Annual Report 2004 / 2005

Better
if we are there

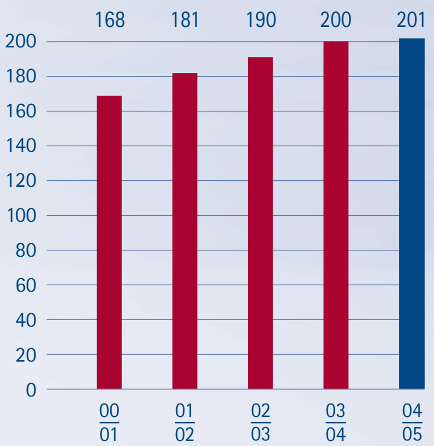
MARSEILLE-KLINIKEN AG

Main Group figures (HGB)

		04I05	03I04	Change in %	Page
Results					
Operating sales	€ m	201.4	200.1	0.6	56
EBITDAR *	€ m	57.8	53.4	8.2	60
EBITDA *	€ m	34.8	31.4	11.1	60
EBIT *	€ m	21.7	17.1	26.5	60
EBIT margin *	%	10.8	8.6	25.7	–
Net income	€ m	4.7	-12.9	–	58
RoS *	%	3.8	3.7	0.7	–
DVFA/SG result	€ m	7.6	7.5	1.3	57
Gross cash flow *	€ m	22.3	17.9	24.8	60
Balance sheet					
Fixed assets	€ m	309.4	328.0	-5.7	59
Investments	€ m	15.9	12.6	26.3	–
Shareholders' equity **	€ m	66.6	64.9	2.7	59
Equity ratio	%	18.2	17.6	3.6	59
Return on equity ***	%	11.4	11.5	-1.2	–
Financial debt	€ m	204.9	224.5	-8.7	60
Finance ratio	%	56.1	60.9	-7.9	–
Per capita sales	€ '000	57.5	57.8	-0.6	61
Other key indicators					
Total dividend	€ m	4.9	4.8	0.8	88
Dividend per share	€	0.40	0.40	0.8	11
DVFA/SG result per share	€	0.63	0.62	0.9	11
Employees	Average number	4,520	4,380	3.2	84
Facilities	Number	60	58	3.4	56
Bed capacity	Number on 30.06.05	7,573	7,512	0.8	56
Occupancy rate ****	%	87.5	90.0	-2.8	56

* 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: Dresden and Hennigsdorf

Operating sales
in € m



DVFA result
in € m

Segments

Nursing care

The nursing division is responsible for all the operations associated with nursing care for the elderly and handicapped. Residents receive personal attention and skilled nursing care in a comfortable home at 49 different facilities. Individual nursing concepts are developed to meet the specific needs of the residents.

Nursing care		04|05	03|04
Sales	€ m	150.7	147.0
DVFA result	€ m	11.2	11.5
Employees	Average number	2,407	2,277
Facilities	Number	49	47
Bed capacity	Number on 30.06.05	5,901	5,740
Nursing days	Million	1.9	1.9
Occupancy rate*	%	90.7	94.3

*excluding the facilities that started operation

Rehabilitation

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

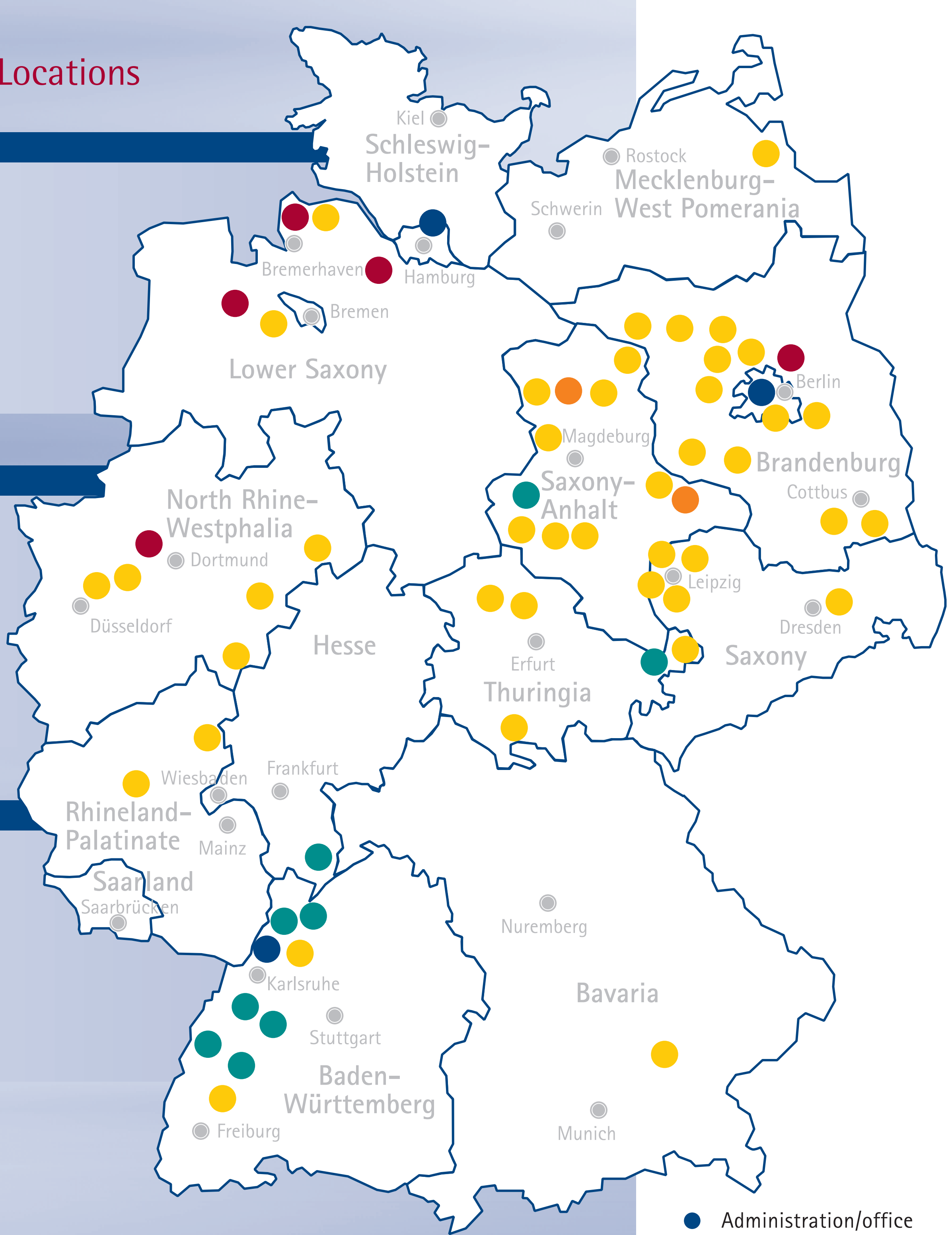
Rehabilitation		04|05	03|04
Sales	€ m	50.7	53.1
DVFA result	€ m	-3.6	-4.0
Employees	Average number	639	727
Clinics	Number	11	11
Bed capacity	Number on 30.06.05	1,672	1,772
Cases treated	'000	16.1	17.5
Occupancy rate	%	76.6	76.6

Services

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

Services		04|05	03|04
Sales	€ m	66.4	64.4
Employees	Average number	1,474	1,376

Locations



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

Contents

Better if we are there

See why – with the eyes of our customers.

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

We set standards in the nursing and rehabilitation fields with our professional skills and innovative programmes. We intend to participate to a disproportionately large extent in market growth and become the biggest operator of nursing facilities with a stock market listing. Exemplary, high-quality facilities, loyal and passionate staff as well as a clear and straightforward strategy based on the principles of social responsibility, customer orientation and economic viability guarantee us a sound future.

Highlights

The past year at a glance

The transaction of the year

GE Commercial Finance
Healthcare Financial Services

On 20. December 2004, Marseille-Kliniken AG announces the conclusion of a sale-and-leaseback transaction with a volume of € 100 million. Facilities from the company's property portfolio in the nursing segment are being sold to the US investor GE Commercial Finance, a subsidiary of General Electric, from which they are at the same time being leased back for 25 years. This means that the Marseille-Kliniken property portfolio now consists of 50% owned and 50% leased facilities. The Management Board says that another sale is planned in the medium term. The transaction with GE Commercial Finance strengthens Marseille-Kliniken's core business and creates financial scope for further expansion.

Finance Minister of Brandenburg impressed by new computer centre

The subsidiary DaTess moves from Tessenow in Mecklenburg to Pritzwalk in Brandenburg in the autumn of 2004. All the staff from Tessenow make the move too. DaTess is the central location at which all the Group's payroll and financial accounting is carried out. The Finance Minister of Brandenburg, Rainer Speer, thanks the company for creating 50 jobs in the structurally underdeveloped region of Prignitz.

Residents return home

The remodelling and modernisation exercises at the Cottbus and Belzig senior citizens' residential homes are completed. The residents, who had been accommodated elsewhere in the meantime, returned to the Cottbus facility in July 2004 and to the Belzig facility in February 2005. The first stage of the modernisation project at the Bad Langensalza senior citizens' residential home ends in December 2004. Completely new fire protection systems have been installed, eleven new shared bathrooms have been created, five shared kitchens have been redesigned with elderly and wheelchair residents in mind and 20 residents' rooms have been modernised thoroughly. The second stage of the project has begun. All the indoor and outdoor remodelling and redesign work is scheduled to be completed by 2006. The Leipzig - Am Kirschberg facility is modernised extensively from March onwards. 250 beds, 216 of them in single rooms, are finished by the end of the year.

Two new facilities

The senior citizens' residential home Am Großen Garten in Dresden is opened on 15 March 2005. The facility attracts enormous interest. 1,300 potential residents crowd the nursing facility on an initial visit. The 128 beds at the senior citizens' residential home are filled gradually rather than all at once, in line with the corporate philosophy. A timetable specifies which new resident is expected when. Then the home management staff wait at the door to receive the resident personally. The special nursing home in Hennigsdorf opens six weeks later. It is the twelfth Marseille-Kliniken home in Brandenburg. This special nursing home located in the vicinity of the Hennigsdorf senior citizens' residential home is designed to satisfy the requirements of dementia patients.

Keen interest shown by shareholders

The 105th Annual General Meeting is held in Berlin on 24 January 2005. The conference room in Ludwig-Erhard-Haus has to be extended to hold all the shareholders who attend. A good 230 shareholders and guests listen very attentively to the report presented by the Chairman of the Management Board, Axel Hölzer. The director of the public opinion research institute TNS Emnid, Klaus-Peter Schöppner, opens the meeting with a lecture about "Old age in future".

"Making old age productive"

Dr Frank Schirrmacher, one of the publishers of the FAZ national daily newspaper, is a prominent speaker at a panel discussion organised in Berlin by Marseille-Kliniken AG in March 2005. The subject of the evening: "Senior citizens as has-beens – do the elderly have a future?" Schirrmacher debates this issue with Klaus-Peter Schöppner from Emnid and Professor Dr Matthias Schönermark, a member of the Marseille-Kliniken AG Supervisory Board. They all agree: the negative attitude to old age needs to be replaced by a positive approach.

Nursing research with practical benefits

Marseille-Kliniken AG presents the prize for innovative scientific work in the area of nursing care for the elderly for the second time at the "Nursing 2005" congress from 27 to 29 January 2005. It is won for the study entitled "Moving into a home as a critical event in the lives of residents in need of nursing care and their relatives" by a task force from Jena University of Applied Sciences. The prize is worth € 7,500.

Axel Hölzer, Chairman of the Management Board

Dear shareholders and friends of the company,

If one was to believe the headlines about the state of the German health market, one would be forced to conclude that we are in a severe crisis. The debate is dominated, on the one hand, by such issues as exploding costs, cuts in benefits, budgeting exercises or increases in the premiums charged by the statutory health insurance funds. A huge increase in demand for medical services is, on the other hand, predicted as the German population gets older and older. If the situation is analysed dispassionately, it has to be emphasised first of all that Germany has a very highly developed health system by international standards. Its distinctive features are broad social coverage and a financial structure that is characterised by the solidarity principle. Judged by the criterion of the comprehensive provision of first-rate medical services, the system works effectively.

This does not mean that it is efficient too. The current debate revolves around the difficult question of how the limited financial resources can be used appropriately and economically in the face of increasing requirements so that the level of services provided in Germany can be maintained. The crucial question is: how can we make sure the system survives in future?

The standard practice up to now of entrusting health services to a strictly regulated market cannot be the answer. The health care market faces a radical change in the system applied, driven by the need for greater efficiency. The reforms initiated so far only give an indication of the direction. There are no signs of a consensus between the political parties, the service providers affected and the funding organisations.

We and you as shareholders are part of this market and consider ourselves as one of the leading private companies operating in the area of nursing care for the elderly to be committed to contributing our know-how and convictions to the debate. At an economic level, we are only being affected marginally by the inadequate attempts to reform the system made to date by the political community, however. With our core business of nursing care for the elderly, we are operating in a growing market that is largely insensitive to the economic situation and that pays for our services even when deficits grow or premiums increase. When insurance coverage and pension payments are not large enough, the public welfare authorities contribute. We are operating profitably too. We prove that the nursing care rates negotiated with the insurance funds are adequate on the condition that sensible management principles are applied.

Profitability is what distinguishes us from many providers on the nursing care market and is also what makes us confident that we will succeed in putting the growing cost and quality pressure in nursing care for the elderly to our advantage in future as well. An obvious process of change is in progress on the nursing care market. The significance of private operators is increasing and this is being accompanied by growing competition. Simply being there is no longer enough nowadays. People in need of nursing care are customers who expect to be impressed by service and quality. They demand hotel standards at nursing facilities. This sea change is determining our strategy and our market alignment. On the basis of a fixed price, we differ in having an efficient cost and quality management system, a clear brand policy and 20 years of experience in practical implementation of the branch concept in nursing care for the elderly. The lead we hold on the market is attributable not least of all to the creation of highly networked structures in the Group. The Marseille-Kliniken success story is to a large extent an IT-based story. We have reached a new level of efficiency with the establishment of a central management system, which enables the company to be controlled tightly on a day-to-day basis. The business TV system that has been introduced, which incorporates all the management staff in Group-wide decisions and solutions and which improves internal communication considerably, is unmatched in the industry due to the lack of appropriate IT facilities elsewhere.

In the past year, we initiated a large number of different projects that will be paying off in the years ahead. This is true not only of the nursing operations but also of rehabilitation, our second core business. The sale-and-leaseback contract concluded in December 2004 with the General Electric subsidiary GE Commercial Finance was a key event. The sale of seven of the properties from our portfolio has been implemented in the meantime. This transaction with GE is having a significant internal and external impact. At the internal level, we have obtained the necessary scope to concentrate on the operation of health facilities and to carry out the expansion plans in the core business of nursing care for the elderly more quickly. The financial community's response to this step was enthusiastic. The price of our share increased by more than 25% between the balance sheet dates of 30. June 2004 and 2005. We are currently in the final phase of negotiations with a foreign investor about another sale-and-leaseback transaction covering a further portfolio of facilities. The purchase price for the nine nursing homes and two rehabilitation clinics with about 1,800 beds is more than € 100 million.

Rapid progress has been made in the expansion of our capacities in the nursing operations. Two of the four new properties with a total of 800 beds were completed in the year under review. We opened the senior citizens' residential home in Dresden in March 2005 and the special nursing home in Hennigsdorf near Berlin in May. Düsseldorf and Hamburg are following in this financial year. Our most recent properties in Berlin and Potsdam represent a strategically important addition to our range. We have bought two properties at favourable conditions, the existing building structures of which we are turning into residential facilities designed to meet the requirements of elderly people and involving the provision of care services. We are offering the beds primarily to old people who are unable to assume the increasing amount of personal responsibility required in nursing care for financial reasons. We think that the provision of what are known as "two-star hotels" for assisted living and in-patient nursing care for the elderly is a significant gap in the market.

We have completed an intermediate stage in the rehabilitation division, which continues to be the weak point in our business operations. Although we are seeing positive signs on the market, the slow process of recovery is not strong enough to raise the occupancy rate at the psychosomatic clinics in particular to a level that guarantees a positive contribution to earnings on a long-term basis. Our response to the weakness of the market is a restructuring concept that includes measures to optimise personnel and non-personnel cost management. It also involves the combination of facilities and the concentration of clinic locations with low occupancy rates on special programmes for market niches. The overall clinic portfolio is sound and has a future. The restructuring exercise is creating the basis for a turnaround as soon as demand increases again. This is a positive but not decisive fact where Group earnings are concerned. The importance of the rehabilitation operations to the Group is decreasing successively. From almost 50% in the past, they account in the meantime for 25% of sales and this figure will be continuing to go down.

The difference in market conditions between the nursing and rehabilitation segments is reflected in the main Group figures for the 2004/2005 financial year. Group sales increased only slightly, but earnings were considerably higher, even though the occupancy rate with the beds available in the Group was at the same level as in the previous year. Growth is being driven by the increasing profitability of the nursing operations and the reduction in the losses made in the running-in phases at the Montabaur and Landshut facilities. The rehabilitation division made a loss and depressed all the Group figures. The asset structure has improved substantially following the transaction with General Electric. The equity ratio is now much closer to our target of 30%. All in all, we consider 2004/2005 to be a year of transition on our way into new dimensions.

The structures in the core nursing business are designed for sustained growth. The medium-term goals have been defined and are realistic. We consider the critical number of beds for us to be 12,000 and we intend to reach this target by the end of 2008. We are making good progress with the total capacity of 1,400 beds in Hamburg, Düsseldorf, Halle, Bremerhaven, Potsdam and Berlin. This means that we are

approaching the position of the biggest private provider of in-patient nursing care in Germany and are starting to attract international attention. The growth strategy is going hand in hand with an optimisation of the cost structure. The use and ongoing improvement of modern information technologies are the key to efficient, economic control and monitoring of the business processes and are therefore the basic precondition for further successful expansion. We are years ahead of the other private operators here. The stable nursing care operations will continue to be the biggest growth driver in the coming years.

The risks in the rehabilitation operations are manageable and controllable. The market is going through a process of major adaptation, at the end of which only highly qualified providers will be left. The changes in the requirements demand capital, flexibility and strategic thinking. We fulfil these criteria and are therefore confident that we will be one of the winners following the market shake-out.

Your company is developing positively in all areas and is certain to make further substantial progress in the coming years.

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 will be continuing to justify this confidence and loyalty in future as well. We thank our employees, who determine what impression the company makes with their commitment and great social and professional skills. Our thanks also go to the people who put their trust in us and our facilities as well as to the Supervisory Board, which has given us constructive and encouraging support in our decision-making processes.

Your

Axel Hölzer
Chairman of the Management Board

More than

meets the eye

The good reputation our homes enjoy
is attributable not just to a healthy, balanced diet
but also to courteous service and a convivial atmosphere
when the residents meet for their meals.

Share

Analysts agree: "attractive performance"

Focus on health care shares
Health care shares attracted greater interest from institutional investors again in a considerably better economic environment in the 2004/2005 financial year. The Marseille-Kliniken share benefitted from this to a particularly large extent. The favourable overall conditions combined with our systematic growth strategy caused the price of the share to increase significantly. In relation to the low in the summer of 2003, the share price almost tripled.

Environment
The stock markets remained positive in the 2004/2005 financial year. The DAX started the second half of 2004 at 4,035 points and climbed to 4,586.38 points by 30. June 2005. This amounted to an increase of 13.7% over the previous year.

The Marseille-Kliniken share continued its positive trend and again developed substantially better than all the indices in which the share has been included since the beginning of the financial year. The price, which started the new financial year at € 8.20, began by dropping to the low for the year of € 6.70 in line with the development of the stock market as a whole, but then recovered again quickly and hovered around the € 8.00 mark until mid-December. Following the announcement of our sale-and-leaseback transaction with General Electric, the share price rose to a new high of € 12.39 in Xetra trading in mid-April. Although it decreased slightly as the financial year went on and closed at € 10.30, this still represents a substantial increase of 25.6% over the previous year.

Inclusion in the GEX index
At the beginning of the year, Marseille-Kliniken was included in the new German Entrepreneurial Index (GEX index) established by Deutsche Börse. The GEX index includes all the owner-dominated companies that are listed in the Prime Standard at Frankfurt Stock Exchange and is therefore considered to be an indicator for the development in the stock market value of medium-sized companies. The Marseille-Kliniken share is now represented in five of the Deutsche Börse indices, which raises its profile with institutional investors additionally.

Coverage
All the analysts covering the company confirm that we are operating in a market that promises profitable growth in the coming decades. We are currently being analysed on a regular basis by four research companies. In view of the prospects and the clear growth strategy, all of them are maintaining their investment recommendation to buy the share.

Market capitalisation and trading volume
As a result of the positive development in the share price, the stock market value of Marseille-Kliniken AG increased from € 101 million to € 125 million in the year under review. The daily trading volume increased from an average of 19,600 shares per day last year to an average of 20,551 shares per day in 2004/2005. This development was observed closely by institutional investors, who require certain minimum market capitalisation and trading volume levels in their investment decisions.

Dividend of € 0.40
The Supervisory Board and Management Board of Marseille-Kliniken AG will be proposing to the Annual General Meeting on 6 December 2005 that a dividend of € 0.40 per ordinary share is paid for the 2004/2005 financial year. On the basis of the final price of € 10.30 on 30. June 2005, this amounts to a dividend yield of 3.9%.

It is a tradition for us to pay an attractive dividend. We have been paying an above-average dividend every year since our IPO in 1998. We do not see any reason to discontinue this shareholder-oriented dividend policy in future.

Investor relations
Marseille-Kliniken AG is committed to providing the financial community with detailed explanations of the current business situation and the long-term success factors. 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. We support the transparency campaign not only by maintaining a Standard & Poor's rating but also by carrying out intensive investor relations activities, which were expanded again in the last financial year. In connection with the protection of shareholders' interests, it goes without saying that we issue a statement of compliance with the German Corporate Governance Code and commission well-known auditing firms to audit our financial statements.

We increased our presence at the major financial centres even more in the 2004/2005 financial year. The Management Board represented the company at numerous events for analysts and investors and held roadshows in London, Frankfurt and Munich.

In future, we intend to gain access to further groups of investors and to intensify our dialogue with all investors. The purpose of these activities is to increase long-term confidence in our company and our share. We will be taking part in investors' conferences to a larger extent and will be represented at fairs held for investors.

