



Société Anonyme with Management Board and Supervisory Board and capital of
€138,433,295

Registered offices: 32 Rue Guersant, 75017 Paris
Paris RCS 447,800,475

Annual Financial Report 2007

CONTENTS

Management Report **page 3**

Consolidated Accounts **page 71**

Management Report

1. Highlights in the year 2007

A / Continuation of the Group's ambitious growth

1 / Realisation of the European expansion policy announced at the time of market listing

One of the main objectives of the November 2006 market listing was to strengthen the shareholder equity of the Group with the aim of finding spring boards to growth abroad, in particular in Germany and Italy. These two countries were chosen because their fundamental values are common to those of the French market, specifically the rapid ageing of the population, strong barriers to entry and more and more stringent operating standards, a supply of beds that is lower than the demand and a very fragmented market now undergoing restructuring.

Against this background, the Korian strategy is to put in place in these countries actual development platforms with competent and ambitious local teams, able to replicate and organise a development model similar to that implemented in France, rather than buying back or rebuilding establishments one by one in these countries.

ITALY

After having examined several cases in Italy, Korian announced in April 2007 that it had signed a definitive agreement to acquire 92.93% of the Italian Group, Segesta, the 2nd largest private player in Italy specialising in the care of aged persons, with the remainder of the capital held by management.

Segesta operated 909 beds in 2006 and held authorisations for 3 new establishments totalling 364 additional beds to open in 2007 and 2008. Since the acquisition of Segesta, 2 new establishments had been opened, bringing to 1,149 the number of beds under management. The third establishment would open in Milan during the second half 2008.

This acquisition had all the qualities required by Korian to replicate its growth platform: an experienced team that shared our values and that remained linked to capital, a facility ideally located in the most developed region of Italy, quality establishments with strong medical orientation, a very good track record for growth.

The rapid integration of this platform had also allowed Korian to complete two new acquisitions in Rome and Florence in the 3rd quarter with more than 500 additional beds about hundred of which were being refurbished.

For the year 2007, Segesta was consolidated over 6 months; the new acquisitions in Rome and Florence were consolidated over 3 months. In 2007 the Italian platform realised turnover of m€29.4.

Germany

Consistent with its voluntarist policy as exposed above, Korian continued its deployment in Europe with a major acquisition in Germany: in mid-August an agreement was signed whose aim was to acquire 92.5% of the Phönix Group, a company based in Bavaria operating nearly 3,000 beds, the remainder of the capital being held by management.

At the end of September, Korian finalised the acquisition of Phönix nearly three months in advance of the initial schedule. The German platform was thus able to be integrated into the 2007 Consolidated Accounts over 3 months.

In these countries Korian will primarily focus on internal growth with the opening of nearly 2,000 beds in the next two years. Korian does not rule out the possibility of targeted acquisition of independent establishments if such an operation allows it to strengthen its local positioning and synergies.

For Segesta and Phönix, the Group was committed to buying back the share of minorities, the latter having made reciprocal commitments:

- In Italy, 7.07% at the latest 30 days after the approval of the 2012 statements.
- In Germany, 7.50% before the closing of the 5th period following the acquisition.

These commitments would be valued at the same time as the definitive acquisition.

2 / Acceleration of development in France

In parallel with its European policy, the Group continued to develop each of its medico-social and sanitary divisions in France by selecting projects for the creation and acquisition of establishments on the basis of the consistency of its network and their potential contribution to the creation and strengthening of its local gerontological networks:

- internal growth operations
 - o opening of the Residential Homes for the Elderly (EHPAD¹ with 95 beds) in June 2007 in Marseilles
- external growth operations
 - o These operations are described in paragraph 18.

¹ EHPAD = Établissement d'Hébergement pour Personnes Agées (Residential Homes for the Elderly)

B / Settlement of the dispute introduced by DomusVi bearing on the Mieux Vivre structure

As a reminder, the company SAS Holding Mieux Vivre, of which Korian held 50% of the capital alongside the company DomusVi, operated 13 retirement establishments with a total of 1,081 beds. From an operational point of view, 6 establishments were managed by Korian; the other 7 were managed by DomusVi. In 2006, this structure achieved turnover of €35.7 million and an EBITDA of €4.7 million.

Following the absorption merger of Medidep by Korian finally completed on 28 November 2006, DomusVi contested Korian's status as shareholder of the Holding Mieux Vivre because of its so-called failure by Medidep and Korian to respect the Articles of Association.

In order to end this difference amicably, DomusVi and Korian were merged. An agreement was signed in early July 2007 finally ending this dispute. Under the terms of the agreement, each party bought back the establishments that it managed directly. Korian thus took back 6 establishments totalling 484 beds and DomusVi 7 establishments with 597 beds. In addition, to compensate the difference in value between the assets received by each party, Korian received an amount of €14 million.

From an accounting point of view, the removal of the establishments bought back by DomusVi from the consolidation meant acknowledging a non-recurring profit in the amount of €984,000 in the Consolidated Accounts.

C / Implementation of the centralised purchasing policy

At the time of Korian's market listing in November 2006, the Group had announced the establishment of a Central Department of the Hotel and Purchasing function (DHA). This strategic decision was motivated by the desire to improve services to residents and patients of the Group and leverage synergies between Korian and Medidep on operating costs.

Thanks to the merger with Medidep, Korian had indicated that it expected a reduction of direct costs of supply of at least €5 million per full year starting in 2008, and €2 million in 2007.

The purchasing policy decided by the Purchasing Committee² and implemented at the start of the year 2007 bore fruit more rapidly than expected and allowed objectives to be exceeded: cost savings reached €4.7 million in 2007, which meant an advance of nearly one year over the initial schedule.

Boosted by these successes, the Group intends to strengthen this policy of centralising purchases and to achieve additional economies in the order of 20% in 2008.

In addition, the acquisition of the Italian and German platforms opens up the possibility of implementing a European purchasing policy. This analysis was initiated from the 4th quarter 2007

² This committee combines the General Management and the Director of the Purchasing Division

and will continue in 2008. The first significant effects of this European policy will be recorded by the Group in 2009.

D/ Free shares and stock options

In order to link employees with the Group's development, the Extraordinary General Meeting of 21 June 2007 had authorised the Management Board to allot free shares for up to 0.5% of the capital. 127,879 of these free shares (representing 0.46% of the capital) were distributed at the end of the year 2007, mainly to nursing personnel, who represent the heart of our business and are in daily contact with our residents. Insofar as the period of acquisition of these shares was 3 years, this allocation should also have the effect of reducing turn-over of beneficiary personnel.

Moreover, the same Extraordinary General Assembly had authorised the allocation of stock options for up to 0.5% of the capital. The Management Board decided to allocate 116,000 stock options (representing 0.42% of the capital) to the members of the Management Committee, to regional operational managers as well as to a number of executives with high potential. The exercise price was €30.39 /share.

E/ Strengthening of the sales policy

In 2007, the Group started a process aimed at strengthening its presence among prescribers (medical professions, medico-social and sanitary in particular) in order to expand the links of its network.

Korian thus extended its marketing media not only to patients, residents, and families but also to prescribers. These media were accompanied by visits and organisation of events that allowed it to maintain the link with these prescribers.

More particularly, a sales delegate was recruited for the Ile-de-France region in order to deepen the links with those making referrals. The systematisation of this procedure, which will be progressively extended to all the cities in which such collaboration is possible, should enable the Group to increase its visibility and also to increase levels of occupancy in these establishments.

Moreover, a free telephone number (0800 567 426 accessible 24/7) was implemented in order to answer questions from family members and direct patients and residents toward the nearest establishment. This assistance was facilitated by an information system providing the number of places available for each establishment in real time.

F/ A voluntarist HR department

In 2007 Korian deployed a human resources policy based on the size and visibility of the Group, through targeted human resources communications actions, and through the implementation of dynamic training and career management programmes, in order to promote recruitment of qualified personnel, and in particular registered nurses and nursing assistants.

The effectiveness of this policy was reinforced by the promotion of the Korian identity at Group level offering additional visibility on a national scale. Against this background the Group also decided to set up a *unité économique et sociale* (UES) [economic and social unit]. This should be created during the year 2008.

G / A strong quality commitment

In 2007, the Korian Group enhanced its quality policy in order to account for legal and corporate risks inherent in the business. A centralised system facilitates the monitoring of French establishments and the rapid detection of undesirable events for the purpose of controlling the effectiveness of the quality approach throughout the Korian network. It also has a role to play in the implementation of a group spirit among workers in the Korian Group for the benefit of residents and patients.

Two departments dedicated to each of the lines of business in France (i.e. medico-social and sanitary establishments) were thus created to bring the necessary methodical assistance to the establishments, to ensure that procedures are followed and to model the Group's quality approach.

In addition, ethical development of an ethical approach is at the heart of Korian's requirements. In fact, within the Korian Group, resident and patient care relies on strong commitment: respect for individuals, their dignity and wishes are the key words describing the care by Group establishments.

Thus, in 2007, Korian implemented a voluntarist policy with regard to positive treatment, coordinated by the Ethical Development Department and supervised by Dr. Claude Malhuret, founder of *Médecins sans Frontières* and former Secretary of State for Human Rights.

With this in mind the Group is particularly committed to deploying the principles of health care methodology throughout its EHPADs (residences for dependent elderly): "*Humanitude*". This concept, developed by Yves Gineste and Rosette Marescotti, consists in offering to all those who care for elderly persons an attitude toward ageing, on health care and "taking care" and bringing in new practices (in particular for bathroom hygiene, meals, etc.). In 2007, 35 EHPADs from the group introduced this training and in 2008 there were 36 EHPADs registered within this development.

An adaptation of the training principle will be tested in 2008 for two SSR³ establishments; depending on the evaluation, the project will be proposed for all of the Group's SSR establishments for 2009.

H / Resignation of Philippe Ritter and co-opting of Jean Castex to the Supervisory Board

The Supervisory Board, in its session of 23 November 2006, had co-opted 3 independent members, including Philippe Ritter. Mr. Rotter resigned during the first quarter 2007. He was replaced by Jean Castex by decision of the Supervisory Board of 2 April 2007.

Jean Castex was born in 1943, has degrees in mathematical sciences and economics, and also holds a diploma from the Paris *Institut d'études politiques* [Institute of Policy Studies]

³ SSR = Soins de Suite et de Réadaptation (Follow-up Care and Rehabilitation)

I / Korian Services

As part of its strategic project, Korian had introduced experimentation with a service linked to MAD⁴. based on the concept new to France of assistance to home care workers which Korian had observed in the United States.

Korian has committed the personnel and financial resources necessary for conducting this experiment. Unfortunately, after more than 12 months of experimentation, Korian Services was indeed able to demonstrate a market demand for this kind of services but has not been able to find the economic equation allowing a private operator to make the activity profitable.

It therefore decided to suspend the activity at the end of 2007. This decision meant a loss of €2 million, entered as result from discontinued activities.”

J / Definition of a 2008-2012 strategic plan

In 2006 the Group set ambitious objectives for 2009, whose main features were as follows:

- Operate 5,000 additional beds by the end of 2009
- Develop Korian in France, Italy and Germany
- Favour external development in order to accelerate growth; the possibility of acquiring individual establishments on a maximum basis of 12.5x EBITDA for facilities and businesses, leading to a maximum goodwill acquisition multiplier after resale of facilities of 8x EBITDA
- Introduce a dividend distribution policy

All of these objectives were reached 2 years earlier than forecast and within the conditions of profitability set in the initial business plan: turnover from the current extent of business will be €1 billion in 2011 without any other development operation , the scope of operations at that date including more than 21,000 beds.

With this preliminary phase having been achieved, particularly the establishment of European development platforms Segesta and Phönix, it was necessary to define new strategic directions for Korian to consolidate our leadership.

The major directions of this ambitious strategy were as follows:

- Strengthen our position as first French player in the private commercial sector;
- Increase the complementarity of EHPAD/SSR/Psychiatry for improved integration into the health care business;
- Centre our strengths on priority geographical areas;
- Strengthen the medicalisation of our establishments, improve the quality of care and diversify supply.

We shall pay particular attention to safety and experimentation with new systems.

⁴ MAD = Maintien à Domicile (Home Care for Aged Persons)

The local synergies between our EHPAD/SSR/Psychiatry establishments would be developed by sharing certain costs and competencies.

This coming together of businesses was being achieved through a more structured regional EHPAD/SSR/Psychiatry organisation, so that we could be strong or even stronger in some priority areas with high demand for medicalisation and create a community of care providers who are more attentive to the needs of the population.

The strategic plan also involved rationalisation of scope; at the end of 2007 this led to the decision to sell some establishments in France and to exit the Belgian market.

1 / Implementation of a program of targeted disposals of establishments located in France

At the end of 2007 and in the context of reasoned development, and following an in-depth look at the whole structure, Korian decided to sell several establishments. The definitive list was determined at the beginning of the year 2008 and included four EHPADs and two French SSR clinics combining 305 beds and employing 202 employees. The decision to sell six of our 210 establishments was part of the strategic plan presented above, and was based on a business logic involving several criteria, including:

- They are too isolated in rural areas and, in the absence of another Korian establishment nearby, they cannot fully benefit from the EHPAD/SSR continuum and regional synergies;
- They are not at the heart of the Group's businesses linked to ageing.

In 2007 These six establishments achieved a turnover of €10.5 million for an EBITDAR marginal rate before headquarters costs of 17.9%.

The disposal procedure is already well advanced: these establishments should be sold before the end of the first half of the year.

2 / Decision to exit the Belgian market

The Korian development strategy is particularly reliant on its ability to be among the leaders in each of the markets. Since the opening of the Saint Augustin residence (96 beds EHPAD) located in Brussels in January 2007, Korian has been operating 3 establishments in Belgium with a total of 284 beds.

At the end of the strategic review of the portfolio conducted in 2007, the Group decided, in December 2007, to leave the Belgian market and to dispose of the establishments that it owned in that country. One of the criteria that led Korian to make this decision was the concentration of commitment in a relatively small market and acquisition multiples similar to those of France although the pricing structure left little room for improvement of margins.

In accordance with the IFRS standards, these three establishments were considered as discontinued operations in the 2007 statements and were therefore identified as such in the Balance Sheet and the Income Statement.

The disposal should be finalised before the end of the third quarter of 2008.

K/ Continuation of standardisation of the information system

In 2007 the Group continued its efforts to strengthen the centralisation and efficiency of its information tools by relying on a Department of Information Services which has 18 employees to date.

2. Change in the Group's activity in the year during the course of the FY 2006

- **Change in consolidated turnover:**

m€	2006	2007	Δ 2007/2006
EHPAD France	337	358	+6.2%
<i>of which only Belgium in 2006</i>	<i>6.2</i>	<i>Restated as discontinued activity</i>	
Sanitary France	183	200	+9.3%
Total France	520	558	+7.3%
Italy	-	30	n/a
Germany	-	20	n/a
Consolidated turnover	520	608	+16.9%

The year 2007 was essentially devoted to development operations both in France and in the two other countries identified and chosen by Korian as a spring board for growth. The active development strategy implemented had generated strong growth in the activity - +16.9% compared to last year. It should be noted that growth clearly accelerated during the second half year since turnover had grown by 6.6% during the first half 2007.

In France, turnover in both activity sectors grew.

It also should be noted that 2007 turnover did not take into consideration the activity of the Belgian establishments (€6.6 million in 2007), these having been sold in the months that followed.

- **Strong growth in the activity of EHPADs in 2007:**

With a turnover of m€ 358.1 in 2007, the activity of EHPADs grew strongly in the period, showing growth of 6.2%, but of 8.4% discounting Belgium in 2006, i.e. + m€27.8

This good performance showed:

- on the one hand, efficiency in managing occupancy rates and the Group's pricing policy,
- on the other hand, the positive impact of changes in scope:
 - the coming on line of establishments opened in 2006 and in 2007 which generated additional sales of m€1.8 in 2007 compared to 2006,

- the impact of establishments acquired in 2006 and 2007 that generated additional sales of m€7.8 in 2007 compared to 2006.

It should finally be noted that the settlement of the Mieux Vivre dispute had little impact on the activity, sales of the former Mieux Vivre establishments being almost the same in 2007 (m€17.6) and 2006 (m€17.8).

o *Change in occupancy rates of French EHPADs of the Korian Group:*

The table below shows the change in French EHPAD occupancy rates of the Korian Group for the establishments operated since 1 January 2006:

	2006	2007
Annual mean occupancy rate*	96.6%	96.3%

* Korian calculates its occupancy rates by the number of days invoiced in relation to the invoiceable days, this last number being the product of the number of beds operated times by 365 days

The analysis shows the maintenance of a very high average occupancy rate for EHPAD beds in France at more than 96%.

Moreover, as each year, the EHPAD line of business showed true seasonality: the occupancy rate for the first half was in fact traditionally weaker than that of the second half, the summer months being the most active because of the temporary placements during the vacations of family carers, often resulting eventually in permanent placements.

o *Change in prices of French EHPADs of the Korian Group:*

The EHPAD accommodation rates are free to entering residents, and then indexed annually by order of the Ministry responsible. For the year 2007, the rates for services provided to aged persons residing in retirement homes as at 31 December 2006 could not be increased by more than 2.5%.

A rate revaluation beyond this indexing is only possible when there is a change of resident. In this way the Group's management can, to a certain extent, improve accommodation rates of its EHPADs. All things being equal, i.e. only taking into consideration the establishments operated since 1 January 2006, the rates for accommodation increased by 3.9%.

• **Growth of 9.3% of the activity of the Sanitary France business line of the Korian Group**

Turnover of the Korian Group health care establishments were m€ 199.8 at 31 December 2007, an increase of 9.3% compared to 2006, in spite of low price revaluations.

This growth could mainly be explained by:

- Growth of 5.1% in number of establishments operated since 1 January 2006,
- The impact of the activity of the establishment at Argonay which started up in the beginning of 2007 (sales of m€4.1 in 2007)
- Impact of sales generated by the establishments acquired during the course of the financial year: m€11.7,

- But also by the closing at the end of 2006 of the Brévent establishment and 90 beds at Mont Blanc, closures that generated a 2007 business loss equal to m€ 5.8.
 - o *Change in occupancy rates of French health care establishments of the Korian Group:*

The table below shows the change in occupancy rates of SSR clinics of the Korian Group for the establishments operated since 1 January 2006:

	2006	2007
Annual mean occupancy rate*	94.6%	96.3%

** Korian calculates its occupancy rates by the number of days invoiced in relation to the invoiceable days, this last number being the product of the number of beds operated times 365 days*

The change of management on the French business line operated by Korian at the end of 2006 bore fruit. In fact, after a first half that was relatively low in terms of occupancy rate, the Korian Group French health care establishments grew over the second half finally ending with an average occupancy rate of 96.3%.

- **Start up of Korian activity in Italy**

On 31 May 2007, Korian finalised the acquisition of the Segesta Group, one of the foremost private operators in Italy, and more importantly established in the Milan region.

Segesta's financial statements were integrated in the consolidation starting on 1 July 2007. The impact of the Italian activity was €29.6 million in 2007.

When it was acquired by Korian, Segesta was operating 701 beds in RSAs (Italian EHPADs) at maturity, and 208 beds in an establishment that had reached the filling phase. During the second half of the year, Segesta opened 240 additional beds. Thus, the 701 beds "at maturity" generated turnover of €16.6 million over 6 months. The average occupancy rate of these beds in 2007 was 98.5%. The 440 beds being filled generated turnover of €4.9 million over 6 months.

Moreover, since its acquisition by Korian, Segesta had undertaken additional developments in Florence and Rome representing 519 beds in total. 110 of these beds were currently being refurbished. These beds generated turnover of €8.1 million in 2007, taking into consideration the fact that they were only included in the accounts for the last quarter of 2007.

- **Start up of the Korian activity in Germany**

At the beginning of October 2007, Korian finalised the acquisition of the Phönix Group, 10th private operator in Germany, operating nearly 3,000 beds in the regions of Bavaria, Hesse and North-Rhein Westfalia. Phönix turnover was only accounted for in the last quarter 2007 at €20.4 million. It should be noted that during the year 2007, Phönix opened 350 new beds in these establishments and was ready to open more than 700 in 2008.

3. Financial position and results at 31 December 2006

- **Korian Group Consolidated Accounts**

There has been no change in accounting method that would have a significant impact on the consolidated accounts.

However we should mention that since the amending decree of 7 April 2006, it is possible, to assign surpluses to care allocations subject to clearance, thus representing revenue for the company when filing the use of resources statements, thus showing income for the company. Given that the use of resources statements for 2007 are filed at the end of April 2008 as part of closing, KORIAN recorded all revenue as Turnover and a provision up to 50% of surpluses to cover the risk of having the supervisory authorities allocate the funds differently.

As a reminder, Korian favours the EBITDAR as its benchmark indicator, to the extent that it allows assessment of its operating performance independently of its real-estate policy (retaining or outsourcing of premises of establishments has an impact on operating profits).

- The Consolidated Income Statement

€ million	31/12/2006	31/12/2007	Δ 2007/2006
Turnover	519.8	608.0	+17.0%
EBITDAR	123.4	146.3	+18.6%
<i>% of turnover</i>	<i>23.7%</i>	<i>24.1%</i>	
External rents	54.7	66.6	+21.6%
EBITDA	68.6	79.7	+16.1 %
<i>% of turnover</i>	<i>13.2%</i>	<i>13.1%</i>	
Current operating profits	51.6	55.3	+ 7.2%
<i>Current operating profit</i>	<i>9.9%</i>	<i>9.1%</i>	
Operating profits	46.2	55.7	+20.5%
Financial income	- 13.4	-19.1	+17.3%
Income before taxes	32.8	36.6	+11.6%
Net income - group share	19.7	23.1	+17.4%

Personnel expenses represented 49.6% of turnover excluding taxes of €301.5 million at 31 December 2007, versus 51.2% in the previous year (i.e. €266.2 million).

This change in the total payroll may primarily be explained by the fact that, in Italy, personnel expenses are borne by cooperatives who then reinvoice the establishments according to contracts for provision of services. These expenses are then entered as external expenses. Without this current practice in Italy, the rate for personnel expenses would have been stable between 2006 and 2007.

Taxes and Duties were €38 million in 2007, i.e. 6.25% of turnover (compared to €30 million in 2006, i.e. 5.8% of turnover excluding taxes). Most of the marginal tax rate increase entered was with respect to France, resulting from a large increase in local taxes.

The consolidated EBITDAR reached €146.3 million at 31 December 2007, representing an increase of 18.6% compared to last year.

Korian thus met the 2007 objective announced in recent months to achieve a higher EBITDAR margin compared to the year 2006. In fact, the consolidated accounts showed an EBITDAR margin of 24.1% of turnover compared to 23.6% in 2006. We note that the EBITDAR margin for French activities in 2007 was 24.4%, versus 23.6% in 2006 that of Segesta was 16.6%, given the large number of beds opened in the year or being refurbished. Finally, the Phönix marginal rate in the last quarter of 2007 was 26%.

External rents represented a total cost (including furniture rental) of €66.6 million at 31 December 2007, versus €54.7 million one year earlier, or an increase of €11.9 million.

The increase in the burden of external rents was primarily from foreign activities. In fact, rents represented €3.9 million over 6 months of consolidation. Segesta owns only one of its operating buildings and all others are leased from third-party owners. Phönix' rents represented €4.2 million over 3 months of consolidation. Phönix does not own any of its properties.

As far as France was concerned, the increase in rents represented €3.5 million. It should be noted that the change in rents, all other things being equal, was 4.5% in 2007 linked to the strong increase in the ICG index serving as the basis for calculating the increase in rents. However, Korian negotiated a change in index starting in July 2007 with Foncière des Murs, its primary lessor,. The effects of this renegotiation should have a moderating effect on rent increases during the year 2008 in France.

As a consequence, the EBITDA showed an increase of 16.1% to €79.7 million at 31 December 2007. Taking into consideration the increase in depreciation expenses that rose from €17 million in 2006 to €24.4 million in 2007, current operating profit reached €55.3 million, up 7.2% representing 9.1% of turnover versus 9.9% in 2006.

The impact of other revenues and expenses was minor at €0.3 million in 2007 compared to expenses of €5.4 million in 2006.

In view of all the above items, operating profit in 2007 noticeably increased to €55.6 million compared to €46.2 million in 2006.

As for financial results, they declined by -€13.4 million in 2006 to -€19.1 million in 2007. This change could be largely explained by the change in fair value of financial instruments that had generated a profit (non cash) of €11.5 million in 2006, versus a profit of "only" €5.7 million in 2007. Interest actually paid varied little between 2006 and 2007 due to the debt payoff at the end of 2006 following the Korian capital increase and due to the renegotiation of banking conditions that was accompanied by a decrease in bank margins. It should be noted that Korian practises a voluntarist debt hedging policy in order to avoid sudden changes in its financial expenses. At the end of 2007, the average cost of Korian debt was 5.5% per year.

The tax rate was 25.72% at 31 December 2007.

In the end, the Group's share of net income was €23.1 million.

The income per operating sector was as follows:

Operating sectors at 31 12 07	Total all activities	Hospital establishments for dependent elderly persons	Healthcare	Italy	Germany	
Turnover	607,979	358,113	199,844	29,560	20,461	
EBITDAR	146,283 24.1%	97,191 27.1%	38,865 19.4%	4,918 16.6%	5,310 26.0%	

Operating sectors at 31 12 06	Total all activities	Hospital establishments for dependent elderly persons	Healthcare	Italy	Germany	Discontinued activities in 2007 and others
Turnover	519,762	330,300	183,204			6,258
EBITDAR	123,352 23.7%	88,400 26.7%	33,900 18.5%			1,052 16.8%

o *The consolidated balance sheet*

€ million	31/12/2006	31/12/2007
Non current assets	1,133.6	1,449.5
Current assets	115.8	221.9
TOTAL ASSETS	1,249.4	1,681.4
Shareholder equity	630.1	647.6
Non current liabilities	482.1	811.4
Current liabilities	137.3	214.9
TOTAL LIABILITIES	1,249.4	1,681.4

The following aspects of this balance sheet are worthy of comment:

- The change in goodwill (going from €410.9 million to €627.0 million) is explainable in terms of the acquisitions made during the year 2007 in France and other countries.
- The net value of other intangible items went from €502.7 million to €526.5 million accounting for variations in the Group's scope (the acquisitions were described in the highlights)
- the change in the Customers item that progressed noticeably from €40.1 to €75.1 million in 2007 can be primarily explained by the traditional delay in payment by Italian social security agencies.

