

02/09/2004

Report on the 1st half of the year
1. July 2003 to 31. December 2003

Summary of the first six months 1. July 2003 to 31. December 2003

		03 04	02 03	Change in %
Results				
Total sales *	€ m	102.1	97.2	5.1
EBITDAR **	€ m	29.4	29.1	1.0
EBITDA **	€ m	21.5	23.1	-6.9
EBIT **	€ m	13.9	15.4	-9.7
EBIT margin **	%	13.6	15.9	-14.3
Net income	€ m	4.1	4.1	0.0
RoS	%	4.8	4.4	9.1
DVFA/SG result	€ m	4.9	4.3	14.0
Gross cash flow **	€ m	12.6	10.2	23.4
Balance sheet				
Fixed assets	€ m	368.9	351.9	4.8
Investments	€ m	4.1	4.8	-14.6
Shareholders' equity ***	€ m	75.0	79.2	-5.3
Equity ratio	%	17.8	19.3	-7.8
Other key indicators				
Employees (on average)	Number	4,386	3,995	9.8
Facilities	Number	58	54	7.4
Bed capacity	Number	7,455	6,572	13.4
Occupancy rate	%	90.6	93.3	-2.9

* Including change in the level of building work in progress and other own work capitalised

** Including DVFA/SG correction items

*** Including 73.6% special items with an equity portion

Main Group figures (IAS)

- Stagnant German economy
- Turbulence on the health market
- Sound development by Marseille-Kliniken
- Increase in operating sales
- Growth driven by the nursing division
- Weakness in the rehabilitation division
- Better Group DVFA result
- Slightly lower investments
- More employees
- Steady share price development
- Confident about the year as a whole

Dear shareholders and friends of the company,

The very different developments in our two nursing and rehabilitation divisions continued in the first half of the 2003/2004 financial year. The nursing division is still performing strongly. The occupancy rate at our senior citizens' residential homes is high and the new homes added last year are contributing to company profits. The rehabilitation division, however, is suffering from the weakness of the economy in Germany and from the uncertainty about the employment situation. The negative mood is having a considerable impact on application patterns. There is substantially less demand for medical services that can be deferred.

The figures for the first half of 2003/2004, which covers the months of July to December, reflects the strength of the nursing division on the one hand and the weakness of the rehabilitation division on the other. Sales from Group operations increased by 4.9 million to 102.1 million, with all this growth coming from the nursing division. Sales in this division rose by 8.6 million to 79.3 million, whereas they decreased by 3.7 million to 28.2 million in the rehabilitation division. The occupancy rate within the Group went down from 93.3% at the same time the previous year to 90.6%. This reduction is due primarily to the difficulties experienced in the

rehabilitation division. The new facilities in the nursing division that started operation have not yet completely reached the occupancy levels that are normal in the Group, so that the occupancy rate in this division was slightly lower too at 94.5%. The Group DVFA result was 4.9 million, 0.6 million higher than in the previous year. The increase of 1.2 million in earnings by the nursing division to 5.8 million was offset by a loss of 0.9 million in the rehabilitation division.

The setback in the rehabilitation division is unwelcome but no reason to be pessimistic about future prospects. The soundness of our business and our financial position is on the one hand determined by the nursing division, which is largely insensitive to economic fluctuations. It contributes more than 70% of the company's performance. This core business has in the meantime grown to such an extent that it compensates for the shortfalls in the rehabilitation division. Demand is on the other hand likely to increase again in the medium term as the economy recovers. The psychosomatic clinics, which account for 40% of the total capacity of this segment, are mainly affected by the current situation. The average occupancy rate at the five somatic clinics is 94%. Many potential applicants for treatment at the psychosomatic clinics are postponing rehabilitation measures because they are afraid of losing their jobs. Insurance companies are in addition extremely reluctant to approve courses of treatment because of the poor overall economic conditions.

Nursing care for the elderly is and will remain the field in which we will be generating our growth. The market has a promising future and is highly profitable for appropriately structured players. We are benefitting from the consolidation process, which is accelerating in view of the increasing quality and cost pressure, because we meet the requirements of customer orientation, economic viability and high social skills and have the right structure in our main growth areas. We are taking advantage of the purchasing power and increasingly exacting demands of the inhabitants of the Western German states by providing high quality and good value for money that much of the competition cannot match. The proportion of the nursing care rates charged in Eastern Germany that is accounted for by rent is reduced by the subsidies received by our facilities there, so that it is possible for us to provide high-quality services and utilise the capacity of the homes in structurally disadvantaged and low-income regions too. This explains the determination with which we are fighting to enforce our justified claim to funds in the state of Saxony-Anhalt. The legal dispute with the state is a lengthy one that is characterised by deliberate delaying tactics.

