2018 HALF-YEAR FINANCIAL REPORT

CHAPTER 1

Half-year Management Report

1.1 Message from the Chief Executive Officer

“Thanks to the exemplary mobilisation of its teams in its four countries, Korian is beginning to reap the benefits of the fundamental actions undertaken over the past two years pursuant to the Korian 2020 plan. Korian is now in an excellent position to support the transformations of the European senior care market and to take full advantage of the dynamics of the four markets in which it operates in a leading position. The progress made in the first half of the year allows us to raise our revenue growth and margin objectives for 2018.”

Sophie Boissard

Chief Executive Officer of Korian

1.2 Activities of the Korian group in the 2018 first half

1.2.1 KEY INDICATORS

Korian, the expert in providing care and support services for seniors, generated revenue of €1,633.9 million in the period ended 30 June 2018, an increase of 6.0%.

As at 1 September 2018, the Group had the capacity to accommodate over 76,000 residents and patients in Europe (France, Germany, Belgium and Italy) and managed around 750 facilities in four business lines: long-term care nursing homes, specialised clinics, assisted living facilities and home care networks.

1.2.2 HIGHLIGHTS

1.2.2.1 Changes in internal governance

On 3 April 2018, Philippe Garin was appointed Group Chief Financial Officer and member of the Group Management Board, replacing Laurent Lemaire.

On 1 May 2018, Bart Bots was appointed International Development Director and member of the Group Management Board. He is tasked with overseeing the Group's expansion outside the four countries in which it already does business, in order to structure and accelerate the Group's presence in other markets. Dominiek Beelen succeeds him as Chief Executive Officer, Korian Belgium and member of the Group Management Board.

The composition of the Group Management Board can be found on the Group's corporate website (https://www.korian.com/fr/gouvernance-groupe).

1.2.2.2 Continued active development strategy in the four countries

In the first half, the Group continued its active development strategy by opening or acquiring over 1,100 units over the period. The network expansion was balanced between organic development and selective acquisitions. This local development strategy enables the Group to increase the density of its network and augment its specialised expertise in order to propose complete care pathways in each country of operations. In January 2018, Korian acquired a 70% interest in Ages & Vie, a young company in the Franche-Comté region, which has developed an innovative shared housing concept for seniors with decreasing independence. Korian also strengthened its presence in the hospital home care segment with the acquisition of CliniDom, which specialises in oncology. In Italy, the Group acquired a majority interest in San Giuseppe Hospital, an acute care and rehabilitation platform specialising in orthopaedics, thereby consolidating its presence in Tuscany area, where it now has over eight nursing home and post-acute care facilities that specialise in geriatric care.

1.2.2.3 Plan to boost growth momentum in France

In France, Korian benefited from the initial impacts of the growth acceleration plan launched in early 2017. This plan includes an ambitious programme to develop and modernise the network, in order to make its offers more attractive, to relocate its facilities, particularly its healthcare facilities, closer to its main referring practitioners, and to develop additional capacity, especially in individual rooms and ambulatory care. 3 new facilities were opened in the first half pursuant to the programme. In the Healthcare division, a fourth clinic relocation project was successfully completed in Sainte Foy les Lyons, and 10 others will be carried out between 2019 and 2021. The Group also continued to develop its outpatient care activity by commissioning three new units in existing facilities. In the Senior division, 2 new facilities were delivered in the departments of Yvelines and Charente (expansion of an existing facility). The "Boost" plan, which aims to renovate all or part of over 50 facilities (rooms and common areas) by 2020, began to be deployed across the network, with a first set of 7 facilities delivered and 20 others in progress.

1.2.2.4 Ramp-up of the “asset smart” real estate strategy

The “asset smart” real estate strategy implemented since 2017 aims to actively manage the asset base, particularly during the development phase, selectively increase the rate of asset ownership and reduce the rental expenses through lease renegotiation.

The development partnership signed in September 2017 with Icade is rapidly expanding with seven projects initiated in France out of a total of 15 projects targeted. The first deliveries are scheduled as from 2019. Discussions are underway with other partners to increase the Group’s capabilities in the expansion and reconfiguration of its network in its four countries, based on a pipeline of 50 real estate projects to be completed by 2020. Moreover, the rent renegotiation plan, initiated on a first portfolio of 150 leases, is advancing rapidly. 90 leases have been renegotiated, mainly in France and Germany, generating over €5 million in rent savings in 2019, two years ahead of the initial schedule set in the Korian 2020 plan.

1.2.2.5 Accelerating digital transformation

Korian sets up an internal digital agency called “Korian Solutions” to accelerate the digital transformation of its facilities, develop new services, in particular in the home care and outpatient sectors, and contribute to improving the quality of life of its customers, their families and its employees. After the launch in France in 2017 of the Korian Générations social network, developed with Famileo, new partnerships were entered into in the first half of the year, firstly with medGo to develop a platform for managing replacements for caregivers and accommodation service staff in each of its facilities, and secondly with Doctolib, which is developing a solution adapted to ambulatory care services. In addition, Korian announces the launch of 2 new development partnerships with Wellcoop and Patientys (a subsidiary of the Webhelp Group) to deploy innovative solutions along care path and contribute to support elderly at home. Finally, in November 2018, the Group will open a pilot long-term care nursing home in the Paris area, which will be the Group's first fully connected facility. The intent is to deploy these solutions across portfolio.

1.3 Consolidated financial statements

Korian uses EBITDAR as its benchmark indicator because it makes it possible to assess its operating performance separately from its real estate policy (the ownership or rental of the facilities' premises impacts operating income). EBITDAR is gross earnings from operations before rental expenses.

EBITDA is EBITDAR, as defined above, less rental expenses.

1.3.1 SIMPLIFIED INCOME STATEMENT

In millions of euros	H1 2018	**H1 2017**	**Change**
Revenue	1,633.9	1,541.8	6.0%
EBITDAR	**424.1**	**400.8**	**5.8%**
%	26.0%	26.0%	-
External rents	-196.4	-192.2	2.2%
EBITDA	**227.7**	**208.6**	**9.2%**
%	13.9%	13.5%	0.4%
Depreciation and provisions	-84.3	-78.6	7.3%
EBIT	**143.4**	**130.0**	**10.3%**
%	8.8%	8.4%	0.4%
Other operating income and expenses	4.2	-4.5	n/a
Operating income	**147.6**	**125.5**	**17.6%**
Net financial result	-58.2	-56.0	3.9%
Profit/(loss) before tax	**89.4**	**69.5**	**28.6%**
Income tax	-33.4	-29.5	13.1%
%	-37.4%	-42.5%	5.1%
Non-controlling interests	-0.9	-1.6	-40.8%
NET PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE GROUP	**55.1**	**38.4**	**43.3%**

1.3.2 REVENUE

In millions of euros	H1 2018	H1 2017	Change
GROUP	**1,633.9**	**1,541.8**	**6.0%**
France	812.5	784.1	3.6%
Germany	449.7	435.0	3.4%
Belgium	204.1	171.1	19.3%
Italy	167.6	151.6	10.6%

The Korian group generated revenue of €1,634 million in the first half of 2018, an increase of 6.0% over the previous year. This strong performance, which is in line with the Group's roadmap, reflects a clear acceleration in growth compared to the previous year (+4.9% in half-year 2017). It is due to solid organic growth (2.9%) and the active external development strategy the Group pursued in 2017 and continued in the first half of 2018.

In the first half, the portfolio of facilities the Group operates grew by around 1,100 beds, half through organic development.

- France: Revenue totalled €813 million, up 3.6%, due to an increasingly dynamic organic growth of 2.5% and the resumption of a selective acquisition strategy. The acceleration of organic growth reflects the deployment of the facilities development and modernisation programme undertaken in 2017.

  Growth in the Seniors Division was driven by healthy average daily rates, the ramp-up of newly opened and expanded facilities (Saverne, Montigny and La Trimouille) and the contribution of acquisitions completed since the beginning of the year (Ages & Vie, an innovative concept of residences for seniors with decreasing independence, and Fontdivina, a high-end nursing home located in the Alpes Maritimes region).

  The Healthcare Division posted strong sales momentum, driven by the impact of the portfolio development and reconfiguration projects completed in 2017 and in the first half of 2018. The business particularly benefited from an increased level of specialisation and additional capacity, in particular in private rooms and outpatient care. The Group also strengthened its presence in the Hospital Home Care (HHC) segment with the acquisition of CliniDom, which specialises in oncology.

International revenue grew by 8.4%, to €821 million. Organic growth stood at 3.2%.