The variation in the Group's share of shareholder equity (+ €12.8 million) is explainable by:

- the consolidated income in the year of €23.1 million
- the distribution of a dividend representing a total of €9.7 million in 2007 based on 2006 results.

Minority interests, at €9.4 million at 31 December 2007, showed an increase of €5.8 million due essentially to Segesta and Phönix management teams holding 7.5% of the subsidiaries they managed.

The Group's debt can be broken down as follows:

Net debt (current/ non current)

	31.12.07	31.12.06
Borrowings from credit institutions	587,919	283,287
	31.12.07	31.12.06
Borrowing from credit institutions	587,929	283,287
Financial lease financing	13,778	8,918
Employee profit sharing	27	23
Deposits and guarantees LT		
Other miscellaneous financial debts	3,566	1,395
Liabilities held for sale	372	
Long Term Financial Debts	604,919	293,623
Borrowings from credit institutions ST	5,186	1,091
Financial lease financing ST	2,376	2,134
Deposits from residents ST	20,246	18,444
Miscellaneous financial debts ST	0	
Bank loans and overdrafts	20,252	10,333
Other miscellaneous financial debts ST	265	796
Commitment for repurchase of minority shares ST	1,174	1,176
Liabilities held for sale	1,103	
Short Term Financial Debts	48,397	33,974
Fair value of financial hedging instruments	2,475	2,030
Financial Debts	655,791	329,627
Investments	3,013	5,676
Liquidities	67,557	20,930
Assets held for sale	382	
Cashflow	70,188	26,606
Financial Instruments Assets	13,284	7,088

The net financial debt calculated for compliance with banking covenants was €563 million at 31 December 2007. Korian thus presented a pro forma net debt / EBITDA ratio less than 6 xs and complied with its banking covenants.

To calculate this ratio, the EBITDA of the companies acquired by the Group during the period considered was accounted for as if the acquisition had occurred on the first day of the period.

- **Company statements of Korian S.A.**

€ million	2006 (12 months)	2007 (12 months)
Turnover	24.4	23.7
Other operating revenues	2.9	2.8
Other purchases and external expenses	13.6	12.7
Taxes and duties	0.8	1.0
Personnel expenses	17.7	18.9
Allocation to depreciation and provisions	1.1	2.3
Total operating expenses	33.3	35.2
Operating income	- 5.9	- 8.7
Financial results	21.2	23.8
Extraordinary income	1.2	-15.9
Tax on profits	- 13.2	-10.5
Net result	29.6	9.7

Revenues of the Korian SA company mainly comprised the receipt of a Group royalty paid by all establishments as part of an assistance agreement. This royalty, which reached a total of €19 million in 2007, can be broken down according to the number of beds operated by the establishments. The method of calculating this royalty and its breakdown were reviewed in 2007 in order to make them fairer and more readable. The royalty thus declined by €4.9 million compared to 2006.

As part of the policy for the centralisation of Group purchasing, Korian SA is remunerated by the Group's suppliers through contracts for provision of services. These contracts brought €4.8 million to Korian in 2007.

Korian also re-invoices other expenses such as insurance, advertising, and engineering time to its subsidiaries. These recharges represented €3.4 million in 2007.

At €18.9 million for a workforce of more than 260 persons, personnel expenses represented more than 53% of the total operating expenses.

As the main holding company of the Group, the Korian SA company also received dividends from integrated companies. These dividends represented €20.4 million in 2007.

Korian SA carries the majority of the Group's debt. In 2007, Korian paid €23.8 million in interest expenses. In return, it re-invoiced €11.9 million in interest on current accounts to its subsidiaries.

Finally, a specific transaction had a significant impact on the Korian SA accounts. The outcome of the dispute with DomusVi over the securities of the common subsidiary Mieux Vivre generated a net gain of €4.2 million through extraordinary dividends of €19.4 million, from the technical operating negative variance and from the current accounts of €15.1 million.

As for taxation, it states that the development operations brought greater scope for fiscal integration.

4. Significant events occurring after closing & future outlook

A / Development policy of the Korian Group

Since 1 January 2008, Korian had already acquired two establishments:

- the acquisition in January 2008 of the medical residence Hotelia Hyères, formerly a franchised establishment of the Group comprising 115 beds;
- the acquisition at Lisieux of business premises with a view to ultimately reallocating the 27 beds to an existing operational establishment.

In addition, the Group finalised, at the end of January 2008, the acquisition of the company Mietpark GmbH, which held all equipment used by the German establishments. The acquisition of this company was planned in the Phönix acquisition agreement. Payment occurred at the end of January 2008.

B / Changes in rates

The regulatory authorities have granted rate revaluations for the FY 2008 :

- by the decree of 20 December 2007, the Ministry of Economy, Finances and Employment set the increase in the rates for services in retirement homes at 2.2% for the year 2007 (applicable to persons already residing in institutions on 31 December 2007);
- by the decree of 27 February 2008, the average rate of change in rates for follow up care or rehabilitation services was set at 1% and the rate for psychiatry services was set at 1.71%.

C / Change in the internal organisation of Korian

Our Group is rapidly growing and becoming international. It was thus necessary to adapt the operational organisation to meet these new internal and external, short and long term challenges and to reflect and convey the Group's ambition.

The Management Board thus decided to create a general corporate management and international department in charge of European development. This has been delegated to Guillaume Lapp.

In addition, the Management Board, acknowledging the inevitable coming together of our business lines and the need to increase the complementarity of EHPAD/SSR/Psychiatry, decided to bring our three business lines together under a single general management of operations , which has been delegated to François Mercereau.

This latter will develop the synergies of our business lines throughout our entire range of services with the help of a dedicated and strong team of Regional Directors, whose role and responsibilities were clearly re-defined and harmonised.

Jean-Pierre Ravassard would, however, stay for several more months to assist the Group in implementing and directing the new organisation under the best possible conditions.

This new organisation has been operational since 1 April 2008.

5. Primary risk factors & policy for risk prevention and management at Korian

The risks presented here are those that Korian considered, at the date of this report, as likely to have a significant unfavourable effect on the Korian Group, its activity, its financial position and its income or its growth.

The Korian Group cannot rule out however, that other risks may arise in the future and have a significant unfavourable effect on the Korian Group.

A/ Risks associated with the business line and management of these risks by Korian

The Korian Group is taking a certain number of steps in order to limit its exposure to the risks inherent in its activity of care for dependent persons in the medico-social and health care sectors. To date and as far as Korian is aware, the Group's establishments are not, and have not been, party to any significant dispute linked to the occurrence of risks identified by the Group that are the object of its risk management policy.

The Group's risk management policy, as presented hereinafter, applies to retirement homes and health care establishments, on the understanding that the risks associated with care activities are more or less acute depending on the level of medicalisation of the various establishments.

- **Risks associated with obtaining and maintaining operating licences**
 - *For medico-social establishments/EHPADs in France*

Since the reform of 2002 (Law of 2 January 2002), EHPADs must have authorisation to practise their activity. The creation, conversion and expansion of establishments are therefore not unrestricted and presume the existence of prior authorisation. This authorisation is delivered by the Chairman of the Advisory Board and by the Government (which intervenes when the establishment is opened and thus able to receive health insurance grants under tripartite agreements). All of the Group's establishments are governed by agreements except for two whose agreement procedures are currently in progress. In the mean time, these two establishments continue to operate and receive financing for the care services they provide.

These authorisations are valid for 15 years starting from the effective date of the Law of 2 January 2002. For establishments created before 2002, the authorisations are thus valid until 1 January 2017.

Because of this, Korian is exposed to several risks:

In certain cases, the guarantee of obtaining public financing can only be obtained before the establishment in question is effectively built, converted or extended and recognised as operational by the regulatory authorities. The Korian Group may thus be led to take the risk of beginning construction, conversion or extension of an establishment without the necessary financing being available on the date of operational opening. The effective absence of such financing, on completion of work, would have a negative effect on the Group's financial position.

In addition, an audit of compliance with requirements specified in the tripartite agreement and of safety of the establishment are regularly conducted by the competent authorities (departmental, DDASS, emergency services). Even though the Korian Group has never been confronted with non-compliance leading to closure of an establishment, these audits could lead to an injunction to modify the means of care, have work performed, or even, in the most extreme cases, suspend the operation of an establishment when the audit reveals significant dysfunction within an establishment or inadequacy in the quality of care.

Finally, the renewal of authorisation is also dependent on compliance with minimum standards of care, verified by a compliance visit.

The Korian Group is thus exposed to the risk of termination, suspension, withdrawal and non-renewal of the operating authorisations that could have direct consequences on its activity, its development policy and its earnings.

○ *For health care establishments in France*

Health care establishments are also subject to licensing requirements: The⁵ SROS III (published on 31 March 2006) define within their Annexes quantified objectives for care activities based on the health care needs of local populations. Previously granted authorisations for "facilities" (in terms of beds or places, units) are thus delivered for care activities, defined by objectives quantified in a certain bracket. The number of beds physically installed in an establishment is thus only a question of the organisational choice of the establishment. We have thus gone from a logic of supply to a logic of meeting needs. The objective of the SROS III is thus to improve the quality, accessibility and efficiency of the care system, and to encourage the articulation between different players on the one hand, and territories, on the other.

However, the authorisation granted to an establishment may expire, be suspended or taken away, either for a significant dysfunction of the establishment (internal problems), or in the case of inadequacy of the establishment's care provision compared to the needs (external problems), and this risk may arise at the time of a renewal of authorisation, a sale or acquisition of an establishment.

It should be noted that the risk of having a licence taken away became a fact in 2001, due to a decision of the ARH to remove beds in response to excess supply in a given territory. The loss of profits related to one or more authorisations could have negative consequences on the activities, financial position and revenues of the Korian Group.

⁵ SROS = Schémas Régionaux d'Organisation Sanitaire de troisième génération (Third generation regional health organisation plans)

○ *For medico-social establishments in Italy*

In Italy, operating a retirement home is also subject to authorisation and accreditation regulations.

This system, which is relatively close to the French model, was instituted by a national law in 1997. This law set a minimum framework to be respected in terms of organisation and it is incumbent on the regions to define their specific requirements (for example, in Lombardy where the Group is established, the local authority imposes a minimum time to dedicate to each resident).

Adherence to operating conditions is periodically verified by the local authority that, in the case of serious failures, may place sanctions and even revoke authorisations.

When the standards for obtaining authorisation are revised, establishments may be required to modify their facilities and organisation within legally-prescribed time frames, which could lead to additional costs for the Group.

Each authorised establishment receives a daily rate that includes a care rate and a lodging rate. This daily rate is set by the region. The accommodation rate is paid by the resident (except for those who have a low income for whom the local authority will pay the cost). This accommodation rate represents approximately 50% of the daily total rate.

○ *For medico-social establishments in Germany*

The dependency insurance plan was implemented in 1995 and is based on a regional organisation. The provinces regulate and audit the operators via the MDK (Medizinischer Dienst der Krankenversicherung).

To operate a retirement home, it is necessary to have a licence. This licence is granted in the form of a contract signed with the provinces on the condition that the facilities and organisation of the establishment are in compliance with the requirements set by the authorities. Financing of the plan is provided by salary contributions paid by employers and their employees.

Like the French system, care financing depends on the level of dependency of the resident. There are 3 levels of dependency, the last (Class III) includes the most dependent residents.

Inclusion within a strong cluster means not only the ability to control prices but also to optimise profitability. Therefore a high density of establishments in a region is a real barrier to entry.

- ***Risks linked to tripartite agreements and to objectives and means contracts***
 - *Tripartite agreements of medico-social establishments in France*

EHPADs must have signed a tripartite agreement lasting five years with the⁶ DDASS . in their *département* by 31 December 2007 to be able to continue taking dependent aged persons.

The loss of one or several operating authorisations could have negative consequences on the activities, financial position and income of the Korian Group. In addition, a substantial modification of the regulations governing the Group's activity could make it more difficult to maintain the agreements necessary for the Group's current activities or its development strategy, which could have a significant unfavourable effect on the activity, the financial situation and the income of the Korian Group.

- *Objectives and means contracts of health care establishments in France*

Health care establishments must have a multi-year contract of objectives and means ("CPOM"⁷), for a maximum duration of five years, whose objective is to define the strategic orientations of the establishment, the volume of activity authorised and set the applicable rates.

By negotiating these contracts the establishments risk having greater obligations imposed by the⁸ ARH , without equivalent financing, which would have a negative effect on the financial position and on the income of the Korian Group.

In addition, the CPOM may be terminated or suspended by the ARH in the event that an establishment significantly fails to comply with regulatory or legislative provisions, or does not meet its contractual obligations, which would have a negative effect on the financial position and on the income of the Korian Group. In addition, the financial sanctions applicable in the event of failure to comply with the CPOM will be defined more precisely than in the past, which could lead to significant costs for the Korian Group if it were not able to meet certain objectives set by a CPOM.

- ***Risks associated with changes in applicable rates and social policy in France***
 - *For health care establishments*

A portion of the turnover of health care establishments (approximately 30% for the Korian EHPAD) is laid down by the public authorities on the basis of the costs borne by these establishments. There is a risk that these public authorities might limit their share of financing of the costs, in particular for care services.

In addition, a change in the procedures for allocating social services or reimbursing care by the *Assurance Maladie*, could increase the costs for residents and thus present a risk in the profit margins for the establishments. In the scenario of a major shortage of available places in EHPADs,

⁶DDASS = Conseil Général and Direction Départementale des Actions Sanitaires et Sociales (The General Direction of Healthcare and Social Actions)

⁷ CPOM = Contrat Pluriannuel d'Objectifs et de Moyens (Multi-year Contract of Objectives and Means)

⁸ ARH = Agence Régionale d'Hospitalisation (The Regional Hospitalisation Agency)

of a nature likely to significantly increase prices, there would be a risk should the government decide to supervise accommodation rates more strictly.

An unfavourable change in the social and prices policy in France, in particular with respect to players operating in the lucrative private sector, could have a negative effect on the activity, the strategy, the revenues, the financial position and on the outlook of the Korian Group.

○ *For hospitals and other medical institutions*

A very large part of the revenues of hospitals and other healthcare establishments depends on rates set by social security agencies. Any decrease, freeze, or inadequate revaluation of rates could have a negative effect on the profitability or the financial position of the Korian Group.

Moreover, the upcoming expansion of activity rates (T2A) to SSR and psychiatric clinics may not lead to the profits expected by the Korian Group for its activity and may have negative repercussions on the Group if the rates for the specialities it develops are not increased.

On the other hand, it should be noted that the health care establishments of the Korian Group are not affected by the recent government statements relating to a possible reduction in rates, which applies only to private clinics in Medicine - Surgery - Obstetrics, and not SSR and psychiatric clinics.

• **Social risks**

Shortages of nurses and/or possible increases in the rate of employee turnover, and in particular of qualified nursing personnel, could in particular: have an impact on the quality of service within the Korian Group establishments; affect its image and its outlook for growth; or lead to significant inflation of salaries, which would have a negative effect on profit margins.

A possible long term shortage of personnel for certain establishments would, if it happened, threaten certain operating licences.

A change in regulations or requirements of regulatory authorities in terms of trained workers would, moreover, lead the Korian Group to have to increase the number of trained workers, at constant rates of intake. This could force the Korian Group to have to confront an increase of its total payroll and lead to major recruiting operations as part of the general shortage of qualified workers.

In addition, the Korian Group cannot exclude a worsening of employee relations likely to lead to worker disturbances in the form of strikes, stoppages, or other actions making demands (actions that the Group has not had to manage until today).

Consequently, the functioning of its establishments, its financial position and its operating income could be affected by employee disturbances.

The human resources policy of the Korian group, favouring a proactive employee dialogue and the career development of workers through an ambitious training policy and internal mobility plans, is a means of preventing social risk.

- **Infectious risks associated with care activities**

Due to their medical or paramedical activity, the Korian Group's establishments are subject to a number of strict regulations relating to individual safety, hygiene, health security (including nosocomial diseases, development of epidemics, drug provision cycle, infectious waste management, etc.), the environment (asbestos, Legionnaire's disease) and ethics (prevention of malpractice, respect for patients' rights, etc.).

Failure to respect these rules on the part of Korian Group establishments could lead to civil and/or criminal liability of the Korian Group and harm the reputation of the whole Group, and thereby have a negative impact on its activity and its financial position.

In addition, major regulatory changes could lead the Korian Group to commit to expenditure (facilities, equipment, personnel, etc.) which modifies its investment plans, its operating expenses or its conditions of operation and thereby delays the implementation of its strategy. Also, failure to respect new regulatory obligations could lead to the suspension of licences and have an unfavourable impact on the activity, the financial position and the revenues of the Group.

This is why the Korian Group has developed a policy for managing the risk of infection linked to its care activities.

- *Nosocomial infections*

The risk control objectives defined in the Korian Group health establishments focus on five points:

- establishment of the strategy for the fight against nosocomial infections: the implementation of a committee for the fight against nosocomial infections (CLIN) and operating hygiene teams (EOH) in each clinic in the Group;
- making the resources available for the implementation of good hygiene practices;
- implementation of preventative actions for hygiene and care, including patient isolation and the proper use of antibiotics (procedures, protocols, training);
- organisation of monitoring of nosocomial infections, multi-resistant bacteria (MRB) and consumption of antibiotics, as well as the evaluation of good practices;
- monitoring of national indicators (consumption of antibiotics, consumption of hydro-alcoholic solutions, MRSA).

Vigilance with regard to infections (internal and external signalling of nosocomial infections) is organised in all establishments. The latter complete a standardised summary of activities annually in the fight against nosocomial infections allowing regulatory authorities (DDASS) to establish the ICALIN score (composite index of activities for the fight against nosocomial infections).

- *Management of waste from care involving infectious waste*

Without adhering to good practice, the production of waste from care involving a risk of infection may lead to accidents from exposure to blood.

Management of these wastes involves a procedure that identifies the waste concerned, imposes the use of appropriate packaging (secure collectors for needles, sharp edges, cutters, containers), includes the procedures for intermediate and final storage and lays down removal by an approved

service provider with specified periodicity depending on the production. Traceability is ensured through the use of collection and elimination forms.

In addition, each establishment tracks accidents involving exposure to blood, in association with preventive medicine, the committee for the fight against nosocomial infections ("CLIN"), and the authorities representing personnel in order to maintain professional vigilance and pursue improvements in waste management.

○ *Epidemics*

The development of an epidemic may have a negative effect on the activity, the financial position or the revenues of the Group, in particular due to any loss of activity that might result as well as the additional costs and the costs resulting from the implementation of exceptional healthcare measures.

Although standard precautions allow health establishments to limit the risk of nosocomial epidemic, these establishments are now preparing to confront a possible external epidemic coming from outside the establishment. In spite of the lack of an overall tool for pre-arming against such risks, the health establishments should be organised to cope with an unusual influx of patients. The Korian Group's follow-up care and rehabilitation establishments do not have emergency services because of the nature of their activity but they are organised to cope with an extraordinary situation as described in the white paper defined in association with the DDASS.

Each year the Korian Group establishments create a vaccination policy for their teams (influenza).

○ *Drug provision cycle*

Each step in the drug provision cycle is prone to errors that could lead to a risk for the patient or the resident, extending from the inhibition of active principles to the toxicity of the treatment administered. The consequences can lead to the liability of the establishment faced with a complaint for endangerment, temporary or permanent invalidity or even death of the patient or resident.

In this context, the Korian Group implements a policy for prevention based on the control of the drug provision cycle and pharmacovigilance. Prescription is a medical act; dispensing is a pharmaceutical act; administration is a nursing or medical act.

In health establishments, the organisation of the drug provision cycle (prescription, dispensing, administration) is highly controlled in terms of regulations and is established and formalised jointly between the managing pharmacist at the internal pharmacy of the establishment and the other professionals concerned, within the⁹ COMEDIMS and with the participation of the other internal authorities of the establishment (such as the CME or the CLIN).

○ *Risks associated with medical equipment and devices and materials vigilance*

The implementation of patient care may require the use of biomedical devices and equipment for diagnostic, therapeutic or rehabilitation purposes.

The lack of preventive maintenance may lead to diagnostic errors or performance drift in turn leading to a medical accident or the conducting of an inappropriate care programme. On the other hand, the use of reusable devices ("multiple patient devices") could prove to be a vector for

⁹ COMEDIMS = Commission du Médicament et des Dispositifs Médicaux Stériles (Medications and Sterile Medical Devices Commission)

infections. Nonetheless, the absence of surgical activity and insertion of implantable medical devices reduces the risk linked to this kind of equipment.

In order to prevent these risks, an inventory of medical equipment and devices is conducted in all healthcare establishments; annual preventive maintenance is organised; reusable medical devices are identified and maintenance protocols are put in place. Finally, materials vigilance (monitoring of incidents and risks of incidents resulting from the use of medical devices) is operational and applied in all of the Group's establishments subject to risks related to medical devices.

In addition, a limited number of hospital and other medical establishments are equipped with imaging equipment that is subject to specific authorisation. This equipment is subject to regulatory audits and at risk professionals are monitored to control exposure to ionising radiation (dosimetry control).

- **Risks associated with buildings in France**

All French establishments in the Korian Group are subject to building safety regulations applicable to institutions receiving the public (ERP).

Failure to respect these rules by the Korian Group establishments could lead to civil and/or criminal liability of the Korian Group, and harm the reputation of the entire Korian Group. In addition, major regulatory changes could lead the Korian Group to commit to expenditure (for facilities, equipment, personnel, etc.) that modifies its investment plans, its operating expenses or its conditions of operation and thereby delays the implementation of its strategy. Also, failure to respect these new regulatory obligations could lead to the suspension of licences and thereby have an unfavourable impact on the activity, the financial position and the revenues of the Group.

Policy for maintenance and safety of the Korian Group:

The guarantee of safety of the persons accommodated within its premises is fundamental for all health or medico-social establishments. In this area, the regulatory provisions are increasing and are becoming more and more complex and constraining.

Every year the Korian Group invests the necessary amounts to enable its structures to comply with the directives of the public authorities with respect to health and fire safety.

A team of five people, attached to the Assets Management Department, is in charge of maintaining the safety of the Group's establishments.

Without listing all works recently conducted, it is possible to cite the main points which required upgrading to the required standard following a change in the regulatory environment:

- smoke extraction and fire safety systems;
- spaces allocated to the technical support centres for rehabilitation and shared living areas;
- improvement of the water circuit as part of the fight against legionella bacteria;
- modernisation of escalators;
- diagnosis and possible processing of materials containing asbestos;
- access for disabled persons, etc.

In parallel, the Group has implemented partnerships with professionals that provide audits and ongoing monitoring of adherence to regulations.

In this connection the Korian Group has surrounded itself with specialists and independent service providers in charge of monitoring the safety of facilities (equipment, buildings, etc.). As part of this:

- The Veritas office periodically conducts required regulatory safety audits (fire, gas, electricity, facility maintenance, etc.) in all the Korian Group establishments; it sends its reports in real time to architects so that they, together with General Management, can take the necessary measures to implement the recommendations and provide follow up;
- Framework contracts have been entered into with companies Schindler and Otis for maintenance of escalators;

More specifically, the Korian Group has adopted a policy for control and follow up of the safety of its buildings, with a view to managing the following risks:

o *Fire risks*

Within the Group, special attention is paid to compliance with regulations relating to establishments receiving the public (ERP), in particular with respect to fire safety. The Group's policy in this area rests on fire prevention (respect for standards, training of personnel), conducting preventative and regulatory controls and maintenance (fire safety systems, extinguishers, electricity, escalators, functioning of automatic doors, gas installation, thermal installation), displaying of evacuation plans and safety instructions and maintaining a safety register. The Safety Commission conducts an *a priori* inspection during the construction of a building and before opening, followed by a triennial audit in all establishments (4th class, types U and J).

o *Risks associated with asbestos*

The risks linked to inhalation of asbestos dust by professionals are well known (benign lung lesions, asbestosis, cancers). The proportion of establishments in the Group presenting materials containing asbestos is low and does not require any particular works. All establishments have conducted regulatory diagnostics. A technical asbestos file is created in establishments presenting materials that contain asbestos. Those establishments subject to visual inspections of the state of preservation of materials prescribed by the audit office are identified. The inspections are conducted by authorised service providers.

o *Hot water (legionella)*

The concentration of legionella bacteria in the water systems is monitored and actions to prevent legionella risks are instigated. Diagnosis on the water distribution network is conducted in all establishments (audit office or approved service provider). A plan for controlling facilities is in place and the work for improving the water system is in progress. The search for legionella bacteria is conducted by approved laboratories. No case of legionnaire's disease has been identified to date in the Group.

- **Risks associated with climate**

Certain climatic events may aggravate pre-existing chronic illnesses of residents and patients and endanger their health. The assessment of climate-related risk in the establishments remains a delicate matter. However if the Korian Group establishments were not able to face up to this risk, they could be liable and their image affected, thus leading to a decrease in their attractiveness, which could have unfavourable consequences on activity and revenues.

In addition, the excess mortality of elderly people residing at home following an exceptionally hot period could temporarily influence the occupancy rate of the EHPAD of the Korian Group (as observed in France for about 12 months in 2003-2004).

The Korian Group takes certain steps to manage the risks associated with heat waves.

