5	-16	-2
CareAktiv GmbH [3) 4) 7)]	100.00	25	25	2	-0
Atrium Senioren-Wohnstift Nr. 48 GmbH [3) 4)]	100.00	25	23	-0	-0
Atrium Senioren-Wohnstift Nr. 50 GmbH [3) 4)]	100.00	25	23	-0	-0
Atrium Senioren-Wohnstift Nr. 52 GmbH [3) 4)]	100.00	25	23	-0	-0
Atrium Senioren-Wohnstift Nr. 53 GmbH [3) 4)]	100.00	25	23	-0	-0
Atrium Senioren-Wohnstift Nr. 54 GmbH [3) 4)]	100.00	25	23	-0	-0
Atrium Senioren-Wohnstift Nr. 55 GmbH [3) 4)]	100.00	25	23	-0	-0

	Share-holding %	Subscribed capital € '000	Shareholders' equity 30. June 2004 € '000	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management 2003/2004 € '000	2002/2003 € '000
Ausgleichs- u. Bürgschaftsgesellschaft im Heim- und Pflegewesen mbH [4]	100.00	25	20	-0	0
Betrium Nr. 20 Vermögensverwaltungs-GmbH [4]	100.00	25	20	-1	-1
Cetrium Vermögensverwaltungs-GmbH [4]	100.00	25	0	-1	-2
Betrium Nr. 29 Vermögensverwaltungs-GmbH [4]	100.00	25	19	-0	-1
Senioren-Wohnpark Neuruppin – SWP – GmbH, Neuruppin	100.00	25	20	0	0
Cefugium Betriebsmanagement GmbH [4]	100.00	25	18	-1	-0
Betrium Nr. 35 Vermögensverwaltungs-GmbH [4]	100.00	25	18	-1	-1
Betrium Nr. 36 Vermögensverwaltungs-GmbH [4]	100.00	25	18	-1	-1
Betrium Nr. 37 Vermögensverwaltungs-GmbH [4]	100.00	25	20	-0	-1
Betrium Nr. 44 Vermögensverwaltungs-GmbH [4] [8]	100.00	25	22	-1	-1
Betrium Nr. 45 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-0	-0
Betrium Nr. 46 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-0	-0
Betrium Nr. 47 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-2	-1
Betrium Nr. 48 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-0	-1
Betrium Nr. 49 Vermögensverwaltungs-GmbH [4]	100.00	25	22	-0	-1
Betrium Nr. 50 Vermögensverwaltungs-GmbH [4]	100.00	25	21	-0	-1
Betrium Nr. 51 Vermögensverwaltungs-GmbH [4]	100.00	25	14	-1	-3
Betrium Nr. 52 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-2	0
Betrium Nr. 53 Vermögensverwaltungs-GmbH [4]	100.00	25	25	19	-1
Betrium Nr. 54 Vermögensverwaltungs-GmbH [4]	100.00	25	23	-1	-0
Betrium Nr. 55 Vermögensverwaltungs-GmbH [4]	100.00	25	18	-3	-2
MediCargo GmbH, Nuthetal [9]	100.00	25	22	-3	-1
MK "Vorrat Nr. 21" Vermögensverwaltungs GmbH [4]	100.00	25	20	-0	-1
MK "Vorrat Nr. 22" Vermögensverwaltungs GmbH [4]	100.00	25	21	-0	0
MK "Vorrat Nr. 23" Vermögensverwaltungs GmbH [4]	100.00	25	20	-0	0
Medina Fördergesellschaft sozialer Einrichtungen gGmbH [4]	100.00	25	21	0	0
MK "Vorrat Nr. 25" Vermögensverwaltungs GmbH [4]	100.00	25	21	-0	-0

[1] No business operations any longer at the present time
[2] Subsidiary of Karlsruher-Sanatorium-Aktiengesellschaft
[3] Shares of Marseille-Klinik-Delta GmbH, Langen
[4] The registered office of the company is Bremerhaven
[5] Previously Senioren-Wohnpark Olschie GmbH
[6] Previously Atrium Senioren-Wohnstift Nr. 25 GmbH, Bremerhaven
[7] Previously Atrium Senioren-Wohnstift Nr. 47 GmbH, Bremerhaven
[8] Advantage was taken of the exemption provisions stipulated in § 264 Paragraph 3 and § 264 b of the German Commercial Code (HGB)
[9] Shares of PROMINT Dienstleistungsgruppe Neuruppin GmbH

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, in accordance with § 311 Paragraph 2 of the HGB, with the exception of SCS Standard Computersysteme AG:

	Share-holding	Subscribed capital	Shareholders' equity	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management	
			30. June 2004	2003I2004	2002I2003
	%	€ '000	€ '000	€ '000	€ '000
TD Trump Deutschland AG, Berlin	50.0	4,000	1,857	154[1]	-379
TD Artos Immobilien AG [2]	40.0	100	-623	-125	-88
SCS Standard Computersysteme Aktiengesellschaft, Hamburg	1.62	3,211	1,319	-704[1]	-119
Kurbetriebsgesellschaft Bad Klosterlausnitz mbH, Bad Klosterlausnitz	49.5	52	58	2	-25

[1] Provisional and unaudited result

[2] Shares of Held Bau Consulting Projekt Steuerungsgesellschaft mbH

4. Consolidation principles

30. June 2004 is the qualifying date for the Group annual accounts as well as for the annual accounts of the companies included in the Group annual accounts.

