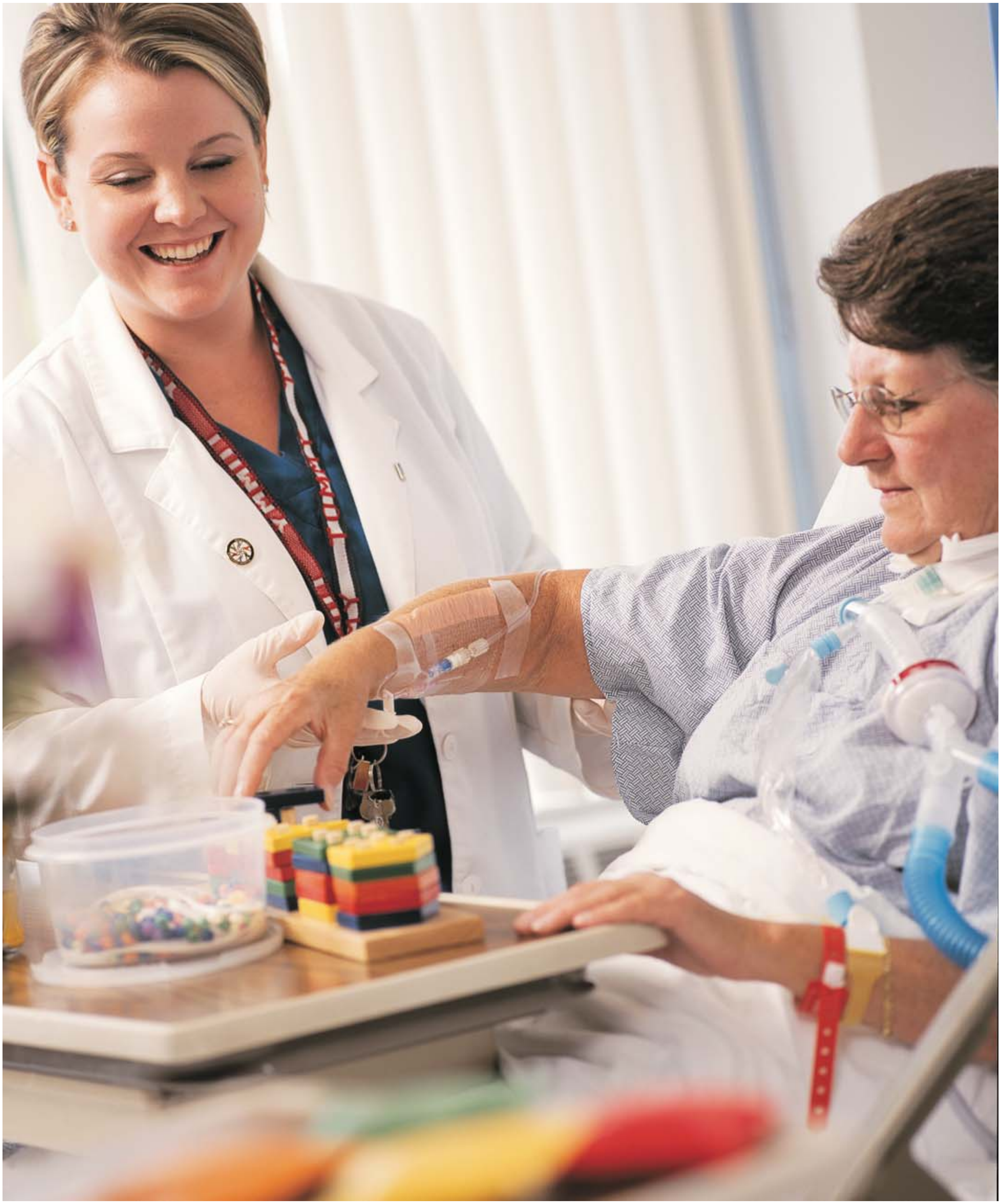

Kindred Healthcare

2007 ANNUAL REPORT

Financial Highlights

(Dollars in thousands, except per share amounts)