The proposals made by the Rürup Commission about reforming the nursing care insurance system, which have been shelved by the German Chancellor for the time being but will be back on the agenda again very soon because of the urgent need to reform the system, will not have any adverse effect on our growth strategy either. On the contrary. The nursing principle that is advocated of "outpatient care has priority over inpatient care" may well be desirable, but it conflicts with reality. Due to the sweeping changes that are taking place in society, the outpatient structures are completely inadequate to permit a switch in the fast-growing demand for nursing care from inpatient to outpatient care. The comprehensive range of services available at an inpatient facility can only be provided at considerable financial cost at the outpatient level if it is even possible at all. Quite apart from the tremendous physical and emotional demands that are made on relatives caring for family members.

The solution that is planned in order to strengthen outpatient care - harmonisation of the rates paid for outpatient and inpatient care by making huge cuts in the payments made for inpatient care and small increases in the rates paid for outpatient care in the nursing categories I and II - will lead at most to a shift in services. The effect of the huge reduction in the rates paid for the provision of nursing care for the elderly would be to increase the contribution made to total costs by home residents from 50% today to almost 80%. It is predictable that many people would be forced to apply for state welfare assistance in order to cover these additional costs. This would conflict with the legislation only just passed in 2003 about basic security according to requirements in old age and in the case of partial disability. As far as we are concerned, a shift in the proportion of residents who pay themselves and those who receive state welfare assistance is not of any importance from the financial point of view at least. The state welfare assistance authorities are required to pay what nursing care health insurance does not.

We are confident about the further development of your company. Rehabilitation is an established and necessary element of the health care system and will be leaving the slump it is in within the foreseeable future. We have taken what action we can. With the help of strict cost management while maintaining the quality standards required by our customers, we will be stemming the negative impact of this division on earnings. We are expecting to increase the sales and earnings of the nursing division considerably. The seven new facilities added in the previous year are being received by the market well. Expansion of the division is continuing rapidly. We are planning to lease new facilities on longterm contracts in the German states of Hesse and North Rhine-Westphalia.

We are expecting sales growth of 7% and a disproportionately large improvement in earnings in 2003/2004. Analysts are of the opinion that this forecast is cautious.

The confirmation of our rating BB-/neutral outlook that we received from Standard & Poor's in January 2004 shows that the company

continues to be valued favourably in comparison with our national and international competitors in particular too.

The potential of your company has not yet been appreciated fully on the capital market. The performance of our company is still not being reflected by an appropriate valuation of our share. The share price followed the positive trend in an increasingly stable stock market environment until about December 2003 before dropping back to 5.86 again at the end of the year. The price has recovered noticeably in the initial weeks of the new year and is edging its way up to the 8 mark. We interpret this to be a good omen for developments in the rest of the year.

We are certain that we will be able to present you, our shareholders, a set of accounts for the 2003/2004 financial year that overall will continue the positive development of previous years. On behalf of the Management Board, I would like to take this opportunity to thank you for the confidence you have placed in our work. Our thanks go at the same time to our staff, who have performed excellently and demonstrated high social skills.

Your
Axel Hölzer, Chairman of the Management Board

Stagnant German economy

The German economy remained stagnant for the second year in a row in 2003. Following the very mediocre growth of 0.2% in 2002, the Gross Domestic Product decreased by 0.1% in 2003. Demand fell in practically all areas. Initial signs of an uptrend became apparent in the autumn. The global economy is recovering and is in the meantime starting to get the German economy moving too. It is expected that export growth will stimulate the domestic economy in 2004 as well. Experts anticipate growth of a good 1.5%. The external value of the euro is a risk that might make the forecast difficult to reach. Continuing revaluation could cut growth in Germany by about 0.2 percentage point for two years. There is also a danger that further delays in the reform process will weaken the forces influencing domestic growth. Politicians are still unwilling to increase the flexibility of the economy emphatically by deregulating the labour market to a major extent.

