This document is an unofficial translation of the registration document in French registered with the AMF
It is drafted for information purposes only. In case of discrepancy with the document in French, the latter shall prevail.

KORIAN

(Formerly called SUREN)

A joint-stock company (*societé anonyme)* with capital of € 254,474,040

Registered office: 152 Avenue de Malakoff – 75116 Paris

447 800 475 Paris Registry of Trade and Companies

REGISTRATION DOCUMENT

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

Pursuant to its general regulations, particularly Articles 211-1 to 216-1, the French *Autorité des marchés financiers* (AMF) registered this document on October 4, 2006 under Number 1.06-156. As the registration document, this document may be used to support a financial operation only if it is completed by an offering circular approved by the *Autorité des marchés financiers.*

This registration document has been prepared by the issuer under the responsibility of the signatories. This registration, made following examination of the relevance and consistency of the information provided on the company's standing, does not imply authentication of the accounting and financial data presented.

This document is the registration document for Korian and the attachment to the report by the Management Boards of Korian and Medidep which will be submitted to the special general shareholders meetings of these companies which will vote on the merger by absorption of Medidep by Korian. It accordingly includes by reference the Medidep reference document filed with the AMF on June 16, 2006 under No. D.D.06-0586, as well as the update filed on October 4, 2006 under number D.06-0586-A01.

The notice of announcement of the proposed merger agreement will be published in the French Bulletin des Annonces Légales Obligatoires on October 4, 2006.

KORIAN MEDIDEP

Copies of this registration document are available at no cost from the following:

- *the Korian company by mail sent to the corporate offices of the company at 152 Avenue Malakoff, 75116 Paris, by telephone at 01.53.64.22.22 or on its website (www.groupe-korian.com on the Investors' page);*
- *the Medidep company by mail sent to the company's corporate offices at 152 Avenue Malakoff, 75016 Paris or by telephone at 01.53.64.22.22, or on its website (www.medidep.com on the Financial Communications page);*
- *on the website of the* Autorité des marchés financiers *(www.amf-france.org).*

Conventions – General Comments

This registration document (hereinafter the "**Document**") stipulated in Article 212-9 II.1 of the AMF General Regulations, is prepared for the public offering of the Korian company on Eurolist by Euronext (Compartment B). It also takes the place of an information document prepared for the proposed merger of Medidep by Korian, and accordingly supplements the reports from the management boards of Korian and Medidep related to this merger, which will be presented to the Special Shareholders' Meetings of the two companies called to vote on the said merger.

In this Document, except where otherwise indicated, the terms **"Company**" and "**Korian**" refer to Korian S.A. The term "**Medidep**" refers to the company Medidep S.A. References to the "**Korian Group**" and "**Group**" refer to the combination composed of Korian and its subsidiaries (including Medidep and its subsidiaries). The term "**Korian Sub-Group**" refers to the Korian company and its subsidiaries, excluding the Medidep Sub-Group. References to the "**Medidep Group**" or "**Medidep Sub-Group**" refer to Medidep and its subsidiaries.

It is recalled that until September 28, 2006, Korian had the corporate name "Suren," and that all references made in this Document to Korian make reference to the company formerly called Suren, and that any reference to Suren makes reference to Korian.

The attention of Investors is called to the fact that the completion of Korian's merger of Medidep is subject to the condition precedent that the Korian capital increase via a public offering is completed. Therefore, the definitive nature of the merger and the completion and recording of the merger will take place only on the date on which the depositary's certificate concerning this capital increase is submitted, which shall be the date of settlement-delivery of the shares to be offered on the market in the context of the listing of the Korian shares for trading on Eurolist by Euronext. A description of the merger operation is provided in Chapter 2 below. The capital increase through public offering, which is the condition precedent, will be described in an offering circular submitted for approval by the AMF.

This Document contains forward-looking information concerning the Korian company (formerly "Suren") and its subsidiaries, including the companies of the Medidep Group, particularly in Sections 3.4.3. "Strategy" and 3.11 "Outlook". This information is sometimes identified by the use of the future tense, the conditional mood, or forward-looking terms such as "estimate", "aim", "think", "have the goal", "expect", "intend", "should", "believe", "wish" and "might", and other similar words. Such information is not historical data and must not be interpreted as a guarantee that the facts and data set forth will occur, that the assumptions will be verified, or that the objectives will be achieved. This type of information is based on data, assumptions and estimates which Korian and Medidep believe are reasonable. This information, by nature, could prove to be incorrect. Moreover, the achievement of the objectives assumes the success of the strategy described in Section 3.4.3 "Strategy" of this Document. The forward-looking statements provided in this Document may also be affected by known and unknown risks, uncertainties and other factors that could mean that the future results, the financial position, the performance and the achievements of the Korian Group may differ substantially from the objectives set or suggested. Those factors may include changes in the economic and commercial environment, in the regulations, and the factors described in Section 3.2 "Risk factors" of this Document. Korian and Medidep therefore neither make no commitment nor give any guarantee concerning the forward-looking statements made in this Document and make no commitment to publish or announce any corrections or updates to this information, with the sole exception of the information required under the applicable regulations, particularly the General Regulations of the French *Autorité des marchés financiers*.

This Document also contains information on the markets, market share, and revenue sources of the Korian Group and its competitive positioning. This information comes from estimates made by the Korian Group and from outside studies or statistical sources. Given the rapid changes (particularly in regulations) that characterize the medical-social sector and the health sector, it is possible that this information is erroneous or is no longer up-to-date. The businesses of the Korian Group could evolve differently from the operations described in this Document and the statements or information provided herein could prove to be incorrect, and Korian and Medidep have no obligation whatsoever to update the information herein, with the exception of the information required by the applicable regulations, particularly the General Regulations of the French *Autorité des marchés financiers*.

Investors are invited to consider very carefully the risk factors described in Section 3.2 "Risk factors" of this Document before making any investment decision. The occurrence of some or all of these risks could have a negative impact on the Korian Group, its business, financial position, outlook or earnings.

Moreover, other risks not yet identified or considered to be insignificant by Korian could have the same negative effect, and investors could lose all or some of their investment.

A glossary provided at the end of this Document in Appendix IV defines certain technical terms used herein.

A table of concordance established in accordance with the provisions of Appendix I of the EC Regulation n°809/2004 of the Commission dated April 29, 2004 is set forth in Appendix V to this document.

SOMMAIRE

1 PERSONS RESPONSIBLE FOR THE DOCUMENT AND FOR AUDITING THE FINANCIAL STATEMENTS

1.1 *For Korian*

1.1.1 Person responsible for the Document

Jean-Claude Georges-François,
Chairman of the Korian Management Board

1.1.2 Certification by the person responsible for the Document

"I hereby certify, after taking every reasonable measure for this purpose, that the information about Korian contained in this Document does, to my knowledge, fairly represent reality and contains no omissions that might alter the scope of this information.

I have obtained from the legal auditors of the Korian accounts an end-of-mission letter in which they certify that they have audited the information concerning the financial position and the financial statements provided in this Document, and have read this entire Document. The historic and pro forms financial information presented in this Document has been discussed in reports from the Auditors on the consolidated financial statements appearing on pages 189, 246, 306, and 350 of the said Document, and on the pro forma financial statements appearing on page 366 of this Document. The report by the Auditors on the consolidated financial statements of Korian at December 31, 2003 appearing on page 350 of the Document contains one reservation."[1]

Jean-Claude Georges-François, Chairman of the Management Board
Paris, October 4, 2006

1.1.3 Persons responsible for auditing the accounts

(a) Statutory Auditors

Name	Date of first appointment / renewal	Expiration of appointment
Cabinet Mazars et Guérard Le Vinci – 4 allée de l'Arche 92075 La Défense	Initial Charter and bylaws	December 31, 2009
Groupe Pia 21 Rue d'Artois 75008 Paris	April 20, 2006	December 31, 2011

(b) Alternate Auditors

Name	Date of first appointment	Expiration of appointment
Alternate for the firm of Mazars et Guérard: M. Cyrille Brouard Le Vinci – 4 allée de l'Arche 92075 La Défense	Initial Charter and bylaws	December 31, 2009
Alternate for Groupe Pia: Conseil Expertise Commissariat: 40 Avenue Hoche 75008 Paris	June 7, 2006	December 31, 2011

[1] Please note that the pages numbers refer to the French version of the Registration Document.

The compensation paid by Korian to its statutory auditors during the course of the last two fiscal years is the following:

	Mazars et Guérard Amount in K€		%		Groupe PIA Amount in K€		%	
	2005*	**2004***	**05**	**04**	**2005***	**2004***	**N**	**N-1**
Certification of Financial Statements	870	598	100%	100%	35		31.8%	
Accessories assignment								
Audit Sub-total	**870**	**598**	**100%**	**100%**	**35**		**31.8%**	
Corporate legal tax services								
Technical Information Services								
Internal Audit								
Other (to be itemized)					110**		68.2%	
Other Sub-total					**75**		**68.2%**	
OVERALL TOTAL	**870**	**598**	**100%**	**100%**	**110**		**100%**	

**Amounts invoiced for procedures involving the review of the financial statements for the fiscal year in question*
***Accounting review and review of procedures*

1.1.4 Persons responsible for the financial information

All information may be obtained from:

Guillaume Lapp
Korian
30 avenue Carnot – 91300 Massy
Tel.: (33) 1 64 53 78 22
Fax: (33) 1 64 53 78 24
E-mail: g.lapp@groupe-korian.com

Any requests for documentation must be made to:

Claire Dubuisson
Korian
152, avenue de Malakoff – 75116 Paris
Tel.: 01 53 64 22 22
Fax: 01 53 64 22 23
E-mail: c.dubuisson@groupe-korian.com http://www.suren.fr/
http://www.suren.fr/

1.2 *For Medidep*

1.2.1 Person responsible for the Document

Bruno Marie,
Chairman of the Medidep Management Board

1.2.2 Certification of the person responsible for the Document

"I hereby certify, after taking every reasonable measure for this purpose, that the information about Medidep contained in this Document does, to my knowledge, fairly represent reality and contains no omissions that might alter the scope of this information.

I have obtained from the legal auditors of the Medidep accounts an end-of-mission letter in which they certify that they have audited the information concerning the financial position and the financial statements provided in this Document, and have read this entire Document. ."

Bruno Marie, Chairman of the Management Board
Paris, October 4, 2006

1.2.3 Persons responsible for auditing the accounts

(a) Statutory Auditors

Name	Date of first appointment/renewal	Expiration of appointment
Constantin Associés, 26 rue de Marignan 75008 Paris	June 28, 2004	December 31, 2009
Groupe Pia 21 Rue d'Artois 75008 Paris	June 21, 2005	December 31, 2010

(b) Alternate Auditors

Name	Date of first appointment / renewal	Expiration of appointment
Alternate for Constantin: Gilles Cart-Tanneur, 52 rue des Côtes 78600 Maisons-Laffitte	June 28, 2004	December 31, 2009
Alternate for Groupe Pia: Cabinet Conseil Audit et Synthèse, 21 rue d'Artois 75008 Paris	June 21, 2005	December 31, 2010

1.2.4 Persons responsible for the financial information

All information may be obtained from:

Guillaume Lapp
Korian
30 avenue Carnot – 91300 Massy
Tel.: (33) 1 64 53 78 25
Fax: (33) 1 64 53 78 24
E-mail: g.lapp@groupe-korian.com

Any requests for documentation must be made to:

Claire Dubuisson
Korian
152, avenue de Malakoff – 75116 Paris
Tel.: 01 53 64 22 22
Fax: 01 53 64 22 23
E-mail: c.dubuisson@groupe-korian.com

2 INFORMATION CONCERNING THE OPERATION AND ITS CONSEQUENCES

The operation described in this Document consists of the merger of Medidep by Korian. This merger will be executed simultaneously with the completion of certain Korian capital increases reserved for persons named and the employees of the Korian group, and a Korian capital increase completed through a public offering at the end of a placement that will result in the listing of the Korian shares on the Eurolist by Euronext (the "**Capital Increase via Public Offering"**), which will be described in an offering circular submitted for the approval of the AMF (see Subsection 2.2.3).

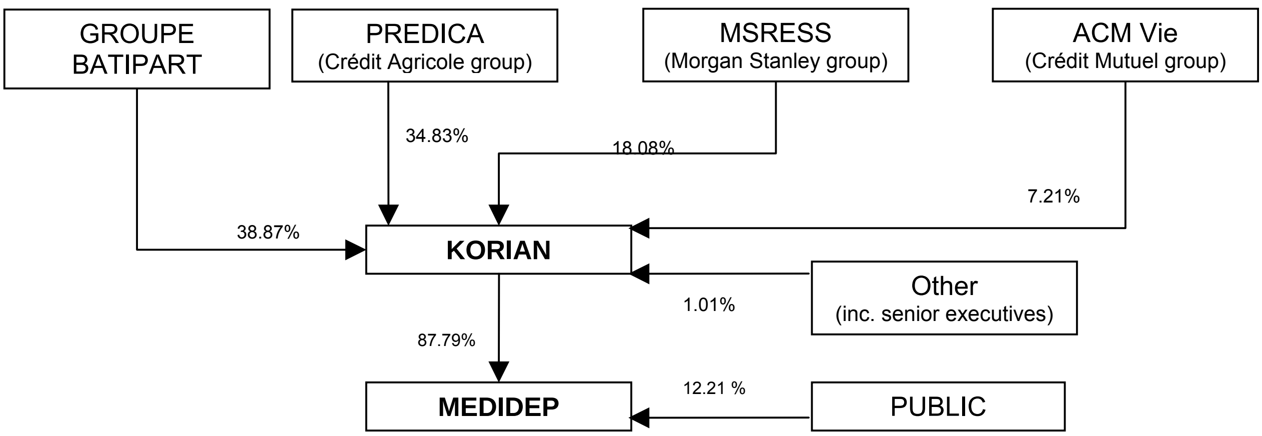
The merger agreement signed by Korian and Medidep stipulates that the completion of the merger depends on the condition precedent that the Capital Increase via Public Offering is completed.

2.1 *Economic aspects of the merger*

2.1.1 Pre-existing ties between the relevant companies

2.1.1.1 Capital ties

On the date of registration of this Document, Korian holds directly, with full ownership, 12,989,257 shares of Medidep stock, each with a par value of 3 euros, representing 87.79% of the capital and voting rights on the basis of 14,796,078 shares of capital stock on this same date representing 14,795,554 voting rights (the number of voting rights, related to the existence of double voting rights and treasury shares, was determined on June 27, 2006, the date of the most recent Shareholders' Meeting):



On the date of registration of this Document, it is stipulated that Medidep holds 2,410 treasury shares. Medidep agreed in the preliminary merger agreement not to change this number until the date of completion of the merger.

2.1.1.2 Guarantees, shared directors and senior executives, joint subsidiaries, agreements

• Guarantees

None

• Shared directors and senior executives

On the Supervisory Board and the Management Board

- Jean-Claude Georges-François (Chairman of the Korian Management Board and Chairman of the Medidep Supervisory Board)

On the Supervisory Board

- Charles Ruggieri (Chairman of the Korian Supervisory Board and member of the Medidep Supervisory Board)
- Louis Blanc (member of both the Korian and Medidep Supervisory Boards)
- Jean-Jacques Duchamp (member of the Korian Supervisory Board and permanent representative of PREDICA (Prévoyance et Dialogue du Crédit Agricole) on the Medidep Supervisory Board).

On the Management Board

- Guillaume Lapp (member of the Korian and Medidep Management Boards)
- Jean-Pierre Ravassard (member of the Korian and Medidep Management Boards)

Joint subsidiaries

The Korian and Medidep companies hold no joint subsidiary; however, it should be noted that Korian holds an 87.79% stake in Medidep as indicated in Subsection 2.1.1.1 above.

Agreements

- The preliminary merger agreement signed on September 29, 2006 for the completion of the merger described in this Document.
- An assistance agreement signed on March 24, 2006 by Korian as service provider and Medidep as beneficiary, which is described in greater detail in Subsection 3.17;
- An assistance agreement signed on March 24, 2006 between Medidep as service provider and Korian as beneficiary, which is described in more detail in Subsection 3.17.

2.1.2 Reasons for and objectives of the operation

2.1.2.1 Value of the operation for the Korian and Medidep companies

In July 2005, Korian launched a tender offer for the shares of Medidep stock. At the end of the offer, Korian held 87.86% of the capital and 87.89% of the voting rights in Medidep. This interest was reduced to 87.79% of the capital and voting rights because of the exercise by Medidep employees of stock options resulting in the issuance of 12,000 shares with a par value of 3 euros.

Since Korian acquired control of Medidep, the staffs of the two structures have cooperated to pool their experience and expertise. The new group has adopted a unified functional organization, combining the Korian and Medidep employees responsible for administrative and support functions (human resources, purchasing, IT systems, management control).

The legal merger of Korian and Medidep is the logical culmination of this functional cooperation. In particular, this merger would allow the employees of Korian and Medidep to report to the same employer, thus facilitating employee relations within the currently combined staffs from Korian and Medidep. This will accelerate the aforementioned interactive processes, by generating cost savings (primarily through a simplification of the organizational structures), a staff reorganization on a responsibility basis and the combination of the accounting and reporting processes.

Finally, through its public offering, accompanied by the capital increases related to the completion of the merger as described in Section 2.2.3, which will be detailed in an offering circular approved by the AMF, the new structure would diversify its financing resources, and improve its financial flexibility to ensure its growth.

2.1.2.2 Value of the operation for the Korian shareholders

The listing of the Korian shares for trading on Eurolist by Euronext will give Korian shareholders the liquidity for their investments in Korian offered by public trading.

2.1.2.3 Value of the operation for the Medidep shareholders

The percentage of shares of the Medidep company not held by Korian on the date of registration of this Document is less than 13%, and at least 5% of the Medidep capital is currently held by identified institutional investors[2]. Given this reduced float, market trades for Medidep stock have declined significantly, from an average volume of 62,302 shares/day in June 2005 to 1,433 shares/day in June 2006. The operation planned will create a significant float for Korian and, therefore, better liquidity for Medidep shareholders.

The merger of Korian and Medidep will also allow Medidep shareholders to benefit from the results of the entire new "Korian" group and to benefit directly as well from the synergies, gains in productivity and development projects planned.

2.2 *Legal aspects of the operation*

2.2.1 Description of the operation

2.2.1.1 Date of the preliminary merger agreement

The preliminary merger agreement was signed on September 29, 2006.

2.2.1.2 Closing date of the financial statements used to determine the contribution values

The terms of the merger have been established on the basis of the accounts of the two companies for the year ended December 31, 2005, the closing date for both companies.

The Korian financial statements for the year ended December 31, 2005 were closed, immediately after it was converted into a *société anonyme* (joint stock company) with management board and supervisory board, by its management board at its meeting of June 8, 2006, then presented to the Supervisory Board on the same date. These statements were certified by the Korian auditors and approved by the Annual Shareholders' Meeting on June 27, 2006.

The Medidep statements for the year ended December 31, 2005 were closed by its management board on March 20, 2006, then presented at the meeting of the Supervisory Board on March 22, 2006. These statements were certified by the Medidep auditors and approved by the Annual Shareholders' Meeting on June 27, 2006.

2.2.1.3 Date of completion and retroactive effective date of the operation

The merger of Medidep by Korian will take effect, from a legal point of view, on the date on which the last of the conditions precedent stipulated in the preliminary merger agreement and set forth in Subsection 2.2.1.9 is met.

Under the terms of the preliminary merger agreement, the operation will take effect retroactively on January 1, 2006 from an accounting and tax standpoint, pursuant to the provisions of Article L. 236-4 of the French Commercial Code.

[2] Source: Declaration of threshold issued by Amber Master Fund on November 1, 2005

2.2.1.4 Date of the Supervisory Board meetings that approved the operation

The merger operation and the terms of the preliminary merger agreement signed on September 29, 2006 were approved:

By the Korian Supervisory Board at its meeting on September 19, 2006, after the Board reviewed the fairness opinion issued by the independent expert Dominique Ledouble;

By the Medidep Supervisory Board meeting held on September 19, 2006, after the Board reviewed the fairness opinion issued by the independent expert Dominique Ledouble.

2.2.1.5 Filing date of the proposed merger with the Commercial Court

The preliminary merger agreement was filed with the Clerk of the Paris Commercial Court on September 29, 2006.

2.2.1.6. Notice from the Autorité des marches financiers (AMF)

Pursuant to Article 236-6 of its general regulations, the AMF, in notice no. 206C1857 dated October 4, 2006, stated that the planned merger of Medidep by Korian did not require the prior implementation of a public buyout offer on Medidep stock.

2.2.1.7. Consulting with labor organizations

The Korian works council, which was consulted on September 29, 2006, issued a favorable opinion on the planned merger operation.

2.2.1.8. Tax treatment of the operation

A. Position of the shareholders

- For the shareholders of the companies participating in the merger

The attention of shareholders is called to the fact that the information contained in this Document is only a summary of the applicable tax treatment under current French tax laws and that they must review their individual situation with their regular tax advisor.

Non-residents must comply with the tax laws in force in their State of residence.

- For the shareholders of the surviving company Korian

The merger operation is not a tax-generating event for the shareholders of the surviving company.

- For the shareholders of the absorbed company Medidep

The merger operation results in the allotment of shares of the surviving company to the shareholders of the absorbed company in exchange for their shares in the absorbed company; pursuant to Article 115-1 of the French General Tax Code, this allotment is not considered a distribution of securities income subject to tax.

The tax treatment of the capital gains and losses realized at the time of the merger on the exchange of shares of the absorbed company for shares of the surviving company is described below:

- *Individuals who are tax residents of France, acting in the context of the management of their private assets, who do not conduct market transactions on a regular basis*

In accordance with Article 150-0 B of the General Tax Code, the gain or loss realized on the exchange of the shares of Medidep stock for Korian shares resulting from the merger is not included in the calculation of the income tax for the year of the exchange, as this exchange is considered to be an intermediate transaction with regard to income tax.

The result is that:

- The tax deferral applies automatically, without a request from the shareholder;
- The exchange gain or loss may not be recorded;
- The exchange operation is not included in the assessment of the annual threshold for sales of securities stipulated in Article 150-0 A of the General Tax Code (currently set at 15,000 euros); and
- The tax deferral will expire at the time of the sale, purchase, redemption or cancellation of the Korian shares received in exchange. The gain or loss realized at the time of the subsequent sale of these shares shall be calculated on the basis of the tax cost price of the Medidep shares previously held and exchanged by the shareholder in question.

In the event the Medidep shares exchanged in the merger were previously tax-deferred, the deferred gains shall automatically remain deferred until the date of execution of the sale, purchase, redemption or cancellation of the Korian shares received in exchange.

Persons who hold Medidep shares within a stock savings plan (*plan d'épargne en actions*-"PEA") stipulated by Law 92-666 of July 16, 1992 and who include in their PEA the Korian shares received in exchange shall benefit from a tax exemption on the gains realized in this exchange, provided they meet the conditions for the PEA rules, the term in particular. When the PEA is closed, the net gain realized since the opening of the PEA is subject to social security taxes (the general social security tax, the tax for repayment of the social security debt, social security withholding and the surtax on the withholding), the rates for which will depend on the date on which the gain was realized or recorded.

- *Legal entities that are tax residents of France subject to corporate income taxes*

The profit or loss realized at the time of the exchange of the securities resulting from the merger is subject to the tax rules under ordinary law (inclusion in the income for the year in which the merger is completed), the rules governing long-term capital gains, or it may be tax-deferred (inclusion in the profit/loss for the current year).

1) Tax treatment under ordinary law:

The gains realized on the exchange of portfolio securities, which are equal to the difference between the value of the Korian shares received in exchange and the tax cost price of the shares held in Medidep, are subject to the corporate income tax at the ordinary legal rate of 33.33% for fiscal years ended in 2006.

However, the corporate income tax rate is reduced to 15%, up to a maximum of 38,120 euros in taxable profits per twelve-month period, for companies with before-tax revenues of less than 7,630,000 euros during the fiscal year or tax period, reduced to twelve months if applicable, and in which at least 75% of the fully paid-up capital stock is held continuously for the entire period in question by individuals or companies that also meet all of these conditions.

In addition, companies that do not meet the shareholding and revenue conditions described above are also subject to payment of the 3.3% social security tax, which is applied to the amount of the corporate income tax minus an allowance that may not exceed 763,000 euros per twelve-month period (Article 235 *ter* ZC of the General Tax Code).

2) Tax treatment for long-term capital gains:

For fiscal years opened on or after January 1, 2006 and pursuant to the provisions of Article 219-I-a-*quinquies* of the General Tax Code, the gains from the sale of equity investments held for more than two years in companies which are not predominantly real estate companies are subject to the reduced tax rate of 8% on long-term gains plus the 3.33% social security tax described above, if applicable.

As defined by the aforementioned Article 219-I-a-quinquies, equity investments are units or shares of companies classified as such in the accounts, and provided they are booked as equity investments or in a special sub-account reflecting their accounting classifications:

- the shares acquired in the execution of a tender or exchange offer by the company initiating the offer;

- securities entitled to the tax treatment for parent companies and subsidiaries stipulated in Articles 145 and 216 of the General Tax Code.

When the cost price of these shares is at least equal to 22.8 million euros, securities that meet the conditions for the parent company-subsidiary tax treatment, other than a 5% holding in the capital of the subsidiary, are subject to the 15% reduced rate for long-term capital gains pursuant to Article 219-I-a-*ter* of said code, plus the 3.33% social security tax, if applicable.

Capital gains on equity investments (as defined in one of the preceding definitions) realized for a year opened before January 1, 2006 are taxable at the 15% reduced rate plus the 3.33% social security tax, if applicable.

The amended finance law for 2004 stipulates special rules for carrying forward the balance of long-term losses existing at the opening of the first of the fiscal years opened on or after January 1, 2006.

3) Tax deferral:

The exchange gain may, at the taxpayer's choice, be included in the profit or loss for the year in which the Korian shares received in exchange are sold.

The profit or loss resulting from the subsequent sale of the Korian shares received in the merger shall be determined on the basis of the tax cost price of the Medidep shares for the shareholder in question.

This profit or loss shall be included in the taxable income for the year of sale under the conditions set forth in sub-sections 1) or 2) above, subject to any changes in current French tax laws.

However, the long-term gains on equity investments within a tax bracket subject to the 8% rate shall be taxed at 0% for the fiscal years opened on or after January 1, 2007. In return, a portion of costs and expenses equal to 5% of the net income from long-term gains on sales shall be included for calculating the taxable income at the ordinary legal rate.

Under the terms of the provisions of Article 54 *septies* of the General Tax Code, legal entities benefiting from the tax deferral stipulated in Article 38-7 bis of the General Tax Code are subject to specific "*obligations déclaratives*", and failure to comply with those obligations shall be punished by a fine equal to 5% of the earnings omitted on each of the relevant documents.

- *Persons who are not tax residents of France*

Subject to the application of international tax conventions, gains realized on the exchange of shares made by persons who are not tax residents of France, as defined by Article 4 B of the General Tax Code, or persons with registered offices outside France, are generally exempted from taxes in France pursuant to the provisions of Article 244 *bis* C of the General Tax Code, unless those gains can be attached to a permanent establishment or a fixed base subject to tax in France or unless the rights held directly or indirectly by the seller, with his family group, in the profits of the absorbed company exceeded 25% at any time during the five years prior to the merger.

- *Other holders of Medidep shares*

Medidep shareholders subject to tax rules other than those described above, particularly taxpayers whose securities transactions exceed simple portfolio management or who have recorded their securities as assets on their commercial balance sheet, are invited to study their individual tax situation with their regular tax advisor.

B. General provisions

Retroactivity

Under the terms of the preliminary merger agreement, the operation shall be effective retroactively to January 1, 2006 for tax and accounting purposes in accordance with the provisions of Article L. 236-4 of the Commercial Code.

As a result, the Korian company has made a commitment to file its income tax return and to pay the tax for the current year, both on its own business and on the business conducted by Medidep, as of January 1, 2006.

Filing commitments

The representatives of the Korian and Medidep companies shall comply with all legal provisions in force concerning the returns to be filed for the payment of the corporate income tax and all resulting taxes and duties and concerning the other obligations resulting from the definitive execution of this merger.

Corporate income tax

Pursuant to Regulation CRC 2004-01 of May 4, 2004, the assets and liabilities contributed in the merger will be recognized by Korian at their net book value.

These same values are admitted for tax purposes under the following two conditions:

- the contributions are and remain subject to the special corporate income tax treatment stipulated in Articles 210 A and 210 B of the General Tax Code;

- the company benefiting from the contributions restates on its balance sheet the accounting entries of the contributing company (original value, depreciation, amortization, and impairment) and that it continues to calculate amortization and depreciation on the basis of the original value of the assets in the entries of the contributing company.

This merger falls with the scope of application of Article 210-O A of the General Tax Code. Korian and Medidep declare that they are placing this merger under the rules stipulated in Article 210 A of the General Tax Code.

For this purpose, Korian undertakes to comply with the legal requirements in this area, particularly:

a) to restate on its liabilities the provisions which were tax-deferred at Medidep and which do not become irrelevant as a result of the merger, including regulated provisions as needed;

b) to substitute for Medidep, as applicable, for the reintegration of the results that were tax deferred at Medidep (Article 210 A-3.b. of the General Tax Code);

c) to calculate the gains subsequently realized on the sale of the non-amortizable fixed assets received in this merger on the basis of the tax value of those assets in the Medidep accounts as of January 1, 2006 (Article 210 A-3.c. of the General Tax Code);

d) as the assets contributed are being recorded at their net book value, Korian will not have to reinclude in its taxable profits under the conditions stipulated in Article 210 A 3 of the General Tax Code any gains realized in this merger by Medidep on the assets contributed in this merger. As a result, Korian will continue the depreciation and amortization plan for the said assets as practiced by Medidep; if the said items are sold, Korian will calculate the gain realized on the basis of their contribution value less the said amortization;

e) to record on its balance sheet the assets contributed to Korian, other than non-current assets, at the taxable value they had in the Medidep accounts;

f) insofar as the items contributed are recorded at their net book value, to recognize the Medidep entries on its balance sheet, breaking down the original value, amortization and provisions for depreciation;

g) to continue the reintegration of any equipment grants obtained by Medidep (Article 42 *septies* of the General Tax Code).

Moreover, Korian undertakes to complete, for this merger, all filing obligations stipulated in Article 54 *septies* of the General Tax Code.

V.A.T.

a) Preliminary provision and VAT credit

By express agreement, Korian shall be unconditionally subrogated in the rights and obligations of Medidep. Therefore, Medidep shall transfer unconditionally to Korian any VAT credits it has on the date of the definitive completion of the merger.

Medidep shall send to the relevant tax department tax returns in two original versions indicating the amount of the VAT credits transferred to Korian.

b) Situation regarding the assets contributed to Korian in the merger

With regard to the assets contributed, the parties intend to claim the provisions of Article 257 *bis* of the General Tax Code, which exempts from VAT the deliveries of goods, the services and the transactions described in Sections 6 and 7 of Article 257 in the context of the transfer, notably in the form of a merger, of a full or partial universality of assets. In this respect, the parties shall comply with the requirements of Administrative Directive 3A-6-06 of March 20, 2006.

Therefore, Korian:

- shall make the corrections to the deductions stipulated in Articles 207 *bis et seq*. of Schedule II to the General Tax Code which Medidep would have been required to make if it had continued to use the assets included in the merger;

- as applicable and for the investment assets included in the merger and transferred within the adjustment period, shall make the adjustments stipulated in the event of a change in the amount of the prorated deduction (Art. 215 of Schedule II to the General Tax Code);

- meet all other obligations to which the absorbed company would have been subject and, in particular, to charge VAT on subsequent sales of assets included in the merger.

Medidep and Korian shall indicate the total amount excluding tax of the transfer on the VAT tax return filed for the period in which the merger is executed.

Moreover, the parties have indicated that they intend to benefit from the provisions of Article 210-III of Schedule II of the General Tax Code.

Therefore, Korian expressly undertakes to:

- submit subsequent sales of investments assets included in this contribution-merger to VAT, pursuant to the provisions of Article 261.3.1 of the General Tax Code;

- as applicable, make the adjustments stipulated in Articles 210 and 215 of Schedule II of the General Tax Code which would have been payable if Medidep had continued to use the fixed assets contributed.

Korian shall inform the relevant tax department of this dual commitment in a declaration prepared in duplicate.

Registration fees

The companies declare that this merger falls within the scope of application of the special rules stipulated in Articles 816 of the General Tax Code because it meets the conditions set forth in Articles 301-B and 301-F of Schedule II to the said code.

Therefore, this merger shall be registered for the payment of a single set fee of 500 euros.

Prior transactions and other provisions

Korian shall assume the benefits and/or liability for all tax commitments that may have previously been made by Medidep at the time of transactions prior to June 30, 2006 which benefited from a preferential tax treatment for registration fees and/or corporate income taxes or sales taxes.

Apprenticeship and in-service vocational training tax

Korian undertakes to pay the full apprenticeship tax and to continue to make any payments for the financing of in-service vocational training owed by Medidep since January 1, 2006 and requests, as needed, the option to carry forward any excess expenditures incurred by the absorbed company for in-service vocational training.

Professional tax

The retroactive effective date of January 1, 2006 for this merger shall not be taken into consideration in terms of the professional tax.

Therefore, the merger shall be deemed effective in terms of the professional tax on the date of the last Shareholders' Meeting approving the merger.

2.2.1.9. Conditions precedent for the completion of the merger

Korian's merger of Medidep will be legally effective on the date on which the last of the following conditions precedent is met, i.e.:

(i) approval by the Medidep Extraordinary Shareholders' Meeting of the merger and the dissolution without liquidation of Medidep;

(ii) approval by the Korian Extraordinary Shareholders' Meeting of the merger, the contributions and the related capital increase;

(iii) final completion of the Korian capital reduction by reducing the par value from 12 to 5 euros, pursuant to the sixth resolution adopted by the Korian Extraordinary Shareholders' Meeting of September 19, 2006;

(iv) decision by the board of the AMF not to impose on Korian or on its shareholders, based on Article 236-6 of the AMF General Regulations, an obligation to file a proposal for a public buyout offer on Medidep stock;

(v) receipt by the Absorbing Company of the depositary's certificate issued by the placement clearing organization for a capital increase through a public offering conducted by Korian., which, together with the two concomitant capital increases reserved for Batipart and ACM Vie, would lead to an increase in equity ranging from 100 million euros to 150 million euros, and for which the share subscription price will be determined according to the so-called bookbuilding process as engaged in by customary market practice.

The completion of the conditions precedent stipulated in points (i) and (ii) above will be sufficiently established with regard to any other party by the remittal of certified true copies or excerpts of the minutes of the Korian and Medidep Shareholders' Meetings.

To meet the condition described in (iii) above, it shall be sufficient with respect to anyone to submit the minutes of the meeting of the Korian Management Board stating that the capital reduction was completed.

To meet the condition described in (iv) above, it shall be sufficient with respect to anyone to issue the notice from the AMF relating to such decision.
To meet the condition described in (v) above, it shall be sufficient with respect to anyone to submit the depositary's certificate.

As soon as the last of the conditions precedent described above has been met, the Management Board of the surviving Company shall meet to acknowledge the completion of the merger and shall proceed with the legal and regulatory formalities.

If any of the conditions precedent stipulated above are not satisfied no later than December 29, 2006, this merger shall be considered automatically null and void, without indemnification paid by either party.

It is again noted that, under the terms of the preliminary merger agreement, the operation shall take effect retroactively to January 1, 2006 for accounting and tax purposes as stipulated by Article L. 236-4 of the Commercial Code.

2.2.2 Control of the operation

2.2.2.1 Dates of the Shareholders' Meetings called to approve the operation

The merger will be submitted to the approval of the Korian and Medidep Shareholders' Meetings, which have both been called for November 8, 2006.

2.2.2.2 Merger Auditors

The merger auditors have been appointed together by order of the Chief Judge of the Paris Commercial Court on June 3, 2006.

The auditors appointed are:

Pierre Loeper, 140 Boulevard Haussmann, 75008 Paris;

Michel Lacaze Labadie, 7 avenue de l'Orme à Martin, Courcouronnes, 91023 Evry Cedex

The auditors issued their report on the terms of the merger on September 29, 2006 and their report on the value of the contributions on September 29, 2006. They are included in schedules I and II to this Document.

2.2.2.3 Independent expert appointed by the Medidep Supervisory Board

At its meeting of June 26, 2006, the Medidep Supervisory Board appointed Dominique Ledouble, 33, avenue Charles de Gaulle, 92200 Neuilly sur Seine, France, as the independent expert charged with preparing the fairness opinion.

This appointment was also approved by the Medidep independent board members Messrs. Coscas and Thonnier.

Dominique Ledouble submitted his report on September 15, 2006. His conclusions are reproduced in sub-section 2.4.2 and his report in Appendix III.

The fees paid by Medidep to Cabinet Dominique Ledouble with respect to the performance of his mission amounted to € 50,000 exclusive of taxes.

2.2.3 Merger-related operations

2.2.3.1 Korian reverse stock split

It should be noted that the Korian Extraordinary Shareholders' Meeting of September 19, 2006:

- Approved a reverse split of Korian shares at the rate of 1 new share for 12 existing shares. At this time, pursuant to the provisions of Article L. 228-29-2 of the French Commercial Code, the Batipart company made a commitment to Korian, for a period of two years at the price of 1 euro per share set by the Meeting, to serve as the counterparty for both the purchase and sale of offers for fractional shares or requests to complete the number of shares held by each of the shareholders in question.

- Approved a capital increase with elimination of shareholders' preemptive subscription rights for a price of 3 euros and reserved for Batipart, so that that company could, at the end of the odd-lot transactions, hold a sufficient number of Korian shares to obtain a whole number of shares after the reverse split.

All the operations described above were completed on September 20, 2006. As a result, the capital stock of Korian has since that date totaled 257,474,040 euros divided into 21,456,170 shares each with a par value of 12 euros.

The purpose of this Korian reverse stock split was to obtain an exchange parity for the merger of Medidep of one share of Korian stock for one share of Medidep stock.

2.2.3.2. Korian share capital reduction

The Korian Extraodinary Shareholders' Meeting of September 19, 2006 also decided to reduce the share capital by 150,193,190 euros, thus reducing it from 257,474,040 euros, the current amount, to 107,280,850 euros, by reducing the par value of the shares from 12 euros, their current par value, to 5 euros. This overall capital reduction, the completion of which is subject, after a deadline of twenty days ending on October 23, 2006, to the condition precedent of the lack of opposition, or, in the event of opposition, of the dismissal thereof by the commercial court, or of the establishment of sufficient guarantees, or the reimbursement of receivables, consists of the following:

- a capital reduction caused by losses in the amount of 10,948,934 euros which shall be charged in an equal amount to the item "Retained losses" and

- a capital reduction not caused by losses in the amount of 139,244,256 euros charged in the amount of 10,728,085 euros to the appropriation to the legal reserve, and in the amount of 128,516,171 euros to a reserve account called "special capital reduction reserve", which shall remain unavailable until December 31, 2006, except for capitalization, allocation to the legal reserve or writing off of losses by decision of the Annual General Shareholders' Meeting.

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2.2.3.3. Capital Increase through Public Offering

In its Eighth Resolution, the Korian Extraordinary Shareholders Meeting of September 19, 2006 delegated authority to the Korian management board for a period of twenty-six months to conduct a capital increase for a maximum par amount of 50 million euros, eliminating shareholders' preemptive subscription rights without designation of a beneficiary. This capital increase would be achieved through a placement and the listing of the Korian shares for trading on Eurolist by Euronext. It should be noted that the completion of this capital increase, established by the certificate from the depositary, is one of the conditions precedent for the completion of the merger (see Sub-section 2.2.1.9 of this Document). The nature and amount of the capital increase planned by the Korian company will be described in the offering circular submitted for AMF approval, which will be prepared for the offering by Korian. The price of the shares issued in this capital increase will be set by the Korian Management Board on the basis of the information received at the end of the trade practice known as "building the order book".