Capital consolidation is carried out in accordance with § 301 Paragraph 1 Number 1 of the HGB on the basis of the book value method, by offsetting the shares belonging to the parent company against the amount of the shareholders' equity of the subsidiary accounted for by these shares. DRS 4 "Company acquisition in Group annual accounts" concerning complete revaluation (revaluation method) has not been applied in the context of capital consolidation. The date of acquisition has been chosen as the qualifying date for initial consolidation. Companies have in exceptional cases been consolidated for the first time in the Group annual accounts at the beginning of the financial year in which these companies are included for the first time, in accordance with § 301 Paragraph 2 Sentence 1 of the HGB.

Fixed assets movements schedule for the Marseille-Kliniken Group as per 30. June 2004

Historical and manufacturing costs schedule

	Balance on 1. July 2003 € '000	Additions € '000	Transfers € '000	Disposals € '000	Balance on 30. June 2004 € '000
A. Fixed assets					
I. Intangible assets					
1. Franchises and similar rights and assets as well as licences from these rights and assets	5,882	672	741	10	7,285
2. Goodwill	29,508	746	0	0	30,254
	35,390	**1,418**	**741**	**10**	**37,539**
II. Tangible assets					
1. Land, leasehold rights and buildings including buildings on non-owned property	377,153	583	56	320	377,472
2. Technical plant and machinery	2,845	0	0	0	2,845
3. Other fixtures, fittings and equipment	39,258	1,447	0	675	40,030
4. Payments on account and assets under construction	5,893	8,034	-797	234	12,896
	425,149	**10,064**	**-741**	**1,229**	**433,243**
III. Financial assets					
1. Shares in affiliated companies	2,043	25	-45	92	1,931
2. Participating interests	953	1	45	844	155
3. Miscellaneous loans	0	0	1,080	0	1,080
	2,996	**26**	**1,080**	**936**	**3,166**
	463,535	11,508	1,080	2,175	473,948

The differences on the assets side that arise in capital consolidation (hidden reserves) with a total net amount of € 43,929,000 (on 30. June 2004) have been allocated as follows: € 17,454,000 to goodwill and € 26,475,000 to land and buildings. The future charges to earnings this will lead to at Group level amount in total to about € 1,368,000 p.a.

Payables and receivables as well as expenses and income resulting from current clearing transactions between the companies included in the Group annual accounts have been eliminated. Intercompany profits arising from the provision of goods and services within the Group have also been eliminated in accordance with § 304 of the HGB.

Deferred taxes on elimination entries that have an impact on results are included. They have been calculated on the basis of an average tax rate of 26.375%.

Accumulated depreciation schedule

Balance on 1. July 2003 € '000	Additions € '000	Transfers € '000	Disposals € '000	Balance on 30. June 2004 € '000	Net book values on 30. June 2004 € '000	Net book values on 30. June 2003 € '000
2,072	765	0	11	2,826	4,459	3,811
10,293	2,011	0	0	12,304	17,950	19,215
12,365	**2,776**	**0**	**11**	**15,130**	**22,409**	**23,026**
83,297	13,584	0	245	96,636	280,836	293,857
2,071	107	0	0	2,178	667	774
27,748	3,741	0	469	31,020	9,010	11,510
205	223	0	0	428	12,468	5,688
113,321	**17,655**	**0**	**714**	**130,262**	**302,981**	**311,829**
496	28	0	15	509	1,422	1,547
844	42	0	843	43	112	109
0	0	0	0	0	1,080	0
1,340	**70**	**0**	**858**	**552**	**2,614**	**1,656**
127,026	20,501	0	1,583	145,944	328,004	336,511

5. Explanatory notes about the balance sheet

The *shares in affiliated companies* at Group level include 60 of the companies listed on pages 73-75 that are not incorporated in the Group annual accounts. These shares have book values of up to € 51,000.

Participating interests are stated at the lower of their historical costs or fair value. The participating interests of 0.25% in each of the three companies under civil law Gladbacher Haus und Grund, Rheydter Haus und Grund and Odenkirchener Haus und Grund were sold in the 2003/2004 financial year.

This item also includes the 49.5% interest in Kurbetriebsgesellschaft Bad Klosterlausnitz mbH and a 1.6% interest in SCS Standard Computersysteme Aktiengesellschaft.

The trade accounts receivable in the Group annual accounts include receivables of € 801,000 from Mr Ulrich Marseille and companies associated with him.

The *other assets* item in the Marseille-Kliniken AG Group annual accounts includes repayment claims of € 3,897,000 against Mr Ulrich Marseille and companies associated with him. Of this sum, € 3,578,000 is accounted for by loans granted to Mr Ulrich Marseille. These claims result from the offsetting of the original loan of € 10,226,000 that was granted against liabilities from sales agreements and contracts providing rights of use. The interest rate charged for the loan is one per cent higher than the most favourable refinancing rate of BHF Bank, Hanover. The loan was extended most recently until 31. December 2006.

The other assets in the Group annual accounts include c*laims to tax refunds* of € 3,396,000 as well. These accounts also include repayment claims of € 1,478,000 against employees relating to loans.

€ 14,989,000 of the other assets are due within more than one year. The remaining receivables are due within less than one year.

The Management Board was authorised to acquire company shares by the Annual General Meeting held on 2. December 2003. The authorisation is limited to 18 months up to 2. June 2005 as well as to a maximum of 10% of the subscribed capital.

The 91,906 own shares shown as securities held as current assets in the previous year were sold in the 2003/2004 financial year for a total of € 690,000.

A depreciation charge of € 2,002,000 was made concerning other securities in the financial year which related to TD Trump Deutschland AG.

The *deferred charges and prepaid expenses* item includes a discount amounting to € 2,001,000.