Turbulence on the health market

The health reform that took effect at the beginning of 2004 has caused a major stir. Improvements had to be made just a few days after it came into force. It is foreseeable that the turbulence on the market will be continuing. The reduction in health insurance contributions to which the reform is supposed to lead has not happened yet. The additional costs are being incurred - without any compensation - by people who need medical services. Most of the experts agree that the action taken will not succeed in putting the health system back on a sound financial footing. The key demand for more market and more competition has not yet been fulfilled by the health politicians. The shortage of funds at all levels of the public sector will, however, have the effect that private capital will be flowing into the health market to an increasing extent in order to support the system. Growth in future is likely to be generated by private providers of health services. The postponement of the nursing care insurance reform shows that the political community still lacks the courage to make radical changes to the system.

Sound development by Marseille-Kliniken

The nursing and rehabilitation divisions continued to develop differently in the 1st half of the 2003/2004 financial year. The profitable growth in the nursing division was once again more than large enough to compensate for the shortfalls in the rehabilitation operations due to the economic situation. The Group sales and DVFA result increased. The sales growth in the nursing division (including seven new facilities) was 8.6 million. Group earnings improved by 0.6 million. The strategy is focussed on further growth in the nursing division and defence of the position in the rehabilitation division. The core of the business model remains the operation and management of health care facilities.

The following figures for the 1st half of 2003/2004 as well as those for the previous year have been compiled in accordance with international accounting standards (IAS/IFRS).

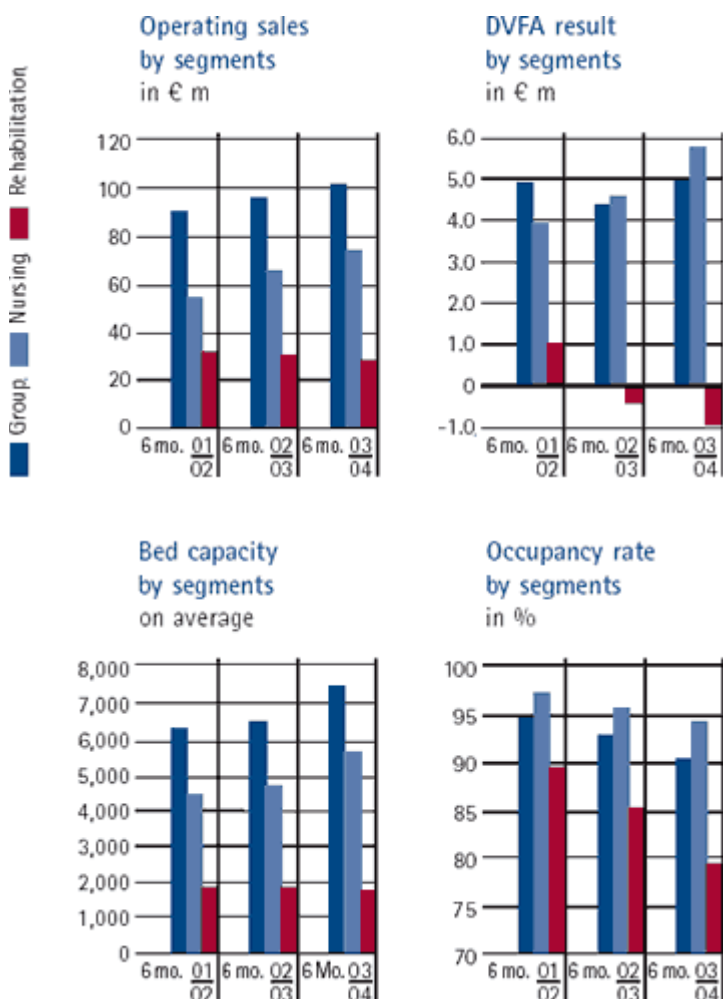
Increase in operating sales

Sales from Group operations in the first six months of the 2003/2004 financial year were 4.9 million higher than in the same period the previous year at 102.1 million. This growth was attributable solely to the nursing division. Sales in this division increased by 8.6 million to 73.9 million. In the rehabilitation division, on the other hand, they decreased by 3.7 million to 28.2 million.

The development in sales by the nursing division is due essentially to a larger number of beds. The Marseille- Kliniken Group operates 58 facilities, 47 of them nursing homes and 11 of them rehabilitation clinics. Eight new facilities were added to the nursing division in the first half of 2003/2004; capacity increased from 4,771 beds to 5,683 beds. The number of beds in the rehabilitation division (which still has 11 clinics) decreased from 1,801 to 1,772.