The Eighth Resolution of the Korian Extraordinary Shareholders' meeting held on September 19, 2006 is set forth below:

Delegation of authority to the Management Board, subject to the condition precedent of the Company's shares being admitted for trading on the Paris Eurolist by Euronext market, to decide, as part of an open-price offer and a global placement, to increase the Company's share capital by issuing shares or securities giving access to the capital or entitling the holder to allot debt securities with the shareholders' preemptive rights eliminated.
Under the condition precedent of the decision to list the shares in the Company for trading on the Eurolist by Euronext market, the Annual Shareholders' Meeting, ruling under the quorum and majority conditions required for extraordinary shareholders' meetings, after considering the terms of the report by

the Management Board and the special auditors' report, and ruling in accordance with the provisions of Articles L.225-129 to L.225-129-6, L.225-135, L.225-136, L.228-91 to L.228.93 of the Commercial Code:

- Hereby delegates to the Management Board the authority to decide to issue, one or more times, in the proportions to be assessed by it, both in France and abroad, in euros or in foreign currency, and by public offering (i) common stock in the Company and (ii) securities giving access, immediately or in the future, to the capital of the Company (other than securities entitling the holder to preferred stock in the company) or of any company in which it owns, either directly or indirectly, more than half the capital, or entitling the holder to be allotted debt securities;
- Hereby resolves, as need be, that the Management Board may notably use this delegation of authority, in full or in part, in the context of admitting shares in the Company for trading on the Paris Eurolist by Euronext market in the form of a global placement (the "Global Placement") and an open-price offer (the "Open-Price offer");
- Hereby resolves to eliminate the shareholders' preemptive subscription right to any shares or other securities that may be issued under this delegation of authority;
- Delegates to the Management Board the option of assessing whether or not the issuances of shares or other securities under this delegation of authority will involve a priority subscription deadline for the shareholders under conditions to be set by it in accordance with the provisions of Article L.225-135 of the Commercial Code;
- Acknowledges that this delegation of authority automatically entails for the bearers of securities giving access, immediately or in the future, to the capital of the Company that are likely to be issued under this delegation, a waiver by the shareholders of their preemptive subscription right to any common shares to which the securities issued under this delegation may entitle the holder;
- Authorizes the Management Board to issue securities (other than the shares) in euros, in any other currency considered legal tender or in any other unit of account established with reference to a set of currencies;
- Resolves that, pursuant to the provisions of Article L.225-136 of the Commercial Code, the issue price of any shares or other securities likely to be issued under this delegation of authority shall be set as follows:
    - (in connection with the admission of the shares of the Company for listing by the Paris Eurolist by Euronext market by the Management Board), and shall result from a comparison between the number of shares offered in the subscription and the applications for subscriptions from investors as part of the Open-Price Offer and the Global Placement, according to the technique known as building an order book as developed by professional practice in the market;
    - If the shares have already been admitted to the Paris Eurolist by Euronext market, according to the terms set by law and by regulations.
- Hereby resolves that the total nominal amount of the capital increases in the Company, immediately and/or in the future, resulting from all the issuances made under this delegation of authority shall not exceed a cap of fifty million (50,000,000) euros, provided that (i) the nominal amount of the capital increases completed under this delegation of authority charged to the total cap of fifty million (€50,000,000) euros applicable to capital increases set out in the seventh resolution submitted to this meeting and (ii) that this cap shall be reduced in the amount of the nominal amount of any capital increases made under the authorizations and delegations granted in the tenth and eleventh resolutions submitted to this meeting;
- It is specified that the cap referred to above shall be set by reference to the nominal value of the Company's common stock which may be issued in connection with adjustments made to protect the interests of the holders of the rights attached to the securities giving access to the Company's capital, pursuant to the law and regulations and to any applicable contractual stipulations;
- Resolves that the total gross amount of any debt securities issued immediately and/or subsequently under this delegation of authority may not exceed a cap of five hundred million (€500,000,000) euros (or the exchange value of such amount in the event of an issuance in foreign currency or in units of account set by reference to several currencies);

  To calculate the cap referred to in the above, the exchange value in euros of the nominal value of any debt securities representing receivables giving access to the capital of the Company issued in foreign currencies shall be assessed on the date of the issuance decision;
- Resolves that the Management Board may use this delegation of authority to issue any equity shares and/or securities giving access immediately or in the future to a portion of the Company's share capital in consideration for securities contributed to any public offer of exchange initiated by the Company, pursuant to Article L.225-148 of the Commercial Code, on the stock of any other Company admitted to any of the markets referred to by the said Article

L.225-148 of the Commercial Code, provided that the Management Board in particular be required to set the exchange parities as well as any balancing cash adjustments to be paid to the shareholders contributing their shares to the public exchange offer initiated by the Company.

- Resolves that the Management Board shall have full powers, with the option of sub-delegation under the conditions provided by law, to implement this delegation of authority, notably for the following purposes:
    - to determine the terms for the capital increase and notably to set the dates, deadlines, terms and conditions of subscription, delivery, payment and beneficial ownership of the shares, in accordance with the terms of this resolution and the laws and regulations in force,
    - solely by its decision and if it deems it timely, to charge the costs of any capital increases to the amount of premiums related thereto, and to withhold from that amount any sums necessary to raise the legal reserve to the minimum level required by law,
    - in general, to enter into any agreement, particularly to facilitate the issuances planned, take any steps or carry out any and all appropriate formalities for the issuance, the admission for trading and financial servicing of the securities issued under this delegation, and for exercising the rights attached thereto, and
    - to acknowledge the completion of each capital increase and make any corresponding changes to the articles of association and other formalities required;
- Hereby takes official notice that this delegation of authority may only be used during a period in which the shares in the Company are subject to a public offer or public exchange offer if such use is part of the Company's normal course of business and the implementation thereof is not likely to cause the offer to fail; and
- Takes official notice that use by the Management Board of this delegation of authority is subject to prior authorization by the Supervisory Board.

This delegation of authority is given for a period of twenty-six (26) months from the date of the Shareholders' General Meeting.

In addition, it is specified that the ninth resolution by the aforementioned Korian Shareholders' General Meeting offers the Management Board an opportunity, for each of the issues approved under the eighth resolution in particular (reproduced above), to increase up to the limit of 15% of the initial issue the number of shares to be issued at the same price, within 30 days from the close of the subscription (over-allocation option).

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<u>2.2.3.4 Korian capital increase reserved for Korian Group employees</u>

The Korian Extraordinary Shareholders’ Meeting of September 19, 2006 in its twelfth resolution delegated authority to the Korian management board for a period of 26 months to conduct a capital increase for Korian in a maximum nominal value amount of 840,000 euros, with elimination of shareholders’ preemptive subscription rights in favor of the beneficiaries of the Korian group savings plan.

The Korian Management Board decided in its September 20, 2006 meeting to set up a group savings plan. It also had application filed by the Calyon Company on September 5, 2006 with the AMF to request its approval of the creation of the Korian Shareholding fund, which will be set up when the capital increase reserved for the employees of the Korian Group of companies is implemented in the context of the Capital Increase by Public Offering. An offering circular in relation to the fund it will be prepared and submitted for approval by the AMF.

The twelfth resolution of the Korian Extraordinary Shareholders’ meeting held on September 19, 2006 is reproduced below:

(Delegation of authority to the Management Board to decide to increase the share capital by issuing shares reserved for the members of a company savings plan, with preemptive subscription rights eliminated in favor of those members)

The Shareholders' General Meeting, ruling in compliance with the quorum and majority conditions required for extraordinary shareholders' meetings, and in accordance with the applicable laws and regulations, and aware of the terms of the report by the Management Board and the statutory Auditors' Report:

- Hereby delegates to the Management Board the authority to decide to increase the share capital, in one or more times, in the proportions and at the times deemed appropriate by it, through the issuance of shares to be paid up in cash, the subscription of which shall be reserved, either directly or through a company mutual fund through which the new shares thus issued would be subscribed for, shall be reserved (i) for the members of a company savings plan ("PEE") established by the Company, (ii) for the members of a PEE established by the French companies affiliated with the Company as described in Article L.233-16 of the Commercial Code, and (iii) for the members of a group savings plan ("PEG") established jointly by the Company and any French companies affiliated with it as described in Article L.444-3 of the Labor Code and Article L.233-16 of the Commercial Code, and which also meet the conditions set by the Management Board pursuant to Articles L.225-138-1 of the Commercial Code and L. 443-5 of the Labor Code;
- Resolves that the capital increase(s) that may be decided by the Management Board which shall be carried out immediately or subsequently under this delegation of authority shall not exceed eight hundred and forty thousand (€840,000), a cap that does not include the additional shares to be issued in connection with any adjustments to be made, as required by law and any stipulations applicable under the contract, to preserve the rights of the holders of securities giving access to the Company's capital;
- Resolves that the issue price of the shares issued under this delegation of authority shall be set by the Management Board under the terms stipulated by the provisions of Article L.443-5 of the Labor Code;
- Resolves to eliminate, in favor of the employees who are members of a PEE or a PEG, the preemptive subscription right of the shareholders to any new shares issued under this delegation of authority, and to waive any right to the shares or to any other securities allotted under this resolution;
- Resolves that the Management Board may provide for the free allotment of shares or other securities giving access to the Company's capital (other than preferred shares), provided that (i) the total benefit resulting from this allotment under the employer's contribution or a discount, if any, does not exceed the legal and regulatory limits and (ii) the shareholders in the company waive any right (notably allotment right) to the securities likely to be freely allotted under this resolution;
- Gives full powers to the Management Board with the option of sub-delegation under the conditions provided by law to determine, up to the limits set by this resolution, the terms of any issuances made under this delegation of authority, and notably for the following purposes:
    - To set the terms and conditions for membership in a PEE or a PEG, establish or amend the regulations thereof in accordance with the provisions of Article L.443-1 of the Labor Code,
    - To prepare a list of the companies in which the members of a PEE or a PEG will be able to subscribe to the issue,
    - To decide that subscriptions can be applied for through collective agencies or directly by the recipients,
    - To set, within legal limits, the conditions (such as seniority) to be met by employees in order to subscribe individually or through a company mutual fund, to the shares issued under this delegation of authority,
    - To set the amount of each issuance made under this delegation of authority,
    - To set the terms and conditions for subscribing to the shares issued under this delegation of authority, namely the subscription price, the duration of the subscription period and the subscription opening and closing dates, and to receive subscriptions,
    - To set the terms and conditions for payment of the subscription amounts, namely the payment deadline, and to receive the sums corresponding to payment of the subscriptions, either in cash or by offsetting against any receivables, and to calculate the balance in the subscriber's current account by means of offsetting,
    - To set the terms and conditions for delivery of the shares issued under this delegation of authority, as well as the dividend-bearing date of the new shares,
    - To determine, if necessary, the amount of any sums to be capitalized up to the limit set above, the line items under shareholders' equity line items from which they are to be withheld as well as the conditions for allotting the shares,
    - To record or have recorded the capital increase in the amount of the shares actually subscribed to,
    - To charge any costs, duties or fees stemming from such issuances to the amount of the shares premiums and to charge, as the case may be, from the amount of shares premiums, any sums to be allocated to the legal reserve, and

- In general, to perform any and all acts and formalities, make any and all decisions and enter into any agreements useful or necessary to (i) successfully carry out the issuances completed under this delegation of authority and, notably, for the issuance, subscription, delivery, bearing of interest, admission for trading and financial servicing of the new shares as well as for the exercise of the rights attached thereto, and (ii) to record the successful completion of any capital increases made under this delegation of authority and to amend the articles of association accordingly.

- Hereby officially acknowledges that this delegation of authority may be used in the course of a public offering or exchange on the Company's shares only if such use is made in the normal course of business and, if made, is not likely to cause the offering to fail;
- Officially acknowledges that use by the Management Board of this delegation of authority is subject to prior approval by the Supervisory Board.

This delegation of authority is given for a period of twenty-six (26) months from the date of this Shareholders' General Meeting.

2.2.3.5 Korian capital increase reserved for named persons

In its tenth and eleventh resolutions, the Korian Extraordinary Shareholders' meeting of September 19, 2006 delegated authority to the Korian management board to conduct two reserved capital increases in the respective maximum nominal amounts of 10 million and 5 million euros, eliminating the shareholders' preemptive rights in favor of the following persons:

Beneficiaries of the elimination of the preemptive subscription rights	Maximum nominal amount of the reserved capital increase
Batipart SA 46 avenue Foch 57000 Metz Metz TI Trade Register No. 345 004 337	10 million euros
ACM Vie (Assurances du Crédit Mutuel) SA 34 rue du Wacken 67906 Strasbourg Strasbourg Trade Register No. 332 377 597	5 million euros

The capital increases decided under this delegation of authority may be decided only by the Management Board at the same time as the decision to carry out the Capital Increase by Public Offering, and the shares issued may be subscribed to by the foregoing persons only no later than the settlement-delivery of the shares issued under the Capital Increase by Public Offering and at the same price.

Korian plans to use this delegation of authority to enable Batipart and ACM Vie to maintain a stake at least equal to respectively one third and 6.5% of the Korian share capital given the Capital Increase by Public Offering (as eventually increased as a result of exercising the over-allocation option) and the capital increase by Korian related to the merger. The number of shares to be issued under these terms will be specified in the offering circular subject to AMF approval, which will be prepared by Korian at the time of the Capital Increase by Public Offering.

The tenth and eleventh resolutions of the Korian Extraordinary Shareholders' meeting held on September 19, 2006 are provided below:

(Delegation of authority to the Management Board to decide to increase the Company's share capital with the elimination of the shareholders' preemptive subscription right, by the issuance of shares reserved for the Batipart Company).

The Shareholders' Meeting, ruling in compliance with the quorum and majority requirements for shareholders' extraordinary meetings, after reviewing the terms of the report by the Management Board and the statutory auditor's report, and in accordance with Articles L.225-129, L.225-129-2 and L.225-138 of the Commercial Code:

- Hereby delegates to the Management Board, with the option of sub-delegation, under the conditions provided by law, its authority to proceed, in one time, with the issuance of new common shares;
- Hereby resolves that the nominal amount of the capital increase liable to be made under this delegation of authority may not exceed ten million (€10,000,000); this amount shall be charged to the fifty million (€50,000,000) caps set forth in the seventh and eighth resolutions by this Shareholders' General Meeting;
- Resolves to eliminate the shareholders' preemptive subscription right to any shares issued under this delegation in favor of the Batipart Company, a French business corporation *[société anonyme]* with capital of 22,617,981 euros, and with its registered offices at 46 avenue Foch – 57000 Metz, listed in the Metz Trade Register under number 345 004 337 RCS TI Metz, which shall have the sole right to subscribe to all the new shares to be issued under this resolution;
- Resolves that the Management Board may use this delegation only under the following conditions:
    1. at the same time as the first use of the delegation of authority granted to the Management Board under the eighth resolution; and
    2. if the capital increase reserved for Batipart is made no later than the settlement-delivery date of the Company's new common shares issued in connection with the first use of the delegation described in paragraph 1 above;
- Resolves that the issue price of the shares to be issued under this resolution shall be equal to the price adopted for the issuance of the shares issued or to be issued in connection with the capital increases described in the foregoing subsection, the completion of which is a condition for the use considered of this delegation;
- Resolves that the Management Board shall have full powers with the option of sub-delegation, under the conditions provided by law, to implement this delegation of authority for the following purposes:
    - To determine the terms for the capital increase and notably to set the dates, deadlines, terms and conditions of subscription, delivery, payment and dividend-bearing date of the shares, in accordance with the terms of this resolution and the laws and regulations in force,
    - Solely by its decision and if it deems it appropriate, to charge the costs of any capital increases to the amount of premiums relating thereto, and to withhold from that amount any sums necessary to raise the legal reserve to the minimum level required by law,
    - In general, to enter into any agreement, particularly to facilitate the issuances planned, take any steps or carry out any and all appropriate formalities for the issuance, the admission for trading and financial servicing of the securities issued under this delegation of authority, and for exercising the rights attached thereto, and
    - To record the completion of the capital increase and to make any corresponding changes in the articles of association and to carry out any other formalities required;
- Takes official note that use by the Management Board of this delegation of authority shall be subject to prior approval by the Supervisory Board.

This delegation of authority is given for a period of eighteen (18) months from the date of this Shareholders' General Meeting.

(Delegation of authority to the Management Board to decide to increase the Company's share capital with elimination of the shareholders' preemptive subscription right by issuing shares reserved for the company ACM Vie).

The Shareholders' Meeting, ruling under the quorum and majority conditions for extraordinary shareholders' meetings, after reviewing the terms of the report by the Management Board and the statutory auditor's report, and in accordance with Articles L.225-129, L.225-129-2 and L.225-138 of the Commercial Code:

- Hereby delegates to the Management Board, with the option of sub-delegation, under the conditions provided by law, its authority to proceed, in one time, with the issuance of new common shares;
- Hereby resolves that the nominal amount of the capital increase liable to be made under this delegation of authority may not exceed five million (5,000,000) euros; this amount shall be charged to the fifty million (€50,000,000) caps set forth in the eighth resolution by this Shareholders' Meeting;
- Resolves to eliminate the shareholders' preemptive subscription right to any shares issued under this delegation of authority in favor of the ACM Vie Company, a French business corporation with capital of € 505,434,272, and with its registered offices at 34 rue du Wacken

67906 Strasbourg, listed in the Strasbourg Trade Register under SIREN number 332 377 597 RCS, which shall have the sole right to subscribe to all the new shares to be issued under this resolution;

- Resolves that the Management Board may use this delegation only under the following conditions:
  1. at the same time as the first use of the delegation of authority granted to the Management Board under the eighth resolution; and
  2. if the capital increase reserved for ACM Vie is made no later than the settlement-delivery date of the Company's new common shares issued in connection with the first use of the delegation described in paragraph 1 above;
- Resolves that the issue price of the shares to be issued under this resolution shall be equal to the price adopted for the issuance of the shares issued or to be issued in connection with the capital increases described in the foregoing subsection, the completion of which is a condition for the use considered by this delegation;
- Resolves that the Management Board shall have full powers with the option of sub-delegation, under the conditions provided by law, to implement this delegation of authority for the following purposes:
  - To determine the terms for the capital increase and notably to set the dates, deadlines, terms and conditions of subscription, delivery, payment and dividend-bearing date of the shares, in accordance with the terms of this resolution and the laws and regulations in force,
  - Solely by its decision and if it deems it appropriate, to charge the costs of any capital increases to the amount of premiums relating thereto, and to withhold from that amount any sums necessary to raise the legal reserve to the minimum level required by law,
  - In general, to enter into any agreement, particularly to facilitate the issuances planned, take any steps or carry out any and all appropriate formalities for the issuance, the admission for trading and financial servicing of the securities issued under this delegation, and for exercising the rights attached thereto, and
  - To record the completion of the capital increase and to make any corresponding changes in the articles of association and to carry out any other formalities required;
- Takes official note that use by the Management Board of this delegation of authority shall be subject to prior approval by the Supervisory Board.

This delegation of authority is given for a period of eighteen (18) months from the date of this Shareholders' Meeting.

2.2.4 Consideration for the contributions – Capital increase resulting from the merger

2.2.4.1 Capital increase in consideration for the contributions

As of the registration date of this Document, the Korian shares have a nominal value of €12. This will be reduced to €5 after the capital reduction approved by the Annual and Extraordinary Shareholders' Meeting of September 19, 2005 referred to in subsection 2.2.3.2.

Based on the merger parity used of 1 Medidep share for 1 Korian share, the number of Korian shares to be issued would be 14,796,078 shares with a nominal value of €12.

However, because of the fact that:

- Korian holds 12,989,257 shares of Medidep, representing the same number of votes, i.e. 87.79% of the capital (on the basis of capital stock composed of 14,785,554 shares, and the fact that
- Medidep holds 2,410 of its own shares which would have to be transferred to Korian's assets in the universal transfer of assets;

These shares will not be exchanged for Korian shares pursuant to Article L. 236-3 II of the French Commercial Code. As a result, the merger-waiver technique will be used by which Korian will limit its capital increase to the issuance of a number of new shares to be allotted based on the exchange parity to Medidep shareholders other than Korian and Medidep. Therefore, the number of Korian shares to be issued will be 1.804.411 shares with a nominal value of 5 euros.

Under the terms of the preliminary merger agreement, Korian and Medidep have agreed not to sell or purchase Medidep shares on or after September 28, 2006.

Therefore the amount of the Korian capital increase resulting from the merger will total 9.022.055 euros.

It should also be noted that the merger transaction will be completed simultaneously with the completion of the Capital Increase through Public Offering and the reserved capital increases described in Subsections 2.2.3.4 and 2.2.3.5 above. Therefore, at the end of the merger transaction, Korian's capital will be increased to the sum of 116,302,905 euros plus the nominal amount of the merger-related capital increases described in Section 2.2.3.

2.2.4.2 Dividend-bearing date

As of the definitive completion date of the capital increase, the new shares to be issued in the capital increase in consideration for the merger shall be subject to all provisions of the bylaws and shall be fully ranked with existing shares. Therefore, the shares shall entitle the holder to any distributions of earnings or reserves that may be decided by Korian as from the definitive completion date of the merger, including the dividends and interim dividends on the earnings for fiscal year 2006.

The date of admission for listing and the date of listing for trading shall be the date of completion of the last of the conditions precedent, and no later than December 31, 2006.

2.2.4.3 Consequences for Medidep shareholders

Medidep is planning to ask Euronext Paris to suspend the listing of its subsidiaries from November 8, 2006, the day following the meeting date planned for the Medidep Shareholders' Meeting called to rule on the merger, until the actual completion of the merger, and in any event, no later than December 15, 2006.

Given the merger parity of one Korian share for one Medidep share, the Company plans to ask Euroclear to exchange the Medidep shares for the Korian shares automatically. Hence the Medidep shares will be delisted on the day following the actual merger completion date.

In order to more closely include individual minority shareholders of Medidep in the public offering, Korian intends to reserve for them a priority allotment of shares as part of the public offering. The priority allotment will be available to all Medidep shareholders of record on the date of the Extraordinary Shareholders Meeting which vote on the merger. This priority allotment will take the form of a category of priority orders, with a maximum total subscription to be specified in the offering circular to be submitted to the AMF for approval. These priority orders are intended to be fully filled to the extent possible or, if not, to be filled two times as much as other orders. The total number of shares which may be purchased pursuant to the priority orders will be subject to a maximum number specified in the offering circular for the public offering to be submitted to the AMF for approval.

Individual Medidep shareholders will also be able to participate in the public offering through orders open to the general public.

2.3 *Accounting for the contributions*

2.3.1 Description and value of the assets contributed and the liabilities assumed

As of December 31, 2005, Medidep's equity capital amounted to 82,612,500 euros as follows:

Capital stock	44,352,234
Additional paid-in capital	4,810,080
Legal reserve	1,506,816
Retained earnings	22,604,791

Other reserves	5,320,678
Income for the year	4,017,901
TOTAL equity capital	**82,612,500**

2.3.2 Description and value of the assets contributed and the liabilities assumed

Pursuant to Regulation 2004-01 of May 4, 2004 from the French Accounting Regulatory Commission concerning the accounting treatment of mergers and related operations and Notice 2005-C of May 4, 2005 from the Emergency Committee of the French National Accounting Board, the assets contributed and the liabilities assumed are transferred at their net book value as of December 31, 2005, insofar as the operation involves companies under common control (Korian previously controlled Medidep) as this concept is defined in the said regulation and insofar as the merger is performed “in the right direction”.

2.3.2.1 Description and value of the assets contributed at December 31, 2005

	Gross (in euros)	Amortization, depreciation, provisions (in euros)	Net (in euros)
Fixed assets			
Licenses, patents, trademarks and similar rights	160,398	92,416	67,982
Buildings	717,877	110,901	606,976
Other property, plant and equipment	441,733	220,267	221,466
Equity investments	134,694,118	1,997,200	132,696,918
Receivables from equity investments	12,877		12,877
Other long-term investments	855,314		855,314
Loans	887,144		887,144
Other long-term financial assets	56,506		56,506
Total non-current assets	**137,825,967**	**2,420,784**	**130,756,074**
Current Assets			
Advances and installments paid on orders	482,404		482,404
Trade and related receivables	371,432		371,432
Other receivables	87,206,003	1,401,000	85,805,003
Cash and cash equivalents	18,102,717		18,102,717
Marketable securities	212,820	80	212,740
Prepaid expenses	49,588		49,588
Total current assets	**106,424,965**	**1,401,080**	**105,023,885**
Total assets contributed	**244,250,932**	**3,821,864**	**240,429,068**

2.3.2.2 Description and value of the liabilities assumed as of December 31, 2005

Provisions for risks and contingencies	2,436,568
Financial debt	140,947,746
Trade payables	2,277,867
Income tax and social security liabilities	1,574,674
Other liabilities	9,411,217
Total liabilities assumed	**156,648,072**

2.3.2.3 Net value of the contribution

Net assets contributed amount to 83,780,996 euros.

	En euros
Total assets contributed	240,429,068
Total liabilities assumed	156,648,072
TOTAL	**83,780,996**

Net assets contributed after cancellation of the shares held in subsidiaries totals 83,709,835 euros

Net value of the contributions 83,780,996
Minus the book value of the Medidep shares held in subsidiaries contributed and not compensated: 71,692
Total 82,540,807

2.3.2.4 Breakdown of the merger premium calculation

The merger premium represents the difference between (i) the net value of the assets contributed, with the exception of the interest held by the Surviving Company in the Absorbed Company, and (ii) the nominal value of the shares issued in exchange:

	In euros
Portion of the net assets contributed Corresponding to the interest owned by the Medidep minority shareholders, i.e., 1,804,411 shares contributed/(14,796,078 total shares – 2,410 shares held in subsidiaries)	10,067,655
Actual Korian capital increase	9,022,055
MERGER PREMIUM	**1,045,600**

2.3.2.5 Breakdown of the merger loss calculation

The negative difference between (i) the value of the net assets received by Korian for the percentage it holds in Medidep and (ii) the book value of the 12,989,257 Medidep shares recorded on the Korian balance sheet will constitute a merger loss, which is:

Portion of the net assets corresponding to the Korian stake In Medidep, i.e., 12,989,257 shares held/(14,796,078 total shares – 2,410 shares held in subsidiaries)	72,473,152
- Book value of the Medidep shares held by Korian	389,977,710
MERGER LOSS	**(317,504,558)**

Pursuant to Regulation no. 2004-01 of May 4, 2004 (§ 4.5.2) of the Committee on Accounting Regulations related to the accounting treatment of mergers and similar operations, this merger loss will be recorded under intangible fixed assets on the assets side of the Korian balance sheet in a sub-account entitled "Merger loss" of account 207 "Goodwill".

2.3.3 Expert appraisal reports

The determination of the value of the contributions was reviewed by no expert other than the independent expert.

2.3.4 Consequences of the merger in the consolidated financial statements of Korian

The mergers will result in the recording of complementary goodwill in the consolidated accounts of Korian in an amount of € 3,232.6 million.

Number of Medidep shares held by minority shareholders on the date of merger: 1,804,411

Value at June 30, 2006 based on a stock market value of 29.76 (in thousand of euros): 53,699

Medidep minority interests as of June 30, 2006 (in thousand of euros): 21,056

Complementary Goodwill (in thousand of euros): 32,643

2.4 *Consideration for the contributions*

2.4.1 Parity criteria and valuation methods

Reference is made in this paragraph to the following aggregates:

- The EBIT (Earnings Before Interest and Taxes) corresponding to the current operating profit.
- The EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) corresponding to the gross operating profit, calculated as from the current operating profit and which shall be understood as current EBITDA;
- the EBITDAR, which is the interim operating balance preferred by the Korian Group to follow the performance of its establishments. Under IFRS standards, it is the net operating profit before rent charges.

These aggregates are reflected below:

In K€		06/30/06 real	06/30/05 pro forma	2005 real	2005 pro forma	2004 pro forma
Regular operating profit (EBIT)	*(1)*	***21,788***	***24,350***	***29,712***	***50,212***	***46,269***
Amortization	*(2)*	8,954	9,954	14,128	21,022	18,555
EBITDA	*(3) ='(1)+(2)*	***30,742***	***34,304***	***43,840***	***71,234***	***64,824***
Rents	*(4)*	26,694	19,754	21,936	40,452	32,238
EBITDAR	**(3)+(4)**	**57,436**	**54,058**	**65,776**	**111,686**	**97,062**

The merger parity was determined by the Korian and Medidep Supervisory Boards on September 19, 2006 and set at 12 Korian shares with a nominal value of 1 euro for 1 Medidep share with a nominal value of 3 euros. In order to facilitate the implementation of the planned merger, the September 19, 2006 Korian Shareholders' General General Meeting then decided to consolidate the shares at the rate of one new Korian share for 12 old shares. Therefore, given this consolidation, the merger parity stipulated in the draft merger plan signed on September 29, 2006 by the chairmen of the Korian and Medidep Management Boards is one Korian share for one Medidep share.

As a reminder, Korian holds 87.79% of Medidep on the registration date of this document.

The merger parity was defined according to the following multi-criteria approach:

- Ratio of the respective contributions by the two companies to the accounting and operating aggregates of the new combination;

- Ratio of the respective intrinsic values of the two companies based on the DCF (discounted cash flow) method;

- Ratio of the respective values of the two companies based on the market comparison method.

This multi-criteria approach was carried out on the basis of the following:

- the consolidated annual financial statement audited as of December 31, 2005 released by Korian that appear in Subsection 3.18.1 and those of Medidep appearing in the Medidep reference document filed with the AMF on June 16, 2006 under number D.06-0586 and;
- the consolidated half-year financial statements at June 30, 2006 released by Korian that appear in Subsection 3.18.1 and those of Medidep appearing in the up-dated version of the Medidep reference document filed with the AMF on October 4, 2006 under number D.06-058-A01; and
- The estimated business plans of Korian, Medidep and the post-merger combination, prepared by those companies. The business plans do not reflect the synergies created by the merger of the two companies.

2.4.1.1 Methods not used

The following methods were not deemed relevant in calculating the merger parity between Korian and Medidep:

- The methods based on dividends were dismissed due to the lack of a distribution history for Korian or Medidep. This method was not used in Korian's tender offer on Medidep;
- The approach by net accounting assets was dismissed because it does not take into account the prospects for growth and profitability of the companies, which are critical factor in their intrinsic and market value. Furthermore, the net accounting assets reflect the historical value of the assets of those companies and not their market value. This method was not used either in the tender offer by Korian on Medidep;
- the net revalued assets approach was not used because:
  - the independent valuation of each facility of each of the Korian and Medidep sub-Groups is not relevant in the case of groups established that benefit from a size and network effect;
  - The valuation of the assets of the two companies Korian and Medidep was done from the standpoint of the continuity of operations using comparable (market comparables) and intrinsic (DCF) methods.
- It is worth mentioning again that the net revalued assets valuation method was dismissed at the time of the Korian tender offer on Medidep;
- The market price approach was dismissed owing to (i) the fact that Korian shares were not listed at the time and (ii) the restricted nature of the float and the low liquidity of the Medidep share after the tender offer by Korian initiated on August 16, 2005. For purposes of information, the average share prices of the Medidep share over the last 12 months are presented in the table below:

	Market price (in €)	Volumes traded (in thousands of securities)
Spot (as of August 29, 2006)	30.10	0.30
1-month average	29.86	0.50
3-month average	29.84	0.80
6-month average	29.82	1.60
12-month average	29.86	25.90
12-month low	29.25 (on 4/27/06)	ns
12-month high	30.40 (on 10/17/05)	ns

Source: Datastream

Since August 29, 2006, the Medidep market price went from 30.1 euros to 32.5 euros per share, for an increase of +8.0%. This is to be compared with a market price stabilized at around 30 euros per share after the Korian offer for Medidep in July-October 2005.

- Lastly, the trading multiples approach could not be used satisfactorily due to the lack of a representative sample of transactions deemed comparable to the merger between Korian and Medidep;
  - The merger between Korian and Medidep does not entail a change in control, as Korian already holds 87.79% of Medidep;
  - The number of recent comparable transactions is very limited. Aside from the Korian takeover of Medidep, the only recent operation of significant size in France is the acquisition in July 2006 by means of a leveraging arrangement, of Medica by BC Partners. The multiples resulting from that transaction based on available public information are in line with the multiples of the comparable listed companies.

For information purposes, the table below presents the multiples resulting from the Korian takeover of Medidep, as well as the multiples resulting from the acquisition of Medica by BC Partners.

Multiples calculated from the aggregates of the year of the operation	Medidep	Medica
EV/EBITDA	12.4x	13.4x
EV/EBIT	17.0x	17.4x
PER	28.8x	nd

Source for Medidep: Offering circular approved by the AMF on September, 2005 under number 05-671
Sources for Medica: Research memoranda and press releases

2.4.1.2 Methods adopted

A. Ratio of the respective contributions by the two companies to the accounting and operational aggregates of the new combination

This method consists of calculating the relative contributions of the Korian and Medidep Sub-Groups to the new combination and of deducting from them the corresponding parities. This approach reflects the economic reality of the merger, with the Medidep shareholders joining the Korian shareholders in Korian, which is planning an IPO on that occasion and which will consolidate all the activities of the Korian and Medidep Sub-Groups.

A valuation range for the business combination (Korian after the merger, not including synergies) ranging from 1,150m€ to 1,350m€ (enterprise value) was approached based on a multi-criteria analysis. This valuation range was estimated in late August 2006 and reflects intrinsic valuations of the combined whole. This intrinsic valuation range does not prejudge the price range that may be adopted in connection with the capital increase by Public Offering of Korian. The price for the capital increase by Public Offering will be determined at the end of the so-called order book making process resulting from comparison of supply and demand in accordance with professional practices, as well as prevailing market conditions on that date.

Each sub-group is then valued based on its relative contribution to the Korian Group aggregates, as a ratio of the valuation range of the combined whole overall, as indicated below. Then the parity is calculated by the ratio of the resulting prices per share for each sub-group.

The relative contributions by the Korian and Medidep Sub-Groups were calculated in terms of the following accounting and operational aggregates:

- EBITDAR;
- EBITDA ;
- EBIT, and
- The Net Profit/Loss Group share

As an illustration, based on the consolidated financial statements for the first half of 2006, the relative contribution of the Medidep Sub-Group to the combination is between 52% and 58% of the combination.

Thousands of euros	Medidep	Korian	Contribution by Medidep in Korian
Revenues	138,802	254,703	54%
EBITDAR	30,560	58,921*	52%
EBITDA	17,673	32,227*	55%
EBIT	13,279	22,730	58%
Net profit/loss (group share)	6,351	12,758	Ns*

*the aggregates with asterisks do not take into account the impact of stock warrants on first half 2006.
Note: The contribution by the Medidep Sub-Group is not significant because Korian's net profit/loss includes the minority interests tied to the Medidep holding.

In line with the growth differentials recorded historically between the two sub-groups, the contribution by the Medidep Sub-Group should continue to decrease in the future. Between 2003 and 2005, the number of beds operated by the Medidep sub-group was slightly down (- 6.5%), while its revenues rose by 6.6%. During the same period, the number of beds operated by the Korian Sub-Group (not including the acquisition of Medidep) rose by 56%, and its revenues rose by 64%. In the medium term, given the development plan put together before the buyout by Korian, the number of beds operated by the Medidep Sub-Group should remain approximately constant with moderate revenue growth, while the Korian Sub-Group plans to continue with the growth effort already undertaken, both through mergers and acquisitions and through new openings. The fiscal years selected for analysis are therefore the estimated years 2006, 2007 and 2008. These years will help to understand the prospects for growth and profitability of the two sub-groups.

By way of example, on the basis of the accounting and operating aggregates, the respective contribution of the Medidep sub-group to the combined whole ranges from:

- 53% to 56% of the combined whole for the 2006 fiscal year;
- 47% to 50% of the combined whole for the 2007 fiscal year;
- 43% to 47% of the combined whole for the 2008 fiscal year.

The induced parities (before consolidation of the Korian shares) are shown in the table below (number of Korian shares – before consolidation of the shares at the rate of one new share for 12 old shares – remitted to represent one Medidep share).

Induced parity

	Minimum	Maximum
Average parity based on 2006 aggregates	12.0	12.4
Average parity based on 2007 aggregates	10.3	10.7
Average parity based on 2008 aggregates	9.4	9.7

Notes:
1. Maximum resulting parity based on the bottom end of the valuation range of the combination; minimum resulting parity based on the upper end of the valuation range of the combination
2. The net debt selected is the debt as of June 30, 2006.

A 10% change in the valuation range (in enterprise value, equivalent to a change in the value of the group's equity on the order of 15%) adopted to value the combined whole (Korian after the merger, not including synergies) has an impact of at most 3.3% on the parities indicated in the table below. The valuation range is of secondary concern in the determination of parity in terms of the method off the ratio of the two companies' respective contributions to the accounting and operating aggregates of the new whole.

B. Ratio of the respective intrinsic valuations of the two companies calculated by using the discounted cash flow method

The intrinsic values of the Korian and Medidep Sub-Groups were estimated applying the method of discounted operating cash flows to the future operations of the two companies, a method based on the principle that the value of an enterprise depends on its ability to generate cash flow in the future.

The estimated cash flows used for the valuation are defined as cash flows available to compensate for the capital invested (shareholders' equity and financial liabilities), i.e. after taxes, changes in the working capital requirement and capital expenditures but before the financial profit/loss.

Therefore the methodology consists of estimating those medium-term cash flows (up to 2015), extrapolating them to infinity (through a terminal value) and lastly of discounting them, thus determining the value of the assets on the reference date (enterprise value), from which the amount of net financial debt and minority interests must be deducted to obtain the value of the shareholders' equity.

Operating cash flows were extrapolated based on prospects for organic and external growth of the Korian and Medidep Sub-Groups.

- At constant scope, the Korian and Medidep Sub-Groups operate strictly in the same business sector and according to similar operating profiles; their prospects for medium-term growth are relatively close in that rate increases are regulated for the most part.
- However, the ability of each company to obtain new authorizations to open facilities or make acquisitions is a distinguishing criterion.

Therefore, the medium-term cash flows of the Medidep Sub-Group should be relatively stable and positive; those of the Korian Sub-Group reflect a major short and medium-term capital expenditure program with negative cash flows initially. The final value is therefore a larger component of the value of the Korian Sub-Group in terms of discounted future cash flows.

The discount rate, which corresponds to the weighted average cost of the capital, was calculated from a no-risk interest rate estimated at 3.90% (10-year Treasury bond [OAT]) to which a weighted risk premium (estimated at 6.3%) of an adjustment factor (debt reduction beta of 0.59% based on the average betas of the comparable companies listed) in order to reflect the specific characteristics of the sector. In this context, a sensitivity analysis was done to value each of the sub-groups based on a discounting rate range selected for both companies of between 7.0% and 7.5%.

Because of the different growth profiles of the Korian and Medidep Sub-Groups, differing assumptions were adopted for the two companies in terms of final growth rates: the final cash flow growth rate was estimated at 3.0% for the Korian Sub-Group compared with 2.5% for the Medidep Sub-Group.

The net financial debt adopted for Korian amounts to 399.1 million euros based on its net financial debt as of June 30, 2006. For Medidep, the net financial debt adopted amounts to 103 million euros as of the same date.

These analyses show an average parity of between 9.3 Korian shares for one Medidep share and 11.1 Korian shares for one Medidep share (before the Korian shares were consolidated).

C. Ratio of the respective market values of both companies calculated using the market comparisons method

This method consists of applying market multiples of comparable companies to the financial aggregates of the two companies considered in order to calculate the value of the two companies.

In respect of Medidep, the value selected in this context is naturally its market capitalization. This is a value reflecting the price offered by Korian in the public offering, i.e. less a market value (based on operating prospects) than a value reflecting the premium necessary to acquire a majority stake.

In France there is only a small number of listed companies with a business similar to Korian's. Aside from Medidep, the two comparable French companies listed are Orpéa and Le Noble Age. Le Noble Age, however, was not selected as a relevant comparable owing to a significantly smaller business scope including a construction-sales business and a lack of estimated data available to the public.