Each year the Ministry of *Santé et des Solidarités*, i.e. health and solidarity, publishes a *Plan National Canicule*¹⁰, i.e. national heat wave plan (PNC) that specifies the national, local and individual actions to implement for each establishment in order to prevent and reduce the health consequences of such a heat wave. Since 2004 the PNC requires each establishment receiving elderly persons to develop and update its *Plan Bleu*: being a temporary and exceptional device, it must be applied progressively and suitably, in consideration of the amplitude of the heat wave and depending on the triggering levels of the *plan de gestion de la canicule départemental* (PGCD), i.e. the heat wave management plan; its internal implementation is decided by the director and the nurses of the establishment.

The Korian Group is offering its EHPADs a framework for drawing up a *plan bleu*, which needs to be compatible with the local context of the establishment and in particular with its mode of functioning and with the degree of dependency of the residents.

All of the Korian Group establishments have some air-conditioned or cooled rooms and mobile air-conditioners, for up to 10% of their accommodation capacity, in particular for patients confined to their beds who cannot leave their rooms (in compliance with the regulatory stipulations). For some establishments, sun-blocking shades on the sides of the building most exposed to the sun are used in the fight against heat waves.

A protocol "Hydration & Prevention - Treatment of Dehydration" is known by all personnel for whom the coordinating physicians and nurses regularly organise trainings. Elderly at-risk persons are specifically identified and monitored. Each establishment signs an agreement with a nearby health establishment defining the procedures for cooperation, the rules for transfers of residents and exchanges on good practices for prevention of hospitalisation.

- **Commercial risks**

In a business offering personal services, and even more, one that provides care for dependent persons, the Group's establishments may be exposed to claims and complaints from patients or from their relatives, with reference to the quality of medical follow-up, the treatment delivered, the care and accommodation services offered.

Physicians who practise their activity in the Group's establishments, whether on salary or as independent professionals, are bound by their own professional liability for any error they might

commit in the exercising of their functions. However, if their liability is separate from that of the establishment, it is still true that the reputation of the establishment, and thus its activity and results, might be affected by the involvement of the liability, even if unfounded, of one of its practitioners, by a patient or family member.

Considering the extension of the Group's identity over the entire network of establishments, such a situation could affect the image of the Group as a whole and then, consequently, have an unfavourable effect on its activity overall, its outlook for growth, its financial position and its revenues.

- **Other risks associated with the activity**

- *Risks of falling*

The Korian Group provides care for persons in a dependent condition and all employees are trained in the risks of patients and residents falling, which can have serious consequences on their general state of health, in particular with respect to elderly persons present in medico-social establishments. Falls must be reported and are inventoried, and the family of the resident or patient must be immediately informed.

- *Risks associated with food products*

Food safety is ensured in all of the Group's establishments, whether the food is provided internally or is outsourced.¹¹ TIAC is risk managed by implementing the method of identification and analysis of critical points in the process of providing the food (HACCP: Hazard Analysis Critical Control Point), from the delivery of the food products through to the consumer's plate, through the use of hygiene audits and microbiological screening of "control" dishes prepared, as well as surfaces.

The combined controls by public authorities (including the *Direction Départementale des Services Vétérinaires* or DSV), subcontracting service providers and professionals in the Group have made food risk a managed risk.

- *Quality of drinking water*

The water systems are controlled at defined intervals and maintained according to the policy of the establishments.

A diagnosis of the water network is conducted on a regular basis by an external control agency in all health care establishments. Inspections are conducted at all usage points applying very rigorous technical procedures and using highly refined control tools (in particular laboratory analyses): The sampling frequencies are adapted to the structure of the water systems, to degree of frequenting, to usage as well as with regard to at-risk areas.

Tests on drinking water quality in France are the responsibility of the municipalities or the DDASS as well as the Prefectural authority. The results are sent to the establishment on request.

In addition, bacteriological and physico-chemical analyses (type D 1 analysis) are performed annually by an outside laboratory.

¹¹TIAC = Toxi-Infection Alimentaire Collective (Collective Food Toxic Infection)

Finally, the water fountains are maintained either internally or by an outside service provider (twice yearly de-scaling and disinfection).

B/ Quality approach and development of an ethical approach: major commitments of the Korian Group for better risk prevention

- **Quality approach and continuing improvement of practices: a priority for Korian**

The Korian Group has defined a quality process in order to account for legal and industrial risks inherent in its activity. This centralised system facilitates the monitoring of establishments and the rapid detection of undesirable events in order to control the effectiveness of the quality approach throughout Korian's network. It is also part of the implementation of a team spirit among employees of the Korian Group for the benefit of residents and patients.

Two services dedicated to each of the business lines of the Group were thus created to provide the necessary methodical assistance to establishments, ensure tracking of procedures and modelling the quality approach of the Group:

- *The EHPAD Quality Unit*

The EHPAD quality unit is composed of 6 quality managers and one assistant. Each quality manager is responsible for a Group of approximately 20 establishments which he supports in their ongoing implementation of quality management procedure. This procedure, validated by the ISO 9001 certification, is conducted in collaboration with operational management and in compliance with the regulatory requirements and the agreements. Each quality manager also takes on secondary tasks aimed at continuously improving the process and the tools proposed to the establishments. Cooperation with the Bordeaux *Institut Supérieur de Management* through quality facilitates placement of students in internships in the "Masters in management through quality, health and risk management option", and allows creation of a pool of professionals with good knowledge of the business line and the organisation of the Group's establishments.

The EHPAD quality unit has created an internal quality standard that will be submitted for approval by the *Agence Nationale de l'Evaluation en secteur Social et Médico-Social*¹² i (now the ANESM since the Decree of 15 May 2007).

The managers of the EHPAD Quality Department fulfil the following tasks:

- Methodological supervision and assistance to implement the quality approach and risk prevention: in the EHPAD, an ISO 9001 certification process was begun by the Korian Group: today it involves 78 establishments, at the end of February 2008; a programme for extending this certification foresees the progressive integration of all EHPAD establishments by the end of 2008.
This certification policy allows the Korian Group to anticipate its regulatory obligations for accredited EHPADs, in particular concerning the application of the Decree of 15 May 2007 relating to external assessments.

¹² The National Agency for the Evaluation in the Social and Medico-Social Sector

- Methodological supervision and assistance for the EHPAD registration process: each establishment, in the process of acquiring registration or that is renewing its agreement, is led by a coordinator from the EHPAD quality office. This supervision essentially concerns the following:
 1. The creation and follow-up of the agreed objectives (evaluation of the situation, definition and validation of the objectives, creation of a five-year action plan, annual evaluation of achievements and adjustment),
 2. the creation or follow-up of the institutional plan on two levels: a project for life and a project for care,
 3. methodological assistance with the achievement of self-assessments, today on the basis of the "Angelica" criteria, tomorrow using the internal standards.

The resulting institutional plan is constructed in compliance with the methodical assistance implemented as part of ISO 9001 certification and in close collaboration with the regulatory services that assist the establishment director in his dealings with the supervisory agencies. The certification thus facilitates dealings with these agencies.

- o *The Health Care Quality Unit*

This is composed of a quality director, 6 quality managers, regional managers (Ile-de-France / Centre, Normandy, Aquitaine / Poitou Charentes, Languedoc Roussillon, Rhône Alpes / PACA) and a project head. The regional quality managers work in a functional relationship with the Regional Operations Directors and the Establishment Directors.

The Regional Quality Managers in the Health Quality Unit perform the following main tasks:

- **Providing methodological assistance for directors of health establishments in the implementation and follow-up of their quality approach and overall risk management process.**

Risk management is an essential component in the quality approach that prioritises providing safe care and personal safety.

It is characterised by:

- strengthened awareness of regulatory devices in the health sector (for example: multi-year contracts of objectives and means concluded with the ARH).
- more in-depth approach in the second iteration of the certification procedure for health care establishments.

In this context, the Regional Quality Manager leads the establishment in the identification, control and the evaluation of risks and at-risk situations (audits; programme for quality improvement and risk management including the creation of a risk map showing professional risks and assessment of professional practices; tracking and control and corrective actions relating to health safety).

- **Providing methodical assistance to directors of establishments in preparing their external quality evaluations, in particular the certification of establishments by the HAS¹³**

Certification by the HAS, renewed every 4 years, is an external evaluation procedure, independent of the health establishment and its supervisory agencies, conducted by

¹³ HAS = Haute Autorité de Santé (The Higher Health Authority).

professionals, concerning the functioning of the establishment as a whole and its practices. It evaluates not only the quality management system, but also the specified aspects of the care organisation and the EPP¹⁴ i..

All health care establishments are currently in the second iteration of the certification process.

The regional quality manager supports the establishment's commitment to implementing the certification procedure and ensures compliance of the procedure with respect to the institutional procedure.

- **Providing regulatory and documentary monitoring in the areas of quality, overall risk management, the change in the external evaluation process for establishments.**
- **Formalising shared facilitating tools, for the implementation and tracking of quality processes, risk management and certification.**
Among the tools available:
 - tools for planning and tracking of procedures (for example: quality improvement programme and risk management, control of risk of infection).
 - monitoring tools (for example: intranet for tracking of controls and corrective actions relating to health safety).
 - tools for assisting in the standardisation of processes and practices (for example: the procedures and protocols relating to the general organisation of the establishment, hygiene, care, the patient's record, the patient satisfaction questionnaire, the professional practices evaluation media, etc.).
 - tools for internal training relating to the quality and risk management approach and the certification process.
- **Contribute to the deployment of a consistent strategy with all players in the region in which the regional quality manager is involved.**
- **Contributing to the implementation of the strategic project of the Korian Group.**
- **The development of an ethical approach is at the heart of the requirements of the Korian Group**

The Korian Group has implemented a voluntarist policy in the domain of positive treatment, coordinated by the Ethical Development Department with the help of Doctor Claude Malhuret, founder of *Médecins sans Frontières* and former Secretary of State for Human Rights.

In fact, within the Korian Group, providing care for residents and patients requires strong commitment: respect for the individual, his dignity and wishes are key words describing the care provided by establishments in the Group.

○ *A group plan: placing ethics at the heart of our practices*

The regulations require that all establishments shall respect the rights of patients and residents. It is within the establishments, very close to the players in the field, that the Group's ethical policy is

¹⁴ EPP = Évaluation des Pratiques Professionnelles Procédures (Procedures for Evaluation of Professional Practices)

translated into a strong daily commitment of care for the residents and the patients: the respect for the individual person, his dignity and wishes. This plan looks at practices that allow actual true respect for each person's rhythm of life, his food choices, respect for the freedom to "come and go" while providing for his safety and the rules on containment, and consent to receive care, the respect for the place where the person wishes to stay during the day, the activities he wishes to pursue.

This horizontal plan involves all departments concerned: the medical department, operations and human resources management, in order to bring changes to care practices and provide tools to evaluate the impact of policy.

○ ***An essential driving force: Continued Training***

The Group has chosen to invest in the training of its personnel beyond the requirements set by applicable regulations. The main driving force of this policy is the choice of training initiatives that have a direct impact on health care strategy, its support, and the organisation of establishments.

All Group establishment staff members benefit from regular training in ethics and malpractice prevention. These training sessions are prepared and executed in partnership with France's main malpractice prevention association, ALMA.

With the same aim in mind the Group is also endeavouring to deploy the health care methodology principles followed by "Humanitude" at all the EHPADs. This concept, developed by Yves Gineste and Rosette Marescotti, consists of proposing an alternative approach to old age to all those who accompany aged persons. This approach highlights the importance of individual worth, capacity for life and autonomy still preserved in the aged, even when afflicted with dementia.. It provides every care provider with a basis for reflection (what's my profession about, what does "providing care" mean, what health care project should apply to each person in my care?), seen in the concrete guise of new health care practices connected with all daily routines, including bathroom visits and washing, mealtimes, and activities. 35 Group EHPADs began this training and in 2008 36 EHPADs will join in the implementation of this quality approach (management, process analysis, evaluation).

An adapted version of the training principle will be tested in 2008 for two SSR establishments. Depending on the assessment of this test, the project will be proposed to the Group's SSR establishments as a whole for 2009.

○ ***Listening and assessing***

This approach focuses on clients in our establishments: patients, residents and family members are given the opportunity to address their dissatisfaction or complaint. A precise procedure has been implemented to follow up complaints and claims at the establishment level.

Dr. Claude Malhuret's mission is to assist establishments in handling complaints as well as any events that are likely to cause trouble and disruptions to the smooth functioning of an establishment and lead to a deterioration of the quality of life, or disturb the peaceful atmosphere within an establishment.

This mission does not take the place of statutory procedures or structures such as the user relations committee or care quality committee. In case of a claim, the advisory group informs the establishment director of the procedure indicated by the Public Health Code for lodging complaints to such committee.

All complaints must be reported to the national complaint advisory group, following a formalised procedure and using a standard report form.

To date no malpractice complaints filed by patients or residents with the regulatory authorities, a local group or a departmental council of the Order have, following verification, led to any charges against any Korian Group establishment.

According to the applicable regulations, each health care establishment has created a Committee for User Relations and Care Management Quality (CRUQ¹⁵). Similarly, each EHPAD has set up a Social Life Council. The two serve as liaisons for meetings and exchanges between the management and staff of an establishment and the residents or patients and their family members.

However this approach also concerns establishment staff: indeed, each EHPAD establishment integrated into the certification process has implemented a procedure for managing undesirable events. Staff members use this procedure as a guideline for indicating all events that may potentially cause disruptions to functioning or go against the principle of goodwill. The principle consists of managing events as soon as they arise with a view to anticipating a worsening of the situation, finding ways of improving this situation and implementing a strategy of malpractice prevention consistent with development of an ethical approach.

o *The Supervisory Board's Ethics and Risks Committee*

Finally, to complete these in-house procedures and policies, on 23 November 2006 the Korian Supervisory Board created an Ethics and Risks Committee whose mission is to formulate proposals about ethical issues raised by dependent care in Group establishments and about risk management within the Group.

More specifically, this committee is in charge of:

- evaluating procedures present within the Group to protect against risks
- make proposals to the Board regarding the implementation of specific procedures
- make proposals to the Board regarding the follow-up of complaints

The Committee is made up of the following members: Messrs. Jean-Paul Thonier (chairman), Philippe Ritter and Jean-Claude Georges-François, with the participation of Mr. Villatte (former member of Korian's Supervisory Board) and Dr. Claude Malhuret (external Board member and Group ethics director).

¹⁵ CRUQ: Commission des Relations avec les Usagers et de la Qualité de la Prise en Charge.

C/ Risks inherent to Korian

In addition to the risks associated with its line of business, Korian is equally exposed to certain risks inherent in the strategy implemented by the Group. These include:

- **Risk of dependence with regard to key executives**

The Korian Group's future success depends in part on its ability to motivate and retain a top-quality, experienced management team that has been built up progressively since the Group's creation.

The management team has the advantage of possessing extremely extensive experience in the markets in which the Group is involved, as well as an excellent command of all the skills the team requires, and considerable ability to integrate acquisitions into the Group's asset structure.

If the Group were to lose the services of any of its key executives, or if the latter were to reduce their involvement, it could encounter difficulties replacing them, and its growth could be slowed temporarily.

- **Risks regarding acquisitions of new establishments**

In the context of its external growth policy the Group is and will be driven, in the short, medium and long term, to seek out opportunities that enable it, primarily through acquisitions, stake holdings or partnerships, to participate in moves toward concentration in the full dependent care management sector.

However the Group cannot guarantee that such opportunities will arise, particularly linked to economic and financial conditions that are acceptable to the Group, or that it will succeed in integrating the companies it acquires or return a profit from such acquisitions, obtaining the anticipated synergies and at the same time maintaining a uniform system of internal procedures and preserving good relations with the personnel of these acquired companies.

Moreover, the liability guarantee agreements negotiated in the past or in connection with acquisitions by the Group in the near future may not cover the full liabilities of the acquired companies. In addition, certain liabilities taken on by the Group could ultimately be greater than the sum of the guarantees provided by the transferors. These acquisitions and investments could have a significant unfavourable effect on the Group's business, financial situation and results, or on its ability to achieve its goals.

The Korian Group has based part of its external growth on development in foreign countries, which are subject to different regulations from those in effect in France. The Korian Group's experience in the French market may therefore not suffice, and a learning period and increased strength in its sector may be required. Such a situation would have unfavourable effects on the profitability of investments made outside of France.

Finally, the appearance of national groups has stepped up the pace of competition in the acquisition of establishments, which represents the Korian Group's core axis of growth. In addition, the fact that several publicly traded groups (Noble Age and Orpéa) are publicly traded should enable them to obtain additional financial resources. Consequently, the risk of a systematic bidding war involving the major operators cannot be excluded in relation to external growth operations. The potential rise in takeover prices could slow the projected pace of acquisitions. Such a situation could have a significant unfavourable impact on the Group's activities, results, prospects and financial situation.

- **Real estate risks**

About 85% of the buildings in which Korian Group establishments operate are leased from third-party lessors.

Rentals paid amounted to approximately 45.5% of EBITDAR in 2007.

French rents are pegged either to the IRL (Rental Revision Index) or the ICC (Construction Cost Index), whose evolution in the coming years cannot be foreseen by the Group. It should be noted that the ICC has risen sharply over the last three years. Strong growth of the ICC in the coming years could have significantly negative consequences for the Korian Group's results.

At the same time, negotiations with the Group's biggest lessor with a view to switching to the IRL, which concluded in July 2007 (affecting 45% of all French leases) are set to extend to other leases. Indeed, in a bid to limit the volatility of the ICC, Korian intends to negotiate with its other lessors in an attempt to switch to IRL indexation.

- **Risks linked to Korian Group establishments under third-party management**

Some of the establishments consolidated by Korian were not managed in 2007 by the Group itself:

- Of the thirteen EHPADs held by the company Mieux Vivre, 50% of which is held by Korian and the other 50% by DomusVi, seven were managed by DomusVi and six by Korian. However, the Group ended this partnership and each group has taken control of the establishments it is in charge of managing (cf. section on legal risks).
- The three establishments located in Belgium are managed by Korian's local associate, which holds a 25% stake in them.
- Similarly, the three structures acquired from Cofisan are managed by Korian's local associate, which has retained control of one-third of its share capital.

As it does not directly control the management of these establishments, Korian is, in respect of a small part of its activities, dependent on the management of third parties. Nevertheless, in order to limit exposure to this risk, each Belgian establishment receives regular visits by the operational management of the Group's EHPAD management centre and control teams. Moreover, the financial statements of these subsidiaries are audited by company auditors. In addition, in late 2007 Korian decided to proceed with the disposal of its establishments located in Belgium.

- **Risks related to information systems**

The Korian Group uses a number of software tools and information systems for handling records and data regarding its residents and patients, and for managing its human resources.

As these systems are used in the day-to-day management of the Group's activities, a malfunction in these systems could temporarily shut down its activity and negatively impact the Korian Group's results. A failure of the Group's computer system could likewise prevent it from carrying out its activities under normal conditions, which could have significant negative consequences for the Group's activity, its results, and its financial situation.

Nevertheless, Korian considers that work performed in 2006 and 2007 by the Group's information systems management on the technical infrastructure, and the implementation of an integrated

network, together with the average annual budget allocations in this area, enable it to prevent this risk.

D/ Coverage of risks inherent to the company and its field of business: a suitable insurance policy

I Coverage of operating risks

The Korian Group is currently covered by an insurance policy taken out with the SMACL in order to cover, in particular, the risk of damages to assets and loss of operation and the risk of financial consequences from liability affecting the French companies of the Group from their activities in France.

The Korian Group's policy is to adjust the limit of coverage to the replacement value of the insured assets or, in terms of liability, to the estimate of its own risks and of risks that can be reasonably discounted in its line of business.

For information purposes limits and guarantees for all general or specific risks are as follows:

GUARANTEED RISKS	SUM OF GUARANTEES
Operating liability, including medical (SMACL)	€ 6,100,000
Liability for assets/merchandise held in storage	€ 61,000
Damages (<i>sub-limits exist</i>) Deductible: € 1,500	Buildings: new reconstruction value Contents: reinstatement value
Loss of rental:	36 months for establishments and 24 months for head offices
Operating loss Deductible: 3 working days	€ 6,875,000 exclusively for establishments

II Executives

In addition, the KORIAN Group has taken out an insurance policy with AIG Europe covering civil liability and criminal defence for its executives. The policy has a guarantee limit of € 15,000,000 with no excess. The coverage extends to corporate executives, de facto managers and any person potentially liable for any professional error committed within the context of executive, management or supervisory activity performed with or without a mandate or delegation of powers.

Executives in Germany and Italy are also covered by this policy.

III Crisis Management

The Group has taken out a crisis management policy in case of:

- death of a key member of staff
- arbitrary detention or kidnapping of a key member of staff
- loss of a contract representing over 20% of consolidated turnover
- investigation, prosecution or similar proceedings against the company
- changes in corporate accounts or the reporting of declines in results or turnover
- hostile takeover bid
- insolvency (defaulting on payments)
- violence in the workplace
- catastrophic events (major fire, building collapse, terrorist attack etc.)
- boycott of products or services
- strikes involving at least 20% of the personnel and lasting more than 48 hours
- investigation of potential fraud
- blackmailing of the company
- computer hacking aimed at obtaining confidential information

The guarantees amount to € 2,000,000 per crisis situation and insurance period, and the indemnity period is 30 days. The pre-approved insurance company for crisis management is EURO RCSG. A specific "strike" deductible of € 75,000 is applicable.

IV Construction

The construction department for each site takes out its own policies covering structural damages, developer-builder's liability and all-risk site damages.

E/ Legal and tax-related risks

In addition to litigation occurring in the normal course of business, the Korian Group companies are subject to the start of two lawsuits that may lead to significant costs for the Group. However, the two cases have yet to be brought before the competent courts:

- **Litigation relative to the company Mieux Vivre**
 - *Litigation relative to the acquisition of the Mieux Vivre Group*

In 2001, the company SAS Holding Mieux Vivre, in which Korian holds a 50% interest together with the company DomusVi, acquired 13 companies that ran 13 retirement homes.

The acquisition price consisted of a base price and a contingent payment determined by multiplying the best EBITDA reported by the Mieux Vivre Group in FY 2001, 2002 and 2003 by 6.5 times. Consequently, an initial contingent payment of € 2,946,953 was paid based on FY 2002 EBITDA, although disagreement between the buyers on the calculation method to be applied remained regarding a sum of approximately € 1.3 million in favour of the sellers.

With regard to FY 2003, the estimates made by the company Holding Mieux Vivre led to the conclusion that no contingent payment would be due (the theoretical contingent payment for this financial year was lower than that paid with respect to 2002). The sellers nevertheless commissioned a voluntary audit of the Mieux Vivre Group's accounts and, following the audit, claimed accounting adjustments leading to a theoretical contingent payment for financial year 2003 of € 9 million. In addition, the sellers alleged that poor management of the establishments had had a negative impact on the contingent payment, estimating this impact at € 3 million. In this context, and given the contingent payment already paid, the sellers seek a contingent payment of approximately € 9 million.

SAS Holding Mieux Vivre questioned the audit report commissioned by the plaintiffs and simply accepted the principle of an adjustment of the contingent payment of € 682,500. Consequently, this sum was included in SAS Holding Mieux Vivre's accounts. Korian's accounts include only half of this sum.

The parties in this dispute commissioned experts but disagree as to their mission, namely, to perform an assessment within the context of determination of the payment amount or an arbitrage operation with respect to the arbitration clause.

- *Litigation brought by DomusVi against Korian regarding applicability based on the absorption of Medidep by Korian, stipulations of the bylaws of SAS Holding Mieux Vivre concerning the approval of a new partner, and right of first refusal.*

It is noted here that the company SAS Holding Mieux Vivre, in which Korian holds a 50% interest together with the company DomusVi, operated 13 retirement homes with a total of 1,081 beds. From an operational point of view, 6 establishments were run by Korian, and the other 7 were run by DomusVi. In 2006, this generated € 35.7 million in turnover and € 4.7 million in EBITDA.

Following the merger by absorption of Medidep by Korian, which was completed on 28 November 2006, DomusVi challenged Korian's status as a shareholder of Holding Mieux Vivre owing to Medidep and Korian's alleged failure to abide by its bylaws.

DomusVi and Korian sought to reach a friendly settlement to this disagreement. A protocol agreement was thus signed in late June of 2007, putting an end to this dispute. Under the terms of the agreement, each party bought up the establishments directly managed by them. As a result, Korian took over 6 establishments totalling 484 beds, and DomusVi bought up 7 establishments with 597 beds. In addition, Korian received € 14 million to offset the difference in value between the assets received by each party.

From an accounting point of view, the withdrawal from the establishments bought up by DomusVi translated into a once-only profit of € 984,000.

- **Dispute concerning value-added tax**

Subsequent to a verification of accounts from 1 March 2003 through 31 March 2005 regarding VAT, a proposal for reassessment was made to Korian in September of 2006.

The tax authorities considered that Korian was not eligible to recover the full amount of VAT applied to all of its invoices for the purchase of fixed assets and general expenses, as its deduction pro rata was not 100%. Consequently, Korian was notified of a VAT reassessment for the amount as principal of € 772,000.

The company intends to dispute the proposed reassessment and obtain a reduction of the amount of charges applied to it by challenging the tax authority's estimate.

F/ Financial risks

- **Risks related to Korian Group indebtedness**

At 31 December 2007, the Korian Group had a total net financial debt of € 572.3 million. Most of this debt stems from a credit agreement reached in 2006 after the Group went public. The terms and conditions of this agreement are described in the appendices to the Group's accounts.

- **Interest rate risks**

At 31 December 2007, the Korian Group's debt was primarily variable-rate debt. The Group uses financial instruments to protect itself against interest rate variations.