	Year ended December 31,	
Operating results:	**2007**	**2006**
Revenues	$4,220,266	$4,130,052
Net income (loss):		
Income from continuing operations (a)	$34,720	$76,663
Discontinued operations, net of income taxes:		
Income (loss) from operations	(4,569)	2,080
Loss on divestiture of operations	(77,021)	(32)
Net income (loss)	$(46,870)	$78,711
Diluted earnings (loss) per common share:		
Income from continuing operations	$0.87	$1.87
Discontinued operations:		
Income (loss) from operations	(0.11)	0.05
Loss on divestiture of operations	(1.93)	–
Net income (loss)	$(1.17)	$1.92
Diluted shares (000)	39,983	40,923
Cash flows from operations	$163,383	$129,984
Financial position:	**Dec. 31, 2007**	**Dec. 31, 2006**
Cash and cash equivalents	$32,877	$20,857
Working capital	383,705	386,450
Total assets	2,079,552	2,016,127
Long-term debt	275,814	130,090
Stockholders' equity	862,124	995,578

(a) Included certain items that, in the aggregate, reduced net income by approximately $23.8 million or $0.59 per diluted share for the year ended December 31, 2007 and approximately $0.2 million or $0.01 per diluted share for the year ended December 31, 2006.

Kindred Healthcare, Inc. (NYSE:KND) is a Fortune 500 healthcare services company, based in Louisville, Kentucky, with annual revenues of over $4 billion. At December 31, 2007, Kindred through its subsidiaries provided healthcare services in approximately 630 locations in 40 states, including 84 long-term acute care hospitals, 228 skilled nursing centers and a contract rehabilitation services business, People*first* Rehabilitation Services, which served 318 non-affiliated facilities. Kindred's 52,500 employees are committed to providing high quality patient care and outstanding customer service to become the most trusted and respected provider of healthcare services in every community we serve.

For more information, please visit **www.kindredhealthcare.com.**

KINDRED HEALTHCARE'S MISSION is to promote healing, provide hope, preserve dignity and produce value for each patient, resident, family member, customer, employee and shareholder we serve.

DEAR SHAREHOLDERS,

Fiscal 2007 was a year in which we positioned the Company for future growth while creating more value for our patients and their families, our employees and our shareholders. Our most significant accomplishments in 2007 included the following:

- we successfully operated each of our three businesses and made progress on the metrics we measure to gauge employee, patient and resident satisfaction and quality improvement;
- we completed agreements with Ventas, Inc. (NYSE: VTR) ("Ventas") to acquire for resale 22 under-performing facilities and to eliminate out-of-market lease provisions related to insurance requirements and facility bed management restrictions;
- we completed the spin-off of our former institutional pharmacy business, creating value for our shareholders on a tax-free basis and allowing us to better focus on growth in our retained businesses;
- we acquired $50 million of our common stock in open market purchases;
- we amended our revolving credit facility to provide more financial flexibility and better pricing; and
- we continued our development activities by adding four hospitals, nine nursing centers and a rehabilitation services company to our portfolio.

Our hospital division continued to operate under a difficult reimbursement environment in which we were challenged by significant Medicare cuts. In response to these reimbursement reductions, our strategy has focused on improving operating efficiency and volume growth to better leverage our unused capacity. Despite 2007 same-store admissions growth of 1% overall and 17% for non-government, hospital operating income declined 6% primarily due to reimbursement rate pressures.

In our health services division, fiscal 2007 was a year in which our continued focus and investment in quality and customer service produced improvements in our operating results. These efforts over the past several years have included, among other things, improved staffing and training, reduced contract labor utilization, investments in clinical processes, physical plant and equipment and the expansion of our rehabilitation and other clinical services to effectively care for higher acuity Medicare and managed care patients. We also have continued to execute on our performance improvement and risk management initiatives, which have created an improved clinical environment that allows us to resolve quality issues more quickly. Our 2007 operating results in this division were encouraging, with solid growth in revenues, Medicare and managed care mix and operating income compared to 2006. We believe that there are additional opportunities to improve our nursing center results in the future by continuing to execute our strategy of providing high-quality, cost-effective care to higher acuity patients and residents.

In People*first* Rehabilitation, we made significant progress in 2007 to grow beyond the Kindred nursing center and hospital portfolio that currently comprises more than half of its revenues. People*first* has developed an effective therapist recruitment and retention program and its name recognition and reputation for clinical excellence is expanding in the marketplace. As the labor market for therapists becomes more competitive, People*first* is well positioned to grow through a program of external contract development and higher levels of productivity. Over the longer term, we believe that People*first* has opportunities to succeed and grow in a regulatory environment that is generally favorable to providing more rehabilitation therapy services in lower cost settings, particularly nursing centers.

In June 2007, we entered into an agreement with Ventas, our largest landlord, under which we purchased for resale 22 under-performing facilities for $175 million. In addition, the out-of-market lease provisions related to insurance requirements and facility bed management issues were modified to provide more operating flexibility.