In Europe outside France, there are three listed companies operating in the dependent care sector: Southern Cross and Care UK (United Kingdom) and Curanum (Germany). These three companies were omitted from the sample because they operate in markets with significantly different characteristics (especially regulatory) from those at present in France.

Furthermore, there are three companies whose core business is focused on managing private clinics: Générale de Santé (France), Capio (Sweden) and Rhoen Klinikum (Germany). As was already pointed out in the offering circular for the Korian tender offer on Medidep, these companies have different operating and growth prospects from Korian and Medidep. For that reason, they were also omitted from the sample of comparables.

The table below shows the market multiples of the companies included in the sample (as of August 29, 2006):

Company	Country	EV/EBITDA				EV/EBIT				PER		
		2006e	2007e	2008e		2006e	2007e	2008e		2006e	2007e	2008e
Orpéa	FR	18.1x	14.7x	12.7x		23.3x	19.0x	16.3x		34.2x	26.0x	20.5x
Medidep	FR	14.3x	13.3x	11.8x		17.8x	15.8x	13.4x		27.7x	23.7x	21.5x
Le Noble Age	FR	Nd	Nd	Nd		Nd	Nd	Nd		Nd	Nd	Nd
Care UK	UK	13.3x	11.4x	Nd		Nd	Nd	Nd		24.4x	20.8x	Nd
Southern Cross	UK	16.5x	11.5x	Nd		24.7x	15.5x	Nd		31.0x	17.4x	Nd
Curanum	Germ	Nd	Nd	Nd		Nd	Nd	Nd		21.5x	16.5x	13.4x
Gén de Santé	FR	10.1x	9.8x	8.8x		18.2x	17.3x	14.8x		24.7x	23.1x	19.8x
Capio	Swe	10.8x	9.7x	8.7x		17.3x	15.0x	13.5x		20.4x	17.9x	15.0x
Rhoen Klinikum	Germ	9.9x	8.9x	7.3x		14.4x	13.2x	11.0x		17.7x	16.4x	14.7x

Source: IBES, Datastream

For informational purposes, Apax Partners and Nordic Capital announced an offer for Capio on September 1, 2006, contributing to an appreciation on the order of 40% in the share price since August 29, 2006. In this specific context of an offer aimed at the acquisition of a majority interest, the valuation of Capio translates at September 28, 2006 by the following stock multiples, respectively for the 2006, 2007 and 2008 fiscal years:

- VE/EBITDA: 13.4x, 11.7x, 10.3x
- VE/EBIT: 21.7x, 18.5x, 16.7x
- PER: 29.0x, 24.5x, 20.2x

In conclusion, the only two listed companies comparable to the Korian Sub-Group are Orpéa and Medidep. The Medidep market multiples are less than those of Orpéa as the market consensus recognizes that Orpéa has greater prospects for growth than Medidep. The Korian Sub-Group also has growth prospects greater than Medidep; therefore, higher multiples than those selected to value the Medidep Sub-Group were applied to the aggregates of the Korian Sub-Group.

The Korian Sub-Group is valued based on two series of multiples:

- The Orpéa market multiples in the high end of the range;
- The average of the market multiples of Medidep and Orpéa at the bottom end of the range.

The multiples used are listed below:

- EBITDA multiples for the years 2006, 2007 and 2008;
- EBIT multiples for the years 2006, 2007 and 2008;
- The Price Earnings Ratio for the years 2006, 2007 and 2008.

The net financial debt selected to switch from the enterprise value to the equity value is the net debt of both companies combined as of June 30, 2006.

This method shows a parity of between 10.4 and 13.0 Korian shares for one Medidep share.

On the basis of the methods for updating future cash flows and market price comparisons, the induced valuations (in enterprise value) for the Korian and Medidep Sub-groups range from:

- between 500m€ and 550m€ for the Medidep Sub-group; and
- between 650m€ and 800m€ for the Korian Sub-group (not including the interest in Medidep).

These valuation ranges were determined in late August 2006 and reflect the intrinsic valuations of the two sub-groups, not including synergies. They do not prejudge the price range that may be adopted in connection with the Capital Increase by Public Offering of Korian. The price of the Capital Increase by Public Offering will be determined at the end of the so-called order book making process resulting from a comparison of supply and demand in accordance with professional practices, as well as prevailing market conditions.

D. Sensitivity of the methods adopted for the structuring of the holding of the real estate property of the Medidep and Korian sub-groups

Among the 27 establishments owned outright or jointly by the Korian Group, or which the Group rents under leases, 15 establishments are attached to the Korian sub-group (to which it is advisable to add the Massy office rented under a lease) and 12 are attached to the Medidep sub-group. The other establishments operated by the Korian Group have been divested. The Korian Group's real estate properties are described in paragraph 3.6 of this document. Korian's real estate policy is described in paragraph 3.4.4.5.

Absent an independent expert appraisal of the valuation of the real estate owned in whole or in part or by lease by the Korian Group, theoretical analyses have been made to simulate the impact of a divestment of the portfolio held today on the valuation of the Korian and Medidep sub-groups. The methodology consisted of:

- Estimating a theoretical rent in case of divestment, establishment by establishment, taking into account criteria followed by the group during previous operations (cf. paragraph 3.4.4.5);
- Estimating a theoretical market value by diving the theoretical rent by a grow compounding rate in line with current market trends, i.e., between 7.0% and 7.5%. The market value of the jointly-owned establishments is established proportionately to the percentage held;
- Taking into account the theoretical tax burden taxing the capital gain on sale; and
- Finally, estimating the impact, according to the method for adjusting cash flow described in paragraph 2.4.1.2.B, of a scenario of full divestment of real estate on the valuation of the Korian and Medidep sub-groups.

The analyses revealed a comparable and limited impact on the respective valuations of the Korian and Medidep sub-groups:

- the two sub-groups hold comparable proportions of real estate outright, under joint ownership or by lease;
- the decrease in adjusted cash flows, associated with paying a theoretical rent, being offset by the theoretical net gain on real estate sales.

In conclusion, taking the real estate held outright, jointly owned or by lease in the Korian and Medidep sub-groups has no material impact on the merger parity calculations as made on the basis of the methods adopted.

2.4.1.3 Synthesis

The table below shows the induced parities between the Korian shares and the Medidep shares (before the Korian shares were consolidated) by each of the valuation methods used:

	Induced parity	
	Minimum	Maximum
Relative contribution methods		
Based on 2006 aggregates	12.0	12.4
Based on 2007 aggregates	10.3	10.7
Based on 2008 aggregates	9.4	9.7
Discounted free cash flows	9.3	11.1
Comparative approach (market multiples)	10.4	13.0

The result is relative values of between 9.3 and 13.0 Korian shares for one Medidep share (before the Korian shares were consolidated). The parities resulting from the 2006 aggregates (more definite because they are closer in time and less subject to execution risk, were over-weighted in the decision to select the final parity.

On this basis, a suggestion was made to select a parity of 12 Korian shares for one Medidep share (before the Korian shares were consolidated), i.e. after consolidation of the Korian shares, a parity of one Korian share for one Medidep share.

The parity was deemed relevant by the Dominique Ledouble firm acting on behalf of Medidep. The certification by the Dominique Ledouble firm is reproduced in Subsection 2.4.2 and in Appendix III.

The merger parity, as well as the approach adopted to calculate it, were deemed fair by the Merger Auditors in charge of ruling on the operation. The report by the Merger Auditors is attached to this document.

2.4.2 Certification by the independent expert on the exchange parity used

Mr. Dominique Ledouble, appointed as an independent expert by the Medidep Supervisory Board, concluded his work as follows:

"By way of conclusion of my work, I believe that the parity of one Medidep share for twelve Suren shares, arrived at by the results of the different approaches summarized above, is fair for the shareholders of Medidep"

The report of Mr. Ledouble is set forth in Appendix III.

2.5 *Effects*

2.5.1 Effects on the company receiving the contributions and its shareholders

2.5.1.1 Table showing the impact of the operation on equity capital (see table below).

Changes in the equity capital of the company receiving the contributions

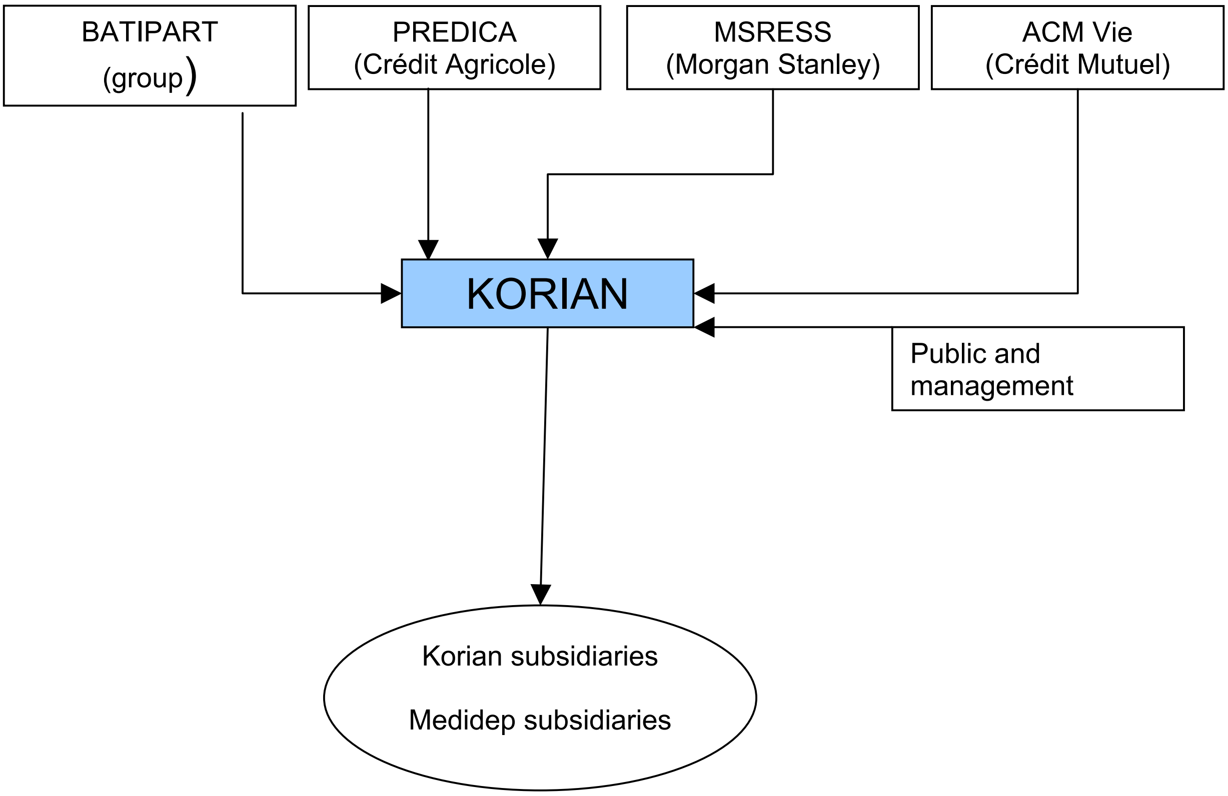
The table below is based on the following assumptions:

- The aggregates are taken from the Korian individual accounts at June 30, 2006;
- The Korian share capital is restated to reflect the share consolidation and the capital reduction referred to in Subsections 2.2.3 and 2.2.3.2;
- The Capital Increase by Public Offering and the other capital increases are not taken into account.

	Number of financial instruments	**Capital stock (€ 000)**	**Other corporate equity items (€ 000)**	**Total equity capital (€ 000)**
Initial position	**21,456,170**	**107,208**	**2433,341**	**N/A350,621**
Impact of the total number of financial instruments created	**1,804,411**	**9,022**	**+1,045 (merger premium)**	**10,067**
Position after the operation	**23,260,581**	**116,302**	**244,386**	**360,680**

2.5.1.2 Organization chart after the operation

The shareholding percentages in Korian will be specified in the offering circular approved by the AMF which will be issued for the purposes of the Capital Increase through a Public Offering.



At the end of the merger and assuming that no other capital operation would be undertaken concurrently with the merger, Korian's capital would be allocated among the current Korian shareholders and the former Medidep shareholders as follows:

	Pre-merger		Post-merger	
SHAREHOLDER NAME	NUMBER OF SHARES (nominal value € 1)	%	NUMBER OF SHARES (nominal value € 5)	%
Batipart Group	100,091,580	38.87%	8,340,965	35.86%
MSRESS ARMAILLAC B.V.	46,552,554	18.8%	3,879,379	16.67%
PREDICA	89,690,454	34.83%	7,474,204	32.13%
ACM VIE	18,566,411	7.21%	1,547,200	6.65%
Korian minority shareholders	2,573,041	1%	214,420	0.92%
Medidep minority shareholders			1,804,411	7.75%
Total	257,474,040	100%	23,260,581.00	100%

These percentages are provided for information purposes based on the existence of capital transactions for Korian, including the Capital Increase through Public Offering, which are to take place simultaneously with the execution of the merger and which will result in the preparation of an offering circular submitted for the approval of the AMF.

2.5.1.3 Changes planned in the administrative and management bodies.

See Subsection 3.12.3

2.5.1.4 Change in Medidep market capitalization

The table below reflects Medidep's market capitalization before and after the June 26 and September 20, 2006 press releases about the planned merger.

	Market price in € (closing)	*Market capitalization in € (for 14,796,078 shares)*
On June 23, 2006	*29.76*	440,331.281.30
On June 26, 2006	29.76	440,331.281.30
On June 27, 2006	*29.76*	440,331.281.30
On September 19, 2006	*33.0*	488.270,574
On September 20, 2006	*32.5*	480,872,535
On September 21, 2006	*32.46*	480,280,691.9

2.5.1.5 Demonstration of the impact on the calculation of net earnings per share on the basis of the last fiscal year ended for each of the companies involved in the operation and for the merged entity.

The increase in the number of Korian shares after the merger with Medidep will have the following impact on earnings per share:

	Reported	Proforma (3)
Net earnings group share (in € 000) (1)	12,758	13,556
Weighted average number of shares (thousands) (2)	254,059	254,059
Number of shares issued after the merger (thousands)		21,653
Total number of shares (thousands)	257,474	275,712
Net earnings per share (in €)	0.050	0.049

Notes:
(1) Based on the half-year accounts as of June 30, 2006 (net earnings group share over 6 months)
(2) Total number of shares (before consolidation of Korian shares); there are no options remaining to be exercised at Korian or Medidep
(3) After the merger, 100% of Medidep held by Korian

2.5.1.6 New guidelines under consideration

See Subsection 3.4.3

2.5.1.7 Short and medium-term projections for the business and possible restructurings, results and the dividend distribution policy.

See Subsections 3.11 and 3.18.3

3 PRESENTATION OF THE KORIAN GROUP (BENEFICIARY OF THE CONTRIBUTIONS AND ISSUER)

3.1 *Selected financial information*

Consolidated data in million of euros	**2004** IFRS Standards *pro forma*	**2005** IFRS Standards *pro forma*	Δ	**H1 2005** IFRS Standards *pro forma*	**H1 2006** IFRS Standards	Δ
Korian Group						
Revenues	401	478	19.0%	232	255	9.7%
EBITDAR	97	112	15.1%	54	57	6.3%
% of revenues	*24.2%*	*23.4%*		*23.3%*	*22.5%*	
EBITDA	65	71	9.9%			
% of revenues	*16.1%*	*14.9%*				
Group share of net earnings	5	30	n.s.	2	13	n.s.
% of revenues	*1.3%*	*6.2%*		*0.6%*	*5.0%*	
including						
Nursing Homes						
Revenues	251	305	21.3%	148	164	10.9%
% of revenues	*62.6%*	*63.8%*		*63.8%*	*64.5%*	
EBITDAR	65	76	16.3%	37	41	11.7%
% of revenues of business unit	*25.8%*	*24.8%*		*24.7%*	*24.9%*	
including						
Clinics						
Revenues	150	173	15.2%	84	90.5	7.8%
% of group revenues	*37.4%*	*36.2%*		*36.2%*	*35.5%*	
EBITDAR	32	36	12.6%	18	17	-5.7%
% of business unit revenues	*21.4%*	*20.9%*		*20.8%*	*18.2%*	
Total number of Group establishments	161	168		163	172	
Nursing homes	120	125		122	127	
Clinics	41	43		41	45	
Total number of beds operated in the Group	13,352	13,598		10,510	13,798	
Nursing Homes	10,137	10,383		10,295	10,503	
Clinics	3,215	3,215		3,215	3,295	
Nursing homes occupancy rate	92.9%	94.1%		na	96.1%	
Clinics occupancy rate	90.4%	94.2%		na	95.1%	

3.2 *Risk factors*

Investors are invited to consider all information provided in this Document, including the risks described in this chapter, before making any decision to purchase or subscribe to Korian shares. The risks described here are those which Korian believes, on the date of this Document, as likely to have a significant negative impact on the Korian Group, its business, financial position, results or growth. The Korian Group cannot exclude, however, the possibility that other risks may arise in the future and have a significant negative effect on the Korian Group, its business, financial position, results or growth.

3.2.1 Risks related to Korian's business sector

3.2.1.1 Risks related to obtaining and maintaining operating licenses

Nursing care facilities or nursing homes (*établissements médico-sociaux*) (EHPAD - Residential Facilities for Elderly Dependents and similar institutions)

The creation, renovation and extension of nursing homes are not free, and require the issuance of a license by the administrative authorities for each facility, subject to public financing of the costs of care. The regulations for these licenses are described in Subsection 3.4.2.2.B. It is not always possible to guarantee that public financing will be obtained before the institution in question is actually built, converted or expanded and recognized as operational by the administrative authorities. Thus, the Korian Group may take the risk to begin the construction, renovation or expansion of a facility without the financing necessary for operation on the operational start date. The effective absence of such financing after the work is completed would negatively affect the Group's financial position.

Moreover, a compliance inspection to ensure compliance with the obligations under the tripartite or safety convention is conducted regularly by the appropriate authorities (the local French *département*, DDASS, firemen, etc.). Although the Korian Group has never been refused a certificate of compliance resulting in the closing of a facility, if the compliance inspection reveals failures within the facility and a deficiency in the quality of care, this could result in an order to modify the care provided or perform work or, in the most extreme cases, the suspension of the operation of a facility.

The renewal of a license, which is valid for fifteen years, is subject to compliance with minimum care standards, which is verified by a compliance commission.

Hence the Korian Group is exposed to the risks of lapse, suspension, withdrawal or non-renewal of its operating licenses, which could have direct consequences for its business, its growth policy and its financial results.

The clinics (SSR clinics (Follow-up care and Rehabilitation), psychiatric and similar facilities)

The clinics are subject to the licensing rules set forth in Subsection 3.4.2.3B. The license granted to an institution could lapse, be suspended or withdrawn, either in the case of a major problem with the institution (internal problem) or in a case where the care offered by the institution does not meet the needs (external problem); this risk can also arise when a license is renewed, transferred or acquired. Finally, and temporarily until March 31, 2008, the ARH (Regional Hospitalization Agency) has the discretion to withdraw a license if the license is not compatible with the policies of the SROS III (Regional Health Organization Plan) regulations.

It must be noted that withdrawal once occurred in 2001 in the Medidep group because of a decision by the ARH to remove beds in response to a surplus in a given territory.

The loss of one or more operating licenses could have negative consequences for the businesses, financial position and results of the Korian Group.

3.2.1.2 Risks related to the tripartite agreements and the objectives and means contracts

Nursing care facilities or nursing homes (établissements medico-sociaux)

The EHPADs must sign a 5-year tripartite agreement with the General Council and the Departmental Office of Health and Social Actions (*Direction Départementale des Actions Sanitaires et Sociales*-DDASS) in their department before December 31, 2007 to be able to continue to accept elderly dependents.

The loss of the benefits of one or more agreements could have significant negative effects on the businesses, financial position and results of the Korian Group. Moreover, a substantial change in 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 growth strategy, which could have a significant unfavorable impact on the Korian Group’s business, financial position and earnings.

Clinics

The clinics must sign a multi-year means and objectives contract ("CPOM") for a maximum term of five years, which is intended to set out the strategic guidelines of the facility, state the volume of activity authorized, and set the related rates. This system is described in Subsection 3.4.2.2B.

In negotiating these contracts, healthcare facilities are exposed to the risk that their obligations will be increased by the Regional Hospitalization Agency (ARH) without the corresponding financing, which would have a negative impact on the financial situation and results of the Korian Group.

In addition, the CPOM may be terminated or suspended by the ARH before the expiration date in a case of a serious failure by the facility to comply with regulatory or legislative requirements or its contractual obligations, which would have a negative effect on the Korian Group's financial position and earnings.

Finally, the decree that will define the content of the next generation CPOMs is expected in September 2006. The resulting increase in obligations could result in new operating conditions for the Group, resulting in an increase in its investment expenditures and/or its operating expenses.

The financial sanctions to be applied in the event of failure to respect the terms of the CPOM will be defined in more detail than previously, which could generate significant costs for the Korian Group if it is unable to achieve certain objectives set out in a CPOM.

3.2.1.3 Risks related to the change in social policy and the rates applicable in France

EHPADs

A portion of the revenues from the nursing care facilities is set by the public authorities on the basis of the costs incurred by these institutions (see Subsection 3.4.2.3). There is a risk that the public authorities will limit their share of the financing of those costs, particularly care costs.

Moreover, a change in the conditions for awarding social security benefits or the reimbursement of care by Health Insurance could increase the residential costs for residents and, therefore, create a risk of a reduction in the profit margin for the facility.

A severe shortage of rooms in EHPAD facilities would result in a substantial increase in rates. In such an event, there could be a risk that the government would decide to set stricter residential rates.

An unfavorable change in the social and rate policy in France, particularly with regard to the players in the for-profit private sector, could have a negative impact on the business, strategy, financial results, position and outlook of the Korian Group.

Clinics

A very significant portion of the revenues from the clinic facilities depends on the rates set by the social security agencies (see Subsection 3.4.2.3C). Any reduction, freezing or insufficient re-evaluation of the rates could, therefore, have a negative influence on the profitability and financial position of the Korian Group.

Moreover, the upcoming extension of the per-activity rate system (T2A) to the SSR and psychiatric clinics may not generate the profits expected by the Korian group from its business (see Subsection 3.4.2.3C), and could have negative repercussions on the Group if the specialties that it is developing are not valued appropriately in terms of rates.

The Korian Group believes that its clinics are not affected by the recent government statements regarding a possible decrease in the rates applicable to clinics, since these statements are aimed at private medical, surgical and obstetrical clinics and not at follow-up care, rehabilitation and psychiatric clinics.

3.2.1.4 Other risks related to the business

Because of either the medical or para-medical nature of their operations or because of building safety requirements (regulations governing facilities receiving the public-ERP), the Korian Group's facilities are subject to a set of strict regulations governing the safety of people, hygiene, health (including hospital-borne diseases, epidemics, drug system, infectious waste management, etc.), the environment, and ethics (prevention of abuse, respect for patients' rights, etc.)

Failure to comply with any of these regulations by the Korian Group facilities would likely to result in civil and/or criminal liability for the Korian Group and have a negative impact on its business and financial position, and/or damage the reputation of the entire Korian Group.

Major regulatory changes could entail expenses for the Korian Group (facilities, equipment, personnel, etc.) that lead it to change its investment plans, its operating expenses or the conditions under which it conducts its business and delay the implementation of the Group's strategy. In addition, failure to comply with such new regulatory obligations could result in a suspension of licenses and have a material negative impact on the Group's activity, financial position and earnings.

3.2.1.5 Risks of a pandemic

The development of a pandemic could have a negative effect on the Group's business, financial position or results, primarily because of the possible loss of business that could result and the additional expenditures and costs resulting from the introduction of exceptional health measures.

3.2.1.6 Climate risks

Certain climatic events can aggravate pre-existing chronic illnesses in residents and patients and endanger their health.

An assessment of the climate risk within the facilities is of a delicate nature. If the Group's facilities are not able to deal with this risk, they could incur liability and their image could be affected, thus reducing their attractiveness, which could have unfavorable consequences on its business and results.

Excessive death rates for aging persons in their homes because of a possible exceptional heat wave could also temporarily impact the occupancy rates of the Korian Group (a phenomenon observed over about 12 months in 2003-2004).

3.2.1.7 Risks of the appearance of alternative methods for providing dependent care

Primarily because of political will, the Korian Group cannot rule out the development of alternative methods for caring for persons who are temporarily or permanently dependent rather than residence in facilities like those operated by the Group. In particular, these methods could involve health care at home.

The Korian Group believes, however, that these alternative methods, which it plans eventually to include in its range of services offered, are not currently compatible with care provided at a reasonable cost to persons who are very dependent and, therefore are unlikely to substantially replace the services offered by the Group in its EHPADs and SSR clinics.

3.2.1.8 Commercial risks

In a business that provides personal services, and even more in the context of providing care to dependent persons, the Group's facilities may be exposed to claims and complaints from patients or their families concerning the quality of the medical follow-up, the care provided, and the residential services offered.

The physicians who practice in the Group's facilities, either as employees or on a fee basis, incur their own professional liability for any negligence that they may commit in the performance of their duties. While their liability is separate from the facility's liability, it is still true that the reputation of the facility and, therefore, its business and financial results, could be affected by a liability action against one of its physicians, even if it has no basis, filed by a patient or a patient's family.

In light of the group identity displayed throughout all the facilities, such a situation could affect the Group's overall image and its commercial policy and, therefore, have a negative impact on all its businesses, its growth potential, its financial position and results.

3.2.1.9 Labor risks

The shortage in care personnel and/or a possible increase in the employee turnover rate, particularly for qualified care personnel (particularly registered nurses (IDE in France) who could be hired away by public or private competitors) could have consequences for the quality of service within the facilities of the Korian Group, affect its image and its prospects for growth, or cause a significant inflation in salaries which would have a negative impact on margins. A possible continuing shortage of personnel in certain facilities, if it occurred, could cause the termination of certain operating licenses.

A change in the regulations or the requirements of the supervisory authorities could also mean that the Korian Group would have to increase the number of qualified personnel on a constant-bed basis. This could mean that the Korian Group would have to face an increase in its payroll and lead to major recruitment operations against the backdrop of a general shortage in qualified personnel.

Moreover, the Korian Group cannot rule out a deterioration in its labor relations that could lead to labor unrest in the form of strikes, work stoppages, or other claims, actions which the Group has not had to manage to date. As a result, the successful operation of its facilities, its financial position and its operating results could be affected by labor problems.

3.2.1.10 Risks of dependence on key executives

The future success of the Korian Group depends in part on its ability to motivate and retain a qualified and experienced management team developed gradually from the time the Group was formed.

The management team has extensive experience in the Group's markets, mastery of all its businesses, and a strong ability to consolidate acquisitions. If the Group were to lose the services of its key executives, if they cut back their involvement, the Group could have problems in replacing them and its growth could be temporarily slowed.

3.2.1.11 Risks in terms of acquisitions

In the context of its external growth policy, the Group is and will, in the short, medium and long term, look for opportunities, notably through acquisitions, to acquire stakes or form partnerships, and to participate in the trend toward consolidation in the sector. The Group cannot, however, guarantee that such opportunities will arise, particularly with economic and financial conditions acceptable for the Group, that it will be able to successfully consolidate the companies that it acquires, generate the anticipated synergies, maintain a system of uniform procedures, maintain good relations with the employees of the entities acquired, or make these acquisitions profitable.

In addition, the agreements guaranteeing liabilities which the Group has negotiated or which it will negotiate during future acquisitions may not cover all the liabilities of the companies acquired. Finally, some of the liabilities assumed by the Group may subsequently turn out to be greater than the amounts of the guarantees received from the sellers.

These acquisitions and investments could have a significant negative impact on the business, financial position or results of the Group or on its ability to achieve its objectives.

Also, the appearance of national and regional groups has intensified the competition for acquiring facilities, which represents the principal driver of growth for the Korian Group. The presence of several publicly traded groups (Noble Age, Orpéa) should give those groups additional financial resources. The risk of a bidding war among the major operators cannot be ruled out during external growth operations. Any increase in purchase prices could slow the projected rate of acquisitions. Such a situation could have a substantial negative effect on the Group’s businesses, earnings, outlook and financial position.

Finally, the Korian Group is planning to base a portion of its external growth on development abroad, which is subject to different regulations from those in force in France. The Korian Group’s experience acquired in the French market could be insufficient and a learning curve period may be necessary. Such a situation could have unfavorable effects on the profitability of investments made outside France.

3.2.1.12 Risks related to the IT systems

The Korian Group uses a certain number of IT tools and systems to manage files and data for its residents and patients and to manage its human resources. As these systems are used in the daily management of the Group's activities, any problem in these systems could temporarily paralyze operations and have negative consequences on the Korian Group's results. A failure of the Group's IT system could also prevent the Group from conducting its business under normal conditions, which could have significant negative effects on the Group's business, its earnings, and its financial position.

3.2.1.13 Risks related to subcontractors and suppliers

In order to perform some of its services related to its core business, such as catering and laundry, the Korian Group uses subcontractors. Korian cannot rule out the possibility that subcontractors could default on their obligations.

Although the Korian Group believes that it is not dependent on its suppliers, certain events could affect the quality and/or the costs of a family of products from the Group's suppliers and co-contractors:

- the insolvency or bankruptcy of a supplier;
- a decline in quality or failure of a product from a supplier;
- internal restructuring of a supplier;
- inability to handle extreme weather conditions;
- supplier price hike on a product heavily used in the facilities; and
- a break in the supply chain.

Such a situation would have repercussions and unfavorably impact the reputation and image of the Korian Group and would have a negative impact on its business, financial position and earnings.

3.2.1.14 Property risks

Approximately 85% of the buildings in which the facilities of the Korian Group are operated are leased from third-party lenders. The rent paid, including expenses, amounted to about 11% of revenues.

These rent payments are indexed to the French Construction Cost Index (ICC), which the Group cannot predict in the coming years, given that it has risen sharply over the last three years.

A sharp increase in the ICC over the coming years could have extremely negative effects on the Korian Group's results.

Moreover, a substantial portion of the buildings used by the Korian Group (118, which represents 69%) are leased from third parties under commercial leases with a firm term of more than 11 years. Fifty-five of these leases are with the company Foncière des Murs and will all expire in 2016 and 2017. Because of this concentration of expiration dates, the conditions for the renewal or non-renewal of all these leases over a short period of time could have negative consequences on the Group's profitability and prospects.

3.2.1.15 Risks related to Korian Group facilities managed by third parties

Some of the facilities consolidated by the Korian Group are not managed by the Korian Group:

- seven of the thirteen EHPADs held 50% by Korian and 50% by Domus Vi are managed by Domus Vi and six by Korian;
- the two facilities in Belgium are managed by Korian's local partner, which holds 25%.

These facilities are subject to the same risks as those discussed above. As Korian does not directly control the management of these risks, Korian depends, therefore, on third party management for a very limited portion of its business.

3.2.2 Legal and tax risks

Besides the litigation found in the normal course of its business, a summary of which appears in Subsection 3.18.4, the companies in the Korian Group are parties to two commencements of litigation of the sort to lead to a significant cost for the group, and which have not yet been referred to the appropriate courts.

Litigation regarding the acquisition of the Mieux Vivre group

The company SAS Holding Mieux Vivre, of which Medidep holds 50% of the capital alongside the company Domusvi, acquired 12 companies in 2001, operating 12 retirement facilities (cf. Subsection 3.20).

The purchase price was made up of a base price and a price supplement determined on the basis of 6.5 times the best gross operating profit made by the Mieux Vivre group in the course of the 2001, 2002 and 2003 fiscal years. An initial price supplement was thus paid for the 2002 fiscal year, with a disagreement remaining on an amount on the order of € 1.3 million.

For the 2003 fiscal year, the calculations made by Holding Mieux Vivre led to the conclusion that no price supplement would be due (the theoretical price supplement for this fiscal year being lower than the one paid for 2002). The sellers nevertheless had an amicable audit performed of the Mieux Vivre Group's statements and after this claimed accounting restatements leading to a theoretical price supplement valued at € 3 million. In this context, and taking into account the price supplement already paid, the sellers are claiming a price supplement on the order of € 9 million.
Holding Mieux Vivre challenged the audit report initiated by the Plaintiffs and simply accepted the principle of an adjusted price supplement amount to 682,500 euros. This sum was accordingly posted by Holding Mieux Vivre. The statements of Korian include half of this sum.

The parties to the dispute commissioned experts, but disagree on the nature of their task, i.e, whether an expert's report in connection with the determination of the price or arbitration under the arbitration clause.

Litigation on the subject of value-added tax

Further to an accounting audit for the period from March 1, 2003 to March 31, 2005, concerning VAT, a proposed correction was sent to Korian in September 2006.

The tax administration was of the opinion that Korian was not in a position to get back all the VAT on all the invoices for purchases of fixed assets and general expenses, since its prorated deduction was not 100%. Accordingly, Korian was notified of back VAT in the principal amount of € 772,000.
The Company intends to dispute the proposed correction, and obtain a decrease in the amount of tax it is being made liable for, by challenging the tax administration's calculation.

3.2.3 Financial risks

3.2.3.1 Risks related to the Korian Group debt

Korian Group's total consolidated net debt amounted to € 399.1 million at June 30, 2006. Most of this debt was generated under a loan agreement signed in 2005 at the time of the acquisition of 87.79% of Medidep, the terms and conditions of which are described in Subsection 3.8 “Cash and capital”.

The table below shows the breakdown of the Korian Group's net debt by maturity date at June 30, 2006 (thousands of euros).

Maturity of the financial debt

Maturity	- 1 year	1 to 5 years	5 years and +	Total
Loans	21,987	134,838	257,128	413,953
Real Estate Leases	1,828	5,913	3,032	10,773
Long-term Deposits and Security		460		460
Employee profit-sharing			9	9
Bank credit facilities	28,650			28,650
Cash and cash equivalents	(54,721)			(54,721)
Total net financial debt				**399,124**
Short-term resident deposits	16,819			16,819
Fair-value financial instruments	2,841			2,841
Other miscellaneous financial debts*	71	1,103		1,174
Total net debt	**17,475**	**142,314**	**260,169**	**419,958**

** Agreement to buy back minority interests*

The Korian Group's financial debt is comprised essentially of a credit underwritten by a banking syndicate pursuant to a Credit Convention executed by Korian on August 11, 2005 and which Medidep joined. The purpose of this agreement was to:

- finance half of the price for the interest acquired by Korian in Medidep;
- refinance the bulk of the Korian Sub-group's existing debt;
- refinance the bulk of the Medidep Sub-group's debt;
- finance Korian's need for working capital.

At June 30, 2006, the amounts owed under this agreement reached € 397.6 million, broken down as follows:

- Financing of half of the price for the interest acquired by Korian in Medidep: € 201.6 million;
- Korian Sub-group refinancing: € 35 million;
- Medidep Sub-group refinancing: € 111 million;
- financing of Korian's need for working capital: € 10 million.

At June 30, 2006, outstanding leases in an overall amount of € 10.7 million were broken down as follows:

- Korian Sub-group: € 5.5 million
- Medidep Sub-group: € 5.2 million.

The Credit Convention (as this term is defined in Subsection 3.8.3) contains some early prepayment clauses. Therefore, there is a risk that the Korian Group will be required to repay its financial debt, which it would be able to do only if it finds replacement financing resources.

The main cases of mandatory early full repayment of the 2005 Credits are the following:

- occurrence of the case where Batipart, PREDICA and ACM Vie should come overall to hold, directly or indirectly, less than 33.34% of the capital stock or voting rights (fully diluted) of Korian or in the event that another shareholder should hold, directly or indirect, alone or in concert, a greater portion of the voting rights and/or capital stock of Korian compared to that of Batipart, PREDICA and ACM Vie....
- Non-payment on the due date of any amount owed by the borrower considered pursuant to the financing documents for the 2005 Credits (the "Financing Documents").
- persistent non-observance by a borrower of any of the agreements or obligations pursuant to the Financing Documents.

- in the event that one of the representations or warranties made or deemed reiterated proves inaccurate in any substantial item.
- occurrence of an event of default or acceleration or any default on payment on the proper date pursuant to any contractual obligation regarding a financial debt of a company in the Korian Group in a cumulative amount of over € 4,000,000 for all the members of the Korian Group, except for good-faith questioning of whether this amount is owed.
- any default in payment of a commercial debt or the occurrence of any litigation liable to lead to an overall disbursement for the members of the Korian Group greater than € 4,000,000, unless there is a good-faith challenge.
- occurrence of any "Significant Unfavorable Event," unless it has been remedied within a time period of 30 business days as of its occurrence, it being specified that such an event is defined pursuant to the 2005 Credit Convention as any fact or event, regardless of its nature, cause, or origin, significantly and unfavorably affecting the financial standing, assets, equity or business of a borrower, a primary subsidiary or of the Korian Group or the ability of a borrower to satisfy its commitments or obligations pursuant to the Financing Documents or leading to a significant decrease in the value of any guaranty given pursuant to the Financing Documents in question.
- non-observance of the ratios mentioned below.

The ratios set in the Credit Conventions are the following:

Ratio "R1" (or consolidated Financial Leverage Ratio) means the ratio, for a given Test Period, of the Consolidated Net Debt to the Consolidated EBITDA. It is based on the following definitions:

"**Consolidated EBITDA**" means the consolidated operating profit ("Consolidated EBITDA") for the period in questions pursuant to the General Accounting Plan;
minus the fiscal-year provision for employee profit-sharing;
plus the provision for depreciation and amortization and net provisions for reversals (with the exception of the amortization of goodwill or business depreciations);
plus, only for purposes of calculating Ratios R1 and R2 (and thus not taken into account in the EBITDA calculation serving as the basis for the calculation of the Consolidated Net Cash Flow), the dividends received from companies consolidated by the equity method.

"Net Consolidated Debt" means the difference between (1) and (2), where:
(1) means the "Debt," i.e. all loans and similar debts (including the principal portion of lease and financial leasing agreements restated in the financial statements pursuant to international standard IAS 17, but not including bonds convertible into shares at compounded interest subscribed by the Shareholders), pursuant to the General Accounting Plan, plus (i) the credit position of the bank accounts (on the books of Korian and of its subsidiaries), (ii) the paper presented for discounting and not matured and (iii) the factoring.
(2) means the "Consolidated Cash Flow," i.e. the sum of (a) the debit position of the bank accounts (on the books of Korian and of its Subsidiaries) and (b) the assets in cash and short-term securities.

This R1 ratio must be lower than 5.8 at December 31, 2005, 5.6 at June 30, 2006, 5.3 at December 31, 2006, with the amount decreasing to 2 at December 31, 2001 and beyond.

The "R2" ratio (or consolidated Financial Expense Coverage Ratio) means the ratio during a given Test period of the Consolidated EBITDA to the Consolidated Financial Charge.

It is based on the following definition:

"Consolidated Financial Charge" means the interest and similar charges (including those of restated leases, but not including compounded interest and similar charges), minus the sum of other interest and financial proceeds from investments and liquid assets and net proceeds on the sale of short-term securities.

This R2 ratio is calculated as of June 30, 2006. It must be greater than 2 at this date, 2.8 at December 31, 2006, then increase up to 6 at December 31, 2001 and beyond.

As of December 31, 2006, an "R3" ratio (or consolidated Debt Service Coverage Ratio) must be calculated, which means the ratio during a given Test Period of the Consolidated Net Cash Flow to the Consolidated Debt Service. It must be greater than 1 for the entire term of the Credit Convention.

In the case of the R1 ratio, Korian has ascertained that at June 30, 2006, the last ratio test date, it was equal to 5.77, and thus higher than the limit of 5.6 stipulated in the Credit Convention. The reason for this overage is due essentially to the real estate strategy followed by the Group and, in particular, to the holding of several buildings under construction that the Group had originally plan to divest itself of.

The CIC bank, agent pursuant to the Credit Convention, raised the issue of early repayment for non-observance of the R1 ratio at June 30, 2006. It also authorized the capital decrease mentioned in Subsection 2.2.3.2.