- Germany: Organic growth remained strong over the quarter, at 3.7%, driven by a favourable price effect due to an increase in the average dependence level of residents (care mix) and the ramp-up of facilities opened over the last 18 months. Three new nursing homes were delivered during the period. In reported figures, revenue was up 3.4% after factoring in the disposal of facilities pursuant to the portfolio rationalisation and upgrading policy.
- Belgium: Revenue increased by 19.3%, driven primarily by the addition to the consolidation scope of the two portfolios of facilities acquired from Senior Assist in June 2017 and January 2018, respectively. The company continued its local development strategy by acquiring two new facilities in the first quarter. Organic growth remained solid at 4.0%, driven essentially by the ramp-up of facilities opened, expanded and refurbished since end-2016.
- Italy: Revenue growth accelerated quite significantly due to the vigorous acquisition strategy launched in 2017. Revenue rose by 10.6% in the first half (compared with 1.5% in all of 2017). Organic growth stood at 0.8%.

1.3.3 EBITDAR

In millions of euros	H1 2018	Revenue %	H1 2017	Revenue %	Change
GROUP	**424.1**	**26.0 %**	**400.8**	**26.0 %**	**5.8 %**
France	221.6	27.3 %	215.3	27.5 %	2.9 %
Germany	110.0	24.5 %	106.2	24.4 %	3.6 %
Belgium	51.8	25.4 %	42.6	24.9 %	21.6 %
Italy	40.7	24.3 %	36.6	24.2 %	11.2 %

The Group's EBITDAR[1] (EBITDA before rent) totalled €424 million, up 5.8% compared to the first half of 2017. The margin rate was stable at 26%, the result of optimised operational management in all countries.

- In France, the margin fell by 20 basis points. Rigorous management of costs, in particular the costs related to the ramp-up of restructured sites, made it possible to limit the unfavourable impact of the reduction in the CICE tax credit and lower rates in the post-acute care clinic sector.

- In Germany, the margin increased by 10 basis points due notably to the favourable impact of the plan to reduce central costs. Better management of the schedule and the implementation of a more active policy for human resources have allowed us to reduce temporary employment and we expect a higher margin for the second half of the year.

- Belgium posted a margin increase of 50 basis points, reflecting the benefits of the active development strategy pursued in 2017 (economies of scale, ramp-up of sites that are not yet mature or reconfigured sites).

- The margin in Italy increased by 10 basis points due to optimised cost management.

1.3.4 EBITDA

In millions of euros	H1 2018	Revenue %	H1 2017	Revenue %	Change
Group EBITDA	227.7	13.9 %	208.6	13.5 %	9.2 %

EBITDA totalled €227.7 million, up 9.2% compared to the first half of 2017. The margin rate was 13.9%, up 40 basis points compared to its level in the first half of 2017. This increase is the result of the ramp-up of the "asset smart" real estate policy launched in 2017, as well as the positive impact on real estate expenses of the recent acquisitions in Belgium and France (in accordance with IAS 17).

1.3.5 NET INCOME

Other operating income and expenses include reorganisation costs, which were lower than in the previous year and were more than offset by reversals of provisions in Germany.

With net financial expense of €58 million and income tax expense of €33 million, net income attributable to owners of the Group totalled €55 million, an increase of 43.3% compared to the first half of 2017. Net current income (Group share)[2] was up 26.3%.

1.3.6 FINANCIAL STRUCTURE

[1] EBITDAR is the interim management indicator selected by the Korian Group to monitor the performance of its facilities. EBITDAR represents earnings from operations (EBITDA) before rental expense.
[2] Net current income: net current income (Group share) – (other operating income and expenses + gain/(loss) on acquisitions and disposals of consolidated investments) × (1 – standard corporate income tax rate of 34%)

At 30 June 2018, net debt totalled €2,486 million, up €146 million from the level at 31 December 2017. This increase, which is mainly due to real estate debt, reflects the increase in the percentage of real estate assets owned, in line with the Group's strategy, and the consolidation of recent acquisitions in Belgium and France (debt on rental commitments in accordance with IAS 17).

The restated debt ratio[3] is 3.2 times EBITDA, which is stable compared to its level at 31 December 2017, and well below the maximum authorised of 4.75x at 30 June and 4.5x at 31 December.

At 30 June 2018, the Group had confirmed bank facilities of €650 million, and available cash of €448 million.

1.4 Material events since 1 July 2018

Since 30 June 2018, the following events have taken place pursuant to the Group's development policy:

In Germany

The Group accelerated its development in the home care sector in early July by acquiring a first intensive care network, which is based in Munich and specialises in the care of highly dependent persons. The aim is to develop this offer in other cities, particularly in regions where Korian already has a strong presence, such as Bavaria.

In Italy

In July, the Group acquired a 115-bed facility in Padru, in northern Sardinia (nursing home).

In Belgium

The Group entered into exclusive discussions with Senior Assist to acquire an additional portfolio of 21 facilities representing an additional capacity of about 1,800 beds. This acquisition allows Senior Living Group to strengthen its leadership position on the Belgian market and, in particular, to continue expanding its national coverage, the majority of the acquired facilities being located in Wallonia where the Group is less present yet. This acquisition will contribute by about €65m to the Group's revenues on a full year basis.

1.5 Risk factors

No risks are foreseen other than those described in section 2.6 "Risk management" of the 2017 Registration Document, which was filed with the Autorité des Marchés Financiers ("AMF"), the French Financial Markets Authority, on 26 April 2018 under number D.18-0411.

There were no significant changes to these risk factors in the first half of 2018.

1.6 Related-party transactions

Details of related-party transactions in the first half of 2018 can be found in Note 5.1 of the notes to the condensed half-year financial statements in this Half-Year Management Report.

There have been no significant changes from the information provided in the Company's 2017 Registration Document.

[3] Restated debt ratio: (net debt - real estate debt)/adjusted EBITDA - (6.5% * real estate debt).

1.7 Outlook

In the first half, the Group delivered a solid performance, reflecting the ramp-up of the various actions initiated over the past two years pursuant to the Korian 2020 plan.

In the second half, Korian will continue the various restructuring and development actions launched on its network and open five additional new facilities (“greenfields”). The Group will also pursue an active strategy of selective acquisitions in order to consolidate its positions in its various business segments and to take full advantage of the strong growth potential in the four countries in which it operates.

The Group is now targeting revenue growth approaching 6% for the full year 2018 and expects a stable EBITDA margin over the fiscal year based on the rigorous cost discipline achieved in the first half of the year and the expected benefits of the “asset smart” real estate policy.

The Group has substantial assets to reinforce its position as the European leader in care and support services for seniors, and will continue to deploy its Korian 2020 strategic roadmap, which focuses on:

- strengthening the Group’s growth potential via the expansion of the portfolio, the modernisation and optimisation of the network and a broader service offer;
- a more dynamic management of the real estate portfolio to create long term value;
- operational excellence;
- an active staff training and development policy, which supports the quality of care; and
- accelerating innovation in digital technology.

CHAPTER 2

Condensed half-year consolidated financial statements

2.1 Condensed consolidated financial statements at 30 June 2018

2.1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

In thousands of euros	Notes	30.06.2018	31.12.2017
Goodwill	3.1	2,306,303	2,218,729
Intangible assets	3.1	1,763,426	1,759,714
Property, plant and equipment		2,037,694	1,943,851
Non-current financial assets	3.2	33,894	54,170
Deferred tax assets		207,733	209,019
Non-current assets		**6,349,050**	**6,185,484**
Inventory		13,617	10,402
Trade receivables and related accounts	3.2	218,160	191,219
Other receivables and currents assets	3.2	234,810	212,230
Financial instruments – assets	3.2/3.5	3,970	4,891
Cash and cash equivalents	3.3	458,895	510,589
Current assets		**929,452**	**929,330**
Assets held for sale			108
Total assets		**7,278,502**	**7,114,922**

Equity and liabilities

In thousands of euros	Notes	30.06.2018	31.12.2017
Share capital		404,918	404,912
Premiums		860,039	860,039
Reserves and consolidated results		1,203,647	1,197,454
Shareholders' equity (attributable to owners of the Group)		**2,468,604**	**2,462,405**
Non-controlling interests		10,957	12,272
Total shareholder's equity		**2,479,560**	**2,474,677**
Provisions for pensions		72,621	70,373
Deferred tax liabilities		630,337	632,591
Other provisions	3.4	135,884	153,878
Borrowings and financial liabilities	3.5	2,550,685	2,497,818
Other non-current liabilities	3.5	23,204	770
Non-current liabilities		**3,412,731**	**3,355,430**
Provisions for less than one year	3.4	11,420	11,660
Trade payables and related accounts	3.5	261,921	267,333
Other liabilities and accruals	3.5	703,935	640,176
Borrowings due within 1 year and bank overdrafts	3.5	394,498	352,940
Derivative financial instruments		14,438	12,706
Current liabilities		**1,386,210**	**1,284,815**
Liabilities held for sale			
Total liabilities		**7,278,502**	**7,114,922**