In February 2007 Korian adjusted its coverage profile to take into account changes in its debt profile after signing the new credit agreement in November 2006. The Group uses standard derivative financial instruments (interest rate swaps, caps, floors, etc.) to protect against interest rate risks resulting from its variable-rate financing policy.

Taking these financial instruments into account, the variable-rate loans outstanding at 31 December 2007 are more than 92% covered, reflecting the Group's prudent management policy.

In addition, marketable securities are composed of term deposits or Euro money market funds, and pursuant to the criteria of IAS 7.6 are defined as short-term investments that are highly liquid and easily convertible into a known cash amount, subject to a negligible risk of variation in value.

- **Risks linked to off-balance sheet liabilities**

All off-balance sheet liabilities and commitments are presented in an appendix to the consolidated accounts at 31 December 2007.

- **Currency and equity risks**

The Group is not exposed to currency or equity risks.

6. Financial instruments

The Group uses derivative instruments (interest rate swaps, options and low-interest collars) to protect against the interest rate risk stemming from its variable-rate financing policy.

Korian has not implemented hedge accounting. Thus the offsetting of the valuation of hedge instruments is booked at fair value under financial results.

At 31 December 2007, the valuation of our financial instruments amounted to € 11.0 million in favour of Korian. The value variation of + € 6.0 million is booked under financial results.

7. Consequences of Group activities on employee policy

Human resources management at the Korian Group seeks to promote and motivate all employees. It is based on the conjunction of several principles established as corporate values, such as, in particular:

- Ethics, the primary objective and unifying factor of business activity, which should be shared by all personnel.
- Observance of and adherence to the quality approach stemming from the Korian Group's strategy.
- Resident/patient care that should be viewed as a whole, including physical and psychological well-being.

Throughout its French and foreign establishments the Korian Group seeks to carry out employee training and dialogue, pursuing a more proactive employee policy that gives the Group the ability to attract and retain the best talent in the industry.

This is one of the major challenges facing the Group's human resources management.

- **Korian Group employees**

At 31 December 2007, the Korian Group had 12,381 staff members employed on a permanent and non-permanent basis.

In France, the workforce (9,713 employees) is distributed as follows: 67% in the EHPAD division (6,511 employees), 30% in the health care division (2,921 employees), and 3% at headquarters (281 employees).

Italy and Germany have 472 and 2,196 employees respectively.

- **Career management and training**

The Korian Group's performance over the long term relies on the quality, skills and success of its employees, which, moreover, are the conditions for assuring their loyalty in an industry characterised by labour shortages and, consequently, tension.

This is why the Korian Group endeavours every day without fail to create a fulfilling professional environment that allows everyone to make the most of their potential.

The Group's ambition is to enable its employees to develop in order to achieve the company's objectives. To achieve this it is important to develop the skills of each and every employee, thus reinforcing their motivation and contribution to these objectives.

In particular, the Korian Group considers it important to give its less skilled employees the chance, if they so wish, to progress towards higher-skilled positions through its training policy, since employee skills and motivation are the best guarantee of quality care for residents and patients.

In keeping with this policy, Korian has implemented an ambitious training policy in its French establishments which goes beyond the minimum requirements set by French regulations. A unified training management structure has been implemented, and the 2007 training programme (which merges the mechanisms implemented in the Korian and Medidep Groups) was presented. Throughout 2007 the Korian Group has spent an estimated 2.8% of gross wages on personnel training, even though the required minimum is set at 1.82%.

- **Organisation of working time at the Korian Group**

The duration of working hours and changeover to flexible time management in Group companies were decided and implemented according to the laws in effect and the various applicable collective bargaining agreements, in particular through company-wide agreements on reduction of working hours.

Similarly, the management of overtime is also in accordance with legal provisions and collective agreements.

The establishment schedules are managed at individual establishment level by the establishment director, with the aid of the human resource management's employee advisory and rights department, which is in charge of reporting, assisting and advising operational management levels

and establishment managers on the application of labour or contractual laws (collective industry or corporate statutes), and in this context establishes personnel management procedural notes.

- **Promotion of employee dialogue**

The Group's management is based on listening and a hands-on management style on the part of establishment managers and the human resources management department. The latter is committed to favouring open and proactive communication between management and staff teams in each of the Group's structures. It also seeks to institute positive employee-management relations that enable the goals set at the corporate level as a whole and at divisional level to be achieved.

The establishment manager, who manages establishment staff teams assisted by the human resource management's employee advisory and rights department, is responsible for developing a dialogue that is especially aimed at enabling Group values to be conveyed.

In accordance with legal obligations, the French subsidiaries of the Korian Group have employee representative bodies.

- **Shares and stock options**

With its initial public offering in November 2006 Korian implemented an employee shareholding policy through a restricted capital increase and the creation of a Group savings plan (following negotiation and signing with the trade union organisations).

At 31 December 2007 the Korian Group's employees hold 0.3% of the company's share capital through a collective employee shareholding plan (*fonds commun de placement d'entreprise* or FCPE).

In addition, as indicated in the section on financial year highlights, in 2007 the board of directors assigned free shares and stock options to Group employees (primarily targeting care providers). For both plans there is a 2-year buy-in period, and the shares come with a 2-year waiting period before they can be traded.

Stock-option plan	2007
Total number of shares that can be subscribed:	116,000
- by directors and officers	33,000
- first ten employee assignees	38,000
Starting date for exercising options	28/08/2007
Expiry date	28/08/2014
Subscription price	€ 30.39
Number of shares subscribed	0
Subscription options cancelled during the FY	0
Remaining subscription options	116,000

- **Employer-employee disputes**

A provision of € 1,289,000 is set aside for labour disputes.
The Group considers that none of these disputes are significant.

8. Environmental consequences of Group activities

- **Environmental issues that can influence Group activities**

Environmental constraints stem from regulations in this area, which are applicable to the Group establishments as a whole.

As indicated in the chapter on risk factors and risk prevention and management policy, the activities of Korian's establishments involve:

- *Management of waste posing a risk of infection*

Management of this waste is subject to strict procedures at our establishments, requiring the use of appropriate packaging and calling for specific storage methods prior to collection.

This waste from infection-risk activities is regularly collected by a certified collector. Each Korian establishment is associated with a specialised waste processing and disposal company (Dexel, Onyx and Sita), in keeping with regulatory requirements. A means of tracking the collection and disposal of waste is in place.

- *protection against asbestos exposure*

Following the example of all establishments serving the public, the Group's health care and medical-personal care establishments are subject to regulations concerning protection against health risks linked to asbestos exposure.

The building materials used in some establishments may contain asbestos in the eyes of regulatory authorities. However, the materials in question (ducts or plumbing insulation, flooring or tile facings, etc.) are deemed to be in a good state of repair; hence exposure to this asbestos risk is, for the present time, *a priori* non-existent. To the best of the company's knowledge no situation posing a risk to the health of patients, residents or staff has been detected in the establishments.

In the short term, visual inspections are conducted every year to check the condition of materials that may contain asbestos and assess the evolution of exposure to this risk.

- *monitoring of the water supply system*

There are moreover prevention and monitoring measures that require to be implemented in the fight against Legionnaire's disease in health care establishments (DGS memo N° 97/311 of 24 April 1997 relative to the monitoring and prevention of Legionnaire's disease/DGS memo No. 98/771 of 31 December 1998 on problems and legal texts relating to the use of water in hospital settings) and in community care and medical-personal care residential establishments for dependent aged persons (DGS/SD7A/DHOS/DGAS/SD2/2005/493 memo of 28 October 2005).

All of the establishments have inspected their domestic hot water (DHW) systems, and corrective measures have been or will be adopted on obtaining the results of these inspections.

- **Long-term commitment to sustainable development**

Korian wishes to commit itself and its partners and suppliers to a programme aimed at achieving sustainable development within these partnerships. In particular, this programme would focus on utilities (water, gas, electricity), making the best use of non-polluting or low-polluting products, and promoting prevention initiatives in favour of environmental protection.

In addition, for each of the product families for which buying has been centralised, special attention is paid to certain clauses that make Korian suppliers true Group partners.

For illustrative purposes the nature of the three major goals set when calling for tenders for bio-cleaning could be noted:

- Quality (achieved through standardisation of methods)
- Product-related training assured by the supplier for the entire Group establishment bio-cleaning team.
- Optimisation of costs and environmental protection through providing systems for economic dispensing of products (e.g. diluting equipment, washing/rinsing dispensers etc.).

Moreover it is essential for the Group's main suppliers to be able to meet the quality and safety standards in place in our establishments. For example, subcontracting agreements with caterers require a certain number of obligations to be met. The main imperative, besides achieving patient and resident satisfaction, is the obligation to comply with HACCP (Hazard Analysis Critical Control Point) standards and DSV (Veterinary Services Agency) directives, and to participate in the accreditation process. In this way subcontractors are fully integrated into the establishment's quality assurance scheme.

9. Research & Development

By virtue of its activity, which involves providing accommodation for dependent persons, the Korian Group does not carry out any systematic research and development activities, and in this regard has no specific certification in place for such activities.

Similarly, the Group's activity does not depend on any licences.

10. Share capital

At 31 December 2007 Korian's share capital was divided into 27,686,659 shares, each with a face value of € 5.00.

Each share entitles the holder to a voice at general shareholders' meetings. No double voting rights exist.

Pursuant to Article L 233-13 of the French Commercial Code, a breakdown of the share capital or voting rights meeting the publication thresholds set by law is given below:

Shareholders at 31/12/02007	Number of shares held	% of share capital
Groupe Batipart	9,821,631	35.47%
Predica	7,474,203	27%
MSRESS Armaillac	2,133,680	7.71%
ACM Vie	3,265,627	11.8%
FCPE Korian Shareholding	87,397	0.31%
Floating	4,904,121	17.71%
Total	27,686,659	100.0%

To the best of the company's knowledge no shareholder holds more than 5% of the share capital or of voting rights.

It should further be noted that, regardless of the legal or regulatory threshold disclosure obligations, any individual or corporation acting alone or in unison who directly or indirectly holds or would come to hold a number of shares representing 2% of the share capital or voting rights is required to disclose such an event to the company, by certified letter with acknowledgement of receipt, within 15 days following the date of negotiation or conclusion of any agreement involving the crossing of this threshold, irrespective of the date on which such crossing of the threshold is recorded in the accounts, of the total number of company shares or voting rights directly or indirectly held, as well as of the total number of securities providing access at maturity to the share capital and voting rights that may be attached to these securities.

This disclosure requirement must be met according to the above terms every time a new 2% threshold is reached, either upward or downward.

In the absence of compliance with the disclosure requirements set forth above, any shares in excess of the fraction that should have been disclosed are deprived of voting rights in all shareholders' meetings for a period of ten years following the date the proper disclosure is made. This penalty will be applied only at the request of one or more shareholders holding at least 2% of the company's share capital, such request being included in the minutes of the general meeting.

In order to comply with the provisions of Article L. 225-102 of the French Commercial Code, we inform you that the Group's collective employee shareholding plan held 87,397 shares of Korian stock at 31/12/2007.

Information relative to treasury shares

On 3 January 2007 Korian entrusted Rothschild & Cie Banque with the execution of a liquidity agreement pursuant to the code of ethics established by the French Association of Investment Companies and approved by the Financial Markets Authority in a decision dated 22 March 2005, and published in the Bulletin of Legally Required Announcements on 1 April 2005. For the implementation of this agreement, the following funds were allocated to the liquidity account: € 480,000.

o

In addition, the general shareholders' meeting of 21 June 2007 authorised the company to operate with its own shares, for a period of eighteen months as of the meeting and up to a 10% limit of its share capital, pursuant to the provisions of Article L. 225-209 of the French Commercial Code. The purchase price per share should not be above € 70 and the maximum amount of share purchases should not exceed € 193,806,613.

At 31 December 2007, Korian held 13,675 of its own shares.

The liquidity agreement entrusted to Rothschild & Cie Banque was terminated following the financial year closing date (1 February 2008). As of 11 February 2008, and for a duration of one year, automatically renewable, Korian entrusted Exane BNP Paribas with the execution of a liquidity agreement pursuant to the code of ethics established by the French Association of Investment Companies and approved by the Financial Markets Authority in a decision dated 22 March 2005, and published in the Bulletin of Legally Required Announcements on 1 April 2005. For the implementation of this agreement, the following resources were allocated to the liquidity account:

- 13,700 shares
- € 207,457.31

Operations by corporate officers involving company shares

Corporate officers	Shares bought	Share value	Shares sold	Share value
Mr. GEORGES FRANCOIS	0		0	
Mr. RUGGIERI BATIPART	0		0	
	283,714	€ 29.342		
Mr. Julien RUGGIERI	0		0	
Mr. DUCHAMP	1	€ 38		
Mr. HOCHER	1	€ 38		
ACM VIE	1,428,571	€ 28		

Mr. BIEBER	0		0	
Mr. THONIER	0		0	
Mr. CASTEX	1	€ 51.87		
Mr. AMBONVILLE	100	€ 34		
Mrs. VAN LERBERGHE	0		0	
Mr. LAPP	0		0	
Mr. RAVASSARD	0		0	
Mr. MERCEREAU	0		0	

11. Table of valid and used delegations

- The general meeting, gathered on 19 September 2006, authorised the board of directors to:

Delegation of power	Maximum amount of capital increase	Duration of delegation	Use of delegation at 31/12/2007
1. To increase the share capital by the inclusion of: reserves, premiums, profit or other funds.	Maximum nominal amount of € 10M	26 months	None

- The ordinary and extraordinary general meeting of 21 June 2007 decided to give its consent to the following delegations of powers to the Board of Directors:

Delegation of power	Maximum amount of capital increase	Duration of delegation	Use of delegation at 31/12/2007
1. To increase the share capital through the issuing of shares or securities providing access to the share capital, maintaining preferential subscription rights.	Maximum nominal amount of € 50M	26 months	None
2. To increase the share capital through the issuing of shares or securities providing access to the share capital, suppressing preferential subscription rights.	Maximum nominal amount of € 50M <i>(it being noted that this authorisation applies to the overall nominal cap of € 50M set in point 1 above)</i>	26 months	None
3. To increase the share capital to the benefit of Group savings plan members.	Maximum nominal amount of € 840,000	26 months	None

- The ordinary and extraordinary general meeting of 21 June 2007 likewise decided to give its consent to the following delegation of powers to the board of directors:

Authorisation	Maximum amount of capital increase	Duration of authorisation	Use of the authorisation
4. Authorise company share subscription or purchase options for employees and officers.	Up to a limit of 138,433 ordinary shares	26 months	116,000 subscription options

In FY 2007 the board of directors, at the proposal of the salary committee, decided to assign an overall package of 116,000 subscription options to the members of the board of directors, the management committee, key managers, and doctors.

- The ordinary and extraordinary general meeting of 21 June 2007 likewise decided to give its consent to the following delegation of powers to the board of directors:

Authorisation	Maximum amount of capital increase	Duration of authorisation	Use of the authorisation
5. Assignment of shares free of charge.	Up to a limit of 138,433 ordinary shares	38 months	127,879 free shares

In FY 2007 the board of directors, at the proposal of the salary committee, decided to assign an overall package of 127,879 free shares to care provider staff and establishment managers.

12. Dividends paid out in the last three financial years

Financial year	Number of shares	Dividend paid	Dividend conferring right to tax write-off
2006	27,686,659	€ 0.35	€ 0.35*
2005	253,562,498	0	0
2004	152,962,672	0	0

*This dividend conferred the right to a 40% tax write-off applicable to individuals residing for tax purposes in France as of 1 January 2006.

13. Allocation of the FY 2007 result

At the next general meeting to be held on 18 June 2008 a proposal will be made to allocate the result for FY 2007, which amounts to € 9,748,647, as follows:

- **Distribution of dividends**
€ 14,950,795.86, with € 9,748,647 to be taken from company profit and € 5,202,148.86 from the “issue, merger and acquisition premium” account.

Pursuant to Article L 148 of the decree dated 3 March 1967, this report presents a table reflecting the company’s financial results over the last five financial years.

14. Sumptuary and general expenses giving rise to reconstitution

Sumptuary charges affected by Article 39-4 amount to € 92,808 for the Korian Group, of which Korian SA accounts for € 54,176.

15. Results and other features of Korian since its creation (in €)

Korian was incorporated on 24 March 2003 under the corporate name of Suren S.A.S.

Nature of Items/Periods <i>Duration of the financial year</i>	31/12/2007 <i>12 months</i>	31/12/2006 <i>12 months</i>	31/12/2005 <i>21 months</i>	31/03/2004 <i>11 months</i>
I – Financial situation at FY end				
a) Share capital	138,433,295	138,433,295	253,562,498	139,545,272
b) Number of shares issued	27,686,659	27,686,659	253,562,498	139,545,272
II – Net income from completed transactions				
a) Turnover exclusive of taxes	23,743,269	24,433,602	11,023,055	30,000
b) Profit before tax, profit sharing, amortisations and provisions	21,903,738	11,272,096	-17,047,468	-2,913,651
c) Tax on profit	-10,548,271	-13,158,187	-8,643,943	-1,396,024
d) Profit after tax but before amortisations and provisions	32,452,009	24,430,283	-8,403,523	-1,517,627
e) Profit after tax, profit sharing, amortisations and provisions	9,746,919	29,619,865	-9,429,690	-1,517,627
f) Distributed profit	*14,950,795	9,690,331	0	0
g) Employee profit sharing	0	0	0	0
III – Results per share				
a) Profit after tax but before amortisations	1.17	0.88	0	0
b) Profit after tax, amortisations and provisions	0.35	1.07	0	0
c) Dividend paid out to each share	* 0.54	0.35	0	0
IV - Personnel				
a) Number of employees	265	238	114	2
b) Total payroll	13,128,889	17,693,741	6,165,781	136,200
c) Sums paid in the form of employee benefits	5,829,734	5,956,830	1,704,006	46,753

* the envisaged distribution of dividends corresponding to FY 2007 will be voted at the general meeting held on 18 June.

16. Remuneration of company directors and officers

- **Remuneration of board members**

- Rose-Marie VAN LERBERGHE
 - o Fixed salary (2007): € 300,000
 - o Variable income: 2006 bonus of € 35,000 paid in 2007
 - o Vehicle allowance: € 2,232
 - o Stock options: 9,000 options

- Guillaume LAPP
 - o Fixed salary (2007): € 200,000
 - o Variable income: 2006 bonus of € 36,274 paid in 2007
 - o Vehicle allowance: € 3,840
 - o Stock options: 8,000 options

- Jean-Pierre RAVASSARD
 - o Fixed salary (2007): € 240,000
 - o Variable income: 2006 bonus of € 62,600 paid in 2007
 - o Vehicle allowance: € 5,766
 - o Stock options: 8,000 options

- Francois MERCEREAU
 - o Fixed salary (2007): € 200,000
 - o Variable income: 2006 bonus of € 4,400 paid in 2007
 - o Stock options: 8,000 options

Furthermore, there is no agreement calling for indemnity of board members or employees if they resign or are laid off without actual and serious cause, or if their employment is terminated as a result of a takeover bid.

- **Remuneration of Supervisory Board members**

At 31 December 2007, directors' fees totalling € 115,000 were paid to the members of the Supervisory Board.

Board and committee members are also entitled to reimbursement, on submission of vouchers, of any travel expenses incurred to attend the meetings of such boards and committees.

The following table provides details of directors' fees, in euros, for financial year 2007, based on the internal rules approved by the Supervisory Board. These fees were distributed as follows:

- A fixed annual sum:
 - o for the chairman of the Supervisory Board: € 5,200
 - o For members other than independent members: € 2,600
 - o For independent members: € 17,000
- A variable amount based on the attendance of members at board meetings:
 - o € 600 (double this amount for the chairman) for each actual instance of attendance to the board meetings.

In addition, a sum in remuneration is likewise allocated to board members who are also members of a specialised committee, as follows:

- A fixed annual sum for the chairman: € 1,200
- A variable amount for the members: € 600

Members	Director's fees paid in relation to FY 2006
Jean-Claude GEORGES FRANCOIS	€ 15,400
Charles RUGGIERI	€ 6,800
BATIPART represented by Mr. Julien RUGGIERI	€ 5,600
Adrien BLANC	€ 4,400
Jean-Jacques DUCHAMP	€ 7,400
Jean-Yves HOCHER	€ 2,600
ACM VIE represented by Mr. Pierre BIEBER	€ 6,800
Jean-Paul THONIER	€ 21,200
Jean CASTEX	€ 16,350
Jacques AMBONVILLE	€ 22,400
TOTAL	€ 115,000

Directors' fees paid in 2007 to members of the Supervisory Board are consistent with the decision by the general shareholders' meeting of 21 June 2007 to set the overall sum at € 150,000 for the financial year under way and subsequent financial years.

17. LIST OF POSITIONS HELD BY COMPANY DIRECTORS

- List of positions held by members of the Board of Directors

Positions held by Rose-Marie Van Lerberghe:

Joint stock companies	Functions
KORIAN	Chairman of the Board of Directors
AIR FRANCE	Director
INSTITUT PASTEUR	Director

Positions held by Guillaume Lapp:

Joint stock companies	Functions
KORIAN	Board member and managing director
CRF de SIOUVILLE	Chairman and managing director
CLINIQUE PSYCHIATRIQUE DU PAYS DE SEINE	Chairman and managing director
CLINIQUE CARDIOLOGIQUE DE GASVILLE	Permanent representative of SA KORIAN, director
HOLDING AUSTRUY BUREL	Permanent representative of SA KORIAN, director
LE MONT BLANC	Permanent representative of SA KORIAN, director
LE RAYON D'OR	Permanent representative of SA KORIAN, director
SOCIETE HOSPITALIERE DE TOURAIN	Permanent representative of SA KORIAN, director
TERAFI	Permanent representative of SA KORIAN, director
LE BREVENT	Liquidator
MEUDON TYBILLES	Director
Manager of limited liability companies	
CHAMTOU	PARTENAIRE RESTAURATION
CARLOUP SANTE	OPHELIADES SERRES
CMS CHAMBON	PEROU
COLSON ET COLSON France	RESIDENCE DU LAC
CPRR SAINTE BAUME	RESIDENCE FREDERIC MISTRAL
DE BIOUX SANTE	RESIDENCE FRONTENAC
IMMOBILIERE JANIN	SEMIRAMIS CLERMONT
ISERE SANTE	SEMIRAMIS JANIN

LAFFITTE SANTE	SEMIRAMIS ORION
LE MAIL SANTE	SEMIRAMIS ST LAURENT
LES LUBERONS	SÉRIENCE SSR
MASSENET SANTE	THALATTA
MEDI'DEP FONCIER	VILLA SAINT DOMINIQUE
MÉDOTELS	VILLANDIERES NIMES
OPHELIADES SERRES	LE COTEAU

Positions held by Jean-Pierre Ravassard:

Joint stock companies	Functions
KORIAN	Board member and managing director
SA TERAFI	Director
SA HOLDING AUSTRUY BUREL	Director
SA LE RAYON D'OR	Director
SA LE RAYON D'OR	Managing director
SA LE RAYON D'OR	Chairman
SA SOCIETE HOSPITALIERE DE TOURAINE	Director
SA SOCIETE HOSPITALIERE DE TOURAINE	Managing director
SA SOCIETE HOSPITALIERE DE TOURAINE	Chairman
SA LES FONTAINES	Permanent representative of SA KORIAN, director
SA GRAND'MAISON	Permanent representative of SA KORIAN, director
SA LA BASTIDE DE LA TOURNE	Permanent representative of SA KORIAN, director
SOCIETE GERONTOLOGIQUE DU CENTRE OUEST - SGCO	Permanent representative of SA KORIAN, director
Simplified joint stock companies	Functions
SAS LES OPHELIADES MONTBELIAR	Chairman
Manager of limited liability companies	
SARL CENTRE DE PNEUMOLOGIE ET DE REEDUCATION RESPIRATOIRE DE LA SAINTE BAUME (until 30.06.2007)	SARL ISERE SANTE
SARL SEMIRAMIS JANIN	SARL RESIDENCE FRONTENAC
SARL VEPEZA	SARL SEMIRAMIS ST LAURENT
SARL CHAMTOU	SARL RESIDENCE DU LAC
SARL CENTRE MEDICAL SPECIALISE DU CHAMBON (until 30.06.2007)	SARL SOCIETE IMMOBILIERE JANIN
SARL CARLOUP SANTE	SARL LES OPHELIADES SERRES
SARL ORION	SARL COLSON ET COLSON FRANCE
SARL LES LUBERONS	SARL THALATTA (until 30.06.2007)
SARL VILLANDIERES NIMES (until 30.06.2007)	SARL PARTENAIRE RESTAURATION
SARL SEMIRAMIS CLERMONT	SARL PEROU
EURL MEDOTELS	SARL LE COTEAU (until 30.06.2007)
EURL SOINS DE SUITE ET DE READAPTATION (until 30.06.2007)	EURL RESIDENCE FREDERIC MISTRAL

SARL LE MAIL SANTE	SARL LAFITTE SANTE
SARL MASSENET SANTE	EURL MEDIDEP FONCIER
SARL DE BIOUX SANTE	SARL VILLA SAINT DOMINIQUE
General partnerships	Functions
SNC SOCIETE EN NOM COLLECTIF RESIDENCE LES AJONCS	Permanent representative of KORIAN, manager

Positions held by François Mercereau:

Joint stock companies	Functions
KORIAN	Board member and managing director
CLINIQUE DU PAYS DE SEINE	Permanent representative of KORIAN SA, director
LE MONT BLANC	Chairman of the Board of Directors and managing director
CLINIQUE CARDIOLOGIQUE DE GASVILLE	Chairman of the Board of Directors and managing director
CFR DE SIOUVILLE	Permanent representative of KORIAN SA, director
Manager of limited liability companies	
CHAMTOU	PARTENAIRE RESTAURATION
CMS CHAMBON	PEROU
COLSON ET COLSON France	RESIDENCE DU LAC
CPRR SAINTE BAUME	RESIDENCE FREDERIC MISTRAL
DE BIOUX SANTE	RESIDENCE FRONTENAC
IMMOBILIERE JANIN	SEMIRAMIS CLERMONT
ISERE SANTE	SEMIRAMIS JANIN
LAFFITTE SANTE	SEMIRAMIS ORION
LE MAIL SANTE	SEMIRAMIS ST LAURENT
LES LUBERONS	SÉRIENCE SSR
MASSENET SANTE	THALATTA
MEDI'DEP FONCIER	VILLA SAINT DOMINIQUE
MÉDOTELS	CARLOUP SANTE
OPHELIADES SERRES	LE COTEAU

- **Positions held by the members of the Supervisory Board**

Positions held by Jean-Claude Georges François:

Joint-stock companies	Functions
BAIL INVESTISSEMENT FONCIERE SA	Director (until 23 October 2006)
PREVOYANCE ET REASSURANCE SA	Director
PREVOYANCE RE SA à directoire et C.S.	Member of the Supervisory Board
KORIAN SA à directoire et C.S.	Chairman of the Board of Directors, then chairman of the Supervisory Board
MEDIDEP SA à directoire et C.S.	Chairman of the Supervisory Board (until 28 November 2006)
Simplified joint stock companies	Functions
ABILONE SAS	Chairman
CHÂTEAU DE SAINT PIERRE OURSIN SAS	Chairman
LE CASTELLI SAS	Chairman
SOCIETE MEDICALE DE CLAVETTE SAS	Representative of SARL SÉRIENCE SSR, chairman
CLINIQUE DE CONVALESCENCE DU CHATEAU DE CLAVETTE SAS	Representative of SARL SÉRIENCE SSR, chairman
LES BEGONIAS SAS	Chairman
PB EXPANSION SAS	Chairman
Manager of SARLs (private limited companies)	
CARLOUP SANTE SARL	MASNET SANTE EURL
COLSON & COLSON EURL	MÉDOTELS EURL
DE BIOUX SANTE SARL	PARTENAIRE RESTAURATION EURL
ISERE SANTE EURL	PEROU EURL
J C G F CONSEIL SARL	SÉRIENCE SOINS DE SUITE ET READAPTATION EURL
LAFITTE SANTE EURL	THALATTA EURL
LE MAIL SANTE EURL	

General partnerships	Functions
HIRT ET CIE SNC	Representative of SARL PARTENAIRE RESTAURATION, manager
JONGKIND SNC	Manager
KERINOU SANTE SNC	Manager
SOCIETE EOLIENNE SAINTE ROSE SNC	General partner
Manager of non-trading partnerships	
CHÂTEAU DE OUEZY SCI	SCCV LA CROIX ROUGE SCCV
CLODAPIER SCI (non-Group member)	LE MAIL IMMOBILIER SCI
Joint ventures and others	

	Functions
ATIC SERVICES	Director
CFNR	Director
CMAV (CAISSE MUTUELLE D'ASSURANCE SUR LA VIE), part of Groupe MALAKOFF	Chairman
EMO BV	Auditor
FEDERIS (CONTINGENCY PARTNERSHIP) grouping MALAKOFF and MEDERIC	Chairman
GROUPEMENT INFORMATIQUE ET COMPETENCES (GIEC)	Director
INGENIEURS 2000	Chairman
MANUFRANCE BV	Director
OVET	Auditor

Positions held by Charles Ruggieri:

Position in the company	Company name
Honorary chairman	BATIGERE SAS
Chairman	BATIPART SA
Chairman of the Supervisory Board	FONCIERE DES REGIONS SA
Member of the Supervisory Board	FONCIERE DES MURS FONCIERE DEVELOPPEMENT LOGEMENTS FONCIERE EUROPE LOGISTIQUE IMMEO WOHNEN GMBH
Vice-chairman of the Supervisory Board	KORIAN
Director	L'ARSENAL (Association) CIAL SA FONCIERE LOGEMENTS (Association) USINE D'ELECTRICITE DE METZ (municipal utility) BENI STABILI PROMEO
Managing director	CILGERE LORRAINE (Association)
Director representing collective partners	ANPEEC (EPIC)
Director representing CILGERE LORRAINE	APALOF (wishes to leave position in 2007) UESL (mutual credit union)(until June 2007)
Legal representative of BATIPART, chairman	BATIPART PARTICIPATIONS ANTHEMIS

	NOVAE PROVAL BTP 1 BTP 5 BTP 6 BATIPART IMMOBILIER BATIPART SANTE
Legal representative of BATIPART, manager	SCI DU 28 RUE DUMONT D'URVILLE BTP 2

Positions held by Julien Ruggieri:

Position in the company	Company name
Vice-chairman of the Supervisory Board	FINABELIA SAS JARDILAND SA
Member of the Supervisory Board	IMMEO WOHNEN GMBH
Director	PROMEO MONROE SA
	PARCS GFR MAELYS COTINVEST
Permanent representative of BATIPART, member of the Supervisory Board	KORIAN
Permanent representative of BATIPART IMMOBILIER, member of the Supervisory Board	FONCIERE DES REGIONS

Positions held by Adrien Blanc:

Company name	Position in the company
68 Brook Street	Director
103 Colmore Row (2) B.V.	Director
103 Colmore Row B.V.	Director
11 Angel Court BV	Director
130 Newington Butts (2) BV	Director
130 Newington Butts BV	Director
1 Aldgate Union Retail (2) B.V.	Director
1 Aldgate Union Retail B.V.	Director
1 Finsbury Square (2) B.V.	Director
1 Finsbury Square BV	Director
1 Sandyford B.V.	Director
22 Queen Square BV	Director

2 Aldgate Union (2) BV	Director
2 Aldgate Union BV	Director
34 Henrietta Street (2) BV	Director
34 Henriette Street BV	Director
41 Lothbury BV	Director
42 Leicester Square (2) BV	Director
42 Leicester Square BV	Director
42 St. Andrew's Square BV	Director
50 West Register Street BV	Director
67 Lombard Street (2) BV	Director
67 Lombard Street BV	Director
78 Fenchurch Street BV	Director
8 Park Row (2) BV	Director
8 Park Row BV	Director
Cascata B.V.	Director
Altarea	Director
CHIPS HOLDING SARL	Manager
CHIPS PLAGE SARL	Manager
FINANCIERE PALMER SARL	Manager
First Serviced Offices Holdings B.V.	Director
First Serviced Offices Real Estate Holdings B.V.	Director
Ifanco Consultancy BV	Director
Industrious Holdings (Jersey) Limited	Director
Industrious (Jersey) Guarantee Company Limited	Director
Industrious MTL Security (Jersey) Limited	Director
Industrious Warehousing (Jersey) Limited	Director
MSQ Co-Investment Partnership IV, LP	Director
MSQ GP, L.L.C.	Director
MSREF V Galileo B.V.	Director
MSREF V Pluto B.V.	Director
MSREF V Saturnus B.V.	Director
MSREF V Tulip B.V.	Director
Pinstripe (Jersey) Limited	Director
SNC FONCIERE PALMER	Manager
SNC PALMER PLAGE	Manager
SNC PALMER TRANSACTIONS	Manager
MSREF V Green Investments GP LLC	Director
Garville Limited	Director
Goodmans Fields I B.V.	Director

Goodmans Fields II (2) B.V.	Director
Goodmans Fields II B.V.	Director
Drapers Gardens (2) B.V.	Director
Drapers Gardens B.V.	Director
Edridge Road B.V.	Director
MSREF V Rooster B.V.	Director
MSREF V Emerald B.V.	Director
Redland House B.V.	Director
SCI MSEOF Montparnasse	Director
St. James's House	Director
St. James's House (2) BV	Director
Foncière Développement Logement	Member of the Supervisory Board
KORIAN S.A.	Member of the Supervisory Board

Positions held by Jean-Jacques Duchamp:

Company name	Status	Position in the company
PREVISEO OBSEQUES	Private joint stock company	Director
SANEF	Public joint stock company	Director
FONCIERE DES REGIONS	Public joint stock company	Permanent representative of PREDICA, member of the Supervisory Board
UNIMO	Joint stock company	Director
KORIAN	Public joint stock company	Member of the Supervisory Board
SOCIÉTÉ FONCIERE LYONNAISE	Public joint stock company	Director
CA Immobilier	Private joint stock company	Director

Positions held by Jean-Yves Hocher:

Company name	Status	Position in the company
CREDIT AGRICOLE SA	Joint stock company	Director of Insurance Division, member of the Executive Committee
PREDICA	Joint stock company	Non-board member managing director
ATTICA	Economic Interest Group	Director
BGPI	Joint stock company	Director
PACIFICA	Joint stock company	Director
LA MEDICALE DE France	Joint stock company	Director
KORIAN	Joint stock company	Member of the Supervisory Board
GECINA	Joint stock company	Permanent representative of PREDICA, director
UNIPIERRE ASSURANCE	REIT	Chairman of the Supervisory Board
SIPAREX	Joint stock company	Permanent representative of PREDICA, auditor
CAMCA	1901 Law	Director (since 26.04.2006)
FFSA		Member of the Board, member of the Executive Committee
Groupement Français des Bancassureurs	1901 Law	Chairman
BANCO ESPIRITO SANTO – BES	Joint stock company (Portugal)	Director
BESPAR	Joint stock company (Portugal)	Director
AGRO PARIS TECH ;	Institute	Director
MEDEF		Member of the General Shareholders' Meeting

Positions held by Pierre Bieber:

Position in the company	Company name
Permanent representative of ACM IARD, member of the Supervisory Board	FONCIERE DES MURS SCA
Permanent representative of GACM, chairman	IMMOBILIERE ACM SAS
Permanent representative of ACM VIE, member of the Supervisory Board	KORIAN
Member of the Supervisory Board	FONCIERE MASSENA SCA

Positions held by Jean-Paul Thonier:

Position in the company	Company name
Chairman	Association le CARM, “Circle of Partners in Risk Management”
Vice-chairman	SILVERLIFE INSTITUTE, institute for economic studies on ageing
KORIAN	Member of the Supervisory Board
AST 67	Director
Editions ECONOMICA	Director of the “Cyndiniques –Sciences du Danger” collection

Positions held by Jacques Ambonville:

Company name	Status	Position in the company
HAM CONSULTING	Simplified joint stock company	Chairman

Positions held by Jean Castex:

Company name	Status	Position in the company
SOCIETE DU ROULE	Joint stock company	Director
CPR CONVEXITE	SICAV (mutual fund)	Director

18. Equity acquisitions/takeovers

Pursuant to the provisions of Article L 233-6 of the French Commercial Code, the Board of Directors hereby submits the major equity acquisitions and takeovers of other companies during the course of the financial year.

The Group's most significant acquisitions involve the Italian group Segesta and the German group Phönix.

The price paid for the acquisition of Phönix shares was € 80,037,000 and another € 80,581,000 was invested in Segesta shares.

Given the proximity between the date of acquisition and the settlement date, the respective valuation differences ascertained at the Korian SA level, provisionally estimated at € 76,599,000 and € 75,322,000, are currently being assigned.

In addition, in 2007 Korian engaged in the following external growth operations:

- Acquisition in February of 2007 of 100% of the shares of Hotelia Meudon nursing home, a former franchisee of the Group with 102 beds.
- Acquisition in February 2007 of 100% of the shares of Oregon follow-up care and rehabilitation clinic, located in Civray (80 beds).
- Acquisition in April 2007 by Financière Sinoué (in which the Group holds a 40% interest), of 100% of the shares of Couteau psychiatric clinic, located in Grenoble (96 beds).
- Acquisition in April 2007 of 100% of the shares of Saint Come follow-up care and rehabilitation clinic (SSR), located in Juvisy (89 beds).
- Acquisition in June of 2007 of 100% of the shares of Perier nursing home, located in Marseille (95 beds).
- Acquisition in June of 2007 of 100% of the shares of Montmorency nursing home, located in Carcassonne (68 beds).
- Acquisition in October of 2007 of 93.32% of the shares of Les Meunières nursing home, located in Lunel (103 beds).

19. Sale of shares

Pursuant to the provisions of Article L 233-6 of the French Commercial Code, the Board of Directors hereby reports that the company has not sold any significant holding in other companies during the course of the financial year.

20. Activity and results of company subsidiaries and consolidated companies

The subsidiaries are:

- **Follow-up care and rehabilitation clinics (SSRs)**, which provide accommodation for convalescent or disabled patients following a stay within an acute care structure. These clinics strive to reduce physical disabilities or help patients regain their autonomy in order

to facilitate their return home and to assist in their reintegration into their social and professional milieu.

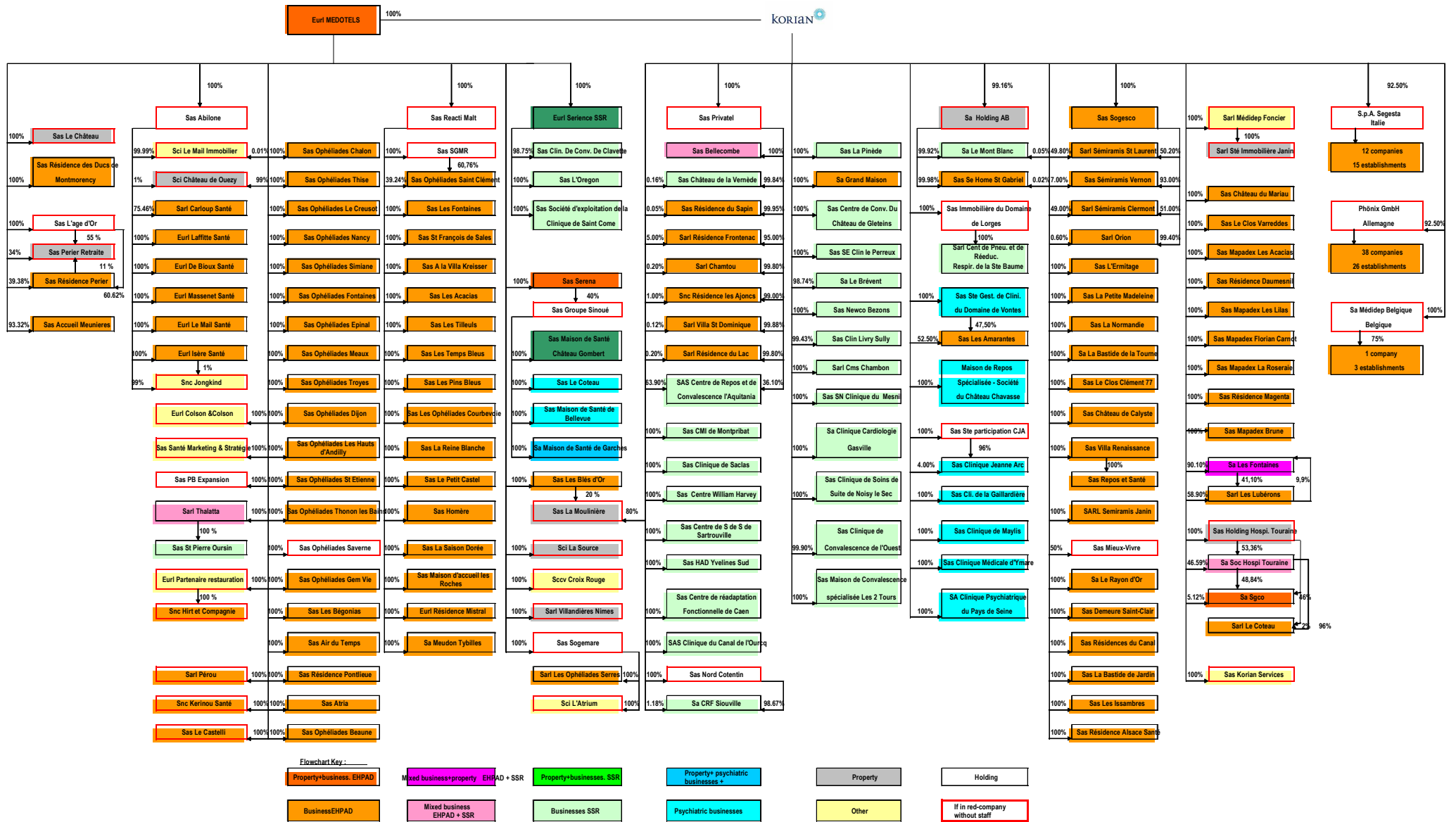
- **Psychiatric clinics**, which deal with patients under treatment for psychosomatic disorders as well as acute and progressing psychic problems.
- **Residential homes for the elderly** (EHPADs), which provide accommodation for elderly persons who can no longer live at home due to their state of dependence. The goal of these establishments is to provide humane support and care, regardless of their level of dependence, up to the end of their lives.
- **Holdings**, whose sole purpose is to hold the Group's stakes in the aforementioned establishments.

A list of Group companies is provided under note 29 of the appendices to the consolidated accounts.

21. Legal organisation chart

At 31 December 2007, Korian had 229 consolidated companies.

The legal organisation chart of Korian at 31 December 2007 is presented on the next page.



Consolidated accounts

Balance sheet

ASSETS			
(in thousands of euros)	Notes	31.12.07	31.12.06 *
Goodwill	4	627,056	410,925
Intangible assets	5	525,023	502,682
Tangible fixed assets	6	273,851	201,259
Financial assets	7	15,247	15,142
Deferred taxes on assets	22	8,395	3,551
Non-current assets		1,449,572	1,133,560
Inventories	8	3,121	1,715
Trade and related receivables	9	75,121	40,128
Other receivables and current financial assets	10	73,543	47,376
Cash and cash equivalents	11	70,188	26,606
Current assets		221,973	115,825
Shares held for disposal		9,892	
Total assets		1,681,437	1,249,386

□ EQUITY CAPITAL AND LIABILITIES			
(in thousands of euros)		31.12.07	31.12.06 *
Capital		138,433	138,433
Premiums		227,740	231,221
Reserves and consolidated earnings		272,001	256,722
Equity capital (Group share)		638,174	626,375
Minority interests		9,438	3,666
Total equity capital		647,612	630,042
Provisions for retirement	15	11,451	6,268
Deferred taxes	22	188,514	177,252
Other provisions	16	6,592	4,922
Loans and financial debt	14	604,919	293,623
Non-current liabilities		811,476	482,066
Provisions falling due within one year	16	2,359	4,044
Suppliers and related receivables		54,046	23,158
Other debt and accrual accounts	17	107,652	74,073
Loans falling due within one year and bank overdrafts	13/14	48,397	33,974
Liability financial instruments	13	2,475	2,030
Current liabilities		214,929	137,279
Liabilities held for disposal		7,420	
Total liabilities		1,681,437	1,249,386

* Consolidated account items at 31/12/2006 are reflected in the published reference document at 31/12/2006.

Income statement

Other income		407	2,306	2,331
Income from activity		608,386	515,946	522,094
Consumables purchased		39,455	19,680	20,180
Other purchases		0	13,899	14,435
Labour costs	18	301,497	262,591	266,158
External charges	19	149,659	121,384	122,657
Taxes and fees levied		38,066	29,977	30,036
Depreciation/amortisation and impairment losses		24,402	16,987	17,054
Current operating income		55,307	51,428	51,575
Earnings fro transfer of consolidated stakes		993	0	
Other operational surpluses and charges	20	-647	-5,378	-5,374
Operating income		55,653	46,050	46,201
Financial charges		-25,059	-24,854	-24,865
Financial surpluses		37	9,721	9,729
Gross cost of financial debt	21	-25,022	-15,133	-15,136
Surplus cash and cash equivalents		6,087	229	229
Net cost of financial debt		-18,935	-14,904	-14,907
Other financial surpluses and charges		-135	1,529	1,529
Earnings before taxes		36,583	32,675	32,823
Tax on profit	22	-8,687	-10,619	-10,669
Earnings of integrated companies		27,897	22,056	22,153
Group share in earnings of equity-accounted companies			0	
Net earnings from activities		27,897	22,056	22,153
Earnings net of taxes from discontinued activities and activities that have been c		-2,829	73	
Net Income		25,067	22,129	22,153
Minority interest share		1,939	2,427	2,452
Group share		23,128	19,702	19,702
Net income (Group share)/share of activities (in €)	12	0.94	0.42	0.42
Net income (Group share)/share of discontinued activities (in €)	12	-0.10		
Net income (Group share)/diluted share of activities (in €)	12	0.93	0.42	0.42
Net income (Group share)/diluted share of discontinued activities (in €)	12	-0.10		

* Consolidated account items at 31/12/2006 are reflected in the published reference document at 31/12/2006.

Cash flow

(in thousands of euros)	Notes	31.12.07	31.12.06
Total net income		25,067	22,153
Net earnings from discontinued activities		-2,829	
Net earnings from consolidated companies		27,897	22,153
	<i>Including IS</i>	8,273	3,602
Net depreciation/amortisation and impairment losses		16,084	16,246
Deferred taxes	22	408	7,067
Retirement pension update charges	15	368	69
Result on JV from financial liabilities (SWAPs)	13	-5,977	-11,069
Capital gains from disposal of assets	20	1041	438
Valuation per IFRS 2 (BSA and PEG)		468	2,017
Merger premium charges		-379	-8,620
Cash flow		37,081	28,301
Variation of inventories		191	119
Variation of customer receivables		1,210	3,194
Variation of supplier debts		-2,094	-1,522
Variation of other items		12,435	-18,254
Variation of working capital requirements		11,742	-16,463
Net cash flow generated by activity		48,823	11,838
Net cash flow generated by activity - Discontinued activities		1,500	
Net cash flow generated by activity - Continued activities		47,323	11,838
Impact of overall Group variations (*)		-236,392	-16,167
Draw downs capital expenditure	5/6	-63,853	-55,639
Other draw n dow n financial investments		-2,052	-2,150
Income from transfer of draw n dow n fixed assets (excl. securities)		10,331	2,272
Net cash flow linked to investment operations		-291,966	-71,684
Net cash flow linked to investment operations - Discontinued activities		-1,651	
Net cash flow linked to investment operations - Continued activities		-290,315	-71,684
Net cash flow		-243,144	-59,845
Capital increase		5	156,472
Treasury shares assigned to equity		-478	
Increase of financial debt	14	305,644	282,539
Reimbursement of financial debt	14	-18,088	-408,392
Dividends paid out to parent company shareholders		-9,688	
Dividends paid out to minority shareholders of consolidated companies		-144	-13
Net cash flow linked to financing operations		277,251	30,606
Net cash flow linked to financing operations - Discontinued activities		2	
Net cash flow linked to financing operations - Continued activities		277,248	30,606
Cash variation		34,107	-29,239
Opening cash		16,273	45,525
Closing cash		50,394	16,273
Reclassification of opening cash		14	-13
Marketable securities	11	3,089	5,676
Cash on hand	11	67,557	20,930
CBC	14	-20,252	-10,333
Cash		50,394	16,273

Variations in shareholders' equity

(in thousands of euros)	Capital	Premiums	Direct charges to shareholders' equity	Accumulated profit or loss	Equity capital (Group share)	Minority interests	Total equity capital
At 31 December 2005	253,562	108,008		35,229	396,799	21,293	418,092
Distribution of dividends						-14	-14
Capital increase	26,042	130,431			156,473		156,473
Impact of Medidep merger *	9,022	1,072		50,997	61,091	-19,895	41,196
Charge of merger expenses and IPO expenses to premiums		-8,290			-8,290		-8,290
Capital reduction	-150,193			150,193			
Profit/loss for FY 2006				19,702	19,702	2,452	22,154
Overall Group variations							
Impact of allocated items							
IFRS 2 (BSA and PEG) impact				2,017	2,017		2,017
Sale options granted to minority shareholders						-170	-170
Impact of change in tax rate				-2,748	-2,748		-2,748
Other variations				1,332	1,332		1,332
At 31 December 2006	138,433	231,221		256,722	626,376	3,666	630,042
Distribution of dividends						-12	-9,701
Capital increase							
Overall Group variations						1,949	1,949
Charge of merger expenses and IPO expenses to premiums		-366		-13	-379		-379
Capital reduction							
Profit/loss for FY 2007				23,128	23,128	1,939	25,067
IFRS 2 (SO and PAGA) impact			468		468		468
IFRS 3 (company mergers - revaluations, authorisations)			660		660		660
Treasury shares			-478		-478		-478
Reclassification of reserves		-3,115		3,115	0		0
Other variations				-1,912	-1,912	1,895	-17
At 31 December 2007	138,433	227,740	650	271,352	638,175	9,438	647,612

* The impact of the Medidep merger is linked to the contribution of Medidep shares by Medidep's minority shareholders during its merger with Korian. In Korian's individual accounts, these contributions are determined according to their book value, but in the consolidated accounts they are determined at the fair value of the shares of the absorbing company on the date of the operation, during Korian's initial public offering. This operation generated goodwill of € 41,196,000.

There are no rights, privileges, or restrictions attached to the shares that make up the share capital, nor are there any more shares set aside for an issue as part of options or share sale agreements.

The dividends paid out for the financial year by the parent company to its shareholders amount to € 9,688,000, namely € 0.35 per share.

At 31 December 2007 minority interests varied by € 5,771,000.

The impact of new acquisitions amounts to € 1,949,000.

The impact of Germany and Italy on minority interests amounts to € 1,798,000.