The details on the Korian Group's financing are presented in Subsections 3.7.5.2 and 3.8.3.

It is noted that Korian wishes to refinance its debt pursuant to the Credit Conveniton bewteen now and the end of the year 2006 (see Subsection 3.8.3).

3.2.3.2 Rate risks

See Subsection 3.8.

As of December 31, 2005, 11% of the Korian Group's debt was at fixed rates and 89% was at variable rates.

The Group uses standard derivative financial instruments (rate swaps, caps, floors, etc…) to hedge the interest rate risk resulting from its policy of variable rate financing. As of December 31, 2005, the 2-year hedging rate represented approximately 90% of the outstanding variable rate loans, and the 10-year hedge represented about 70%, reflecting the Group's prudent management policy.
The cost of this debt could rise if there is a substantial increase in the interest rates. This situation would generate additional costs for the Group and would have a negative impact on its results.

3.2.3.3 Risks related to off-balance sheet commitments

Aside from the risks mentioned in the notes to the consolidated financial statements as of June 30, 2006, the Korian Group has no significant off-balance sheet commitments (at the consolidated level) as of the date of this Document with the exception of the commitment to buy out their interest made by Korian to the minority shareholders (60%) of the Sinoué Group, of which Korian owns 40%. This potential expense is mentioned in Note 26 of the notes to Korian's consolidated half-year statements as of June 30, 2006 included in Subsection 3.18.1.1.

In addition to what is stated above, minority buyback obligations are posted under "other miscellaneous financial debts" at June 30, 2006, for € 1.1 million on the consolidated statements of Korian (cf. Note 26 of the notes to the consolidated half-yearly statements of Korian at June 30, 2006 appearing in Subsection 3.18.1.1).

There is no significant additional price clause that the Korian Group is a party to for an acquisition.

3.3 *Information about the issuer*

3.3.1 History and development of the company

3.3.1.1 Corporate name

The corporate name of the issuer is “Korian”.

Previously known as Suren since it was formed, the Company adopted the corporate name Korian at the end of the Extraordinary Shareholders’ Meeting of September 19, 2006, effective as of September 28, 2006.

3.3.1.2 Registration

Korian is registered with the Paris Trade Register under Number 447 800 475.

3.3.1.3 Incorporation – Term

Korian was incorporated on March 24, 2003 in the form of a French *société par actions simplifiée* (simplified joint stock company). Pursuant to a resolution adopted by a Extraordinary Shareholders’ meeting on June 8, 2006, the Company was converted to a French *société anonyme* (joint stock company) with a management board and a supervisory board. It was registered on March 25, 2003 for a term of ninety-nine years, until March 24, 2102, unless it is extended or dissolved early.

3.3.1.4 Registered offices, legal form and applicable law

The registered offices of Korian are at 152 avenue de Malakoff, 75116 Paris.

Its telephone number is (33) 1 53 64 22 22

The Company is a French *société anonyme* with a management board and a supervisory board, subject to the provisions of Book II of the French Commercial Code and Decree 67-236 of March 23, 1967 governing business corporations. As a company operating in the medical-social and healthcare sectors, it is also subject to the provisions of the Public Health Code, the Social Action and Family Code and various regulations of the administrative authorities.

3.3.1.5 Significant events in the development of the issuer’s business

2003

Korian was formed in March 2003 by the Batipart groups, which at that time owned the Finagest retirement home group, and MSRESS (Morgan Stanley Real Estate Special Situations), Armaillac BV and Idia Participations in order to form a benchmark player in nursing care facilities by combining the Finagest group (14 facilities at that time) and the Sérience group (35 facilities at the time); Sérience had been sold by its shareholder, the American group Holiday Retirement after an auction process.

At December 31, 2003, Korian and its subsidiaries held 49 facilities.

2004

In 2004, Korian had the opportunity, at the end of an auction process, to acquire the Réacti-Malt group from the British fund EAC and its management. This acquisition was financed by equity contributions from the Korian shareholders and a bank loan.

At the time of the acquisition of the Réacti-Malt group, Korian signed a partnership agreement with the company Foncière des Murs, a real estate company listed for trading on Eurolist by Euronext with SIIC[3] tax status, whose business consisted of the acquisition of business properties, particularly in the context of the outsourcing of property assets by industrial and service groups. Foncière des Murs is controlled by the company Foncière des Régions, in which certain Korian shareholders (particularly Batipart, ACM Vie and PREDICA) hold significant shares. Under this partnership, Foncière des Murs purchased directly from the Réacti-Malt group, immediately before it was acquired by Korian, and from Korian, 22 properties for an asset value of 84.3 million euros.

As of December 31, 2004, Korian and its subsidiaries held 72 facilities.

2005

In June 2005, the Orpéa company, which held about 28% of Medidep, which was publicly traded, decided to sell its entire stake through a placement procedure. Shortly thereafter, Korian acquired from some Medidep shareholders (investment funds managed by Lyxor AM, Mellon and Centaurus Capital) nearly 40% of Medidep at the price of 30 euros per share.

Following this acquisition, Korian filed a tender offer for the balance of the Medidep shares at the price of 30 euros per share. At the end of that offer on October 14, 2005, Korian held 87.86% of the capital and 87.89% of the voting rights, on the basis of capital composed of 14,784,078 shares representing 14,779,343 voting rights. The number of shares held by Korian has remained unchanged since then, while the percentage of the capital and voting rights has dropped to 87.79% following the exercise of stock options.

In the final quarter of 2005, the Korian Group sold or contributed to Foncière des Murs a set of 31 real estate assets in consideration for a price of 159,9 million euros. The contributions made were eligible for a tax reduction under the special tax rules for publicly traded real estate investment companies (SIIC II). Following this transaction, the Korian Group firmly refocused on the operation of medical-social and healthcare facilities, outsourcing (and not consolidating) its real estate assets. Since that transaction, the Korian Group has held only marginal real estate assets.

In late 2005/early 2006, the Korian company acquired a 40% interest in the Sinoué group controlled by Dr. Philippe Cléry-Melin, which specialized in psychiatry (two psychiatric facilities in Meudon and Garches and one SSR (follow-up and rehabilitation) clinic in Marseilles). This strategic transaction allowed an organizational merger of the Korian and Sinoué groups at the level of the psychiatric facilities. Dr. Philippe Cléry-Melin now directs the psychiatry division of the Korian Group, which is one of its growth drivers. Under the shareholders' agreement entered into at that time, Korian receives a long-term call option on the 60% of the equity not yet held by it. Likewise, Korian granted a put option to the minority shareholders of the Sinoué group on their interest.

As of December 31, the Korian Group had 168 facilities.

3.3.2 Investments

3.3.2.1 Description of the principal investments over the last two years

See Subsection 3.7.5.1.

Since it was formed in 2003, the Korian Group has followed a policy of strong growth. Since that date, the Korian Group has made good on its aim to grow its business by increasing the number of beds managed to more than 10,619.

This growth strategy has been primarily geared toward external growth, more specifically to the acquisition of groups and individual facilities in the same business.

The Korian Group has also continued its policy of creating new facilities. The Korian Group opened 4 facilities between 2003 and 2006, raising its capacity by 325 beds.

[3] *Société d'Investissement Immobilier Cotée* (a publicly traded real estate investment company)

Historical change in the number of beds operated

KORIAN		Change in the number of beds operated	Number of beds operated at the end of the period	Growth rate
2003	Serience	3,180	-	
	Finagest	1,178		
	Dijon opening	87		
			4,445	
2004				
	Réacti-Malt acquisition	1,317		
	Acquisition of Ouézy, Le Mans, Segrais, Laval, St Quentin	363		
		1,680	**6,125**	**38%**
2005				
	Medidep acquisition	7,092		
	Sinoué partnership	125		
	Géménos and Thonon openings	158		
	Rochefort, Andilly acquisitions	98		
		7,473	**13,598**	**122%**
June 30, 2006	Opening of St Etienne	**80**		
	Purchase of Montbazon, Les Charmilles, La Clavette	**120**		
		200	**13,798**	**2%**

3.3.2.2 Recent and current investments

See Subsection 3.7.5.1.

3.3.2.3 Investment policy

See Subsection 3.4.4.6.

3.4 *Overview of the Korian Group businesses*

3.4.1 Summary

3.4.1.1 Market environment

The business and strategy of the Korian Group are based on the major developments in the markets in which it operates.

The market for dependent care offers strong, predictable and long-term prospects for growth

- general aging of the French population combined with an increase in dependency with age increases in demand for care;
- the French public assistance system guarantees a high level of solvency for existing or potential clients;
- the increase in new age-related pathologies creates new needs for providing care to the dependent elderly;
- the fragmented nature of the private companies in the nursing home and healthcare sectors offers significant opportunities for external growth.

Strong barriers to entry in the dependent care market protect players that have already acquired leading positions

- Under the strict and evolving regulatory environment, there is actually no more authorized space for dependent persons, which sharply reduces the risk of new entrants into the sector.
- The growing trend toward medical services in care facilities requires both substantial investments and the ability to recruit the necessary medical and para-medical personnel, in the current environment where such personnel is in short supply.

3.4.1.2 Competitive advantages

The Group believes that its main competitive strengths are as follows:

Korian is a leading player in the French medium and long-term care market

- Korian is the leading private French operator of dependent care facilities with a network of 127 EHPADs (residential facilities for the elderly) offering a capacity of 10,503 beds, 35 SSR (follow-up care and rehabilitation clinics) with a total of 2,579 beds, and 10 psychiatric clinics with a total of 716 beds.
- Its critical mass allows significant economies of scale, and offers both the brand recognition and visibility essential in relations with administrative authorities and in the recruiting of personnel.
- The management team has a unique track record in external growth and the integration of acquired companies and facilities.

Centralized management that generates intra-group synergies and ensures harmonious and tightly controlled development

- Management structured to monitor the network of facilities and ensure the centralized management of support functions, thus generating significant cost synergies;
- The introduction of a centralized and uniform IT system;
- Ongoing administrative support ensuring optimal operation of facilities by instilling Group-wide best practices and ensuring a high degree of responsiveness by non-managerial personnel;
- A rigorous quality and risk management policy followed by corporate headquarters.

Unique geographic coverage in France

- A dense geographic network, the foundation of the Group’s policy, which facilitates relations with local administrative authorities and logistics (relations with headquarters, partnerships with service providers);
- A targeted growth strategy in high-density areas, with dynamic migration flows and a high standard of living.

An overall quality services that meet market expectations

- Quality services for residents of nursing homes (EHPADs) and patients in healthcare facilities (SSR and psychiatric clinics);
- Tailored modern, well-equipped and well-maintained facilities, most often in urban centers;
- A deliberate medical approach focused on high value-added services for patients in the clinics.

Growth based on sound and profitable financial management

- Solid and secure margins with strong prospects for improvement;
- Optimized management of real estate assets to enhance the Group’s flexibility (allocation of equity based on investment needs) and effective management control (partnership with Foncière des Murs, retention of contracting authority).

A dynamic human resource management policy

- Retain care personnel strategic for the Group;
- A voluntary policy of vocational training.

3.4.1.3 Strategy

Already a leader in its market, the Korian Group intends to become the French benchmark in long-term dependent care, by combining profitable growth and qualitative development by establishing local gerontology networks.

Become the first player to establish local gerontology networks providing a full range of services in long-term dependent care.

- Develop through local networking the wealth and diversity of the Group's clinic and medical-social facilities;
- Implement a policy of diversified, progressive and coordinated care;
- Initiate, after a trial phase, the development of home health and home hospital care integrated within the local care networks.

Continue dynamic growth in France in a sound and controlled organizational context

- Expand the nursing home and clinic divisions to strengthen the consistency of the Group’s network in line with local gerontology channels;
- Continue the specialization of clinics;
- Expand the Group’s geographic coverage;
- Capitalize on the advantages offered by centralized management to facilitate the integration of new facilities;
- Establish an ambitious human resource policy designed to give the group the personnel and skills necessary for growth.

Expand the Group’s facilities in Europe

- Find growth drivers in Europe, with priority given to Germany, Belgium and Italy;
- Set up true growth platforms backed by local staff and the development model implemented in France.

A balanced financial strategy

- Adapt the Group's financing policy to the rate of growth, reserving the possibility of outsourcing real property assets, if needed;
- Initiate a dividend policy for shareholders.

The growth strategy of the Korian Group as summarized above is described in further detail in Section 3.4.3.

The financial strategy is described further in Sections 3.7, 3.4.4.5 and 3.18.3.

3.4.2 Description of the markets in which the Korian Group operates

3.4.2.1 Dependence care: a basic trend involving a range of situations

The dependence of the elderly and the management of their care is an issue of growing concern in modern societies with aging populations.

A. The two principal types of dependence

Two principal types of adult dependence have been identified by health professionals: long-term dependence and temporary dependence. In addition to the difference in duration, they deal with different categories of people and require special types of care.

Long-term dependence

In today's language, there are several terms used to describe and define the consequences of aging in adult degenerative diseases: dependence, disability, incapacity, handicap, loss of autonomy, and mental deficiency.

Adults who depend on another person for daily tasks, whether simple everyday tasks or domestic tasks, are generally classified as dependent. The dependence may be physical but also psychological. In practice, for health professionals, the degree of dependence is evaluated using the so-called AGGIR grid (Iso-Resource Group Gerontology Self-Sufficiency), which classifies dependent persons in six Iso-Resource groups (GIRs).

High dependence corresponds to GIR 1 and 2 (persons who are no longer mentally self-sufficient and/or are confined to a bed or wheelchair), average dependence corresponds to GIR 3 and 4, and non-dependence to GIR 5 and 6 (self-sufficient persons for important daily tasks or persons who require only periodic assistance for washing and dressing, meal preparation and housework).

The vast majority of permanently dependent adults are elderly, even though temporary or permanent handicaps may occur prematurely.

These elderly persons, who can no longer remain at home because of the burden and the cost of caring for them, are housed in the appropriate medical facilities: long-term residential facilities for the elderly (*Etablissements d'Hébergement pour Personnes Agées Dépendantes*-EHPAD), formerly known as retirement homes. For the elderly who can remain at home, medical or paramedical assistance and services are necessary. These are the home care services (*maintien à domicile*-MAD).

Temporary dependence

Temporary dependence essentially concerns:

- Patients who, after surgery, must receive care for a limited period of time; and
- Patients with long-term or chronic conditions, where changes in their condition require medical care incompatible with home care.

Care for temporarily dependent patients is provided:

- Either in the patient's home, through home hospital care (intended to prevent a full-time hospitalization or reduce the duration thereof), and/or personal services (housekeeping assistance, help with daily personal needs) and/or the supply of the appropriate equipment (wheelchair, electric beds, etc.); this is market in which the Korian Group has to date only been marginally involved;
- Or, if their level of dependence or the complexity of the care needed justify it, in a Follow-up Care and Rehabilitation facility (*Soins de Suite et de Réadaptation*-SSR) or a psychiatric facility for a limited period.

Five technical and assistance care functions characterize good follow-up and rehabilitation care. Combined in varying degrees, they are used to rehabilitate patients fully. They are:

- The limitation of physical handicaps, which implies the use of physical rehabilitation, even prostheses and help adapting to living conditions;

- Somatic and psychological rehabilitation through the stimulation of bodily functions, compensation for provisional deficiencies, psychological assistance and the restoration of natural rhythms;

- The education of the patient and possibly of his family, through training sessions, preparation and adherence to the treatment and prevention;

- The continuation and follow-up of care and treatment, through adaptation, verification of the patient's compliance with therapy, monitoring any undesirable side effects; particular attention is paid to the treatment of pain;

- Preparation for leaving the clinic and a return to normal life, involving as quickly as possible requests for financial assistance and home health aides, eventually taking into consideration professional needs. Transfer to an EHPAD in the event of permanent dependence may also be considered.

B. A demographic, economic and social context driving growth in the dependent care market

Dependence is part of a general context of demographic aging

According to a study published by the French National Institute for Statistics and Economic Studies (INSEE) in July 2003[4], the population of France continues to age: the proportion of people 65 or older was 16.6% of the French population on January 1, 2005, which is 1.6 points more than in 1995. This proportion will grow as the "baby boomers" reach retirement age. There will be more than 17 million persons sixty and older in 2020 (compared with 10 million today, an increase of 40% in 20 years) and nearly 21.5 million in 2040, representing nearly one-third of the total population *("Elderly Dependents", Report of the French Government Accounting Office, page 10 – November 2005).*

The following table shows the expected change between 2000 and 2040.

Year	Population at January 1 (thousands)	% of persons 65 and older	% of persons 75 and older
1995	57,753	15.0%	
2000	58,744	16.0%	7.2%
2005	59,983	16.6%	8.1%
2010	61,061	17.0%	9.0%
2015	61,975	19.0%	9.4%
2020	62,734	21.0%	9.6%
2025	63,377	22.9%	11.3%
2030	63,927	24.9%	13.1%

[4] INSEE, Société No. 16, July 2003, "Projections démographiques pour la France, ses régions et ses département (horizon 2030/2040)" [Demographic projections for France, its regions and departments (2030/2040)]

2035	64,326	26.6%	14.7%
2040	64,468	28.0%	16.1%

Source: INSEE, Demographic projections No. 16, July 2003 (central scenario: continuations of trends)

This demographic change is shared, to various degrees, by all the developed countries and underlies the development of the dependent care market.

The increase in the number of elderly persons is particularly driven by the increase in life expectancy because of improved living conditions and better conditions for detecting and caring for serious pathologies. In 2004, life expectancy at birth was up significantly from 2003 at +0.9 year for men and for women (versus a gain of 3 months a year over the last fifty years) to reach 76.7 years for men and 83.8 years for women[5]. In 2005, life expectancy at birth remained stable for women at 83.8 years and rose slightly for men to 76.8 years[6].

Projections of the age pyramid give an evaluation of life expectancy in 2025 of 88 years for men and 96 years for women.

A closer analysis of the oldest groups led INSEE[7] to estimate in 2003 that "*by 2050, the number of persons 75 or older will triple, and the number of persons 85 or older will quadruple to 11.6 and 4.8 million respectively*".

<u>Needs for dependent care which rise with demographic aging and the appearance of related needs tied to new pathologies</u>

The nursing care sector benefits structurally from prospects for growth.

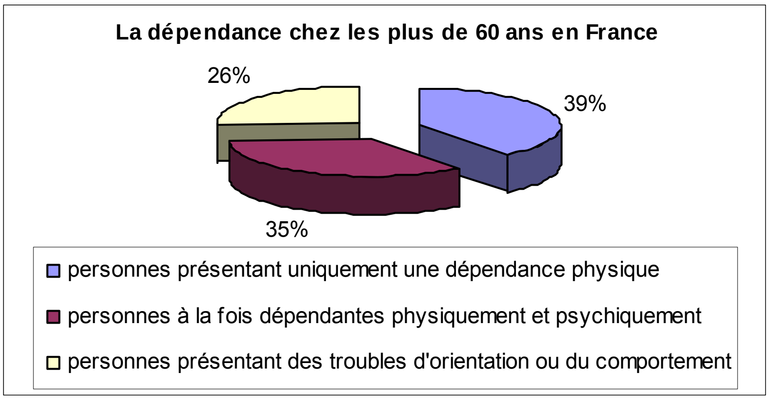
According to the data of INSEE's central scenario in 2003, 630,000 person older than 75 were dependent in early 2004 and, if the sampling is expanded to persons at least 60 years old, this figure rises to 844,000 psychologically dependent persons or persons who are highly physically dependent.

The graph below represents the levels of dependence of dependent persons over the age of 60.

5 *(Population et Société No. 410, INED, and 2004 demographic Report, INSEE Première – March 2005).*

6 *(Population et Société No. 421, INED, March 2006).*

7 Insee, Demographic Projections No. 16, July 2003, p. 14



[caption] Dependence in persons over 60 in France
persons physically dependent only
persons both physically and psychologically dependent
persons with adjustment and behavioral difficulties
(Source: data on the health and social situation in France in 2003 - DREES).

In the coming years, the dependent elderly population likely to use dependent or long-term care services is expected to rise sharply because of several factors:

- The demographic explosion of seniors

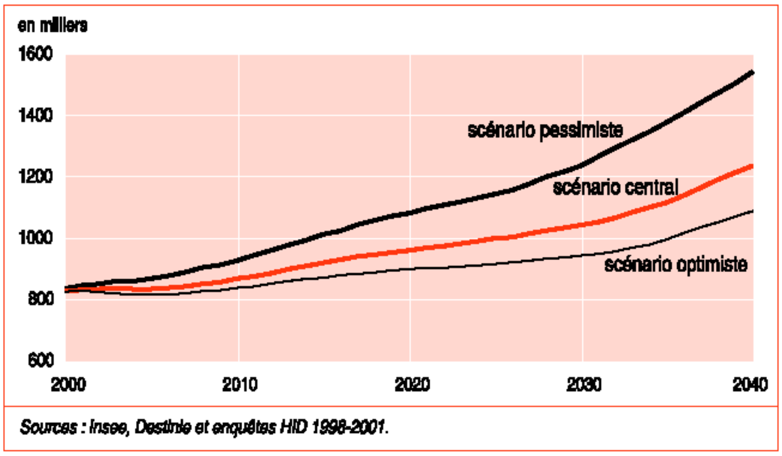
The number of persons over the age of 80 will surge in the coming years as a consequence of the general aging trend in the population. This age threshold is critical in terms of dependent care: starting at this age, dependence becomes:

- more and more frequent: while it affects only 13% of persons over the age of 60, dependence affects 50% of those over 80 *(INSEE and DDASS);*
- more and more pronounced: 10% of those aged 75, 35% of persons 85 years old, and 90% of those aged 95 are heavily dependent (i.e. in Iso-Resource groups 1 or 2).

The first increase in the number of dependent persons began in 2005 with the start of dependency amongst the 1920 to 1940 generations, who are replacing the previous, smaller generations, particularly the small number of people born during the First World War.

While medical advances and improved living conditions should slow the onset of dependence, the speed at which this shift will occur varies depending on the assumptions used. In the central scenario favored by the INSEE studies in 2003 on the basis of the latest data available, the number of dependent persons should rise by 50% between 2000 and 2040 to the total of 1,230,000 persons. This figure varies between 1.1 and 1.5 million dependent persons according to the scenario used.

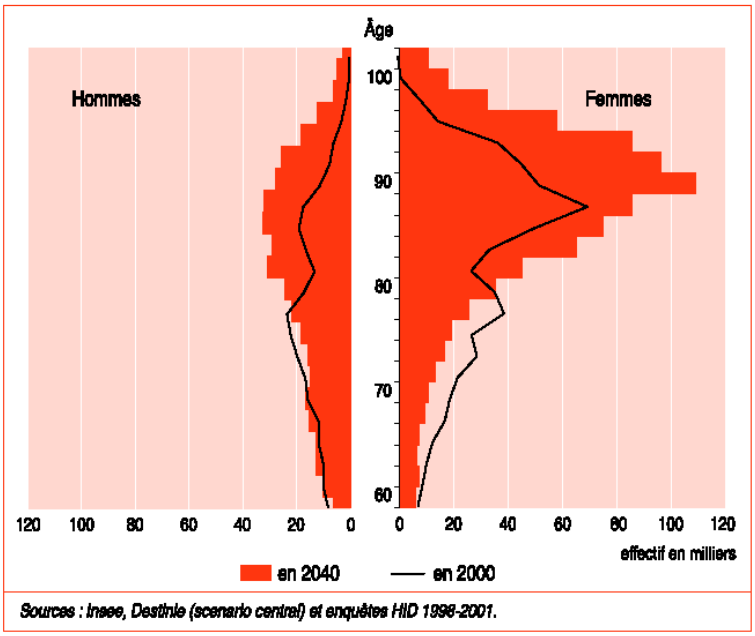
Change in the number of elderly dependents in France



[caption above] in thousands
pessimistic scenario
central scenario
optimistic scenario
Sources: INSEE, Destinie and 1998-2001HID surveys

In 2040, the number of dependent elderly persons, but also the onset of dependence, will be higher than in 2000. The change in the number of dependent persons results from the interaction of two opposing trends: the decline in the dependence rate at a given age and the renewal of the generations in which the generations of an increasing number of elderly persons. For the elderly under the age of 80, the decrease in the dependence rate prevails, resulting in a decline in the number of dependent adults. On the other hand, after 80, the generational effect is predominant and causes a doubling in the number of dependent persons at the oldest ages.

Number of dependent persons by age in France



[caption above] Men Age Women
in 2040 in 2000 number in thousands
Sources: INSEE, Destinie (central scenario) and 1998-2001 HID surveys

- <u>The incidence of specific age-related pathologies:</u>

At the same time, the increase in the number of persons suffering from age-related pathologies, such as Alzheimer’s disease and, more generally, persons suffering from multiple pathologies, will also contribute to the increase in the number of dependent persons and, therefore, to the increase in the related needs for nursing home accommodation and care. The EHPADs have the high level of medical expertise necessary to provide such care.

In fact, the effects of aging are often combined with chronic diseases that cause a very fragile condition, both in terms of health and in terms of dependence. The diseases most frequently observed, particularly in persons over the age of 85, the effects of which are cumulative in the deterioration of health, are as follows:

- Cancer and cardiovascular diseases (coronary disease, cardiac insufficiency and auricular fibrillation, AVC) which are the leading causes of death in the elderly, while also causing very great fragility;

- Neuro-degenerative diseases, the incidence rate of which continues to rise: Alzheimer's disease (approximately 225,000 new cases diagnosed each year), Parkinson's disease (10,000 new cases a year), the elderly patient depression syndrome (responsible for nearly 3,000 suicides a year) and sleep disturbances;

- Neurosensory problems, particularly deafness and eye diseases, which create handicaps if they are not treated early enough; these problems include more specifically cataracts, glaucoma, and age-related macular degeneration;

- Pathologies of the locomotor system, such as osteoporosis and osteoarthritis, which require hospitalization and surgery and then rehabilitation care and prostheses.

Alzheimer's disease (and related pathologies) is the principal reason for entering a specialized facility. In 2004, there were unfortunately nearly 800,000 persons in France suffering from Alzheimer's or related problems (18% of those over 75 and 30% of those over 80), 40% of whom were under care in a facility[8]. Given the aging population and better diagnostic ability, a sharp increase in the number of persons suffering from these pathologies is expected. The number of patients could total 1.3 million French citizens by 2020[9].

This trend requires an adaptation of the care offered to include the social and psychological needs of the patients and their families.

<u>New economic and social factors will increase the demand for dependent care.</u>

The dependent care sector for the elderly is also driven by a combination of economic and social factors:

- <u>*The reduction in the time of hospital stays in short-stay units in favor of follow-up care facilities (SSR)*</u>

Changes in medical-surgical practices have resulted in a reduction in the average hospital stay in a short-term care facility, thus creating a growing need for follow-up care, for temporary dependence, which has become more frequent and often more demanding. Moreover, the reform in rates by activity (see Subsection 3.4.2.3 C) will amplify this phenomenon in the coming months: Medical Surgical Obstetric institutions (MCO) will tend to or will be pushed to reduce average stays as much as possible in order to ensure greater patient turnover.

- <u>*The conversion of long-term care centers into EHPAD*</u>

Long-term care activity (90% concentrated in the public sector), measured in days of hospitalization, is in a downward trend (-3.1% in 2003 after -3.3% in 2002). This decline is due primarily to the gradual conversion of some long-term care facilities into EHPAD[10].

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[8] (Source: Seniorscopie – The ten Douste-Blazy measures against Alzheimer's – September 2004).
[9] (Source: Seniorscopie – The ten Douste-Blazy measures against Alzheimer's – September 2004).
[10] Source: The Healthcare Facilities business in 2003 - *Etudes et Résultats* No. 382 – March 2005

- *Changing life styles*

The geographic breakup of families and the reduction in the number of family care-givers (primarily related to women in the work force, but also to the aging population) and the demands for appropriate medical treatment require the use of facilities that specialize in both temporary and long-term care for dependent persons.

As a result, while in 1990, 20% of those over 85 lived in an institution, this proportion rose to 23% in 1999 and 25% as of January 1, 2004.[11]

A solvent demand

Dependence needs can be structurally financed in a viable manner and the players can invest in it because there is a limited risk of insolvency.

In fact, the revenues of one EHPAD of the Korian Group break down as follows:

- Approximately 20% of EHPAD revenues are from healthcare fixed rates paid directly by public or semi-public agencies (Social Security);

- Approximately 10% of the revenues are for dependent flat rates, which may be partially paid by the departmental general councils (directly or indirectly) through the Personal Autonomy Allowance;

- The balance, representing accomodation, is paid by the resident and/or his family;

- on the basis of the average daily accommodation rate per bed in the Korian Group's facilities (about 70 euros per day including tax), this cost amounts to about 2,100 euros including tax per month; on the average, it is estimated that about one-third of this cost is financed by the resident's family and the balance is financed by the person's income.

In addition, an economically disadvantaged person residing in an EHPAD may, based on personal resources, receive several types of public assistance, particularly from the general councils as "social assistance" to pay the cost of this accomodation. The number of beds authorized to accept residents on social assistance is negligible in the Korian Group (420 beds authorized for social assistance out of 10,503 beds in 2005). In addition, the use of social assistance declining in France, and only 16% of the beds authorized for social assistance in France as used for that purpose.

The solvency of the Korian Group's client based is healthy. As a result, the amount of unpaid fees for the Korian Group is almost zero (€17,000 in receivables written off in 2005).

The resources of the elderly population that are available to finance long-term care are expected to rise in the coming years:

- An increase in pensions, related to the modernization of the pension systems beginning in the 1930's and the increase in the revenues of and, therefore, the taxes paid by persons who will reach the age to enter institutional care in the coming years (about 85 years old) compared with earlier generations; this increase, at a constant age, in the pensions of EHPAD residents is the direct consequence, with a lag effect corresponding to the period between retirement age and the age at which a person enters an EHPAD, of the increase in the average level of pensions observed for more than 40 years;[12]
- An increase in the number of women who were once in the work force and hold pensions in their own name and no longer only the remainder of their spouses' pensions;
- The appearance and gradual increase in long-term care insurance offered by life insurance companies;
- General aging, as the current generation has greater resources than previously to support parents.

In the medium-stay healthcare sector, the daily rate is paid, subject to a co-payment known as the "daily rate" of about fifteen euros, by the social security agencies. The daily rate may be paid by the supplemental insurers along with certain additional "comfort" costs, such as a private room supplement.

[11] Source: Mensuel des Maisons de retraite Issues no. 75 – November 2004, and no. 92 – June 2006

[12] Source: First report from the *Conseil d'Orientation des Retraites* (Pension Guidelines Council), December 6, 2001

The combination of the social security agencies and, as applicable, the supplemental insurers, contributes to the solvency of demand for SSR and psychiatric clinics.

3.4.2.2 The market for long-term care

A. The players in long-term care

Overview

Breakdown by type of activity

The long-term care structures (long-term residence, long-term assistance) vary depending on the level of dependence of the persons served.

These structures, which provide social and medical-social services as defined by the Social and Medical-Social Action Code, can be classified as follows:

- Retirement homes for the elderly.

  Retirement homes, including those that provide medical care (*médicalisé)* (EHPAD – see below, or those, which have not yet signed a tripartite agreement, "with a medical treatment section") house persons who have temporarily or permanently lost the ability to perform everyday activities on their own or who suffer from a condition that requires maintenance treatment and medical supervision). The elderly receive, within a secure environment, accomodation in a furnished room with an emergency call system (possibility of bringing in small personal items), meals, medical care and monitoring by qualified personnel, laundry services and social activities. The free choice of a doctor and other health care professionals (nurses, physical therapists, etc.) is maintained. However, if the facility is an EHPAD or has a medical treatment section used by the elderly resident, nursing care is provided by the salaried personnel in the facility.

  Beginning on December 31, 2007 (this date may, however, be extended by the government), unless retirement homes have signed a tripartite agreement, they will only be able to accept independent or very slightly dependent residents (primarily Groups 5 and 6 on the AGGIR grid).

- Care Facilities for the Dependent Elderly (*Etablissements d'Hébergement pour Personnes Agées Dépendantes*-EHPAD)

  The term EHPAD means retirement homes that provide medical care,[13] which have signed a multi-year tripartite agreement with the General Council and the competent authority for health insurance stipulated by the rate reform. EHPAD are, therefore, authorized to accept heavily dependent adults (primarily GIR 1 and 2).

  Some EHPAD have day care capacities for persons who cannot stay in their homes during the day (primarily because of the absence of a family caretaker for work-related reasons).

  The EHPAD represent the facility format that the major private groups specializing in dependent care, like the Korian Group, wish to adopt. This type of facility meets the needs of an aging population and their families who, in fact, only make the decision for institutional placement when a very high level of dependence makes it impossible to continue home care.

- Long-term care units (*unités de soins de longue durée*-USLD)

  The USLD are intended for persons suffering from chronic illnesses susceptible to repeated relapse episodes, who have lost their independence and require close medical follow-up. In most cases, they are attached to a hospital institution and are not part of private groups like the Korian Group.

[13] as well as group homes and long-term care units

The 2006 Social Security financing law gives the directors of the Regional Hospitalization Agencies (ARH) and the prefects until January 1, 2007 to set the breakdown of accomodation for the elderly (and, therefore, the corresponding credits) between USLD with hospital status and EHPAD with medical-social status. This measure is intended to move certain long-term care beds currently in the hospital sector to medical-social status.

- Group homes or assisted living residences

  These are small independent units which accept the able-bodied elderly. These structures have common rooms (dining rooms, meeting rooms), a health care unit and optional group services such as laundry and meals. They may have a fixed healthcare rate or a medical treatment unit.

  This format meets the needs of mostly independent persons who, for various reasons (widowhood, isolation, safety concerns, etc.) no longer want to remain in their homes, but want to maintain the benefits of individual housing and the possibility of receiving collective services. This type of business is not the priority of the Korian Group.

- Home nursing care services (*services de soins infirmiers à domicile*-SSIAD)

  Home nursing care services provide, on a doctor's recommendation, nursing care and general healthcare, along with assistance in performing everyday tasks, to persons at least 60 years old, who are ill or dependent, and to adults under the age of 60 with a handicap or who suffer from chronic illnesses.

  Home nursing care services, which are governed by special regulations, are designed to provide support in the home for patients, particularly by preventing or delaying hospitalization or placement in a care facility and reducing hospital stays. They provide services to patients at home or in facilities with no medical care that accept the elderly or handicapped persons.

  The number of SSIAD places, which totaled 80,000 in 2005, is expected to increase by 40% by the end of 2010[14].

- Home care services (*maintien à domicile*-MAD)

  Home care services (MAD) are not, as such, a regulated activity, but cover a consistent set of services designed to allow a dependent senior to remain in his or her home. These services may therefore include meals-on-wheels, housekeeping and laundry, assistance and companionship.

  The home care service sector is a sector in which the Korian Group plans to expand. The Korian Group believes that home maintenance services will become a major method of care for slightly dependent adults, carving out a market position as a substitute for assisted living. On the other hand, the Korian Group believes that, for seriously dependent persons who require constant monitoring, the cost of home care services (which in this case may use four to six full-time equivalent workers per person) becomes excessive and is not a credible alternative to the EHPAD.

Breakdown by sector

Moreover, in addition to the breakdown by type of activity, a distinction must be made within facilities (particularly retirement homes, EHPADs and group homes) among those that belong (i) to the public sector, (ii) to the private not-for-profit sector (e.g.,the mutual or association sector), and (iii) the private for-profit/commercial sector.

<u>Accomodation capacities in medical-social (nursing care) facilities</u>

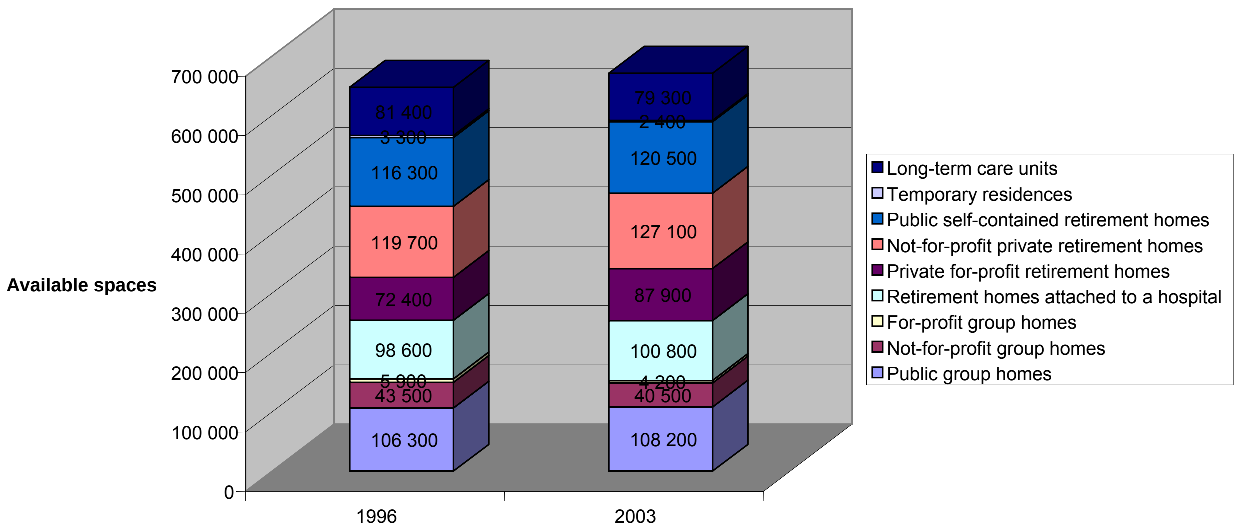
As of December 31, 2003, 10,526 care facilities for the elderly were identified: 6,376 retirement homes (1,080 of which were attached to a hospital), 2,975 group homes, 1,044 long-term care units (including

[14] Speech by Dominique de Villepin in Bergerac on May 26, 2006, and introduction of the Senior Solidarity Plan of June 27, 2006

1,011 long-term care facilities and 37 units in a healthcare facility—hospital, regional hospital center (CHR), local hospital, rest and convalescent facility, medical care facility, facility for mental illness, etc.) and 131 temporary residence facilities.

All of these structures together offer approximately 671,000 available spaces[15] (about 436,300 spaces in retirement homes) and earn revenues just for the “accomodations” component of nearly 13 billion euros, i.e., 0.70% of the national GDP[16]. The retirement homes/EHPADs offer the largest number of spaces, representing 65% of the capacity in all facilities, with group housing offering 23% of capacity, long-term care units 12%, and temporary residences 0.5%.

Available space 1996-2003, Source: DREES *Etudes et Résultats* No. 379 Feb 2005



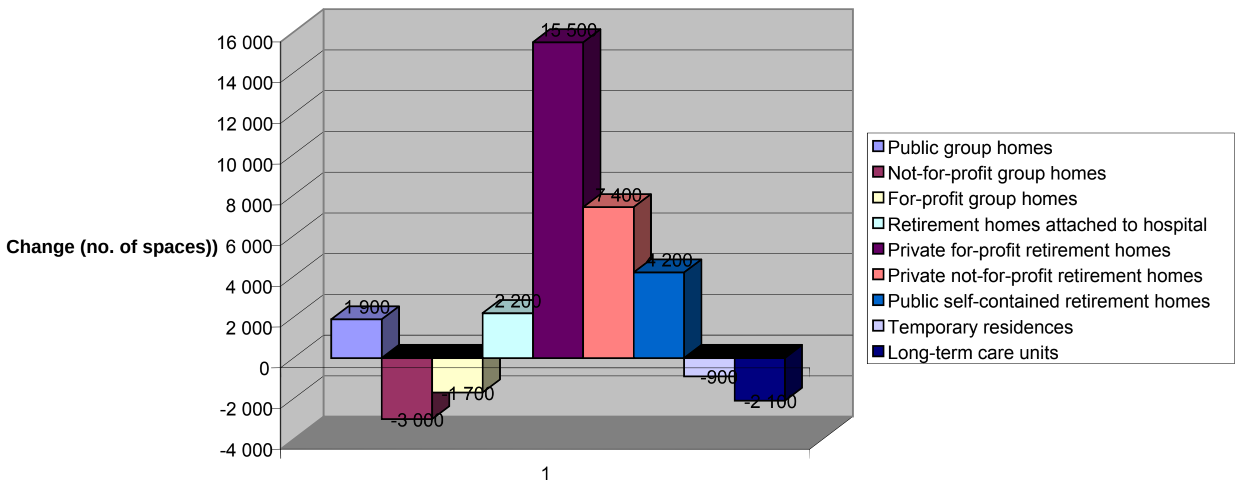
This predominance of retirement homes, all categories combined, in terms of bed capacity is due to the higher average size of these facilities. Thus, in terms of size, the group homes have an average capacity of 51 spaces, which can vary based on legal status. Retirement homes attached to a hospital are larger with an average of 93 spaces, while self-contained retirement homes have an average capacity of 63 spaces. Long-term care facilities have an average capacity of 76 spaces. In comparison, the Korian Group retirement homes, which fall into the category of self-contained facilities, have an average capacity of 82.7 spaces.