2.1.2 Consolidated income statement

Comprehensive income

In thousands of euros	Notes	30.06.2018	31.12.2017	30.06.2017
Revenue	**4.1**	**1,632,363**	**3,130,942**	**1,539,669**
Other income		1,542	4,227	2,093
Operating income		**1,633,905**	**3,135,169**	**1,541,763**
Purchases used in the business		131,542	252,633	123,576
Personnel expenses	4.1	850,173	1,616,472	799,257
External expenses	4.1	371,521	734,538	362,171
Taxes and duties		51,342	98,024	55,445
Depreciation/amortisation and provisions		84,349	157,029	78,596
Other operating income and expenses		-1,591	6,727	7,288
Profit/(loss) on acquisition and disposal of consolidated entities	4.3	-1,672	-2,959	-1,007
Other operating income and expenses	4.3	5,845	3,062	-3,491
Operating income	**4.1**	**147,561**	**283,303**	**125,508**
Cost of net debt	4.4	-48,796	-98,430	-44,774
Other items of financial income	4.4	-9,386	-22,107	-11,214
Net financial income	**4.4**	**-58,182**	**-120,537**	**-55,988**
Profit/(loss) before tax		**89,379**	**162,766**	**69,520**
Income tax	4.5	-33,399	3,564	-29,526
Profit/(loss) of consolidated companies		**55,980**	**166,330**	**39,994**
Non-controlling interests		925	3,007	1,564
Share attributable to owners of the Group		**55,055**	**163,324**	**38,430**
Net profit/(loss) (attributable to owners of the Group) per share *(in euros)*	4.6	0.68	2.02	0.47
Diluted net profit/(loss) (attributable to owners of the Group) per share *(in euros)*	4.6	0.63	1.87	0.44
Net profit/(loss) attributable to owners of the Group		**55,055**	**163,324**	**38,430**
Recyclable items: IFRS 9 / IAS 39 and IFRS 2 impact (measurement of hedging derivative instruments and free share plan) net of tax		-1,761	5,738	4,904
Non-recyclable items: IAS 19 impact (actuarial gains and losses)		29	-4,409	-1,148
Gains and losses recognised directly in equity (attributable to owners of the Group)		**-1,732**	**1,329**	**3,755**
Net profit/(loss) and gains and losses recognised directly in equity (attributable to owners of the Group)		53,323	164,653	42,186
Net profit/(loss) and gains and losses recognised directly in equity (non-controlling interests)		926	2,997	1,563

2.1.3 CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros	Notes	30.06.2018	30.06.2017
Net profit/(loss)		**55,980**	**39,994**
Of which income tax expense		*33,399*	*29,526*
Net depreciation/amortisation and provisions		72,649	77,881
Deferred tax		-6,106	-916
Profit/(loss) at fair value and non-cash items		-2,497	-5,595
Gain on disposal of assets		755	4,997
Cash flow after cost of net debt		**120,782**	**116,362**
Elimination of acquisition costs of securities		1,672	1,006
Elimination of net interest paid		48,812	44,774
Cash flow before cost of net debt		**171,265**	**162,142**
Change in inventories		-1,429	-67
Change in trade receivables		-12,138	-10,574
Change in trade payables		-7,763	-8,071
Change in corporate income tax		-20,757	24,331
Change in other items		-6,089	-23,509
Change in working capital requirements		**-48,175**	**-17,890**
Net cash generated from operations		**123,090**	**144,252**
Impact of changes in scope (acquisitions)	2.3	-57,773	-33,028
Payment for property, plant and equipment and intangible assets		-87,380	-76,695
Payment for other financial investments		13,328	-14,006
Proceeds from disposals of non-current assets (excluding securities)		884	3,541
Net cash from/(used in) investing activities		**-130,942**	**-120,188**
Net cash flow		**-7,851**	**24,063**
Treasury shares charged to equity		412	20
Increase in financial liabilities		162,020	146,122
Repayment of financial liabilities		-162,849	-91,959
Other cash flows from/(used in) financing activities		-4,736	59,400
Net interest paid		-42,832	-38,652
Dividends paid to non-controlling interests in consolidated companies		0	-1
Net cash from/(used in) financing activities		**-47,986**	**74,930**
Change in cash position		**-55,837**	**98,994**
Cash and cash equivalents at the start of the period	3.3/3.5	503,802	294,261
Cash and cash equivalents at the end of the period	3.3/3.5	447,964	393,256
Marketable securities		193,645	91,442
Cash		265,250	316,828
Bank overdrafts and advances		-10,930	-15,014
Cash		**447,964**	**393,256**

2.1.4 CHANGES IN CONSOLIDATED EQUITY

In thousands of euros	Share capital	Premiums	Charged directly to equity	Reserves and consolidated results	Equity attributable to owners of the Group	Non-controlling interests	Total shareholder's equity
At 31 December 2016	**400,890**	**841,520**	**241,110**	**539,494**	**2,023,014**	**13,914**	**2,036,930**
Dividend distribution				-48,123	-48,123	-4,615	-52,737
Capital increase	132	-1		-132	-1		-1
Business combinations			3,016		3,016		3,016
Treasury shares			22		22		22
Equity instruments			59,396		59,396		59,396
Other changes				-152	-152	132	-20
Profit/(loss) for H1 2017				*38,430*	*38,430*	*1,564*	*39,994*
Impact of IAS 19 (actuarial gains and losses)			-1,148		-1,148	-1	-1,150
Measurement of hedging instruments			4,904		4,904		4,904
and free share plans (net of tax)				6,490	6,490		6,490
Comprehensive income			*3,755*	*38,430*	*42,186*	*1,563*	*43,749*
At 30 June 2017	**401,022**	**841,519**	**307,299**	**536,008**	**2,085,848**	**10,995**	**2,096,843**
Dividend distribution				13	13		13
Capital increase	3,891	18,520			22,411		22,411
Business combinations			-3,016		-3,016		-3,016
Treasury shares			-11		-11		-11
Equity instruments			232,256		232,256		232,256
Other changes			-65	546	482	-157	325
Profit/(loss) for H2 2017				*124,894*	*124,894*	*1,442*	*126,336*
Impact of IAS 19 (actuarial gains and losses)			-3,260		-3,260	-9	-3,269
Measurement of hedging instruments			834		834		834
and free share plans (net of tax)				1,955	1,955		1,955
Comprehensive income			*-2,426*	*124,894*	*122,467*	*1,434*	*123,901*
At 31 December 2017	**404,912**	**860,040**	**534,038**	**663,416**	**2,462,406**	**12,272**	**2,474,678**
Dividend distribution				-48,590	-48,590	-3,118	-51,708
Capital increase	6			-6			
Business combinations						122	122
Treasury shares			404		404		404
Equity instruments			-4,351		-4,351		-4,351
Other changes			-40	5,451	5,412	755	6,165
Profit/(loss) for H1 2018				*55,055*	*55,055*	*925*	*55,980*
Impact of IAS 19 (actuarial gains and losses)			29		29	0	29
Measurement of hedging instruments and free share plans (net of tax)			-1,761		-1,761		-1,761
Comprehensive income			*-1,732*	*55,055*	*53,323*	*926*	*54,249*
At 30 June 2018	**404,918**	**860,040**	**528,320**	**675,326**	**2,468,604**	**10,957**	**2,479,559**

There are no rights, privileges or restrictions attached to the shares comprising the share capital. Neither are any shares reserved for issue under options or contracts for the sale of shares.

On 30 June 2018, the share capital was €404,917,815. It is divided into 80,983,563 shares, all of which are fully paid up, are of the same class and have a nominal value of €5 each.

Following shareholder approval at the 2018 General Meeting, the Company distributed a dividend of €0.60 per share, with the option to receive payment in shares (based on a share price of €26.90). The dividend, in cash and in shares, approved for the period totalled €48.6 million.

In June 2017, the Group issued undated bonds. In accordance with the IAS 32 standard, these hybrid financial instruments were recognised as equity instruments for an amount net of interest expenses and issuance costs of €287.3 million.

Treasury shares

Treasury shares held by the Group are recorded at acquisition cost and deducted from equity until they are cancelled or sold.

Proceeds from the sale of treasury shares are recognised in equity. Any capital gains or losses or impairments therefore have no effect on the consolidated income.

2.1.5 NOTES TO THE FINANCIAL STATEMENTS

The consolidated financial statements were examined by the Audit Committee on 10 September 2018 and were approved by the Board of Directors on 12 September 2019.

The Group offers and develops an extensive range of dependency care services in France, Germany, Belgium and Italy.

Note 1 Accounting policies

Note 1.1 Declaration of compliance

The consolidated financial statements have been prepared in accordance with the international accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union at the balance sheet date. These standards include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), together with their interpretations, and are available from the following European Union website: **https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en**

The condensed half-year consolidated financial statements ("consolidated financial statements") were prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union.

The condensed consolidated financial statements were prepared using the same accounting policies and methods that were used to prepare the consolidated financial statements for the year ended 31 December 2017, with the exception of the following standards, amendments and interpretations that are compulsory as of 1 January 2018 and which the Group did not early adopt:

- IFRS 15 "Revenue from Contracts with Customers", amendment and "Clarifications to IFRS 15", which replace IAS 11, IAS 18 and related interpretations;
- IFRS 9 "Financial Instruments", which replaces IAS 39 on financial instruments;
- amendments resulting from the annual standards improvement processes for 2014-2016;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions".