A total of 7,455 beds are available within the Group; this represents an increase of 883 beds over the same time the previous year. The beds were occupied 90.6% of the time on average. Due to the

reduction of 6.8 percentage points in the rehabilitation division, the overall occupancy rate fell by 2.7 percentage points.



Growth driven by the nursing division

The nursing division continues to record strong sales and earnings growth. The increase in sales of 8.6 million led to an improvement of 1.2 million in the DVFA result to 5.8 million. The beds were occupied 94.5% of the time on average. The fact that the occupancy rate was 1.8 percentage points lower than in the previous year is attributable exclusively to the additional capacities at facilities that started operation. The new facilities will be reaching normal Group occupancy levels in the course of the year and will have a positive impact on the development of the division. The strategic activities are still being concentrated on following the successful trend and guaranteeing positive long-term acceptance of the expansion of the nursing division at the highest possible quality level.

Weakness in the rehabilitation division

The rehabilitation division did not reach the figures recorded in the previous year. The negative situation on the labour market and the fear of possible job losses associated with this, coupled with a restrictive spending policy on the part of insurance companies, reduced applications to a low level all over Germany. The occupancy rate in the rehabilitation division dropped from 85.6% to 78.8%. The DVFA result was negative (-0.9 million) and was 0.6 million worse than in the same period the previous year. An improvement in the uncertain overall health policy conditions and the key economic indicators cannot be expected in the short term. Purposefully restrictive cost management while maintaining the quality standards has been initiated to limit the adverse effects on earnings due to the poor occupancy rates that are continuing at the psychosomatic clinics in particular. The capacities of the facilities are being appraised in accordance with the market conditions and adjustments are being made where appropriate.

An alternative concept for use of the Waldkirch clinic is planned in this context and will be introduced before the end of the current financial year.

Better Group DVFA result

The reduction in earnings attributable to the rehabilitation division was compensated for by the high profitability of the nursing division. The Group DVFA result improved disproportionately to the increase in sales, by 0.6 million to 4.9 million. The DVFA earnings per share went up to 0.40 and were therefore 0.13 higher than earnings in the 1st quarter of 2003/2004, which experience has shown are better for seasonal reasons. The earnings of 5.8 million generated by the nursing division (up 1.2 million) correspond to DVFA earnings per share of 0.47 (previous year: 0.35). Earnings per share in the rehabilitation division were negative (-0.07). The Group is reporting net income of 4.1 million (the same as in the previous year). Group earnings before tax amounted to 5.3 million (also the same as in the previous year).

EBIT decreased by 1.0 million to 12.6 million and EBITDA were down 1.1 million at 20.2 million. EBITDAR, which are the

most accurate indicator of profitability, increased by 0.9 million to 28.1 million. The reduction in the EBIT, EBITDA and EBITDAR margins in relation to sales (after DVFA/SG adjustments) was due not only to the unsatisfactory occupancy rate in the rehabilitation division but also to the seven additional leased facilities that are still in the start-up phase. The EBIT margin decreased from 15.9% to 13.6%, the EBITDA margin from 23.8% to 21.0% and the EBITDAR margin from 29.9% to 28.8%. The adjusted margins are still better than average by international standards. In view of the development anticipated in the nursing division during the rest of the financial year, we are working on the assumption that the margins for the whole of the 2003/2004 financial year will be better.

Slightly lower investments

The investments amounted to 4.1 million and were thus 0.7 million lower than in the previous year. They include the remodelling projects at the Belzig and Cottbus facilities, which are being financed to some extent by subsidies and will be completed in the 2004/2005 financial year.

Due to the release of special items in the 2002/2003 financial year, the shareholders' equity was 5.3% lower than in the previous year at 75 million. The equity ratio decreased from 19.3% to 17.8%. The shareholders' equity increased by 1.5 million in the period from July to December 2003 because of the positive development in earnings. The HGB shareholders' equity amounted to 78.0 million on 31.12.2003, which corresponds to 20.1% of the balance sheet total.

Following adjustment for DVFA/SG items, gross cash flow increased by 2.4 million to 12.6 million. The financial debts of the Group went up 8.7%, from 215.2 million to 234.0 million. The ratio of financial debts (long-term bank loans) to the balance sheet total was 55.6% (previous year: 52.5%). The financial debts and debt ratio have not increased since the balance sheet date of 30.06.2003.