Group

	Total € '000	Remaining term: up to 1 year € '000	1 to 5 years € '000	over 5 years € '000
1. Bank loans and overdrafts	224,457	21,668	42,091	160,698
Previous year	236,262	27,035	42,408	166,819
2. Payments received on account	742	742	0	0
Previous year	281	281	0	0
3. Trade accounts payable	10,733	10,733	0	0
Previous year	9,357	9,357	83	0
4. Accounts due to affiliated companies	1,667	1,677	0	0
Previous year	1,157	1,157	0	0
5. Accounts due to companies in which there is a participating interest	0	0	0	0
Previous year	46	46	0	0
6. Other liabilities	6,731	6,731	0	0
Previous year	10,348	10,348	0	0
	244,330	**41,541**	**42,091**	**160,698**
Previous year	257,451	48,224	42,408	166,819

The *subscribed capital* consisted on the balance sheet qualifying date of 12,150,000 bearer shares.

At the Annual General Meeting held on 2. December 2003, the Management Board was authorised to increase the subscribed 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). An entry has not yet been made in the commercial register.

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.

The *reserve for own shares* in accordance with § 272 Paragraph 4 of the HGB has only been formed in accordance with § 71e of the German Companies Act (AktG) in connection with § 71 Paragraph 1 No. 2 of the AktG as per 30. June 2004. The valuation of the reserve has been based in this context on the market value of the shares, which is less than the amount of the secured receivable. 115,011 shares with a total nominal value of € 294,000 have been pledged. This represents 0.9% of the subscribed capital.

The accumulated Group losses amounted to € 15,184,000 in the 2003/2004 financial year and include accumulated profits brought forward of € 1,662,000.

The minority interests are accounted for mainly (€ 922,000) by minority interests in Karlsruher-Sanatorium-Aktiengesellschaft, by minority interests in Mineralquelle Waldkirch Verwertungsgesellschaft mbH (- € 1,014,000) and by minority interests in REHA-Klinik Sigmund Weil GmbH (€ 134,000).

The *special item for investment subsidies* for fixed assets has been formed for investments funded with subsidies provided under German investment promotion legislation. This special item is being released in accordance with the useful life of the fixed assets subsidised.

The *special item for investment grants for land and buildings as per official notice* relates essentially to subsidy commitments received for Senioren-Wohnpark Bad Langensalza GmbH, Senioren-Wohnpark Stützerbach GmbH, Senioren-Wohnpark Klausa GmbH, Senioren-Wohnpark Friedland GmbH, Senioren-Wohnpark Treuenbrietzen GmbH, Senioren-Wohnpark Erkner GmbH, Senioren-Wohnpark Kyritz GmbH, "Villa Auenwald" Seniorenheim GmbH, SIV Immobilien-Verwaltungsgesellschaft mbH and Senioren-Wohnpark Radensleben GmbH.

The *tax provisions* shown include provisions for deferred taxes of € 10,196,000.

The *other provisions and accrued liabilities* consist essentially of personnel costs (€ 7,211,000 for severance payments, Christmas bonuses, other bonuses, holiday pay, long service awards etc.), legal and consultancy costs (€ 1,028,000) and outstanding invoices (€ 2,257,000).

The bank loans and overdrafts are secured by mortgages totalling € 21,486,000, ownership assignments and security provided by third parties (e.g. guarantees given by local authorities).

175,807 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.

The *other liabilities* in the Group annual accounts are attributable – among other things – to social security contributions (€ 2,530,000), overpayments (€ 638,000) and income/church tax (€ 970,000).

6. Explanatory notes about the Group profit and loss accounts

The *sales* in the Group annual accounts consist primarily of income from the provision of nursing services (total sales by the nursing division: € 144,778,000) and standard domestic hospital sales (total sales by the rehabilitation division: € 53,069,000).

The *other operating income* in the Group annual accounts is made up essentially of income from the release of special items for investment subsidies for fixed assets (€ 1,644,000), income from the writing-off of liabilities (€ 1,503,000), income from the release of provisions (€ 574,000), rental and leasing income (€ 1,034,000) and income from the disposal of fixed assets (€ 1,039,000). € 1,145,000 of the income from writing-off of the other liabilities are accounted for by previous years.

Depreciation of intangible and tangible fixed assets includes an unscheduled goodwill depreciation charge of € 385,000 and unscheduled depreciation of buildings amounting to € 4,017,000.

€ 70,000 of the *depreciation of financial assets and securities held as current assets* are attributable to depreciation of financial assets and € 2,002,000 to depreciation of securities held as current assets.

The *other operating expenses* primarily include administration and operating expenses (rent and leasing payments/ € 22,607,000), maintenance and repairs (€ 3,824,000), legal and consultancy costs (€ 4,448,000), miscellaneous administration requirements (€ 4,910,000) and advertising and representation costs (€ 3,763,000) as well as allowances for bad debts/loan waivers (€ 4,148,000). In addition, € 647,000 was added to provisions for litigation risks.

Group earnings are depressed by *expenses* totalling € 988,000 *that do not relate to the period under review.*

7. Miscellaneous notes

Contingent liabilities

Marseille-Kliniken AG has issued what are mainly *absolute guarantees* as security for loans made to subsidiaries totalling € 88,842,000.

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 following 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 sub-contractor.