Implementation of these new standards does not materially impact the 2018 half-year financial statements presented.

IFRS 9 “Financial instruments”:

The Korian group has applied the provisions of IFRS 9 on the classification, measurement and impairment of financial instruments since 1 January 2018 retrospectively without restating comparative accounts. Furthermore, the Group has applied the specific provisions on hedge accounting since 1 January 2018 using a prospective approach, with the exception of the time value of option premiums requiring retrospective application, in accordance with the provisions of IFRS 9.

IFRS 9 amends in particular:

• the conditions for recognising hedging transactions and the main accounting categories of financial assets and liabilities. Due to the nature of the Korian group's transactions, the impact is not material at the transition date;

• the recognition of credit risk in relation to financial assets based on the expected loss versus incurred loss approach. This results, in particular, in the recognition of impairment losses on unmatured trade receivables.

The Group also chose not to early adopt the following new standards, amendments to standards and interpretations:

• Standards and amendments adopted by the European Union and which become compulsory after 31 December 2018:
  – IFRS 16 “Leases”, which introduces a new lease recognition model and will supersede IAS 17 and its related interpretations;
  – amendments to IFRS 9: “Prepayment features with negative compensation”.

• Standards, amendments and interpretations not adopted by the European Union at 30 June 2018:
  – amendments resulting from the annual standards improvement processes for 2015-2017;
  – IFRIC 23 “Uncertainty over Income Tax Treatments”.
  – amendments to IAS 19: “Modification, reduction or liquidation of a defined-benefits pension plan”;
  – IFRS 17: “Insurance Contracts”;
  – amendments to IAS 28: “Investments in associates and joint ventures”.

IFRS 16 “Leases”:

The Group began to identify all leases to which this new standard will apply as of 1 January 2019. Although the calculation of the impact on the presentation of the Group's consolidated financial statements is still being finalised, it is anticipated that it will be material. Real estate lease commitments are described in detail in Note 5.3.

Note 1.2 Presentation of the financial statements

The consolidated financial statements are presented in thousands of euros and are prepared on a historical cost basis, except for the following assets and liabilities, which are reported at fair value:

– investments held for trading;

– investments available for sale;

– derivative financial instruments.

Current assets and liabilities are:

– assets and liabilities held for use or sale during the normal business cycle;

– cash, cash equivalents and bank overdrafts;

– assets and liabilities held primarily for trading purposes.

All other assets and liabilities are non-current.

Note 1.3 Consolidation basis

The consolidated financial statements comprise the financial statements of Korian, as well as those of its subsidiaries, for the period between 1 January and 30 June 2018.

Note 1.4 Significant accounting estimates and judgements

To prepare the consolidated financial statements, the Group applies estimates and judgements that are regularly updated and which are based on historical experience and other factors, including expectations of future events deemed reasonable in view of the circumstances.

The assumptions underlying the main estimates made for the first half of 2018 are of the same nature as those described in the notes to the consolidated financial statements at 31 December 2017.

The significant estimates and judgements applied by the Group in preparing the consolidated financial statements concern the items described below.

Goodwill, intangible assets and property, plant and equipment

– The value in use of intangible assets and property, plant and equipment is derived from the Company's internal valuations, based on the medium-term business plan. The main assumptions used in this valuation (medium-term growth rate, discount rate, margin and growth rate to infinity) are estimated by the Group.

– The accounting value of assets is reviewed at least annually, and whenever events or circumstances indicate that they may have been impaired. Such events and circumstances may be due to material adverse changes of a lasting nature that affect either the economic environment or the assumptions and objectives used at the last balance sheet date.

Leases

– Each lease is reviewed. Leases are classified as operating leases when nothing suggests that "the large majority of the risks and rewards incidental to ownership of the leased asset is transferred to the lessee" and therefore that the Group is acting as if it were the owner of the leased property.

Employee benefits

– The discounted value of the liabilities associated with employee benefits is calculated using various assumptions, such as the discount rate, the salary growth rate, employee turnover and the retirement age. Any change to these assumptions has an impact on the carrying amount of liabilities associated with employee benefits.

Financial instruments

– Derivative financial instruments are measured at fair value. Note 3.5 "Funding and Financial Instruments" describes the measurement of these instruments.

Note 1.5 Method of conversion

– No transactions in foreign currencies are reported in the consolidated financial statements as at 30 June 2018. All subsidiaries are located in the euro zone.

Note 2 Scope of consolidation

Note 2.1 Consolidation scope accounting principles

Subsidiaries

Subsidiaries are entities controlled directly or indirectly by the Company. A subsidiary is considered to be controlled when the Company:

– has the power, directly or indirectly, to govern its operating and financial policies;

– obtains variable returns from its activities;

– has the ability to use its power to influence these returns.

In general, controlled companies are those in which Korian directly or indirectly holds more than 50% of the voting rights.

The financial statements of subsidiaries are fully consolidated from the date on which the Company acquires effective control until such time as control is transferred outside the Group.

The consolidated financial statements include all of the subsidiary's assets, liabilities, income and expenses. Equity and income are shared between the owners of the Group and non-controlling interests.

Joint arrangements

This standard does not apply to any Group entity at 30 June 2018.

Associates

Associates are companies over which the Company directly or indirectly exercises significant influence over operating and financial policies, without having control. They are generally companies in which the Company directly or indirectly holds at least 20% of the voting rights.

The Group's interests in associates are consolidated using the equity method. The financial statements of associates are included in the consolidated financial statements from the date significant influence is obtained until the date when the Company ceases to have such influence.

The balance sheet value of investments in associates consolidated using the equity method includes the acquisition cost of the investments (including goodwill), plus or minus changes in the share attributable to owners of the Group of the associate's net assets after the acquisition date. The income statement reflects the share attributable to owners of the Group of the results of the associate.

There are no investments consolidated using the equity method or other equity interests in joint ventures.

Business combinations

A) BUSINESS COMBINATIONS

In accordance with IFRS 3R, business combinations are subject to the following accounting rules, as of the acquisition date:

– the identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date;

– non-controlling interests in the acquired business are measured either at fair value (i.e. with goodwill allocated to the non-controlling interests: the "full goodwill method") or at the proportionate share of the fair value of the net identifiable assets of the acquired entity (i.e. with no goodwill allocated to non-controlling interests: the "partial goodwill method"). This option is available on a case-by-case basis for each business combination;

– acquisition costs are expensed when incurred and are reported in the consolidated income statement under "Gain/(Loss) on acquisition and disposal of consolidated entities";

- any earn-out payments on business combinations are measured at fair value at the acquisition date. After the acquisition date, contingent consideration is recognised at fair value at each balance sheet date. After a period of one year following the acquisition date, any change in fair value is recognised in income. Within this one-year period, any changes in fair value explicitly linked to events subsequent to the acquisition date are also recognised in income. Other changes are charged to goodwill.

At the acquisition date, goodwill is the difference between:

- the fair value of the consideration transferred, plus the amount of non-controlling interests in the acquiree and, where a business combination takes place in several stages, the fair value at the acquisition date of the acquirer's previously held equity interest in the acquiree, which is remeasured in the income statement; and
- the net balance of identifiable assets acquired and liabilities assumed at the acquisition date, measured at fair value.

Goodwill is not amortised. In accordance with IAS 36 “Impairment of Assets”, goodwill is tested for impairment at least annually and more frequently if there is evidence of impairment.

B) COMMITMENTS TO PURCHASE NON-CONTROLLING INTERESTS MADE IN CONNECTION WITH BUSINESS COMBINATIONS

The following accounting treatment has been adopted in accordance with currently applicable IFRS standards and the recommendation of the French financial markets authority (AMF):

- on initial recognition, these commitments are recognised as liabilities at the present value of the purchase price, offset by equity;
- subsequent changes in the value of the commitment are recognised by adjusting equity, on the grounds that it is a transaction between shareholders.

Liabilities related to commitments to purchase non-controlling interests are valued on the basis of information or situations existing at the date the financial statements are prepared (medium-term business plan), which may prove to be different from actual outcomes.

C) ACQUISITION OF ADDITIONAL INTERESTS AFTER EXCLUSIVE CONTROL IS OBTAINED

When additional interests are acquired in an entity that is already exclusively controlled, the difference between the purchase price of these interests and the share of additional consolidated equity acquired is recognised in equity attributable to the owners of the Company. The carrying amount of the subsidiary's identifiable assets and liabilities, including goodwill, is left unchanged.

In the statement of cash flows, the acquisition of additional interests in a controlled entity is presented in net cash flows from/(used in) financing activities.

D) ADDITIONAL PURCHASES OF INTERESTS LEADING TO EXCLUSIVE CONTROL OF AN ENTITY PREVIOUSLY UNDER SIGNIFICANT INFLUENCE

The acquisition of exclusive control gives rise to the recognition of a gain/loss on disposal that is calculated on the entire investment at the date of the transaction.