The change over the period from 1996-2003 shows an increase of 23,500 spaces, which is 4% of the number of spaces that existed in 1996. This growth is very unevenly distributed and is essentially concentrated in retirement homes, all segments combined, which together added 29,300 spaces at the expense of group homes, temporary residences and long-term care units which lost capacity overall.

[15] one space corresponds to one bed (for rooms) or accommodation for one person

[16] Sources: DREES – *Etudes et Résultats* No. 379, and the *Mensuel des Maisons de Retraite* No. 87, January 2006

Change in the number of places installed by type of facility 1996-2003, Source: DREES ***Etudes et Résultats*** **No. 379 Feb 2005**



In early 2004, France had 91 installed spaces in retirement homes per 1,000 persons over 75, compared with 95 spaces one year earlier[17] and the average EHPAD occupancy rate already exceeded 95% (even 100% in major metropolitan areas).

Players in the private for-profit sector

The private for-profit sector is composed primarily of major operators, often formed in the last ten years, and second, small to medium-sized groups (for example, the Noble Age group with 17 facilities) and independent players, held primarily by their founders (often physicians or nurses).

The leading players in the private for-profit sector are:

Name of the group		Number of EHPAD beds At 12/31//2005	Number of EHPADs At 12/31/2005
1°	**Korian Group (including Medidep)***	10,007	125
2°	Orpéa	6,858	98
3°	Médica France	6,357	75
4°	Domusvi	4,929	61
5°	GDP Vendôme	4,308	60

**** The Korian Group includes in its statistics only beds used and not beds authorized***
Source for Orpea: Press Release dated January 12, 2006
Source for Medica France: Registration document dated May 9, 2006
Source for Domusvi and GDP Vendome: Top 20, Mensuel des Maisons de Retraite *No. 87, January 2006.*

Thus, with 19% of the private for-profit[18] facilities, the three principle players in the sector hold approximately 26% of the installed beds. The Korian Group, the leading player in the private commercial

[17] *Etudes et Résultats* No. 263 – DREES – October 2003
[18] Using the numerator of 298 facilities at December 31, 2005 and the denominator of 1,604 facilities, as this latter figure was identified on December 31, 2003. (Source: DREES – Etudes et Résultats No 379, page 3).

sector in number of beds, represents about 11% of this market,[19] which, as indicated above, recorded the greatest growth within the total market for care facilities for the elderly.

The for-profit private retirement home market is extremely fragmented, despite the recent emergence of national players. Thus, the private for-profit retirement home sector offers significant potential for consolidation, with a large number of small or medium-sized independent facilities (a few thousand beds) facing succession problems and the growing challenges of providing medical care and regulations, through the purchase of facilities. The Korian Group estimates that the number of independent players operating only one EHPAD amounts to approximately 700, underlying the consolidation potential of the private commercial sector.

B. The regulatory framework for the long-term care market

As a medical-social activity, long-term dependent care is heavily regulated, in terms of both the creation and operation of facilities (retirement homes like EHPADs). The 2002 EHPAD reform generated more regulations, which will certainly accelerate consolidation. In addition, the regulatory requirements are a barrier to market entry, in practice limiting access to the market for groups without experience in this area.

<u>Operating licenses:</u>

Since the 2002 EHPAD reform (Law of January 2, 2002), EHPADs must now hold an operating license to carry out their activities. As a result, the creation, conversion and expansion of facilities are no longer free from regulation and require a license before carrying out activity. This license is issued by the Chairman of the General Council and by the government (the government intervenes once the facility is likely to receive health insurance subsidies under tripartite agreements).

Licenses are valid for 15 years from their effective date in accordance with the Law of January 2, 2002. For facilities created before 2002, licenses are valid until January 1, 2017.

Before any license is issued, the application for creation or extension must be reviewed by the Regional Committee of the Social or Medical-Social Organizations (CROSMS), which issues an opinion to the administrative authorities (departmental General Council and the national government), primarily on the compatibility of the proposed creation or extension with the department facilities plan stipulated in the relevant Social and Medical-Social Organization Plan (SOSMS).

Once this opinion has been obtained, obtaining a license to operate an EHPAD depends on the availability of a care financing package granted by the Departmental Office of Health and Social Actions (“DDASS”).

If the license is denied because of a lack of financing, it is classified as a pending project by the French department. The operator may, however, begin construction or extension of the facility, but at the risk of not having the financing needed for operation when the new facility or extension opens. This risk has not yet materialized in the Korian Group; the Group has seen only one-month delays in opening, primarily to perform the administrative formalities related to the licenses. This risk has also been reduced since the publication in December 2005 of an Order of simplification, which now gives the DDASS the possibility of issuing a license order with deferred financing, informing the operators of the financing date, thus allowing them to schedule the work accordingly.

The licenses obtained, which are valid for 15 years, become void, however, if the work on the authorized operation has not started within a three-year period.

A compliance inspection of the facility is conducted before the opening by a joint commission (General Council and DDASS) and by a departmental safety commission. This inspection is repeated every three years. The compliance controls may result in the suspension or withdrawal of licenses granted if they reveal failures in the facilities or when the care offer does not match the needs.

[19] Using a numerator of 10,007 beds at December 31, 2005 and a denominator of 87,900 beds, this figure was obtained at December 31, 2003. *(Source: DREES* – Etudes et Résultats *No. 379, page 3)*

Finally, when facilities are acquired, approval from the competent administrative authorities is required to transfer the operating license.

This reform brings the medical-social sector in line with the healthcare sector: licensing mechanism, quality process and participation of facilities in care networks.

The Korian Group's presence in the healthcare (clinic) sector gives it recognized experience in this area, which allowed the Group to anticipate the issues involved in the EHPAD reform.

Tripartite agreements

Retirement homes offering medical care must sign a 5-year tripartite agreement with the General Council and the DDASS of their department before December 31, 2007, in order to obtain EHPAD status and be able to continue to receive elderly dependents.

The purpose of the tripartite agreements is to:

- define the operating conditions for the facility, from both a financial standpoint and in terms of the quality of the accommodation and care given to those persons, with particular attention to the level of personnel training; and
- specify the objectives for the development of the facility and the conditions for evaluating it.

To be approved, each facility must comply with specifications set by order. These specifications essentially define the architectural requirements (handicapped standards, the number of double rooms must not in principle exceed authorized capacity by more than 10%, etc.). The signature of a tripartite agreement may mean the number of beds used is reduced, with the facility benefiting in exchange from a guarantee that it can continue to accept dependent elderly residents and benefit from the public financing resulting from the approval.

Every year during the term of the contract, the facilities submit to the administrative authorities a progress report on meeting goals through an annual activity report prepared by the facility director and a medical report prepared by the coordinating physician.

Other regulations

Retirement homes and EHPADs are also subject to all rules, particularly safety rules, applicable to any facility designed to be open to the public, to provide meals, etc. For the Korian Group, these regulations are a significant challenge in managing risks, as described in Subsection 3.4.4.3.

Moreover, it should be noted that the Korian Group has two retirement homes in Belgium. That country has regulatory provisions which, like the French system, constitute a real barrier to entry to this market. Given the currently marginal nature of the Korian Group's operations in Belgium, the Belgian regulatory context is not developed in this Document.

C. EHPAD rates

The Law on Rates of January 2, 2002

The Law of January 2, 2002 defined the bases for a new rate system, allowing the EHPADs to provide medical care to dependent elderly residents.

The budget granted to an EHPAD by the administrative authorities under the tripartite agreement is now correlated with the level of dependence (measured in IsoGIR levels) of its residents.

The weighted average GIR in the Korian Group's facilities is currently 650 (corresponding to GIR 3).

Since this reform, the room and board rate for an EHPAD that has signed a tripartite agreement consists of three components:

- the room rate (room, meals and services to residents), set freely by the facilities, represents about 70% of the EHPAD revenues of the Korian Group in 2006;

- the care rate (basic or nursing care, i.e., upkeep, hygiene, comfort as well as technical care) set by the DDASS, which will represent approximately 20% of the Korian Group's EHPAD revenues in 2006; and
- the dependence rate (maintenance of the premises, laundry and personal services and assistance with daily tasks), which is set by the General Council, represents about 10% of the Korian Group's EHPAD revenues in 2006.

This rate system clarifies the financial responsibilities of the stakeholders:
- the elderly and their families finance the accomodation costs, the co-pay for the dependence rate, and the balance of the dependence cost subject to eligibility for the Personal Autonomy Allowance (APA);
- Health insurance finances the care portion; and
- the General Councils finance, through the Personal Autonomy Allowance (APA), all or part of the dependence costs excluding the co-pay and accomodation for the economically disadvantaged through social assistance.

The retirement homes that have not yet signed a tripartite agreement have been able to bill two charges since January 1, 2002:
- a flat “room and board” rate, from which has been taken the portion for dependence if applicable; this fee is set freely by the facility and paid by the resident; and
- a dependence rate, set by the General Council, which varies according to the GIR of the resident. This rate is paid by the resident who, in exchange, can claim the APA.

Rates for accomodation

This rate is paid by the resident and is set freely by the facilities under a residence contract when a new resident arrives. Thereafter, the annual change is controlled by a maximum change rate defined by Order of the Minister of Finance.

The table below shows, for the years 2000 to 2006, the maximum rate hikes for accomodation applicable to the residents present at December 31 of the previous year:

Year	Rate revaluation
2006	2.6 %
2005	2.6 %
2004	5.3 %
2003	2.2 %
2002	2.8 %
2001	2.1 %
2000	1.1 %

Source: Order of the Ministry of the Economy, Finance and Industry.

Certain facilities are partially authorized for social assistance (this authorization is granted for a maximum number of beds per facility); in this case, the General Council sets the accomodation rates for these beds and the annual increases.

The residents may also, depending on their resources, receive the housing allowance for accomodation in a retirement home.

If facilities violate the limits on rate hikes, they may be sanctioned by a fine of up to € 1,500 per violation.

Care rates

Care rates are set by the DDASS. They cover the medical services necessary to care for residents’ conditions and the paramedical services related to the loss of autonomy. 70% of the salary of the assistant caretakers negotiated with the DDASS is paid, 100% of the salary of the registered nurses (IDE), 100% of the salary of the physical or occupational therapists, 100% of the physician’s salary and 100% of the expenses for medical supplies, care waste elimination, and the amortization of care equipment.

These rates are not billed to residents directly but are paid directly to the facility by Health Insurance in the form of a general grant.

They are negotiated with the DDASS on the basis of the provisional budget of each facility. There is a risk that the DDASS will not pay all expenses of the facility, which generates an extra cost for the facilities.

These rates are normally subject to an annual increase of about 2%, but facilities can renegotiate new measures by amendment if, for example, the average dependence of the residents rises substantially.

Every year the facilities submit to the administrative authorities a statement of their expenses and receipts. Because they benefit from public funds, they cannot generate savings on fixed care rates. For this process, the facilities make available to the administrative authorities all the supporting documentation they need to assess the fair presentation of their accounts.

Dependence rates

The dependence rates are set by the General Council and cover all assistance and monitoring services necessary to perform essential daily activities that are not related to health care. After negotiation with each General Council, a portion of the various expenses is paid (salaries of the daily living assistants, the graduate caregivers, psychologists, expenses related to incontinence, expenses for residential supplies, maintenance products, laundry and the depreciation of dependence equipment).

These rates are set and reviewed every year after negotiations between the facility and the General Council on the basis of a provisional budget submitted by the facility. The General Council cannot cover all the expenses of the facility, which generates a surplus cost for the facility.

In the facilities that have not signed a tripartite agreement (which is a negligible issue within the Korian Group), these rates are paid by the resident, but a portion may be paid by the APA, if the resident is eligible for this allowance.

As an example, the company believes that the average dependence rate within the Korian Group is currently about 14 euros including taxes per day and per resident for GIR 1 or 2 resident, 9 euros including tax per day and per resident for a GIR 3 or 4, and 3.50 euros including tax per day and per resident for GIR 5 or 6. The rate applicable for GIR 5 or 6 residents is not paid by the APA and must, therefore, be paid by the resident (whatever his GIR); this is the co-pay.

The dependence fixed price is paid either by the resident who benefits from the APA, which pays the portion of the cost above the co-pay, or directly by the General Council for the portion exceeding the co-pay amount.

D. The strategic medium-term challenges of the medical-social sector

Increase EHPAD capacities—an offer less than demand

Generally, the number of available beds in retirement homes is not keeping up with the increase in the number of elderly. Thus, between 1996 and 2003, the population over the age of 75 rose more than 23%, i.e., an additional 888,000 persons, while the number of beds in retirement homes rose by only 7%, or an additional 29,300 beds.

Since 2003, in particular, the public authorities have demonstrated a real desire to raise the capacity of the sector. This desire was reaffirmed in 2006 at the time of the “Senior Solidarity” plan in May-June 2006, which provides for an additional 5,000 beds per year for the EHPADs until 2012.

The willingness of public authorities to raise the bed capacity of the sector seems, however, insufficient given the needs identified. In fact, in addition to the estimates from the professional associations (such as Synerpa or Adehpa), the report from the French Government Accounting Office in November 2005 and the report from the National Planning Commission (ordered by the Government) evaluated the needs at between 44,000 and 55,000 new EHPAD beds by 2010 *(Median scenario: constant home and institutional residence rates).*

In addition, 31,000 beds authorized by the Regional Committees of the Social and Medical-social Organization (CROSMS) at the end of 2005 are waiting for health insurance financing; the corresponding facilities will not be able to open as long as the health insurance financing is not released[20]. A portion of these 31,000 beds will probably not be effectively used.

Assistance to caregivers

Because of longer life spans and the increase in the age at the onset of dependence, along with the change in social and family relations (break-up of family units, later retirement, retirees in the workforce, geographic mobility, etc.), there is a growing need to support caregivers who care for the dependent adults in their family. This need will certainly become more acute because of a lack of capacity in residential facilities.

This assistance will primarily take the form of services provided to elderly adults in their homes (housekeeping, meal preparation, medical equipment rentals, nursing care, etc.).

All these services may be covered by a global offer generally known as “home maintenance” services.

Medical care in facilities

The increase in the medical services provided, which began in the 1980s with the installation of “medical treatment departments”, and which now involves the signing of tripartite agreements, will be one of the key elements in the changes in the sector in the near future. Medical services have become necessary because of the admission of older and older residents who are increasingly dependent.

The delay in entering a nursing facility (average age of 86 compared with 75 twenty years ago), which is often associated with the appearance onset of age-related physical and mental pathologies, has raised the average dependence level of EHPAD residents: the portion of residents classified as GIR 1 to 4 in private EHPADs rose from 52% in 1998 to 78% at the end of 2003[21].

Creating living spaces

Offering the elderly better living conditions, maintaining their motor and intellectual skills as long as possible, and meeting family expectations are the major concerns of the facilities that house dependent adults, a break with the traditional image of retirement homes.

In addition, the social event policies of modern facilities are designed for both recreational and therapeutic purposes, particularly for the treatment or prevention of neuro-degenerative diseases. One of the Korian Group’s top priorities is to enhance its EHPAD offer, and the Group believes that this is a key element in its strategy.

[20] Source: *Mensuel des Maisons de Retraite* No. 87, January 2006
[21] Source: DREES – *Etudes et Résultats* No. 379, March 2005

3.4.2.3 The temporary dependent care market

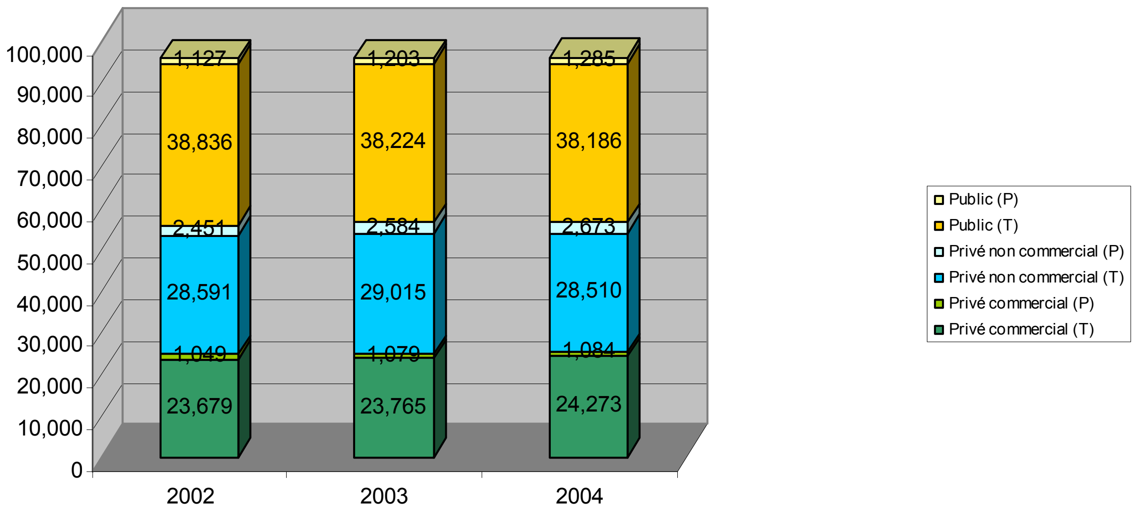
A. The players in the temporary dependent care market: medium-stay facilities

The temporary dependent care sector treats a variety of pathologies within SSR (follow-up care and rehabilitation) and psychiatric clinics. SSR clinics therefore treat a high proportion of elderly patients but, with the exception of specialized geriatric clinics, they also admit persons whose dependence is not age-related.

<u>The follow-up care and rehabilitation clinic market (SSR)</u>

As of December 31, 2005, France had a capacity of more than 96,000 beds[22] in SSR clinics providing care for persons who are temporarily dependent.

Change in the number of SSR beds over the years 2002-2004, distinguishing between full hospitalization (T) and partial hospitalization (P) by type of facility[23] (source: DRESS *Etudes et Résultats* No. 382, March 2005 and No. 456, December 2005)



[caption] Public (P)
Public (T)
Non-commercial private (P)
Non-commercial private (T)
Commercial private (P)
Commercial private (T)

The facilities that provide temporary dependent care are managed by a large number of players of different types and sizes coming from the commercial private sector (27%), the association/mutual sector known as the "private sector under a general grant" (32%) and the public sector (41%)[24].

There are two main types of players within the private facility segment:

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[22] Source: DREES, *Etudes et résultats*, No. 456, December 2005.
[23] Source: DREES, *Etudes et résultats* No. 382 March 2005 and No. 456 December 2005
[24] Source: DREES, *Etudes et résultats*, No. 456, December 2005.

- the facilities or groups of facilities developing a general care business, including medical, surgical, and obstetrical activities and SSR: these include Générale de Santé, Capio, and Hexagone, in a French market that is still essentially composed of independent facilities;
- the specialists in long-term dependence (the Korian Group, Orpéa, Médica) which are also developing a specialized SSR business (medium-stay).

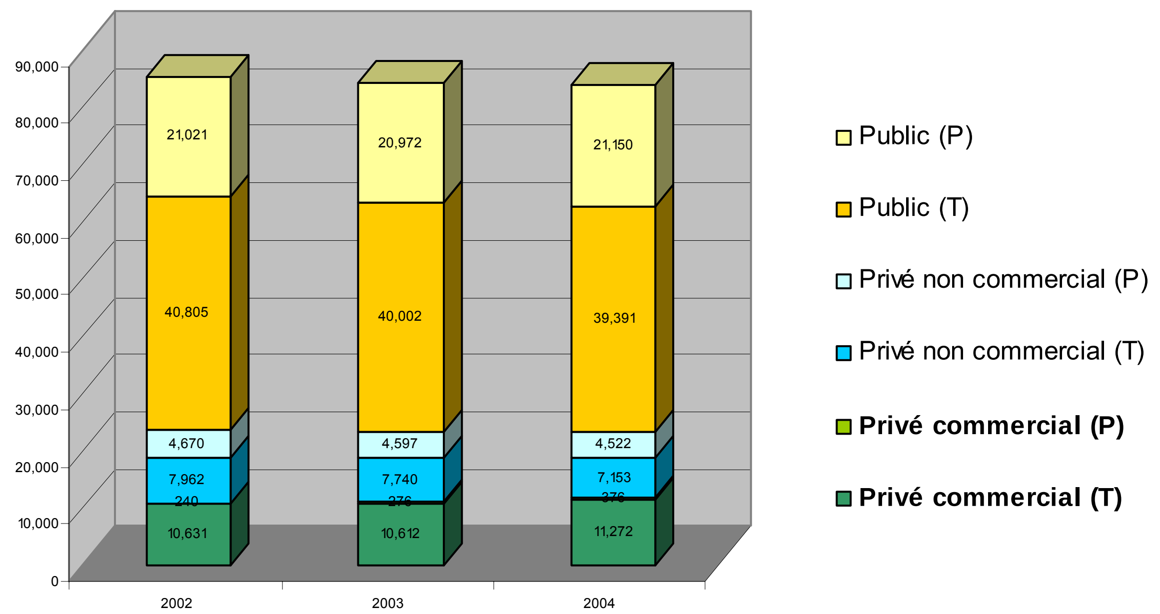
Largely composed of small, independent operators that are not highly specialized, the private commercial SSR health care sector in terms of clinics is even more segmented than the medical-social sector. A number of independent facilities are in a very fragile position, either because of a lack of specialization which will work against them when the Rating by Activity (T2A) is extended to SSR clinics, or because of the increase in administrative and quality obligations related to the implementation of the CPOM (see below).

In this context, the Korian Group, Orpéa and even Médica France have initiated a real policy of growth and streamlining in the temporary dependent care sector (SSR and also psychiatry, see below), a business that works effectively with long-term dependent care in EHPADs.

The market for psychiatric clinics

Certain players in long-term dependent care are also present in psychiatry, a specific segment of the healthcare sector, as a complementary driver of growth. This positioning is taking place, first, as new pathologies appear that fall within the scope of psychiatric medicine and, second, within the current restructuring of the French psychiatric sector initiated by the “2005-2008 Psychiatry and Mental Health” plan presented in February 2005 by Philippe Douste-Blazy, Minister of Solidarity, which provides for the payment of 750 million euros in assistance from 2005 to 2010.

Change in the number of psychiatric beds over the years 2002-2004, distinguishing between Full hospitalization (T) and partial hospitalization (P) by type of facility[25] (source: DRESS *Etudes et résultats* No. 382 March 2005 and No. 456 December 2005)



[caption] Public (P)
Public (T)
Non-commercial private (P)
Non-commercial private (T)
Commercial private (P)
Commercial private (T)

[25] Source: DRESS *Etudes et résultats* No. 382 March 2005 and No. 456 December 2005

Private sector psychiatric clinics in France serve 114,000[26] patients per year in 140[27] clinics, which operate a total of 11,500 beds[28]. 1,000 psychiatrists and general practitioners provide permanent care. Psychiatric clinics differ from psychiatric hospitals in the free choice which the patient has in selecting the institution and the physician. The private sector clinics also benefit from more attractive locations for their patients than the public institutions, which are most often located far from urban centers.

Commercial private sector psychiatric clinics are in high demand, primarily because of the deficiency in the public sector. As a result, the average occupancy rate in France in private psychiatric clinics was 97.1% in 2004 (97.4% in 2003) compared with 86.7% for the public sector and 83.4% for the private not-for-profit sector (under a general grant) in 2004[29].

There is a de facto limit on capacities in psychiatric clinics to the extent that, except in extraordinary circumstances, licenses to create beds in the private sector are almost non-existent given the surplus capacities in the public sector. The improvement in care for psychiatric pathologies and depression in particular must be managed within the context of this shortage.

The development of home hospital care (HAD)

Home hospital care structures "*provide continuous and necessarily coordinated medical and para-medical care to a patient for a limited period, which can be revised on the basis of changes in his health"*.[30]

By the end of 2005, home hospital care involved 6,826 places[31]. The government is planning to raise this number to 15,000 by 2010.[32]

They are unevenly distributed throughout France, with fewer in the rural areas. Thus, Île-de-France (the Paris metropolitan area) has more than 62% of the national capacity (3900 spaces). As of this date, 52 French departments have no home hospital care. The home hospital care facilities initially created provide care for a variety of pathologies: cancer, vascular and infectious diseases, neurological problems, etc. Over the years, they developed skill centers, particularly in hospice care. However, the current trend is to create single-skill structures that "specialize" in hospice care. Their capacity rarely exceeds 30 beds.

Requests for home hospital care essentially come from a hospital, but are more and more frequently prescribed by family physicians.

Leading players in the medium-stay care market

The leading players in the medium-stay care sector (SSR and psychiatry) are the following, based on estimates made by Korian:

[26] Source:.DREES, *Etudes et résultats* No. 456 December 2005
27 Source: Internet site of the National Union of Private Psychiatric Clinics (UNCPSY)
[28] Source:.DREES, *Etudes et résultats* No. 456 December 2005
[29] Source: DREES, *Etudes et résultats* No. 456 December 2005
[30] DHOS/O Circular No. 2004-44 of February 4, 2004 respecting home hospital care.
[31] Speech by M. Bertrand, Minister of Health and Solidarity, on December 8, 2005 at the 9th Home Hospital Day of the Natinal Federation of Home Hospital Facilities
[32] Speech by Dominique de Villepin in Bergerac of May 26, 2006, and introduction of the Senior Solidarity Plan of June 27, 2006

Name of the group	Number of beds at 12/31/2005	Number of facilities at 12/31/2005
Korian Group* - SSR - Psychiatry	**2,579 716**	**35 10**
Générale de Santé (excluding Medicine-Surgery-Obstetrics[33]) : - Dynamis (SSR) - Medipsy (Psychiatry)	1,592 1,895	18 21
Orpéa - Clinéa (SSR)	406	30
Médica France	1,213	17

** Korian accounts only for beds used, not beds authorized*
Source: company information (annual report and reference document)

B. Regulatory framework for clinics *(établissements sanitaires)*

As is the case for long-term dependent care, temporary dependent care is a heavily regulated business, governed by strict regulations that are constantly changing.

Operating licenses (*Follow-up care clinics and psychiatric clinics)*

The appendices to the third-generation Regional Health Organization Plans (SROS III, published on March 31, 2006) define quantified health care activity objectives based on the health needs of the population. The objective is to improve the quality, accessibility and efficiency of the care system, and to encourage coordination amongst the various players and amongst the territories.

Licenses previously granted for “installations” (beds or spaces, equipment) are now issued for care activities, defined by quantified objectives in the form of a range. The number of beds physically installed in a facility is now only a question of organizational choice by the facility. Thus, the market is shifting from an offer-based approach to a needs-based approach.

All the clinic facilities of the Korian Group have actually shifted from the installation licensing rules to the care licensing system. Under these conditions, the regular dialogue maintained by the Group with the administrative authorities will ensure the continuation of the facilities by guaranteeing the necessary changes.

However, two types of activities performed by the Korian group remain within the previous system (installation license):

- Home Hospital Care (HAD): licenses for beds
- Daytime psychiatric hospitalization: licenses for spaces

The licenses renewed or granted for the clinics after publication of SROS III are valid for five years. The license is the authorization to dispense care that will be reimbursed to the social security policy-holders.

The licenses issued under the SROS III may be tacitly renewed. The facilities must submit an assessment document to the ARH 14 months before expiration so that the ability of the facility to fulfill the obligations stipulated in the Multi-year Means and Objectives Contract (CPOM, see below) can be assessed.

[33] Medicine-Surgery-Obstetrics

The CPOM assessment and the renewal of licenses are closely related. If the items provided are satisfactory, renewal is tacit; on the other hand, if the file is incomplete or unsatisfactory, the ARH may request additional information.

A license may become null and void in the following cases:

- If work has not been started on the licensed operation within a period of three years;
- If the operation has not been completed within four years;
- In the event of a halt in the operation (without the approval of the ARH Director) for a period of more than 6 months.

In addition, a license may be suspended or withdrawn in the following cases:

- Failure to comply with the laws and regulations adopted to protect public health;
- In an emergency affecting patient or employee safety;
- On a temporary basis, SROS III offers the possibility for the ARH Director to withdraw a license until March 31, 2008 in the event of an incompatibility with SROS III guidelines;
- In the context of an operation of cooperation, conversion, sale, change of location, closing, or combination stipulated by SROS III; in these cases, the ARH can also modify the period of validity of a license or set the validity of a new license for a period less than the period stipulated by regulations.

As the preparation of the SROS III is complete, the territorial medical projects (PMT) should now be prepared and defined at the clinic level in the form of the multi-year means and objectives contracts (CPOM) described below.

<u>Multi-year means and objectives contracts (CPOM)</u>

The clinics establish a multi-year means and objectives contract ("CPOM") which defines the strategic goals of the clinic, defines the authorized volume of activity, and sets the related rates.

The Regional Hospitalization Agency (ARH) signs these contracts with the clinics for a maximum term of 5 years.

Each contract contains general provisions and schedules specific to the clinic in the following areas:

- the strategic guidelines of the clinic: this schedule defines the positioning of the license holder in its health territory on the basis of SROS III; it deals with the principal guidelines for the development or transformation of the activity;
- changes in the operations and cooperative projects: this schedule sets out the license holder's participation in health networks, clinic cooperative groups and other cooperative associations;
- quantified care objectives: this schedule contractually defines the conditions under which the license holder participates in the achievement of the objective for the territory; it presents quantified objectives and the means of implementing those objectives, and recognizes "specific activities" that are subject to special rates;
- general interest missions, the implementation of the national medical innovation and recourse policy;
- care quality and safety objectives: this schedule is used to regularly measure the license holders' position with regard to the policy for ongoing improvement in quality and risk management;
- participation in public health programs: this schedule deals with the programs and resources devoted by the license holder to implementing the priorities of the national plan and defined at the regional level;
- follow-up and assessment procedures: this schedule sets specific indicators in order to produce an annual progress report on the objectives set and a final report before the expiration of the contract.

The order of September 4, 2003, amended certain features of these contracts. They may be terminated or suspended before expiration by the ARH in the event of a serious failure by the clinic to comply with regulatory and legislative requirements or to meet its contract obligations.
A renewal or change in a license requires that the CPOM be amended within three months after the ARH decision.

The main challenge in negotiating the CPOM is setting quantified objectives and applicable penalties should those objectives not be met. The objectives must be set in the CPOMs no later than March 31, 2007; if not, the ARH will automatically include the quantified objectives and the penalties in the operating license within the following three months.

Home Hospital Care

Since the hospital reform act of July 31, 1991 and the 1992 decrees, home hospital care has been one of the alternatives to full-time hospitalization. As a result, HAD services are subject to health planning like any healthcare institution.

The law and the decrees do not specify the types of pathologies that allow HAD admission. However, the administrative circulars of May 30 and December 11, 2000 defined care levels (periodic care, continuing care, rehabilitation) and care methods (tube feeding, complex dressings, patient education, chemotherapy, etc.)

The beneficiaries are all persons covered by health or other insurance, without age distinction, whether they are hospitalized or remain at home. The prescribers are hospital physicians or treating physicians, either general practitioners or specialists.

Other regulations

Clinics are also governed by all rules, particularly safety rules, applicable to any institution designed to be open to the public, to provide meals, etc. For the Korian Group, these regulations must be taken into consideration in managing risks, as described in Subsection 3.4.4.3.

C. Rates for clinics

Follow-up care (SSR) clinics and psychiatric clinics

Since the Social Security financing law for 2000, the issue of setting rates for the private commercial sector is now handled directly between the government and the professional organizations. Every year, the government sets by decree the National Quantified Objective (OQN) for private facilities with contractual rates ("non-general allocation" or "under OQN", for private clinics, including those in the Korian Group), which is the annual amount of hospitalization costs in these facilities paid by health insurance. This amount is determined on the basis of the National Objective for Changes in Health Insurance Expenditures (ONDAM) approved by Parliament.

A national agreement signed by the Ministers of Health and Social Security and at least one of the organizations most representative of private hospitals (FHP – FEHAP) then determines:
- The national average rate of change in the rates for services and the variations by region;
- The range of variations in the regional average rate, within which the rate of change in rates granted by the ARH to each facility must be included.

The ARHs may adjust every year the change in rates for the facilities within the limits stipulated by the national agreement under conditions defined by an agreement signed with at least one of the regional organizations that have signed the national agreement.

The ARHs also set the rates for new facilities or new activities authorized within an existing facility based on average regional rates.

In addition to the daily rate paid by Social Security, the clinics may receive supplements for comfort services (private room, television, telephone, etc.) for which they freely set these rates. These supplements are either paid directly by the patient or by his supplemental insurance.

Rates by activity (T2A)

The rates for clinics are expected to be completely revised by 2008 when rates by activity (T2A) are to be extended to medium-stay clinics. Rates by activity should homogenize rates for services in the private sector, which are currently extremely varied, particularly because of historical rate disparities.

In this respect, the Korian Group believes that the T2A should be beneficial to its activity since it will eliminate budget inequalities and encourage comparison of services among clinics and, over, time, generate improvement in the quality through stimulating competition.

Since March 1, 2005, this reform has been imposed on short-stay facilities (MCO) throughout the private for-profit sector and to all HADs. The reform in rates by activity is expected to be extended to medium-stay clinics (SSR, psychiatric, etc.) in 2008.

D. The challenges of the clinic sector in the short and medium-term:

The clinic sector is expected to change substantially in France under the combined effect of the development of new forms of hospitalization (outpatient or home care) and the growing need for specialization and technical skills in institutions that will concentrate only on the most difficult cases.

Restructuring the care offer

The demographic changes discussed previously have created the need for additional care structures to provide care for a growing number of patients who are temporarily dependent. A large number of surgical institutions (known as “short-stay”) have been converted into SSR clinics (it is through this process that the Korian Group developed its medium-stay offer). Moreover, given the current needs related to an aging population, we are also seeing a reconversion of non-geriatric convalescent capacities into functional rehabilitation units intended for patients requiring more extensive care.

In addition, both patient demand and rising healthcare costs will move the public authorities to develop home hospital care or part-time solutions (outpatient care).

The offer of these alternatives forms has grown substantially in recent years: although follow-up care is primarily provided in full-time hospitalization (82% of hospital stays) and the percentage of partial hospitalization remains small, a sharp increase in outpatient services was observed in 2002 and 2003 (+18% and +16% respectively).

Trend toward specialized healthcare facilities *(établissements de santé)*

The medium-stay care offer changed significantly from a qualitative standpoint. Follow-up care and rehabilitation have had to specialize and modernize to handle an increasing need for temporary care. The physical condition of the patients accepted now requires longer and more complex rehabilitation therapy provided by multi-disciplinary teams in complete technical units, in order to help patients return to full function or to perform simple everyday actions (bathroom, meals, dressing, etc.)

The implementation of SROS III, under which the clinics will have to negotiate with the ARHs the volume of the quantified objectives for care on the basis (primarily of the defined target offer for their territory), should accelerate this specialization over the next few years. It is in the interest of the facilities to select specialties that are rare in their territory and therefore easier for them to develop in order to gain a firm foothold in the care market in their territory and stand out from competing healthcare facilities.

3.4.3 Strategy of the Korian Group

After several years of exceptional and unequaled growth in France, today the Korian Group is positioned as the French leader in the dependent care market.

The Medidep acquisition at the end of 2005 gave the Korian Group a national presence and the critical size needed for real visibility with the administrative authorities and, more generally, with the market participants in the gerontology segment. This acquisition also gave the Korian Group a strong presence in the clinic sector *(secteur sanitaire)* that is vital for its strategic plan.

This growth and this positioning are the result of the Korian Group’s proven expertise in identifying, acquiring and absorbing individual facilities or groups of facilities.

This experience means that the Korian Group is well on the way to being absorbed to generate the synergies and economies of scale (primarily because of the Medidep acquisition) over the full year in 2008. It is also a key element in its growth strategy.

Backed by these assets, Korian is organizing its strategy around three objectives:

- to set up local gerontology networks to provide overall dependent care;
- to continue its dynamic growth in France within a sound and well-controlled organization;
- to expand the Group in Europe.

Setting up local gerontology networks

Korian has found there is a lack of a consistent and integrated offer at the local level for dependent care in France. Korian is planning, therefore, to move beyond the facilities approach to set up local gerontology networks. The objective of these integrated networks will be to provide continued healthcare clinical services to elderly patients (SSR, psychiatric clinics and HADs), medical-social services (EHPADs) and social services (MADs). This integration will create value for the wealth of resources and the diversity of the Korian Group's clinical and medical-social facilities and the vast experience of its personnel.

The implementation of a consistent policy for global care for the elderly must meet the following three requirements:

- **diversification**: it must offer at the local level a full range of services to provide an appropriate response to the various needs of dependent elderly adults, both in the medical-social area (EHPADs, MADs) and in the clinical area (clinics offering certain specialties such as gerontology, physical therapy, psycho-geriatrics, specialized consultations, HADs);

- **progression**: it must offer, for each individual case, an adequate and appropriate response to actual care needs, from a simple consultation to medium or long-term care in a facility;

- **coordination**: it must organize the interventions of the various participants (structures and care personnel) in order to ensure follow-up over time of the Group's patients and residents, and provide better advice to residents in the medical-social facilities and clinics.

As part of its strategic plan, Korian is initiating an experiment with home care services (MAD) for the elderly, organized around the concept, which is new in France, of assistance to caregivers, a concept observed by Korian in the United States. The goal of this experiment is to validate the operational feasibility and economic performance of the service, which Korian plans to develop on a larger scale. Korian's goal in this niche market is not to develop pure home services (housekeeping, meals, safety, etc.). To the contrary, Korian wants to take advantage of the Korian Group's locations and its expertise in the problems related to aging and dependence, on the basis of strong partnerships to be developed with personal service providers.

Dynamic growth in France backed by a sound and well-controlled organization

After eight months devoted to the absorption of Medidep, Korian intends to resume the expansion of its medical-social and clinic divisions in France by selecting creation or acquisition facilities projects based on the coherence of its network structure and their potential contribution and strengthening of Korian's local gerontology networks.

In this regard, Korian will continue its efforts to achieve partial specialization for certain SSR clinics that are not yet differentiated, primarily in geriatrics, a priority segment given the profile of the patients served.

Korian will expand its geographic coverage by focusing on the regions where the Group still has a very small presence or where demographic trends are positive. However, Korian will study the opportunity offered by any possibility that seems interesting for expansion into the other regions.

Korian has established a centralized management system for its Group, making it easier to integrate new or acquired facilities into its network. This centralized management, which is based on effective reporting, both financial and operational, means optimized management of the network through the uniform dissemination of best practices. Because of this proven organization that is already sized for future expansion, Korian believes it will be in an even better position to conduct significant growth operations.

Finally, Korian plans to introduce a human resource policy backed by the Group's size and visibility through targeted human resource communication projects, the implementation of a dynamic training and career management policy in order to promote the recruitment of qualified personnel, particularly IDEs and orderlies. The effectiveness of this policy will be enhanced by the recent adoption and promotion of the Korian name at the Group level, which will ensure additional national visibility.