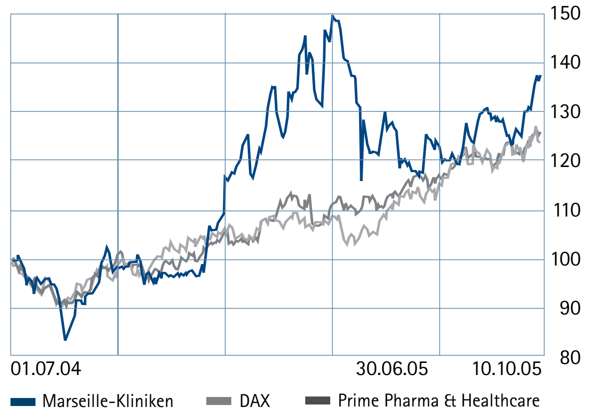
The Management Board and company directors apply the fair disclosure principle systematically. The proportion of private investors is increasing steadily. This is an encouragement to us to inform such investors promptly about current events at the company. The Internet plays a central role here. Our website www.marseille-kliniken.de provides not only detailed information about the share and the company but also facilities for downloading company presentations. The "Investor relations" section includes the presentation of events for investors as well as current assessments by analysts and their studies. In addition to

Share price development

	30.06.2005	01.07.2004	Change in %
Marseille share	€ 10.30	€ 8.20	25.6
DAX	4,586.3	4,035.0	13.7
CDAX	408.8	356.12	14.8
Prime All Share	1,742.7	1,520.9	14.6
Classic All Share	2,129.3	1,706.7	24.8
GEX*	1,272.40	1,000.0	27.2
Prime Pharma & Healthcare	1,065.7	911.2	17.0

* Previous year's figure, 30.07.2004

Marseille share price development
indexed, 01.07.2004 = 100



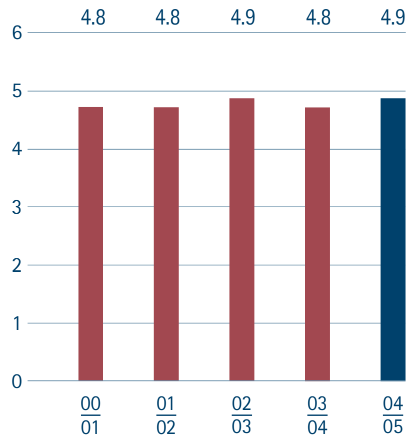
Main figures about the share

		04I05	03I04
Net income	€ m	4.7	-12.9
DVFA/SG result	€ m	7.6	7.5
Gross cash flow	€ m	22.3	17.9
Dividend per share	€	0.40	0.40
Dividend yield (net)	%	3.9	4.8
Total amount distributed (net)	€ m	4.9	4.8
Highest share price	€	12.39	9.25
Lowest share price	€	6.70	4.32
Year-end share price	€	10.30	8.34
Price-to-earnings ratio		16.5	13.9
Market capitalisation*	€ m	125.2	100.7
Number of shares	Million	12.15	12.15

* on 30.06.2005

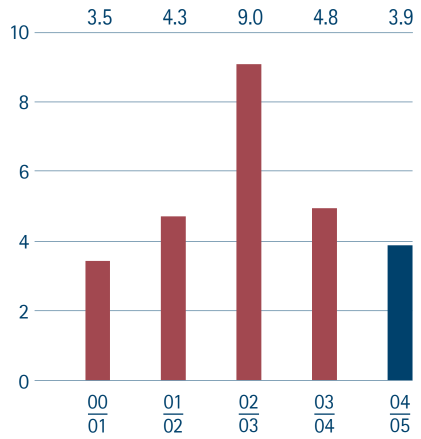
Dividend development

in € m

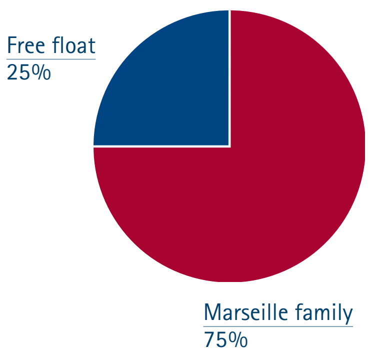


Dividend yield

in %



Shareholder structure



this, shareholders and anyone else interested in the company can obtain information about current events at Marseille-Kliniken AG directly by e-mail. They receive an extensive shareholders' report by post every quarter, which informs them about the current development of the business. We also offer shareholders who are interested a newsletter, which presents brief reports about important issues. We have set up a toll-free telephone number (0800 / 47 47 200) for questions about our company. Our investor relations team – led by the Chairman of the Management Board – can be contacted by any market players.

Share information

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

Financial calendar

for the 2005|2006 financial year

Press conference about the annual results	21.10.2005
Event for analysts Frankfurt/Main	October 2005
Report on the 1st quarter	08.11.2005
Annual General Meeting Hamburg	06.12.2005
Dividend payment	07.12.2005
Report on the 2nd quarter	08.02.2006
Event for analysts Frankfurt/Main	March 2006
Report on the 3rd quarter	09.05.2006
Annual report 2005/2006	October 2006
Report on the 1st quarter 2006/2007	08.11.2006
Annual General Meeting Hamburg	December 2006

Corporate Governance Code

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

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

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

In the compensation paid to the members of the Management Board, no use is made of stock options or similar arrangements that often lack transparency. The compensation paid to the members of the Management Board is set at an appropriate level by the Supervisory Board on the basis of a performance appraisal. One of the criteria that determine the size and appropriateness of the compensation is the overall development of the company. The Management Board and the Supervisory Board have decided to disclose the compensation received by the members of the Management Board individually for the first time for the 2005/2006 financial year. The compensation paid to the Supervisory Board is based directly on the articles of association and includes not only fixed compensation but also a variable element that is based directly on the legal regulations in § 113 of the German Companies Act (AktG).

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

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

Statement of compliance with the German Corporate Governance Code

The German Corporate Governance Code as amended on 2 June 2005 that was published by the German Ministry of Justice in the official section of the electronic federal bulletin includes a number of recommendations and suggestions in addition to legal regulations. The Management Board and the Supervisory Board of Marseille-Kliniken AG state in accordance with § 161 of the AktG that the recommendations made by the "Government Commission/German Corporate Governance Code" have been and are being observed, with the exception of the following points:

Invitation to the General Meeting, proxies

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

Co-operation between the Management Board and the Supervisory Board

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

Management Board: composition and compensation

In line with the recommendations of the Government Commission, the compensation paid to the members of the Management Board consists of fixed and variable components in the form of a tantième. The size of the tantième is linked to success targets agreed individually with each member of the Management Board. Stock options and comparable arrangements for variable compensation have not been agreed with the members of the Management Board. Since no stock option plans or comparable arrangements for variable compensation have been agreed, there is no need to provide information about the compensation system on the website or in the annual report, while the Chairman of the Supervisory Board is not required to give the General Meeting any explanations either. An individualised breakdown of the compensation into fixed and success-based components and components involving a long-term incentive in the notes to the annual accounts is planned for the first time for the 2005/2006 financial year.

Supervisory Board: tasks and responsibilities

At the present time, the Supervisory Board does not consider a fixed age limit for members of the Management Board of the company to be necessary. The members of the Management Board are appointed for a maximum period of 5 years. The Supervisory Board takes decisions about reappointments in each individual case. The age of a member of the Management Board is only one of several criteria the Supervisory Board takes into account in its decision-making process here.

Supervisory Board: formation of committees

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

Supervisory Board: composition and compensation

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

Transparency

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

Reporting

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

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

Berlin, October 2005

Marseille-Kliniken AG
The Management Board   The Supervisory Board

"We are working on the assumption that the share price will continue to develop positively"

Interview with Axel Hölzer, Chairman of the Management Board

Are you satisfied with the past financial year?

Axel Hölzer: In the last financial year, we made considerable progress in focussing our operations even more on the core nursing segment. In spite of the rehabilitation segment, we were satisfied with the overall occupancy rate of 87.5%, although we think there is potential for further optimisation of the situation here.

Another very encouraging development was the conclusion of the contract with the American investor General Electric, in which we succeeded in selling property from our portfolio for € 72 million in a sale-and-leaseback deal. The transaction is giving us greater flexibility in the implementation of our expansion plans. We will probably be able to conclude another property transaction worth more than € 100 million shortly.

When will the situation in the rehabilitation operations be improving at last?

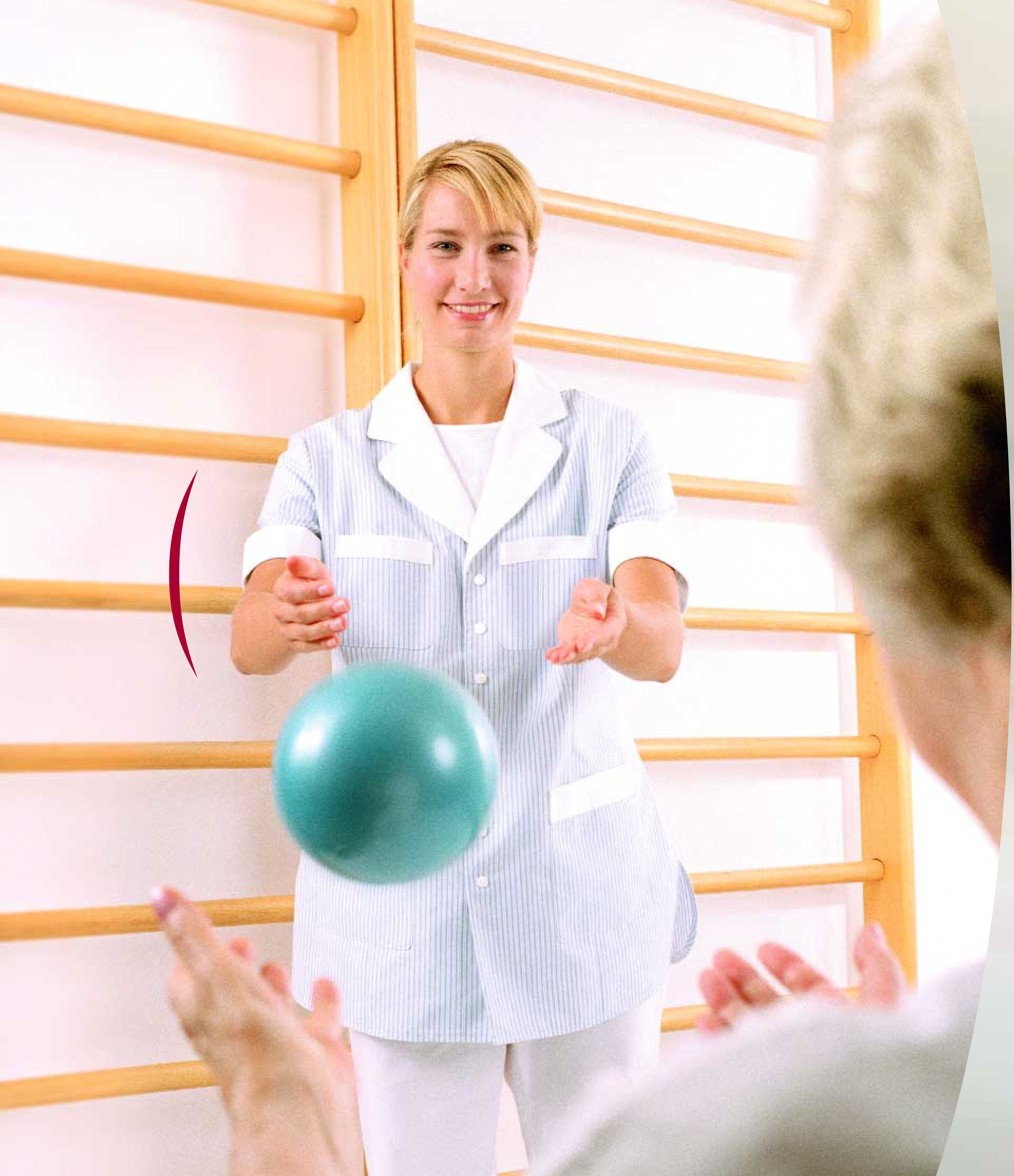
Axel Hölzer: In the process of restructuring the rehabilitation operations, we turned clinics into nursing facilities or closed them completely during the past financial year. In this division, we now only operate clinics that meet our cost and occupancy rate requirements. This means that we have created a sound basis in the costs of the rehabilitation operations that makes us more independent of fluctuations in occupancy. The development in recent quarters has already shown us that we are taking the right action. I am expecting this positive trend to continue in the new financial year.

What can the shareholders look forward to in the coming year?

Axel Hölzer: Since the beginning of 2005, more and more investors have realised that health care shares are a sound investment with growth potential. Our shareholders benefitted from a further increase in the value of our company after our transaction with General Electric was announced. In view of the positive business development that we anticipate, further steps to reduce the property portfolio and the company's traditionally shareholder-oriented dividend policy, we are working on the assumption that the share price will continue to develop positively.

What legal changes are you expecting the new German government to make and what effect will they have on the company?

Axel Hölzer: The German health system is independent of the approaches that are adopted by whatever government happens to be in power, which are characterised by regular attempts to stabilise the finances of the system by means of legal regulations. We therefore consider that changes in legislation due to a new government represent a very limited risk to our company. On the contrary: the introduction of the nursing care insurance system is seen in a positive light by all areas of society and we are excellently prepared for more market and more competition.



Remaining

focussed

Mental and physical flexibility guarantee
a high quality of life – particularly in old age.
We use appropriate exercises to train our guests and
help them to stay independent as long as possible as a result.

Market

Tremendous opportunities too – in spite of all the difficulties

Reforms so far have not solved the problems

Developments on the German health market in 2005 show that major problems have only started to be tackled by the health reform and that a solution is therefore still a long way off. The cost-cutting effect did not last long; expenditure is growing again. The approach adopted in the reform confirms the experts' warning that conventional economy measures do not represent an effective solution to the problems in the health system.

No alternative to competition

The biggest shortcoming of the legislation introduced in 2004 to modernise the statutory health insurance funds is that the reform does not focus primarily on genuine cost reductions; on the contrary, the increasing costs are merely charged differently. The burden has been borne mainly by the insured and the patients. The list of unwelcome changes is long: quarterly charge for consulting doctors at their practices, larger contributions to prescription costs, no reimbursement of travel expenses or the costs of OTC medicine, special insurance premium for dentures and sickness benefits. There are no signs that the political objective of combining the cost-cutting process with lower insurance premiums will be achieved in the near future. Since there is a trend towards decreasing financial resources in the public sector, the experts agree to a large extent that fundamental restructuring of the health system will only be possible in the long run by opening it up to more market and more competition. This is true not only of the statutory health insurance system but also of the nursing care insurance system.

The parameters that will be determining the development of the health market in future are, on the one hand, an increasingly old population and, on the other hand, the immense progress made in medical and technical research as well as the higher life expectancy associated with this. The latter has two consequences. Firstly, it has a serious effect on the financial structure because the proportion of the total population in employment – the people who fund most of the statutory health insurance system – is decreasing. Secondly, the increasingly high costs incurred in old age due to the need for more intensive medical care are leading to rising expenditure. The foreseeable explosion in health system costs cannot be avoided in the long term by more restrictions and regulations.

The health market – concentration, integration, privatisation

There are many different approaches to reformation of the health market. All of them will be affected by the three major trends:

Concentration: small, independent players in particular will be unable to satisfy the steadily increasing quality demands coupled at the same time with growing cost pressure.

Integration: cost pressure and a shortage of personnel are making it essential to find new forms of co-operation between the different sectors of the health care market.

Privatisation: the only way to eliminate the investment backlog and to guarantee sustained profitability is to introduce private company structures.

Medical advice and personal attention are becoming increasingly important to the older generation.

The health market as a whole is facing a fundamental change in the system, which will affect hospitals, nursing homes and rehabilitation clinics equally. The consequences of the current system in a highly regulated market can be seen most distinctly at the present time in the hospital market. The state regulates demand on the part of the patients by specifying treatment catalogues, while the statutory health insurance funds as the funding organisations regulate the supply side by specifying what payments are made. Prices are not yet determined by supply and demand at the present time; they are based instead on the total costs of the service providers, which are reimbursed in the form of nursing care rates per day. What this means in practice: the longer a patient stays in hospital, the better the treatment is paid. These incentives have encouraged undesirable developments for years. Health policy is countering the cost increases attributable to the system, which are not always in line with performance and requirements, by specifying maximum payments for the treatment provided. This budgeting system, which limits the total revenues for the hospital irrespective of the services actually provided, has eliminated all market incentives. Paradoxically, hospitals in great demand from patients that have a sound cost structure are affected particularly hard. Since they have exhausted their rationalisation potential to a large extent, budgets frozen at the same level for years lead to cuts in services and lower quality and thus to a loss of competitiveness. The steady increase in the gap between income, which has been restricted for twelve years, and rising costs has led in the acute field to the exhaustion of financial resources and an inability to invest. Since the public authorities are only meeting their legal commitment to make the necessary investments to a limited extent, an investment backlog of € 50 to 60 billion has built up.

Private investors are discovering medical service providers

Many operators are dependent on private investors to guarantee the long-term survival of health facilities. Interest on the part of foreign investors too in particular is growing due to the standardisation of the funding systems by the introduction in stages up to 2008 of diagnosis-related groups (DRGs), which base the payments made to hospitals on the clinical picture in each case rather than on the time patients stay there and pay specific lump sums per case to cover the treatment provided. The DRGs are an important step towards opening up the hospital market and will be leading to considerable competition between hospitals. Investors expect DRGs to make the German health market, which has been complex and static up to now, more transparent and dynamic.

The privatisation process in both the hospital market and nursing care for the elderly is being accelerated even more by the cost advantages private operators have over facilities run by public authorities and non-profit organisations. Private operators are up to 30% more efficient. In addition to this, they are not affected by the financial bottlenecks faced by the public authorities, which are delaying the necessary investments. The advantages of professionally run private facilities are being reflected to an increasing extent in the value for money that is offered. For older people, criteria such as the atmosphere of a nursing home, the impression made by and the appeal of the facility, the

Learning by playing is not a privilege that only young people enjoy; it is a principle that is put into practice successfully in ergotherapy too.

quality of the nursing personnel and the amount by which the nursing care rate charged exceeds the reimbursement made by the nursing care insurance fund are becoming increasingly important factors in their choice of in-patient facilities. The acceptance of private facilities is growing as these factors are considered more and more closely. The Terranus/Tagos Group is working on the assumption that the proportion of the market accounted for by private operators will be increasing to more than 40% in the coming years.

Health care – bigger than the car market

Demand for health services and thus health expenditure in Germany have been growing faster than economic output for years now. The health system accounts in the meantime for 11.1% of the Gross Domestic Product and this figure is likely to increase to up to 13.5% in 2020. The current volume of about € 245 billion is more than the German car industry's domestic sales. 10% of all employees work in the health care industry. Hospitals, rehabilitation clinics and nursing facilities receive about € 85 billion per year from the health budget for outpatient and in-patient treatment. About 12,000 facilities provide more than 1.5 million beds for patients and residents.

Challenges for the political community

In the debate about the approach that should be adopted in health policy, it is largely overlooked that health is a growth factor rather than a cost factor. By comparison with other industries, the health system with domestic added value of more than 90% is a particularly positive asset. So far, practically no attempts have been made by politicians to carry out reforms that strengthen the growth potential of the industry and exploit the opportunities efficiently.

The ongoing debate is focussing essentially on the funding issue. Such ideologically based concepts as what are known as "citizens' insurance" and "health premiums" are being discussed. Reforms on the supply side are of more crucial importance. Experts consider lump-sum payments per case and disease management programmes to be initial steps in the right direction. They advocate abolition of the contract monopoly held by the associations representing doctors who work in co-operation with the health insurance funds, reorganisation of hospital funding, greater integration of outpatient and in-patient treatment and liberalisation of the medicine market. There is widespread agreement about the urgent need for reforms that introduce more competition and more market orientation, which allow people to channel their demand for health services more purposefully according to their personal preferences and their willingness to pay. The introduction of individual health premiums is essential for the funding of a competition-based system.

Market for nursing care for the elderly – nature dictates dynamic development

The market for in-patient nursing care will remain a significant growth factor in the coming years. The principle of "outpatient care has precedence over in-patient care" propagated by politicians is doomed to failure due to the

process of change in German families. The provision of nursing care in the family, which used to play an important role in the socio-cultural environment, is becoming less and less common in city areas in particular, because of more and more single-person and double-income households and the general breakdown of traditional family ties. The most recent report about the elderly compiled by the German government says: "For the first time in history, nursing care has become a normal feature of the family cycle that can be expected." The strongest growth driver is the ageing process that our society is going through. It is attributable, on the one hand, to a low birth rate and, on the other hand, to people's increasing life expectancy. Whereas a boy born in 1870 had a life expectancy of 35.5 years, a boy born today will live 74.8 years on average. According to the latest forecasts, life expectancy will be increasing to 86.6 years for women and 81.1 years for men by 2050. The proportion of over 65-year-olds in society will be increasing to 30% by 2050, while the number of extremely old people (80 years or older) will be tripling from 3.2 million today to 9.1 million.

Children and a career

Women in Germany have an average of 1.37 children. 2.1 children would be necessary to keep the population figures stable. 6.7% of women born in 1935 remained childless; the figure has increased to 28.6% for those born in 1967. The problem many women face is deciding between children and a career. 40% of female university graduates already remain childless. It is inevitable that the contribution-based health system will collapse.

The impact of these ageing phenomena on the nursing systems is tremendous. According to calculations by the German institute for economic research in Berlin (DIW), the number of people requiring nursing care will be increasing to 2.9 million by 2020. This represents growth of about 50% over 1999. The DIW anticipates a further increase of 1.8 million people by 2050. Only about 7% of the elderly live in homes and special flats for the elderly at present. By 2050, the number of people in need of in-patient care will be rising from 640,000 today to 1.57 million home residents. These figures represent an extremely serious risk factor for the nursing systems, but they offer new opportunities for jobs in nursing professions at the same time. About half a million additional jobs could be created in nursing care for the elderly by 2050. Demographic developments are making it essential that supply is increased substantially. According to comments by the German government about the situation of the older generation and a study by Ernst & Young, another 300,000 nursing beds will be needed by 2020. About 250,000 more beds will be required in connection with the adaptation of the existing supply to people's increasingly exacting demands. Many nursing homes are outdated as far as their residential/functional rooms are concerned. Neither room size nor room furnishing are in line with modern-day market requirements. Homes that are too small and temporary arrangements that are tolerated for years make it difficult to run them on a sustainable economic basis. Supply in the in-patient field with the focus on caring for dementia patients fails to meet the growing requirements.

These factors add up to total investments of about € 50 billion that the states and local authorities cannot afford. The competition in the form of privately organised companies will be taking this opportunity. Nursing care for the elderly is a profitable business with efficient management and high quality. We estimate that the number of private beds will be increasing to more than 800,000 by 2050. This means that the private market will be entering dimensions of € 70 to 80 billion. This expansion by private operators is being stimulated in addition by people's growing self-confidence and the change in their health expectations, which the state is encouraging by introducing more demanding regulations about nursing quality. The legally stipulated implementation of a quality management system backed by integrated software solutions will lead to considerable distinctions on the market. Effective facility management and an optimised residential/functional room programme are becoming competitive parameters in nursing care for the elderly. There is no stopping this process. Whether they are operated by local authorities, non-profit organisations or private companies, facilities that are not economically viable will shut down or be taken over by competitors.

Nursing care insurance – better than its reputation

The nursing care insurance system that was introduced ten years ago is considered by many to be a symbol of the insatiable social security system. Some claim sarcastically that it is a programme designed to protect heirs. The situation is different in practice. The state welfare authorities pay what is not covered by pension income and nursing care insurance funds. The local authorities try to recover the money later on from the heirs. In Bochum, the city demanded € 60,000 from a woman who was supposed to pay the home costs incurred by her mother and to mortgage her house for this purpose. The case went all the way to the German Constitutional Court before a stop was put to this. According to the landmark judgement of 7 June 2005 (reference no. 1BvR 1508/96), children must be left with sufficient resources "to support themselves appropriately". Assets such as a private house, household effects, building society contracts and credit balances for provision in old-age as well as first-degree relatives who are pregnant or look after a child up to six years old are excluded as a result.