The share previously held is re-measured at fair value through income when exclusive control is obtained.

E) SALE OF SECURITIES WITHOUT LOSS OF EXCLUSIVE CONTROL

In the event of a partial sale of interests in an exclusively controlled entity that does not modify control of said entity, the difference between the fair value of the sale price of the interest and the share of consolidated equity that this interest represents at the date of disposal is recognised in equity attributable to owners of the Group's parent company. The consolidated value of the subsidiary's identifiable assets and liabilities, including goodwill, is left unchanged.

F) SALE OF INTERESTS WITH LOSS OF EXCLUSIVE CONTROL

The loss of exclusive control gives rise to the recognition of a gain/loss on disposal calculated on the entire investment at the date of the transaction.

Any residual interest is therefore re-measured at fair value through income when exclusive control is lost.

Note 2.2 Change in the consolidation scope

At 30 June 2018, the consolidation scope included, in addition to the parent company Korian SA, 490 fully consolidated companies (vs. 471 at 31 December 2017). The following significant events occurred in the first half of 2018:

Changes in scope – France

As from 1 January 2018, Korian has included Ages & Vie in its consolidation scope. Ages & Vie was acquired in December 2017, including in particular the acquisition of a 70% interest in Ages & Vie Habitat and a 53.13% interest in Ages & Vie Gestion. This acquisition was not included in the consolidation scope at 31 December 2017 due to the immaterial nature of earnings in 2017 and of their contribution to total consolidated assets at 31 December 2017.

In May 2018, Korian acquired 100% of the capital of SAS Résidence Médicalisée Fontdivina and 100% of the capital of SCI La Méridienne. This facility has 74 healthcare beds, including a protected unit with 16 places and six assisted living apartments.

In April 2018, Korian acquired 100% ownership of SAS CLINIDEV, which itself holds 100% ownership of SAS CliniDom, a hospital home care company based in Clermont-Ferrand that has developed a highly specialised oncology offer. CliniDom has become the Group's trade name for its Hospital Home Care business.

Changes in scope – Belgium

As from 1 January 2018, Korian has fully consolidated the eight facilities acquired in December 2017 from Senior Assist. This acquisition was not included in the consolidation scope at 31 December 2017 due to the immaterial nature of earnings in 2017 and of their contribution to total consolidated assets at 31 December 2017.

In addition, Senior Living Group acquired two new independent facilities:

- ✓ The Elckerlyck nursing home with a capacity of 77 beds in January 2018
- ✓ The Bormanshof nursing home with a capacity of 36 beds in March 2018

Changes in scope – Italy

In June 2018, Segesta Spa acquired 60% ownership of Assisi project Spa. This company operates San Giuseppe Hospital in the Florence area, which has 83 beds specialising in orthopaedic treatments and musculoskeletal conditions.

Changes in scope – Germany

In April 2018, Korian Deutschland acquired 100% ownership of Seniorheim an der paar Gmbh, located in Aichach.

Note 2.3 Material information on significant changes in scope

Impact on cash of acquisitions and disposals of subsidiaries and joint ventures

In thousands of euros	
Purchase price of subsidiaries [A]	**104,691**
Cash-out/cash-in [B]	82,318
Debt incurred [C] = [A]-[B]	**22,373**
Disposal price [D]	
Cash acquired [E]	24,545
Cash disposed of [F]	
Impact of changes in consolidation scope [G] = [E-F-B+D]	**-57,773**

Subsidiaries for which the purchase price allocation is final

None.

Subsidiaries acquired during the year

The impacts on the consolidated statement of financial position of the subsidiaries acquired and of the definitive allocation of their acquisition prices in the first half break down as shown below.

In thousands of euros	**Assets contributed**	**Liabilities contributed**
Goodwill	86,750	
Intangible assets	1,522	
Property, plant and equipment	110,103	
Non-current financial assets	978	
Deferred tax assets	903	
Non-current assets	**200,256**	
Inventory	1,786	
Trade receivables and related accounts	13,172	
Other receivables and currents assets	16,678	
Current assets	**31,636**	
Non-controlling interests		**122**
Provisions for pensions		31
Deferred tax liabilities		6,939
Other provisions		2,860
Borrowings and financial liabilities		79,727
Other non-current liabilities		21,272
Non-current liabilities		**110,829**
Provisions for less than one year		303
Trade payables and related accounts		11,709
Other liabilities and accruals		50,028
Borrowings due within 1 year		5,885
Financial instruments – Liabilities		
Current liabilities		**67,925**
Assets contributed	**231,892**	
Liabilities contributed		**178,876**
Net contribution	53,016	

Subsidiaries sold

None.

Note 2.4 Discontinued operations and assets held for sale

In accordance with IFRS 5:

– a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and which represents a separate major business line or geographical area, and is part of a single coordinated plan to dispose of a separate major business line or geographical area;
– discontinued operations are presented as a single amount in the income statement, together with an analysis of the amount;
– the Group's current and non-current assets and liabilities classified as held for sale are not offset, but are presented separately from other assets and liabilities on the balance sheet, on a single line (under assets and liabilities respectively). They are included within the sub-total of current assets and liabilities, but are presented on a separate line in current assets and liabilities.

These assets and groups of assets, and the related liabilities, are measured at the lesser of their accounting value or estimated selling price, less selling costs.

<u>Discontinued operations</u>

None.

<u>Assets held for sale</u>

As at 30 June 2018, there are no assets held for sale.

Note 3 Notes on the statement of financial position

Note 3.1 Goodwill, intangible assets

Goodwill

In thousands of euros	30.06.2018	31.12.2017
Gross goodwill at the start of the period	**2,218,729**	**2,175,429**
Changes in scope	86,295	104,125
Definitive allocation of goodwill		-60,825
Valuation of commitment to buy out minority interests		
Disposals		
Earn-out	1,280	
Reclassifications		
Assets held for sale		
Gross goodwill at the end of the period	**2,306,304**	**2,218,729**
Impairment at the start of the period		
Impairment during the period		
Impairment at the end of the period		
Net goodwill at the start of the period	**2,218,729**	**2,175,429**
NET GOODWILL AT THE END OF THE PERIOD	**2,306,304**	**2,218,729**

Goodwill is measured in accordance with the accounting principles described in Note 2.

Change in goodwill

In thousands of euros	Group	France	Germany	Belgium	Italy
Net goodwill at the start of the period	**2,218,729**	**1,177,736**	**666,624**	**142,603**	**231,766**
Changes in scope	86,295	39,656		17,421	29,219
Definitive allocation of goodwill					
Earn-out	1,280				1,280
NET GOODWILL AT THE END OF THE PERIOD	**2,306,303**	**1,217,391**	**666,624**	**160,024**	**262,264**

Goodwill calculated at 30 June 2018 on the acquisitions during the period is currently being allocated.

In accordance with IFRS 3R, and due to the time limit set by the standards, the identifiable assets and liabilities of the facilities acquired in the first half of 2018 (see note 2) are currently being measured. The calculation of goodwill will be finalised within 12 months of the acquisition date.

At 30 June, in accordance with IAS 32, for the acquisitions of the Ages et Vie group in France, in which the Group acquired a 70% interest, and of Assisi Project Spa, in which the Group acquired a 60% interest, the contractual obligation to buy out minority interests was recognised as a discounted debt reported in “other non-current liabilities”.

For the purposes of the half-year balance sheet date, this liability has been measured at the current repayment value, i.e. the most probable present value of exercising the sale option, based on factors, such as the business plans, set at the balance sheet date.

Intangible assets

MEASUREMENT OF INTANGIBLE ASSETS

Intangible assets are reported at their acquisition cost. Operating licences acquired through business combinations are measured at fair value at the acquisition date, by reference to a revenue multiple.

They are not subsequently re-measured. Most intangible assets are comprised of operating licences, which are non-amortisable assets with indefinite lives. In some cases they may be impaired if their recoverable value falls below their accounting value.

In France, although licences are granted for a period of 15 years and tripartite agreements are signed for a period of five years, no amortisation is recognised in the consolidated financial statements. This market position in the sector stems from the fact that operating licences can only effectively be withdrawn if the Group fails to comply with the conditions imposed by regulators for the operation of this type of facility, including compliance with minimum standards of care, which is verified through compliance inspections.

Germany does not have a system of administrative licences for the operation of facilities, which are essentially subject to technical standards. Therefore, operating rights do not meet the definition of an identifiable intangible asset. However, prices are regulated by the supervisory authorities, and business growth depends on the relationships established with them.

Regulations, at both the federal and regional levels, represent a substantial barrier to entry in the Belgian long-term care nursing home market. An operating licence must be granted and accommodation rates are controlled.

In Italy, national regulations impose minimum structural requirements. Each region transposes these regulations into local rules. Italian facilities undergo inspections by the supervisory authorities under agreements entered into with such authorities.