Expansion in Europe

One of Korian's goals is to find growth drivers by selectively developing its business abroad, particularly in Europe. Several countries have already been targeted, (particularly Germany, Belgium, where the Group operates two retirement facilities offering medical care, before the upcoming opening of a third, and Italy), where plans for growth are already being implemented. Korian's objective is not to purchase or build facilities one by one in those countries, but to set up true development platforms with expert and ambitious local teams, who are able to replicate and organize in those countries a development model similar to the one developed by the Group in France. In the medium term, Korian expects to generate a significant portion of its business in Europe outside France.

As a result, Korian's goal is to operate about 5,000 additional beds in France and other countries by the end of 2009.

A Balanced financial strategy

In connection with its listing on Euronext, the Korian Group intends to increase through the Capital Increase through Public Offering and related capital increases.

Before the end of 2006, the group intends to refinance its outstanding debt and to put in place new authorized credit lines to support the Group's growth (construction or acquisition of facilities).

This financial strategy is well-designed to allow the Korian Group to maintain the buildings it construct or acquire as part of its growth plans. The Korian Group reserves the possibility, nevertheless, in the event of significant external growth, to sell these real property assets, in particular in the framework of its partnership with Foncière des Murs.

Such a balanced financial strategy will allow Korian to initiate a dividend distribution policy to the benefit of its shareholders.

3.4.4 Businesses of the Korian Group

3.4.4.1 Dependent care services offering high standards of quality

The Korian Group offers and develops an extensive range of services for dependent care through its EHPADs, its SSRs and its psychiatric clinics located throughout France.

On the registration date of this Document, the Korian Group holds 172 facilities operating 13,798 beds (76% nursing home beds and 24% clinic beds) and is the leading private French group in the dependent care market.

The Korian Group is managing this portfolio of facilities with increasing emphasis on more medical services in the retirement homes and attempts at specialization in the clinics.

Backed by the extensive resources and the diversity of its portfolio, the Korian Group is working to develop its total dependent care offer as part of a network.

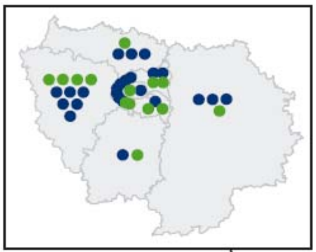
A. Geographic breakdown of the Korian Group's facilities

The facilities of the Korian Group are distributed throughout metropolitan France, particularly in areas with dense populations (Ile de France (Paris), the Lyons and Bordeaux metropolitan areas) and in the areas along the Mediterranean, which are densely populated and which also receive large numbers of retirees moving to mild and sunny climates.

The Korian Group also has two retirement homes with medical services in Brussels, Belgium and is completing the construction of a third Belgian facility.

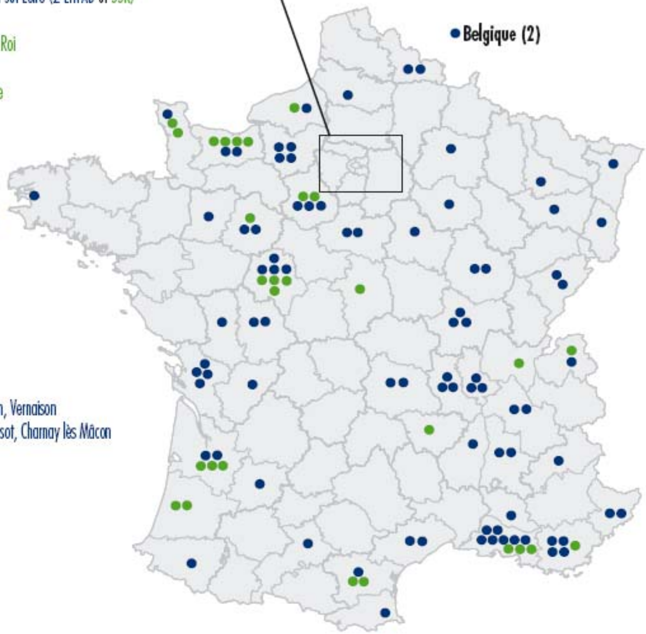
ÎLE-DE-FRANCE

Paris : ....Paris 14e, 15e, 17e, Daumesnil, Magenta, Brune, Canal de l'Ourcq
Seine et Marne : ..Meaux, La Ferté Gaucher, Varreddes, Bois le Roi
Essonne : ....Viry Chatillon, Saclas
Yvelines : ....Maisons Laffitte, Guyancourt, Montigny le Bretonneux, Le Chesnay, Carrières sous Poissy, Ville d'Avray, Sartrouville, Saint-Rémy l'Honoré, Le Mesnil St-Denis (2)
Val de Marne : .....La Varenne St-Hilaire, Le Perreux, St-Mandé
Hauts de Seine : ..Fontenay aux Roses, Antony, Meudon (SSR), Suresnes, Courbevoie, Colombes (2), Garches
Seine St-Denis : ...Noisy le Grand, Sevran, Livry Gargan, Noisy le Sec
Val d'Oise : ....Andilly, Eaubonne, Plessis Bouchard, Bezons



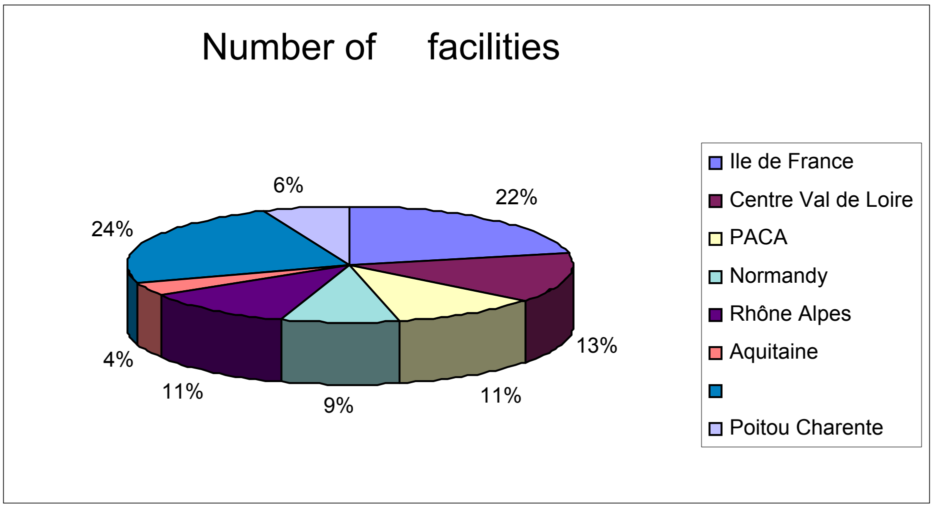
Ain : ....Jassans Riottier
Alpes-Maritimes : ....Mougins, St-Laurent du Var
Ardèche : ....Bourg St-Andeol
Aube : ....Troyes
Aude : ....Bram, Sigean, Conques sur Orbiel
Bas-Rhin : ....Strasbourg
Bouches du Rhône : ....Vitrolles, Gemenos, Simiane, Marseille (2 EHPAD et 2 SSR), Le Puy Ste-Séparade (2 EHPAD et SSR)
Calvados : ....Lisieux, Balleroy, Ouezy, Vimont, Caen, Ouistreham
Charente : ....St-Yrieix
Charente Maritime : ....Bénon, Lagord, Rochefort, Royan
Cher : ....Vierzon
Côte d'Or : ....Beaune, Dijon
Deux Sèvres : ....Parthenay
Doubs : ....Montbéliard, Thise
Drôme : ....Valence, Charols
Eure : ....Breteuil sur Iton, Louviers, Vernon, Amfreville
Eure et Loir : ....Nogent le Rotrou, Chartres, Dreux, Gasville, Nogent le Phaye
Finistère : ....Brest
Gironde : ....Bordeaux (2), Gradignan, Cenon (2), Guijan Mestras, Cambes
Hautes Alpes : ....Serres
Haute-Garonne : ....L'Union
Haute Loire : ....Chambon sur Lignon
Haute Savoie : ....Thonon les Bains, Plateau d'Assy (2)
Haut Rhin : ....Thann

Hérault : ....Montpellier, Maureilhan
Indre et Loire : ....Chambray les Tours (2), St-Cyr sur Loire (2 EHPAD et SSR) Tours (2), Vouvray, Esvres sur Indre (2), Neuvy le Roi
Isère : ....Grenoble, Jardin
Landes : ....Montfort en Chalosse, Narrosse
Loire : ....St-Etienne (2), St-Priez
Loiret : ....Olivet, Meung sur Loire (2)
Lot et Garonne : ....Marmande
Manche : ....St-Clair sur l'Elle, Siouville, St-Martin d'Aubigny
Marne : ....Reims
Mayenne : ....L'Huisserie
Meurthe et Moselle : ......Laxou, Nancy
Nord : ....Marcq en Baroeul, Roubaix
Puy de Dôme : ....St-Ours, Clermont Ferrand
Pyrénées Atlantiques : ..Pau
Pyrénées Orientales :......Perpignan
Rhône : ....Lyon (3), Fontaines St - Martin, Vernaison
Saône et Loire : ....Chalon sur Saône (2), Le Creusot, Charnay lès Mâcon
Sarthe : ....Changé, Le Mans, St-Mars d'Outillé
Seine Maritime : ....Rouen (3), Ymare
Somme : ....Amiens
Var : ....Barjols, Fréjus, St-Mandrier, Hyères, Nans-les-Pin
Vaucluse : ....Carpentras
Vienne : ....Châtellerault, Moncontour
Vosges : ....Epinal
Yonne : ....St-Clément

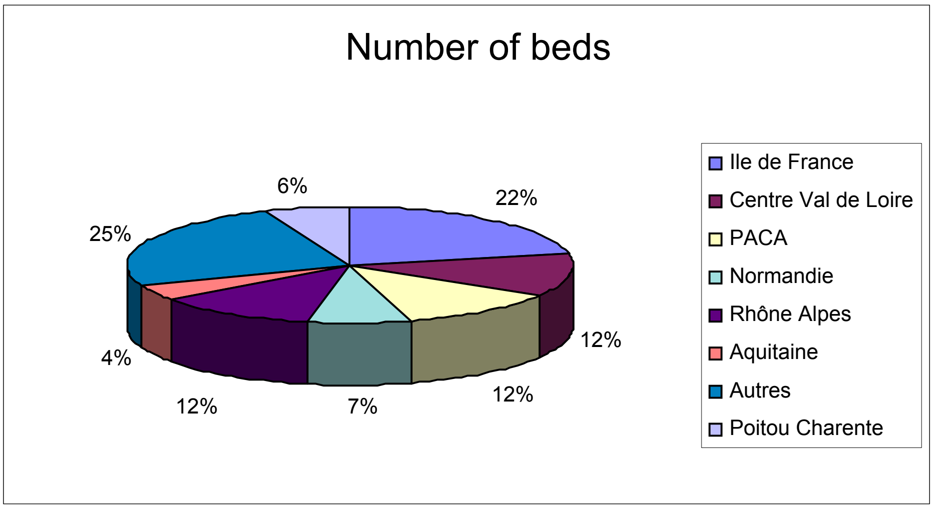


[caption] [French departments stay the same]
[right side] Care facilities for dependent elderly adults (EHPAD)
Follow-up care and rehabilitation facilities, physical therapy units, home hospital care and psychiatric clinics
Belgium (2)

The graph below shows the breakdown in the number of facilities per region:



The graph below shows the breakdown of the number of beds per region:



The geographic breakdown of the Korian Group facilities shows a clear overweighting in the most populated regions that offer better prospects for growth. This breakdown also reflects the Group's desire to promote the creation of a network of facilities close to each other in order to offer residents in a given area a complete range of care services.

B. An EHPAD offer that meets market expectations

On the date of registration of this Document, the Korian Group had absorbed 127 medical-social facilities:

- 114 EHPADs ;
- 2 rest homes and nursing care facilities in Brussels, similar to EHPADs;
- 8 retirement homes currently in the process of obtaining licensing contracts[34]; and
- 3 long-term care centers[35].

Thirteen of these EHPADs are held by the holding company Mieux Vivre, which is held equally by Medidep and DomusVi. Six of these facilities are managed by Korian under the terms of a management agreement, and seven are managed by DomusVi.

These facilities meet the leading market expectations in terms of location (urban or semi-urban) and comfort (residence and meals).

In order to facilitate a reading of this Document, the Korian Group's medical-social facilities will be referred to using the generic term EHPAD.

In addition, in the past, the Korian Group entered into a franchise agreement with two facilities that do not belong to the Group (not accounted for for the purposes of this Document) located in Meudon and Hyères. The Group also entered into a management agreement with the Meudon facility. The agreements entered into with the Meudon facility were terminated effective the end of May 2007. The Korian Group has no plans to develop a franchise policy.

The table below is a list showing the bed capacity of the Korian Group EHPAD as of June 30, 2006:

[34] Korian has filed an exemption request for one of them (Villa Renaissance in Fontenay aux Roses- 61 beds) because the building is currently not appropriately configured.
[35] Clinics on the legal level, but the care facilities are similar to retirement homes; their status should be clarified by the administrative authorities for reclassification as SSR or retirement homes.

Région	Etablissement	Ville	Nombre de lits exploités
Ile de France	Andilly	Andilly	32
	Bois Clément	La Ferté Caucher	79
	Clos Varreddes	Varredes	64
	Eaubonne	Eaubonne	103
	La Roseraie*	Vitry Chatillon	60
	Le Chesnay	Le Chesnay	101
	Le Grand Clos*	Plessis Bouchard	108
	Les Acacias	Colombes	32
	Les Licornes	Courbevoie	47
	Les Saules	Guyancourt	92
	Maison Laffitte	Maison Laffitte	127
	Mapadex Brune	Paris	99
	Mapadex Daumesnil	Paris	97
	Mapadex Florian Carnot	Antony	104
	Mapadex Lilas	Charrières sous Poissy	110
	Mapadex Magenta	Paris	99
	Meaux	Meaux	71
	Noisy	Noisy-Le-Grand	102
	Paris XIV	Paris	102
	Paris XV	Paris	105
	Paris XVII	Paris	100
	Quieta	Montigny	80
	Repos et Santé	Varenne St Hilaire	39
	Suresnes	Suresnes	100
	Villa des Fleurs*	Sevran	84
	Villa des Sources*	Ville d'Avray	53
	Villa Kreisser	Colombes	59

Région	Etablissement	Ville	Nombre de lits exploités
	Villa Renaissance	Fontenay aux Roses	61
Total Ile de France			**2310**
Centre Val de Loire	Chamtou	Chambray les Tours	85
	CHM	St Cyr sur Loire	115
	CLS Buel (du plessis)	Neuvi le Roi	67
	CLS St Cyr	St Cyr sur Loire	68
	La Lilardière	Meung sur Loire	104
	La Ménardière	St Cyr sur Loire	80
	La Reine Blanche	Olivet	93
	Le Coteau	Vouvray	20
	Le Mariau	Meung sur Loire	75
	Le Petit Castel	Chambray	38
	Les Amarantes	Tours	84
	Les Glycines	Tours	45
	Les Temps Bleus	Nogent le Rotrou	79
	Mapadex la Roseraie	Dreux	88
	Mapadex les Acacias	Chartres	102
	Montbazon	Montbazon	40
	Pontlieue	Le Mans	90
Centre Val de Loire Total			**1273**
	Bastide de Jardin*	Jardin	73
	Bastide de Tourne	Bourg Saint Andeol	125
	Bastide provençale	Charols	62
	CLS Bellecombe	Lyon	100
	Fontaines	Fontaines St Martin	71
	Grenoble	Grenoble	93

Région	Etablissement	Ville	Nombre de lits exploités
	La Saison Dorée	Lyon	108
	Lyon	Lyon	117
	Saint Etienne	Saint Etienne	80
	Semiramis Janin	Saint Etienne	79
	Semiramis Saint Priest (Orion)	Saint Priest en Jarez	80
	St Francois de Sales	Vernaison	80
	Thonon	Thonon	88
	Valence	Valence	83
Rhône Alpes Total			**1239**
PACA	Atrium	Serres	68
	Frederic mistral	Marseille	90
	Frejus	Fréjus	100
	Gemenos	Gemenos	70
	Les Fontaines	Barjols	77
	Les Luberons	Le Puy Sainte Reparade	83
	Les Oliviers	Le Puy Sainte Reparade	28
	Les Pins Bleus	Saint Mandrier	90
	Mougins	Mougins	110
	Semiramis st laurent du var	Saint Laurent du Var	82
	Serena loubiere	Marseille	110
	Simiane	Simiane	88
	St louis	Carpentras	101
	Vitrolles	Vitrolles	119
PACA Total			**1216**
Normandie	Les Montgolfières	Balleroy	40
	Breteuil	Bémécourt	73
	Château de Calyste	Amfreville sous le Monts	54

Région	Etablissement	Ville	Nombre de lits exploités
	Demeure St Clair*	Saint Clair sur l'Elle	56
	Ermitage	Louviers	70
	Jardin des Plantes	Rouen	63
	Normandie	Lisieux	68
	Ouistreham	Ouistreham	41
	Rouen	Rouen	122
	Semiramis Vernon	Vernon	90
	Villa St Dominique	Rouen	102
Normandie Total			**779**
Poitou Charentes	Begonias	Rochefort	60
	Le Lac	Moncontour	37
	Le Rayon d'Or*	Lagord	102
	Les Ajoncs	Benon	58
	Les Issambres*	Royan	98
	Les Lis*	Saint Yrieix	44
	Les Tilleuls	Châtellerault	83
	Themis Pompairain*	Parthenay	146
Total Poitou Charentes			**628**
Bourgogne	Beaune	Beaune	84
	Chalon	Chalon sur Saone	167
	Creusot	Le Creusot	65
	Dijon	Dijon	87
	Le clos St Clément	Saint Clément	90
Bourgogne Total			**493**
Aquitaine	Bordeaux	Bordeaux	99
	Home Saint Louis	Bordeaux	50
	Home Saint Gabriel	Gradignan	130
	Pau	Pau	78
	Saint Exupery*	Marmande	85
Aquitaine total			**442**

Région	Etablissement	Ville	Nombre de lits exploités
Languedoc-Roussillon	Clos Vermeil	Maureilhan	60
	Frontenac	Bram	70
	Montpellier	Montpellier	117
	Perpignan	Perpignan	111
Languedoc-Roussillon Total			**358**
Picardie Nord Pas de Calais	Amiens	Amiens	87
	Marcq-en-Baroeul	Marcq-en-Baroeul	104
	Roubaix	Roubaix	107
Picardie Nord Pas de Calais Total			**298**
France Comté	Epinal	Epinal	79
	Montbeliard	Montbeliard	93
	Thise	Thise	80
France Comté Total			**252**
Lorraine	Nancy	Nancy	206
Lorraine Total			**206**
Champagne Ardennes	Reims	Reims	107
	Troyes	Troyes	73
Champagne Ardennes Total			**180**
Pays de Loire	Artemis	Change	90
	Le Castelli	l'Huisserie	80
Pays de Loire Total			**170**
Alsace	Les Trois Sapins*	Thann	71
	Strasbourg	Strasbourg	68
Alsace Total			**139**
Auvergne	Les Roches	Saint Ours	53
	Semiramis Clermont Ferrand	Clermont Ferrand	70
Auvergne Total			**123**
Midi Pyrénées	Grand Maison	L'Union	111
Midi Pyrénées Total			**111**

Région	Etablissement	Ville	Nombre de lits exploités
Bretagne	Brest	Brest	98
Bretagne Total			**98**
Belgique	La Grange des Champs	L'Alleud (Bruxelles)	75
	Résidence New Philip	Bruxelles	113
Belgique Total			**188**
Grand Total			10503

The twelve facilities marked with an asterisk are 50% owned by Medidep and 50% by the Domus VI group.

Stringent quality requirements backed by qualified staff

The Korian Groups' EHPADs offer a high level of quality and respect for residents which, in addition to being a clear legal and ethical obligation, is also a vital condition for maintaining the Group's business and ensuring its future growth.

Today, more than 95% of the Group's EHPAD in France offer medical services, either via the signature of tripartite agreements (see Subsection 3.4.2.2 B), or, for some facilities not yet under contract (but which will be in 2006 or 2007) by the presence of a medical treatment unit.

This process aimed at providing medical services guarantees the quality of resident care through the widespread presence of medical and paramedical staff in the Group's EHPADs. These staff members are essentially salaried employees and this means eliminating to a great extent the use of outside professionals (except, of course, for the physicians treating residents).

These staff members are part of multi-disciplinary teams (medical, paramedical and psychological) trained to provide overall care to residents. The staff of every facility under contract includes:

- a coordinating physician;
- a coordinating nurse who trains the healthcare staff composed of registered nurses and nurses' aides;
- a psychologist (who also takes cares of employees);
- if necessary, an occupational therapist or a specialist in behavioral disorders

One or more consulting physical therapists are also included in the teams.

These multi-disciplinary teams are supervised by a facility director who is generally a former health professional (nurse, etc.) in the Korian Group. This experience gives them greater understanding of residents' needs and ensures more effective training of the teams.

Facilities designed or configured as living spaces

The goal of the Korian Group is to offer the best living environment possible for the elderly residents of its facilities and to maintain their motor and intellectual skills as long as possible.

To achieve this goal, Korian pays careful attention to the layout of its facilities; the structure must promote a resident's autonomy and be designed as a secure space, while giving as much freedom as possible.

The Korian Group favors a configuration of different rooms within each facility to give residents friendly spaces to meet or see their families. For example, residents can decorate their rooms with personal furnishings. Rooms reserved for recreation, hair and beauty salons, newspaper stands, and even areas dedicated to entertainment (music, reading, cooking, etc.) are also included in most facilities.

Finally, the Group's staff works to maintain social connections, both among residents and among residents and their families, particularly by making it easy to visit with families, and the staff are continually attentive to the needs of residents while respecting their privacy during visits.

Social life in the facilities—an original and exciting project for the staff

True social policies have been established within the Group, for the purpose of maintaining a social life (reading workshops, games, news discussions, etc.) and for therapeutic purposes (memory workshops, art therapy, music therapy, etc.)

For the Korian Group, a priority for improving the quality of its services is making this social policy official in all its nursing homes (EHPADs). The activities offered to residents play an essential role in maintaining the intellectual capabilities of the elderly and in maintaining their social relationships.

For this reason, the Korian Group has set up a central activities department which supports facilities directors in developing their programs, and which is charged with making good practices an official policy in a guide currently in preparation.

Most of the facilities have a special activities director. The goal of the Group is to define the status of activities directors, provide training, and enhance their position within each facility.

New care and accommodation concepts in EHPADs.

The Korian Group has enhanced its services to meet the new requirements of its residents based on their level of dependence.

The implementation of daily care and temporary residence is in line with the Group's desire to offer a service adapted to every resident, including those whose level of dependence and caretaker situation do not justify long-term care. This type of service has received a favorable response from the administrative authorities.

The Korian Group is engaged in an ongoing effort to improve its care and accommodations in order to:

- improve the quality of life of the residents;
- become a benchmark and differentiate its services in its sector;
- give its staff effective tools.

Certain facilities have installed therapeutic baths, therapeutic gardens, etc. adapted to the physical limitations of the elderly.

Korian believes that nearly half of its current EHPADs residents suffer to a certain degree from an Alzheimer's type illness to some degree. Given the expected increase in persons suffering from Alzheimer's or similar pathologies, the Group intends to position itself as a leader in new concepts to assist disoriented persons:

- An innovative project is currently being formalized, based on the "Humanitude" philosophy and care methodology already developed in Quebec; this project is based on providing training and assistance to staff in the facilities to give them a better understanding of these diseases and, therefore, a better approach to care, both in assistance with daily activities and in care practices; the results of this method have been deemed positive internally and the Korian Group has made the decision to extend this method to all its facilities by means of systematic training actions aimed at:
- increasing the quality of life of each resident and individualizing the care;
- providing teams effective tools and generating personnel psychological and social well-being;
- helping to position the Group as a benchmark in elder care.
- Some of the Group's EHPADs have created environments adapted to these pathologies by setting up CANTOUs, (Centers of Natural Activities Geared to Useful Occupations). These spaces are therapeutic, encouraging interaction with the disoriented person and thus improving the quality of life for residents;
- "Snoëzelen" spaces, an innovative concept from Holland which consists of reintroducing into the medical life of disoriented adults the notion of well-being through a rediscovery of the world of sensations, have been set up in several EHPADs.

Commercial policy of the nursing homes (EHPADs)

The average rates of the Group's facilities in the Paris region were of approximately 95 euros including tax per day in June 2006, compared to approximately 62 euros including tax in facilities in the provinces. This variation reflects the disparity in housing costs and purchasing power among the different French regions.

In addition, the facilities directors are responsible for relations with the people who normally prescribe stays in nursing homes, i.e., private physicians, local information and coordination centers, local social services centers, social workers, etc.).

C. An efficient specialized offer for short and medium stays

The Korian Group consolidates and manages 35 follow-up and rehabilitation (SSR) clinics and 10 psychiatric clinics.

The SSR clinics

The following table lists the follow-up and rehabilitation clinics as of June 30, 2006:

Region	Facility	City	Number of beds and spaces operated
Aquitaine	Aquitania	Gujan Mestras	45
	Chateau Lemoine	Cenon	90
	Domaine Hauterive	Cenon	65
	Montpribat	Montfort en Chalosse	85
Aquitaine Total			285
Auvergne	Chambon	Le Chambon sur Lignon	46
Auvergne Total			46
Bourgogne	Charnay	Charnay les Macons	59
Bourgogne Total			59
Centre Val de Loire	Chartres	Chartres	63
	Gasville	Mainvilliers	68
Centre Val de Loire Total			131
Ile de France	C3S	Sartrouville	70
	Canal de l'Ourcq	Paris	93
	Clinique Conv de l'Ouest	Saint Remy l'Honoré	72
	Clinique de Bezons	Bezons	63
	Clinique de Saclas	Saclas	90
	Clinique du Mesnil	Le Mesnil Saint Denis	60
	Had Yvelines Sud	Le Mesnil Saint Denis	30

Region	Facility	City	Number of beds and spaces operated
	Hp4s	Noisy le Sec	90
	Le Perreux	Le Perreux sur Marne	68
	Livry Sully	Livry Gargan	70
Ile de France Total			706
Languedoc Roussillon	La Pinede	Sigean	43
	Vernede	Conques sur Orbiel	87
Languedoc Roussillon Total			130
Normandie	Clin Broceliande caen	Caen	60
	Crf Siouville / sns	Siouville	121
	Ouezy	Ouézy	51
	Ouistreham	Ouistreham	33
	Vimont	Vimont	61
	William Harvey/	Saint Martin d'Aubigny	70
Normandie Total			396
PACA	Les Deux Tours	Marseille	90
	Les Oliviers	Le Puy Sainte Reparade	72
	Sainte Baume	Nans les Pins	102
	Serena la Durante**	Marseille	127
PACA Total			391
Pays de Loire	Château Segrais	Saint-Mars d'Outillé	55
Pays de Loire Total			55
Poitou-Charentes	La Clavette	La Clavette	62
Poitou-Charentes Total			62
Rhône Alpes	Gleteins	Jassans Riottier	65
	Le Brevent*	Plateau d'Assy	73
	Mont Blanc	Plateau d'Assy	180
Rhône Alpes Total			318
Total			2,579

*Closing of this facility planned for the third quarter of 2006.
**Facility 40% held by the Korian Group and 60% by Financière Sinoué.

The follow-up and rehabilitation (SSR) care offer

The care of patients in the SSR clinics, who are seeking the best quality of care for an average stay of two to three weeks, is based on an individualized plan established on the basis of a general assessment (medical, paramedical, psychological).

All the parameters necessary for successful rehabilitation are considered, from care to rehabilitation designed for the performance of everyday activities, even psychological support for the patient.

Specialization of the SSR clinics in value-added services

The Korian Group has anticipated changes in the demand and offer of care by expanding the degree of medical services in its clinics in that care in SSR clinics has become more and more complex because of the reduction in hospital stays in short-stay institutions (MCO) and the increase in the number of older and more dependent patients.

The Group's SSR clinics have acquired the resources necessary to provide the best response to this change in the sector, by expanding their multi-disciplinary medical and paramedical teams and by installing modern technical equipment. The SSR clinics of the Korian Group thus have rehabilitation equipment that incorporates the latest technological advances, balneotherapy centers for functional rehabilitation, and fully equipped gymnastic and occupational therapy rooms.

The Korian Group also provides benchmark quality care with the development of leading edge services. Certain clinics have moved toward SSR specialties that require a particularly high level of quality and expertise, for example:

- The care of patients in a Chronic Vegetative or Non-Relational State (EVC/EPR) (8 beds at Hôpital Privé de Soins de Suite de Seine Saint Denis (HP4S) and the clinic in Canal de l'Ourcq);
- cardiac rehabilitation for the cardiology clinic in Gasville (Eure et Loire) or the William Harvey center (la Manche);
- ENT therapy for the clinic in Deux Tours (Bouches du Rhône);
- children's rehabilitation for the Centre Montpribat (les Landes);
- post-cure alcoholism follow-up (Centre Médical Spécialisé du Chambon in Haute Loire).

Finally, to provide a suitable response to the demand for SSRs in increasingly elderly patients suffering from an increasing number of pathologies, the Korian Group has recently initiated a process for partial geriatrics specialization in certain SSR clinics that had no specialization until now. The objective of geriatric follow-up care is to promote improvements in functional and instrumental autonomy using rehabilitation and therapeutic procedures. Polypathology and dependence are at the core of the medical project.

This type of conversion of undifferentiated SSR beds into geriatric SSR beds was conducted in the Gasville clinic in 2004 (23 beds) and in five clinics in Ile de France (the Paris metropolitan area) in 2005 (150 beds).

Finally, as part of the Group's continuing efforts to adapt its offer to patient needs, the Korian Group aims to develop alternatives to full-time hospitalization, particularly ambulatory rehabilitation in physical medicine and rehabilitation and outpatient care in psychiatry: the patient goes to the facility only during the day to continue his rehabilitation sessions and returns home in the evening.

Commercial policy of the SSR clinics

The development of contracts and networks with short-stay clinics (hospitals or Medical-Surgical-Obstetrics clinics) is the driving force of the commercial policy of the SSR clinics. In fact, these short-stay clinics, which are upstream in the healthcare chain, are natural prescribers for SSR clinic patients.

The development and maintenance of these networks or contracts are the responsibility of the facilities directors, but also of the medical staff in the facilities.

The factors behind the rate policy are, first, bed specialization (for example, an undifferentiated SSR bed will receive a lower daily rate than a geriatric SSR bed) and, second, the expansion of so-called comfort services (private rooms, various sales, etc.). It should be noted that the rates for private rooms are negotiated with the private health care insurance companies to keep them within insurance coverage limits.

The rate scale (all types of beds and excluding the patient's co-pay) ranges from 90 to 330 euros per day for an average of 125 euros per day.

Participation in restructuring in the new Health Territories

The Rhône Alpes ARH, decided in a meeting held on January 10, 2001 to close the 73 beds in the Brévent clinic and reduce the bed capacity at the Mont Blanc clinic by half, both of which belong to the Medidep Group. The agency imposed this restructuring on the basis of the surplus nature of the treatment offer in the Assy territory.

However, the Medidep Group obtained from the same ARH authorization to create a Physical Medicine and Rehabilitation facility in Argonay. With a capacity of 60 beds and 20 outpatient spaces, this clinic should welcome its first patients early in 2007, the date on which the Brévent clinic closes.

The medical plan for this future healthcare facility has been defined in collaboration with the sector team to ensure care facilities that fully meet local needs.

Through this project, which was conducted in close collaboration with the administrative authorities, the Korian Group has demonstrated its willingness to participate in the total revamping of the healthcare landscape. This project received financial support from the administrative authorities under the Hospital 2007 plan.

The psychiatric clinics

The following table lists the psychiatric clinics, their bed capacity, and the expansions that have been authorized as of June 30, 2006:

Region	Facilities	City	Number of beds operated	Number of day spaces
Aquitaine	Clinique de Maylis	Narosse	51	
	Clinique Horizon 33*	Cambes	60	
	Clinique Horizon 33 Charmilles	Cambes	18	
Aquitaine Total			129	
Centre Val de Loire	Clinique la Gaillardière	Vierzon	32	
	Vontes et Champgault	Esvres sur Indre	135	
Centre Val de Loire Total			167	
Ile de France	Bellevue**	Meudon	79	
	Clinique de Bois le Roi (cps)	Bois le Roi	82	19
	Clinique de Jeanne d'Arc	Saint Mandé	110	
	Garches**	Garches	46	
Ile de France Total			336	
Normandy	Clinique Ymare	Ymare	84	
Normandy Total			84	
Grand Total			716	19

*Purchase of 18 beds from Maison Les Charmilles in January 2006.
**Facilities in which the Korian Group holds 40% and Financière Sinoué 60%.

The psychiatric clinics of the Korian Group accept patients for the treatment of psychosomatic problems, as well as acute and progressive psychological problems, bipolar illness (depression), behavioral disorders, etc. They offer individual or group therapy combined with drug therapy to guarantee individual care adapted to each patient. It should be noted that the clinic psychiatrists are in private practice and are not salaried employees of the clinics.

The Korian Group's facilities have multi-disciplinary teams able to treat the complexity of the cases found in patients. The teams at the facilities include, in addition to physicians, nurses, orderlies, psychologists, and occupational therapists as well as social workers and dieticians if needed.

The staff working in the psychiatric clinics of the Korian group take an overall approach to psychiatry. This approach takes into consideration the complexity of the psychological disorder, the variety of mental disorders (with depression ranking first), the effectiveness of hospitalization, which is open, freely accepted and of relatively short duration and, finally, respect for the patient's freedom of action.

The Korian Group has established "Psychiatric Coordination" in order to ensure consistency and the best possible quality in the medical plans in its clinics (definitions of care and therapy methods used in the clinics). In psychiatry, the quality of the medical plan is a vital factor in attracting and retaining skilled physicians in the clinics. These physicians are the guarantors of the efficacy of the care and, therefore, the attractiveness of the clinics.

Based on its psychiatric division, the Korian Group intends to become a benchmark in France because of the quality of the services it offers.

<u>An experiment in Home Hospital Care (HAD)</u>

The Korian Group has a home hospital unit in Yvelines with a capacity for 30 spaces. Home hospital care provides temporarily dependent persons with home medical services.

The Korian Group believes that, based on the objectives recently confirmed by the French government, it will be able to develop a more ambitious offer in this sector based on the experience it acquires in this pilot project.

It would be useful to include this offer in the full dependent care strategy, particularly for assistance to caregivers, followed by the Korian Group.

3.4.4.2 Centralized management serving the facilities

From its beginnings, the policy of the Korian Group has been to favor centralized organization of “support” functions. As part of this policy, early in 2006, two months after the end of the tender offer on Medidep, the Korian Group set up an operational organization based not on the legal organization of the facilities or personnel, but on the need to develop efficiency and harmonize methods between the Korian and Medidep Groups.

This decision to reorganize immediately the Group’s operations and the role of each department and to appoint the executives for each department allowed the Group to move very quickly to meet its goals to streamline and control operations and generate synergies.

In order to align the economic interests of Korian and Medidep, reciprocal reinvoicing agreements for corporate personnel were set up and approved by the respective Supervisory Boards of both groups (see Subsection 3.20.2).

A. An experienced team

The Korian Group's management team is organized around people with extensive experience in their respective areas, both in the clinic/medical social segment and in other areas.

Aside from the current members of the Management Board (Messrs. Georges-François, Lapp and Ravassard) and the future Chairman of the Management Board (Mr. Mrs. Rose-Marie Van Lerberghe), the Korian Group's management team includes Bruno Marie, the current Chairman of the Medidep Management Board, Philippe Cléry-Melin, the head of the psychiatric division, Jean-Pierre Barest, Vice President, Human Resources, and Jérôme Gatier, Vice President, Development and Construction.

The resumes of the members of the management team are provided in Subsections 3.12.1 and 3.12.4.

B. A centralized organization with two major operating divisions

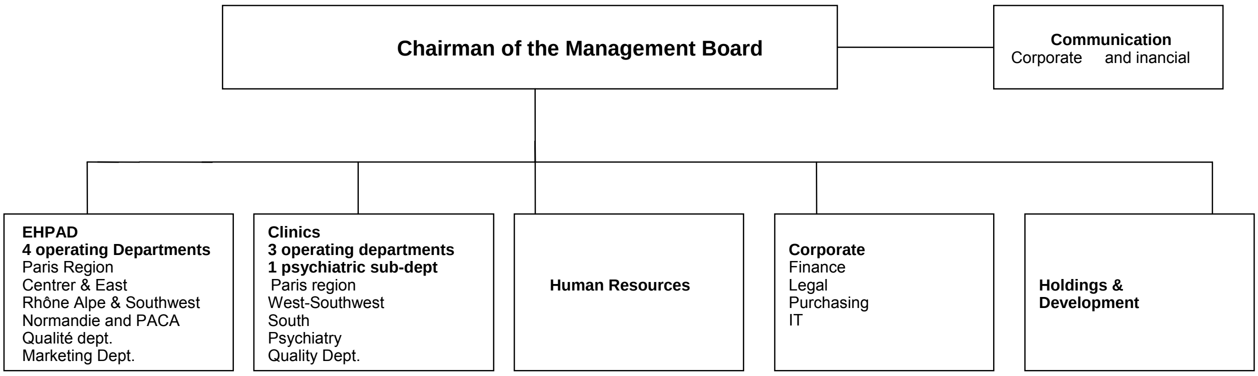
The Korian Group from its inception has centralized administrative tasks to the maximum extent possible in the corporate offices in order to:

- free up the staff in the facilities as much as possible from the tasks not directly related to patient and resident care;
- standardize reporting procedures among the facilities;
- improve quality, accuracy and speed in monitoring the facilities;
- facilitate the immediate implementation of any corrective measures;
- generate economies of scale (administrative personnel, equipment, software, etc.) on the fixed costs incurred for these central functions;
- generate savings in purchasing.

Korian has divided its operations into two major **operating divisions**:
- the EHPAD division;
- the clinic division, which is sub-divided into SSR and psychiatric divisions.

The corporate departments serve the operating divisions. These corporate services are as follows:
- the department of human resources;
- the corporate department that handles financial, legal and IT functions;
- the holdings and development department.

Therefore, the Group’s operational and functional organizational chart is as follows:



The operating divisions

EHPAD division (*Housing Facility for Dependent Aging Persons)*

The EHPAD division operates nearly 80% of the Korian Group's beds and generates approximately two-thirds of its revenues. The Chief Executive of this Division is a member of the Korian and Medidep Management Boards.

- *Regional operating departments*

  In order to guarantee efficient and consist monitoring, EHPAD is organized into four regional operating departments. Each of these departments is led by an operating officer who is assisted by one or two deputy directors who supervise about thirty facilities. The team is reinforced by a human resources manager who performs these duties close to the field. The role of the multi-discipline teams is to support, direct and monitor the facility directors in their daily responsibilities. The regional vice-presidents have been delegated extensive powers, which give them the ability to make commitments and ensure managerial credibility. Each director is responsible for the performance of the facilities, particularly occupancy rates, the rates charged and control of personnel costs. Finally, they assist, as necessary, the facilities directors in their dealings with the administrative authorities. The directors also guarantee application of the Group's standards and operational control and quality in the operations.

- *The marketing department*

  The operational departments and the facilities directors are assisted in defining their offer and their communications campaigns by a marketing department attached to the division management. This department also ensures that homogeneous tools are used by the different facilities. Practices are currently being streamlined and coordinated following the merger of Korian and Medidep.

- *The quality department*

  The EHPAD division has a quality department which is responsible for the following:
  - expand throughout the entire Group management's quality approach and the procedure to earn ISO 9001 certification for the facilities already initiated by the Korian Group before the consolidation of the Medidep sub-group;
  - assist in the implementation of quality standards for the division;
  - set up the risk management system;
  - implement common procedures and practices and share experience among the facilities;
  - finally, provide all useful assistance in the division's quality approach to the facilities.