Private clinic chains on the advance

Private clinic chains hold a market share of 7%. It is increasing steadily. 17 hospitals with about 8,000 beds were privatised in 2004 alone. Growth to 20% is expected in the medium term. Germany is the biggest European hospital market with about 2,200 clinics.

For all its shortcomings, the nursing care insurance model is the most progressive solution anywhere in Europe, because it guarantees the same treatment for everyone who needs it. Before it was introduced, 80% of patients had to apply to the social welfare authorities for help in the payment of nursing costs. The figure today is only 20%. The resources are being deployed more efficiently than in the past, because the funding organisations are more careful about how they are used than the social welfare authorities. The same is true of the insurance companies, because they pay the costs of services provided at the homes that are not associated with nursing care and consider themselves to be paying customers. The model has reduced the differences in the way private operators and public authorities or non-profit organisations are treated.

It was an honourable intention to create a "new support culture", but implementation of it has proved to be unviable. The nursing care insurance system, which has been running at a loss since 1999, needs to be reformed fundamentally. The new surcharge of 0.25 percentage points for childless members will only bring temporary relief and is no substitute for vital changes. The deficit in 2004 reached € 823 million. The financial reserves decreased from € 4.2 billion to € 3.4 billion and correspond to the expenditure of only 2.3 months. They are likely to be exhausted in 2008 at the latest.

The most serious flaw in the system is the elimination of market mechanisms to a very large extent. The decisions that have already been taken or are planned are pointing in the wrong direction. Restructuring needs to focus on the expenditure and not the income. There is not a lack of money; the money available is not being distributed appropriately. Half of the nursing costs are paid irrespective of quality and performance. More competition could lead to a system with different quality standards, similar to two- to five-star hotels. The precondition for this is the removal of board and lodging prices from the nursing care rates, leaving them up to the operators themselves. The customer himself is responsible for these two items, which go beyond nursing care itself. This is in line with what he has experienced throughout his life. There is immense potential for cutting personnel costs. They account for 70% of total expenditure at facilities run by public authorities, 60% at facilities run by non-profit organisations and only 50% at privately-run facilities. The collective agreement for federal employees (BAT), which does not link payment to performance and does not include any working time arrangements, is an extreme cost-driver. Obvious changes are also possible in home legislation, according to which at least half the personnel has to consist of skilled staff.

Empirical investigations on the basis of complete, electronic work documentation demonstrate that an average of 42% skilled staff is sufficient, while everything else can be done by less expensive semi-skilled employees. An appropriate change in the percentage of skilled staff required on the basis of qualified evidence would save costs and reduce the gap in personnel requirements for the new facilities that need to be established. Many semi-skilled employees have been in the profession for years and are just as highly qualified as fully trained nursing staff. An untrained waiter is allowed to call himself a trained waiter after five years' professional experience and a three-month training course. Similar opportunities for career development in the nursing care market would eliminate the shortage of skilled staff and enable experienced staff without the official qualifications to earn a better income.

Lack of patients on the rehabilitation market

In contrast to the nursing market, the rehabilitation market is affected by economic fluctuations and the pressure to economise in the health system. Patients who feel uncertain because of the overall economic conditions either postpone treatment or keep it as short as possible. The health insurance funds are applying stricter standards in their reimbursement of costs too. Anyone who receives approval for payment of rehabilitation measures nowadays is considerably more ill than was the case a few years ago. Psychosomatic rehabilitation, e.g. for the treatment of eating disorders, traumatic experiences or addictions, is being hit particularly hard by the more restrictive reimbursement rules. The prospects are better in the case of follow-up treatment after serious illnesses and complicated operations.

The stricter policy adopted by the insurance companies in approving payment is in stark contrast to the steadily increasing need for rehabilitation treatment for medical reasons. Rehabilitation continues to be an important element in the medical system, even if treatment in some areas is becoming less important as medical progress is made. This is particularly the case where cardiology is concerned. DRGs are of crucial importance for the future of the market. The lump-sum payment system in the acute field will shorten hospital stays and lead to correspondingly long courses of follow-up treatment. Average stays already dropped to less than nine days for the first time in 2003. There will in general be a shift in patient days from acute hospitals to rehabilitation clinics. The clinics specialising in follow-up somatic treatment will benefit from this to a particularly large extent.

The rehabilitation market is going through a process of qualitative change at the same time. The services required in future will increase the need for high-quality treatment facilities that have an established internal quality management system. Facilities with unfavourable cost structures or smaller and medium-sized suppliers will not be able to stand the cost and performance pressure in the long term. A shake-out has already begun in the acute hospital field. In the rehabilitation market, a development will be repeated that already occurred before between 1996 and 1998 after the Seehofer reform. The consolidation process will lead to increasing occupancy rates for the surviving players, who have adapted their programmes to the new requirements made by the market and who demonstrate that they are efficient co-operation partners for the acute clinics.

Looking ahead

We are benefitting from our many years of experience and clear strategic objectives in our process of becoming the biggest operator of nursing facilities with a stock market listing.

Strategy

Leasing of new properties continues to have top priority

Aiming for market and cost leadership

Marseille-Kliniken is one of the leading private operators of health facilities. We provide in-patient services in the areas of nursing care for the elderly and rehabilitation. Our activities do not include acute treatment. In-patient nursing care for the elderly is our core business. Our growth strategy concentrates on these operations. We aim to become market and cost leader in this important segment of the health care market.

Sound basis and purposeful action

Our market position is excellent. We have 49 facilities that provide nursing care for the elderly and satisfy people's requirements for residential comfort and nursing care. Staff with impressive professional and social skills work at them. The corporate identity and culture are based on the principles of customer orientation, economic viability and social responsibility. The purpose of the strategy is to generate sustained growth. Decisions are not taken in a hectic atmosphere. Our main aims include the development of economies of scale but not growth at all costs. The long-term improvement of earnings and payment flows is more important.

Ambitious targets in nursing care for the elderly

We intend to grow our business in the provision of nursing care for the elderly to a size that makes us an international player and the biggest private provider of in-patient nursing care in Germany. 12,000 beds are the critical number for us. This is where the marginal costs correspond to the average costs and no further economies of scale can be achieved. With more than 8,000 beds (including our capacities in the rehabilitation division), we are already operating in an area where the marginal benefit curve of additional beds no longer climbs steeply. The achievement of economies of scale in the overheads and service costs is therefore playing an increasingly important role.

We are adopting three alternative approaches in the expansion of our facilities that provide nursing care for the elderly. The AMARITA concept makes an important contribution within the framework of this strategy. It combines high residential standards with the latest findings of gerontological research and is the first standardised, high-quality product in nursing care for the elderly. Adaptation of the basic standard to different special concepts makes it possible to replace fixed charges by differentiated prices in the context of the service and quality agreements that have been introduced in new legislation. They involve concepts for integrated dementia patient care which represent a significant improvement in the quality of the services provided – for the benefit of the people affected and their relatives. Our new facility in Hamburg with 336 beds, which will be coming into operation by the end of the year, is based on this principle.

The leasing of new properties has top priority in the current expansion phase. There are two reasons why this option is important for us. Firstly, it gives us access to good locations in inner-city areas, where we cannot implement the internally-financed AMARITA concept due to a lack of space. We need sites of 7,000 to 8,000 m^2 for our AMARITA homes, which cannot be financed in inner-city areas in most cases when our profitability targets are taken into account. We liaise with professional project developers and investors to review the locations for new building projects according to clearly defined criteria. We know the location, the social environment, the requirements, the purchasing power in the region and the job market. We specify standards for the building modules. The second major advantage for us is that this road to expansion does not commit any of our own resources. We think that there is further scope for growth primarily in the states of what used to be West Germany. High, financially sound demand there has to make do with supply that to a large extent does not satisfy the increasingly exacting demands. The facilities in Hamburg (opening at the end of 2005) and Düsseldorf (opening in 2006) are examples here.

The new facilities in Hennigsdorf and Dresden were immediately received well on the market.

In the context of our focus on nursing care for the elderly as our core business operations, the optimisation and adaptation of our service range to the developments on the market for nursing care for the elderly also have very high priority. In the recent past, the demands made by our potential customers in this sector have changed decisively, not only because of differences in the development of purchasing power among the German population but also because of people's determination to maintain the standard of living they have achieved. In the meantime, some of the demand reflects the desire to combine largely independent living for comparatively low rent with the need for intensive ongoing nursing care.

In order to meet these requirements, a comprehensive concept is needed to concentrate such customers at one location, so that appropriate, economically viable structures are provided. The essential basis for this is an attractive building complex with at least 100 residential units consisting mainly of single-room flats with a living area of between 20 and 35 m^2 that can be made available at an appealing location in larger towns/cities for a basic rental price that is in line with market rates in the low-price segment. For this concept to be implemented, these building complexes should have appropriate shared and functional areas that make it possible to include spacious dining rooms, treatment rooms and administration facilities. Taking into consideration the aim that outpatient nursing services can be based in these building complexes, which are available round the clock and also guarantee such relevant services as caretaking, assistance with day-to-day living and leisure activities, i.e. to all practical purposes the standard services provided in in-patient nursing care for the elderly at our senior citizens' residential homes too.

We have obtained about 750 flats at locations in Halle (Saxony-Anhalt) and Potsdam (Brandenburg). On 1 July, we took over responsibility for the provision of outpatient nursing services for 600 residential units in three blocks of flats in Halle, which have already been operating on the market successfully for several years now. In Potsdam, we have bought a suitable property for a reasonable price and will be entering the market with it in 2007 after it has been remodelled.

Finally, we are aiming to achieve external growth too. We adopt a selective approach in taking over existing properties. We are only interested in properties that meet the quality and profitability requirements of the division and do not involve cross-subsidies. We estimate that 2,000 to 3,000 of the roughly 8,700 facilities in Germany have more than 100 beds and require turnaround management. These facilities represent takeover candidates of interest to us for two reasons. On the one hand, they have an economically viable size with more than 100 beds and, on the other hand, only the book values and no future profits have to be paid as the purchase price. Our change management guarantees the achievement of a sustained turnaround and attractive long-term margins in only one year.

Focussed brand policy

Our goal is to establish Marseille-Kliniken as an unmistakable brand on the nursing care market. Customers and funding organisations are supposed to associate the Marseille-Kliniken name with specific success factors: closeness to the market, product profile, quality, flexibility, customer orientation and economic viability. Information that well-known public opinion research institutes obtain from customers on our behalf is incorporated in our plans for the future. As an integrated approach for customer identification, acquisition and loyalty, we have introduced a customer relationship management system (CRM) that enables us to understand the value of every single customer and to treat the different customers individually. It gives the customer the feeling that he is communicating with a single, consistent company and guarantees prompt, transparent information via a call centre, the Internet, post, fax or personal contacts.

The systematic marketing strategy for the nursing division is reflected in an innovative business model. We are a leading player in the introduction of integrated care concepts for dementia patients and the development of nursing clinics that combine nursing services and medical assistance at the same location. We are adding several upmarket rooms or complete deluxe sections to existing and new senior citizens' residential homes that exceed the high standards provided at our facilities anyway and offer a relevant clientele special flair. We cover more inexpensive segments too, on the other hand. This breakdown into different segments is a practical expression of our plan to introduce hotel standards at the senior citizens' residential homes. We think that in the medium term, there will be homes for the elderly in hotel-type categories from two to five stars. At our in-house training centre CASA, we hold courses based on the service guidelines applied in the international hotel business, at which staff are given professional instruction about service and customer orientation issues.

Experienced partners for the expansion programme

The firm plan to increase our capacities to about 12,000 beds makes it necessary for us to have the ability to provide intermediate funding for facilities that are being planned or built, if and when this is necessary. An improvement in the current balance sheet structure is essential to give us the financial flexibility we need in this context. In addition to the operating cash flow, a reduction in the capital employed in the business operations is a major source of funds for repayment of the debts associated with the structure of our property portfolio. One way we are achieving this reduction is by making it a fundamental rule to lease new properties. We are developing the most important of the facilities we are currently building in Hamburg and Düsseldorf with investors. The same is true of the senior citizens' residential home that was opened in Dresden in the year under review; with the exception of a share of our own that is necessary, the special nursing home in Hennigsdorf near Berlin has been implemented with subsidies. The other way to eliminate debt is to sell properties in our own portfolio to investors. There are historical reasons why the portfolio is dominated by properties we own. At the time when the company was established, it was standard practice for large operators to own social properties too. The fundamental change that we intend to make to this structure is right in line with our strategy, which focusses strictly on the management and operation of health facilities.

A milestone was reached in the property field in 2004/2005. We sold seven properties from the portfolio of the nursing division with a total of about 925 beds to the US investor GE Commercial Finance and leased them back for 25 years at the same time. The transaction with a volume of € 62 million has two effects. On the one hand, the deal is helping to reduce debt substantially, while it also enables the balance sheet to be improved, increases the equity ratio and creates greater financial scope for expansion in the nursing division. On the other hand, it is sending a message to the social property market. The growth potential of the German nursing care market that we have always emphasised has now been recognised by professional foreign investors too. General Electric is the biggest company in the world by market capitalisation and is a well-known investor. Our contract partners, General Electric Healthcare Financial Services and GE Real Estate, have already invested billions in the health market. The fact that GE Healthcare acquired a portfolio from our company in its first transaction in Europe is a distinction. We are

registering increasing interest in our company. We are currently reviewing the potential for another sale-and-leaseback deal with several foreign investors.

Increase in profitability

High profitability in the nursing operations is a crucial factor that distinguishes us from the competition in the industry. We are setting the trend with our internal structure and our IT networking. This structure puts us in a position to implement the branch concept in nursing care fully effectively. We have replaced the regional middle management level by a centralised management organisation that controls the individual facilities on a precise day-to-day basis. The investments of more than € 20 million in the IT field in recent years were the key to this. Alongside SAP – the leading system – decentralised systems are available at the individual facilities that provide all the data needed for control purposes every day via a data warehouse process and report deviations from specified targets electronically. This is the only way to optimise occupancy and costs on an ongoing basis and thus to guarantee profitability.

The substantial improvement in communication within the company – helped by an internal business TV system – and greater flexibility are raising efficiency to a new level. Our staff at all the facilities are informed about new developments in weekly TV programmes. According to interviews with our employees, this is having a very positive impact on practical implementation of the corporate philosophy.

At the beginning of 2005, we introduced an intranet order workflow system (IBW) throughout the Group, via which all the orders placed within the Group are processed. We save time and increase transparency by recording the entire ordering procedure electronically right from the start. We are expecting this to lead to considerable further savings that will already be reflected in the current financial year.

The pre-opening management system that we have developed enables us to integrate new facilities in the Group promptly and with long-term success. We back the structured quality management processes for the Group at the system level by software solutions for nursing care and human resources management. The nursing management program SENATOR 4, which is supported by SAP R/3, is the basis for economically efficient management of all the facilities. The integrated personnel software PEPone developed with our partner Lufthansa Systems guarantees complete staff deployment planning, time recording and time management. With this software, we can manage personnel deployment accurately on a shift-by-shift basis, taking staff turnover and nursing care intensity level distribution into account.

Visions

Not every corporate boss believes in visions. When he took charge of IBM, Lou Gerstner said: "A vision is the last thing IBM needs now."

People are the priority

Nursing assignments are complex and require extensive, in-depth qualifications. Professional nursing know-how is the basic precondition for meeting the legal requirements. The rapid changes and growth in our understanding of how to provide effective nursing care to the elderly necessitate advanced training, specialisation of skills and additional qualifications too. Future-oriented personnel development is one of our most important strategic assignments. It makes nursing care for the elderly a more attractive profession and makes sure the qualified staff that are needed are available. We provide our employees with regular training at CASA, our Group training centre for hotel and social professions, by holding both standardised and customised courses. We made a major advance in the year under review. We changed the structure of the CASA training centre by introducing e-learning, in order to guarantee that the necessary CASA training programmes reach all the Group's staff. The new medium is making it possible to get essential basic information to all the staff at many different locations not only more quickly and inexpensively than in the past but also in a sustainable and controllable way.

Focus on healing

We help patients to recover
their physical and emotional strength
at our rehabilitation clinics.
This is a tremendous responsibility.
Our goal is always to exceed the expectations.

Nursing care for the elderly

We are expanding our range to fit everyone's purse

From two-star hotels to five-star hotels

People age. Nursing care for the elderly is a complex and deeply compassionate assignment. What it involves is improving rather than just maintaining a physical condition. It used to be the case that old people were shut away in homes. The aim nowadays is make the final stage of life easier for people in need of nursing care and to enable them to enjoy their independence in pleasant surroundings for as long as possible. The nursing facilities operated by Marseille-Kliniken satisfy the requirements of elderly residents and the demands of modern health care. We started life as a small provider of nursing care for the elderly and now we operate a chain of senior citizens' residential homes with hotel standards.

A wide range of services

The programmes offered by our facilities are based strategically on the requirements: depending on the location, we offer different nursing and service concepts. Our focus is on full-time in-patient nursing care for the elderly and we apply the principle of comprehensive activation: as much independence as possible, as much assistance as necessary. The services provided range from general care to intensive nursing. At many facilities, we have integrated specially equipped residential units to implement individual nursing concepts for such conditions as dementia/Alzheimer's disease and multiple sclerosis as well as for coma treatment and palliative care. The forms the programmes take include full-time in-patient care, holiday and short-term care, daytime care and outpatient care. We are devoting increasing attention to the "assisted living" segment, which is becoming more and more important since people from all levels of society are living longer. At all the facilities, we combine individual care with leisure activities that take account of the differences in the residents' abilities.

Firmly established in eastern and western Germany

We are benefitting from the increasing quality and cost pressure in nursing care for the elderly, because we have the right growth strategy and fulfil the criteria of customer orientation, economic viability and high social skills. We have an advantage in the states of what used to be West Germany, because we offer high quality and value for money that a large proportion of the competition cannot match and thus fit in with the purchasing power that is available and the more exacting demands made by potential home residents. In what used to be East Germany, the subsidies that help to fund our facilities reduce the proportion of the nursing care rates accounted for by rent, so that it is possible to provide high-quality services in structurally underdeveloped and low-income regions too.

High consumption by senior citizens

Households with main income earners between 65 and 70 years old and from 70 to 80 years old had the highest consumption levels of all age groups at 82% of their discretionary income. On average, all private households spend only 75% of their income on consumption. (Official German statistical authorities.)

"Our level of organisational sophistication is exemplary"

Interview with Ennio Laviziano, Nursing Division Director

How will the nursing market be developing in the next few years?

Ennio Laviziano: The nursing market is being influenced by different trends that will be continuing in the next few years too. The proportion of the German population that is over 60 and over 80 will, on the one hand, be increasing sharply, so that demand for nursing services in Germany will be growing substantially. On the other hand, the health system, the social security system and public budgets have reached their financial limits. Private capital is being invested in the nursing market to a greater and greater extent in order to satisfy demand.

Competition is intensifying all the time. Consumers are becoming more and more price-sensitive and economically minded in the nursing field too. As a result of the development in the net disposable income that many people in Germany have available, the trend to nursing care at home is growing. Due to the general economic conditions in Germany, it can be expected that the players on the nursing market will be successful who provide good value for money in supplying high-quality nursing services.

Will you be offering alternative forms of residential living too?

Ennio Laviziano: In response to the increasing competition, Marseille-Kliniken AG will be supplementing its range of full-time in-patient nursing capacities where synergy benefits can be expected. Programmes in the areas of daytime care and assisted living are to be expanded in this context. Thinking is also being done about concepts that lead to the development of earlier ties – i.e. customer loyalty – between potential future residents and the facility.

You have replaced the decentralised organisational structures by a central management system. What are you hoping to achieve by taking this step?

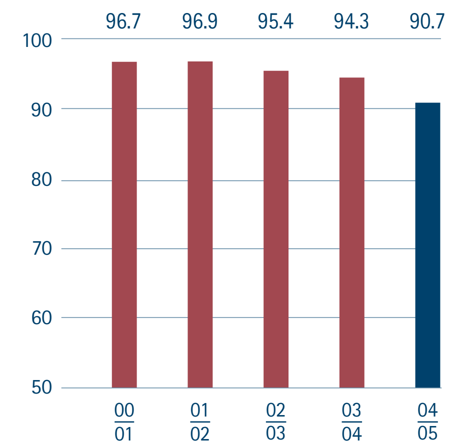
Ennio Laviziano: The purpose of introducing the central management system is to strengthen the links between the facilities and the corporate headquarters. Short and direct information channels and chains of command, backed by such efficient IT systems as SENATOR, PEPone, IBW, SAP and Information Warehouse, are the main objective. Additional organisational synergy benefits are being achieved by this new communication structure. The major economic goals are ongoing optimisation of the occupancy rate at the facilities and the joint development of strategies for long-term revenue and cost optimisation.

In order to support the facilities in marketing and sales activities, the customer service centre has been established as the central Marseille-Kliniken AG call centre to give potential customers initial information about the company and individual facilities via toll-free telephone numbers and to enable contact to be established with the facilities. This instrument is to be used to optimise and standardise the company's external image and to establish a corporate identity.

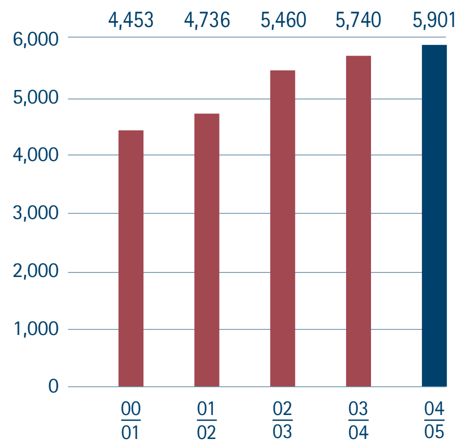
Where does Marseille-Kliniken AG have a competitive edge over its rivals?

Ennio Laviziano: In the course of the last 20 years, Marseille-Kliniken AG has created a chain of 50 nursing facilities with a level of organisational sophistication that is exemplary in the industry. Maximum-quality nursing, nursing planning and nursing documentation are achieved with system support. Uniform standards in all areas of basic care and housekeeping guarantee consistently high service quality. The overwhelming majority of the locations are in very attractive surroundings that offer the residents close contact with nature (in the form of parks and gardens). Many of the locations are in town and city centres too, so that numerous cultural activities can be enjoyed.

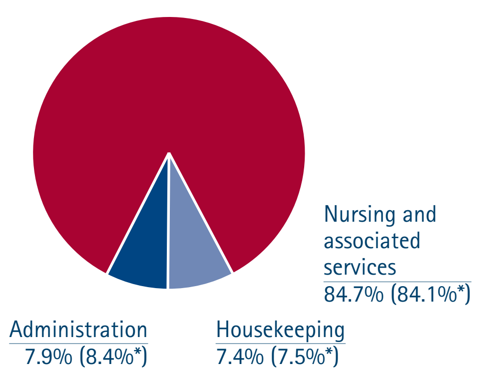
Occupancy rate
in % excluding the facilities that started operation



Bed capacity
Number on 30.06.2005



Number of employees



* Figure in the previous year

The Group's flagship is Astor Park in Langen near Bremen. The senior citizens' residential and leisure facility with 116 spacious flats for assisted living and 28 nursing beds is situated in the heart of a Japanese garden with a teahouse. The facility also includes a restaurant as well as outdoor and indoor swimming pools with a sauna and a solarium.