SUMMARY

- Note 1 - Accounting principles**
- Note 2 - Highlights of the financial year**
- Note 3 - Scope of acquisitions during the financial year and related events**
- Note 4 - Goodwill**
- Note 5 - Intangible assets**
- Note 6 - Tangible fixed assets**
- Note 7 - Financial assets**
- Note 8 - Inventories**
- Note 9 - Customers**
- Note 10 - Other receivables and current assets**
- Note 11 - Cash and cash equivalents**
- Note 12 - Result per share**
- Note 13 - Financial hedge instruments**
- Note 14 - Financial debts**
- Note 15 - Provisions for retirement and related benefits**
- Note 16 - Other provisions**
- Note 17 - Other debt and accrual accounts**
- Note 18 - Labour costs**
- Note 19 - External Charges**
- Note 20 - Other charges and operational results**
- Note 21 - Net financial result**
- Note 22 - Tax on earnings**
- Note 23 - Transactions with associated parties**
- Note 24 - Liabilities and conditional liabilities**
- Note 25 - Liabilities under leasing agreements**

Note 26 - Operational sectors

Note 27 - Events following FY close

Note 28 - Remuneration of administrative and management bodies

Note 29 - List of Group companies

PRÉAMBULE



S.A. (French public limited company) with Management Board and Supervisory Board and capital of € 138,433,295

Registered office: 32 rue Guersant, 75017 Paris
447 800 475 RCS Paris

These consolidated financial statements, which were prepared under the Management Board's responsibility and approved by the Supervisory Board on 26 March 2008, are subject to the approval of the General Meeting of Shareholders.

Korian Group offers and develops a broad range of services related to looking after dependent persons via its 'EHPAD' (*Établissements pour personnes âgées dépendantes* – homes for dependent elderly persons), its 'SSR' (*Soins de suite et de réadaptation* – follow-up and rehabilitation care) and its psychiatric clinics, which were originally located throughout France.

One of the main objectives of the initial public offering in November 2006 was to strengthen the Group's shareholders' equity, with a view to finding opportunities for growth abroad, notably in Germany and Italy.

This growth strategy was implemented in 2007 with the acquisition of real platforms for development in both countries. Since Korian prefers to follow a business development approach similar to that adopted in France, the Group does not plan to purchase or construct individual establishments.

As at 31 December 2007, Korian Group comprised of 229 consolidated legal entities. Korian Group's policy for operating its homes consists of offering increased healthcare, with respect to the retirement homes, and specific specialisations with respect to healthcare centres.

NOTE 1 - ACCOUNTING PRINCIPLES

Statement of compliance

The annual consolidated financial statements have been prepared in accordance with IFRS accounting standards as a whole, as adopted in the European Union.

The consolidated financial statements include the accounts of the company Korian S.A. and those of the subsidiaries it controls.

During the year, the Group adopted new IFRS standards and amendments as well as new IFRIC interpretations as follows:

- IFRS 7 concerning required disclosures on financial instruments,
- Amendment to IAS 1 concerning the presentation of financial statements,
- IFRIC 7 concerning the practical procedures for adjusting financial statements under IAS 29 when an entity has to apply IAS 29 for the first time during a period (no hyperinflation in the prior period),
- IFRIC 8, which confirms that IFRS 2 applies to transactions by which shareholders of an entity have contractually undertaken to transfer cash or other assets based on the share price or value or value of other equity instruments held by the entity,
- IFRIC 9 concerning the identification of embedded derivatives,
- IFRIC 10, which specifies that impairment losses accrued in interim financial statements may not be written back in subsequent periods.

Implementation of these standards and interpretations did not have a material impact on the financial statements.

IFRS 8, which is mandatory for financial periods beginning with effect from 1 January 2009, was applied in advance as at 1 January 2007, superseding IAS14.

The approach adopted in IFRS 8 concerning operational segments is consistent with the Company's internal reporting as practised by management.

The list of consolidated companies is presented under note 29.

Presentation of the financial statements

The Group's consolidated financial statements are prepared under the historical cost convention with the exception of the following assets and liabilities stated at fair value:

- investments held for trading purposes,
- investments available for sale,
- derivative financial instruments.

Assets and liabilities which have been hedged are stated at fair value in view of the hedged risk.

Current assets consist of the following:

- assets that will be used or sold under normal operations,
- cash and cash equivalents,
- assets held predominantly for trading purposes.

All other assets are non-current assets.

The consolidated financial statements are stated in thousands of euros (€ 000).

Consolidation principles

The Group's consolidated financial statements include the financial statements of Korian SA and its subsidiaries for the period from 1 January to 31 December 2007.

Key accounting estimates and judgements

For the preparation of the consolidated financial statements the Group applies estimates and judgements which are regularly updated and based on historical data and on other factors, particularly forecasts of future events considered reasonable in view of the circumstances.

Estimates and judgements that could cause a material adjustment in the value of assets and liabilities in the subsequent period are as follows:

- The value in use of intangible and tangible fixed assets is based on internal valuations from the medium term business plan; the main assumptions used in this valuation, including future salary increases, discount rate etc., are estimated by the Group,
- Following analysis, leases have been classified as operating leases, given that under the Group's leases there are no indications that "virtually all the risks and rewards of ownership of the leased assets are transferred to the lessee", suggesting that the Group acts as an owner in relation to the leased assets.. Consequently, leases have been classified as operating leases.

The tax rate applied for corporation tax purposes and deferred tax is the normal statutory rate plus 3.3%, amounting to a total rate of 34.43%.

Tax rates applied abroad are 30.0% for Germany and 31.20% for Italy.

1.1 Subsidiaries

The subsidiaries are companies controlled by the Group. A subsidiary is controlled when the Group holds the indirect or direct power to determine the company's operating and financial

policies with a view to deriving benefits therefrom. In general, Korian SA holds a direct or indirect interest of more than 50% of the voting rights of controlled companies.

The financial statements of subsidiaries are fully consolidated with effect from the date when the Company acquired effective control until such time as control is transferred outside the Group.

The consolidated financial statements include all assets, liabilities, income and expenses of the subsidiary. Shareholders' equity and income are divided between the Group's share and that of the minority interests.

1.2 Joint ventures

Joint ventures are companies in which the Group exercises joint control generally pursuant to a contractual agreement.

The financial statements of joint ventures are consolidated under the proportional method, whereby the Group's share of each asset, liability, income and expense account of the jointly controlled entity is combined, line by line, with the same items in the accounts of the joint venture.

The financial statements are consolidated with effect from the date when the Company acquires effective control until such time as control is lost.

1.3 Associated companies

Associated companies are companies over which the Group has significant influence in terms of operating and financial policy without holding control. In general this relates to companies in which the Group holds at least 20% of the voting rights.

The Group's investments in associated companies are consolidated under the equity method. The financial statements of associated companies are retained in the consolidated financial statements with effect from the date when significant influence began until the date when such influence is lost.

The book value of the investments in associated companies includes the acquisition cost of the investments (including goodwill) plus or minus changes in the Group share of net assets of the associated company with effect from the date of acquisition. The income statement reflects the Group share of the results of the associated company.

1.4 Eliminated transactions

Commercial and financial balances and transactions, and the profits or losses on intercompany transactions are eliminated in the consolidated financial statements.

1.5 Business combinations

- **Goodwill**

Any excess of the acquisition cost and the Group share of the fair value of the assets and contingent liabilities as of the date of effective control are capitalised as goodwill. Any negative differences are recorded directly in income for the year.

Goodwill is not amortised. In accordance with IAS 36 « Asset impairment », goodwill is subject to an impairment test at least once a year, and more frequently if there is a sign of a loss in value.

The procedures for the test are described under paragraph 1.10.

At the acquisition date corresponding to the effective date of control, in accordance with IFRS 3, the assets and liabilities transferred are estimated at fair value including all costs directly attributable to the business combination.

All differences between the cost of the business combination and the Group share of the fair value of the assets, liabilities and identified contingent liabilities, are recorded as goodwill.

If the initial estimate of goodwill is not final as at the date of effective control, because either the fair value attributable to the assets, liabilities or identifiable contingent liabilities of the company acquired, or the acquisition cost, is not final, the goodwill is valued based on the provisional estimate. In this case, firm and final adjustments to such provisional estimates are booked within 12 months from the acquisition date.

- **Acquisition by successive investments**

If an acquisition is made by successive purchases of investments, each major transaction is treated separately for purposes of establishing the fair value of the assets and liabilities acquired, and the residual goodwill.

When an additional purchase grants control over a company, the existing investment is revalued based on the fair value as at that date and the reverse entry to this revaluation is posted to shareholders' equity. If the additional investment is made when control is already established, the goodwill created by this additional investment is posted to goodwill.

- **Minority interests**

Minority interests are recorded at fair value of net assets acquired.

1.6 Currency translation methods

- ***Foreign currency transactions***

Transactions in foreign currencies are converted into euros based on the exchange rates prevailing on the transaction date. Balance sheet accounts are converted at the closing rates and income statement data at the average rate.

As at 31 December 2007, there were no foreign currency transactions in the consolidated financial statements.

- ***Financial statements in foreign currencies***

Foreign currency assets and liabilities of Group companies, including goodwill and fair value adjustments on consolidation, are converted into euros at the closing rate prevailing as at the balance sheet date. Income and expenses of such companies are converted into euros at the average rate for the year. Exchange differences arising are taken directly to shareholders' equity.

At the balance sheet date, all subsidiaries were located in the Eurozone.

1.7 Intangible fixed assets

- ***Valuation of intangible fixed assets***

Intangible fixed assets are recorded at the acquisition cost. Operating permits acquired in conjunction with business combinations are stated at fair value as at the acquisition date based on a multiple of revenues.

Intangible fixed assets are not revalued thereafter. Most intangible fixed assets consist of operating permits, which have unlimited estimated useful lives and are not amortised. If applicable, an impairment provision is booked if their recoverable value is less than book value.

In France, while permits are granted for 15 years and the tripartite agreements are signed for 5 years, the permits are not amortised in the consolidated financial statements. This treatment is based on the fact that operating permits cannot in practice be withdrawn unless the Group does not comply with the conditions of the regulatory authorities applying to operating retirement homes, in particular compliance with minimum standards of care as checked by a compliance visit.

1.8 Tangible fixed assets

- ***Valuation of tangible fixed assets***

Tangible fixed assets are recorded at acquisition cost. Fixed assets acquired under a business combination are stated at fair value as at the acquisition date and are not revalued subsequently. At each balance sheet date, the value at acquisition cost is written down for the cumulative depreciation and any impairment provisions in accordance with IAS 36 'Asset impairment'.

The cost of borrowings used to finance fixed assets during the set-up or production period is not included in the cost of the fixed assets and is written off under expenses for the period.

- ***Components approach***

The principal components of a fixed asset with an estimated useful life lower than that of the principal fixed asset are identified and depreciated over their own useful lives. When the component is replaced, the expense of the new component is posted to fixed assets provided that economic benefits are still forecast from the principal asset.

- **Maintenance and repairs costs**

Recurring maintenance costs or costs that do not meet the criteria for the components method of accounting are expensed when incurred.

- **Construction work on leased buildings**

Construction work on buildings under operating leases is depreciated under the components approach over the estimated life of the asset.

- **Depreciation of tangible fixed assets**

Depreciation of tangible fixed assets is calculated under the straight line method over the estimated useful lives stated below. Land is not depreciated.

The estimated useful lives applied are as follows:

Categories	Estimated life	Method
Buildings	50 years	Straight line
Buildings components	Between 7 and 30 years	Straight line
Plant and machinery	Between 5 and 15 years	Straight line
Other fixtures and fittings	Between 3 and 5 years	Straight line
Medical equipment	Between 2 and 10 years	Straight line
Equipment and furniture	Between 2 and 10 years	Straight line
Software	1 year	Straight line
Vehicles	5 years	Straight line

- **Impairment of tangible fixed assets**

Tangible fixed assets are subject to impairment tests if there are signs of loss of value.

- **Investment grants**

Investment grants are deducted from the gross value of the corresponding investment and are reversed to income in parallel with the depreciation of the assets concerned.

1.9 Lease contracts

Fixed assets financed by finance leases, which transfer substantially all the risks and rewards of ownership to the Group, are recorded as assets at the lower of the leased asset's fair value and the discounted present value of the minimum lease payments under the lease. The corresponding liability is posted to borrowings on the balance sheet.

Lease payments are broken down between interest and repayment of the liability such that there is a constant interest rate applied to the remaining balance of the liability.

Assets held under finance leases are amortised over the useful lives as specified in the Group policies (see 'Depreciation of tangible fixed assets'). If there is an indication of loss in value, they undergo an impairment test in accordance with IAS 36 'Asset impairment'.

Leases under which the lessor retains substantially all risks and rewards of ownership of the asset are known as operating leases. Payments in respect of such leases are expenses on a straight line basis over the term of the lease.

1.10 Loss in value of intangible and tangible fixed assets

Book values of assets are reviewed at each balance sheet date in order to identify any loss in value in respect of:

- Non-depreciated intangible fixed assets: at each balance sheet date, or more often if there are indications of loss in value,
- All other assets: once an indication of loss in value appears.

Impairment tests are performed at least once a year in respect of assets with unlimited useful lives, which largely consist of operating permits and goodwill.

Depending on the type of fixed assets concerned, the test is performed either at the level of the CGU (i.e. intangible and tangible fixed assets excluding goodwill), or at the level of a group of CGUs.

CGUs are a group of similar assets the use of which generates cash receipts. The recoverable value of a CGU is based on the value in use. The value in use as applied by the Group corresponds to the value of the future economic benefits expected from their use and from their disposal. The calculation is based on the discounted present value of future cash flows of the CGUs or groups of CGUs, which in turn are based on economic assumptions and operating business forecasts prepared by Group management under the following main principles:

- Pre-tax cash flows come from the medium term business plan prepared by the financial controlling department and approved by the Supervisory Board,
- The discount rate is based on the Group's weighted average cost of capital. The average discount rate used is 6.60%.
- The terminal value is calculated as the present value of total cash flows to infinity, based on normal cash flows and a growth rate to infinity. The rate used is consistent with the potential growth of the markets in which the Group operates and with its competitive position on these markets. The average growth rate used is 2.50%.

Primary impairment tests:

Impairment tests on intangible and tangible fixed assets excluding goodwill are performed for each CGU.

Procedures for the primary impairment tests are designed to ensure that the recoverable value of the cash generating unit is at least equal to its net book value (i.e. the book value of permits plus book values of the tangible fixed assets). If there is a loss in value, an impairment charge is recorded under operating profits within "other operating income and expenses". This provision may be written back to income in later periods if the loss in value no longer applies.

Performance of secondary impairment tests:

Secondary impairment tests on goodwill are performed on groups of CGUs corresponding to operating segments (i.e. EHPAD, HEALTHCARE, Italy and Germany).

Such secondary impairment tests are designed to ensure that the recoverable value (i.e. the highest market value and value in use) broken down by segment is at least equal to the Group's consolidated net assets (including goodwill) by segment. If a loss in value is identified, an impairment provision is recorded in the first place as a deduction from goodwill (such impairment being irreversible) and thereafter, if the goodwill balance is insufficient, from the value of the permits.

1.11 Inventories and work in progress

Inventories are stated at the lower of cost and net realizable value.

The cost of inventories of raw materials, traded goods and other supplies consists of the purchase price less taxes and discounts obtained plus related costs such as freight, unloading, customs dues, purchase commissions etc.). These inventories are valued based on the FIFO method (first in first out).

1.12 Trade and other receivables

Trade and other receivables are stated at face value less any adjustments to value.

1.13 Financial assets

Financial assets include:

- Non-current: financial assets comprising equity shares in non-consolidated companies, related receivables, loans for construction, guarantees and deposits given,
- Current financial assets including financial instruments short-term derivatives, cash and cash equivalents (marketable securities).

- ***Initial valuation***

Financial assets are initially recorded at cost.

- **Classification and balance sheet valuation**

Financial assets (excluding hedging derivatives) are classified within one of the following four categories for purposes of balance sheet valuation:

Categories	Valuation	Accounting for changes in value
Financial assets stated at fair value	Fair value	Income
Loans and receivables	Cost less impairment	N/A
Assets available for sale	<u>General principle:</u> fair value, <u>Exception:</u> cost less impairment for equity instruments the fair value of which cannot be reliably estimated (e.g. shares not listed on an active market)	Shareholders' equity

- **Financial assets for which changes in fair value are recorded under income**

This category of assets includes:

- Assets held for trading purposes, i.e. acquired by the company to earn a short term profit,
- Derivative instruments not expressly classified as hedging instruments.

Marketable securities (e.g. SICAV, FCP etc.) are stated at fair value as at the balance sheet date and changes in fair value are posted to financial items and are therefore not subject to impairment tests. Fair values are largely based on quoted market prices.

- **Loans and receivables**

Loans and receivables make up most non-derivative financial assets; they are on fixed or potentially fixed payment terms and are not listed on an active market. The amortised cost of short-term receivables mostly corresponds to their historic cost.

In Korian Group this category covers related receivables, long-term loans and 1% mortgage loans (which are not material).

Most short-term receivables are stated at their nominal value.

- **Assets available for sale**

Non-consolidated equity investments are accounted for as securities available for sale and are therefore valued at recoverable value, while unrealized gains and losses are taken to shareholders' equity, with the exception of unrealized losses considered long term which are posted to the income statement. The net book value of such financial assets was deemed to

be representative of their fair value. Other assets available for sale are assets that have not been classified within one of the three other categories.

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

Cash and cash equivalents include bank accounts and short-term investments with maturities of less than three months from the acquisition date.

1.14 Derivative financial instruments

The Group uses derivative financial instruments (e.g. swaps and tunnels) to hedge against interest rate risks arising from its policy to raise finance at variable interest rates.

Derivative financial instruments are stated at fair value.

If the derivative is classified as a fair value hedge, changes in value of the derivative and of the hedged portion are posted to income over the same period. If the derivative is classified as a cash hedge, changes in value of the effective portion of the derivative are posted to shareholders' equity and transferred to income when the hedged portion is recorded under income. However changes in value of the ineffective portion of the derivative are taken to earnings.

1.15 Treasury shares

Treasury shares held by the Group are recorded at cost as a deduction from shareholders' equity until they are cancelled or sold.

Proceeds from sale of treasury shares are posted directly as an increase to shareholders' equity, such that gains or losses on sale and any impairment have no impact on consolidated earnings.

1.16 Staff benefits

In view of legal obligations and in accordance with current practice, the Group offers supplementary pension plans and other long-term benefits to its employees via defined subscription contribution schemes.

Under these defined subscription contribution schemes, the Group has no other obligations than the payment of the contributions to the schemes in question, which are expensed in the year of payment. Any contributions payable in respect of the year are accrued.

- **France**

- o **Retirement/severance compensation**

Retirement/severance compensation is based on the employees' collective bargaining agreement applicable in the Group (*Convention Collective Unifiée, C.C.U.*) and covers compensation payable on compulsory or voluntary retirement of the employees.

Retirement/severance compensation is linked to the defined contributions scheme.

- **Long service medals (or seniority bonuses)**

The long service medals that may be specified under company workers' agreements represent additional bonuses paid to employees who have worked for their company for a given number of years.

- **Supplementary pension schemes**

The Group has not granted employees any supplementary pension schemes in addition to the minimum statutory pension.

Pension and post-retirement commitments arising from defined subscription benefit schemes, which only relate to retirement commitments, are accrued by a provision based on an actuarial calculation at least once a year performed by an independent actuary, applying the projected units of credit method; under this method each period of service gives rise to an additional unit of entitlements, and each unit is valued separately to arrive at the liability owing to employees.

The calculations take account of the specific features of the various schemes and assumptions relating to retirement dates, career changes and salary increases, the probability of employees still working in the Group at retirement age (based on staff turnover, mortality tables etc.). The liability is discounted to present value based on the interest rates of bonds from top-ranking issuers.

The liability is stated after deducting any pension scheme assets valued at fair value.

Actuarial gains and losses arising from changes in assumptions on the schemes' assets or liabilities are posted to income in accordance with the corridor method specified under IAS 19 '*Staff benefits*'. Such gains and losses are amortised over the forecast remaining service of the employees in respect of any portion exceeding 10% of the higher of the following values:

- Present value of the liability as at the balance sheet date,
- Fair value of the scheme assets as at the balance sheet date.

For purposes of the IFRS opening balance sheet as at 1 January 2004, Korian Group has adopted the option under IFRS 1 to deduct all actuarial differences at such date from shareholders' equity.

Expenses net of retirement and similar benefits are included in operating profit for the year except in respect of the discounting expense of the commitments which is posted to financial items.

- **Italy**

In accordance with Italian legislation, the Group sets aside provisions for employee obligations relating to an annual employer's contribution to an 'indemnity' fund known as 'TFR' (Trattamento di Fine Rapporto), which is made every year based on employee remuneration paid in the same year and accrued in the balance sheet as a provision for charges. Such provision can be reversed when the employee leaves the company due to resignation, redundancy or retirement.

This provision was calculated in accordance with IAS 19.

- Germany

Under German legislation, the Group does not have any material retirement liabilities.

1.17 Other provisions

A provision is set aside whenever the Group has a current legal or implicit obligation as at the balance sheet date of the period, and it is probable that the Group will spend resources representative of future economic benefits to meet this obligation.

Provisions are discounted to present value if the impact of time is significant. Increases in the provision due to the passing of time are posted to financial expense.

With regard to restructuring, a provision can only be set aside if the restructuring has been announced and there is a detailed plan or restructuring has begun as of the balance sheet date.

Litigation (e.g. employee industrial tribunals, tax audits, commercial disputes etc.) are accrued if the Group has a liability towards a third party as at the balance sheet date. The amount of the provision reflects the best estimate of future expenditure.

1.18 Share-based payments

Stock options granted to employees must be stated at fair value, which must be posted to the income statement for the period when the employee rights are vested. The fair value of the options is generally established by using an adapted valuation model based on assumptions established by management.

On 21 June 2007, the Group Management Board decided to establish a *Plan d'Attribution Gratuite d'Actions* (bonus share plan – 'PAGA') designed for certain Group employees. Pursuant to IFRS2, remuneration in the form of equity instruments must be posted to expenses over the vesting period of three years. The plan involves 138,433 bonus shares, or 0.5% of the share capital. The bonus shares were issued on 27 August 2007, with a vesting period of three years (vested as of 27 August 2010). The shares involve a lock-in period of two years following the acquisition date.

The value of the benefit for the employee is equal to the market value of the share received less the value of not receiving dividends during the vesting period and the cost of having control over the shares for two years following the vesting date. The total charge is then calculated taking account of the probability of employees still working for the Group and the likely number of shares that will be earned based on achievement of performance criteria.

As well as this decision, on 21 June 2007 the Group Management board also decided to establish a stock option plan designed for certain Group employees. The plan involves 121,000 stock options, which were allocated to Group employees on 28 August 2007 with a vesting period of two years (vested as of 28 August 2009). The shares involve a lock-in period of two years following the acquisition date. The valuation policies and criteria are identical to the bonus share plan (PAGA) described above.

The employer's contribution established in 2006 on behalf of employees who acquire Korian shares continued in 2007.

1.19 Interest-bearing loans

Interest bearing loans are recorded at fair value less related transaction costs comprising loan issue premiums and expenses, which are included in the calculation of the cost less amortisation in accordance with the effective interest rate method.

At each balance sheet date, borrowings are valued at cost less repayments in accordance with the effective interest rate method.

Loans are broken down between:

- current liabilities in respect of the portion payable within twelve months following the balance sheet date,
- and non-current liabilities in respect of the portion payable in more than twelve months.

1.20 Sales options granted to minority shareholders

Interests held by third party minority shareholders which the Group has undertaken to purchase are reported within borrowings at the option exercise price.

The difference between the option exercise price and the historic value of the minority interests is posted to goodwill, which is adjusted as at each period end depending on the change in the option exercise price and the book value of the minority interests.

The Group has embarked upon buying out the minority interests who in return have embarked upon selling:

- In Italy, 7.07% within 30 days following approval of the 2012 financial statements.
- In Germany, 7.50% by the balance sheet date of the 5th financial year following the acquisition.

Such commitments will be valued at the same time as the final valuation of the goodwill.

1.21 Trade payables

Trade and other payables are stated at face value.

1.22 Tax

Deferred tax is recorded under the liability method in respect of timing differences as at the balance sheet date between the tax value of assets and liabilities and their book value, and for tax losses. No deferred tax is recorded for goodwill.

Deferred tax assets are recorded insofar as it is probable that the Group will have sufficient future taxable income to be offset against the unrelieved tax losses.

Most of the Group's deferred taxes arise from the consolidation of acquired companies, in particular operating permits included within intangible fixed assets.

Deferred tax assets and liabilities are valued at the forecast tax rate applying in the year when the asset will be realized or the liability will be paid, based on the tax rates (and tax regulations) that have been adopted or virtually adopted as the balance sheet date.

Deferred tax is calculated for each entity separately. Deferred tax assets and liabilities are offset if the tax is payable to the same tax authority and they relate to the same taxable entity (i.e. a tax group).

Deferred and current taxes are accounted for as income or expense in the income statement unless they relate to a transaction or an event which is posted directly to shareholders' equity.

Deferred taxes are reported on specific balance sheet lines within non-current assets and non-current liabilities.

1.23 Revenues

Revenues are largely earned from accommodation and care services provided to residents whatever the source of payment.

Revenue is recognized in proportion to the performance of the services.

Allowances received under tripartite agreements are also included under revenues.

Since the amendment decree dated 7 April 2006, when submitting the application accounts it is possible to allocate any excess care allowances to a compensation reserve, thereby resulting in income for the company.

Given that the 2007 application accounts are submitted at the end of April 2008, with regard to the balance sheet date, KORIAN recorded the entire income under revenues together with a provision amounting to 50% of the excess for the risk the regulatory authorities may tax this income.

1.24 Calculation of underlying operating profit / operating income

The income statement is presented under the type of expenditure format.

The underlying operating income represents the excess of pre-tax income over costs before:

- Other income and expenses, including goodwill impairment,
- Financial items,
- Earnings from associated companies,
- Group share of joint ventures with non-consolidated companies
- Earnings from discontinued activities or in the process of termination.

Employee profit share is included under personnel costs.

Operating income is based on underlying operating profit, adjusted for (i) other operating income and expenses, and (ii) other unusual or rare income and expenses, namely:

- Goodwill impairment following impairment tests in accordance with IAS 36,
- Restructuring costs or expenses arising from material changes in headcount following major events or decisions,
- Capital gains or losses on sale,
- Significant income and expenses from litigation, or major deployment operations or capital transactions (e.g. start-up costs for a new business etc.).