The *other financial commitments* can be broken down as follows:

Marseille-Kliniken Group	Total € '000	Remaining term up to 1 year € '000	Remaining term 1 to 5 years € '000	Remaining term over 5 years € '000
Rental, leasing and service contracts	337,867	21,143	76,925	239,799
Leasehold right commitments	4,920	97	388	4,435
	342,787	**21,240**	**77,313**	**244,234**

The rental and leasing contracts relate in particular to commitments entered into in connection with the renting of the nursing homes Senioren-Wohnpark Tangerhütte GmbH, Senioren-Wohnpark Aschersleben GmbH, Senioren-Wohnpark Coswig GmbH, Senioren-Wohnpark Klötze GmbH, SWP Lemwerder, Medina soziale Behindertenbetreuung gGmbH, Senioren-Wohnpark Lichtenberg GmbH (in Berlin-Lichtenberg), Atrium Senioren-Wohnstift Nr. 22 GmbH (in Oldenburg) and the leasing of the Odenwald clinic, Bad König. Two more rental and leasing contracts were concluded for property by Logo 7. Grundstücksverwaltungsgesellschaft and SWP Landshut in the year under review.

Number of employees

On average, the Group had a total of 4,380 employees in the 2003/2004 financial year (previous year: 4,122) (of which Karlsruher-Sanatorium-Aktiengesellschaft including subsidiaries: 621 [previous year: 638]). The 4,465* Group employees can be broken down on average into 2,476 full-time staff and 1,989 part-time staff. The Group also had an average of 55 apprentices.

* including dormant employment contracts

Corporate Governance Code

The company has issued the statement about the Corporate Governance Code specified by § 161 of the German Companies Act (AktG) and has made it available to the shareholders on a permanent basis at www.marseille-kliniken.de.

Board members

Management Board

The members of the Management Board were:

Axel Hölzer, Hamburg, Chairman
Thomas Dobernigg, Hamburg
(until 31. December 2003)
Hans Heckmann, Hamburg
Ennio Laviziano, Hamburg
(from 1. January 2004)

The resignation of Mr Dobernigg has not yet been entered in the commercial register.

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.

The members of the Management Board were granted loans for a total of € 419,000 in the financial year. Interest was charged at market rates.

Supervisory Board

The members of the Supervisory Board are:

Ulrich Marseille, businessman, Hamburg, Chairman
- Chairman of the Supervisory Board:
  TD Trump Deutschland AG,
  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
- Member of the Supervisory Board:
  TD Trump Deutschland AG, Berlin

Dr Peter Schneider, medical consultant, Berlin-Hennigsdorf

Dr Peter Danckert, lawyer, Berlin
- Member of the Supervisory Board:
  TD Trump Deutschland AG, Berlin (until 31. August 2004)

Professor Dr Matthias P. Schönermark,
university professor, Hanover

Mathias Kampmann, business administrator, self-employed businessman, Hamburg (from 2. December 2003)

Five Supervisory Board meetings were held in the 2003/2004 financial year, on 30. September 2003, 1./2. December 2003, 24. February 2004 and 9. June 2004.

Remuneration paid to the Management Board and the Supervisory Board of the parent company

The remuneration for the Management Board was paid exclusively via Marseille-Kliniken AG in the 2003/2004 financial year and amounted to € 734,000. One member of the Supervisory Board was granted a credit line until 31. Dezember 2006, of € 10,226,000, € 3,578,000 of which had been used by the balance sheet qualifying date. We refer in this context to the information we have provided in relation to other assets. There were loan repayment claims totalling € 419,000 against members of the Management Board on 30. June 2004. The Supervisory Board received remuneration of € 168,000.

The pension commitments to former members of the Management Board and their surviving dependents amounted to € 67,000, a provision of € 599,000 has been made for the 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.

Berlin, October 2004
The Management Board

Segment report for the 2003/2004 financial year

Preliminary remark

We have compiled the segment report in accordance with German accounting standard no. 3 (DRS 3).

Segment breakdown

In line with the internal reporting system, the company is organised in nursing and rehabilitation divisions. All the other services, such as construction, general services, asset management and EDP, have been reported in a segment called "Services". A further distinction has been made as follows within the company Marseille-Kliniken AG: the accounts that relate to the nursing facilities operated by the company have been allocated to the nursing segment. The accounts for the Group headquarters, that include the financial assets and the internal Group financing operations, have been allocated to the "Services" division for the sake of clarity.

This means that the activities carried out by the nursing division consist of the operation of nursing homes for the elderly and social facilities for the handicapped. The activities carried out by the rehabilitation division consist of the operation of rehabilitation clinics.

All of the external sales are accounted for by the nursing, rehabilitation and services divisions.

The following companies have been allocated to the "Services" division in addition to the above-mentioned Marseille-Kliniken AG accounts:

- PRO F&B Gastronomische Dienstleistungsgesellschaft mbH
- PRO Work Dienstleistungsgesellschaft mbH
- Marseille-Klinik-Delta GmbH
- CASA Trainingsstätte und Bildungszentrum für Dienstleistungen im Gesundheitswesen gGmbH
- VDSE GmbH – Verwaltungsdienstleister sozialer Einrichtungen GmbH
- PROMINT Dienstleistungsgruppe Neuruppin GmbH
- Held Bau Consulting Projekt Steuerungsgesellschaft mbH
- SCS Standard Computersysteme Entwicklungsgesellschaft mbH
- SIV Immobilien-Verwaltungsgesellschaft mbH
- DaTess Gesellschaft für Datendienste mbH
- Talhaus "Waldkirch" GmbH & Co. KG
- CASA Trainingszentrum für Hotel- und Sozialberufe GmbH
- Tessenow Bau- und Vermögensverwaltung Nr. 20 GmbH
- Tessenow Vermögensverwaltung GmbH
- Teufelsbad Residenz Blankenburg GmbH
- Atrium Senioren-Wohnstift Nr. 21 GmbH
- Logo 7. Grundstücksverwaltungsgesellschaft mbH
- ProTec Dienstleistungsgesellschaft mbH
- EQS Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH

The segment earnings chosen are the earnings before interest and tax (EBIT).

All the segment details include consolidation within the segments.