The AMARITA concept is a response to the future market requirements. The AMARITA facilities are eminently suitable for the concepts of "integrated care" that we have developed. Since they are built in the form of an atrium, life is not lived in the facility alone; it is also possible to experience the seasons in a protected outdoor area. The integration concepts improve quality significantly, but also have an important economic effect. The innovative alignment of our nursing facilities with the existing and growing need for the provision of nursing care to dementia patients guarantees the occupancy and thus the economic viability of the AMARITA homes.

The special nursing home in Hennigsdorf near Berlin, which was opened in May this year, is a model project. It is devoted in a particular way to the provision of intensive care and assistance to people suffering from the special condition of Alzheimer's disease/dementia. The facility is designed to look after dementia patients as far as both the buildings themselves and the underlying concept are concerned. The special nursing home adds a facility for this specific market segment to the range of full-time in-patient nursing beds that we already provide at the Hennigsdorf location. At the end of this year, we will be implementing the AMARITA concept in a city for the first time. The biggest privately operated senior citizens' nursing home in the city – with 336 beds – is currently being created in Hamburg.

We have entered virgin territory in the nursing market with the nursing clinic concept. Medical assistance provided at our facilities by doctors who are based there gives a greater feeling of security and improves the residents' quality of life as a result. It also reduces hospital admissions to the medically essential minimum, which are very often associated with emotional stress. The success that has been achieved with the concept following its introduction at selected facilities is encouraging us to conclude co-operation agreements with local doctors for other senior citizens' residential homes too.

Regular exercises to encourage motor skills under medical supervision are a standard feature of modern nursing care based on the activation principle.

Our latest projects in Berlin and Potsdam represent a strategically important addition to our range. We are remodelling the existing buildings of these two properties to meet "two-star hotel" standards. While we will be offering the first "two-star nursing home" in Berlin-Kreuzberg, "assisted living" will be provided in Potsdam. At this "two-star hotel" facility, we will be giving basic assistance in the form of advice, information and an emergency system, optional meal and cleaning services as well as outpatient nursing care where this is needed. Since 1 July this year, we have been looking after elderly people who are mainly in nursing care category one as an outpatient service provider in three building complexes in Halle with a total of 756 beds. This service programme is in line with elderly people's desire for as much independence as possible in their own homes coupled with the reassurance of knowing that they can obtain qualified assistance quickly as and when necessary.

Central management

The structure of the nursing division was optimised decisively in the year under review. We replaced the previous system of regional managers by a central management structure that supervises the facilities comprehensively and is available 24 hours a day. The division of the nursing operations into an eastern and western German structure was eliminated in this reorganisation exercise too. The main objective of the central management structure is optimisation of the current and future occupancy situation as well as the development of strategies that guarantee stable long-term cost and revenue positions. The concept, which was introduced for the nursing division in an initial phase in March 2005, is to be integrated in the rehabilitation division as well at the beginning of the 2005/2006 financial year.

The purpose of the central management organisation is, on the one hand, to act as a contact for all areas of the facilities' operations. It has the assignment to find solutions to problems as quickly as possible in co-operation with the relevant individual departments. It is also required, on the other hand, to inform the Management Board at short notice about the current situation at the facilities, to take the initiative in exposing weak points in all areas of the facilities' operations and to take prompt decisions and concerted countermeasures. An efficient team of experts pools know-how from the human resources, nursing care rates, finance and quality fields. By comparison with the previous structure, this means a substantial improvement in communication and co-ordinated control of the facilities. Personnel costs are controlled via deployment planning on a day-to-day basis and deployment plan controls. Informative quality indicators are developed from the complaint management function, as well as from interviews with residents and their relatives. Standardised and automated reports from the facilities enable acquisition programmes to be controlled. The synergy benefits that we achieve thanks to short information channels and decision-making processes are based on the IT systems that have been installed for years and were developed within the Group to some extent, such as SAP R/3, Business Objects, Information Warehouse, SENATOR, PEPone and the intranet ordering system.

Always there for customers

The central control of our facilities is backed by a professional customer relationship management system (CRM) that acts as an integrated function to promote customer identification, acquisition and loyalty. We administer interaction with customers via various communication channels: a call centre (infoline), the Internet and e-mail, telephone, fax and personal contacts. Toll-free telephone numbers have been connected to the customer service centre that are divided up into different categories: senior citizens' residential homes, Medina, AMARITA, rehabilitation, Marseille-Kliniken AG and CASA. Studies prove that companies with satisfied and loyal customers have higher brand value and incur lower customer acquisition and loyalty costs. The CRM system provides important data for optimising the strategy by means of regular tests, evaluations and feedback.

New locations – new standards

Further progress in the capacity expansion programme was made in the year under review. The opening of two new senior citizens' residential homes is helping us to reach the target of increasing the number of beds to the critical number of 12,000 by 2008. In mid-March 2005, we opened the 49th senior citizens' residential home in Dresden – Am Großen Garten with a separate section for dementia patients. The facility has 108 single rooms and ten double rooms on three floors, with a total of seven shared areas indoors and in the adjacent garden. Advance reservations were unusually high at 80%.

The special nursing home in Hennigsdorf received subsidies from the state and national governments in accordance with article 52 of the German Nursing Care Insurance Act and has 110 nursing beds. The subsidies are making it possible for us to provide higher-quality services at practically the same price level and to maintain a crucial competitive edge. The strategic concentration on the special area of dementia patients and the higher rates paid for the provision of special nursing care as a result make sure to a large extent that there is no direct competition with the facility that already exists in Hennigsdorf. The number of competitors for this specific clientele is very limited.

Modernisation of the senior citizens' residential homes in Cottbus and Belzig has been completed. In Cottbus, the residents returned from their accommodation elsewhere in July 2004 following a comprehensive modernisation project that took one year. They now live in a facility with contemporary equipment and furnishings. The residents of the old senior citizens' residential home in Belzig spent two years at a different location specially rented for this purpose. They moved back in February 2005 when they took over the 80 modern new nursing beds. The first stage of the renovation and expansion project at the senior citizens' residential home in Bad Langensalza has been completed. The second stage started in the summer of 2005 and involves modernisation of the residents' rooms, including an increase in their size.

Milestones in the development of new locations will be reached in the 2005/2006 financial year. We will be opening the Group's new flagship in the centre of Hamburg in December. It is being built to high AMARITA standards in the form of an atrium and will have 336 beds (298 single rooms and 19 double rooms) on four floors in eight residential sections and a total of nine shared living areas. The top floor incorporates the most sophisticated of hotel standards. The facility is linked to Marienkrankenhaus hospital in the immediate neighbourhood. It is being built with an investment of about € 26 million by the property administration company ANG from Cologne according to our plans and on the basis of the preparations we made. We are leasing the facility on a long-term contract.

We are implementing a comparable funding concept at the Düsseldorf-Volksgarten senior citizens' residential home, which will be opening in March/April 2006. 88 full-time in-patient nursing beds and eight short-term nursing beds will be available on three floors. The facility includes a deluxe area. Another property in Kronprinzenstrasse with 88 beds will be completed by the autumn of 2006. Including Hamburg and Düsseldorf, the number of our nursing facilities will be increasing to 52, while the bed capacity will be rising to about 6,400.

A digression
The market needs higher quality

The central associations of the statutory nursing care insurance funds and the medical services organisation (MDK) of the central associations of the health insurance funds presented the first report about "Quality in outpatient and in-patient nursing care" in the 2004/2005 year under review. In the German Nursing Care Quality Assurance Act that came into force in 2002, the MDK was commissioned to submit a comprehensive report about the current situation and development of the quality of outpatient and in-patient nursing care every three years. About 7,400 people in need of nursing care were interviewed in the course of 1,600 quality audits during the second half of 2003 and the quality of the nursing care provided to them was assessed. The nursing concepts, procedures and professional skills of the nursing staff at the facilities were reviewed as well.

At first glance, the results indicate that the providers did a good job. The details reveal serious shortcomings, however. The audits of outpatient nursing care providers showed that 91% reached an "appropriate level of nursing care". This figure is made much less impressive by inadequacies in dealing with health hazards. The auditors found failings in food and drink supply at 37% of the service providers investigated, quality deficiencies in incontinence care at 25% of them, inadequate bedsore prevention measures at 49% and quality problems in the care provided to patients with gerontopsychiatric disorders at 33%. 68% of the nursing care providers had nursing concepts that satisfy the current professional and medical requirements completely or partly. They were actually applied at 51% of the facilities. 71% were able to prove that they carried out internal quality assurance measures. 60% of the service providers had a staff familiarisation concept. The nursing staff were monitored by means of regular visits at 52% of the service providers. The staff were deployed in accordance with their qualifications at 68% of the facilities.

An appropriate quality of nursing care was found at 83% of the in-patient nursing facilities audited. The evaluation of potential health hazards indicates considerable quality shortcomings in in-patient nursing care too. 41% of the home residents suffered from inadequate food and drink supply, quality deficiencies in incontinence care were determined with 20% of them, inadequate bedsore prevention and treatment measures had been taken with 43% of them and there were quality problems in the care provided to 30% of home residents with gerontopsychiatric disorders. Four out of five facilities had nursing care concepts that satisfied the requirements completely or partly and they were implemented in practice at 58% of the facilities. The quality of the services provided by the nursing staff was monitored at 54% of the facilities and 76% of the homes had internal quality assurance measures. A familiarisation concept was implemented at 63% of the facilities and staff were deployed in accordance with their qualifications in 69% of the cases.

Nursing is expensive

According to the official German statistical authorities, the monthly costs have increased by 3% to 4% since 2001. Homes received € 2,675 for the accommodation and care of patients who need intensive nursing (category III) at the end of 2003; the figure two years before was € 2,548. The costs in categories II and I were € 2,250 and € 1,823; two years previously they were € 2,185 and € 1,763.

In its report, the MDK comes to the conclusion that particularly close attention ought to be paid to improving the quality of nursing care and the qualifications of the nursing staff. It emphasises that systematic planning and good organisation are vital for effective nursing care and that well-trained and motivated staff are therefore needed. The quality of nursing care is determined to a large extent by the way the nursing personnel carry out the nursing processes. It is essential to use efficient nursing planning and control instruments in nursing care.

This is precisely where our concepts for IT-based process control and for training with e-learning concepts provide the solutions that are needed.

Rehabilitation

We are on our way back into the black

Market in a process of radical change

Developments in the rehabilitation division were not in line with our expectations as regards the sales, occupancy rate and earnings recorded. The market is going through a process of radical change. The wheat is starting to separate from the chaff in the rehabilitation market in the face of growing cost and performance pressure. Marseille-Kliniken will be benefitting from the market shake-out in the medium term. Our clinics are modern and innovative and they have high medical skills.

Successful crisis management

The situation we are currently experiencing on the rehabilitation market is nothing new to us. We had to contend with a large decrease in the occupancy rate back in 1997 too in connection with the Seehofer reform. The occupancy rate at our rehabilitation clinics dropped to less than 60%. The loss of marginal sales and restructuring costs depressed earnings severely. About a quarter of the rehabilitation capacities available at the time were put to a different use as nursing facilities and a training centre. A recovery began in the 1999/2000 financial year that led to an occupancy rate of about 90% in the 2000/2001 financial year.

The market has been going through another adaptation phase since 2004. All the clinics have been subjected to a further intensive review to determine what prospects they have of long-term success. As a result of this, the Reinerzau location has been leased to a clinic operator on a long-term contract in connection with the Waldkirch clinic. In the financial year, the bed capacity in the rehabilitation division was reduced from 1,772 to 1,672 on the balance sheet date. We learned from our experiences in the earlier crisis and are certain that we will come out of this process of market change in a stronger position.

The extensive action plan will bring us closer to the achievement of our goal of guaranteeing a long-term occupancy rate at the clinics that enables a positive contribution to be made to earnings while maintaining the high quality standards. The restructuring exercise is primarily affecting the five psychosomatic clinics with 631 beds, which are suffering most severely from the economic situation with an average occupancy rate of 69.1% (previous year: 63.4%). In the psychosomatic field, we intend to focus on the two large clinics in Schömberg and Gengenbach (Kinzigtal) in future. We have integrated the psychosomatic clinic in Reinerzau, which specialises in the psychiatric treatment of children and teenagers, in the Schömberg clinic. The occupancy rate in Schömberg has improved substantially as a result. We have shelved the original plan to relocate the clinic in Bad Herrenalb to Schömberg as well. The clinic has been given sound prospects following the commitment made by the official German insurance authorities (BfA) to contribute to the funding of an outpatient facility with a new concept. The property in Reinerzau is being leased to a clinic operator on a long-term contract from 1 October 2005 onwards.

The five somatic clinics with 878 beds reached their occupancy rate and earnings targets for the past financial year. With further strengthening of the oncological treatment provided at the location in Blankenburg (Saxony-Anhalt) and the improvement in treatment quality following the completion of the remodelling exercise in Bad König (Hesse), we are working on the assumption that there will be a further increase in the occupancy rate and earnings parameters.

We continued the cost-cutting measures already initiated in the last financial year in 2004/2005. We made considerable progress towards reaching the goal of reducing personnel costs by € 2.3 million within two years. The increase in weekly working hours and the introduction of more flexible working hours are having a strong impact. We are filling the positions vacated in the course of natural wastage by new staff on a basis that is more in line with market conditions; the current situation on the employment market is making it easier for us to do this.

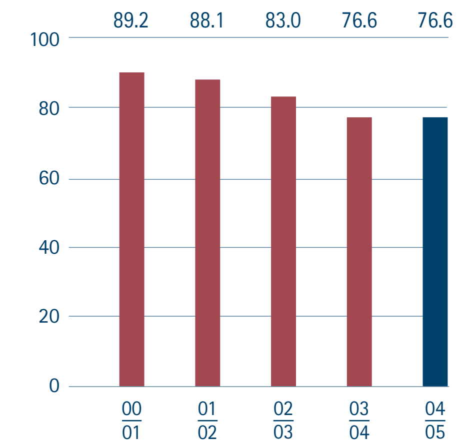
We consider it to be another important assignment in our restructuring concept to integrate the rehabilitation operations in the central management system that we have established successfully for the nursing division. The southern German regional office is being closed and the activities are being controlled centrally in future. This is making it possible not only to cut our costs but also to control our clinics more efficiently. We are also expanding a customer service centre along the lines of the one established in the nursing division. And, finally, we are compiling specific plans to apply the sale-and-leaseback system to individual areas of the property in the rehabilitation division too.

Consolidation process is speeding up

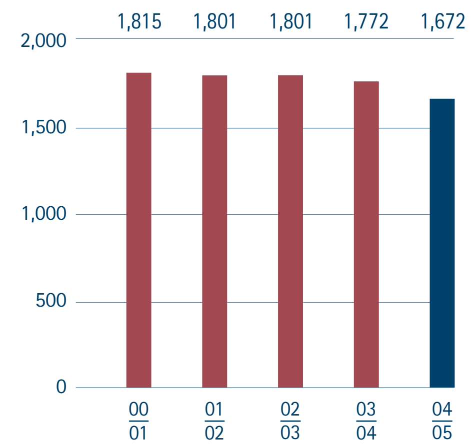
The development on the rehabilitation market is being influenced by two factors. The obvious change in patients' application patterns is, on the one hand, having a negative impact on occupancy rates at the clinics. The health reform and the poor situation that is continuing on the employment market have prompted many potential applicants to postpone rehabilitation measures, primarily where the treatment of psychosomatic disorders is concerned. This trend is being encouraged by the very restrictive approach adopted by funding organisations in the approval of cost payments.

The new system of lump-sum payments in the acute field is, on the other hand, having a major effect on the market. The future of the rehabilitation market will definitely be determined by the DRGs. The system of lump-sum payments, in which fixed amounts per case are paid for specified treatment, is shortening the time patients spend in hospitals and is leading as a result to an increase in the length of follow-up treatment. Such follow-up treatment already accounts for almost a quarter of all rehabilitation measures and this proportion will be increasing in future. Considerable additional capacities are essential to cover the increasing requirement for follow-up medical treatment that will be created by a comprehensive system of DRGs.

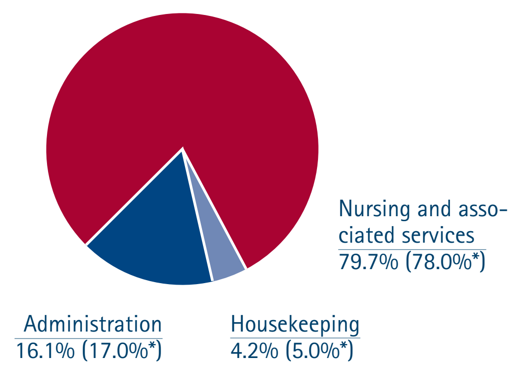
Occupancy rate
in %



Bed capacity
Number on 30.06.2005



Number of employees



* Figure in the previous year

Mud baths like at Teufelsbad Fachklinik and physiotherapy are established elements of classic rehabilitation treatment.

Increasing vertical integration by the market players and better integration of the treatment areas are dictating the criteria that rehabilitation providers need to fulfil in order to maintain their competitive position. They include, on the one hand, a sound mix in the range of outpatient and in-patient services, funding organisations (private insurance companies and welfare authorities) and patient sources (acute hospitals, outpatients, patients who apply for treatment independently). Other decisive features are the range of treatment provided, such soft location factors as the surroundings, closeness to the patient's home and hospitals, cost items and financial resources. These criteria are arguments in favour of increasing privatisation and market concentration.

Marseille-Kliniken is prepared

Rehabilitation continues to be an important element in medical treatment. The system of lump-sum payments per case will lead to growing demand for in-patient rehabilitation and is backed by the changes attributable to the demographic trends in society. Patients are living longer and demands for substantially higher medical skills are increasing.

We are certain that we will prove to be successful on the market, which is stabilising slowly. Our strategic alignment and the management of the division's operations are based on the conditions that the market is specifying. We are controlling the division centrally and are applying the service concept systematically in the patient acquisition field. We have developed new treatment concepts and areas in recent years and have established ourselves successfully in market niches with special programmes. The new funding system for hospitals requires integrated treatment concepts. We are concluding co-operation agreements with hospitals and are developing local network structures involving doctors' practices, acute facilities, rehabilitation clinics and funding organisations.

Fango tango in Eastern Europe

Expenditure on rehabilitation measures plays a secondary role in the statutory health insurance system in Germany (less than 2%). Even so, attempts are being made to cut costs even more. Company health insurance funds in particular are therefore offering rehabilitation measures in Eastern Europe to an increasing extent. Business with German rehabilitation guests is booming particularly in the areas of Poland and the Czech Republic that are close to the German border. Outpatient spa treatment is particularly popular.

The success of our somatic clinics with a satisfactory average occupancy rate of 88.5% and a large proportion of patients who are receiving follow-up treatment is attributable to programmes based on flexible stay corridors that combine both in-patient and outpatient elements. The clinics have reached agreement about the content and scope of the treatment provided with specialised clinics and university hospitals in their respective areas, as well as with the funding organisations that allocate patients. The medical emphasis at the somatic clinics is on comprehensive treatment in the areas of oncology, cardiology and orthopaedics, while we are also working on joint cardiological and orthopaedic concepts. We have developed a special programme for patients who have had bone marrow transplantations in Bad König. We are intensifying the depth of the somatic treatment provided and are making sure that we have high-quality personnel and equipment resources available which match the high standards at acute facilities.

We are strengthening the competitive position of the psychosomatic clinics by maintaining high skills and an innovative product and service profile. With the help of the scientific community, we are developing concepts for the system of lump-sum payments per case that guarantee the health insurance funds a reliable calculation basis and a high quality level when they are implemented. We are making similar co-operation arrangements with selected social security authorities too. Innovative products that we develop jointly in the Group are leading to the addition of new patient allocation organisations and thus to an improvement in the occupancy rate. The small clinics in Bad Herrenalb and Zell have established themselves successfully as niche providers with new concepts and attractive target groups. The Bad Herrenalb model, which involves outpatient treatment of patients with emotional problems via the BfA, is named after our clinic.

Rehabilitation research prize

The Karlsruher-Sanatorium-AG rehabilitation research prize, which has a value of € 7,500, was awarded for the tenth time in March 2005. The prize was won by the university lecturer Dr Rainer Muche for the project "Development and validation of forecasting models based on logistic degression". 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.

Services

State-of-the-art programmes create a tremendous competitive edge

The vision: hotel standards

The Marseille-Kliniken AG service companies are an essential element of our medical concepts and have the aim of guaranteeing optimum housekeeping services for customers. The comprehensive scope of our system, which is unique in the industry, is associated with our strategic profile as a branch-based provider of nursing care for the elderly.

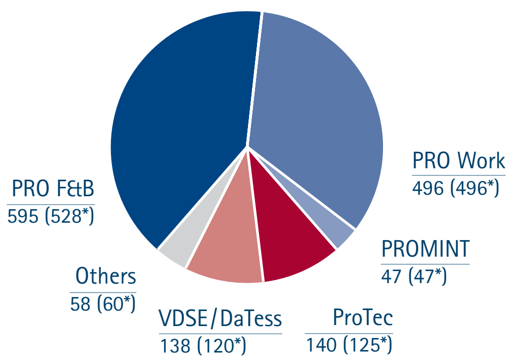
Synergy benefits created by the service organisation

The services division plays a key role in the Group's growth strategy. The basic principle followed in its operations is to relieve the facilities of specific assignments and to give staff the freedom to concentrate on their core skills in nursing, rehabilitation and general care by providing customers with a complete range of hotel services. The growth of the Group has had the effect that the service subsidiaries are focussing to an increasing extent on serving our own facilities. The provision of services to third parties that is possible in principle has been limited severely in the nursing operations in particular.

Meals are a highlight of the residents' day

ProF&B Gastronomische Dienstleistungsgesellschaft mbH is one of the core companies in the division. Its operations include the entire service system provided by professional caterers. It was responsible for the catering at 49 senior citizens' residential homes and nursing facilities and 11 rehabilitation clinics in the year under review. The provision of an appropriate, varied, balanced and high-quality diet is one of the central assignments. The basic menu implements the "Healthy Diet" guidelines issued by the German nutrition association (DGE) and includes seasonal and regional specialities in close co-operation with the members of the home residents' councils. Typical senior citizens' meals are a thing of the past. Records are kept of all the meals provided – incorporating nutrition information – and can be consulted by all residents and patients. 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 or suffer from allergic reactions to certain food products. Neither industrially manufactured products nor genetically modified foods are used. We give residents who are suffering from dementia six to seven smaller meals a day. "Drinking oases" with fruit juice drinks that change every day have been set up in the living areas and the dining rooms for residents to drink regularly in addition to coffee, tea and mineral water. The EDP ordering system that was implemented in the year under review has exceeded the expectations by a long way, as far as both quality and costs are concerned. 99.8% of the articles used by ProF&B were ordered via the new system.

Number of employees



* Figure in the previous year

"I am particularly proud of my staff"

Interview with Thomas Hawranek, Services Director

Services are a key feature of Marseille-Kliniken AG's operations. Looking back on the past financial year, what are you particularly proud of?