The clinic division

The clinic division consists of two sub-divisions: the SSR sub-division, which is divided into three regional operational units and the psychiatric division. This division has not been "regionalized" given the still limited number of facilities managed.

The regional operational departments are led by a manager who supervises about ten facilities. The greater complexity of the clinic sector compared with the medical-social sector explains the smaller number of facilities supervised. It should be noted that, in contrast to EHPAD, the regional operating managers do not have their own multi-disciplinary teams. They work directly with the facilities directors who have access to more expertise within the facilities.

However, the clinic division also has its own operating human resources team member whose mission is to assist the managers in areas related to their expertise. Here again, this organization reflects Korian's involvement in the management of human resources, which is considered to be a major strategic resource for the Group.

The clinic division has a large seven-member quality department responsible for the following:

- implement the regulatory pre-requisites in the facilities;
- define and implement the quality and risk prevention approach;
- prepare and monitor accreditation and certification procedures;
- evaluate professional practices;
- evaluate internal management tools.

Within this framework, the clinic quality department assists all the facilities, participates in the definition of strategic planning for the facilities and develops quality monitoring tools.

<u>Local coordination</u>

The Korian Group has just initiated an experiment in local dependent care units that combine a medical-social and clinic offer. These gerontology units are coordinated locally by the director of one of the facilities in question.

<u>Corporate support functions</u>

The two operational divisions benefit from the assistance of central support units.

<u>Department of Human Resources</u>

Under the authority of the Group's Chairman, the principal mission of the Vice President, Human Resources is to define, implement and monitor the Group's human resources and social policy.

As the expertise and motivation of the Group's employees provide the best guarantee of quality care for residents and patients, the Korian Group has established an ambitious training policy well above the legal minimum. A single training unit has been formed and is currently finalizing the 2007 training program, which will merge the mechanisms already in place in the Korian Group and the Medidep Sub-Group. In 2006, the Korian Group (including the Medidep Sub-Group) will devote about € 4.7 million, or 2.91% of its estimated gross payroll to training its employees (excluding payroll taxes).

The primary missions of the HRD are to:

- define the objectives of the Group's human resource and labor policy;
- implement standardized procedures for personnel management and monitor the application of those procedures;
- advise the Group's operating divisions and support units on qualitative management of executive managers;
- in order to harmonize practices, recommend compensation policies, particularly the variable compensation component, and benefits, appropriate for the various businesses and types of employees within the Group.

In order to accomplish its mission, the Department of Human Resources has been organized into four units as follows:

- Department of Studies/Compensation/Benefits:

which is responsible for generating statistics, profit-sharing and incentives, supplemental insurance programs, employment contracts, budgets for personnel costs, etc.

- Legal and Labor Law Department:
  which assists the Operating Divisions with technical aspects, prepares procedural memos, coordinates follow-up for disputes, manages relations with the Employee Representative Organizations (IRP), etc.

- Career Department:
  This unit is responsible for the recruitment and integration of managers, internal transfers, monitoring key managers and training.

- Payroll and Personnel Administration Department:
  This unit prepares the payroll and files the declarations and makes the required payments to social organizations.

Corporate Division

The Corporate Division is responsible for four main areas:

Financial unit

The financial unit includes accounting, management control, financing and cash management and various studies. The Group continues to centralize these functions on the basis of the two historical accounting units: one in Besançon which monitors all EHPAD business and the holdings companies, and the second in Toulouse which is responsible for the clinic business.

Every month, the Group produces detailed reports by facility comparing the principal indicators to the budget, including: activity (occupancy rate, rates, revenues), personnel costs and the equivalent number of full-time workers working in the facilities, other expenses and, in particular, the ratios for meals, cleaning, maintenance expenses. The occupancy level of the EHPAD and the amount of trade receivables are accessible in real time. The clinic division will have access to the same reporting once the clinic IT work has been completed. In addition, specific reporting on maintenance work and follow-up for construction-renovation projects has been initiated. Finally, centralized monitoring of debt, cash flow and rate hedging instruments has been established.

Purchasing

As part of the program to generate synergies and improve services to the Group's residents and patients, the Group has set up a residential and purchasing unit (DHA). This unit implemented the purchasing policy described in Subsection 3.4.4.4.

This unit has seven employees.

Legal

The size of the Group and the complexity of its activities justify the presence of specialized legal teams. The corporate legal department consists of 5 people and manages the administration of the companies, major contracts, disputes and litigation, insurance, acquisition contracts and track liability guarantees; it receives the active support from the Batipart legal teams under the Assistance Agreement signed by Korian and Batipart (see Section 3.17.1).

At the same time, a team of legal specialists in EHPAD and clinic regulations has been set up. Its mission is to manage current or future licenses and to assist the operating teams in their relations with the administrative authorities.

Department of Information Services (DSI)

The organization of the information systems is described in Section 3.4.4.2. C.

The Department of Holdings and Development

This unit is responsible for the following:
- the construction of new facilities
- the implementation of major or light renovation programs
- the Group's maintenance policy.

The development department is responsible for mounting the operations to build new facilities and projects to purchase facilities. To perform this service, it has its own experts, which allow it to react rapidly to any opportunity.

The support units are located at four separate sites:
- Paris, as of November, in a single building located in rue Guersant Paris 17ème, the future corporate headquarters of the Group, which will house the teams currently located in Paris and Massy;
- Besançon for the EHPADs accounting teams;
- Toulouse for the clinic accounting teams;
- Lyon for the IT department.

As of June 30, 2006, the support units had 230 employees serving the Group's 172 facilities.

C. Organization of the Korian Group's IT systems

The Korian Group believes that strong management of IT procedures and tools is one of the key to its success. Because of the highly centralization organization of its business, the Korian Group believes that an efficient IT organization, to which it is devoting substantial resources, is crucial for controlled expansion.

Korian has made an effort to significant expand its information team so that it can launch a major series of IT projects. The Department of Information Services (DSI) now has a staff of 18. This team has been working since the consolidation of the Medidep Sub-Group with the Korian Group on establishing a development plan, which includes the following major components:

- Installation of the technical infrastructure and integrated network in order to integrate all Medidep facilities in the Korian secure IT network. This project is now completed. Korian made the decision to move its application servers to the service provider Easynet. At the same time, the Group is currently upgrading the Medidep IT system. The Department of Information Services maintains and manages the network and the equipment.

- Integration of a single payroll tool, centralized at a single site on a single tool. This process will be completed at the end of the year. The payroll application is Pegasus, which is already used by Korian. The operational reporting produced by the system allows a detailed and automatic analysis of personnel costs for all the centralized facilities.

- Integration of a single management tool for the EHPADs owned by Korian: "SagessE". This application has been installed on all the EHPADs managed in the Group. This harmonization will product management data in real time, homogeneously and without re-input. As a result, the occupancy rates or receivables for the facilities are feed to headquarters in real time. This information allows the Group to react quickly in the event of any malfunction. It also compares facilities, improving management performance of this division.

- Deployment and integration of a single accounting tool (Adonix) for the EHPADs and headquarter since early in 2006. This application is designed to account for all the Group's operations. As of this date, it is interfaced with the Group's payroll application and with the EHPAD management application. By the end of the year, all the accounting for the EHPADs managed by the Group will be integrated on this application, particularly the accounts that were still being kept in the facilities.

- Creation of a single interface. At this time, the Group's clinic facilities use 13 different software applications, a situation resulting from successive facility acquisitions. Therefore, Korian has decided to launch a bid tender for a harmonized system to be deployed at the end of 2006/early 2007 for accounting payroll. This project will then be followed by the installation of a Group patient application.

The current IT development plan should be completed in the first half of 2008. The Group's IT structure has been designed to be able to managed at least 250 facilities. The IT budget in 2006 is €5 million, split evenly (€2.5 million) between capital expenditures and operating expenses. These amounts should be renewed for 2007.

3.4.4.3 Quality approach and risk management policy

In order to take into account the industrial and legal risks inherent in its operations, and in order to control the effectiveness of the Korian Group's quality process, the organization of the facilities is designed to provide care for patients and residents under optimum conditions of quality and safety.

Improvements in the processes, problem-solving and the handling of malfunctions depends, first and foremost, on the mobilization and empowerment of the directors, who are responsible for the operations of their facilities and any operating process conducted in the field on a daily basis. Only complete mastery of the quality approach by the staff will make the measures taken permanent.

This is why the Korian Group assists its directors in implementing the quality and risk prevention process in their facilities. Two dedicated units (Clinic Quality Department and EHPAD Quality Department) have been formed to provide the methodological assistance required by the facilities to ensure follow-up for these processes and to create the quality model for the Group.

A. Organization and expertise of the Quality Departments

The Korian Group has set up a quality management system. This centralized system facilitates facility monitoring and rapid detection of undesirable events. It also helps to establish a team spirit among the Korian Group employees working in the interests of residents.

<u>EHPAD Quality Department</u>

The EHPAD quality department consists of 4 quality controllers and one assistant. Each quality controller is the point of reference for a group of 30 facilities, and the controller provides guidance in the progressive deployment of the quality management approach. This approach, which has been validated by ISO 9001 certification, is conducted in cooperation with the Operating divisions and in compliance with regulatory rules and contract conditions. Each quality controller performed transversal duties in order to ensure ongoing improvement in the approach and the methods proposed to the facilities. A cooperative project with the Bordeaux Quality Management Institute brings in student interns working on a Master's in quality and risk management in healthcare, thus creating a breeding ground of new professionals with good knowledge of the sector and the organization of the Group's facilities. The EHPAD quality unit has produced a reference-quality document that will be submitted for validation to the National Social and Medical-Social Evaluation Council.

The mission of the EHPAD Quality Department is the following:

- *Provide advice and methodological assistance for the implementation of the quality process and risk prevention*

  In the medical-social facilities (EHPAD), a process to obtain ISO 9001 certification has been initiated in 45 facilities; a program to extent this certification provides for the progressive including of all EHPADs at the end of 2007.

  It is important to note that the French High Health Authority (HAS) has signed cooperative agreements with COFRAC (the agency that approves the ISO 9001 certifying organizations) in order to facilitate coordination between HAS accreditation and other external systems that recognize competence and quality in clinics and medical-social facilities. This certification policy allows the Korian Group to anticipate its external regulatory obligations for the EHPADs under contract.

- *Provide advice and methodological assistance for the contracting procedure (EHPAD)*

  Each facility going through the contract process or renewing its contract is assisted by a coordinator from the EHPAD Quality unit. This assistance consists primarily of assistance in the development and follow-up of contract objectives (evaluation of the situation, definition and validation of the objectives, development of a five-year action plan, annual evaluation of achievements and adjustment) and the development or follow-up of the institutional project, which is split into a residential plan and a care plan. It is developed in line with the methodological assistance provided in the context of ISO 9001 certification, and in close collaboration with the regulations unit, which assists the facility Director in his negotiations with the administrative authorities. Thus, certification facilitates negotiations with these organizations.

Clinic Quality Department

The Clinic Quality Department is composed of seven quality controllers, responsible for a region (Ile de France, Normandy, Center, Aquitaine, Midi Pyrénées, Rhône Alpes / PACA) and one person dedicated to monitoring clinic security. The regional quality controllers work with the regional operating directors and the facility directors. They perform their duties independently of the operating entities within the program established with those entities.

The regional managers of the Clinic Quality Department have five main missions:

- *Monitor and track clinic security*

  The Clinic Quality Department offers the facilities the tools necessary to perform their obligations and ensures implementation and follow-up with the Directors of the facilities. All the information is assembled on an Intranet database that allows immediate display of the level of compliance for each security measure applicable to the facility, the schedule for audits to be performed, indicator tracking and the level of compliance of the facility.

- *Advice and methodological assistance in conducting the accreditation process (clinic sector)*

  Accreditation is an external evaluation of a healthcare institution conducted by professionals independent of the institution and its administrative authorities. This evaluation covers all operations and practices of the facility. It is designed to ensure the quality and safety of the care given to patients, and the quality of accommodation. Moreover, it is intended to promote a policy of ongoing quality improvement. This procedure, which is conducted by the French High Health Authority (HAS), is repeated every four years.

  The regional quality officer assists the facility in its commitment to initiate the accreditation procedure and ensures that the process complies with the institution procedure.

- *Development of tools*

  The Clinic Quality Department has developed a number of tools to assist the facilities in launching and monitoring these processes. There are five types of tools:
  - tools for planning and tracking processes: media that formalize and organize each of the processes (regulatory pre-requisites, quality and risk prevention process, accreditation process, monitoring of tripartite agreements, etc.);
  - teaching tools, including tools to update knowledge about the applicable regulations and best practice recommendations: clinic security measures, hygiene, care practices, clinic watches, works published;
  - tools to collect and evaluate data and indicators: tools to track clinic safety measures, infectious risk control program, themed assessment grids (patient file, hygiene, etc.);
  - tools to help formalize processes and practices: procedures and protocols for the general organization of the facility, hygiene, care, etc.
  - internal training tools: on the quality process, accreditation, hygiene, etc.

Complaint management unit

Within the Korian Group, the care of residents is based on serious commitments: respect for the person, the person's dignity and his wishes are the password for care in the Group's EHPAD. These principles are all connoted in the original Canadian concept of "humanitude", which the Group works to apply in the EHPAD. This concept, developed by Yves Gineste and Rosette Marescotti, consists of proposing that all who work with the elderly think about aging, about care, and about "taking care".

In this area, the Korian Group benefits from the practical and academic work conducted within the Medidep Group.

Thus, a practical brochure, the "Guide to Good Treatment" has been written by two well-known philosophers, Alice Casagrande and Catherine Deliot, on the basis of interviews conducted with Group employees about their day-to-day experiences. This brochure has been widely distributed within the Group and also distributed to residents' family in order to involve them fully in the ethical practices of the Korian Group.

Ethical questions within the Korian Group are under the general supervision of Claude Malhuret, the founder of *Médecins sans Frontières* (Doctors without Borders) and a former Secretary of State for Human Rights.

The mission of the Complaint Management Unit is to assist the Group's facilities in handling claims, or any event that might create problems, malfunctions or cause a deterioration in the quality and calm atmosphere of a facility.

It is not a replacement for the regulatory authorities, such as the commissions on relations with user and the quality of care. In the event of a claim, the team explains to the facility director the procedure stipulated by the Public Health Code for petitioning the commission. Chaired by Dr. Claude Malhuret and composed of Group executives and, if needed, outside experts, the team meets whenever a situation requires. It adopts resolutions or opinions transmitted to the facility in question.

Any complaint must be filed with the national complaint management team within a formal procedure and on a single declaration.

<u>The EHPAD Vigilance and Risk Management Committees (COVIRIS)</u>

The COVIRIS Committees are coordinating committees formed to rapidly handle any malfunctions and non-compliance found in order to prevent the aggravation of an undesired situation by organization global risk management.

They are being progressively formed in the EHPADs of the Korian Group as each facility is included in the scope of the Group's certification by the certifying agency BVQI in compliance with ISO 9001.

For each facility, the Vigilance and Risk Management Committee is composed of the director, the coordinating nurse (the contact and coordinator for the care teams) and the residence manager. The facility director may change the membership of the Committee based on local resources and the scope of the responsibilities handled by employees.

<u>Vigilance in the clinics</u>

Each facility has identified the appropriate vigilance agents (pharmaceutical, equipment, infection, allergic reactions and, if applicable, hematology).

These efforts are coordinated either by COMEDIMS (Commission on medication and sterile medical equipment) or by the Quality and Risk Management Steering Committee (COPIL).

B. Control of facility safety

Guaranteeing the physical safety of the residents is a priority for any health or medical-social facility. In this area, regulations continue to increase and are becoming more and more complex and restrictive.

The Korian Group every year invests the sums needed to ensure that its structures comply with the directives issued by the public authorities on health and fire safety measures.

Without listing all the work that has recently been performed, it is possible to cite the main areas that have been brought into compliance following regulatory changes:

- smoke clearance and fire safety systems;
- the spaces allocated for technical rehabilitation areas and group living areas;
- improvements to the water systems to fight legionnaire's disease;
- modernization of elevators;
- diagnosis and removal, if necessary, of materials containing asbestos;
- handicapped accesses and other measures.

At the same time, the Group has established partnerships with professionals to ensure continuing control and monitoring of compliance with regulations.

For this purpose, the Korian Group has surrounded itself with specialists and independent service providers responsible for verifying the safety of facilities (equipment, buildings, etc.) As part of this process:

- The Veritas inspection firm periodically conducts mandatory regulatory safety audits (fire, gas, electricity, maintenance of the facilities, etc.) in the Korian Group's facilities; it transmits these reports in real time to the architects so that they, in collaboration with Corporate Management, take the measures necessary to implement the recommendations and ensure follow-up;
- Master agreements have been signed with the Schindler and Otis companies to maintain elevators;
- for medical and infectious waste, each facility works with a specialized company to treat and eliminate these products (Dexel, Onyx and Sita) as required by regulations.

C. Risk management policy

The Korian Group takes a certain number of measures to limit its exposure to the risks inherent in its dependent care activity in the medical-social and clinic sectors.

As of this date, and to Korian's knowledge, the Group's facilities are not and have not been a party to any significant dispute related to the risks identified by the Group and covered by its risk management policy.

The Group's risk management policy as described below is applied in both the EHPADs and in the clinics; it should be noted that the level of care-related risks varies depending on the number of medical services provided in the various facilities.

<u>Infectious risks related to care activities</u>

The Korian Group has developed an infectious risk policy for its care-related services.

Nosocomial (hospital-born) infections

Infectious risk control objectives have been classified in five areas in the health facilities of the Korian Group:

- implementation of the mechanisms to fight nosocomial infections: the establishment of a committee to fight nosocomial infections (CLIN) and hygiene operational teams (EOH);
- providing the resources necessary to establish good hygiene practices;
- implementation of hygiene and care preventive measures, including the isolation of the patient and the correct use of antibiotics (procedures, protocols, training);
- organization for monitoring nosocomial infections, multi-resistant bacteria (BMR), the use of antibiotics, and the evaluation of good practices; and
- tracking of national indicators (use of antibiotics, consumption of hydro-alcohol solutions, methicillin resistant staphylococcus aureus or SARM).

Infectious disease monitoring measures (internal and external signs of nosocomial infections) are organized in the facilities. The facilities complete an annual standardized report on activities to fight nosocomial infections to allow the administrative authorities (DDASS) to establish the ICALIN score (composite index of activities to fight nosocomial infections).

Epidemics

While standard precautions limit the risk of a nosocomial epidemic within the healthcare facilities, the facilities are preparing to handle a possible epidemic originating outside the facility. Despite the absence of any overall mechanism to protect against an epidemic, health facilities must be organized to handle an abnormally high influx of patients. The follow-up care and rehabilitation facilities of the Korian Group do not provide emergency operations because of the nature of the facilities, but they are organized to handle an exceptional situation, which they describe in their white plan defined with the DDASS.

Every year, the facilities of the Korian Group develop a vaccination policy with their staff (influenza).

Management of healthcare waste posing an infectious risk (DASRI)

The production of healthcare waste posing an infectious risk (DASRI) could cause blood to be exposed accidentally in the absence of good practices.
Managing this type of waste involves a procedure which identifies the waste products in question, requires the use of appropriate packaging (secure collectors for needles, scalpels, knives, containers), stipulates intermediate and final storage conditions, requires removal at defined intervals based on the rate of production by an approved service provider. Traceability is guaranteed by removal and elimination order slips.

In addition, each facility monitors cases of accidental exposure to blood in cooperation with preventive medicine, the committee to fight nosocomial infections (“CLIN”), and employee representatives in order to maintain professional vigilance and continue to make improvements in waste management.

Drug circuit

Each step in the drug circuit could generate errors resulting in a risk for a patient, ranging from inhibition of the principle active ingredients to the toxicity of the treatment administered. The consequences could generate liability for the facility if there is a complaint about endangerment, or the temporary or permanent disability of the patient or resident.

In this context, the Korian Group implements a prevention policy based on control of the drug circuit and pharmaceutical vigilance. A prescription is a medical act; dispensing it is a pharmaceutical act; drugs must be administered by a nurse or a healthcare professional.

In healthcare facilities, the organization of the drug circuit (prescription, dispensing, administration) is tightly controlled at the regulatory level and is established and formalized jointly by the managing pharmacist of the internal pharmacy and the other professionals involved, in the committee on medications and sterile medical equipment (COMEDIMS) with the participation of the other committees concerned (CME, CLIN).

Risks related to medical equipment and devices and vigilance concerning medical equipment and devices

Providing care for a patient may require the use of biomedical devices and equipment for diagnostic, therapeutic or rehabilitation purposes. The absence of surgical activity and of the insertion of implantable medical devices reduces the risk related to this equipment. A failure in preventive maintenance could result in a diagnostic error or performance problems that could lead to a medical accident or an inappropriate course of care.

Moreover, the use of reusable devices (“multiple patients”) could cause infections.

In order to prevent these risks, an inventory of the medical equipment and devices is conducted in all the clinics, annual maintenance is organized, reusable medical devices are identified, and maintenance protocols are established. Finally, vigilance (monitoring of errors and risks of errors resulting from the use of medical devices) is now conducted in all Group facilities subject to risks related to the use of medical equipment.

A limited number of clinics are equipped with imaging equipment that must be specifically authorized. This equipment is subject to regulatory controls and the professionals exposed are monitored in order to control exposure to ionizing radiation (dosage control).

Risks of falls

As the Korian Group provides care for dependent persons, all its staff in trained in the risks of falls run by its patients and residents, which could have serious consequences on their general health, particularly for the elderly persons in the medical-social facilities. Falls are reported and classified, and the family of the resident/patient is informed immediately.

<u>Risks related to failure to respect patient rights</u>

Abuse

In the area of abuse, the Korian Group has set up a volunteer policy, coordinated by the department of ethics run by Dr. Claude Malhuret.

There is a series of measures designed for abuse prevention, i.e., training, the use of procedures and charters, internal and external control and, finally, and steps to follow up on complaints or claims.

All personnel in the Group's facilities receive regular training in ethics and the prevention of abuse. These training sessions are prepared and conducted in liaison with the ALMA, the leading French association to combat abuse.

The facilities also receive regular visits from agents from the Antigone society, an outside service provider, which specializes in ethics and ethical conduct and submits a detailed report to the facility manager and to Group management after each inspection.

A specific procedure has been established to monitor complaints and claims, which are reported to the Complaint Management Unit.

As required by the regulations, each care facility has set up a Commission on Relations with Users and Quality of Care (CRUQ). Likewise, each nursing home has established a Social Life Council.

As of this date, no complaint of abuse filed by patients or residents with the administrative authorities, a local authority or a departmental Order Board has resulted, after investigation, in a case against the facilities of the Korian Group.

On the other hand, several reports have been filed with administrative authorities or the courts by Group managers against employees guilty of acts of abuse, reports that were accompanied by the dismissal of the persons involved.

Freedom to come and go

Clinics and medical-social facilities must guarantee the health and security of residents while respecting their freedom to come and go. This right includes the freedom to travel, but also the right for the patient/resident to make decisions, and the possibility of leading a "normal" life within the facility.

The clinics and nursing homes have taken measures to control the risks related to failure to respect the freedom to come and go: training, procedures and protocols, patient and resident satisfaction evaluations, reports on undesirable events.

Restraints

The use of restraints is a decision that is medically prescribed to allow an evaluation of the benefits and risks because of the risks that may result from this procedure (e.g., the appearance of decubitus ulcers and infections, increased loss of autonomy, serious falls, appearance or aggravation of confusion or agitation, etc.) The restraint may be physical or chemical.

Inappropriate restraints are prevented through systematic monitoring, through a prescription for placement and removal, through the application of a protocol for “monitoring physical restraints”, and by the distribution of written information on physical restraints for families, to explain the benefits and risks of this action.

Risks related to buildings

Fire risks

Careful attention is given to compliance with the regulations governing public establishments (ERP), particularly in the area of fire safety.

The Group’s policy in this area is based on fire prevention (compliance with standards, staff training), the performance of regulatory inspections and preventive maintenance (fire safety systems, extinguishers, electricity, elevators, operation of automatic doors, gas installations, heating installations), posting evacuation plans and safety rules, and maintaining a safety register.

The Safety Commission conducts a preliminary inspection during the construction of a building and before it opens, then an inspection every three years in all facilities (types 4^{th} category U and J).

Asbestos risks

The risks related to the inhalation of asbestos dust by professionals are well known (benign lung tumors, asbestosis, cancers). The proportion of Group facilities that have materials containing asbestos is low and does not require special work. All the facilities have completed the regulatory diagnostics. An asbestos technical file has been created in the facilities that have materials containing asbestos. The facilities subject to visual inspections of the conditions of these materials required by the authorities have been identified. The inspections are conducted by authorized service providers.

Hot water (Legionnaire’s disease)

The concentration of legionnaire’s bacteria in water networks has been monitored and measures have been taken to prevent the risk of Legionnaire’s disease. An inspection of the water distribution network is conducted in all facilities (by an inspection agency or approved service provider). A facilities control plan exists and the work to improve the network has been completed or is in progress. The search for legionnaire’s bacteria is conducted by approved laboratories. No case of Legionnaire’s disease has been identified to date within the Group.

Other risks related to the business

Food risks

Food safety is ensured in all Group facilities, whether meal services are provided internally or outsourced. Collective food toxic infection is a risk controlled through the implementation of Hazard Analysis Critical Point Control (HACCP) in the food preparation process, from the delivery of the products to the consumer’s plate, i.e., by means of microbiological tests on the meals prepared and on surfaces, and the performance of hygiene audits.

With the combined government inspections (including by the Departmental Office of Veterinary Services—DSV), of the subcontractors and the Group's professionals the food risk is under control.

Water potability

The water networks are maintained and inspected at defined intervals as part of the facilities maintenance policy.

An inspection of the water network is conducted regularly by an external inspection agency in all the clinics and medical-social facilities. Inspections are conducted at use points using very rigorous technical procedures and with very elaborate control tools (particularly the analysis laboratories): sampling frequencies are adapted based on the water network structure, who uses it and how it is used as well as high-risk areas.

Potability controls are conducted under the responsibility of city hall or the DDASS and under the prefect's authority. The results are provided to the facility at its request.

In addition, bacteriological and physical-chemical analyses (type D1 analysis) are performed annually by an outside laboratory.

Finally, the water fountains are serviced and maintained internally or by an outside service provider (bi-annual lime removal and disinfection).

Risks related to heat waves

Every year, the Ministry of Health publishes a National Heat wave Plan (*Plan National Canicule*--PNC) which specifies national, local and individual measures to be implemented to prevent and reduce the health consequences of a heat wave. The 2006 plan was introduced on June 20, 2006.

Since 2004, the PNC has stipulated that each facility that houses the elderly develop and update its "Blue Plan" annually; this is a temporary and exceptional plan which must be progressively implemented and adapted, and which is decided by the manager and the healthcare staff depending on the magnitude of the heat episode, and based on the levels at which the departmental heat wave management plan is triggered (PGCD).

The Korian Group offers its facilities a tentative framework for completing the Blue Plan, which must be adapted to the local situation of the facility, particularly its operating methods and the degree of dependence of the residents.

The availability of a cooling room as recommended by the French Agency of Health and Environmental Safety is mandatory under the PNC: all the facilities of the Korian Group have air conditioned or cooling rooms and mobile air conditioners for 10% of the housing capacity, particularly intended for bedridden patients who cannot leave their rooms. On the façades with the greatest sun exposure in some facilities, exterior shutters are added to other protective measures during a heat wave.

A " Hydration & Prevention and Treatment of Dehydration" protocol is known to all personnel, with whom the coordinating physician (a physician employed by the facilities who monitors and coordinates the various staff serving the residents, but who does not prescribe in this position) and the coordinating nurse regularly organize training sessions. Elderly patients at risk are identified and closely monitored. Each facility signs an agreement with a nearby healthcare facility which defines the conditions for cooperation, rules for transfers, and exchanges on best practices to prevent hospitalization.

D. Internal Control

Thje Korian Group has organized itself in such a manner as to improve and accelerate the production of financial information. Centralizing management, the process in progress for which should be completed by the end of 2006, is the essential stage in bolstering internal control.

Each business unit has a centralized accounting production platform within which procedures are made uniform. These platforms are each under the responsibility of an accounting manager reporting to the Accounting and Management Control Manager, who in turn reports to the Group's Central Manager.

The accounting at some facilities has not yet been centralized to date. It is accordingly done within those facilities. For these facilities, independent auditors review the statements after they are prepared.

At the same time as the accounting function, the group has implemented bolstered management control. All the Management Control functions are under the responsibility of the Accounting and Management Control Manager. Management Control has two priority missions:

- to ensure the consistency of the financial information produced by accounting;
- to assist the operating units and the general management in managing the facilities and the group.

Nevertheless, in order to improve the functioning of this control, teams have been specialized by area. Thus, the group has implemented:

- a management control team for the EHPAD division,
- a management control team for the clinics division,
- a management control team for the headquarters,
- a management control team for asset management.

All these teams represent 18 people. They are in charge of the budget process in assisting the facilities managers, the monthly operational reporting, and other miscellaneous tasks, such as monitoring the financing of care under three-party agreements.

In addition, the group has implemented two cash flow centralization sub-levels, which should be joined after the Korian and Medidep merger operations. Delegations for signing on the bank accounts are very limited. Thus, the facilities managers cannot sign checks for amounts over € 1,500. The group observes a separation between the principals and the signers of checks or transfers.

E. Insurance policy

Korian Group excluding the Medidep Sub-Group

The Korian Group has taken out insurance policies with first-tier insurance companies to cover the risks of damage to property and operating losses and the financial risks of liability for the companies of the Group because of their business activities in France.

The policy of the Korian Group is to adjust its coverage limits to the replacement value of the insured property or, for liability coverage, to the estimate of its own risks and reasonably predictable risks in its business sector.

For information purposes, the caps and coverages for all general or specific risks are as follows:

RISKS COVERED	COVERAGE AMOUNTS
Multi-risk	
Operating civil liability	€9,375,000
Professional civil liability	€9,375,000 per claim
Custodial civil liability	€76,250 per claim
Defense	Coverage up to € 38,750
Fire, explosion and related risks (including natural disasters)	**Buildings**: full-replacement value (residences + corporate offices) **Contents**: €1,375,000 for residences €287,500 for corporate offices
Water damage	**Buildings:** full-replacement value (residences + corporate offices) **Contents**: €1,375,000 for residences €287,500 for corporate offices
Operating losses	**Amount per residence:**

	- loss of gross margin on the basis of maximum annual ex-tax revenues of € 6,875,000 - supplemental operating costs: €381,250 - expert fees: UPEMEIC schedule[36] **Amount for corporate**: excluded - supplemental operating costs: €381,250 - expert fees: UPEMEIC schedule
Market value and financial assistance	**Amount per residence**: - total or partial loss of business: €6,875,000 - actions by neighbors and third parties: 30,000 times the FFB index36 - expert fees: UPEMEIC schedule **Amount for corporate**: excluded
Medical liability	
Property and indirect damages	€3,050,000
Indirect damages not resulting from property loss or injury	€770,000

The principal deductibles applicable to the multi-risk insurance policy have been set at € 1,500. For the medical liability policy, there is no deductible for indirect damages not resulting from property loss or injury.

Medidep Sub-Group

The Medidep Sub-Group has taken out a series of insurance policies covering the risks related to its business in France.

The facilities of the Medidep Sub-Group are covered by a multi-risk insurance policy through a specialized broker, with the following indicative caps and coverages:

RISKS COVERED	COVERAGE AMOUNTS
Multi-risk	
Fire	€27,000,000
Storms	€27,000,000
Water damage	€1,000,000
Theft	€75,000
Decontamination costs	€100,000
Machine breakage	
Equipment damage	€75,000
Comprehensive IT	
Equipment damage	€75,000
Comprehensive excluding	€500,000
Operating loss	€7,500,000

36 Union Professionnelle des Experts en Matière d'Évaluations Industrielles et Commerciales (Professional Union of Industrial and Commercial Expert Appraisers)

Civil liability (including Medical Liability)	
Basic coverages: Injuries, equipment and indirect damages	€10,000,000 per claim €20,000,000 per insurance year
Optional coverages: Elderly Civil Liability	€2,500,000 per claim €5,000,000 per insurance year
Master policy	
Civil liability and criminal defense for senior executives	€15,000,000
Crisis management	
Death or arbitrary detension of a key person, prosecution of the company, insolvency, violence, catastrophic events, major strike, etc.	€2,000,000 for each crisis situation and for each insurance period

In the event of damages resulting from a nosocomial infection, a deductible equal to 20% of the amount of the damages, with a minimum of € 10,000, is applied for settling each claim. The sum remaining for the insured to pay under the deductibles applied to claims of this type, for each insurance year, may not exceed the amount of the contribution excluding tax for the year.

The other deductibles applicable for the insurance policies of the Medidep Sub-Group reflect market standards.

3.4.4.4 The Group's purchasing policy

The implementation of a centralized and powerful purchasing unit is a doubly strategic measure for the Group. In fact, this policy has been a powerful driver of expected operating cost synergies between Korian and Medidep. Purchases in the broadest sense represent approximately €100 million per year. Thanks to the merger with Medidep, Korian believes it will be able to reduce its direct supply costs by at least €5 million a year beginning in 2008 and €2 million in 2007.

The purchasing policy is decided by a Purchasing Committee composed of management, the nursing home and clinic division heads, the corporate manager and the head of the purchasing department. This committee also monitors progress in generating synergies.

The facilities, which are the users of the service providers and consumables purchased, participate in a definition of needs:

- the facilities have a choice of suppliers;
- no exclusivity is granted to a supplier;
- no commitment of more than one year may be given to a supplier;
- suppliers participate fully in the policy of ongoing quality improvement;
- an external measurement of supplier performance is conducted to measure the satisfaction level of the facilities.

At the same time, the purchasing department has set up an internal "hot line" to provide practical responses to any problems encountered by facility directors, with a commitment to reply in less than 24 hours.

The areas already covered by the centralized purchasing policy are: meals, bio-cleaning, laundry, medical equipment and vigilance equipment supplies, purchases of protection and incontinence products, office supplies, travel costs. Other areas are currently being centralized: maintenance, utilities (water, gas, electricity), telephones, etc.

For each of the areas centralized, the purchasing department (with the assistance of the operational departments) pays careful attention to certain clauses that make Korian suppliers real partners of the

Group, such as clauses on training the employees of the Korian facilities (bio-cleaning, HACCP standards, …) etc.

The Group has a strong interest in centralized contract negotiation, particularly because of:
- lower prices, in which the Group's size gives it a very significant advantage;
- lower administrative costs for the Group (number of invoices, contracts, etc.);
- a *benchmark* for all facilities, speed and accuracy of cost analysis and, therefore, an ability to react immediately.

This new policy is highly valued by the facilities, which receive support and real expertise.

Finally, as of 2007, Korian will set up a sustainable development program with its partners. This approach will involve utility savings (water, gas, electricity), the maximum use of products that generate little or no pollution, and emphasis on preventive procedures.

The food service example is a perfect illustration of the approach taken by Korian. Korian has elected to set up two distinct systems chosen at the discretion of the facility manager: subcontracting with Sodexho in particular or direct supply via the Compass purchasing warehouse. Both systems have advantages, but the immediate impact is:
- a significant reduction in costs without impacting the quality or quantity of the food;
- better qualitative control (traceability, hygiene standards, dietetic programs);
- a substantial reduction in the number of invoices received each month.

Centralized food product purchases allow the group to optimize the food costs of each facility by comparing the facilities with each other.

3.4.4.5 Real estate policy

<u>The Korian real estate policy</u>

The heart of the Korian Group's business is the care of dependent people. The group is thus not dedicated to holding the buildings of the facilities it operates over the long term.

Korian nevertheless believes that control of its properties is crucial for a long-term strategy, since the quality of the service provided to its residents depends in part on the quality of the land and buildings. Control of the properties, which may be either through direct ownership of the assets by the group or through leases with a third-party lessor under a genuine partnership, gives the Group the flexibility needed to modify its operating properties based on its needs (renovations, expansions). Moreover, the Korian Group intends to maintain the know-how of its teams in terms of contracting work.

As a result, Korian refuses to transfer its buildingsunder tax-free contracts (LMP packages), which leave many co-owners with diverging interests to deal with the manager, thus impacting management and limiting flexibility in terms of expansions. This is why Korian is working to purchase the co-ownership shares of 5 properties held under this system within the group.

<u>Real estate and financial flexibility</u>

Real estate represents a significant part of the investment at the time of the purchase of a facility and nearly the entire investment during its construction.

Korian reserves the possibility of taking advantage of the additional financial flexibility offered by outsourcing all or part of its real estate assets. In order to finance new growth opportunities, Korian may conduct such an outsourcing operation in order to maintain the Group's financial balances.

In any case, this outsourcing would take place under a partnership with a real estate operator that guarantees Korian effective control of its property. The partnership established with the company Foncière des Murs (see below) meets this objective from every standpoints.

The decision to sell a property is made on a case-by-case basis, considering the real estate market conditions, as well as the tax impact of such a sale.

In addition, in the event of a property sale or an acquisition of facilities without the building, Korian ensures that for the facility in question an outside rent/f EBITDAR[37 37] ratio lower than or equal to 50% is met.

Description of the partnership with the SIIC Foncière des Murs

The company Foncière des Murs is a publicly traded real estate company with the status of SIIC (*Société d'Investissements Immobiliers Cotée, i.e. French REIT status*) dedicated to long-term holding of properties in the hotel, healthcare and recreation sectors. It is controlled by Foncière des Régions (which holds about 23% of the capital), Predica and Pacifica (insurance companies of the Crédit Agricole Group), which together hold about 20% of the capital, ACM Vie (the life insurance company of the Crédit Mutuel Group), which holds about 20% of the capital, and La Fédération Continentale (life insurance company of the Generali Group) which holds about 18% of the capital).

- Outsourcing in 2004

In 2004, Korian partially outsourced its real estate assets at the time of the purchase of the Reacti-Malt group. For that reason, it approached Foncière des Murs. This first sale included two components:

- Sale by the Korian Group of 14 facility buildings for around € 66.7 million, generating an annual rent of around € 6 million exclusive of tax (2004 base) and
- Sale by the Reacti-Malt group, prior to being acquired by Korian, of eight facility buildings for around € 17.6 million, generating an annual rent of around € 1.5 million exclusive of tax (2004 base).

As part of this operation, the companies concerned of the Korian Group signed firm 12-month investor type leases with no buyout or revaluation clause at the end of the said leases.

- Outsourcing in 2005

In 2005, following the acquisition of Medidep and in order to refinance a portion of the financial debt contracted by it for this operation, Korian continued to outsource its buildings using the partnership established in 2004 with Foncière des Murs. This second tranche of sales allowed Korian to benefit from the second phase of the SIIC status thanks to contributions of assets that resulted in capital gains taxes at the rate of 16.5% instead of the ordinary legal rate of 33.33%. Thus, the Korian Group sold or contributed the buildings of 31 facilities for a total property value of €159.9 million, generating a capital gains tax of about €17.5 million. The corresponding rent excluding charges (2005 annualized basis) amounted to € 12.2 million exclusive of tax.

More specifically, the buildings outsourced were broken down as follows:

- Eleven lease finance agreements on facility buildings with a value exclusive of rights of around € 65.2 million, representing a liability of around € 32.5 million contributed to the Foncière des Murs Company in exchange for shares in that company representing a value of around € 32.7 million;
- Eight facilities buildings with a pre-tax value of €47.6 million contributed with the mortgage on them amounting to a total of € 27.4 million to the Foncière des Murs Company in exchange for shares in that company representing a value of around € 20.1 million;
- Three facilities buildings directly owned by companies in the Korian Grouop, sold for a pre-tax price of around € 10,5 million;
- Nine real estate companies holding facilities buildings with a total value exclusive of rights of around € 36.6 million with a total debt of around € 22.5 million, sold for a total price of around € 13.7 million.