The prices charged within the Group are determined on an arm's length basis.

In contrast to the previous year, the rental income generated by Talhaus "Waldkirch" GmbH & Co. KG, Atrium Senioren-Wohnstift Nr. 21 GmbH and Logo 7. Grundstücksverwaltungsgesellschaft mbH have been shown as sales in the "Services" segment. The figures for the previous year have been adjusted accordingly.

Segment details

	Nursing		Rehabilitation		Services		Total	
	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Sales								
To external third parties	144,778	127,410	53,069	60,882	2,235	2,788	200,082	191,080
Intersegment sales	455	1,185	23	288	62,141	48,542	62,619	50,015
	145,233	**128,595**	**53,092**	**61,170**	**64,376**	**51,330**	**262,701**	**241,095**
Segment earnings	15,110	20,351	-1,574	13,801	-4,016	-7,178	9,520	26,974
including								
Depreciation	5,510	5,100	6,306	5,607	7,049	2,076	18,865	12,783
Other items with no cash effect								
Income from the release of special items	1,642	6,755	0	9,748	2	3	1,644	16,506
Net additions to pension provisions	0	0	-123	0	32	24	-91	24
Earnings from participating interests	0	0	0	0	226	213	226	213
Balance sheet								
Outstanding contributions	0	0	0	0	2	24	2	24
Fixed assets, including expenditure for the expansion of business operations	127,796	130,711	126,458	132,613	108,974	103,326	363,228	366,650
Current assets	44,615	40,672	37,238	37,864	112,151	109,776	194,004	188,312
Deferred charges and prepaid expenses	2,488	2,732	47	67	159	308	2,694	3,107
Balance sheet total/assets	**174,899**	**174,115**	**163,743**	**170,544**	**221,286**	**213,434**	**559,928**	**558,093**
Shareholders' equity	-3,529	-3,771	18,976	25,366	52,568	59,050	68,015	80,645
Special items	39,413	40,591	0	0	3,815	723	43,228	41,314
Provisions	4,926	4,183	22,075	21,860	17,087	12,856	44,088	38,899
Liabilities	130,063	130,833	122,612	123,314	147,773	140,758	400,448	394,905
Deferred income	4,026	2,279	80	4	43	47	4,149	2,330
Balance sheet total/liabilities	**174,899**	**174,115**	**163,743**	**170,544**	**221,286**	**213,434**	**559,928**	**558,093**
Investments in long-term assets	**2,758**	**26,556**	**368**	**1,716**	**8,381**	**2,493**	**11,507**	**30,765**

Reconciliation of major items

	03/04	02/03
	€ '000	€ '000
Sales		
Sales to external third parties of the segments	200,082	191,080
Sales according to the accounts	200,082	191,080
Earnings		
Segment earnings	9,520	26,974
Interest income	1,495	1,963
Interest expenditure	-13,887	-13,626
Depreciation of goodwill and land from capital consolidation and of expenditure for the expansion of business operations	-6,632	-1,461
Earnings adjustments from other consolidation entries	728	-208
	-8,776	**13,642**
Profit on ordinary business activities according to the accounts	**- 8,776**	**13,642**
Balance sheet total		
Balance sheet total, segments	559,928	558,093
Capital consolidation	-28,923	-28,585
Depreciation of goodwill and land from capital consolidation and of expenditure for the expansion of business operations	-6,632	-1,461
Debt consolidation	-155,666	-137,417
	368,707	**390,630**

Marseille-Kliniken AG profit and loss accounts for the 2003/2004 and 2002/2003 financial years

Summary (prepared in accordance with the rules specified by the German Commercial Code [HGB])
The complete annual accounts of Marseille-Kliniken AG, about which the auditors have issued an unqualified certificate, are published in the German Federal Bulletin and are deposited with the Registration Court at Berlin Local Court. They are also published on the Marseille-Kliniken AG website.

	2003 I 2004 € '000	2002 I 2003 € '000
1. Sales	17,773	17,804
2. Other operating income	4,126	1,925
3. Cost of materials	4,227	3,809
4. Personnel expenses	8,848	8,616
5. Depreciation of intangible and tangible fixed assets	1,639	1,002
6. Other operating expenses	9,882	10,458
7. Financial result	7,534	10,666
8. Profit on ordinary business activities	**4,837**	**6,512**
9. Taxes on income and earnings	3,369	1,773
10. Other taxes	32	0
11. Net profit for the year	**1,436**	**4,739**
12. Retained earnings brought forward	8,742	8,729
13. Transfer to/from reserve for own shares	38	132
14. Distribution of profits	4,823	4,858
15. Retained earnings	**5,393**	**8,742**

Marseille-Kliniken AG balance sheet
at 30. June 2004 and 2003

Assets	2004 € '000	2003 € '000
A. Fixed assets		
I. Intangible assets	777	860
II. Tangible assets	28,607	23,574
III. Financial assets	73,124	74,250
	102,509	**98,684**
B. Current assets		
I. Inventories	38	63
II. Receivables and other assets	71,414	79,764
III. Securities	0	2,411
IV. Cash in hand and at banks	240	92
	71,693	**82,330**
C. Deferred charges and prepaid expenses	83	127
	174,285	**181,141**

Liabilities	2004 € '000	2003 € '000
A. Shareholders' equity		
I. Subscribed capital	31,100	31,100
II. Capital reserve	15,887	15,887
III. Revenue reserves	1,161	1,199
IV. Retained earnings	5,393	8,742
	53,541	**56,928**
B. Special item for investment grants for land, buildings as per official subsidy notice	2,408	482
C. Provisions and accrued liabilities	15,272	11,555
D. Liabilities	102,466	111,609
E. Deferred income	598	567
	174,285	**181,141**