Thomas Hawranek: There are many different points. We recruited 45 apprentices in the hotel, IT, housekeeping and catering fields. By doing this, we are not just making sure we have particularly well-qualified young staff for our own operations; we are taking our responsibility for the young people in our country very seriously too. Residents and patients as well as their relatives have confirmed to us via eqs.-Institut that we succeeded in maintaining the quality of the services we provided at the same high level as in the previous year. The prominent guests from the political and business communities who attended the celebration of Marseille-Kliniken AG's 20th anniversary in Hamburg were able to see this for themselves too. I am particularly proud of my staff, however, to whom I would like to express my thanks for all their hard work. Many of them demonstrate a level of personal commitment that goes far beyond their normal working hours.

Last but not least, we have now introduced the computer-based buying system at ProWork too, encouraged by the positive experiences and outstanding results at ProF&B. Since products can only be bought that are included in the relevant lists, we not only guarantee consistent product quality but also obtain the best possible price from the supplier on all occasions. This has enabled us to cut buying costs substantially.

You have shut down your CASA training centre in Bad Oeynhausen and have relocated its operations to Hamburg in a much smaller form. Why?

Thomas Hawranek: CASA carried out residential training courses very successfully for years in the past. In connection with the strategic decision to introduce e-learning at all the facilities in future, the importance of residential training will be decreasing substantially from now on. Intensive co-operation and the location close to the experts at the headquarters in Hamburg are essential in order to implement this important project successfully and quickly.

Are any major changes already foreseeable for the new financial year?

Thomas Hawranek: Yes. We closed Vitalquelle in Waldkirch, which depressed our earnings considerably, on 31 July 2005. The business model of a prevention clinic based on bus trips failed to establish itself on the market in spite of good occupancy rates, because there was no prospect of achieving acceptable prices in the foreseeable future.

We have, however, already found a capable operator who has not only leased the property on a long-term contract but will also be commissioning us to continue providing the entire range of services. In spite of decreasing occupancy figures in the rehabilitation field, this operator has increased the occupancy rate of our former clinic in Bad Oeynhausen steadily in recent years and has in fact reached full occupancy in the meantime.

Another major change is the introduction of a time recording system for all the employees in the services division. The new system enables us to display the working times of our staff very precisely and thus to optimise the personnel deployment plans at the facilities too.

Cleanliness improves well-being

PRO Work Dienstleistungsgesellschaft mbH is responsible for laundry storage services at the facilities as well as for standard cleaning and other housekeeping services. The product management system introduced in the second half of the year under review has been implemented in full and proved to be an immediate success. It guarantees, on the one hand, optimum quality and consistent use of the products and, on the other hand, compliance with all the legal regulations about the cleaning agents used. The individual cleaning and disinfection plans compiled with an external hygiene institute are displayed on the noticeboards in all areas. Regular staff training courses held by external institutes make sure that prompt and professional action is taken in response to medical or hygienic requirements.

Laundry services by and for third parties

PROMINT Dienstleistungsgruppe Neuruppin is responsible for laundry supply services within the Group. External customers such as hospitals and hotels in Mecklenburg-West Pomerania, Berlin and Brandenburg also take advantage of the in-depth expertise about industrial laundry processes and gentle textile treatment. To optimise the logistic costs, laundry services were farmed out to qualified partners in Bavaria, Thuringia and Baden-Württemberg in the year under review. PROMINT guarantees maintenance of the high quality standards for customers by making regular checks. A computer-based EDP system enables not only optical quality control but also the monitoring of the cycle of every piece of laundry that is identified with a bar code.

CASA – exemplary training facility

The CASA training centre for hotel and social professions is an exception in the industry. It is a direct subsidiary of Marseille-Kliniken AG that provides basic and advanced theoretical and practical staff training about nursing care for the elderly and handicapped as well as qualification courses for the rehabilitation division. The school was established in recent years to provide training in nursing care for the elderly finished training its first pupils to be appropriately qualified nursing staff and nursing supervisors in this field in the year under review. The training centre is currently in the process of changing its structure by introducing e-learning.

Standardised facility management

ProTec is the company that controls facility management for all the nursing and rehabilitation facilities. It provides building and equipment services. ProTec has 125 employees and manages 420,000 m² of building space and an outdoor area of 500,000 m² at the facilities. It is structured appropriately to allow the operations to be expanded to include external customers. Only two years after its implementation, the standardisation of facility management has already led to substantial improvements in quality as well as to a considerable reduction in energy costs.

Research and reality

The Group's in-house institute based in Karlsruhe, eqs.-Institut, operates at the interface between scientific research and clinical nursing care and guarantees the practical implementation of research findings as well as pragmatic research. The institute is of considerable importance to the Group. It advises the company's facilities about quality management issues and assists them in developing treatment and facility concepts. The interviews that are conducted regularly with relatives and staff identify shortcomings in our performance. eqs.-Institut also co-ordinates the scientific advisory boards it initiated for Marseille-Kliniken AG and Karlsruher-Sanatorium-AG (KASANAG). Their most important function is to give capable professional advice to the Management Board about the development of innovative new concepts as well as to provide scientific backing for and make improvements to existing concepts. The advisory boards also help the company management to choose medical and administrative superintendents.

Excellently equipped kitchens

Five shared kitchens with microwave ovens and Ceran hotplates have been installed at the renovated and modernised senior citizens' residential home in Bad Langensalza. They have two purposes. On the one hand, meals are prepared there for residents who are no longer able to go to the dining room. On the other hand, cooking and baking courses can be held there as part of the ergotherapy activities.

The way to a person's heart is through his stomach. Pro F&B's motivated staff are responsible for excellent catering.

Service provider with a positive future

DaTess Gesellschaft für Datendienste mbH, which was established five years ago, moved into its new administration building in Pritzwalk in October 2004. What used to be the administration building of the Pritzwalk-Land local authorities was remodelled and modernised after the company bought it. The Group subsidiary was based in Tessenow (Mecklenburg-West Pomerania) before and plays a major role in the efficient control of the entire Group as its data processing and computer centre. It is responsible for the payroll accounting operations needed for over 4,500 employees as well as for the financial accounting required by the more than 80 companies consolidated in the Group accounts.

We consider the finding of a new use for the former administration building and the creation of apprenticeships in the structurally depressed, low-income region to be evidence of foresighted action and purposeful co-operation with the state government. DaTess will be providing more than ten apprenticeships on a permanent basis and will be recruiting four new apprentices in the 2005/2006 financial year. These apprenticeships involve training in clerical work. The building and site infrastructure has the necessary expansion potential to take account of the company's growth strategy.

Corporate responsibility

We are far ahead of the competition in many areas

People are making the vision reality

Marseille-Kliniken AG operates in a society that has a direct impact on the company as it changes. We therefore maintain contact with the public, keep it informed and liaise with it to find solutions. We accept our responsibility in every respect – not only to the residents, guests and patients at our health care facilities and their relatives but also to our employees. We know that nursing care is a strenuous profession, but one that is extremely satisfying at the same time. This fact is the core of our mission statement, "Better if we are there".

The economic perspective

Marseille-Kliniken is one of the few companies in Germany that has been creating secure jobs for many years now. In the last four years, we have welcomed more than 1,300 new staff to our company and have integrated them in our corporate culture. They have a job that is largely unaffected by economic fluctuations. This is particularly important, because many of our employees work in structurally underdeveloped, low-income regions.

We are committed to Germany as our place of business and to its social systems, and prove that it is possible to operate here profitably too with an effective strategy, high-quality services and excellent staff. Everyone benefits from our profitable operations. The company, because profits help it to remain competitive; the staff, because profits create jobs; investors, because profits represent a return on their investment; the state, because profits increase tax income; and the general public, because profits minimise the costs of old age that society has to pay.

The environmental perspective

Environmental protection is an essential element of sound community living. An intact environment promotes health and security; it improves well-being. Minimisation of resource input is therefore one of our basic values. All of our concepts are developed with the aim of protecting our customers' living environment by avoiding unnecessary waste. We believe in sustained management and use water, electricity, gas and oil as energy sources on a strictly consumption-oriented basis. We deploy special machines and environmentally responsible detergents in our laundry operations. Our subsidiary PROMINT has a water processing and recycling plant of its own. The dishwashers at our facilities are optimised to run in accordance with the specific requirements and minimise the consumption of dishwasher detergent.

We make arrangements with our suppliers to 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 hygiene reasons. Food is normally supplied to the kitchens using returnable packaging systems. Strict separation of waste throughout the Group has led to waste volumes that have been decreasing for years. In the building of our facilities, we make sure we use technical solutions that consume as little energy as possible as well as building materials that have minimum health impact. The requirements of residents and staff are given high priority in the design of our buildings.

The social perspective

Nursing care for the elderly is not a run-of-the-mill, 9-to-5 job. It is a demanding profession that involves a high degree of intimacy. Noone is closer to people who are old, ill and need nursing care than the staff who look after them. They provide assistance, are responsible for day-to-day care and medical treatment or are simply there. To establish a close relationship with the patients, they allow themselves to be called by their first name. Nurses who look after the elderly require in-depth medical and nursing know-how, but what they need above all is a good heart.

Many nurses find fulfilment in their work, because the profession demands flexibility, versatility, personal responsibility and the human touch. And nursing care for the elderly has good prospects too. The German association for nursing care for the elderly in Duisburg estimates that about 114,000 trained nurses will be required to look after elderly people at senior citizens' residential homes alone by 2010. The current situation on the employment market for care professions is in blatant contrast to the future requirements. Personnel bottlenecks, an increasing workload and less and less suitable applicants are the distinctive features of this market segment. The number of apprenticeships in nursing care for the elderly decreased by about 10% in 2004. We are currently training more than 100 apprentices at our facilities, who will also be given a job if they complete their training successfully. A further increase is planned within the framework of our expansion programme.

In view of the situation, implementation of the corporate mission that we summarise by the motto "Better if we are there" in future will depend to a decisive extent on our ability to maintain the high quality and motivation of our staff, to recruit further personnel in good time and to create a positive working atmosphere at the company. We are unusually committed to basic and advanced training. An extensive personnel development concept involving a three-stage qualification process from unskilled employee to skilled staff, from skilled staff to nursing supervisor and from nursing supervisor to facility manager is the basis for the maintenance of a high quality standard. The programme

Donation for safety

The safe way to increase safety. Marseille-Kliniken donated € 10,012 to the Radensleben fire brigade to buy new fire protection clothing. Main shareholder Ulrich Marseille presented the cheque.

The well-being and satisfaction of all our residents are increased by gardens and recreation rooms that are kept neat and tidy.

Regular training in the form of practical exercises and e-learning via computer improve the quality of our operations.

is rounded off by special seminars for staff at the service companies, for administrative employees and for the management personnel.

The CASA training centre is the heart of our personnel development system. The establishment of a school of our own integrated in CASA to provide training in nursing care for the elderly is a milestone in our training concept. For the first time in the history of the company, we are accompanying apprentices during their training to become skilled nursing staff and are making sure in this way that young recruits are available who meet the requirements. The basic and advanced training courses held by CASA are designed for all the target groups: nursing staff, supervisory nursing personnel, medical personnel, administrative personnel, hotel and service personnel, catering and cleaning staff. The aim is to train and qualify the company's employees in their different functions and areas, so that they can complete their assignments and do their jobs with results of the desired quality.

In the year under review, we started to restructure the training processes in order to keep the high qualifications of the workforce consistent, controllable and sustainable. CASA will be changing its structure by introducing e-learning. CASA training will be taking place primarily in a new e-learning environment, supported by on-site training or consulting assignments. "Learning studios" will be set up at the facilities and will be equipped with personal computers according to their size. At the system level, we are backing e-learning with the SAP Learning Solution. In the first phase of development, an e-learning platform is being created for the basic know-how of the nursing facilities, while e-learning will be introduced throughout the Group in the second phase. Each of the learning units, which are defined in advance, ends with a test to demonstrate that the training course has been completed successfully. It is considered that the objective of a learning unit has been met if the test is passed with 85% of the marks. The test has to be taken again within four weeks if the 85% mark is not reached and can be repeated twice at most. Evaluation and workflow are backed by an appropriate bonus and sanctioning system. We pay a bonus of € 100 for consistently good results and combine this with an opportunity to receive advanced training in order to become a nursing supervisor.

Nursing graduates

Many new courses have been introduced that focus on quality assurance in nursing care. They are appearing at universities nationwide and are directed at nurses who have already completed their training. The institute for applied nursing science in Witten, Germany, is convinced that career opportunities in nursing care are good.

We are adopting innovative approaches in the recruitment of new staff in co-operation with the employers' associations and the employment authorities. Qualified nursing personnel is recruited directly by the facilities. Due to the large number of unsolicited applications that are received, an applicant pool has been established at most of the facilities, from which vacant positions can be filled again very quickly. New staff for central administration, facility management and nursing supervision are recruited via our website and the online job market "StepStone". Where it is necessary, we use the services of personnel agencies and consultants as well.

Building bridges between generations

Interviews conducted with company staff by eqs.-Institut indicate that our employees are increasingly satisfied with the working conditions we have created. The jobs are safe, payment is fair and the bonus systems for managers are a positive incentive. Work planning is structured in an appropriate and efficient way by the special PEPone software that has been implemented. When the computer logs on in the morning, this is registered as the time when work began, while the computer also calculates overtime, times when the employee is absent and salary details. Handheld computers make the documentation of nursing services that is required by law a simple assignment. Flexible working hours make it possible to combine job, family and leisure activities. We aim to maintain and increase our appeal as an employer by introducing a company old-age pension scheme for all our employees. The details of this old-age pension scheme, to which we as the employer will be making a substantial contribution, are currently being negotiated, with the aim of developing the best possible scheme.

It is often little things that indicate social commitment and build bridges between generations. In Hennigsdorf, the residents of our special nursing home are neighbours of the children at the "Butterfly" day-care centre. At the topping-out ceremony, the boys and girls danced and sang and made a pact with the "old people" to stay in contact. Marseille-Kliniken sponsors football and rowing events, while the company founder and main shareholder Ulrich Marseille supports such organisations as the Neuruppiner Tafel by providing premises free of charge.

The detailed

review

We aim to act transparently
in all that we do – towards our customers
as well as towards our staff and shareholders.

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 2004/2005 financial year, at which it was informed in detail about the situation of the company and the Group by the Management Board and monitored the conduct of the business by the Management Board, providing it with appropriate support and advice. On these occasions, the Management Board presented oral and written reports to the Supervisory Board in particular about such issues as corporate and Group planning, profitability and liquidity, the progress made in business operations, the situation of the company and the Group in general, and the transactions that have considerable impact on company profitability and liquidity. The members of the Management Board also reported to the presiding committee of the Supervisory Board regularly about major business transactions outside the meetings. The review that the Supervisory Board is required to make of the reports showed that no objections need to be raised about the conduct of the company's business by the Management Board during the 2004/2005 financial year. All of the members of the Supervisory Board attended the respective meetings. The finance committee formed by the Supervisory Board met twice in the 2004/2005 financial year. No conflicts of interest arose within the Supervisory Board in the past financial year with respect to members of the Supervisory Board.

The Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report compiled by the Management Board for the 2004/2005 financial year (including

the bookkeeping records) have been audited by the auditors chosen at the Annual General Meeting held on 24. January 2005, BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, 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 results of the audit. The Supervisory Board has approved the outcome of the audit.

The Supervisory Board had no objections to raise either after it completed its review of the Marseille-Kliniken AG annual accounts, management report, Group annual accounts and Group management report for the 2004/2005 financial year. The Supervisory Board agrees with the results of the audit. The Supervisory Board approves the annual and Group accounts prepared by the Management Board as per 30. June 2005 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 informed 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, and
3. there are no reasons to make a significantly different assessment from the Management Board with respect to the measures outlined in the report."

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

The Supervisory Board would like to express its thanks to the Management Board and all employees for their commitment and hard work in the 2004/2005 financial year.

Berlin, October 2005

Marseille-Kliniken Aktiengesellschaft
The Chairman of the Supervisory Board

Ulrich Marseille

Ulrich Marseille

Management report and Group management report

German economy is dependent on exports

The world economy continued its upswing in the 2004/2005 financial year, stimulated particularly strongly by the USA, Japan and China. The recovery accelerated in Euroland too, however. The steady growth throughout the year was accompanied by faster economic development in the new EU states. Crude oil prices that rose to a historical record level in the course of the year had the effect of slowing the global economy.

The German economy again failed to fuel internal expansion. With moderate growth of only 1.6%, it remained one of the backmarkers in the EU.

Lack of competition in the health market

Health care was one of the fastest-growing markets in Germany in 2004/2005 too. The health system contributed 11.1% to the Gross Domestic Product and exceeded the domestic sales of the German car industry with revenues of about € 245 billion. In the debate about the right direction for health policy in future, it is overlooked to a large extent that health care is a growth factor rather than a cost factor. The domestic added value of more than 90% represents a particularly positive asset by comparison with other industries.

The political community is concentrating mainly on the funding issue, where the debate is highly controversial. Such concepts as those known as "citizens' insurance" and "health premiums" are the primary focus. Experts consider reforms on the supply side to be more urgent. In view of increasingly tight public budgets, the specialists largely agree that a fundamental turnaround of the health system will only be possible on a sustained basis by introducing more market and more competition. The legislation that came into force in 2004 to modernise the statutory health insurance funds is only a first step.

In view of this situation, the long-term survival of health care facilities cannot be guaranteed without the influx of private capital. The privatisation process in the hospital field, in nursing care for the elderly and in rehabilitation will be speeding up, since the private providers already have efficiency edges of up to 30% over public and non-profit facilities. The growing interest that foreign investors are showing in the German health care market indicates that an upheaval is starting and will be leading to a radical change in the system. The transformation of the payment systems will be leading to greater dynamism and transparency in the hospital field in particular. From 2008 onwards, payment will be based on the specific clinical picture rather than on the time the patient spends in hospital and treatment will be paid for in the form of lump sums per case (diagnosis-related groups).

In-patient nursing care for the elderly continues to be a significant growth factor in the health care market and offers tremendous opportunities to private providers in

particular. Increases in life expectancy will lead to a huge increase in the number of people who need nursing care. DIW expects the number of people who require in-patient care to increase from 640,000 today to 1.57 million home residents in 2050. A substantial expansion of the supply is necessary as a result of this gerontological development. It is estimated that about 550,000 more beds will be needed by 2020. State governments and local authorities alone will be unable to fund this supply gap. Value for money and an ability to generate private capital are becoming dominant competitive parameters in nursing care for the elderly.

The deficit in the nursing care insurance system rose again in 2004/2005. Expenditure is more the problem faced by the system than income. Enough money is available, but it is not being spent sensibly. The German government has postponed the reform of the nursing care insurance system for the time being. In the medium term, the political community will have no alternative but to introduce greater competition.

The rehabilitation market is still suffering from the poor economic situation and the need for economies in the health system. Patients are delaying treatment and the funding organisations are applying a restrictive payment approval policy. Rehabilitation remains an important element in the medical treatment system all the same. The DRGs are of major significance for the future of the market. The system of lump-sum payments in the acute field is shortening the time patients spend in hospitals and lengthening the time they spend in follow-up treatment facilities. This process is combined with increasingly exacting quality requirements. In the rehabilitation market, the development will be repeated that took place following the Seehofer reform between 1996 and 1998. As consolidation occurs on the supply side, demand will be directed exclusively in future to facilities that prove to be efficient co-operation partners for the acute clinics.

Marseille-Kliniken AG is making good progress

The company expanded its leading position as a private provider of in-patient nursing care for the elderly and took steps to facilitate further growth. The business operations in the dominant area of nursing care for the elderly developed positively, generating increased sales. Two new senior citizens' residential homes were added and two more are in the process of being built. The rehabilitation operations, on the other hand, suffered from the poor occupancy rate at the psychosomatic clinics in particular and recorded a loss.

For the nursing division, the transaction with General Electric about the sale of seven nursing facilities to date (five of the individual transactions had been completed entirely by 30.06.2005) and the long-term leaseback arrangement for them represented a strategic milestone. The deal guarantees sound financial structures for additional growth. There will be further expansion of the operations in the area of nursing care for the elderly in the coming years, in order to reach a total capacity of 12,000 beds. The expansion strategy continues to have three elements: expansion of the chain of AMARITA homes, leasing of buildings for new projects and take-over of existing facilities. The focus in the rehabilitation operations is on specialised follow-up treatment at the somatic clinics and innovative product and service profiles for the psychosomatic clinics. Facilities at which the occupancy rate cannot be increased to adequate long-term levels are being put to a different use or combined. The rehabilitation division is in general being put into a position that enables it to take greater advantage of the potential available than the competition when there is a change in the market trend.

Sound growth by Marseille-Kliniken AG

With the opening of the new facilities in Dresden and Hennigsdorf near Berlin, the company increased the capacity in the nursing division by 238 beds and strengthened its leading position as a private operator of nursing facilities. The business operations in the two nursing and rehabilitation divisions developed very differently.

While the Group's dominant and profitable nursing division continued to develop positively, the rehabilitation division suffered from very poor occupancy rates, which were at the same level as in the previous year – meaning that it was only possible initially to stop the downward trend. All the key division figures reflect the diametrically opposite development of the two divisions. In-patient nursing care for the elderly remains the emphasis in the growth strategy, and expansion of it will be continuing in the next few years following 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 profitability improvement while maintaining high quality. Impressive professional skills and innovative product and service profiles are of crucial importance for the psychosomatic clinics as far as their competitive position is concerned. Our lump-sum payment concept gives top priority to quality and value for money and is an important element from the point of view of the funding organisations. This concept is receiving a very positive response as a distinctive feature in the current market environment. In connection with the company's concentration on the management and operation of health care facilities, the proportion of the properties owned by the company is being reduced even more in favour of leased properties, so that sound financial structures are available for additional growth.

Nursing division continues to grow

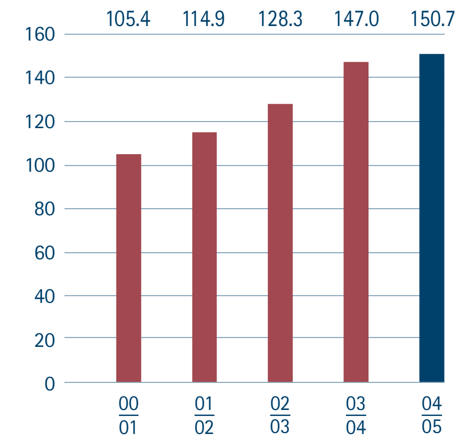
In the 2004/2005 financial year, the Marseille-Kliniken Group generated operating sales of € 201.4 million. This represents an increase of 0.6% (previous year: € 200.1 million), taking into account the new senior citizens' facilities in Dresden and Hennigsdorf that were consolidated for the first time. The positive sales trend in the previous years continued in the year under review with growth of € 1.3 million. The growth is attributable exclusively to the nursing division. The total operating sales in the nursing segment increased by € 3.7 million to € 150.7 million.

The senior citizens' home in Dresden with 128 beds (from 15.03.2005 onwards) and the special nursing facility in Hennigsdorf with 110 beds (from 01.05.2005 onwards) started operation in the year under review. The 49 nursing facilities run by the Group had an average capacity of 5,762 beds; this corresponds to an increase of 62 beds on average. The market launch and thus loss phase at the locations in Landshut and Montabaur (opened in June and August 2003) is continuing. These facilities reached an occupancy rate of 55% (previous year: 41%) at the end of the financial year. Disregarding the facilities in Dresden and Hennigsdorf, which started operation, as well as that in Landshut and Montabaur, the occupancy rate at the existing nursing facilities was 94%, the same level as in the previous year.