In thousands of euros	Licences	Other	Total
Gross value at the start of the period	**1,679,846**	**219,071**	**1,898,918**
Changes in scope		6,078	6,078
Disposals		-366	-366
Acquisitions		6,727	6,727
Transfers		5,730	5,730
Gross amount at the end of the period	**1,679,846**	**237,240**	**1,917,086**
Total amortisation and impairment at the start of the period	**11,489**	**127,715**	**139,204**
Changes in scope		4,556	4,556
Disposals		-343	-343
Amortisation and impairment		10,433	10,433
Transfers		-188	-188
Total amortisation and impairment at the end of the period	**11,489**	**142,172**	**153,661**
Net accounting value at the start of the period	**1,668,358**	**91,357**	**1,759,714**
Net accounting value at the end of the period	**1,668,357**	**95,068**	**1,763,426**

The valuations of licences are shown in the following table:

In thousands of euros	France	Belgium	Italy	Total
Gross value at the start of the period	1,277,880	199,730	202,235	1,679,846
Impairment	11,489			11,489
Net accounting value at the start of the period	**1,266,391**	**199,730**	**202,235**	**1,668,357**
Gross amount at the end of the period	1,277,880	199,730	202,235	1,679,846
Impairment	11,489			11,489
Net accounting value at the end of the period	**1,266,391**	**199,730**	**202,235**	**1,668,357**

No single licence represents a material amount for the Group.

Note 3.2 Financial assets

Financial assets comprise:

– non-current financial assets: investments in unconsolidated companies, related receivables and guarantees and security deposits granted;

– current financial assets, which include short-term financial derivative instruments and cash and cash equivalents (marketable securities).

In accordance with IFRS 9, financial assets are classified into one of the following three categories:

– financial liabilities recognised at amortised cost;

– financial liabilities recognised at fair value through other items of comprehensive income;

– financial liabilities recognised at fair value through profit/(loss).

Measurement and recognition of financial assets

Financial assets are initially recognised at fair value, which is generally equal to the acquisition cost.

Loans and receivables

This category includes other loans and receivables. They are recognised in the balance sheet at amortised cost.

Trade receivables and related accounts

Trade receivables are recognised in the balance sheet at amortised cost.

A provision for impairment is recognised for expected losses over the life of the receivable.

Cash and cash equivalents

Cash and cash equivalents consist of immediately available liquidities (cash at bank and in hand) and short-term, highly liquid investments that are readily convertible into known amounts of cash and are exposed to an immaterial risk of change in value (short-term deposits with an initial term of less than three months and euro-denominated money market funds classified in the AMF's "short-term money market fund" category).

Short-term investments are recognised at market value at each balance sheet date.

Categories of financial assets

The table below shows the size of financial instruments in proportion to the Group's consolidated assets.

This table presents a breakdown of financial instruments recognised at fair value by measurement method. The different levels of fair value are defined as follows:

– Level 1: prices are quoted on an active market;

– Level 2: observable inputs other than quoted prices on an active market (financial models);

– Level 3: unobservable inputs.

In thousands of euros	2018	Financial assets at amortised cost	Financial assets recognised at fair value in income				Financial assets recognised at fair value in other items of comprehensive income	Fair value measurement		
			Cash and cash equivalents	Non-consolidated equity investments	Derivatives ineligible for hedge accounting	Impact of counterparty default risk – Credit Value Adjustment	Cash flow hedging derivatives	Level 1 Active markets	Level 2 Observable data	Level 3 Non-observable data
Non-current assets										
Non-consolidated equity investments	285			285						285
Other non-current assets	33,609	33,609								
Non-current financial assets	**33,894**	**33,609**		**285**						**285**
Current assets										
Trade receivables and related accounts	**218,160**	218,160								
Other receivables	230,282	230,282								
Deposits and guarantees	4,528	4,528								
Other receivables and current financial assets	**234,810**	**234,810**								
Derivative instruments – assets	**3,970**				**0**	**-136**	**4,106**		**3,970**	
Marketable securities	193,645		193,645					193,645		
Cash	265,250		265,250							
Cash and cash equivalents	**458,895**		**458,895**					**193,645**		

The accounting value of financial assets is considered to be their fair value.

Transfer and use of financial assets

In accordance with IFRS 9, the Group derecognises financial assets when they are no longer expected to generate future cash flows and when most of the risks and rewards attached to them have been transferred.

Under factoring contracts, contracts covering the assignment of receivables concluded solely in Italy are used to assign a portion of the receivables of certain subsidiaries to a group of financial institutions, which transfer most of the risks and rewards attached to the receivables assigned.

Receivables assigned by the Italian subsidiaries are sold at their nominal value less an initial charge of between 0.3% and 0.6%, which is recognised in other expenses, to which interest at the EURIBOR rate plus a margin is added and recorded as a financial expense.

The total of receivables assigned and derecognised in the first half of 2018 totalled €63,652 thousand.

The disposal of these receivables in the first half of 2018 resulted in a loss of - €555 thousand.

Note 3.3 Cash and cash equivalents

In thousands of euros	30.06.2018	31.12.2017
Marketable securities	193,645	292,842
Cash	265,250	217,747
Total	**458,895**	**510,589**

Marketable securities comprise term deposits or euro-denominated open-ended investment funds with variable capital (SICAV) classified in the AMF's "short-term money market fund" category. Pursuant to IAS 7, they are highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Note 3.4 Other provisions

A provision is recognised when, at the end of the period, the Group has a present obligation (legal or constructive) and it is probable that an outflow of resources that do not embody future economic benefits will be required to settle it.

Provisions are discounted if the effect of time is material. Increases in provisions due to the passage of time are recognised as financial expenses.

A provision for restructuring can only be set aside if the restructuring was publicly announced and a detailed restructuring plan has been drawn up or restructuring is underway at the balance sheet date.

A provision is recognised for disputes (e.g. employee industrial disputes, tax audits, commercial disputes, etc.) if the Group has a liability towards a third party at the closing date. The amount of the provision reflects the best estimate of future expenditures.

Non-current provisions

In thousands of euros	Tax	Social contributions	Other	Total
Balance at start of period	**67,169**	**49,986**	**36,723**	**153,878**
Allow ances	3,538	2,559	3,504	9,601
Used	-5,940	-4,140	-2,775	-12,856
Reversals	-15,784	-309	-1,508	-17,601
Changes in scope		2,171	688	2,860
Reclassifications		2	-2	
Closing balance	**48,984**	**50,269**	**36,630**	**135,883**

Current provisions

In thousands of euros	Tax	Social contributions	Other	Total
Balance at start of period	**95**	**12,063**	**-498**	**11,660**
Allow ances	123	492	57	672
Used	-177	-54		-230
Reversals	-985			-985
Changes in scope			303	303
Reclassifications				
Closing balance	**-944**	**12,501**	**-138**	**11,420**

Main risks and disputes

TAX DISPUTES

Provisions for tax disputes provide a reserve against tax adjustments and tax disputes for which the amounts have been contested. The provisions represent the best estimate of the risk at 30 June 2018.

EMPLOYEE-RELATED DISPUTES

The provisions set aside cover employee disputes and employment termination benefits. No individual dispute represents a material amount.

To the best knowledge of the Company and its legal advisors, there are no disputes that are liable to have a material impact on the Group's business, results or financial position for which provisions have not been set aside.

Note 3.5 Funding and financial instruments

Net indebtedness (current/non-current)

Interest-bearing loans are initially recognised at fair value less associated transaction costs. These costs (bond issue premiums and fees) are included in the calculation of amortised cost using the effective interest method.

At each balance sheet date, financial liabilities are then measured at their amortised cost using the effective interest method.

Borrowings are broken down into:

– current liabilities, which are due within 12 months of the balance sheet date; and

– non-current liabilities, which are due in more than 12 months.

In thousands of euros	30.06.2018	31.12.2017
Borrowings from credit institutions and financial markets	1,550,673	1,581,065
Real estate debt	1,258,745	1,130,832
of which IAS 17 debt other than sales and leasebacks	701,197	645,542
of which real estate debt to financial counterparties	557,548	485,290
Other financial liabilities	124,834	132,074
Bank overdrafts and advances	10,930	6,787
Financial liabilities (A)	**2,945,183**	**2,850,758**
Marketable securities	193,645	292,842
Cash	265,250	217,747
Cash (B)	**458,895**	**510,589**
Cash provided as collateral (C)		
NET DEBT (A) - (B) - (C)	**2,486,288**	**2,340,169**

Breakdown of borrowings by type of rate (excluding IAS 17 liabilities other than sales and leasebacks)

In thousands of euros		30.06.2018	31.12.2017
Fixed rate (excluding IAS 17 debt other than sales and leasebacks)	42%	944,913	895,327
Variable rate	58%	1,299,073	1,309,889
TOTAL		**2,243,986**	**2,205,216**

At 30 June 2018, the share of the Group's indebtedness at variable interest rates totalled 58% of financial liabilities (excluding IAS 17 liabilities other than sales and leasebacks). The Group has financial instruments to hedge against fluctuations in interest rates. It uses standard derivative financial instruments (interest rate swaps, caps, floors, etc.).