Auditors' report

We have issued the following unqualified report about the complete annual accounts of Marseille-Kliniken Aktiengesellschaft, Berlin, as per 30. June 2004 as well as about the Group annual accounts of Marseille-Kliniken Aktiengesellschaft, Berlin, as per 30. June 2004:

"We have audited the annual accounts (including the bookkeeping records) of MARSEILLE-KLINIKEN AKTIENGESELLSCHAFT, BERLIN, as well as the consolidated annual accounts prepared by the company and its management report about the situation of the company and the Group for the financial year that began on 1. July 2003 and ended on 30. June 2004. According to German commercial law, the company's legal representatives are responsible for compiling these documents. Our assignment is to make a judgement about the annual accounts (including the bookkeeping records) and the consolidated annual accounts prepared by the company and its management report about the situation of the company and the Group on the basis of the audit we have completed.

We have made our audit of the annual accounts and Group annual accounts in accordance with § 317 of the German Commercial Code (HGB) and observing the German 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 and the Group annual accounts (in compliance with the principles of proper bookkeeping) and by the management report about the situation of the company and the Group are identified with sufficient certainty. Information about the company's and Group's business operations and their 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 control system referring to accounting rules and supporting evidence confirming the information provided in the bookkeeping records, in the annual accounts and Group annual accounts as well as in the management report about the situation of the company and the Group are checked mainly by taking random samples in the course of the audit. The audit consists of an evaluation of the accounting and consolidation principles applied, an analysis of the main elements of company management by the legal representatives and an assessment of the overall presentation of the annual accounts and the Group annual accounts as well as of the management report about the situation of 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.

We are convinced that the annual accounts and the Group annual accounts comply with the principles of proper bookkeeping and provide an accurate and true picture of the asset situation, financial position and profitability of the company and the Group. The management report about the situation of the company and the Group gives an appropriate overall description of the situation of the company and the Group and presents the possible future risks in an accurate way.

Without qualifying this report, we draw attention to the information provided by the Management Board in the management report, where it is pointed out in the secton "Risk report" 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."

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Schwankhaus
Auditor

Götze
Auditor

Ebner, Stolz, Mönning GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Potthast
Auditor

Fettke
Auditor

Hamburg, 22. October 2004

Balance sheets, profit and loss account according to IAS

and explanatory notes about major differences from annual accounts according to HGB

1. Accounting in accordance with IAS/IFRS for the first time

The IAS regulation passed by the EU Commission in July 2002 makes it mandatory for capital market-oriented companies to prepare consolidated annual accounts in accordance with international principles from 2005 onwards, provided they have issued securities for trading on a regulated market. In preparation for this, we have reconciled the Group net income and Group shareholders' equity as per 30.06.2004 to IFRS on a voluntary basis. In contrast to US GAAP, the IFRS standard system does not include reconciliation calculations. In view of this, a certificate from our auditors is not therefore provided for the reconciliation calculation of Group net income and Group shareholders' equity to IFRS.

The IASB published its first standard on 19. June 2003. International Financial Reporting Standard (IFRS) No. 1 is applicable voluntarily to financial years that begin on or after 1. January 2004. Marseille-Kliniken AG is applying IFRS 1 voluntarily earlier than required for the 2003/2004 financial year by providing the reconciliation calculation below. The current developments in the IASB work programme in the 2003/2004 financial year will be taken into account in this context. They include the "Improvement Project" completed on 18. December 2003, with the publication of 13 revised accounting standards, and the deletion of one standard as well as the publication of, for example, the IFRS 3 "Business Combination" on 31. March 2004.

2. Consolidation principles according to IAS/IFRS

It is a fundamental rule that companies which are using the International Financial Reporting Standards as the basis for their accounting for the first time are required to apply the SIC-8 interpretations from 1998. This basically involves retrospective application of the standards applicable in the relevant period in which past business transactions occurred. In the reconciliation calculations of the Marseille-Kliniken AG Group for the 2002/2003 financial year according to IAS, voluntary advantage has already been taken of the provisions of IFRS 1, which have the effect of leading to simplification of the conversion process.

3. Major differences between German commercial law (HGB) and IAS/IFRS

A number of major aspects of the accounting principles stipulated by German commercial law (HGB) differ from the IAS/IFRS rules. Application of IFRS 1 would have had the impact on shareholders' equity in the opening balance sheet as per 1. July 2002 and the Group net income for the 2002/2003 and 2003/2004 financial years that is outlined below.

Reconciliation of the shareholders' equity as per 1. July 2002 to IAS

A summary is given below of the main adjustments that would have been necessary in order to present the Group shareholders' equity in the Group opening balance sheet as per 1. July 2002 in accordance with IAS/IFRS instead of in accordance with the accounting regulations provided by German commercial law (HGB).