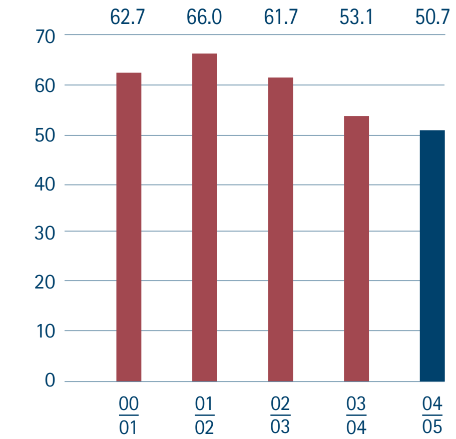
Rehabilitation division has bottomed out

The sluggish overall economic situation and a continuation of the low level of applications for treatment had further adverse impact on business operations in the rehabilitation division. The stagnation on the employment market led to a substantial decline in demand for medical services that can be postponed at our psychosomatic clinics in particular. The operating sales in the rehabilitation division decreased by € 2.4 million or 5% to € 50.7 million because the clinics in Waldkirch and Reinerzau recorded a drop in sales over the previous year of € 2.5 million (sales in the previous year: € 4.6 million) due to the change in the business operations there. The average occupancy rate of

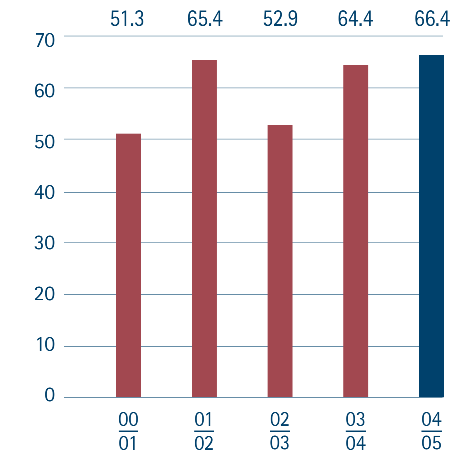
Nursing division sales
in € m



Rehabilitation division sales
in € m



Services division sales
in € m



77% was at the same level as in the previous year, which indicates that the division has bottomed out. The capacity available in the rehabilitation division decreased from 1,772 beds to 1,672 beds on the balance sheet qualifying date because of the start made on changing the use of the clinic in Reinerzau and the relocation of the treatment provided there to Schömberg. 195 beds were leased, as in the past.

A total of 16,091 people (previous year: 17,452) were treated at the rehabilitation clinics; this is 8% fewer than in the previous year. The average duration of their treatment was 27.0 days, higher than the level in the previous year (25.3 days). The number of nursing days increased from 1,817,006 to 1,839,019. Assisted living accounted for 87,342 days of this (previous year: 56,608).

Steady increase in business volume in the services division

The sales of the services division, which provides its services almost exclusively to Group companies, increased by € 2.0 million to € 66.4 million. The steady increase in the occupancy rate at the facilities in Landshut and Montabaur, as well as the opening of the two new facilities in Dresden and Hennigsdorf, were reasons for this.

Special factors in the operating result

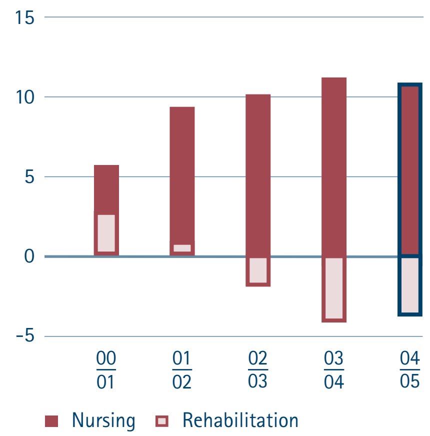
The Group profit on ordinary business activities amounted to € 8.8 million (previous year -€ 8.8 million). The positive special factors that affected the profit, such as the book profits from the property sales to General Electric (€ 3.3 million), were offset by special expenses and losses at the rehabilitation clinics in Waldkirch and Reinerzau. These clinics discontinued their business operations in the current financial year. As in the previous year, the overall result was depressed severely by the ongoing operating loss in the rehabilitation division of -€ 4.5 million (previous year: -€ 6.6 million).

The adjusted Group profit on ordinary business activities amounted to € 10.0 million and was € 5.2 million higher than the adjusted Group earnings before tax in the previous year of € 4.8 million.

The deviation of € 1.2 million between the adjusted profit of € 10.0 million and the profit on ordinary business activities of € 8.8 million can be broken down as follows:

- - € 3.3 million profit on the sale of the first five properties to GE,
- € 2.6 million special expenses and losses at the Waldkirch and Reinerzau locations,
- € 1.1 million non-recurring preliminary costs for new facilities and expenses in connection with the preparation for and establishment of bookkeeping and reporting in accordance with the specifications of the international accounting standards (International Financial Reporting Standards – IFRS),
- € 0.6 million extraordinary remodelling costs in the context of the general modernisation of the existing facilities in Belzig, Cottbus and Leipzig,
- € 0.2 million extraordinary write-downs of loans to Group companies.

DVFA result by divisions
in € m



Calculation of the DVFA/SG result
in € m

2004/2005 financial year

	Nursing	Rehab.	Group
Division earnings	15.7	–4.5	11.2
Special effects, deferred taxes	–1.9	1.0	–0.9
Total	**13.8**	**–3.5**	**10.3**
Minus minority interests, taxes	–2.6	–0.1	–2.7
DVFA division result	**11.2**	**–3.6**	**7.6**
DVFA result per share in €	**0.92**	**–0.29**	**0.63**

Taking the special factors and taxes of € 4.1 million into account, a Group net income of € 4.7 million was made (previous year: net loss of -€ 12.9 million). EBIT increased from € 3.6 million in the previous year to € 20.5 million, EBITDA from € 28.0 million to € 35.3 million and EBITDAR from € 50.5 million to € 58.6 million.

Marseille-Kliniken AG reports an increase in the profit on ordinary business activities from € 4.8 million to € 11.9 million. Income from existing profit transfer agreements with affiliated companies contributed most of the profit growth (€ 6.1 million).

Net income at the AG was € 10.2 million (previous year: € 1.4 million). The higher net income is partly attributable to a substantially lower tax charge of € 1.7 million than in the previous year (€ 3.4 million). Charges made by Marseille-Kliniken AG to subsidiaries of subsequent trade tax payments made on the basis of investigations by the tax authorities of the years 1998 to 2000 and the tax-free income from participating interests received from Atrium 24 (Hohen Neuendorf) and Atrium 34 (Datteln), which were obtained via the profit/loss transfer agreement with MK-Delta, were the reasons for this.

Other income and expenses

The other operating income within the Group increased from € 10.4 million to € 14.0 million. The increase is due essentially to the book profits from the sale of five properties to GE.

The amounts shown in the other own work capitalised in the previous year had been eliminated on the balance sheet qualifying date because of the completion of the building projects in Leipzig, Cottbus and Belzig (previous year: € 3.5 million). New projects were tackled with external general contractors.

The other operating expenses went down by € 2.7 million to € 50.6 million. The reduction was due essentially to lower repair and maintenance costs.

The cost of raw materials, consumables and supplies and of goods purchased increased to € 21.7 million from the previous year's level of € 20.4 million. € 0.65 million or 50% of this increase was due to the fact that the energy costs were 8.8% points higher than in the previous year.

The purchased services (€ 7.1 million) were at the same level as in the previous year (€ 7.2 million).

Personnel expenses were € 2.1 million lower at € 103.0 million because of the restructuring measures in the rehabilitation division and optimisation exercises in the administration field. In spite of the increase of 140 in the number of employees to 4,520 on average, Group personnel expenses were reduced significantly thanks to cost-cutting measures.

The growth in personnel at the operating units without any change in overhead costs emphasises the dynamic growth of the Group, which is leading to a decrease in fixed costs.

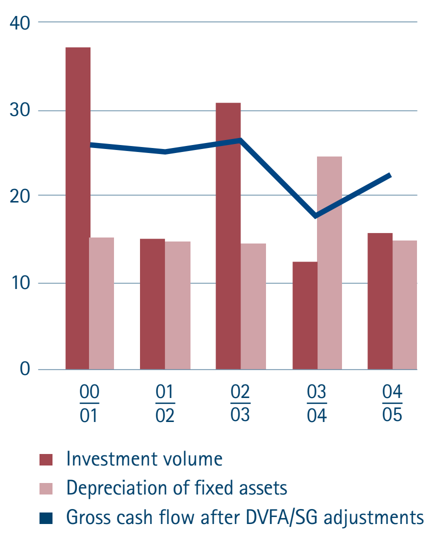
Depreciation of intangible and tangible fixed assets as well as of capitalised expenses for the expansion of business operations decreased by € 5.6 million to € 14.8 million. The main reason for this is that the unscheduled write-downs of assets of € 5.1 million in the previous year were not repeated.

The Group interest balance improved by € 0.6 million to € 11.8 million due to the repayment of property loans.

The taxes on income and earnings of € 3.7 million were at approximately the same level as in the previous year (€ 3.8 million).

Development of investment/ depreciation/cash flow

in € m



Lower fixed assets

Fixed assets decreased by € 18.6 million to € 309.4 million compared with € 328.0 million in the previous year.

The reductions in fixed assets due to the property transaction with GE amounting to € 14.9 million (Langen, Buxtehude and Schollene) and the scheduled depreciation of € 12.8 million were offset by additions of € 7.7 million from capitalised building projects (essentially Belzig, Hennigsdorf, Leipzig, Bad Langensalza).

Due to the remodelling projects at the existing facilities in Belzig, Cottbus, Leipzig and Bad Langensalza, the investment ratio increased from 3.5% to 6.9% and the depreciation reinvestment ratio was -0.6% (previous year: 0.5%).

Development of current assets

Current assets went up from € 38.0 million to € 53.9 million, due essentially to higher other assets. Trade accounts receivable were at the same level as in the previous year (€ 13.0 million) and accounts due from affiliated companies increased from € 1.5 million to € 4.5 million.

The other assets increased from € 19.9 million to € 30.0 million. The main reason for this was the acquisition of Allgemeine Dienstleistungsgesellschaft mbH – ADG for € 12.8 million. The loan of € 4.1 million granted to the majority shareholder was settled in connection with this acquisition. Since the acquisition was in the process of being completed on the balance sheet qualifying date, it was allocated to the other assets. Buying the shares in ADG represented the acquisition as per the balance sheet qualifying date of a highly profitable service company, the operations of which focus mainly on looking after people who need nursing care (outpatient nursing care services and assisted living). In line with our business philosophy, no properties were bought when the service company was acquired.

The other assets also include a receivable from the Trump Organization New York relating to a capital contribution of € 2.0 million that has not been paid. Legal action to collect this receivable was filed with Berlin District Court at the end of 2004 and has good prospects of being successful.

The cash in hand available at the end of the year was € 4.7 million (previous year: € 1.8 million).

Stable balance sheet structure

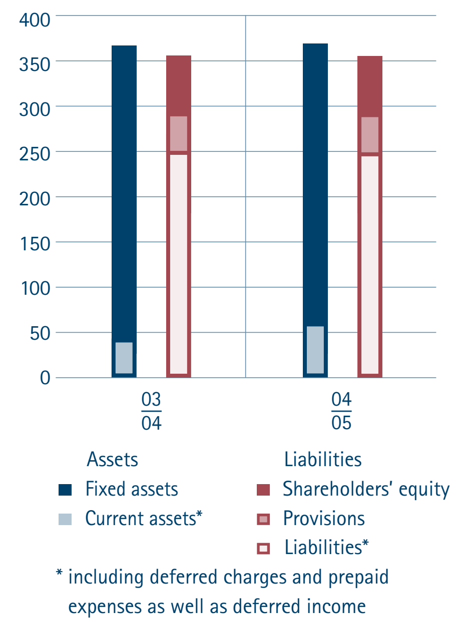
The Marseille-Kliniken Group balance sheet structure is stable. The ratio of fixed assets to current assets decreased from 8.6 to 5.7 because of the reduction in tangible assets attributable to property sales, the acquisition of ADG and the increase in the cash in hand. Asset intensity was 4.4% points lower at 84.6% as a result. Long-term coverage of fixed assets by shareholders' equity and long-term loan capital was 1.0, as in the previous year. The equity ratio increased from 17.6% to 18.2%, while the loan capital ratio decreased from 82.4% to 81.8%.

The special items for investment grants for land and buildings, which form part of commercial equity, increased by € 2.7 million to € 45.9 million. The additions relate to the Belzig, Cottbus and Hennigsdorf facilities, for which subsidies have been received. The provisions decreased from € 44.0 million to € 40.2 million following the reduction of € 2.6 million in tax provisions to € 14.1 million and of € 1.1 million in other provisions to € 10.8 million.

Bank loans and overdrafts decreased by € 19.6 million to € 204.9 million thanks to scheduled repayments as well as unscheduled repayments of property loans.

Balance sheet structure

in € m



The new senior citizens' residential homes in Hamburg and Düsseldorf were not included in the Group annual accounts as per 30.06.2005, because they are not starting their business operations until the 2005/2006 financial year.

Financing

Funding of the ongoing expansion programme is guaranteed. The Group either obtains necessary funds itself or co-operates with property investors, from whom the new facilities are leased on long-term contracts.

The Group's current account credit lines still amount to € 15.2 million, as in the previous year.

Development in earnings

Group earnings before tax (EBT) adjusted to take account of special factors were at the same level as in the previous year (€ 7.5 million) at € 7.6 million. This corresponds to earnings per share of € 0.63 (previous year: € 0.62). The two nursing and rehabilitation divisions developed very differently. Taking into consideration the running-in losses totalling -€ 2.4 million made in Landshut and Montabaur, earnings in the nursing division were at the same level as in the previous year at € 11.2 million or € 0.92 per share. The loss made in the rehabilitation division amounted to - € 3.6 million (previous year: -€ 4.0 million) or -€ 0.29 per share (previous year: -€ 0.33 per share).

Adjusted earnings before interest and tax (EBIT) increased by € 4.6 million to € 21.7 million, whereas EBITDAR (earnings before interest, tax, depreciation and rent expenditure) – which are more informative about operating performance - were € 4.4 million higher at € 57.8 million. The equity ratio based on adjusted earnings amounted to 11.4%, the same as in the previous year. The return on sales after tax was practically unchanged at 3.8% (previous year: 3.7%).

Statement of cash flow

The expenses/income with no cash effect decreased by € 5.4 million to € 17.7 million due to the elimination of depreciation of tangible assets following asset disposals. The change in assets/liabilities to € 1.2 million (previous year: € 19.1 million) is attributable essentially to the increase in other assets and thus of other liabilities. The positive cash flow from investment activities of € 3.8 million (previous year: -€ 12.0 million) can be explained mainly by disposals of tangible assets in connection with the implementation of the GE property transaction. The negative cash flow from financing activities is due primarily to a

Statement of cash flow

in € '000

	04/05	03/04
Net Group profit/loss for the year	4,674	-12,882
Expenses/income with no cash effect	17,711	23,082
Decrease/increase in assets and liabilities	1,216	19,072
Cash flow from investment activities	-3,802	-11,997
Cash flow from financing activities	-23,127	-3,692
	4,277	**13,583**
Increase/decrease in liquid funds	4,277	13,583
Liquid funds at the start of the financial year	-12,296	-25,879
Liquid funds at the end of the financial year	**-8,019**	**-12,296**
Breakdown of liquid funds at the end of the financial year		
Cash in hand and at banks	4,734	1,791
Short-term bank loans and overdrafts	-12,753	-14,087
	-8,019	**-12,296**

reduction in medium and long-term bank loans and overdrafts. More detailed explanations about these and the previous items can be found in the notes to the Group annual accounts.

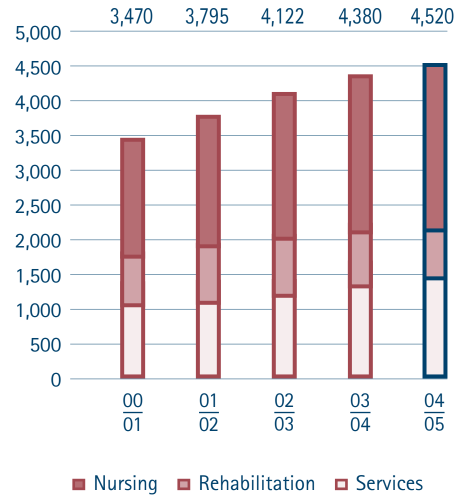
Increase in the number of employees

The number of employees (full-time equivalent/FTE) increased from an average for the year of 3,459 to 3,503.

The nursing division had 1,950 FTE employees (69 more). The number of staff in the rehabilitation division decreased from 574 FTE employees to an average of 516 FTE employees. The services division and the miscellaneous administration companies had 1,037 FTE employees, an average of 33 more FTE employees than in the previous year.

Personnel expenses decreased by 2% to € 103.0 million in spite of the larger number of employees. The per capita operating sales of € 57,500 were practically the same as in the previous year (€ 57,800), in spite of the facilities that started operation and the reduction in sales in the rehabilitation division.

Development in the number of employees



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 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 and 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.

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. Adjusted to eliminate the impact of the capacity expansion programme, 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 Group company ProTec Dienstleistungsgesellschaft mbH. 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 conduct.

Further growth was the highlight of the 2004/2005 financial year. In order to continue encouraging this growth in a structured and profitable way, a major step towards optimised management and economic control of our facilities was taken with the establishment of the central management system at the beginning of 2005. A group of experienced and proven central management staff that reports directly to the Management Board co-ordinates and monitors all the measures taken to increase earnings without having to involve intermediate hierarchical levels that have now been eliminated. There was, however, 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, which we have continued to develop every year, is of central importance in this process. This system does not merely keep records; 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 Group-wide reporting system makes sure that the decision makers are always kept informed accurately and quickly. It 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 countermeasures 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.-Institut 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.

With the establishment of our central management system, we are now making risk management a prominent feature of our activities at the operating level. Deviations from targets that have been set are not only identified immediately; they are also eliminated directly at the facilities in liaison with the local personnel.

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 continues to be unsatisfactory from the overall economic point of view, receivables from Karlsruher-Sanatorium AG were written off in the MKAG annual accounts.

The committed assets at the participating interests in the rehabilitation division were essentially as follows as per 30.06.2005:

- € 61.8 million in tangible assets, of which

- € 60.0 million land and buildings.

- € 7.8 million shares in affiliated companies.

As in the previous year, the value of the assets of the 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 (IDW).

As in the previous year, the basic assumption of the planning calculations is still to achieve full utilisation of the capacity of our clinics in the medium term, i.e. from the 2008/2009 financial year onwards, when the market shake-out is over. Apart from the intensification of sales activities, 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 leasing concepts for our clinics in Waldkirch and Reinerzau.

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 hours and compensation. We are making good progress here and will be achieving the planned cost savings.

As in the previous year, the value of capitalised earnings was determined by applying a discount interest rate of 8.0%. The reduction of 1.25% points in the basic interest rate in the meantime was not included in this context, in order to take account of the current market conditions in the rehabilitation operations.

Fulfilment of the planning assumptions depends to a large extent on business development at the Kinzigtal clinic in Gengenbach, the Gotthard Schettler clinic in Bad Schönborn and the Schömberg clinic. Of these three clinics, which together on their own represent the value assumed for the participating interests, the Gotthard Schettler clinic is already reaching full occupancy today, as in the past. The Kinzigtal clinic is making good progress towards reaching the targets in the short term, while the clinic in Schömberg will be following suit in the medium term.

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

Corporate Governance Code

The Supervisory Board and Management Board have issued the statement of compliance with the recommendations made by the "Government Commission/German Corporate Governance Code" specified by § 161 of the AktG and have made it available to the shareholders on a permanent basis at www.marseille-kliniken.de, the company website.

The statement of compliance is printed in the "Share" section of the annual report too.

Events after the end of the financial year

No events have occurred since the end of the 2004/2005 financial year that affect the picture of the situation of the Group presented in the Group annual accounts.

Reference does, however, need to be made in this context to the fact that processing of two of the properties which are part of the transaction with GE (Hennigsdorf and Sankt Elisabeth) was completed directly after the balance sheet qualifying date. A down payment of € 3.5 million was only made for the property in Hennigsdorf as per 30.06.2005, which is shown in the "other liabilities" item. Since legal implementation was after the balance sheet qualifying date, a report about the impact on the balance sheet structure and the profit and loss account will be presented in the report on the first quarter of the 2005/2006 financial year. The sale of these properties is reducing the tangible assets by a further € 20 million and the bank loans and overdrafts by € 28.7 million, while it is increasing the shareholders' equity by € 9.1 million to € 75.2 million and thus to 22% of the balance sheet total.

Dependent companies' report

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

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

Prospects

There was no major improvement in the German economic situation in the 2004/2005 financial year. So far, the domestic economy has not been stimulated in any noticeable 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. A change in attitude which could trigger off decisive progress has not, however, become any more probable following the results of the German general election on 18. September 2005.

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 with the aims of concentrating on locations that promise long-term success and making 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 2005/2006 financial year. The complete integration of the facilities that have started operation in Dresden and Hennigsdorf near Berlin, a considerable improvement by the "slow starters" in Landshut and Montabaur and the implementation of further locations will lead to a substantial increase in sales by the nursing division. 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.

424 beds will be coming into operation in Hamburg and Düsseldorf in the current financial year. A further 756 beds are being added in the assisted living segment of the nursing operations in Halle an der Saale following the take-over of the shares in Allgemeine Dienstleistungsgesellschaft mbH – ADG.

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 are being intensified and give our targets a realistic background.