More employees

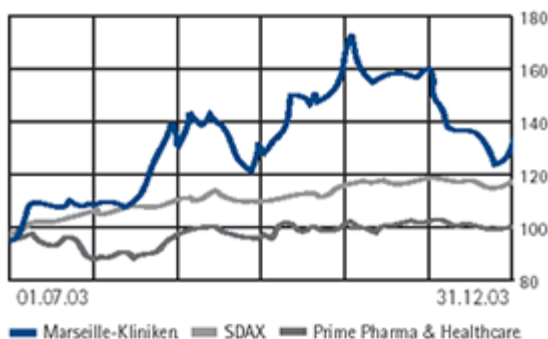
The Group had an average of 4,386 employees in the 1st half of 2003/2004; this corresponds to an increase of 391 over the previous year. 2,259 of them were employed in the nursing division, 752 in the rehabilitation division and 1,375 at the service and administration companies. 234 of the 391 new staff are employed in the nursing division. Personnel expenses rose disproportionately slowly compared with the increase in staff: by 7% to 51.9 million.

Steady share price development

The price of the Marseille-Kliniken share ranged between 5.45 and 7.48 in the months of July to December. In a slowly stabilising stock market environment, the final price of the share on 30. December 2003 was 5.86. This means that it developed in line with the other indices. The price exceeded the 7 mark again substantially in January 2004.

Development of the Marseille share price

indexed, 1. July 2003 = 100



Confident about the year as a whole

We are maintaining our sales and earnings forecasts for the 2003/2004 financial year. We are expecting sales growth of 7% and a disproportionately large improvement in earnings. Our confidence is based primarily on the strength of the core nursing division, in which we anticipate that the positive development will continue. An advanced stage has been reached in integration of the new facilities and this will have a positive impact on earnings development. The general political conditions for the rehabilitation division remain uncertain. Economic developments have been depressing this division since the autumn of 2002 and there are no signs of a rapid recovery of the economy in general. We are expecting the restructuring and cost-cutting measures that have been taken to stem the losses in this division.

Profit and loss accounts

for the period from 1. July 2003 to 31. Dec. 2003
and the figures for the previous year

Group	03 104	02 103	Change in %
	in € '000	in € '000	
Sales from Group operations	102,121	97,154	5.1
Nursing division sales	73,898	65,263	13.2
Rehabilitation division sales	28,223	31,891	-11.5
EBITDAR	28,069	27,186	3.2
EBITDA	20,176	21,234	-5.0
Depreciation	-7,607	-7,704	-1.3
EBIT	12,569	13,530	-7.1
Interest balance	-7,290	-7,704	-5.4
EBT	5,279	5,286	-0.1
DVFA result	4,902	4,300	14.0
	in €	in €	
DVFA earnings per share nursing	0.47	0.35	34.3
DVFA earnings per share rehabilitation	-0.07	0.00	

Statements of cash flow *

for the period from 1. July 2003 to 31. Dec. 2003
and the figures for the previous year

Group	6 months 03 104	6 months 02 103
	in € '000	in € '000
Net Group income	4,062	4,076
Expenditure / income with no effect on payment	7,224	6,155
Decrease in assets and liabilities	-5,065	-5,369
Cash flow from investment activities	-4,058	-4,844
Cash flow from financing activities	-1,163	487
Decrease / increase in liquid funds	1,000	505

* In accordance with the format that has to be submitted
to Deutsche Börse AG on a quarterly basis

Financial calendar

Event for analysts	
Frankfurt a.M.	March 2004
Report on the 3rd quarter	07.05.2004
Event for analysts	
Frankfurt a.M.	Oct. 2004
Press conference about the annual results	
Berlin	Oct. 2004
Annual report 2003/2004	Oct. 2004
Report on the 1st quarter of 2004/2005	08.11.2004
Annual General Meeting	
Berlin	07.12.2004

Marseille-Kliniken AG balance sheets

at 31. December 2003 and 31. December 2002

Group	31.12.03	31.12.02
	in € '000	in € '000
Intangible assets	24,247	24,392
Tangible assets	342,277	325,648
Financial assets	2,451	1,953
Receivables and liquid funds	18,547	16,173
Other assets	33,291	42,000
Balance sheet total	420,813	410,166
Shareholders' equity*	74,969	79,164
Pension provisions	17,074	16,133
Other provisions	20,150	18,748
Financial debts	233,994	215,237
Other liabilities	74,626	80,884
Balance sheet total	420,813	410,166

* Including 73.6% special items for investment grants