1.25 Earnings per share

Earnings per share are calculated by dividing Group consolidated net profit by the weighted average number of shares in circulation during the year.

Diluted earnings per share are calculated under the assumption that all existing stock options will be exercised and through applying the share buyback method specified under IAS 33 *Earnings per share*.

1.26 Operating segments

The Group has opted to implement IFRS 8 in advance.

IFRS 8 'Operating segments' takes effect as from 1 January 2009, but may be implemented early as from 2007.

IFRS 8 supersedes IAS 14 'Segment Information' and requires disclosure of segment information based on a breakdown reflecting the Group management's operating segments.

Such operating segments are identified based on internal reports that Group management regularly reviews for decisions to allocate resources to segments and when assessing results.

This 'management approach' differs from that of IAS 14, which requires disclosure of segment information according to two business and geographic segments and also that the key items of the financial statements be broken down between such segments.

The impact of implementing IFRS 8 in advance on segment information presented by the Group is as follows:

- The operating segments presented correspond to the business divisions the results of which are monitored by Group management
- Previously, for purposes of IAS 14, segment information presented adopted a balance sheet approach; the impact of implementing IFRS8 is to present segment information in line with the internal reports used to manage the Group, which do not include balance sheet-based segments.
- The disclosed indicators are those monitored by Group operational management including revenues and EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization and Rent).

A segment is a distinct part of the Group, which provides products or services (i.e. an operating segment) or provides products or services within a specific economic environment (i.e. a geographical segment), and with risks and margins different from the risks and margins of other segments.

The Group's operating segments are as follows:

- France: the medical-welfare business, consisting largely of EHPAD/ retirement homes,
- France: the healthcare business, including follow-up care, rehabilitation, psychiatry and home care activities,
- Italy,
- Germany

1.27 Discontinued activities

In accordance with IFRS 5, discontinued activities classified as held for sale are stated at fair value less selling costs.

Following a strategic review of the portfolio conducted in 2007, the Group decided in December 2007 to pull out of the Belgian market and to sell its Belgian-based businesses. In accordance with IFRS, the three Belgian entities are not deemed to be discontinued activities in the 2007 financial statements and are therefore disclosed as such in the balance sheet and income statement. Following a decision taken by the Supervisory Board, a firm was engaged to find a buyer and potential buyers were identified. The Belgian partner was notified of the sale and there is no contractual agreement that would prevent a sale or render it improbable within the coming year. The sale is expected to be completed prior to the end of the third quarter 2008.

Furthermore, after 18 months of testing, general management decided to terminate the Korian Services business due to inadequate earnings. This decision was confirmed by the Supervisory Board.

The earnings of the discontinued activities correspond to the post-tax gain/loss of the discontinued activities. Post-tax earnings of the discontinued activities break down as follows:

- Total income amounts to € 6,671,000
- Total costs amount to € 9,500,000
- Loss after tax for the year amounts to € -2,829,000

Cash flows of the discontinued activities break down as follows:

- Cash flows from operating activities of € 1,500,000
- Cash flows from investing activities of € -1,651,000
- Cash flows from financing activities of € 2,000

Note 2 – Highlights for the year

Putting into practice the European expansion policy announced during the initial public offering

In addition to the acquisitions in France specified under note 3, the Group made the following acquisitions abroad in 2007.

Italy:

Having reviewed several potential deals in Italy, in April 2007 Korian announced it had signed a firm agreement to acquire a 92.93% stake in Segesta, the second largest private operator of old people's homes in Italy, with local management retaining the balance of the equity.

Segesta managed 909 beds in 2006 and had permits for three new homes amounting to 364 additional beds which will open in 2007 and 2008. Since the acquisition of Segesta, two new homes have been opened increasing the total number of beds under management to 1,149. The third home will open in Milan in the second quarter of 2008.

This acquisition meets all the criteria to ensure that Korian can build on its platform of development. Segesta was rapidly integrated enabling the Group to complete two new acquisitions in Rome and Florence towards the end of the third quarter, amounting to nearly 500 additional beds, including around 100 which are currently being restructured.

Germany

Korian pursued its deployment in Europe with a major acquisition in Germany: in mid-August the Group signed an agreement to acquire a 92.5% stake in Phönix, a company based in Bavaria that operates nearly 3,000 beds, with the management retaining the remaining equity.

Decision to pull out of the Belgian market

Korian's development strategy is largely based on its capacity to be a leading player on each of its markets. Since the Saint Augustin home (EHPAD 96 beds) opened in January 2007 in Brussels, Korian operates three homes in Belgium with a total of 280 beds.

Following the strategic review of the portfolio in 2007, in December 2007 the Group decided to pull out of the Belgian market and to sell its Belgian-based businesses. In accordance with IFRS, the three Belgian entities are deemed to be discontinued activities in the 2007 financial statements and are therefore disclosed as such in the balance sheet and income statement.

Note 3 – Consolidation scope and effect of acquisitions during the year

Consolidation scope

As at 31 December 2007, the consolidation covers Korian SA, the parent company, 221 fully consolidated subsidiaries (158 in 2006) and 7 companies consolidated under the proportional method (18 in 2006).

While pursuing its European policy, the Group continued to grow all its medical-welfare and healthcare divisions in France by selecting planned acquisitions or planned creation of new homes based on their consistency with the Group's existing network and their potential contribution to creating and strengthening the Group's local networks of old people's homes:

- **Organic growth**
 - o In June 2007 a 'Parents' residence (EHPAD with 95 beds) opened in Marseille
- **Acquisitions**
 - o Acquisition in February 2007 of the entire equity of the nursing home Hotelia Meudon, which was previously a franchisee of the Group, with 102 beds,
 - o Acquisition in February 2007 of the entire equity of the SSR clinic of Oregon, located in Civray (80 beds);
 - o Acquisition in April 2007 by Financière Sinoué, a 40%-owned associated company, of the entire equity of Le Coteau psychiatric clinic located in Grenoble (96 beds);
 - o Acquisition in April 2007 of the entire equity of Saint Come SSR clinic, located in Juvisy (89 beds);
 - o Acquisition in June 2007 of the entire equity of Perier nursing home located in Marseille (95 beds);
 - o Acquisition in June 2007 of the entire equity of Montmorency nursing home located in Carcassonne (68 beds);
 - o Acquisition in October 2007 of a 93.32% equity stake in Les Meunières nursing home located in Lunel (103 beds);

The principal acquisitions during the year concerned Italian group Segesta in June 2007 and German group Phönix in October 2007.

The Group purchased a 92.5% equity stake in Phönix for € 80,037,000 and a 92.93% equity stake in Segesta for € 80,581,000.

Early in October 2007, Segesta also acquired a 66.66% equity stake in three legal entities owned by Cofisan for € 15,298,000, which covers the fixed price plus net cash position plus an estimate of the variable part of the price plus acquisition costs, as follows :

- Airone Gestioni Sanitarie s.r.l. that changed its name to Airone,
- Albatros Gestioni Sanitarie s.r.l. that changed its name to Albatros,
- Gabbiano Gestioni Sanitarie s.r.l. that changed its name to Gabbiano.

In September 2007, Segesta also purchased an 86.37% equity stake in Villa Delle Terme for € 25,407,000 (enterprise value less net cash position (NCP) plus acquisition costs). The net cash is equal to total cash less bank liabilities, plus financial assets and less borrowings, less trade payables with maturities of over 180 days (-), less any forward liability contracts such as derivatives and related, and less overdue tax and social security liabilities with late-payment penalties and interest until the date stated on the final contract net of any firm receivables that can be offset against such liabilities. The NCP of the contract has to be valued as at the last day of the month preceding the final contract and is calculated based on

the cumulative pro forma net assets of the companies as at 31.08.2007. The amount has not yet been agreed between the parties.

These two transactions led to goodwill within the Italian sub-group amounting to € 32,585,000.

Given that the acquisition date is close to the balance sheet date, the amounts for goodwill in the books of Korian SA with respect to Italy and Germany, provisionally estimated at € 75,322,000 and € 76,599,000 respectively, are currently pending approval for allocation.

Purchase price of the shares

€ 000	Price of shares	Acquisition costs	Total
Hotelia Meudon	13,995	60	14,055
Clinique de l'Oregon	8,779	101	8,879
Clinique psychiatrique du Coteau	5,678		5,678
Clinique de Saint Come	13,562	151	13,713
Résidence Périer	4,703	73	4,776
Périer Retraite	3,165	84	3,250
L'Âge d'Or	15,177	74	15,251
Le Château	1,161	67	1,228
Résidence Les Meunières - Lunel	4,202	85	4,288
Segesta	78,861	1,720	80,581
Cofisan	14,974	324	15,298
Villa Delle Terme	25,107	300	25,407
Phönix	78,035	2,002	80,037
Bastide de Jardin	855		855
Résidence du Canal - Villa les Fleurs	2,798		2,798
Les Issambres	1,248		1,248
Clinique de Garches	1,810		1,810
Other	1,448		1,448
Total	275,558	5,041	280,599

- Settlement of the lawsuit brought by DomusVi relating to the scope of Mieux Vivre

Please note that SAS Holding Mieux Vivre, in which Korian holds a 50% equity stake together with the company DomusVi, operated 13 retirement homes amounting to a total of 1,081 beds. On an operational level, 6 homes were managed by Korian and the 7 others by DomusVi. In 2006, SAS Holding Mieux Vivre posted revenues of € 35.7 million and EBITDA of € 4.7 million.

Following Korian's merger via absorption with Medidep, which was completed on 28 November 2006, DomusVi contested Korian's capacity as shareholder of Holding Mieux Vivre for an alleged breach by Medidep and Korian SA of the articles of association.

In order to reach an amicable settlement to this dispute, DomusVi and Korian undertook negotiations resulting in an agreement being signed early in July 2007, which put an end to this lawsuit. Under this agreement, each party has purchased the homes that it was directly operating. Korian therefore assumed 6 homes with 484 beds and DomusVi 7 homes with 597 beds. In addition, in exchange for the difference in value between the assets received by each party, Korian SA received a balancing payment of € 14 million.

With regard to the consolidation, this transaction represents a business combination in steps. In accordance with IFRS 3, the assets, liabilities and identifiable contingent liabilities of the businesses acquired have been restated at fair value as of the transaction date for purposes of calculating the related goodwill.

Consequently, the impact of the fair value adjustments as at the acquisition date were in part posted to goodwill (in respect of the Group share acquired) and in part to shareholders' equity (in respect of the Group share held prior to the acquisition date). For accounting purposes, the disposal of the homes assumed by DomusVi results in a non-recurring gain on sale of € 984,000.

Impact of acquisitions and sales of subsidiaries

Purchase/sale price of subsidiaries [A]	280,599
Of which amount paid /received [B]	277,125
Debt contracted [C]=[A]-[B]	3,474
Sale price [D]	19,998
Cash acquired [E]	20,523
Cash sold [F]	-212
Impact of change in consolidation [G]=[E-F-B+D]	-236,392

The value of assets and liabilities, other than cash and cash equivalents, of the acquired subsidiaries during the year breaks down as follows:

€000	Total changes in consolidation	
	Assets	Liabilities
Fixed assets	44,035	
Inventories	1,232	
Trade receivables	35,515	
Other receivables	14,862	
Prepaid expenses/ accrued income	1,469	
Shareholders' equity		8,235
Provisions for risks & charges		6,967
Borrowings		30,108
Trade payables		31,333
Other liabilities		39,664
Other accrued expenses		1,329

The impact of acquisitions carried out during 2007 on revenues and consolidated net profit on a full year basis is as follows:

€000	Full year basis	Impact since takeover	Full year basis	Impact since takeover
	Consolidated revenues	Consolidated revenues	Consolidated net profit	Consolidated net profit
Total acquisitions	180,375	66,678	3,408	2

Note 4 – Goodwill

€000	31.12.07	31.12.06
Gross goodwill brought forward	410,925	359,885
Change in consolidation scope	228,431	49,914
Sales	-9,750	
Additions to the price	251	1,226
Sale option		-99
Other reclassifications	0	
Gross goodwill carried forward	629,857	410,925
Impairment brought forward		
Impairment for the year		
Impairment carried forward	0	0
Net goodwill brought forward	410,925	359,885
Assets held for sale	2,801	
Net goodwill carried forward	627,056	410,925

Changes in goodwill are broken down as follows:

- France:
 - SSR: € 13,332,000
 - EHPAD: € 30,593,000
- Italy: € 107,907,000 (of which Italian sub-group: € 32,585,000)
- Germany: € 76,599,000

Impairment tests were carried out applying the method as specified under note 1.10 'Loss in value of intangible and tangible fixed assets'.

These tests did not identify any impairment on these assets either in relation to the operating permits or the goodwill.

Sensitivity of the result of the secondary level test to changes in assumptions		Rate of growth to infinity		
Cash flow discounting rate	Difference between total enterprise value (DCF method) and consolidated net assets	1.50%	2.50%	3.50%
	5.60%	633,878	1,094,275	1,993,146
	6.60%	293,422	560,389	999,593
	7.60%	64,792	236,044	490,834

Note 5 – Intangible fixed assets

€000	Permits	Other	Total
Gross brought forward	499,475	6,036	505,511
Changes in consolidation	29,718	3,126	32,844
Sales	-3,145	-363	-3,508
Acquisitions	57	3,093	3,151
Transfers	-110	-1,074	-1,184
Assets held for sale	5,517		5,517
Gross carried forward	520,477	10,819	531,296
Cumulative amortization brought forward		2,829	2,829
Changes in consolidation		2,763	2,763
Sales		-653	-653
Acquisitions		1,335	1,335
Transfers		-1	-1
Cumulative amortization carried forward	0	6,273	6,273
Net book value brought forward	499,475	3,207	502,682
Assets held for sale	5,517		5,517
Net book value carried forward	520,478	4,545	525,023

The principal changes in permits arose due to the following changes in consolidation scope:

- France:
 - SSR: € 14,955,000
 - EHPAD: € 14,312,000

Note 6 – Tangible fixed assets

€000	Land	Buildings	Plant & machinery	Other	In progress and advance payments	Total
Gross brought forward	14,110	122,406	32,661	107,635	36,137	312,949
Changes in consolidation	-283	28,728	10,172	27,163	754	66,533
Sales	-1,147	-10,664	-5,472	-8,096	-740	-26,120
Acquisitions	958	9,857	3,323	14,651	35,731	64,520
Transfers	182	16,244	175	2,921	-19,718	-196
Gross carried forward	13,820	166,570	40,859	144,274	52,163	417,686
Depreciation brought forward	238	35,733	21,798	53,922	0	111,690
Changes in consolidation	-2	7,744	5,586	14,708		28,036
Charges for the year	23	7,351	3,895	9,872		21,142
Sales	-19	-5,322	-5,266	-7,091		-17,699
Other		25	25	-51		-2
Depreciation carried forward	240	45,531	26,037	71,360	0	143,168
Net book value brought forward	13,872	86,674	10,863	53,713	36,137	201,259
Assets held for sale			427	241		668
Net book value carried forward	13,580	121,040	14,394	72,672	52,163	273,849

The gross value of fixed assets held under finance leases is € 43,970,000 and the net book value € 25,580,000 as at 31 December 2007.

Acquisitions of tangible fixed assets (including fixed assets in progress: € 35 million) concern principally the following establishments:

- **In relation to fixed assets in progress:**

- Vaucresson: Construction of an EHPAD with 92 beds. The work in the year amounted to € 8.2 million;
- Montpellier: extension work and restructuring of an EHPAD amounting to € 6.9 million;
- Equeurdreville: Construction of an EHPAD with 80 beds amounting to € 1.7 million;
- Fondettes: Construction of an EHPAD with 85 beds (transfer of the homes Le Coteau and Les Glycines) amounting to € 1.1 million;
- Ophéliades Château Gombert: restructuring work amounting to € 1 million;
- Perriers sur Andelle: Construction of an EHPAD with 69 beds, for the transfer of the home Château de Calyste amounting to € 0.9 million.

- **In relation to effective acquisitions of fixed assets:**

- Segesta: Development of the Italian platform amounting to € 6.9 million;
- Sartrouville: Acquisition of the property of the Sartrouville home for € 3.7 million;
- Horizon 33: Extension work on the home (16 beds) of € 2.3 million;
- SCI La Source: Construction of an EHPAD with 59 beds for € 2 million;
- Les Tilleuls: Extension work (40 beds) amounting to € 1.6 million;
- Pau: Extension and restructuring work on an EHPAD of € 1.3 million;
- Le Petit Castel: Extension work on an EHPAD (48 beds), following the transfer of Montbazou amounting to € 1.2 million;
- Korian head office: Purchase of IT equipment and head office fixtures and fittings amounting to € 1.2 million;
- Immobilière Janin: Extension and renovation work on the EHPAD Louviers of € 1.1 million.
- Home Saint Gabriel: Reconstruction work on the same land of an EHPAD with 130 beds amounting to € 1 million;
- Montpellier: Extension and restructuring work on an EHPAD amounting to € 1 million;
- Thalatta: Extension work on the home (40 beds) of € 0.9 million;
- Mont Blanc: Construction work on the Aravis home of € 0.7 million.

Note 7 – Long-term investments

- **Change**

€000	Gross	Impairment	Net
Balance brought forward	15,551	409	15,142
Additions	1,681	9	1,672
Repayments	-1,090	-22	-1,068
Changes in consolidation	629	13	616
Other movements	-1,115	0	-1,115
Balance carried forward	15,656	409	15,247

- Analysis

Investments held for sale				31.12.07	31.12.06
Company	% interest	Gross	Impairment	Net	Net
Korian Services *					37
Vepeza *					44
Neovacs	3%	192	192		
SCI Santé Immo 37	8%	31	31		
SCI Ymare	10%	137		137	137
SCI Meunières	6%	11		11	
Other		22		22	48
Total investments held for sale		393	223	170	266

Other non-current financial assets		31.12.07	31.12.06
Guarantee deposits		14,599	12,741
Loans			863
Other long-term securities		478	1,104
Other			168
Total other non-current financial assets		15,077	14,876

Total long-term investments		15,247	15,142
------------------------------------	--	---------------	---------------

* Vepeza consolidated under the proportional method and Korian Services under the full consolidation method and allocated to "operation held for sale and discontinued operations" as at 31/12/2007.

Note 8 - Inventories

€000	31.12.07	31.12.06
Gross	3,123	1,716
Impairment		0
Assets held for sale	2	
Net	3,121	1,716

Note 9 – Trade receivables

€000	31.12.07	31.12.06
Gross	80,916	43,871
Impairment	-5,363	-3,743
Assets held for sale	432	
Net *	75,121	40,128

* Including € 27,598,000 in respect of the Italian business.

Note 10 – Other receivables and current investments

€000	31.12.07	31.12.06
Tax receivables	16,281	18,297
Social security receivables	1,634	1,079
Payments on account and in advance	1,935	1,110
Prepaid expenses	5,527	3,067
Other receivables	34,444	16,563
Other assets held for sale	89	
Other receivables	59,733	40,116

€000	31.12.07	31.12.06
Loans, deposits and guarantees	508	33
Financial instruments - assets	13,284	7,088
Other long term investments	18	139
Assets held for sale		
Other current investments	13,810	7,260

Total of other current investments (net)	73,543	47,376
---	---------------	---------------

Note 11 - Cash and cash equivalents

€000	31.12.07	31.12.06
Marketable securities	3,013	5,676
Cash	67,557	20,930
Assets held for sale	382	
Total	70,188	26,606

The marketable securities comprise term deposits or monetary euro unit trusts (SICAV), which pursuant to IAS 7.6 criteria are reported as highly liquid short-term investments which can be easily converted into a known amount of cash and are subject to negligible risk of value fluctuation.

Note 12 – Earnings per share

	31.12.07	31.12.06
Net profit Group share (€000)	23,128	19,702
Weighted average number of shares (thousands)	27,687	47,068
Earnings per share (€)	0.84	0.42
Net profit Group share (€000)	23,128	19,702
Weighted average number of shares (thousands)	27,687	47,068
Stock option adjustments	90	
Average number of shares for calculation of diluted earnings per share	27,777	47,068
Diluted earnings per share (€)	0.83	0.42

Note 13 - Hedging instruments

Korian Group uses derivative financial instruments as protection against changes in interest rates, given that most borrowings are taken out at variable rates. The Group does not classify such instruments as hedges for accounting purposes and records changes in value of the derivative financial instruments under income.

As at 31 December 2007, the market value of these interest rate hedging instruments (assets) was € 11,035,000 and the change in value posted directly to income amounted to a gain of € 5,978,000.

- Values of hedging instruments

€ 000	31.12.07	31.12.06
Notional value	457,634	403,262
Market Value	11,035	5,057

Assets	31.12.06	Additions	Change	31.12.07
Options	563		1,496	2,059
Interest rate swaps	6,525	77	4,623	11,225
Total hedging instruments - Assets	7,088	77	6,119	13,284
Liabilities	31.12.06	Additions	Change	31.12.07
Interest rate swaps	1,733	304	-805	1,232
Options	55		1,189	1,244
High ranking tunnels	243		-243	0
Total hedging instruments - Liabilities	2,031	304	141	2,476
Net total	5,057	-226	5,978	10,808

Note 14 - Borrowings

- Net debt (current / non-current)

Net debt (current / non-current)

	31.12.07	31.12.06
Loans with financial institutions	587,919	283,287
Finance lease liabilities	13,778	8,918
Employee profit share	27	23
LT deposits and guarantees		
Other sundry borrowings	3,566	1,395
Liabilities held for sale	372	
Long term borrowings	604,919	293,623
ST loans with financial institutions	5,186	1,091
ST finance lease liabilities	2,376	2,134
ST residents' deposits	20,246	18,444
ST sundry borrowings	0	
Bank overdrafts	20,252	10,333
ST other sundry borrowings	265	796
ST commitments to buy out minority interests	1,174	1,176
Liabilities held for sale	1,103	
Short term borrowings	48,397	33,974
Fair value of hedging instruments	2,475	2,030
Borrowings	655,791	329,627
Marketable securities	3,013	5,676
Cash	67,557	20,930
Assets held for sale	382	
Cash and cash equivalents	70,188	26,606
Financial instruments - Assets	13,284	7,088
Net cash and cash equivalents	572,319	295,933

Breakdown of borrowings by interest rate category

€000	%	31.12.07	31.12.06
Fixed rate	4%	29,041	27,934
Variable rate	96%	626,749	301,694
Total	100%	655,791	329,628

Breakdown of borrowings by maturity

	31.12.07	31.12.06
Less than one year	44,975	36,004
One to five years	571,716	284,676
More than five years	39,100	8,949
Total	655,791	329,628

Change in loans

	31.12.06	New loans	Loan repayments	Change in consolidation	Change in value of fin. Instruments	Other	31.12.07
Loans	295,430	299,038	-11,862	25,863		789	609,258
Deposits and guarantees received	18,444	6,595	-5,460	483		185	20,246
Employee profit sharing	23					4	27
Other loans and related liabilities	2,718	11	-763	3,722		-681	5,006
Financial instruments - liabilities	2,030			304	141		2,475
Other borrowings	649					-649	
Liabilities held for sale						1,475	1,475
Total loans	319,294	305,643	-18,085	30,372	141	-1,827	635,538
Of which non-current	293,623	298,544	-5,233	22,108		-4,124	604,919
Of which current	25,671	7,100	-12,853	8,264	141	2,297	30,619

Change in debt as at 31 December 2007

On 23 November 2006, Korian contracted a 5-year loan with the banks BNP Paribas, Calyon and CIC, with a view to refinancing the Group's existing debt, to finance its general funding requirements and for purposes of mergers and acquisitions. This refinancing became necessary following the almost € 152 million capital increase in late 2006.

The total credit facility, which is capped at € 500 million and repayable at term, breaks down into two tranches as follows:

- Tranche A designed to refinance the previous credit. After completion of the capital increase, tranche A amounts to total principal of € 270 million
- Tranche B, a medium-term revolving credit of € 230 million, being the difference between the maximum of € 500 million and the principal amount of tranche A

On 31 July 2007, Korian signed an amendment to the credit agreement providing for an additional € 150 million, thereby increasing the maximum amount under tranche A to € 380 million and the maximum amount for the entire credit to € 650 million.

The interest rate applicable to both tranches of the credit is based on EURIBOR in respect of the interest period in question (one, two or six months at the discretion of the borrower) plus an applicable margin.

The margin applying at the date of signature is 0.80%. Thereafter the margin will be based on the debt ratio as follows:

- 0.60% if the debt ratio is lower than or equal to 3.5
- 0.80% if the ratio lies between 3.5 and 4.5
- 1% if the ratio lies between 4.5 and 5
- 1.3% if the ratio lies between 5 and 5.5
- 1.4% if the ratio lies between 5.5 and 6
- 1.5% if the ratio exceeds 6

The debt ratio is defined as consolidated net debt divided by consolidated EBITDA where:

Consolidated EBITDA represents consolidated operating profit for the year in question as specified by the General Chart of Accounts:

- less charges for the year in respect of employee profit sharing and incentives if not already included in the calculation of operating profit;
- plus depreciation and provision charges net of write-backs included in the calculation of operating profit;
- plus non-cash other expenses and less non-cash other income included in the calculation of operating profit;
- plus dividends received from companies not consolidated under the full consolidation method.

'Consolidated net debt' is the difference between (1) and (2), where:

(1) refers to debt, being (i) all loans and related borrowings falling due in less and more than one year, represented by bonds and bank debt (including bank overdrafts and the capital portion of finance leases and related liabilities, discounted bills of exchange, factoring and 'Daily' assignments), (ii) vendor credits and (iii) all payables in respect of exchange notes, treasury bills or equivalent instruments;

(2) refers to cash and cash equivalents, being the sum of (a) cash and (b) positive bank balances plus marketable securities.