Group balance sheet (HGB) at 30. June 2005 and 2004

ASSETS	2005 € '000	2004 € '000
A. Fixed assets		
I. Intangible assets		
1. Franchises and similar rights and assets and licences from these rights and assets	3,958	4,459
2. Goodwill	17,096	17,950
	21,054	22,409
II. Tangible assets		
1. Land, leasehold rights and buildings including buildings on non-owned property	273,227	280,836
2. Technical plant and machinery	562	667
3. Other fixtures, fittings and equipment	8,420	9,010
4. Payments for account and assets under construction	3,628	12,468
	285,837	302,981
III. Financial assets		
1. Shares in affiliated companies	1,327	1,422
2. Participating interests	91	112
3. Miscellaneous loans	1,080	1,080
	2,498	2,614
	309,389	328,004
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	1,396	1,285
2. Work in progress	61	244
3. Finished goods and merchandise	120	98
	1,577	1,627
II. Receivables and other assets		
1. Trade accounts receivable	12,929	12,991
2. Accounts due from affiliated companies	4,453	1,529
3. Accounts due from companies in which there is a participating interest	0	84
4. Other assets	30,049	19,885
	47,431	34,489
III. Securities		
1. Shares in affiliated companies	101	101
2. Own shares	54	0
3. Other securities	0	0
	155	101
IV. Cash in hand and at banks	4,734	1,791
	53,897	38,008
C. Deferred charges and prepaid expenses	2,212	2,694
	365,498	368,706

LIABILITIES	2005 € '000	2004 € '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	1,092	953
	1,335	1,196
IV. Accumulated Group losses	-15,360	-15,184
V. Minority interests	-111	37
	32,851	33,036
B. Special item for investment subsidies for fixed assets	2	4
C. Special item for investment grants for land and buildings, as per official subsidy notice	45,885	43,224
D. Provisions and accrued liabilities		
1. Pension provisions	15,331	15,411
2. Tax provisions	14,061	16,636
3. Other provisions and accrued liabilities	10,797	11,914
	40,189	43,962
E. Liabilities		
1. Bank loans and overdrafts	204,856	224,457
2. Payments received on account	0	743
3. Trade accounts payable	8,767	10,733
4. Accounts due to affiliated companies	6,856	1,667
5. Accounts due to companies in which there is a participating interest	52	0
6. Other liabilities of which for taxes: € 823,000 (previous year: € 1,056,000) of which for social security contributions: € 2,648,000 (previous year: € 2,521,000)	20,692	6,731
	241,223	244,331
F. Deferred income	5,348	4,149
	365,498	368,706

Annual Accounts

Group profit and loss accounts (HGB) for the 2004/2005 and 2003/2004 financial years

	2004 I 2005 € '000	2003 I 2004 € '000
1. Sales	201,373	200,082
2. Decrease/increase in the level of finished work and work in progress	-183	137
3. Other own work capitalised	0	3,535
4. Other operating income	13,986	10,431
5. Cost of materials		
a) Cost of raw materials, consumables and supplies and of goods purchased	21,712	20,370
b) Cost of purchased services	7,063	7,239
6. Personnel expenses		
a) Wages and salaries	84,579	86,163
b) Social security and pension/welfare costs of which for pensions: € 1,115,000 (previous year: € 1,370,000)	18,433	18,954
7. Depreciation		
a) of intangible and tangible fixed assets	14,815	20,431
b) of current assets to the extent that they exceed normal depreciation at the company	0	1,895
8. Other operating expenses	50,627	53,306
9. Income from participating interests of which from affiliated companies: € 2,883,000 (previous year: € 75,000)	2,883	75
10. Income from profit transfer agreements of which from affiliated companies: € 0 (previous year: € 16,000)	0	16
11. Other interest and similar income of which from affiliated companies: € 347,000 (previous year: € 330,000)	1,198	1,495
12. Depreciation of financial assets and securities held as current assets	13	2,073
13. Expenses from the assumption of losses of which from affiliated companies: € 300,000 (previous year: € 229,000)	300	229
14. Interest and similar expenses of which to affiliated companies: € 215,000 (previous year: € 118,000)	12,957	13,887
15. Profit/loss on ordinary business activities	**8,758**	**-8,776**
16. Taxes on income and earnings	3,249	3,812
17. Other taxes	834	294
18. Net Group profit/loss for the year	**4,675**	**-12,882**
19. Accumulated losses/profits of the Group brought forward	-15,184	1,662
20. Minority interest share	**148**	**821**
21. Transfer from reserve for own shares	0	453
22. Transfer to reserve for own shares	139	415
23. Distribution of profits	4,860	4,823
24. Accumulated Group losses	**-15,360**	**-15,184**

Group statement of cash flow (HGB)

	2004|2005		2003|2004		Change
Income from/expenditure on business operations	€ '000	€ '000	€ '000	€ '000	€ '000
Net Group profit for the year	4,674		-12,882		17,556
Corrections for reconciliation of the net Group profit to the income/expenses					
Depreciation of intangible assets and expenditure for the expansion of business operations	2,016		2,777		-761
Depreciation of tangible assets	12,799		17,654		-4,855
Depreciation of financial assets	0		70		-70
Net transfers to/release of special items with an equity portion and/or for grants/subsidies	2,659		1,914		745
Net transfers to/release of provisions for pensions and similar commitments	-80		-91		11
Transfer to deferred taxes	318	17,712	758	23,082	-440
		22,386		**10,200**	**12,186**
Decrease/increase in assets and liabilities					
Inventories	49		84		-35
Trade accounts receivable	63		825		-762
Accounts due from affiliated companies	-2,924		1,969		-4,893
Accounts due from companies in which there is a participating interest	84		464		-380
Securities held as current assets	-54		2,411		-2,465
Other assets	-10,164		7,888		-18,052
Tax provisions	-2,894		2,072		-4,966
Other provisions	-1,118		2,442		-3,560
Trade accounts payable	-1,966		1,376		-3,342
Accounts due to affiliated companies	5,189		510		4,679
Accounts due to companies in which there is a participating interest	51		-46		98
Other liabilities	13,962		-3,617		17,579
Advances received	-742		462		-1,204
Miscellaneous items	1,679	1,216	2,232	19,072	-553
Net income from business operations		**23,602**		**29,272**	**-5,670**
Cash flow from investment activities					
Additions to					
Intangible assets and expenditure for the expansion of business operations	-662		-1,418		756
Tangible assets	-15,958		-10,064		-5,894
Financial assets	-30		-1,106		1,076
Asset disposals (at net book values)					
Intangible assets and expenditure for the expansion of business operations	0		-2		2
Tangible assets	20,304		517		19,787
Financial assets	148	3,802	76	-11,997	72
		27,404		**17,275**	**10,129**
Cash flow from financing activities					
Increase/decrease in medium and long-term bank liabilities	-18,267		1,143		-19,410
Changes in minority interests (excluding share of losses)	0		-12		12
Distribution of profits	-4,860	-23,127	-4,823	-3,692	-37
		4,277		13,583	0
		4,277		**13,583**	**-9,306**
Increase in liquid funds					
Liquid funds at the beginning of the financial year		-12,296		-25,879	13,583
Liquid funds at the end of the financial year		**-8,019**		**-12,296**	**4,277**
Breakdown of the liquid funds at the end of the financial year					
Cash in hand and at banks		4,734		1,791	2,943
Short-term bank loans and overdrafts		-12,753		-14,087	1,334
		-8,019		**-12,296**	**4,277**

Group equity schedule (HGB)

	Parent company Subscribed capital € '000	*Parent company* Capital reserve € '000	*Parent company* Group equity generated € '000	*Parent company* Equity according to Group balance sheet € '000	*Parent company* Own shares that are not to be redeemed € '000	*Parent company* Equity € '000	*Minority interests* Minority capital € '000	Group equity € '000
Balance on 30.06.2003	31,100	15,887	2,896	49,883	991	48,892	871	49,763
Dividends paid	0	0	–4,823	–4,823	0	–4,823	0	–4,823
Other changes	0	0	0	0	–38	38	–13	25
Net Group loss for the year	0	0	–12,061	–12,061	0	–12,061	–821	–12,882
Balance on 30.06.2004	**31,100**	**15,887**	**–13,988**	**32,999**	**953**	**32,046**	**37**	**32,083**

	Parent company Subscribed capital € '000	*Parent company* Capital reserve € '000	*Parent company* Group equity generated € '000	*Parent company* Equity according to Group balance sheet € '000	*Parent company* Own shares that are not to be redeemed € '000	*Parent company* Equity € '000	*Minority interests* Minority capital € '000	Group equity € '000
Balance on 30.06.2004	31,100	15,887	–13,988	32,999	953	32,046	37	32,083
Dividends paid	0	0	–4,860	–4,860	0	–4,860	0	–4,860
Other changes	0	0	0	0	139	–139	0	–139
Net Group profit for the year	0	0	4,823	4,823	0	4,823	–148	4,675
Balance on 30.06.2005	**31,100**	**15,887**	**–14,025**	**32,962**	**1,092**	**31,870**	**–111**	**31,759**

Notes to the Group annual accounts

for the 2004/2005 financial year

1. General information

The Group annual accounts as per 30. June 2005 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 2005 has been structured in accordance with § 266 of the HGB; the cost summary method has been applied in compiling the profit and loss accounts in accordance with § 275 of the HGB.

CareAktiv GmbH, Spezial-Pflegeheim Hennigsdorf gGmbH and Senioren-Wohnpark Dresden "Am Großen Garten" GmbH have been included in the Group annual accounts for the first time.

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. 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.

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.

The *other provisions* take all apparent risks and contingent liabilities into account on the basis of a prudent commercial evaluation.

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. Financial assets

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

	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 2005	2004/2005	2003/2004
	%	€ '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	46	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	208	0	0
Senioren-Wohnpark Tangerhütte GmbH, Tangerhütte [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	-34	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	Shareholders' equity	Annual result, if applicable after profit transfer or assumption of losses, incl. total yield from cash management	
			30. June 2005	2004/2005	2003/2004
	%	€ '000	€ '000	€ '000	€ '000
AMARITA Buxtehude GmbH, Buxtehude [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	26	0	0
CASA Trainingsstätte und Bildungszentrum für Dienstleister im Gesundheitswesen gemeinnützige GmbH, Neuruppin [1,2]	100.00	26	-38	0	-1
Senioren-Wohnpark soziale Altenbetreuung gemeinnützige GmbH, Langen [2]	100.00	26	1,202	308	-54
Allgemeine soziale Dienstleistungen gemeinnützige GmbH, Langen [2]	100.00	26	-546	-79	-160
Medina soziale Behindertenbetreuung gemeinnützige GmbH, Wolmirstedt [2]	100.00	38	6	189	2
"Villa Auenwald" Seniorenheim GmbH, Böhlitz-Ehrenberg [2]	100.00	26	26	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	496	262	223
SCS Standard Computersysteme Entwicklungsgesellschaft 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	3,209	-5,084	-12,180
Mineralquelle Waldkirch Verwertungsgesellschaft mbH, Hamburg [3]	89.5 [4]	2,557	-3,755	744	-3,086
REHA-Klinik Sigmund Weil GmbH, Hamburg [3]	93.53 [4]	5,113	8,958	877	689
Talhaus "Waldkirch" GmbH & Co. KG, Hamburg [2]	89.5 [4]	26	1	-3	15
eqs. Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH, Karlsruhe [2]	100.00	26	117	-8	37
Senioren-Wohnpark Friedland – SWP – GmbH, Friedland [2]	100.00	25	24	0	0
CASA Trainingszentrum für Hotel- und Sozialberufe GmbH, Bad Oeynhausen [2]	100.00	25	-1,787	0	0
Senioren-Wohnpark Leipzig "Stadtpalais" GmbH, Leipzig [2]	100.00	25	15	0	0

	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 2005	2004/2005	2003/2004
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark Leipzig "Eutritzscher Stadtpalais" GmbH, Leipzig [2]	100.00	25	25	0	0
Senioren-Wohnpark Lichtenberg GmbH, Berlin [2]	100.00	25	25	0	0
Senioren-Wohnpark Landshut, Landshut [2,5]	100.00	25	-523	0	0
Tessenow Bau- und Vermögensverwaltungs Nr. 20 GmbH, Tessenow [2]	100.00	25	73	68	-130
Tessenow Vermögensverwaltungs GmbH, Tessenow [2]	100.00	25	-2	91	-19
AMARITA Datteln GmbH [2,6]	100.00	25	25	0	0
AMARITA Hohen Neuendorf GmbH, Hohen Neuendorf [2]	100.00	25	316	0	0
Teufelsbad Residenz Blankenburg GmbH, Blankenburg [2]	100.00	25	24	0	0
Atrium Senioren-Wohnstift Nr. 21 GmbH, Bremerhaven [2]	100.00	51	-206	-254	66
AMARITA Oldenburg GmbH, Oldenburg [2]	100.00	51	100	-126	145
Spezial-Pflegeheim Hennigsdorf gemeinnützige GmbH, Hennigsdorf [2]	100.00	51	-595	-369	-112
Senioren-Wohnpark Montabaur GmbH, Montabaur [2,5]	100.00	51	-1,943	169	0
SWP Dresden "Am Großen Garten" GmbH, Dresden [2]	100.00	50	-378	-380	-1
Senioren-Wohnpark Arnsberg GmbH, Arnsberg [2,5]	100.00	25	-170	114	-89
Senioren-Wohnpark Büren GmbH, Büren [2,5]	100.00	25	359	237	254
Senioren-Wohnpark Kreuztal-Krombach GmbH, Kreuztal [2,5]	100.00	25	-115	-143	82
Senioren-Wohnpark Lutzerath GmbH, Lutzerath [2,5]	100.00	25	16	34	99
CareAktiv GmbH, Bremerhaven [5]	100.00	25	263	238	2
Logo 7. Grundstücksverwaltungsgesellschaft mbH, Hamburg [2,5]	100.00	25	-221	-13	11
ProTec Dienstleistungsgesellschaft mbH, Schwerin [2,5]	100.00	25	-1,132	400	-1,523

[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 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] Shares held by Marseille-Klinik-Delta GmbH
[6] Previously Betrium Nr. 41 Vermögensverwaltungs-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:

	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 2005	2004/2005	2003/2004
	%	€ '000	€ '000	€ '000	€ '000
Senioren-Wohnpark HES GmbH, Hamburg [1,2]	100.00	26	26	0	0
Senioren-Wohnpark OES GmbH, Hamburg [1,2]	100.00	26	26	0	0
Senioren-Wohnpark ZES GmbH, Hamburg [1,2]	100.00	26	26	0	0
Senioren-Wohnpark soziale Grundbesitz-gesellschaft mbH, Hamburg [1,2]	100.00	26	-84	0	0
Atrium Senioren-Wohnstift Nr. 19 GmbH [1,2,4]	100.00	26	-213	-45	-14
Marseille-Klinik-Omega GmbH, Hamburg [1,2]	100.00	26	25	0	0
MK "Vorrat Nr. 26" Vermögensverwaltungs GmbH, Berlin [1,2]	100.00	51	-42	-4	-4
Mineralquelle Waldkirch GmbH, Hamburg [1,2,6]	100.00	26	41	2	1
Ausgleich- und Bürgschaftsgesellschaft im Heim- und Pflegewesen [1,2,4]	100.00	25	20	0	0
Betrium Nr. 20 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	20	0	-1
Cetrium Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	-2	-2	-1
Betrium Nr. 29 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	19	0	0
Senioren-Wohnpark Neuruppin – SWP – GmbH, Neuruppin [1,2]	100.00	25	19	0	0
Cefugium Betriebsmanagement GmbH [1,2,4]	100.00	25	17	-1	-1
Betrium Nr. 35 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	18	0	-1
Betrium Nr. 36 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	17	0	-1
Betrium Nr. 37 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	20	0	0
Betrium Nr. 44 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	22	0	0
Betrium Nr. 45 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	23	0	0
Marseille-Kliniken-Beteiligungsgesellschaft Nr. 46 GmbH [1,2,4,7]	100.00	25	22	-1	0
Marseille-Kliniken R.S.A. GmbH [1,2,4,8]	100.00	25	16	-7	-2
Betrium Nr. 48 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	23	0	0
Betrium Nr. 49 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	22	0	0
Betrium Nr. 50 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	21	0	0
Betrium Nr. 51 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	14	0	-1
Betrium Nr. 52 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	19	-4	-2
ANG Grundstücksgesellschaft mbH [1,2,4,9]	100.00	25	25	0	19
Betrium Nr. 54 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	23	0	-1
Betrium Nr. 55 Vermögensverwaltungs-GmbH [1,2,4]	100.00	25	18	0	-3
Atrium Senioren-Wohnstift Nr. 24 GmbH [2,3,4]	100.00	51	1,581	1,243	222
VSE Vermietungsgesellschaft für soziale Einrichtungen mbH, Hamburg [1,2,3]	100.00	51	52	1	0
Atrium Senioren-Wohnstift Nr. 26 GmbH [1,2,3,4]	100.00	51	-18	0	16
Atrium Senioren-Wohnstift Nr. 27 GmbH [1,2,3,4]	100.00	51	17	-1	-7

	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 2005	2004I2005	2003I2004
	%	€ '000	€ '000	€ '000	€ '000
Atrium Senioren-Wohnstift Nr. 29 GmbH [1) 2) 3) 4)]	100.00	51	10	-14	-3
AMARITA Hamburg - Mitte GmbH [1) 2) 3) 4)]	100.00	51	-242	-145	92
Atrium Senioren-Wohnstift Nr. 31 GmbH [1) 2) 3) 4)]	100.00	50	-2	0	186
Atrium Senioren-Wohnstift Nr. 32 GmbH [1) 2) 3) 4)]	100.00	50	-2	0	51
Atrium Senioren-Wohnstift Nr. 33 GmbH [1) 2) 3) 4)]	100.00	50	-121	-14	-138
Atrium Senioren-Wohnstift Nr. 34 GmbH [2) 3) 4)]	100.00	50	1,403	984	233
TD Artos Verwaltungsgesellschaft mbH, Hamburg [1) 2) 3)]	100.00	50	48	0	0
TD Artos Artos Fonds-Management GmbH, Hamburg [1) 2) 3)]	100.00	50	47	0	0
Collateral Transparency GmbH, Wolmirstedt [1) 2) 3)]	100.00	50	29	0	0
Sozialimmobilien "Südharz" GmbH, Wolmirstedt [1) 2) 3)]	100.00	50	51	-11	33
Atrium Senioren-Wohnstift Nr. 41 GmbH [1) 2) 3) 4)]	100.00	25	22	0	-1
Atrium Senioren-Wohnstift Nr. 42 GmbH [1) 2) 4)]	100.00	25	3	-3	-16
Atrium Senioren-Wohnstift Nr. 48 GmbH [1) 2) 3) 4)]	100.00	25	23	0	0
Atrium Senioren-Wohnstift Nr. 50 GmbH [1) 2) 3) 4)]	100.00	25	23	0	0
Atrium Senioren-Wohnstift Nr. 52 GmbH [1) 2) 3) 4)]	100.00	25	23	0	0
Atrium Senioren-Wohnstift Nr. 53 GmbH [1) 2) 3) 4)]	100.00	25	23	0	0
Atrium Senioren-Wohnstift Nr. 54 GmbH [1) 2) 3) 4)]	100.00	25	23	-1	0
Atrium Senioren-Wohnstift Nr. 55 GmbH [1) 2) 3) 4)]	100.00	25	23	0	0
MediCargo GmbH, Nuthetal [2) 5)]	100.00	25	-1	-22	-3
Marseille-Projektgesellschaft "Bremerhaven" GmbH, Berlin [2)]	100.00	25	16	-4	-2
MK "Vorrat Nr. 21" GmbH [1) 2) 4)]	100.00	25	20	0	0
MK "Vorrat Nr. 22" GmbH [1) 2) 4)]	100.00	25	20	0	0
MK "Vorrat Nr. 23" GmbH [1) 2) 4)]	100.00	25	20	0	0
Medina Fördergesellschaft sozialer Einrichtungen gGmbH [1) 2) 4)]	100.00	25	21	0	0
MK "Vorrat Nr. 25" GmbH [1) 2) 4)]	100.00	25	20	0	0

1) No business operations any longer at the present time
2) Subsidiary of Karlsruher-Sanatorium-Aktiengesellschaft
3) Shares held by 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 provision stipulated in § 264 Paragraph 3 and § 264 b of the HGB
9) Shares held by 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 2005	2004I2005	2003I2004
	%	€ '000	€ '000	€ '000	€ '000
TD Artos Immobilien AG, Berlin [1) 2)]	40.00	100	-739	-115	-125
SCS Standard Computersysteme Aktiengesellschaft, Hamburg	1.62	3,211	823	-660	-704
Kurbetriebsgesellschaft Bad Klosterlausnitz mbH, Bad Klosterlausnitz	49.50	52	59	1	2

1) Provisional and unaudited result
2) Shares of Held Bau Consulting Projekt Steuerungsgesellschaft mbH

4. Consolidation principles

30. June 2005 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 2005

Historical and manufacturing costs schedule

	Balance on 1. July 2004 € '000	Additions € '000	Transfers € '000	Disposals € '000	Balance on 30. June 2005 € '000
A. Fixed assets					
I. Intangible assets					
1. Franchises and similar rights and assets as well as licences from these rights and assets	7,285	337	0	7	7,615
2. Goodwill	30,254	324	0	0	30,578
	37,539	**661**	**0**	**7**	**38,193**
II. Tangible assets					
1. Land, leasehold rights and buildings including buildings on non-owned property	377,474	9,327	7,208	16,791	377,289
2. Technical plant and machinery	2,845	0	0	98	2,747
3. Other fixtures, fittings and equipment	40,030	2,554	147	1,339	41,320
4. Payments on account and assets under construction	12,896	4,077	-7,354	5,424	4,195
	433,245	**15,958**	**0**	**23,653**	**425,551**
III. Financial assets					
1. Shares in affiliated companies	1,931	30	0	126	3,845
2. Participating interests	155	0	0	21	134
3. Miscellaneous loans	1,080	0	0	0	1,080
	3,166	**30**	**0**	**147**	**3,049**
	473,950	16,649	0	23,807	466,793

The differences on the assets side that arise in capital consolidation (hidden reserves) with a total net amount of € 41,474,000 (on 30. June 2005) have been allocated as follows: € 16,653,000 to goodwill and € 24,821,000 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 2004 € '000	Additions € '000	Transfers € '000	Disposals € '000	Balance on 30. June 2005 € '000	Net book values 30. June 2005 € '000	Net book values 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	2,826	838	0	7	3,657	3,958	4,459
2. Goodwill	12,304	1,178	0	0	13,482	17,096	17,950
	15,130	**2,016**	**0**	**7**	**17,139**	**21,054**	**22,409**
II. Tangible assets							
1. Land, leasehold rights and buildings including buildings on non-owned property	96,638	9,258	1	1,907	103,990	273,299	280,836
2. Technical plant and machinery	2,178	106	0	98	2,186	561	667
3. Other fixtures, fittings and equipment	31,020	3,238	-1	1,288	32,971	8,349	9,010
4. Payments on account and assets under construction	428	196	0	57	567	3,628	12,468
	130,264	**12,798**	**0**	**3,350**	**139,714**	**285,837**	**302,981**
III. Financial assets							
1. Shares in affiliated companies	509	0	0	0	509	1,327	1,422
2. Participating interests	43	0	0	0	43	91	112
3. Miscellaneous loans	0	0	0	0	0	1,080	1,080
	552	**0**	**0**	**0**	**552**	**2,498**	**2,614**
	145,946	14,815	0	3,357	157,404	309,389	328,004

5. Explanatory notes about the balance sheet

The *shares in affiliated companies* at Group level include about 60 companies 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.

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 € 805,000 from Mr Ulrich Marseille and companies associated with him.

The other assets in the Group annual accounts also include claims to tax refunds of € 173,000 in addition to shares in ADG that have to be included in the current assets too (€ 12,775,000). These accounts include repayment claims of € 1,413,000 against employees relating to loans as well.

€ 16,330,000 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 24. January 2005. The authorisation is limited to 18 months up to 24. July 2006 as well as to a maximum of 10% of the subscribed capital.

5,405 company shares were acquired in the 2004/2005 financial year. They have been included accordingly as own shares in the securities held as current assets. They represent 0.04% of the subscribed capital. Each share accounts for € 2.56 of the subscribed capital. The historical costs amounted to € 66,463.34. The loans granted to employees associated with these transactions were repaid by the same amount.

The *deferred charges and prepaid expenses* item includes a discount amounting to € 2,205,000.

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.

€ 139,000 were included in the *reserve for own shares* in accordance with § 272 Paragaph 4 of the HGB in the financial year. The reserve for own shares has been formed in accordance with § 71 Paragraph 1 No. 8 of the AktG and in accordance with § 71 e of the AktG in connection with § 71 Paragraphs 1 and 2 of the AktG as per 30. June 2005. The valuation of the reserve in relation to the secured shares has been based in this context on the market value of the shares, which is less than the amount of the secured receivables. A reserve for own shares has been formed for a total of 106,036 shares with a total nominal value of € 270,391.80. This represents 0.87% of the total capital.