Group opening balance sheet as per 1. July 2002

	Note	1. July 2002 € '000
Group shareholders' equity according to HGB		**47,648**
Accounting convenience	(a)	-308
Special items with an equity portion	(b)	9,819
Participating interests in associated companies	(c)	-805
Maintenance provisions	(d)	186
Pension provisions	(e)	-786
Financial lease	(f)	-6,758
Own shares	(g)	-30
Minority interests	(h)	-1,131
Deferred taxes	(i)	520
Group shareholders' equity according to IAS		**48,355**

Certain items in the Group opening balance sheet as per 1. July 2002 were shown differently in accordance with the accounting and valuation rules of IFRS 1 than in presentation according to German commercial law (HGB). The effects of this on results in the past have been taken into account in the retained earnings and accumulated losses brought forward as per 1. July 2002.

a) The accounting convenience in accordance with § 269 of German commercial law (HGB) was formed for expenditure for the start-up and expansion of business operations. Capitalisation is not allowed under IAS rules (IAS 38.57a). This expenditure therefore has to be included in results immediately.

b) The special items with an equity portion were formed in the past for additional depreciation charges permitted under tax law in accordance with § 281 Paragraph 1 Sentence 1 of the HGB. Due to the strict separation of accounting by commercial law and tax law that is required, IAS does not allow such items to be included in the accounts.

c) By comparison with HGB, one additional company has been consolidated at equity in the IAS accounts.

d) IAS 37.63 rules out the formation of provisions for future operating losses and/or for provisions relating purely to expenditure.

e) The pension provisions have been recalculated in accordance with IAS 19 and have led to the inclusion of an appropriate adjustment due to the different assumptions about the anticipated salary increase and the turnover rate in staff entitled to pensions.

f) Another major difference between HGB and IAS/IFRS relates to the accounting of three leasing contracts about land and buildings and ten leasing contracts for inventory; according to IAS 17, these contracts fulfil the conditions of a financial lease. In contrast to presentation in the HGB accounts, the buildings leased and the inventory leased have therefore been capitalised in fixed assets, while the liabilities to the lessors have been included accordingly in liabilities.

g) IAS 1.74 stipulates that own shares may not be shown on the assets side.

h) IAS 1.66 states that the minority interests must be shown as a separate item in the balance sheet, so they do not form part of the shareholders' equity.

i) According to IAS 12, deferred tax assets and liabilities relating to effects on results expected in future due to differences between accounting and valuation principles of commercial law and IAS accounting rules must be taken into account. Deferred taxes have to be calculated at the tax rate anticipated at the time when the time differences are reversed. Calculations have therefore been made on the basis of a corporation tax rate of 25% and a reunification tax rate of 5.5%. Trade income tax is not incurred.

Reconciliation of the shareholders' equity and Group profit and loss account according to IAS/IFRS as per 30. June 2003 and 30. June 2004

A summary of all the major adjustments that would have been necessary in the 2003/2004 financial year and the previous year to reconcile the Group shareholders' equity according to German commercial law (HGB) to Group shareholders' equity according to IAS is given below.

	Note	30. June 2004 € ´000	30. June 2003 € ´000
Group shareholders' equity according to HGB		**33,036**	**50,754**
Participating interests in associated companies	(a)	0	-995
Pension provisions	(b)	-1,991	-1,572
Financial lease	(c)	-6,706	-6,810
Neutralisation/scheduled depreciation/goodwill	(f)	870	0
Deferred taxes	(g)	4,436	2,936
Effects of transfers: minority interests		-37	-870
own shares		0	-408
Group shareholders' equity according to IAS		**29,608**	**43,035**

The special items for investment subsidies and grants for fixed assets of € 43,228,000 are released in results according to the useful life of the assets funded. The effect this will have in future on increasing shareholders' equity minus the relevant tax on income amounts to € 31,827,000. The shareholders' equity plus the special items for investment subsidies and grants that increase shareholders' equity therefore amount to € 61,435,000.

	Note	2003 I 2004 € ´000	2002 I 2003 € ´000
Group net income according to HGB		**-12,882**	**8,738**
Result generated by participating interests in associated companies	(a)	995	-190
Pension expenditure	(b)	-419	-786
Financial lease	(c)	104	-52
Depreciation of the accounting convenience	(d)	0	309
Maintenance expenditure	(e)	0	-186
Neutralisation/scheduled depreciation/goodwill	(f)	870	0
Deferred taxes	(g)	1,499	518
Effects of transfers: minority interests		821	-514
Group net income/loss according to IAS		**-9,012**	**7,837**
Correction/extraordinary release of the special items with an equity portion	(h)	0	-13,258
Group net loss according to IAS		**-9,012**	**-5,421**

a) Where companies are included in the accounts as associated companies by the equity method, IAS 28.22 only allows write-downs up to a maximum of the book value of the participating interest. The posting of losses above and beyond the book value is neutralised in accordance with the IAS 28 accounting method.

b) Within the framework of the review of the valuation of the pension provisions in accordance with IAS 19, the additions to the pension provisions have been included accordingly in accordance with the IAS-based actuarial reports.

c) In addition to the leasing contracts already mentioned as per 01. July 2002, five rental contracts relating to nursing facilities at different locations have been qualified as financial leases in the 2003/2004 financial year and the previous year, taking IAS 17 into account. In contrast to presentation in the HGB accounts, the buildings rented on the basis of these rental contracts have also been capitalised in fixed assets accordingly and the liabilities to the lessors have been included accordingly in liabilities.

d) The accounting convenience was capitalised in accordance with the HGB for four financial years up to and including the 2002/2003 financial year. From the 2003/2004 financial year onwards, this item is being included in the earnings carried forward in both HGB and IAS accounts.

e) No provisions for future operating losses and/or no provisions relating purely to expenditure have been formed in the 2003/2004 financial year.

f) The "non-amortisation approach" introduced in accordance with IFRS 3 for goodwill has to be applied to all company mergers that are made from 31. March 2004 onwards. For the 2003/2004 financial year, advantage has been taken of the rule about retrospective application according to IFRS 3.85 ("Limited Retrospective Application") and scheduled depreciation according to IAS 22 (revised in 1998) has been suspended.

g) The formation of deferred taxes in accordance with IAS 12 has been based on the one hand on the effect on earnings according to IAS 17. Losses carried forward not yet used for tax purposes have on the other hand been included as deferred tax assets in accordance with IAS 12.34.

h) The extraordinary release of the special items with an equity portion was carried out for the last time in the 2003/2004 financial year. From the 2003/2004 financial year onwards, this item is being included in the earnings carried forward in both HGB and IAS accounts.