Including financial instruments classified as cash flow hedges, 60% of variable-rate borrowings were hedged at 30 June 2018.

Debt secured by guarantees such as collateral, mortgages or finance leases accounted for 17.7% of gross borrowings.

Breakdown of borrowings by maturity

In thousands of euros	30.06.2018	31.12.2017
< 1 year	394,498	352,940
Short-term financial liabilities	**394,498**	**352,940**
1 to 5 years	1,679,229	1,654,200
> 5 years	871,456	843,618
Long-term financial liabilities	**2,550,685**	**2,497,818**
TOTAL	**2,945,183**	**2,850,758**

Change in the Group's indebtedness at 30 June 2018

At 30 June 2018, the Group's net indebtedness was €2,486 million, up €146 million from 31 December 2017. Net financial liabilities, excluding real estate debt, was €1,228 million, versus €1,209 million at 31 December 2017.

Real estate debt totalled €1,259 million, versus €1,131 million at 31 December 2017. The increase is attributable to the increase in the property ownership ratio and to the consolidation of the acquisitions made in France an Belgium.

The ratio of net debt to restated EBITDA *([4])* was 3.2x, compared with an authorised maximum of 4.75x at 30 June 2018. The syndicated loan and the Schuldschein and Euro PP bonds are subject to this covenant.

[4] (Net debt - real estate debt)/(adjusted EBITDA - (6.5% * real estate debt))

Changes in the covenant are notified semi-annually to the syndicated lenders and annually to the bondholders.

At 30 June 2018, excluding bank overdrafts and advances, the Group's gross borrowings consisted of:

– a €500 million syndicated loan (term loan tranche);
– €1,062 million in bonds placed with private investors and other borrowings;
– €106 million in short-term and other negotiable securities;
– real estate debt in the amount of €1,259 million. This debt consists primarily of finance leases (in application of IAS 17) with long maturities.

Moreover, at the end of first half of 2018, the Group's net cash position stood at €448 million.

Hedging financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments (swaps and caps) to hedge against the interest rate risk arising from its variable-rate financing policy. These derivative financial instruments are measured at fair value, which is determined by using valuation models that incorporate market parameters at the balance sheet date.

For financial derivatives that qualify as hedges for accounting purposes:

– if the derivative is classified as a fair value hedge, changes in the value of the derivative and the hedged portion of the risk are recognised in profit or loss over the same period;
– if the derivative is classified as a cash flow hedge, the change in value of the effective portion of the derivative is recognised in equity. By contrast, the ineffective portion of the change in the value of the derivative is recognised directly in profit or loss.

For derivatives that do not satisfy the qualifying criteria for hedge accounting, any gain or loss arising from changes in fair value is recognised directly in financial income for the period.

The fair value of derivative instruments is recognised in current assets and current liabilities.

The market value of instruments purchased to hedge interest rate risk at 30 June 2018 was €10,468 thousand after adjustment for counterparty default risk.

The table below sets out the items of income, expenses, gains and losses recognised in income and equity before deferred taxes, in the first half of 2018, for each class of financial instrument.

In thousands of euros	Impact on equity	Impact of hedging on profit or loss	Impact of undocumented items on profit or loss	Impact of counterparty default risk
Financial instruments eligible for hedge accounting	-3,393	181		
Financial instruments ineligible for hedge accounting			146	
TOTAL	**-3,393**	**181**	**146**	**148**

Assets	31.12.2017	Newly consolidated companies	Deconsolidated companies	Change	30.06.2018
Interest rate swaps	2,309			-1,457	851
Options	2,710			545	3,255
Total hedging instruments – Assets	**5,018**			**-912**	**4,106**
Interest rate swaps					
Options	1			-1	0
Total ineligible financial instruments – Assets	**1**			**-1**	**0**
Total impact of counterparty default risk – Credit Value Adjustment	**-128**			**-8**	**-136**
TOTAL FINANCIAL INSTRUMENTS – ASSETS	**4,891**			**-922**	**3,970**

Equity and liabilities	31.12.2017	Newly consolidated companies	Deconsolidated companies	Change	30.06.2018
Interest rate swaps	11,939			1,293	13,232
Options				742	742
Total hedging instruments – Liabilities	**11,939**			**2,035**	**13,974**
Interest rate swaps	949			-64	885
Options	292			-83	209
Total ineligible financial instruments – Liabilities	**1,241**			**-147**	**1,094**
Total impact of counterparty default risk – Debit Value Adjustment	**-474**			**-156**	**-630**
TOTAL FINANCIAL INSTRUMENTS – LIABILITIES	**12,706**			**1,732**	**14,438**
NET TOTAL	**7,815**			**2,654**	**10,468**

Categories of financial liabilities

The table below shows the amounts of financial instruments as a share of the Group's consolidated liabilities. It presents a breakdown of financial instruments recognised at fair value by measurement method. The different levels of fair value are defined as follows:

- level 1: prices are quoted on an active market;
- level 2: observable inputs other than quoted prices on an active market (financial models);
- level 3: unobservable inputs.

In thousands of euros	2018	Financial liabilities at amortised cost	Financial liabilities recognised at fair value in income			Financial liabilities recognised at fair value in other items of comprehensive income	Fair value measurement		
			Fair-value hedging derivatives	Derivatives ineligible for hedge accounting	Impact of counterparty default risk – Debit Value Adjustment	Cash flow hedging derivatives	Level 1 Active markets	Level 2 Observable data	Level 3 Non-observable data
Non-current liabilities									
Loans from credit institutions	1,455,290	1,455,290							
Funding of real estate debt	1,094,215	1,094,215							
Employee profit-sharing	40	40							
Other financial liabilities	1,140	1,140							
Borrowings and financial liabilities	**2,550,685**	**2,550,685**							
Commitment to buy out non-controlling interests	22,381	22,381							
Other non-current liabilities	823	823							
Current liabilities									
Loans from credit institutions	95,383								
Funding of real estate debt	164,530	95,383							
Bank overdrafts and advances	10,930	164,530							
Other financial liabilities	123,654	10,930							
Borrowings < 1 year and bank overdrafts	**394,498**	**394,498**							
Derivative instruments – liabilities	**14,438**			**1,094**	**-630**	**13,974**			**14,438**
Trade payables and related accounts	**261,921**	**261,921**							
Residents' deposits	62,910	62,910							
Other liabilities	641,025	641,025							
Other liabilities and accruals	**703,935**	**703,935**							

The accounting value of financial liabilities is equal to their fair value.

Note 4 Notes on the income statement

Note 4.1 Calculation of operating income

The income statement is presented by type of expense.

Operating income is calculated as the difference between income and expenses before tax, other than:

– financial items;

– the Group share of income from joint ventures with non-consolidated companies; and

– the income from discontinued operations held for sale.

Employee profit sharing is included in personnel expenses.

Revenue

Revenue consists primarily of services provided in connection with the accommodation and care of residents, regardless of the origin of the payment. It is recognised as services are provided.

Personnel expenses

In thousands of euros	30.06.2018	**31.12.2017**	**30.06.2017**
Salaries and remuneration	649,662	1,209,646	610,043
Social security charges	206,385	404,919	192,786
Employee profit-sharing	5,026	15,298	4,774
Other personnel expenses	-10,900	-13,390	-8,346
Total	**850,173**	**1,616,472**	**799,257**

External expenses

In the first half of 2018, external expenses totalled €371.5 million and included property and equipment leasing costs of €196.4 million. In the first half of 2017, external expenses totalled €362.2 million and included property and equipment leasing costs of €192.2 million.

External expenses in Italy totalled €88.8 million. This includes payroll expenses invoiced by cooperatives.

Note 4.2 Operating sectors

Operating sectors

IFRS 8 requires the disclosure of sector information based on the components of the Group reviewed and measured by the Group's management. These operating sectors are identified on the basis of internal reports that are regularly reviewed by the Group's operational management when deciding to allocate resources to these sectors and when assessing their results.

Operating sectors are identified by geographic region, i.e. France, Germany, Belgium and Italy. The Korian group is organised into four operating segments, each of which corresponds to a country in which the Group operates.

Management mainly uses EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortisation and Rent) to monitor each sector's performance.

The Group's operational management monitors the indicators shown in the table below, and revenue and EBITDAR in particular.