The *minority interests* are accounted for mainly (-€ 290,000) by minority interests in Karlsruher-Sanatorium-Aktiengesellschaft, by minority interests in Mineralquelle Waldkirch Verwertungsgesellschaft mbH (€ 86,000) and by minority interests in REHA-Klinik Sigmund Weil GmbH (€ 57,000).

The s*pecial 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 Hennigsdorf GmbH, Senioren-Wohnpark Radensleben GmbH, Senioren-Wohnpark Treuenbrietzen GmbH, Senioren-Wohnpark Erkner GmbH, Senioren-Wohnpark Kyritz GmbH, Senioren-Wohnpark Stützerbach GmbH, Senioren-Wohnpark Bad Langensalza GmbH, Senioren-Wohnpark Klausa GmbH, Senioren-Wohnpark Friedland GmbH, "Villa Auenwald" Seniorenheim GmbH, Marseille-Kliniken AG and SIV Immobilien-Verwaltungsgesellschaft mbH.

The *tax provisions* shown include provisions for deferred taxes of € 8,276,000.

The *other provisions and accrued liabilities* consist essentially of personnel costs (€ 6,350,000 for severance payments, Christmas bonuses, other bonuses, holiday pay, long service awards etc.) and outstanding invoices (€ 2,061,000).

Group

		Remaining term		
	Total € '000	up to 1 year € '000	1 to 5 years € '000	over 5 years € '000
1. Bank loans and overdrafts	204,860	20,612	41,490	142,754
Previous year	224,457	21,668	42,091	160,698
2. Payments received on account	0	0	0	0
Previous year	742	742	0	0
3. Trade accounts payable	8,767	8,767	0	0
Previous year	10,733	10,733	83	0
4. Accounts due to affiliated companies	6,856	6,856	0	0
Previous year	1,667	1,667	0	0
5. Accounts due to companies in which there is a participating interest	52	52	0	0
Previous year	0	0	0	0
6. Other liabilities	20,692	20,692	0	0
Previous year	6,731	6,731	0	0
	241,223	**56,979**	**41,490**	**142,754**
Previous year	244,330	41,541	42,091	160,698

The bank loans and overdrafts are secured by mortgages totalling € 359,678,000, 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 (€ 2,648,000), overpayments (€ 665,000) and income/-church tax (€ 823,000).

The other liabilities in the Marseille-Kliniken AG Group annual accounts include liabilities of € 9,666,000 to Mr Ulrich Marseille and companies associated with him.

6. Explanatory notes about the 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: € 140,382,000) and standard domestic hospital sales (total sales by the rehabilitation division: € 49,387,000).

The *other operating income* in the Group annual accounts is made up essentially of income from the disposal of fixed assets (€ 3,644,000), income from the release of special items for investment subsidies of tangible assets (€ 1,596,000), rental and leasing income (€ 1,554,000) and income from the release of provisions (€ 1,832,000).

The *other operating expenses* primarily include administration and operating expenses, i.e. rent and leasing payments (€ 22,667,000), legal and consultancy costs (€ 4,910,000), maintenance and repairs (€ 3,821,000) and advertising and representation costs (€ 2,900,000) as well as bad debts/loan waivers (€ 599,000).

7. Miscellaneous notes

Contingent liabilities

Marseille-Kliniken AG has issued what are mainly *absolute guarantees* as security for loans made to subsidiaries totalling € 85,471,000.

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.

Unlimited letters of support have been issued in addition to M. Held GmbH & Co. Baubetreuungs KG in 1995, concerning a legal dispute with a former sub-contractor, and in the year under review to Karlsruher-Sanatorium-AG.

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

Marseille-Kliniken Group

	Total	Remaining term up to 1 year	1 to 5 years	over 5 years
	€ '000	€ '000	€ '000	€ '000
Rental, leasing and service contracts	345,533	20,921	79,494	245,118
Leasehold right commitments	5,925	97	389	5,439
	351,458	**21,018**	**79,883**	**250,557**

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 GmbH, Medina soziale Behindertenbetreuung gGmbH, SWP Landshut GmbH, Senioren-Wohnpark Lichtenberg GmbH (in Berlin-Lichtenberg), Atrium Senioren-Wohnstift Nr. 22 GmbH (in Oldenburg) and the leasing of the Odenwald clinic, Bad König.

The property of the facilities SWP Langen GmbH, SWP Schollene GmbH, Atrium Senioren-Wohnstift Nr. 20 GmbH, Atrium Senioren-Wohnstift Nr. 24 GmbH and Atrium Senioren-Wohnstift Nr. 34 GmbH were sold and leased back in the year under review.

Number of employees

On average, the Group had a total of 4,626 employees in the 2004/2005 financial year (previous year: 4,380) (of which Karlsruher-Sanatorium-Aktiengesellschaft including subsidiaries: 525 [previous year: 621]). The 4,656* Group employees can be broken down on average into 2,592 full-time staff and 2,064 part-time staff. The Group also had 95 apprentices.

* including dormant employment contracts

Information stipulated by the AktG

In accordance with § 160 Paragraph 1 No. 8 of the AktG: Mr Ulrich Marseille, Hamburg, holds 65.49% of the voting rights in Marseille-Kliniken AG, Berlin, while Ms Estella-Maria Marseille holds 9.73% of the voting rights. The subscribed capital of Marseille-Kliniken AG amounts to € 31,100,000.00.

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

Board members

The members of the Management Board were:

Axel Hölzer, Hamburg, Chairman

Hans Heckmann, Hamburg
(until 24. May 2005)

Ennio Laviziano, Hamburg

The resignation of Mr Hans Heckmann has not yet been entered in the commercial register at Berlin – Charlottenburg Court.

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.

Supervisory Board

The members of the Supervisory Board are:

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

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

Dr Peter Danckert, lawyer, notary public, Berlin
- Member of the Supervisory Board:
  WMP EuroCom AG, Berlin (until 31. August 2004)

Mathias D. Kampmann, business administrator, Hamburg

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

Dr Peter Schneider, doctor, Berlin-Hennigsdorf

Supervisory Board meetings were held in the 2004/2005 financial year on 26. October 2004, 6. December 2004, 23. and 25. January 2005 and 24. May 2005.

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 2004/2005 financial year and amounted to € 762,000. In addition to this, the members of the Management Board were granted loans totalling € 864,000 in the financial year. Interest is being charged at standard market conditions.

One member of the Supervisory Board was granted a credit line of € 10,226,000. The loan taken was paid back with interest in the 2004/2005 financial year. The Supervisory Board received remuneration of € 121,000.

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

Berlin, September 2005
The Management Board

Segment report for the 2004/2005 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 into 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, which include the financial assets and the internal Group financing operations, have been allocated to the "Services" segment for the sake of clarity.

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

The following companies have been allocated to the "Services" segment 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 Entwicklungs-gesellschaft mbH
- SIV Immobilien-Verwaltungsgesellschaft mbH
- DaTess Gesellschaft für Datendienste mbH
- Talhaus "Waldkirch" GmbH & Co. KG
- eqs. Privatinstitut für Evaluation und Qualitätssicherung im Gesundheits- und Sozialwesen mbH
- 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
- CareAktiv GmbH

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.

Segment details

	Nursing		Rehabilitation		Services		Total	
	04 I 05 € '000	03 I 04 € '000	04 I 05 € '000	03 I 04 € '000	04 I 05 € '000	03 I 04 € '000	04 I 05 € '000	03 I 04 € '000
Sales								
To external third parties	145,675	144,778	50,536	53,069	5,162	2,235	201,373	200,082
Intersegment sales	68	455	38	23	57,142	62,141	57,248	62,619
	145,743	**145,233**	**50,574**	**53,092**	**62,304**	**64,376**	**258,621**	**262,701**
Segment earnings	18,734	15,110	2,665	-1,574	2,294	-4,016	23,693	9,520
including								
Depreciation	4,921	5,510	5,220	6,306	1,976	7,049	12,117	18,865
Other items with no cash effect								
Income from the release of special items	1,402	1,642	0	0	195	2	1,597	1,644
Net additions to pension provisions	0	0	-90	-123	10	32	-80	-91
Earnings from participating interests	0	0	0	0	2,883	226	2,883	226
Balance sheet								
Outstanding contributions	0	0	0	0	2	2	2	2
Fixed assets, including expenditure for the expansion of business operations	116,984	127,796	121,846	126,458	108,005	108,974	346,835	363,228
Current assets	46,809	44,615	42,663	37,238	131,212	112,151	220,684	194,004
Deferred charges and prepaid expenses	2,031	2,488	48	47	133	159	2,212	2,694
Balance sheet total/assets	165,824	174,899	164,557	163,743	239,352	221,286	569,733	559,928
Shareholders' equity	-2,949	-2,792	15,161	18,976	58,090	52,568	70,302	68,752
Special items	38,775	39,413	0	0	7,112	3,815	45,887	43,228
Provisions	4,685	4,279	20,815	22,075	14,863	17,087	40,363	43,441
Liabilities	120,794	130,063	127,835	122,612	159,130	147,773	407,759	400,448
Deferred income	4,519	3,936	746	80	157	43	5,422	4,059
Balance sheet total/liabilities	165,824	174,899	164,557	163,743	239,352	221,286	569,733	559,928
Investments in long-term assets	10,181	2,758	641	368	1,244	8,381	12,066	11,507

Reconciliation of major items

	04 I 05 € '000	03 I 04 € '000
Sales		
Sales to external third parties of the segments	201,373	200,082
Sales according to the accounts	201,373	200,082
Earnings		
Segment earnings	23,693	9,520
Interest income	1,198	1,495
Interest expenditure	-12,957	-13,887
Depreciation of goodwill and land from capital consolidation and of expenditure for the expansion of business operations	-2,780	-6,632
Earnings adjustments from other consolidation entries	-396	728
	8,758	**-8,776**
Profit on ordinary business activities according to the accounts	**8,758**	**-8,776**
Balance sheet total		
Balance sheet total, segments	569,733	559,928
Capital consolidation	-35,332	-28,923
Depreciation of goodwill and land from capital consolidation and of expenditure for the expansion of business operations	-2,780	-6,632
Debt consolidation	-166,123	-155,666
	365,498	**368,707**

Marseille-Kliniken AG profit and loss accounts (HGB) for the 2004/2005 and 2003/2004 financial years

Summary (prepared in accordance with the rules specified by the German Commercial Code [HGB])
The complete annual accounts of Marseille-Kliniken AG, for 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.

	2004 I 2005 € '000	2003 I 2004 € '000
1. Sales	17,286	17,773
2. Other operating income	3,939	4,126
3. Cost of materials	4,181	4,227
4. Personnel expenses	8,811	8,848
5. Depreciation of intangible and tangible fixed assets	3,437	1,639
6. Other operating expenses	11,308	9,882
7. Financial result	18,409	7,534
8. Profit on ordinary business activities	**11,897**	**4,837**
9. Taxes on income and earnings	1,676	3,369
10. Other taxes	28	32
11. Net profit for the year	**10,193**	**1,436**
12. Retained earnings brought forward	5,393	8,742
13. Transfer to/from reserve for own shares	139	38
14. Distribution of profits	4,860	4,823
15. Retained earnings	**10,587**	**5,393**

Marseille-Kliniken AG balance sheet (HGB) at 30. June 2005 and 2004

Assets	2005 € '000	2004 € '000
A. Fixed assets		
I. Intangible assets	698	777
II. Tangible assets	27,610	28,607
III. Financial assets	75,952	73,124
	104,260	**102,509**
B. Current assets		
I. Inventories	43	38
II. Receivables and other assets	89,302	71,414
III. Securities	54	0
IV. Cash in hand and at banks	70	240
	89,469	**71,693**
C. Deferred charges and prepaid expenses	33	83
	193,762	**174,285**

Liabilities	2005 € '000	2004 € '000
A. Shareholders' equity		
I. Subscribed capital	31,100	31,100
II. Capital reserve	15,887	15,887
III. Revenue reserves	1,299	1,161
IV. Retained earnings	10,587	5,393
	58,873	**53,541**
B. Special item for investment grants for land and buildings as per official subsidy notice	2,262	2,408
C. Provisions and accrued liabilities	12,234	15,272
D. Liabilities	119,867	102,466
E. Deferred income	526	598
	195,762	**174,285**

Auditors' report

We have issued the following unqualified report about the complete annual accounts of Marseille-Kliniken Aktiengesellschaft, Berlin, as per 30. June 2005 as well as about the Group annual accounts of Marseille-Kliniken Aktiengesellschaft, Berlin, as per 30. June 2005:

"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 2004 and ended on 30. June 2005. 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. The content of the statement of compliance in accordance with § 161 of the German Companies Act (AktG) included voluntarily in the management and Group management report was not covered by the audit.

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 combined management and Group 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."

BDO Deutsche Warentreuhand
Aktiengesellschschaft
Wirtschaftsprüfungsgesellschaft

Rohardt	**zu Inn- und Knyphausen**
Auditor	Auditor

Hamburg, 29. September 2005

Balance sheets, profit and loss accounts according to IFRS/IAS

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

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

The regulation proposed by the European Parliament and the Council about the application of international accounting standards (regulation (EC) No. 1602/2002) was adopted with the approval of the Council of Ministers of the EU on 7. June 2002. According to this regulation, companies with securities that have been admitted for trading on an organised capital market within the EU are required to prepare their consolidated annual accounts in accordance with IFRS/IAS for financial years that begin on or after 1. January 2005. Following approval by the Accounting Regulatory Committee (ARC), all valid IAS, IFRS, SIC and IFRIC – with the exception of IAS 39 – have been recognised accordingly since then by the EU and were taken over by regulation by February 2005. The national government published the EU specifications in the Federal Law Gazette on 9. December 2004 within the framework of the Balance Sheet Law Reform Act.

This means that the legal basis for Marseille-Kliniken AG annual accounts in accordance with IFRS/IAS from the 2005/2006 financial year (year under review) onwards has now been created. By way of preparation, we have voluntarily compiled a reconciliation calculation of Group earnings and Group shareholders' equity to IFRS as per 30.06.2005.

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 earnings and Group shareholders' equity to IFRS.

2. General 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.

The IASB published its first standard on 19. June 2003. International Financial Reporting Standards (IFRS) No. 1. has to be applied to financial years that begin on or after 1. January 2004. Marseille-Kliniken AG applied IFRS 1 voluntarily in advance in the 2003/2004 financial year.

In the reconciliation calculations of the Marseille-Kliniken AG Group for the 2002/2003 financial year according to IFRS/IAS, voluntary advantage was already taken of the provisions of IFRS 1, which have the effect of leading to simplification of the conversion process.

3. Major differences between the German Commercial Code (HGB) and IFRS/IAS

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

Reconciliation of the shareholders' equity as per 1. July 2002 to IFRS/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 IFRS/IAS instead of in accordance with the accounting regulations provided by the German Commercial Code (HGB).

Group opening balance sheet as per 1. July 2002

	Note	1. July 2002 € '000
Group shareholders' equity according to the 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 IFRS/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 the German Commercial Code (HGB). The effects of this on results in the past were 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 the German Commercial Code (HGB) was formed for expenditure for the start-up and expansion of business operations. Capitalisation is not allowed under IFRS/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, IFRS/IAS does not allow such items to be included in the accounts.

c) By comparison with the HGB, one additional company has been consolidated at equity in the IFRS/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 the HGB and IFRS/IAS 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 32.33 stipulates that own shares may not be shown on the assets side.

h) IAS 27.33 states that the minority interests must be shown as a separate item in the Group balance sheet.

i) According to IAS 12, deferred tax assets and liabilities relating to effects on results expected in future due to differences between the accounting and valuation principles of the German Commercial Code and IFRS/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 as per 30. June 2004 and 30. June 2005

A summary of all the major adjustments that would have been necessary in the 2004/2005 financial year and the previous year to reconcile the Group shareholders' equity according to the German Commercial Code (HGB) to Group shareholders' equity according to IAS is given below.

	Note	30. June 2005 € '000	30. June 2004 € '000
Group shareholders' equity according to the HGB		**32,851**	**33,037**
Pension provisions	(b)	-2,006	-1,991
Financial lease	(c)	-6,552	-6,706
Transfer according to IFRS 5	(d)	160	0
Neutralisation/scheduled depreciation/goodwill	(e)	1,670	870
Deferred taxes	(f)	5,445	4,435
Effects of transfers: minority interests		111	-37
own shares		-54	0
Group shareholders' equity according to IFRS/IAS		31,625	29,608

The special items for investment subsidies and grants for fixed assets of € 45,887,000 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 € 33,784,000. The shareholders' equity plus the special items for investment subsidies and grants that increase shareholders' equity therefore amount to € 65,409,000.

	Note	2004 I 2005 € '000	2003 I 2004 € '000
Group net income/loss according to the HGB		**4,674**	**-12,882**
Result generated by participating interests in associated companies	(a)	0	995
Pension expenditure	(b)	-15	-419
Financial lease	(c)	154	104
Neutralisation/depreciation according to IFRS 5	(d)	160	0
Neutralisation/scheduled depreciation/goodwill	(e)	800	870
Deferred taxes	(f)	1,010	1,499
Effects of transfers: minority interests		148	821
Group net income/loss according to IFRS/IAS		6,931	-9,012

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 in accordance with the IFRS/IAS-based actuarial reports.

c) In addition to the leasing contracts already mentioned as per 1. July 2002, five rental contracts relating to nursing facilities at different locations were 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 five rental contracts were capitalised in fixed assets accordingly too and the liabilities to the lessors were included accordingly in liabilities.

d) In accordance with IFRS 5.6, long-term assets must be classified as held for sale when their book value is determined mainly by the sale and not by further use. Long-term assets held for sale must be valued at the lower of their book value or fair value less selling costs.

In this case, the book value before classification of the asset as held for sale has been included for two properties as per 1. January 2005. The scheduled depreciation for the period up to 30. June 2005 has therefore been cancelled in accordance with IFRS 5.25. The areas associated with this have in addition been restated in the Group balance sheet in the 2004/2005 financial year.

e) 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 was 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) was suspended.

f) 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.

4. Group balance sheets according to IAS/IFRS as per 30. June 2004 and 30. June 2005

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 2005 € '000	30. June 2004 € '000
Assets		
Long-term assets		
Intangible assets	22,725	23,279
Tangible assets	292,929	333,496
Financial assets	2,498	2,615
	318,152	**359,390**
Short-term assets		
Inventories	1,577	1,626
Trade accounts receivable	12,929	12,991
Tax reimbursement claims	172	3,397
Other accounts receivable and assets	36,541	20,795
Securities	101	101
Liquid funds	4,734	1,791
	56,054	**40,701**
Long-term assets held for sale	**21,514**	**0**
Total assets	395,720	400,091
Shareholders' equity and liabilities		
Shareholders' equity and reserves	31,625	29,608
Minority interests/Group	-111	37
Special fixed asset items	45,887	43,228
Long-term liabilities		
Long-term financial liabilities	157,115	210,370
Pension commitments	17,337	17,402
Other long-term liabilities	40,346	41,369
	214,798	**269,141**
Short-term liabilities		
Short-term financial liabilities	20,189	14,087
Trade accounts payable	8,767	10,733
Other short-term liabilities	27,599	9,141
Short-term provisions	19,414	24,116
	75,969	**58,077**
Liabilities directly connected with long-term assets held for sale	**27,552**	**0**
Total shareholders' equity and liabilities	395,720	400,091

Board members

The Management Board

AXEL HÖLZER
Chairman

HANS HECKMANN
(until 24. May 2005)

ENNIO LAVIZIANO

The Supervisory Board

ULRICH MARSEILLE
Businessman
Chairman

HANS-HERMANN TIEDJE
Media entrepreneur
Deputy Chairman

DR PETER DANCKERT
Lawyer

DR PETER SCHNEIDER
Medical consultant

PROFESSOR DR
MATTHIAS P. SCHÖNERMARK
University professor

MATHIAS KAMPMANN
Business administrator,
self-employed businessman

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

Imprint

Publisher:	Marseille-Kliniken AG
Contact:	Corporate Communications
Internet:	www.marseille-kliniken.de

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

5-year summary
Group (HGB)

		04/05	03/04	02/03	01/02	00/01
Results						
Operating sales	€ m	201.4	200.1	190.0	180.9	168.1
Cost of materials	€ m	28.8	27.6	25.1	36.4	21.5
Personnel expenses	€ m	103.0	105.1	99.9	93.5	84.4
Depreciation	€ m	14.8	24.4	21.0	14.8	15.2
Net Group profit/loss for the year	€ m	4.7	-12.9	8.7	7.1	10.9
EBIT *	€ m	21.7	17.1	22.7	23.3	24.5
EBITDA *	€ m	34.8	31.4	37.2	38.1	39.7
EBITDAR *	€ m	57.8	53.4	56.7	53.9	52.9
EBIT margin *	%	10.8	8.6	11.9	12.9	14.6
RoS	%	3.8	3.7	4.5	5.6	5.0
DVFA/SG result	€ m	7.6	7.5	8.5	10.1	8.4
Gross cash flow *	€ m	22.3	17.9	26.2	24.9	25.7
Cash flow from current business operations	€ m	1.2	19.1	-6.7	3.7	10.3
Cash flow from investment activities	€ m	3.8	-12.0	-25.8	-12.8	-11.7
Balance sheet						
Fixed assets	€ m	309.4	328.0	336.5	324.9	326.5
Investments in tangible assets	€ m	15.9	10.1	29.9	11.7	24.7
Working capital	€ m	19.1	16.3	28.7	39.9	44.9
Investments in financial assets	€ m	0.0	1.1	0.0	0.7	0.9
Other key indicators						
Dividend	€ m	4.9	4.8	4.9	4.8	4.8
Dividend yield	%	3.9	4.8	9.0	4.3	3.5
Number of shares	Million	12.15	12.15	12.15	12.15	12.15
Market capitalisation	€ m	125.2	100.7	53.9	112.4	145.1
Return on equity **	%	11.4	11.5	10.6	11.9	9.2
Return on total capital	%	2.1	2.0	2.2	2.7	2.2
Year-end share price	€	10.30	8.29	4.44	9.25	11.35
Personnel expenses ratio	%	51.2	52.5	52.6	51.7	50.2
Adjusted cost of materials ratio	%	14.3	13.8	13.2	12.4	11.6
DVFA/SG earnings per share	€	0.63	0.62	0.70	0.83	0.69
Gross cash flow per share	€	1.84	1.47	2.16	2.05	2.12
Employees	Average number	4,520	4,380	4,122	3,795	3,470
Facilities	Number	60	58	57	50	48
Bed capacity	Number on 30.06.05	7,573	7,512	7,261	6,537	6,268
Occupancy rate ***	%	87.5	90.0	92.1	94.3	93.2

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

MARSEILLE-KLINIKEN AG

MANAGEMENT
Alte Jakobstrasse 79/80 • 10179 Berlin • Germany • tel.: +49 (0)30 24 632 400 • fax +49 (0)30 24 632 401

ADMINISTRATION
Sportallee 1 • 22335 Hamburg • Germany • tel.: +49 (0)40 514 590 • fax: +49 (0)40 514 597 09
www.marseille-kliniken.de • info@marseille-kliniken.com

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