4. Group balance sheets according to IAS/IFRS as per 1. July 2003 and 30. June 2004

Under IAS/IFRS rules, all accounts receivable due within more than one year as well as all liabilities with a term of more than one year are treated as long-term items, whereas the German accounting regulations do not require consideration to be taken of the terms in the balance sheet. The balance sheet valued and structured in accordance with IAS/IFRS is as follows.

	30. June 2004 € ´000	1. July 2003 € ´000
Assets		
Long-term assets		
Intangible assets	23,279	23,026
Tangible assets	333,496	344,412
Financial assets	2,615	2,664
	359,390	**370,102**
Short-term assets		
Inventories	1,626	1,710
Trade accounts receivable	12,991	13,816
Tax reimbursement claims	3,397	2,600
Other accounts receivable and assets	20,795	32,326
Securities	101	101
Liquid funds	1,791	1,156
	40,701	**51,709**
Total assets	400,091	421,811
Shareholders' equity and liabilities		
Shareholders' equity and reserves	29,608	43,035
Minority interests / Group	37	870
Special fixed asset items	43,228	41,313
Long-term liabilities		
Long-term financial liabilities	210,370	209,228
Pension commitments	17,402	17,075
Other long-term liabilities	41,369	42,969
	269,051	**269,272**
Short-term liabilities		
Short-term financial liabilities	14,087	27,035
Trade accounts payable	10,733	9,357
Other short-term liabilities	9,141	7,650
Short-term provisions	24,116	23,279
	58,077	**67,321**
Total shareholders' equity and liabilities	400,091	421,811

Board members

The Management Board

AXEL HÖLZER
Chairman

THOMAS DOBERNIGG
(until 31. December 2003)

HANS HECKMANN

ENNIO LAVIZIANO
(from 1. January 2004)

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
(from 2. December 2003)

The scientific advisory boards

MARSEILLE-KLINIKEN AG

Dr Peter Schneider, Hennigsdorf
Chairman
Professor Dr Adelheid Kuhlmey, Berlin
Dr Lothar Lißmann, Heidelberg
Dr Rainer Neubart, Woltersdorf

KARLSRUHER-SANATORIUM-AG

Professor Dr Werner W. Wittmann,
Mannheim
Chairman
Professor Dr Friedhelm Lamprecht, Hanover
Deputy Chairman
Professor Dr Dr Jürgen Bengel, Freiburg
Professor Dr Gerner, Heidelberg
Professor Dr Dr Uwe Koch, Hamburg
Professor Dr Lüderitz, Bonn
Professor Dr Müller-Fahrnow, Berlin

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5-year summary
Group (HGB)

		03/04	02/03	01/02	00/01	99/00
Results						
Operating sales	€ m	200.1	190.0	180.9	168.1	156.2
Cost of materials	€ m	27.6	25.1	36.4	21.5	25.5
Personnel expenses	€ m	105.1	99.9	93.5	84.4	74.8
Depreciation	€ m	24.4	21.0	14.8	15.2	17.2
Net Group profit/loss for the year	€ m	-12.9	8.7	7.1	10.9	6.7
EBIT *	€ m	17.1	22.7	23.3	24.5	22.4
EBITDA *	€ m	31.4	37.2	38.1	39.7	39.6
EBITDAR *	€ m	53.4	56.7	53.9	52.9	51.4
EBIT margin *	%	8.6	11.9	12.9	14.6	14.3
RoS	%	3.7	4.5	5.6	5.0	3.5
DVFA/SG result	€ m	7.5	8.5	10.1	8.4	5.5
Gross cash flow *	€ m	17.9	26.2	24.9	25.7	20.9
Cash flow from current business operations	€ m	19.1	-6.7	3.7	10.3	-8.5
Cash flow from investment activities	€ m	-12.0	-25.8	-12.8	-11.7	-2.5
Balance sheet						
Fixed assets	€ m	328.0	336.5	324.9	326.5	329.7
Investments in tangible assets	€ m	10.1	29.9	11.7	24.7	9.1
Working capital	€ m	16.3	28.7	39.9	44.9	38.7
Investments in financial assets	€ m	1.1	0.0	0.7	0.9	4.1
Other key indicators						
Dividend	€ m	4.8	4.9	4.8	4.8	4.8
Dividend yield	%	4.8	9.0	4.3	3.5	4.7
Number of shares	Million	12.15	12.15	12.15	12.15	12.15
Market capitalisation	€ m	100.7	53.9	112.4	145.1	101.5
Return on equity **	%	11.5	10.6	11.9	9.2	6.5
Return on total capital	%	2.0	2.2	2.7	2.2	1.4
Year-end share price	€	8.29	4.44	9.25	11.35	8.35
Personnel expenses ratio	%	52.5	52.6	51.7	50.2	47.9
Adjusted cost of materials ratio	%	13.8	13.2	12.4	11.6	11.3
DVFA/SG earnings per share	€	0.62	0.70	0.83	0.69	0.45
Gross cash flow per share	€	1.47	2.16	2.05	2.12	1.72
Employees	Average number	4,380	4,122	3,795	3,470	3,186
Facilities	Number	58	57	50	48	45
Bed capacity	Number on 30.06.04	7,512	7,261	6,537	6,268	5,797
Occupancy rate ***	%	90.0	92.1	94.3	93.2	90.5

* taking DVFA/SG adjustment items into account
** DVFA result/Group shareholders' equity
*** excluding the facilities that started operation

MARSEILLE-KLINIKEN AG

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