Operating segments at 30.06.2018 *In thousands of euros*	**Total of all activities**	**France**	**Germany**	**Belgium**	**Italy**
Revenue and other income	1,633,905	812,532	449,681	204,119	167,574
EBITDAR [(1)]	424,102	221,576	109,965	51,828	40,734
	26.0%	*27.3%*	*24.5%*	*25.4%*	*24.3%*
Transition from EBITDAR to operating income at 30 June 2018:					
In thousands of euros					
EBITDAR	**424,102**				
External rental payments	196,365				
Depreciation/amortisation and provisions	84,349				
Profit/(loss) on acquisition and disposal of consolidated entities	-1,672				
Other operating income and expenses	5,845				
Operating income	**147,561**				

Operating segments at 30.06.2017 *In thousands of euros*	**Total of all activities**	**France**	**Germany**	**Belgium**	**Italy**
Revenue and other income	1,541,763	784,100	434,989	171,112	151,561
EBITDAR [(1)]	400,784	215,325	106,186	42,634	36,638
	26.0%	*27.5%*	*24.4%*	*24.9%*	*24.2%*
Transition from EBITDAR to operating income at 30 June 2017:					
In thousands of euros					
EBITDAR	**400,784**				
External rental payments	192,182				
Depreciation/amortisation and provisions	78,596				
Profit/(loss) on acquisition and disposal of consolidated entities	-1,007				
Other operating income and expenses	-3,491				
Operating income	**125,508**				

(1) EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortisation and Rent) = earnings from operations before rental expenses.

Note 4.3 "Other operating income" and "Other operating expenses"

These items represent the impact of major events during the accounting period that could skew the interpretation of the performance, particularly of EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortisation and Rent), the Group's preferred indicator for financial communication purposes.

To facilitate the interpretation of operational performance, these income and expense items, which are relatively few and infrequent, are presented separately in the income statement.

They mainly consist of:

– gains or losses on disposals and substantial and unusual impairment of non-current intangible assets and of property, plant and equipment;

– certain restructuring or merger expenses, consisting solely of restructuring costs that may distort current operating income due to their unusual nature and size;

– other operating income and expenses such as substantial provisions to cover disputes.

Gain/(loss) on acquisition and disposal of consolidated entities

In thousands of euros	30.06.2018	31.12.2017	30.06.2017
Securities acquisition costs	-1,672	-2,959	-1,007
Profit/(loss) on disposal of consolidated entities			
PROFIT/(LOSS) ON ACQUISITION AND DISPOSAL OF CONSOLIDATED ENTITIES	**-1,672**	**-2,959**	**-1,007**

Other operating income and expenses

In thousands of euros	30.06.2018	31.12.2017	30.06.2017
Share of sale and leaseback gain	1,917	3,837	1,918
Gain/(loss) on disposal of non-current assets	-503	-354	-462
Other operating income/Other operating expenses	4,430	-421	-4,947
TOTAL INCOME (EXPENSES)	**5,845**	**3,062**	**-3,491**

Other operating income/Other operating expenses include reversals of tax provisions in Germany.

Note 4.4 Net financial income

Net financial income consists of net borrowing costs and other financial income items.

The gross borrowing cost is the interest expense on bank loans, bonds and financial lease contracts.

The other financial income items are primarily the cost of the Group's hedges, the amortisation of capitalised issue expenses, amortisation in connection with the renegotiation and restructuring of debt and hedging instruments, bank fees and charges paid (including factoring expenses), and the financial cost of employee benefits.

In thousands of euros	30.06.2018	31.12.2017	30.06.2017
Cost of gross debt	**-48,812**	**-98,448**	**-44,791**
Income from cash and cash equivalents	15	18	17
Cost of net debt	**-48,796**	**-98,430**	**-44,774**
Cost of hedging	-2,860	-6,598	-3,432
Bank fees and commissions	-3,428	-7,412	-3,806
Impact of restructuring and hedging	-117	-297	-147
Capitalised financial expenses – borrowing costs and issue premiums	-2,659	-5,911	-2,230
Other financial expenses	-1,963	-5,630	-2,539
Other financial income	1,641	3,740	940
Other financial items	**-9,386**	**-22,107**	**-11,214**
Net financial income	**-58,182**	**-120,537**	**-55,988**

Note 4.5 Income tax

In thousands of euros	30.06.2018	31.12.2017	30.06.2017
Current taxes	-39,505	-68,909	-32,116
Deferred tax	6,106	72,474	2,590
INCOME TAX EXPENSE/(INCOME)	**-33,399**	**3,564**	**-29,526**

The Group's tax rate is 37.4%. The income tax expense for the period is estimated on the basis of the Group's effective income tax rate, in accordance with IAS 34.

Note 4.6 Earnings per share

Net earnings per share are calculated by dividing the Group's consolidated net income by the weighted average number of shares outstanding during the period.

Diluted net earnings per share are calculated on the assumption that all outstanding dilutive options are exercised using the "treasury stock method" defined in IAS 33 "Earnings per Share".

	30.06.2018	31.12.2017	30.06.2017
Net profit/(loss) attributable to owners of the Group (in thousands of euros)	55,055	163,324	38,430
Weighted average number of shares *(in thousands)*	80,983	80,983	80,983
Profit/(loss) per share (in euro)	**0.68**	**2.02**	**0.47**
Net profit/(loss) attributable to owners of the Group (in thousands of euros)	55,055	163,324	38,430
Weighted average number of shares *(in thousands)*	80,983	80,983	80,983
Adjustments for stock options	6,378	6,378	6,378
Average number of shares used for calculation of diluted profit/(loss) per share	87,361	87,361	87,361
Diluted profit/(loss) per share (in euro)	**0.63**	**1.87**	**0.44**

Note 5 Additional information

Note 5.1 Related-party transactions

There were no significant changes in the terms of management remuneration compared to the information provided in the 2017 Registration Document.

Note 5.2 Commitments and contingent liabilities

Disputes: To the best knowledge of the Company and its legal advisors, there are no disputes that are liable to have a material impact on the Group's business, results or financial position for which provisions have not been set aside.

Note 5.3 Real estate lease commitments

Finance leases

In thousands of euros	30.06.2018	31.12.2017
Net accounting value of assets under financial leases	**982,369**	**939,754**
Leasing commitments by term:		
– less than 1 year	72,467	69,561
– from 1 to 5 years	321,467	266,224
– more than 5 years	597,481	586,596
TOTAL COMMITMENTS	**991,415**	**922,381**

Real estate operating leases

In thousands of euros	30.06.2018	**31.12.2017**
Minimum non-cancellable lease payments due:		
– less than 1 year	357,981	358,291
– from 1 to 5 years	1,191,616	1,196,890
– more than 5 years	1,777,984	1,920,274
TOTAL COMMITMENTS	**3,327,581**	**3,475,455**

Note 5.4 Events after the reporting period

Since 1 July 2018, the Group has carried out the transactions described below.

2018 distribution

Following shareholder approval at the 2018 General Meeting, the Company distributed a dividend of €0.60 per share, with the option to receive payment in shares (based on a share price of €26.90). Pursuant to this option, 992,862 new shares were issued on 16 July 2018. These shares carry dividend rights as of 1 January 2018 and enjoy the same rights as the outstanding ordinary shares. The cash dividend totalled €22 million.

The Company's share capital now stands at €409,882,125 and is divided into 81,976,425 shares.

Pursuit of the development strategy

Since 30 June 2018, the following events have taken place pursuant to the Group's development policy:

In Germany, the Group accelerated its development in the home care sector in early July by acquiring a first intensive care network, which is based in Munich and specialises in the care of highly dependent persons. The aim is to develop this offer in other cities, particularly in regions where Korian already has a strong presence, such as Bavaria.

In Italy, the Group acquired 95% of the shares of Smeralda RSA S.r.l., a 115-bed facility in Padru, in northern Sardinia.

2.2 Statutory auditors' review report on the half-year financial information

For the period from 1 January to 30 June 2018

To the shareholders

In compliance with the assignment entrusted to us by your annual general meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Korian, for the period from 1 January to 30 June 2018;
- the verification of the information presented in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures. This work is less extensive than that required for an audit performed in accordance with the professional standards applicable in France. Consequently, the assurance that the financial statements taken as a whole do not contain any material misstatements obtained based on a review is a moderate assurance, lower than the assurance that would be obtained based on an audit.

Based on our review, no material misstatements have come to our attention that would cause us to believe that the condensed half-year consolidated financial statements have not been prepared in accordance with IAS 34 of the IFRS principles, as adopted by the European Union for interim financial information.

2. SPECIFIC VERIFICATION

We have also verified the information presented in the half-year management report on the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Courbevoie and Paris-La Défense, 17 September 2018

The Statutory auditors

MAZARS	ERNST & YOUNG et Autres
Manuela Baudoin-Revert	May Kassis-Morin

CHAPTER 3

Declaration of the person responsible for the document

I certify that, to the best of my knowledge, the condensed financial statements for the past six months have been prepared in accordance with applicable accounting standards and provide a true and fair view of the Company's assets, liabilities, financial position and earnings, as well as those of its consolidated subsidiaries, and that the accompanying half-year management report provides a fair view of the key events that have occurred during the first six months of the year, their impact on the financial statements and the major related-party transactions, as well as a description of the main risks and uncertainties to which the Company is exposed during the remaining six months of the year.

Paris, 17 September 2018

Sophie Boissard, Chief Executive Officer

KORIAN
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Paris Trade and Companies Register No. 447 800 475