In July 2007, we completed the spin-off of our former institutional pharmacy business, Kindred Pharmacy Services, Inc. ("KPS"), and the immediate subsequent combination of KPS with the former institutional pharmacy business of AmerisourceBergen Corporation ("AmerisourceBergen") to form a new, independent, publicly traded company named PharMerica Corporation (NYSE: PMC) ("PharMerica"). Immediately prior to the spin-off, KPS incurred $125 million of bank debt, the proceeds of which were distributed to Kindred. Immediately after the spin-off, our stockholders and the stockholders of AmerisourceBergen each held approximately 50 percent of the outstanding common stock of PharMerica.

In connection with the spin-off, we realigned our corporate and divisional overhead structure to more efficiently support our three remaining businesses. We also are leveraging our information technology infrastructure by providing information systems support to PharMerica for a five-year period.

In connection with the spin-off, we successfully amended our revolving credit facility. Among other things, the amendment (1) increased the amount of the credit to $500 million, (2) provided for further increases in the amount of the credit under certain conditions, (3) allowed for higher levels of capital investments and restricted payments such as share repurchases and dividends and (4) reduced borrowing costs by approximately 75 basis points.

During 2007, we added four hospitals (286 licensed beds), nine nursing centers (1,152 licensed beds) and a rehabilitation services company with 22 nursing center customers. We also opened a new replacement hospital in Indianapolis, Indiana that increased our capacity in that market. In addition, we acquired the underlying real estate of eight nursing centers and one hospital that were previously leased for approximately $113 million.

Our acquisition and development activities have strengthened our existing market positions and expanded our services into new markets. Our ongoing development activities will focus on the completion of seven new hospital projects already underway, as well as selective opportunities to add to our nursing center and People*first* Rehabilitation businesses.

As we continue to position the Company for the future, we see more opportunities to improve the working environment for our employees and the care of our patients and residents. We believe that the link between taking care of our employees, quality and profitability has never been clearer.

Finally, the work performed on a daily basis by our 52,500 dedicated employees will continue to drive our success and create value for our patients, residents and shareholders. On behalf of them, and on behalf of our Board of Directors, we thank you for your continued support.

Sincerely,

Paul J. Diaz
President and
Chief Executive Officer

Executive Officers

Edward L. Kuntz
Executive Chairman

Paul J. Diaz
President and Chief Executive Officer

Frank J. Battafarano
Chief Operating Officer

Richard A. Lechleiter
Executive Vice President and Chief Financial Officer

Lane M. Bowen
Executive Vice President and
President, Health Services Division

Benjamin A. Breier
Executive Vice President and
President, Hospital Division

Richard E. Chapman
Executive Vice President and Chief Administrative
and Information Officer

M. Suzanne Riedman
Senior Vice President and General Counsel

William M. Altman
Senior Vice President, Strategy and Public Policy

Joseph L. Landenwich
Senior Vice President of Corporate Legal Affairs
and Corporate Secretary

Gregory C. Miller
Senior Vice President, Corporate Development
and Financial Planning

Directors

Edward L. Kuntz
Executive Chairman

Ann C. Berzin
Former Chairman and Chief Executive Officer
Financial Guaranty Insurance Company

Thomas P. Cooper, M.D.
Founder and Chairman
Vericare, Inc.

Paul J. Diaz
President and Chief Executive Officer

Michael J. Embler
Officer
Franklin Mutual Advisers, LLC

Garry N. Garrison
Former Senior Vice President
Dynamic Healthcare Solutions, Inc.

Isaac Kaufman
Senior Vice President and Chief Financial Officer
Advanced Medical Management Inc.

John H. Klein
Chairman and Chief Executive Officer
DAVA Pharmaceuticals, Inc.

Eddy J. Rogers, Jr.
Partner
Andrews Kurth LLP

Corporate Information

Annual Meeting
The annual meeting of shareholders will be held at the Company's corporate headquarters, 680 South Fourth Street, Louisville, Kentucky, on May 22, 2008. Formal notice of the meeting, together with instructions on how to access the Company's proxy statement and form of proxy, is sent to each holder of common stock.

Additional Information
The Company's reports filed with the Securities and Exchange Commission may be obtained without charge upon written request to the Corporate Secretary at the Company's corporate address or electronically through our website. Please visit our website, www.kindredhealthcare.com, for additional information about the Company, including governance-related documents.

Stock Listings
Kindred Healthcare, Inc. common stock is listed on the New York Stock Exchange under the ticker symbol KND.

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