As at 31 December 2007, the Group was in compliance with the consolidated net debt / EBITDA ratio.

The principal cases of early repayment are as follows:

- If Batipart were to hold a direct or indirect interest of less than 33.34% in Korian's equity or voting rights (after any dilution), or if another shareholder (other than Predica and ACM Vie) were to hold a direct or indirect interest of more than 33.32% in Korian's equity and/or voting rights;
- Sale of assets (excluding real estate) representing over 20% of consolidated EBITDA;
- Non-payment on the due date of any amount in respect of the financing documents owed by the relevant borrower;
- Payment default or repeated non-compliance with any one of the commitments or liabilities in respect of the financing documents;
- Material inaccuracy in a declaration or in a guarantee;
- Debt ratio exceeding 6 and lower than 6.5 as of two consecutive review dates;
- Debt ratio exceeding 6.5 as of one review date;
- Payment default of one or more commercial payables exceeding € 10 million, unless opposition has been filed in good faith;
- Payment default of cumulative borrowings exceeding € 5,000,000 by a Korian Group company;
- Payment default of any amount due to the French Treasury exceeding € 300,000, unless opposition has been filed in good faith, and failure to execute a court decision amounting to more than € 300,000;
- Any 'material adverse event', unless it has been remedied within 30 working days from the date of the event, it being understood that such an event is defined as any fact or event of any kind, cause or origin, which has a significant adverse impact on the assets or business of a Korian Group company insofar as it immediately affects or in the future will affect the borrower's capacity to meet its commitments or liabilities in respect of the financing documents;
- Unjustified qualification in the auditors' reports;
- Launch of collective legal proceedings against Korian or against a major subsidiary.

During 2007, Korian drew € 260 million of tranche B of the syndicated credit contracted at the end of 2006 amounting to a maximum total of € 650 million.

The cumulative total amount drawn on this syndicated credit was therefore € 530 million as at 31 December 2007 and there remained € 120 million available under tranche B.

On 27 September 2007, Segesta, the Group's Italian subsidiary signed two credit agreements to finance the acquisition of Villa Del Terme and Cofisan for a total of € 35.5 million.

Interest sensitivity analysis

€000	Benchmark: EURIBOR 3 months		
	3.64%	4.64%	5.64%
Impact on interest expense before hedging	-6,060,954	0	+6,060,954
Impact on interest expense after hedging	-1,222,476	0	+962,832

Note 15 – Pension and retirement provisions

	31.12.07	31.12.06
Pension commitments France	(6,437)	(6,268)
Pension commitments International	(5,014)	
Total	(11,451)	(6,268)
Change in pension commitments France		
	31.12.07	31.12.06
Commitments brought forward	(7,280)	(6,407)
Additions	(353)	(176)
Transfers out		
Cost of services rendered (normal cost)	(768)	(689)
Interest cost	(328)	(252)
Actuarial gains and losses	647	(126)
Pensions paid out	494	252
Change in consolidation scope		115
Other movements	805	2
Commitments carried forward	(6,783)	(7,280)
Réconciliation of commitments with the provision		
	31.12.07	31.12.06
Net commitments	(6,783)	(7,280)
Balance of unrealized actuarial (gains) /losses	346	1,012
Other		
Provision carried forward	(6,437)	(6,268)
Breakdown of pension charge for the year		
	31.12.07	31.12.06
Cost of services rendered (normal cost)	(768)	(689)
Interest cost	(328)	(252)
Amortization of actuarial (gains)/ losses	(49)	(33)
Other	83	2
Pension expense	(1,062)	(972)
Change in provision		
	31.12.07	31.12.06
Provision brought forward	(6,268)	(5,606)
Charge for the year	(1,062)	(972)
Pensions or contributions paid by the employer	494	252
Change in consolidation	(353)	(176)
Other	752	234
Provision carried forward	(6,437)	(6,268)
Key actuarial assumptions applied		
	31.12.07	31.12.06
Discount rate	5.25%	4.50%
Increase in salaries	3.00%	3.00%
Inflation rate		
Mortality table	INSEE H/F 00-02	INSEE H/F 00-02
Retirement age	65 years	65 years
Retirement procedure	voluntary	voluntary

Other information

- Sensitivity of the France commitment as at 31 December 2007 to a change in discount rate:

4.75%:	€ 7,405,000
5.25%:	€ 6,783,000
5.75%:	€ 6,559,000

- The median age of employees under open-ended employment contracts in France is 41 years.

- The commitment at 31 December 2007 represents some 3.8% of total annual salaries of employees under open-ended employment contracts.

Note 16 - Other provisions

- Non-current provisions

€ 000	Tax and soc. security	Restructuring	Other operating disputes	Total
Balance brought forward	5,085	0	-163	4,922
Charge for the year	792		1,682	2,474
Used	-1,094		-52	-1,146
Write-backs	-763		-132	-894
Changes in consolidation	-3		492	489
Reclassifications	1,326		-579	747
Balance carried forward	5,343	0	1,249	6,592

The provisions for long service bonuses, which are included within non-current provisions, amounted to € 377,000 as at 31 December 2007.

- Current provisions

€ 000	Tax and soc. security	Restructuring	Other operating disputes	Total
Balance brought forward	1,362	2,456	226	4,044
Charge for the year	1,326		11	1,338
Used	-466	-940	-266	-1,672
Write-backs	-467	-85	-152	-704
Changes in consolidation	436		60	496
Reclassifications	104	-1,431	183	-1,144
Balance carried forward	2,296	0	63	2,359

Note 17 – Other payables and deferred income

	31.12.07	31.12.06
Trade payables	54,363	23,158
Liabilities held for sale	317	
Total	54,046	23,158

	31.12.07	31.12.06
Fixed asset payables	3,037	4,351
Payments on account made	1,414	4,544
Tax payables	20,133	10,304
Social security payables	56,892	42,937
Dividends payable	-131	
Other payables	28,418	11,831
Deferred income	1,970	106
Liabilities held for sale	4,082	
Total	107,652	74,073

Note 18 - Personnel costs

€ 000	31.12.07	31.12.06
Wages and salaries	218,035	188,919
Social security charges	84,185	75,234
Employee profit sharing	2,634	2,005
Other personnel costs	1,345	
Personnel costs of discontinued activities	4,703	
Personnel costs	301,497	266,158

Note 19 - External charges

External charges amounted to € 149,659,000 and included property and equipments leasing charges of € 67,085,000.

External charges of the Italian sub-group amounted to € 21,744,000 including salaries recharged by the cooperatives.

Note 20 – Other operating income and expenses

€ 000	31.12.07	31.12.06
Restructuring costs	-171	-2,606
Tax provisions		-1,526
Capital gains or losses on sale of non-current assets	-2,244	-438
Provisions net of write-backs	375	
Other operating income and expenses	1,001	-804
Operating income of discontinued activities	-392	
Total income (expense)	-647	-5,374

Note 21 - Net financial items

- Analysis

€000	31.12.07	31.12.06
Interest and other costs	-25,022	-26,205
Gross cost of borrowings	-25,022	-26,205
Capital gains or losses on sale of investmnts	307	229
Net cost of borrowings	-24,715	-25,976
Discounting of pension liabilities	-368	-69
Fair value adjustments on financial instruments	5,977	11,069
Other financial income and expenses	35	1,597
Financial items	-19,070	-13,378

- Breakdown of other financial income and expenses

€000	31.12.07	31.12.06
Dividends received from non-consolidated companies	60	39
Other investment income	147	372
Other financial income and expenses	-123	22
Other (charges) / writebacks of financial provisions	-49	1,165
Total "Other financial income and expenses"	35	1,597

Note 22 – Corporation tax

- Analysis of the tax charge

€000	31.12.07	31.12.06
Current tax	(8,273)	(3,602)
Deferred tax	(408)	(7,067)
Tax charge of discontinued activities	5	
Corporation tax charge (income)	(8,687)	(10,669)

- **Reconciliation between the actual tax charge and the theoretical tax charge**

€000	31.12.07
Net profit Group share	23,128
Minority interests	1,939
Earnings of associated companies	
Tax charge	8,687
Profit before tax	33,754
Theoretical tax rate	34.43%
Theoretical tax charge	11,622
Permanent differences	-1,106
Non-capitalised tax losses for the year	810
Use of non-capitalised tax losses in the year	
Adjustment to prior year deferred taxes	-1,880
Tax charge at reduced rate	-506
Foreign companies' tax	-204
Impact of liability method	
Difference between parent company/ subsidiary tax rates	-48
Actual tax charge	8,687
Effective tax rate	25.74%

- **Permanent differences**

€000	31.12.07
Other non-deductible and non-taxable income and expense	-898
Share of costs and charges	353
Non-taxable merger and issue costs	
Minimum CT and other tax settlements	-561
Total	-1,106

- **Net change in deferred tax**

€000	31.12.07	31.12.06
Balance brought forward	173,701	159,456
Charge (income)	408	7,067
Change in consolidation	7,697	3,300
Other changes	-142	3,878
Balance carried forward	181,665	173,701

- **Breakdown of deferred tax**

€000	31.12.07	31.12.06
Intangible fixed assets	167,983	159,999
Tangible fixed assets	3,534	4,952
Financial instruments	3,808	2,642
Unrelieved tax losses	-1,195	-1,267
Pension provisions	-2,234	-2,170
Other provisions		
Other timing differences	-2,047	-1,768
Other assets/liabilities	11,815	11,313
Total	181,665	173,701

Note 23 - Transactions with related parties

- **Administrative services and development assistance agreement**

On 26 November 2003, Batipart Group and Korian Group signed an Administrative Services and Development Assistance Agreement under which Batipart provides administrative and personnel management services, financial management and development assistance to Korian and its subsidiaries. The agreement was concluded for one year renewable by tacit agreement, also for one-year terms, and is still in force.

The fees charged by Batipart in respect of its assistance services on behalf of Korian and its subsidiaries are set at € 450,000 for 2007.

- **Rent paid to Foncière des Murs**

At 31 December 2007, Batipart, which has held a 35.47% equity stake in Korian Group for many years, held 16.5% of Foncière des Régions.

Foncière Des Murs SCA, a subsidiary of Foncière des Régions, is a *Société d'Investissements Immobiliers Cotée* (French listed real estate company – 'SIIC') which is a holding company specialising in hotel, restaurant, healthcare and leisure properties. Accordingly, Foncière des Murs SCA holds 54 properties that it rents to Korian Group.

The Group paid € 23,503,000 of rent to Foncière des Murs in respect of 2007.

- **Rent paid to Cofisan**

The three Italian subsidiaries (Airone, Albatros and Gabbiano) transferred their real estate assets to Cofisan prior to the acquisition, following which Cofisan leased them to various companies.

- **Supply of equipment**

Some equipment is leased to the retirement homes by Mietpark, a services firm, which was not consolidated as at 31 December 2007 since the acquisition is scheduled for 31 January 2008.

With regard to information on directors, please refer to note 28.

Note 24 - Contingent liabilities and commitments

- **Commitments given (excluding operating leases and purchase obligations)**

Summary IAS 26 France

Loans secured on real property	21,941
Loans secured on business goodwill pledged	3,572
Unsecured	247
TOTAL	25,759

- Litigation

To the best knowledge and belief of the Company and its legal advisors, there is no litigation non-provisioned that could have a material impact on the business, earnings or financial situation of the Group.

- *Droit individuel à la formation* (French individual right to training – ‘DIF’)

Pursuant to the provisions of Law N^o. 2004-391 dated 4 May 2004 relating to professional training, employees under open-ended employment contracts of the Group’s French companies are individually entitled to training of 20 hours per year, which may be accumulated over a period of six years. Following this 6-year period, and if some or all of the entitlement has not been used, the DIF is capped at 120 hours.

Number of hours earned by employees as at 31 December 2007 (balance of the number of hours as at 31 December less hours already taken): 399,102 hours.

Note 25 – Leasing commitments

- Finance leases

Finance leases	Buildings
Net book value of assets held under finance leases	27,286
Leasing commitments by maturity	
Less than one year	2,376
More than one year	11,251
More than five years	2,527
Total commitments	16,154
Discounting	2,940
Total present value of commitments	13,214

- Operating leases

Operating leases	Buildings
Minimum non-cancellable lease payments due in:	
Less than one year	79,936
More than one year	277,034
More than five years	409,671
Total undiscounted commitments	766,641

Since 2004 Korian has transferred ownership of the majority of its real estate assets to Foncière des Murs. In exchange, Korian signed a fixed-term lease of 12 years for each property. The lessor is responsible for paying French land tax (*impôt foncier*), insurance, construction and maintenance work required under Article 606 of the French Civil Code and

the costs of complying with existing and future regulations, while renovation of the façades and maintenance of the windows and frames is borne by the lessor.

The first 14 leases signed include a penalty clause for terminating the lease equivalent to 12 months of rent.

With regard to Phönix and Segesta, please refer to note 23 'Transactions with related parties'.

Note 26 – Operating segments

EBITDAR	146,283 24.1%	97,191 27.1%	38,865 19.4%	4,918 16.6%	5,310 26.0%
---------	------------------	-----------------	-----------------	----------------	----------------

Operating segments at 31 12 06	Total of all activities	Clinics for dependent senior citizens	Healthcare	Italy	Germany	Discontinued activities in 2007 and other
Revenues	519,762	330,300	183,204			6,258
EBITDAR	123,352 23.7%	88,400 26.7%	33,900 18.5%			1,052 16.8%

Note 27 - Post-balance sheet events

Since 1 January 2008, Korian has acquired two entities as follows:

- In January 2008 Korian acquired the nursing home Hotelia Hyères, a former Group franchisor with 115 beds,
- Korian acquired a business in Lisieux with a view to combining the 27 beds with an already operating entity.

At the end of January 2008, the Group also completed the acquisition of Mietpark GmbH, a company holding all operations of the German homes. This acquisition was specified in the purchase agreement for Phönix.

In a moderate business climate and following an in-depth review of all businesses, at the end of 2007 Korian decided to sell several establishments, which were identified in 2008 as follows: 4 EHPAD and 2 French SSR clinics totalling 305 beds and 202 employees.

The decision to sell 6 of our 216 establishments forms part of the strategic plan described above and is based on an operational strategy justified by the following:

- They are too isolated in rural areas and, given the lack of another Korian home in the vicinity, they cannot take full advantage of the EHPAD/SSR network and regional synergies;
- They do not fall within the Group's core business of elderly persons.

The sales process is already well advanced and these establishments are expected to be sold prior to the end of the first half.

Note 28 - Remuneration of senior executives and directors

✓ **Remuneration paid to members of the Management Board**

The remuneration of members of the Management Board for 2007 was as follows:

- 2007 fixed remuneration: € 940,000
- Variable remuneration: € 138,274 as 2006 bonus paid in 2007
- Company car: € 11,838
- Stock options: 27,000 options representing a benefit of € 267,030

The total gross 2007 remuneration paid to members of the Executive Committee, excluding director's fees, amounted to € 1,543,000.

As at 31 December 2007, there were no specific pension schemes for the members of the Executive Committee.

✓ **Remuneration paid to members of the Supervisory Board**

Director's fees in respect of 2007 granted to members of the Supervisory board amounted to € 115,000.

Furthermore, the members of the Board and the members of the committees are entitled to reimbursement of travel expenses incurred to attend board and committee meetings. Such travel expenses must be justified by supporting receipts or other proof.

Note 29 - List of Group companies

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
Abilone	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Atria SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Carloup Santé	75.47%	75.47%	75.47%	75.47%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Château De Saint Pierre Oursin	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique de Convalescence du Château de Clavette	98.75%	98.75%	98.75%	98.75%	FC	Allée de Roncevaux 31240 L'UNION
Colson & Colson France	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
De Bioux Santé	100.00%	100.00%	100.00%	100.00%	FC	2 rue de la Résistance 71850 CHARNAY LES MACON
Financière Sinoue SAS	40.00%	40.00%	40.00%	40.00%	PC	11 Bis rue de la Porte Jaune 92380 GARCHES
Hirt Et Cie	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Homère SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Isère Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Jongking SNC	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Kerinou Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Reine Blanche SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Saison Dorée SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Villa Kreisser SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Le Castelli	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Le Mail Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Le Petit Castel SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Bégonias SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Fontaines SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Hauts D'Andilly SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Ophéliades Courbevoie – Résidence Les Licornes SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Ophéliades Serres	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Ophéliades St Clément - Clos St Clément	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Pins Bleus SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Temps Bleus SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Tilleuls SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Villandières Nîmes EURL	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Maison d'Accueil Les Roches SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
Maison de Santé Bellevue	40.00%	40.00%	40.00%	40.00%	PC	8 avenue du Onze Novembre 1918 92190 MEUDON
Maison de Santé Château Gombert	40.00%	40.00%	40.00%	40.00%	PC	11bis rue de la Porte Jaune 92380 GARCHES
Maison de Santé du Château de Garches	40.00%	40.00%	40.00%	40.00%	PC	11 Bis rue de la Porte Jaune 92380 GARCHES
Massenet Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Médotels	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Partenaire Restauration	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
PB Expansion	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Perou	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Reacti Malt SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Frederic Mistral EURL	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Les Acacias SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Pontlieue SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SARL Lafitte Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S GEM VIE	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S L'Air du Temps Résidence Strasbourg Robertsau	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Chalon	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Dijon	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Epinal	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Fontaines	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Le Creusot	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Meaux	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Nancy	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Saint Etienne	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Saverne	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Simiane	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Thise	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Thonon les Bains	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
S.A.S Les Ophéliades Troyes	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Société d'Etude et de Réalisation pour le Nouvel Age (Serena)	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
S.G.M.R SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Saint François de Sales SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SAS Les Ophéliades Beaune	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SAS Santé Marketing et Stratégie	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SCCV Croix Rouge	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SCI Château de Ouezy A34	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SCI L'Atrium	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SCI La Source	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SCI Le Mail Immobilier	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Sérieence Soins De Suite Et De Réadaptation	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Société Médicale de Clavette	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Sogemare SAS	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Korian SA	100.00%	100.00%	100.00%	100.00%	Parent Co.	32 rue Guersant 75017 PARIS
Thalatta	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
SEP Breteuil	73.44%	73.44%	73.44%	73.44%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SEP Chalon	67.50%	67.50%	67.50%	67.50%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SEP Grenoble	34.51%	34.51%	34.51%	34.51%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SEP Maison Laffitte	20.04%	20.04%	20.04%	20.04%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SEP Massenet	57.81%	57.81%	57.81%	57.81%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Centre Convalescence de l'Ouest	99.90%	99.90%	99.90%	99.90%	FC	Allée de Roncevaux 31240 L'UNION
Clinique du Canal de L'Ourcq	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique de Livry Sully	99.43%	99.43%	99.43%	99.43%	FC	Allée de Roncevaux 31240 L'UNION
Clinique de Noisy le Sec	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique du Perreux	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique Jeanne d'Arc	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
Clinique Médicale de Saclas	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clos Clément	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
CSS de Sartrouville	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Le Grand Clos			50.00%	50.00%	PC	3 rue Gabriel Péri 95130 LE PLESSIS BOUCHARD
Maison de Santé Seine & Marne	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Mapadex Brune	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Mapadex Daumesnil	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Mapadex Florian Carnot	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Mapadex Les Lilas	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Mapadex Magenta	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Newco Bezons	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Le Clos Varrèddes	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Repos & Santé	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SAS Mathis développement	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
SN de la Clinique du Mesnil	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Société Participation CJA	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Sté Nouvelle de la Roseraie			50.00%	50.00%	PC	8 & 10 rue Palonceau 91170 VIRY CHATILLON
Villa des Sources			50.00%	50.00%	PC	23-25 rue de Versailles 92410 VILLE D'AVRAY
Villa Les Fleurs	100.00%	100.00%	50.00%	50.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Villa Renaissance	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
HAD Yvelines Sud	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
AB Holding	99.16%	99.16%	99.16%	99.16%	FC	Allée de Roncevaux 31240 L'UNION
Bastide de Jardin	100.00%	100.00%	50.00%	50.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Bellecombe	100.00%	100.00%	100.00%	100.00%	FC	47 rue Dunoir 69003 LYON
Château de Gleteins	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique du Mont Blanc	99.96%	99.13%	99.96%	99.13%	FC	Allée de Roncevaux 31240 L'UNION
Le Brévent	98.47%	98.47%	98.47%	98.47%	FC	180 rue d'Anterne 74480 PLATEAU D'ASSY
Sémiramis Orion	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
Sémiramis Janin	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Bastide de la Tourne	99.92%	99.92%	99.92%	99.92%	FC	Zone Industrielle de Devecey 25870 DEVECEY
AC Santé	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Château de la Vernède	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
La Pinède	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Résidence Frontenac	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Sogesco	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Chamtou	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Château du Mariau	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Clinique Cardiologique Gasville	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Clinique de La Gaillardière	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Immobilière JANIN	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
HHT	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Ménardière SGCO	99.96%	99.95%	99.96%	99.95%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Le Coteau	98.00%	97.98%	98.00%	97.98%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Moulinière	100.00%	100.00%	100.00%	100.00%	FC	Lieu-dit « La Moulinière » 81150 CASTELNAU DE LEVIS
Les Blés d'Or	100.00%	100.00%	100.00%	100.00%	FC	Lieu-dit « La Moulinière » 81150 CASTELNAU DE LEVIS
Mapadex La Roseraie	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Mapadex Les Acacias	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SA Les Amarantes	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
SG Clinique Domaine de Vontes	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
SHT	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Clinique Maylis	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
CMI Montpibat	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Horizon 33 Château Chavasse	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
L'Aquitania	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Saint Exupéry			50.00%	50.00%	PC	Impasse Frédéric Chopin 47 200 MARMANDE
SE Home Saint Gabriel	99.98%	99.16%	99.98%	99.16%	FC	Zone Industrielle de Devecey 25870 DEVECEY

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
CRF CAEN	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Centre William Harvey	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
CRFS	99.83%	99.83%	99.83%	99.83%	FC	Allée de Roncevaux 31240 L'UNION
Demeure Saint Clair	100.00%	100.00%	50.00%	50.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
La Normandie	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Le Nord Cotentin	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Résidence Les Sapins	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Société Normande de Services	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Château des Deux Amants	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Clinique d'Ymare	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
La Petite Madeleine – Jardin des Plantes	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
L'Ermitage	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Sémiramis Vernon	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Villa Saint Dominique	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
CPRR Sainte Baume	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
SAS Mieux Vivre	50.00%	50.00%	50.00%	50.00%	PC	109 av Auguste Renoir 06520 MAGANOSC
Les Deux Tours	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Les Fontaines	100.00%	100.00%	99.80%	99.79%	FC	Allée de Roncevaux 31240 L'UNION
Les Lubérons	100.00%	99.90%	100.00%	99.90%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Résidence St Louis			50.00%	50.00%	PC	Rue Romuald Guillement 84200 CARPENTRAS
SAI Domaine de Lorges	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Sémiramis St Laurent du Var	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Terafi	99.95%	99.74%	99.95%	99.74%	FC	Allée de Roncevaux 31240 L'UNION
Grand Maison	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Medidep Foncier	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Privatel SA	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Ajoncs	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY

Company name	31.12.07 % control	31.12.07 % interest	31.12.06 % control	31.12.06 % interest	Method	Registered office
Les Issambres	100.00%	100.00%	50.00%	50.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Les Lis			50.00%	50.00%	PC	58 route de St Jean d'Angely 16710 ST YRIEX / CHARENTE
Rayon d'Or	100.00%	100.00%	50.00%	50.00%	FC	31 rue de la Butte BP50 17140 LAGORD
Résidence le Lac	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Pompairain			50.00%	50.00%	PC	Châtillon sur Thouet 79200 PARTHENAY
Centre Médical Chambon	100.00%	100.00%	100.00%	100.00%	FC	Allée de Roncevaux 31240 L'UNION
Sémiramis Clermont	100.00%	100.00%	100.00%	100.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Alsace Santé	100.00%	100.00%	50.00%	50.00%	FC	Zone Industrielle de Devecey 25870 DEVECEY
Korian Services	100.00%	100.00%			FC	Zone Industrielle de Devecey 25870 DEVECEY
New PhilPC	75.00%	74.88%	75.00%	74.88%	FC	104 avenue Palfijn 1090 BRUSSELS
Medidep Belgique	100.00%	100.00%	100.00%	100.00%	FC	104 avenue Palfijn 1090 BRUSSELS
Phönix	92.50%	92.50%			FC	Hiebelerstrasse 29 87629 FÜSSEN
Segesta	92.93%	92.93%			FC	Via Quadrio Maurizio 14/16 MILAN
SA Meudon Tybilles	100.00%	100.00%			FC	Zone Industrielle de Devecey 25870 DEVECEY
Oregon	100.00%	100.00%			FC	Vallée des Bas Champs 86400 CIVRAY
Saint Côme	100.00%	100.00%			FC	35, avenue de la Cour de France 92160 JUVISY-SUR-ORGE
Clinique Psychiatrique Le Coteau	40.00%	40.00%			PC	10 rue du Coteau 38640 CLAIX
SAS Le Château	100.00%	100.00%			FC	4 bd du Commandant Roumens 11000 CARCASSONNE
Les Ducs de Montmorency	100.00%	100.00%			FC	4 bd du Commandant Roumens 11000 CARCASSONNE
Vepeza	20.00%	20.00%			PC	24 avenue du Prado 13006 MARSEILLE
L'Âge d'Or	100.00%	100.00%			FC	3 rue du Rhône 13008 MARSEILLE
Résidence Périer	100.00%	100.00%			FC	3 rue du Rhône 13008 MARSEILLE
Périer Retraite	100.00%	100.00%			FC	3 rue du Rhône 13008 MARSEILLE
Les Meunières	93.32%	93.32%			FC	Place Denfert Rochereau 34400 LUNEL