The Foncière des Murs securities received by Korian or its subsidiaries in connection with the contribution of lease finance contracts and some properties were immediately resold to Foncière des Murs shareholders for a price equal to their value as contributions. Therefore, the Korian Group no longer holds any stock in Foncière des Murs.

At the time of the first outsourcing transaction, Korian signed a framework agreement with Foncière des Murs that allows that company to be consulted for new transactions performed by Korian. This agreement provided for the acquisition of additional retirement homes to contribute to its growth policy.

[37 37] See Chapter 3.7 for the definition of this aggregate.

At the time of the second transaction, the partnership agreement was amended on November 4, 2005. Under the terms of this amendment (i) the Korian Group granted Foncière des Murs a preferential right to become its partner in the context of any development project to construct new buildings which the Korian Group plans to build or have built or the rehabilitation of pre-existing property assets and (ii) Foncière des Murs and Korian decided to create a joint monitoring committee for current and future transactions.

The partnership agreements stipulate that, if Foncière des Murs decides to sell all or part of the assets sold by Korian, Korian will have a right of first refusal on those properties.

The partnership is planning on the assumption of construction operations fully carried by Foncière des Murs (with Korian retaining the delegated project ownership).

3.4.4.6 Growth policy of the Korian Group

Under its strategic plan, the Korian Group plans to operate about 5,000 additional beds by the end of 2009, not only in the medical-social sector, which remains the Group's priority growth driver, but also in the clinic sector, in follow-up and rehabilitation clinics (SSRs) and psychiatric clinics.

This growth would represent a maximum investment of about €500 million, including about €90 million allocated to identified bed creation projects. This amount is based on the assumption that Korian would keep the buildings of all the facilities it acquires.

This growth consists of:

- the creation of new beds (creation or expansion of facilities)
- the acquisition of existing facilities

Authorized new bed projects

EPHAD division

The Korian Group is currently working to open 9 nursing homes with a total of 796 beds, including one to be opened before the end of 2006. These projects are the result of an active policy to arrange projects over the last 18 months. These 9 nursing homes will include two facilities approved by their respective Regional Committees of Social or Medical-Social Organizations (CROSMS), but not financed by the social security agencies. Korian has taken the risk to start work on one of them on the basis of advanced discussions with the local DDASS, which is in favor of offering future financing.

Korian also has other beds authorized by CROSMS and not financed by the social security agencies. Korian believes that the probability that it will not obtain financing is too high to keep them in its program.

The Korian Group has also obtained the licenses and financing necessary to expand some of its nursing homes, which will add 194 new beds (detailed in the table provided in Subsection 3.4.4.1. B).

Given the difficulties in obtaining licenses to create new beds, the Korian Group foresees a limited number of new licenses in the coming years (a maximum of 3 or 4 per year, which is 250 to 350 beds per year).

The SSR division

The Korian Group has obtained the necessary licenses from the administrative authorities to create new SSR clinics for a total of 217[38]38 beds.

The Korian Group has also obtained the licenses necessary to expand some of its existing SSR clinics, adding an additional 47 new beds (detailed in Subsection 3.4.4.1. C).

[38] 38 Including 140 in the Sinoué Group

The psychiatric division

The Korian Group has obtained the licenses needed to expand certain existing psychiatric clinics, creating an additional 14 beds.

Acquisition of existing facilities

Between now and late 2009, the Korian Group plans to acquire both in France and abroad a number of EHPAD-type facilities or follow-up and rehabilitation (SSR) facilities totaling around 3,700 beds. In this context, the Group is not planning to make any substantial changes in the existing EHPAD/SSR balance.

The allocation of the future growth of the Korian Group between the creation of new facilities and the acquisition of existing facilities shall be carried out depending on opportunities. The Korian Group will notably take into account, in determining its investment policy, the time and funds necessary to the creation of a new facility and its starting up in comparison with the acquisition cost of an existing and fully operating facility.

3.5 *Legal organization chart*

3.5.1 The Korian Group

The Korian company is the parent company of the Korian Group, which had a total of 176 subsidiaries as of June 30, 2006, including the Medidep company, which heads the Medidep Sub-Group.

A legal organization chart of the Korian Group is provided below.

Following the merger discussed in this Document, the subsidiaries of the Medidep company will be directly held by the Korian company.

Historically, the Korian Group (just like the Medidep Sub-Group) was organized so that each facility belonged to a dedicated subsidiary.

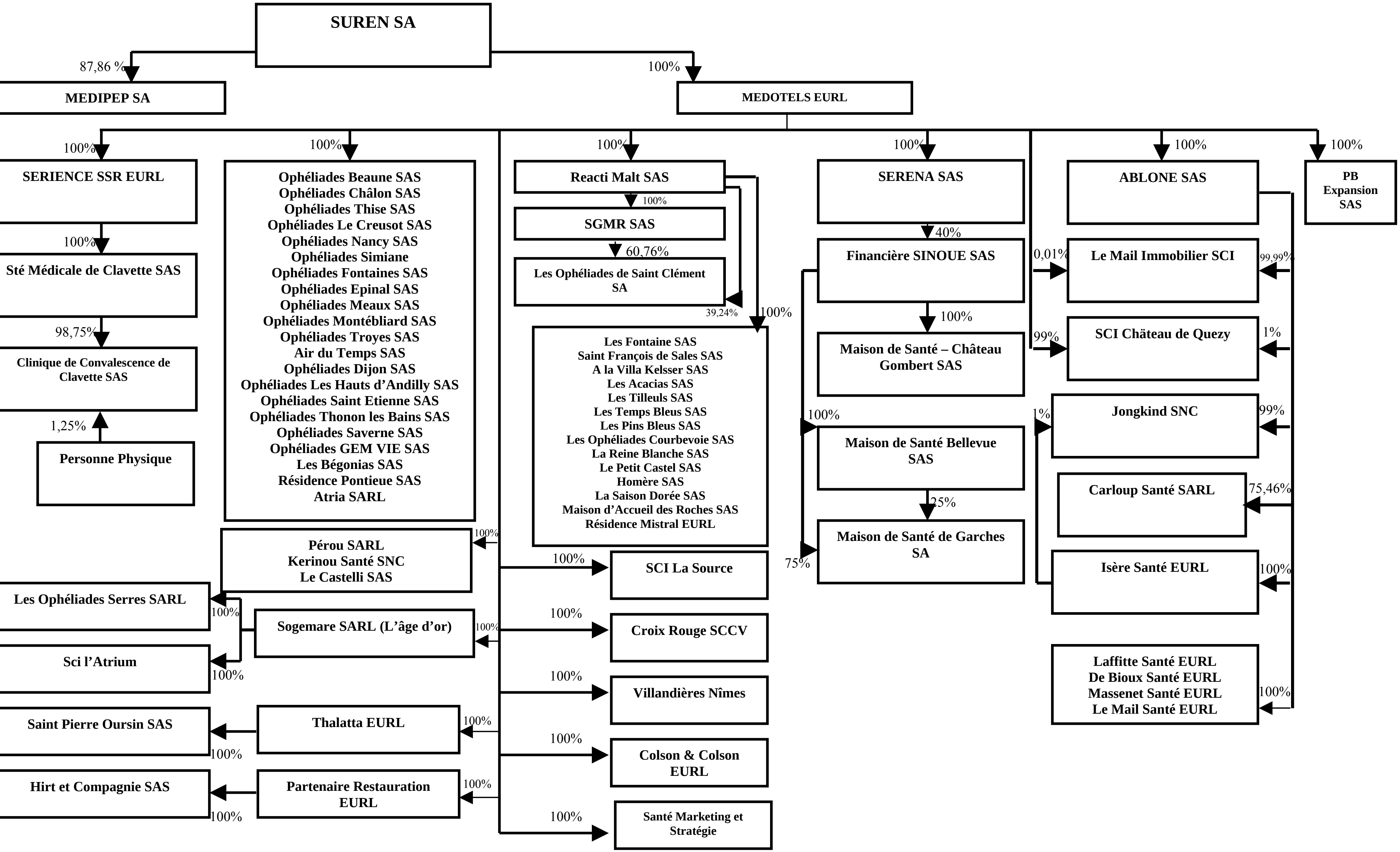
However, this type of organization became a source of complexity for legal and accounting management as the Group expanded. As a result, two years ago, the Korian Group began a process to simplify its organization through the merger or dissolution of some companies. Two subsidiaries took on special importance once they held several facilities: the Medotels and Serience SSR companies.

3.5.2 List of subsidiaries at June 30, 2006

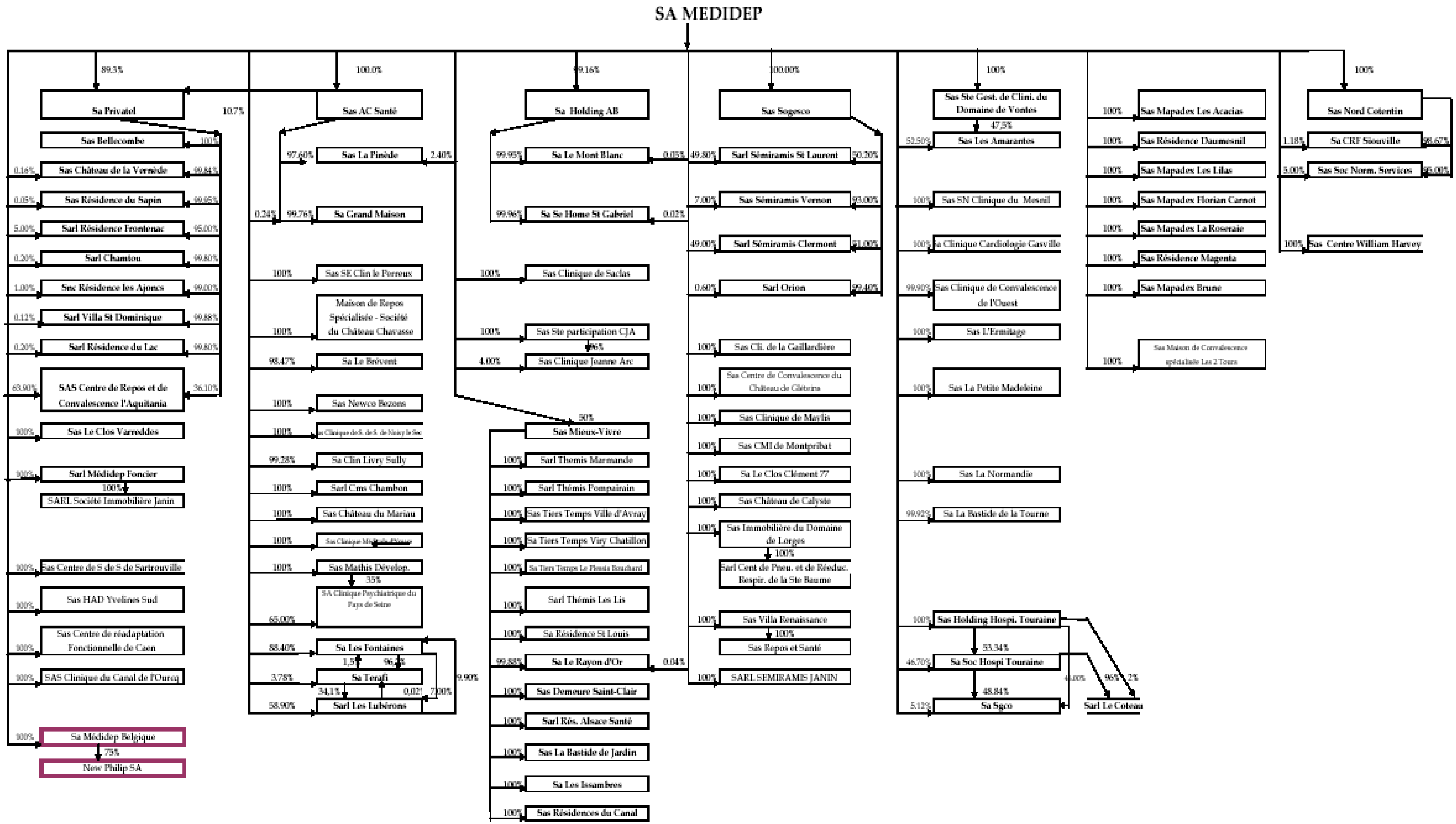
See the list of subsidiaries under Note 30 to the half-year consolidated financial statements at June 30, 2006, provided in Subsection 2.18.1.1.

3.5.3 Organization chart at June 30, 2006

See following pages



SUREN SA
87,86 %
100%
MEDIPEP SA
MEDOTELS EURL
100%
SERIENCE SSR EURL
100%
Sté Médicale de Clavette SAS
98,75%
Clinique de Convalescence de Clavette SAS
1,25%
Personne Physique
100%
Ophéliades Beaune SAS
Ophéliades Châlon SAS
Ophéliades Thise SAS
Ophéliades Le Creusot SAS
Ophéliades Nancy SAS
Ophéliades Simiane
Ophéliades Fontaines SAS
Ophéliades Epinal SAS
Ophéliades Meaux SAS
Ophéliades Montébliard SAS
Ophéliades Troyes SAS
Air du Temps SAS
Ophéliades Dijon SAS
Ophéliades Les Hauts d'Andilly SAS
Ophéliades Saint Etienne SAS
Ophéliades Thonon les Bains SAS
Ophéliades Saverne SAS
Ophéliades GEM VIE SAS
Les Bégonias SAS
Résidence Pontieue SAS
Atria SARL
100%
Pérou SARL
Kerinou Santé SNC
Le Castelli SAS
Les Ophéliades Serres SARL
100%
Sogemare SARL (L'âge d'or)
100%
Sci l'Atrium
100%
Saint Pierre Oursin SAS
100%
Thalatta EURL
100%
Hirt et Compagnie SAS
100%
Partenaire Restauration EURL
100%
100%
Reacti Malt SAS
100%
SGMR SAS
60,76%
Les Ophéliades de Saint Clément SA
39,24%
100%
Les Fontaine SAS
Saint François de Sales SAS
A la Villa Kelsser SAS
Les Acacias SAS
Les Tilleuls SAS
Les Temps Bleus SAS
Les Pins Bleus SAS
Les Ophéliades Courbevoie SAS
La Reine Blanche SAS
Le Petit Castel SAS
Homère SAS
La Saison Dorée SAS
Maison d'Accueil des Roches SAS
Résidence Mistral EURL
100%
SCI La Source
100%
Croix Rouge SCCV
100%
Villandières Nîmes
100%
Colson & Colson EURL
100%
Santé Marketing et Stratégie
100%
SERENA SAS
40%
Financière SINOUE SAS
100%
Maison de Santé – Château Gombert SAS
100%
Maison de Santé Bellevue SAS
25%
75%
Maison de Santé de Garches SA
100%
ABLONE SAS
0,01%
Le Mail Immobilier SCI
99,99%
99%
SCI Château de Quezy
1%
1%
Jongkind SNC
99%
Carloup Santé SARL
75,46%
Isère Santé EURL
100%
Laffitte Santé EURL
De Bioux Santé EURL
Massenet Santé EURL
Le Mail Santé EURL
100%
100%
PB Expansion SAS


SA MEDIDEP
89.3%
Sa Privatel
10.7%
Sas Bellecombe
Sas Château de la Vernède
Sas Résidence du Sapin
Sarl Résidence Frontenac
Sarl Chamtou
Snc Résidence les Ajoncs
Sarl Villa St Dominique
Sarl Résidence du Lac
SAS Centre de Repos et de Convalescence l'Aquitania
Sas Le Clos Varreddes
Sarl Médidep Foncier
SARL Société Immobilière Janin
Sas Centre de S de S de Sartrouville
Sas HAD Yvelines Sud
Sas Centre de réadaptation Fonctionnelle de Caen
SAS Clinique du Canal de l'Ourcq
Sa Médidep Belgique
75%
New Philip SA
100.0%
Sas AC Santé
Sas La Pinède
Sa Grand Maison
Sas SE Clin le Perreux
Maison de Repos Spécialisée - Société du Château Chavasse
Sa Le Brévent
Sas Newco Bezons
Sas Clin Livry Sully
Sarl Cms Chambon
Sas Château du Mariau
Sas Mathis Dévelop.
SA Clinique Psychiatrique du Pays de Seine
Sa Les Fontaines
Sa Terafi
Sarl Les Lubérons
99.16%
Sa Holding AB
Sa Le Mont Blanc
Sa Se Home St Gabriel
Sas Clinique de Saclas
Sas Ste participation CJA
Sas Clinique Jeanne Arc
Sas Mieux-Vivre
Sarl Themis Marmande
Sarl Thémis Pompainain
Sas Tiers Temps Ville d'Avray
Sa Tiers Temps Viry Chatillon
Sa Tiers Temps Le Plessis Bouchard
Sarl Thémis Les Lis
Sa Résidence St Louis
Sa Le Rayon d'Or
Sas Demeure Saint-Clair
Sarl Rés. Alsace Santé
Sas La Bastide de Jardin
Sa Les Issambres
Sas Résidences du Canal
100.00%
Sas Sogesco
Sarl Sémiramis St Laurent
Sas Sémiramis Vernon
Sarl Sémiramis Clermont
Sarl Orion
Sas Cli. de la Gaillardière
Sas Centre de Convalescence du Château de Clétoirs
Sas Clinique de Marlis
Sas CMI de Montpribat
Sa Le Clos Clément 77
Sas Château de Calyste
Sas Immobilière du Domaine de Lorges
Sarl Cent de Pneu. et de Rééduc. Respir. de la Ste Baume
Sas Villa Renaissance
Sas Repos et Santé
SARL SEMIRAMIS JANIN
100%
Sas Ste Gest. de Clini. du Domaine de Vontes
Sas Les Amarantes
Sas SN Clinique du Mesnil
Sa Clinique Cardiologie Gasville
Sas Clinique de Convalescence de l'Ouest
Sas L'Ermitage
Sas La Petite Madeleine
Sas La Normandie
Sa La Bastide de la Tourne
Sas Holding Hospi. Touraine
Sa Soc Hospi Touraine
Sa Sgco
Sarl Le Coteau
Sas Mapadex Les Acacias
Sas Résidence Daumesnil
Sas Mapadex Les Lilas
Sas Mapadex Florian Carnot
Sas Mapadex La Roseraie
Sas Résidence Magenta
Sas Mapadex Brune
Sas Maison de Convalescence spécialisée Les 2 Tours
Sas Nord Cotentin
Sa CRF Siouville
Sas Soc Norm. Services
Sas Centre William Harvey

3.6 *Real estate*

History of the Korian Group's real estate

The policy historically applied by Korian should be distinguished from the policy implemented by Medidep.

Medidep (background)

Historically, Medidep purchased facilities with or without the buildings based on opportunities. In 2002, the Medidep Group sold about twenty buildings held by it to companies controlled by Philippe Austruy (the former Medidep chairman) on the basis of investor-type leases (all expenses and work to be paid by Medidep) for a firm term of 11.5 years. The rent paid to the companies held by Mr. Austruy represented approximately € 8.3 million excluding tax in 2005.

Korian (background)

Historically, Korian owned the vast majority of the buildings housing its facilities. However, to finance its very strong growth and taking advantage of the favorable French tax treatment for traded real estate companies (SIIC), Korian decided to sell almost all of its existing properties in the operations described in Subsection 3.4.4.5. The rent paid to Foncière des Murs, the real estate partner of the Korian Group, represented about € 21 million ex-tax in 2005 excluding expenses.

Korian Group property as of this date

The companies of the Korian Group now own all or part of 23 buildings (5 under co-ownership-LMP), are tenants under finance leases for 4 buildings (excluding the administrative offices in Massy), and are tenants in 145 other buildings.

The Korian Sub-Group owns slightly more buildings than the Medidep Sub-Group. A breakdown of these buildings between the Sub-Groups is shown below.

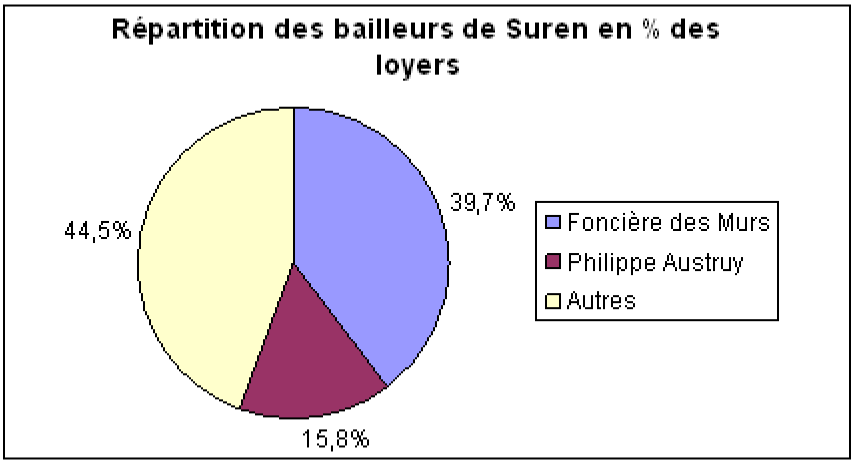
Summary of real estate held by the Korian and Medidep Sub-groups		
Facilities	Ownership	% owned
Facilities of the Korian Sub-group		
Charnay les Macon	Owned outright	
Château Lemoine	Owned outright	
Château de Ouezy	Owned outright	
Vimont	Owned outright	
Rougemont	Owned outright	
Saint-Etienne	Owned outright	
Thise	Owned outright	
Beaune	Owned outright	
Centre de Gérontologie de Château Gombert	Owned outright	40%
Andilly	Owned outright	
Montpellier	Real estate lease	
Chalon sur Saône	Lease + Jointly owned	62%
Maison Laffitte	Jointly owned	19%
Valence	Jointly owned	57%
Grenoble	Jointly owned	33%
Breteuil / Iton	Jointly owned	57%
Siège à Massy	Real estate lease	57%
Facilities of the Medidep Sub-group		
Le Centre de Long Séjour de St-Cyr sur Loire	Owned outright	
La Résidence Les Glycines	Owned outright	

Le Centre d'Hébergement Médicalisé de la Croix Périgourd	Owned outright / Jointly owned	83%
Ancien CHM en réhab→ Accueil Bueil et transfo en FAM	Owned outright	
Le Home Saint Gabriel	Owned outright	
La Clinique du Mont Blanc	Owned outright	
Argonay / construction underway	Owned outright	
Le Centre de Gérontologie Les Oliviers	Owned outright	
La Clinique des Deux Tours	Real estate lease	
La Résidence des Lubérons	Real estate lease	
La Résidence Les Amarantes	Real estate lease	
La Résidence La Ménardière	Owned outright	

Finally, Medotels, a Korian subsidiary, holds the finance lease for the administrative offices in Massy (around 1,750 m²). Medidep is the tenant on the lease for the headquarters on Avenue Malakoff in Paris (around 600 m²).

On June 26, 2006, Korian signed a commercial lease for two floors of a building at 62 rue Guersant, Paris (17th), which will become the new headquarters for Korian in November 2006.

In the first half of 2006, the total amount of rents excluding expenses paid by the Korian Group amounted to € 26.7 million excluding tax and was broken down among the lessors as follows:



3.7 *Management discussion and analysis of the financial position and results of operations*

Readers are invited to read the following discussion and analysis in conjunction with the rest of the information presented in this Document and, in particular (i) the Company's consolidated financial statements prepared in accordance with French generally accepted accounting principles (GAAP) for the years ended December 31, 2003 and 2004, (ii) the Company's consolidated financial statements prepared in accordance with international accounting standards (*International Financial Reporting Standards*, "IFRS") for the years ended December 31, 2004 and 2005, (iii) the Company's pro forma consolidated financial statements for the years ended December 31, 2004 and 2005, (iv) the Company's consolidated financial statements prepared under IFRS as of June 30, 2006 with comparative financial information as of June 30, 2005, and (v) the Medidep historical financial statements included in the 2005 Medidep reference document filed with the AMF on June 16, 2006 under number D.06-5686 as well as the update thereof filed with the AMF on October 4, 2006 under number D.06-0586-A01.

The consolidated financial statements for the year ended December 31, 2004 (excluding Medidep) were restated under IFRS standards at January 1, 2005 for the purpose of complying with the change in accounting standards as of that date. The impact on Korian's financial statements of the switchover to IFRS standards are described in Note 30 of the notes to the Korian consolidated financial statements

(IFRS) as of December 31, 2004 reproduced in Subsection 3.18.1.3 of this Document, and the impact of the switchover related to the Medidep consolidated financial statements for the year ended December 31, 2004 are included in the Medidep 2005 reference document.

The Company's pro forma consolidated financial statements under IFRS accounting standards for the years ended December 31, 2004 and 2005 and as of June 30, 2005 were prepared to give a picture of what the Company's accounts would have been if the 87.86 %[3939] stake in Medidep had been acquired as of January 1, 2004 for the 2004 pro forma financial statements, and as of January 1, 2005 for the 2005 pro forma statements, and to allow a comparison at constant scope. These pro forma financial statements are based on assumptions which the Company considers reasonable under the circumstances, but which are in no way representative of what the Company's financial position and results might have been if it had actually controlled Medidep during the years 2004 and 2005.

The consolidated financial statements for the years ended December 31, 2003 and 2004 prepared in accordance with French GAAP were audited under contract and a report was prepared on them by the statutory auditors. The consolidated financial statements as of June 30, 2006 prepared in accordance with IFRS standards, as well as the pro forma financial statements as of June 30, 2005 and for the years ended December 31, 2004 and 2005 prepared in accordance with IFRS standards, were subjected to a limited review by the statutory auditors. The consolidated financial statements for the year ended December 31, 2005 prepared in accordance with IFRS standards were audited and a unqualified certification was issued by the statutory auditors in accordance with standard 2-601of the *Compagnie Nationale des Commissaires aux Comptes* (French National Auditor's Institute).

Percentages may be calculated based on non-rounded figures and therefore may differ from the percentages calculated based on rounded numbers.

The following information also contains forward-looking statements based on assumptions concerning the future business of the Korian Group that may turn out to differ significantly from actual results.

EBITDAR is the intermediate management balance (*solde intermédiaire de gestion*) used by the Korian Group to track the performance of its facilities. Under IFRS standards, it consists of the operating profit before depreciation and provisions (*excédent brut d'exploitation*) and before rental expenses.

Additionnaly, the following aggregates are referred to in this Document:

- EBIT (Earnings Before Interest and Taxes) corresponding to the current operating profit (or loss) (*résultat opérationnel courant*);
- EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) corresponding to the operating profit before depreciation and provisions (or *excédent brut d'exploitation*) calculated based on the current operating profit and which should be understood as a current EBITDA;
- EBITDAR, which is the aggregate favored by the Korian Group to monitor the performance of its facilities (under IFRS standards, it represents EBITDA before rental expenses).

These aggregates are shown below:

In K€		06/30/06 real	06/30/05 pro forma	2005 real	2005 pro forma	2004 pro forma
Regular operating profit (EBIT)	***(1)***	***21,788***	***24,350***	***29,712***	***50,212***	***46,269***
Amortization	***(2)***	8,954	9,954	14,128	21,022	18,555
EBITDA	***(3) ='(1)+(2)***	***30,742***	***34,304***	***43,840***	***71,234***	***64,824***
Rents	***(4)***	26,694	19,754	21,936	40,452	32,238
EBITDAR	**(3)+(4)**	**57,436**	**54,058**	**65,776**	**111,686**	**97,062**

[39] 39 Assumption regarding capital held as of December 31, 2005

3.7.1 Overview

The Korian Group

The Korian Group is the leading company in France for total dependent care. Its business covers two major areas:

- The operation of nursing homes, or EHPADs (Residential Facilities for Dependent Elderly), a market in which the Korian Group is the leading company in France;

- The operation of healthcare facilities, or SSRs (Follow-up Care and Rehabilitation clinics and psychiatric clinics) in which the Korian Group is a key market participant.

The Korian Group is located exclusively in France with the exception of two rest homes operated in Belgium.

As of June 3, 2006, the Group's 172 facilities represented 13,798 operated beds, broken down as follows:
- 127 EHPADs including 2 in Belgium for a total of 10,503 beds (including 188 in Belgium),
- 45 healthcare facilities, broken down as follows:
    - 35 SSR clinics (2,579 beds),
    - 10 psychiatric clinics (716 beds).

At a constant number of facilities, the number of beds operated can vary slightly depending on whether or not double rooms are installed up to the limit of the number of beds authorized. This variation affects less than 0.5% of the total number of beds operated.

As Medidep has been a nearly 88%-owned subsidiary of the Korian Group since it was acquired on October 1, 2005, the analysis of the business activity below is presented by sub-group where significant.

Breakdown by division of facilities and beds operated as of June 30, 2006

	Korian Group (pro forma)	**Korian Sub-group**	**Medidep Sub-group**
EHPAD Division			
EHPADs	**127**	69	58
EHPAD beds	**10,503**	5,897	4,606
% of total beds	***76.1%***	*88.2%*	*64.8%*
Healthcare (clinic) Division			
SSR clinics	**35**	10	25
SSR beds	**2,579**	666	1,913
% of total beds	***18.7%***	*10.0%*	*26.9%*
Psychiatric clinics	**10**	2	8
Psychiatric beds	**716**	125	591
% of total beds	***5.2%***	*1.9%*	*8.3%*
TOTAL			
Total facilities	**172**	81	91
Total beds	**13,798**	6,688	7,110

These data show that the Korian Group's services were different before the acquisition of Medidep, as Medidep's clinic business was much more developed.

The number of beds per facility is one of the critical factors in the financial performance of the facilities.

- In the nursing home sector, the Company considers that the optimal size for a facility is between 80 and 90 beds. With this size, work can be organized in the most efficient manner while the quality of care as well as compliance with objectives set by the supervisory authorities can be guaranteed. Although the average number of beds per facility is satisfactory in this regard, the Group aims to reach the optimal number of beds for the smaller facilities (requests for authorizations for extensions, grouping and/or transfer of beds) whenever possible and where this objective makes sense from an operating and financial point of view;
- In the clinic sector, the relationship between size and financial performance is not automatic, especially owing to the critical effect on profitability of all-purpose versus specialized beds.

Average number of beds per facility as of June 30, 2006

	Korian Group (pro forma)	Korian Sub-group	Medidep Sub-group
No. Beds per EHPAD	83	85	79
No. Beds per SSR clinic	74	67	77
No. Beds per psychiatric clinic	72	63	74

3.7.2 Summary financial data on the Korian Group business sectors

The nursing home (EHPAD) and healthcare (clinic) divisions, which complement each other in the context of the Korian Group's overall strategy, have financial characteristics specific to each type of operation. Thus, for an equivalent number of beds, revenues from a healthcare facility are nearly twice as much as those from an EHPAD.

3.7.2.1 EHPAD division

Revenues can be broken down into three major components:

- Residential revenues, which account for around 70% of the total revenues of a facility. These revenues correspond to billing residents for their accommodations, meals, non-medical services and entertainment. The residential rate, which is subject to VAT at the rate of 5.5%, is paid by the resident, and facilities are free to set this rate when the resident arrives. Thereafter, increases are subject to a maximum increase set annually by the Government. Nearly the entire operating margin of an EHPAD is realized from this portion of revenues;
- Care revenues, which account for approximately 20% of the total revenues of a facility. Set by the DDASS, these revenues represent the financing, through French national health insurance, of most of the nursing staff of the facility and is not subject to the VAT. By law, the facility does not earn a profit from this portion of revenues.
- Dependence revenues, which account for approximately 10% of the total revenues of a facility. They are related to that portion of services rendered in connection with assistance to dependent residents, which is set by the General Council (*Conseil Général*) and may be partly paid by it under the APA. These revenues, which are not subject to the VAT, generate only a very small profit.

Payroll costs are the largest item in the operating budget, representing approximately half the sales in the EHPAD division. The ratio of staff working in the facility is approximately 0.5 Full-Time Equivalents (FTE) per bed. Around one third of the employees of an approved facility consists of nursing staff, as required under the tripartite agreement (see Subsection 3.4.2.2 B).

3.7.2.2 Clinic Division

Revenues can be broken down into the following seven major components:

- The price per day, which is the main component of revenues in the healthcare division (71% in first half 2006), corresponds to the amount billed per facility to the French social security agencies for every day spent by the patient in the facility. This amount varies by specialization and region. Hence the price per day for an undifferentiated bed in the provinces can amount to 85 euros, while a specialized SSR bed covered by the EVCs in the Paris area can be billed at 325 euros per day;
- Drug copays are billable to the social security agencies and may or may not be included in the price per day;
- The admission-release copay, which amounts to approximately 60 to 70 euros, is set by the supervisory authorities and is billed when patients are admitted;
- The daily copay, which is set at 15 euros for the SSR clinics and 11 euros for the psychiatric clinics, is billed for every day spent at the clinic by the patient. The patient is responsible for paying it; it is ultimately reimbursable by private health insurance companies;
- The copay for the Information Systems Medicalization Program (PMSI) of approximately 6 to 6.50 euros is billable to the French social security agencies;
- The copay for medical supervision of approximately 6 to 7 euros is billable to the French social security agencies for every day spent by the patient at the facility;
- Finally, the private room supplement is billable either to the French social security agencies when indicated for therapeutic reasons or to the patient when the private room is requested for reasons of comfort. In the latter case, the private room supplement is negotiated with the private health insurance companies to guarantee reimbursement to the patient.

The average daily income per bed in first half 2006 in the Clinic Division was 170.6 euros.

All these rates are outside the scope of the VAT and do not reflect a possible switchover to pricing by activity (T2A), the eventual terms of which have not been set by the supervisory authorities.

Payroll expenses are the largest item in the operating budget, representing around approximately half the revenues of the clinic division. The ratio of staff working in the facility is approximately 0.7 FTP per bed. Around half the total workforce consists of nursing staff.

3.7.3 Principal factors affecting operations

Certain critical factors have a significant influence on the results of the Korian Group and should be taken into consideration in analyzing the financial statements. In this regard, readers are reminded that two thirds of the Korian Group's activity is carried out in the EHPAD division and one third in the clinic division.

3.7.3.1 Operational changes in the EHPAD Division

Future changes in healthcare policies in France, particularly changes affecting elderly dependents, should generate growth for EHPADs in nursing and dependence revenues accompanied by an identical increase in the costs related to this kind of treatment, in accordance with the provisions of the tripartite agreement.

In addition, nearly all the facilities in this division have already signed a tripartite agreement; therefore no positive or negative effect related to new agreements is expected.

Residential revenues generate most of the operating margin. Analysis of variations in these revenues should take into account two main factors in addition to the impact of changes in scope (the opening or acquisition of facilities):

A. Occupancy rates
B. Residential rates

A. Changes in occupancy rates (OR)

The Korian Group calculates its occupancy rates by dividing the number of days billed by the number of billable days. The latter figure is determined by multiplying the number of beds operated divided by 365 days. Owing to different calculation methods, the occupancy rates presented may differ slightly from those historically posted by the Medidep Sub-Group. In the following discussion, all the calculation methods have been harmonized, including for historical ratios.

The table below shows the evolution of the pro forma occupancy rates of the Korian Group and of the historical occupancy rates of the Korian and Medidep Sub-Groups.

	Korian Group (pro forma)	**Korian Sub-Group**	**Medidep Sub-Group**
OR 2004	**92.9%**	92.0%	94.0%
OR 2005	**94.1%**	92.8%	95.9%
OR first half 2006	**96.1%**	95.3%	97.2%

The analysis shows a very sharp increase in occupancy rates in the past few years for the Korian Group (up 3.2% between 2004 and the first half 2006), driven in particular by faster growth in the number of dependent elderly combined with a shortage of available space.

In addition, between 2005 and first half 2006, a more pronounced increase in occupancy rates was observed, demonstrating the effectiveness of the occupancy rate management policy introduced in particular in the facilities of the Korian Sub-Group (up 2.5% compared with a 1.3% increase for the Medidep Sub-Group).

In addition, the results of operations of the EHPAD division are seasonal. The occupancy rate in the first half of the year is traditionally lower than in the second half, with the summer months being the most active. For the full year 2006, the company expects the occupancy rate to be higher than that of the first half of 2006. The seasonal effects on the Group's results of operations are described in further detail in Subsection 3.7.3.3.

For a closer analysis, it is relevant to restate the occupancy rates by eliminating from the scope considered those facilities the activity is still developing or that are undergoing major renovations and therefore suffer temporarily from decreased business activity. The restatement impact in terms of number of facilities amounts to 3 and 1 for the Korian and Medidep Sub-Groups, respectively, in 2004, 3 and 3 in 2005 and finally, 3 and 4 in the first half of 2006.

The table below shows the change in occupancy rates after this restatement:

	Korian Group (pro forma)	**Korian Sub-Group**	**Medidep Sub-Group**
OR 2004	**94.5%**	92.7%	97.4%
OR 2005	**96.0%**	94.3%	98.6%
OR first half 2006	**97.0%**	96.4%	98.0%

These figures show that a recurring occupancy rate can reach an average of at least 98%.

The Korian Group is confident in its ability to continue improving its occupancy rates in the future:

- Given the shortage of beds on the market;
- Given the good quality of Korian Group assets and the fact that they are perfectly suited to overall demand;
- Due to the efficiency of the Korian Group's centralized management processes, which provide for computerized feedback and daily monitoring of information on EHPAD occupancy rates.

B. Changes in residential rates

Up to a certain point, the Group's management can improve EHPAD residential rates. These rates are set freely when the resident arrives, then indexed annually by decree of the supervising ministry. A reassessment of the rate above the index for the room is possible only when there is a change in resident.

The table below shows the evolution in average residential rates in the Korian Group:

€ taxes included/day	Korian Group (pro forma)	Korian Sub-Group	Medidep Sub-Group
Average rate 2004	**65.4**	73.1	57.0
Change 2004-2005	***1.8%***	*-2.7%*	*5.1%*
Average rate 2005	**66.6**	71.1	59.9
Change 2005 – first -6 months 2006	***3.0%***	*2.8%*	*3.0%*
Average rate first half 2006	**68.6**	73.1	61.7

The Company believes its residential rates are above the market average due to the combined effect of two essential factors:
- The superior quality of its facilities; and
- Their location in areas with high purchasing power (Ile de France, Rhône Alpes, PACA, etc.).

It should be noted that despite the regular growth in the average residential rate of the facilities of the Medidep Sub-Group in the past thirty months (up 5.1 % from 2004 to 2005 and up 3.0 % from 2005 to the first half 2006), this average rate remains substantially lower than the Korian Sub-Group rate. Therefore, continuing to raise residential rates in the Medidep Sub-Group facilities is a significant driver of organic growth in their revenues.

A comparison with constant scope underlines the Korian Group's ability to improve its residential rates. While the Medidep Sub-Group scope has changed little since 2004, the scope of the Korian Sub-Group has changed considerably, particularly due to the acquisition in November 2004 of Réacti-Malt, which has substantially lower residential rates.
Taking into account only those facilities included in the scope as of January 1, 2004, figures become the following:

€ taxes included/day	Korian Group (pro forma)	Korian Sub-Group	Medidep Sub-Group
Average rate 2004	**65.4**	73.1	57.0
Change 2004-2005	***3.5%***	*2.4%*	*5.1%*
Average rate 2005	**67.7**	74.8	59.9
Change 2005 –first 6 months 2006	***3.0%***	*2.7%*	*3.0%*
Average rate first half 2006	**69.7**	76.9	61.7

These restated figures illustrate the ability of the Korian Sub-Group to raise existing rates above the index set by the ministry (see Subsection 3.4.2.2.C).

Indexing as of January 1, 2004 was set at 5.33%, an historically high rate designed to offset the salary increase called for under the new Unified Bargaining Agreement (CCU).
Indexing at of January 1, 2005 and 2006 was set at 2.6%.

The best way to measure the potential for increasing rates is to compare the current average rate with rates currently offered to new arrivals, which are adjusted regularly in view of the market. As of June 30, 2006, the difference between the average rate and the offered rate was 7%. As previously pointed out, the facilities cannot raise the rates charged to existing residents above the index set by the ministry. Therefore, a rate increase above that index can only be charged to a new arrival.

3.7.3.2 Factors contributing to changes in the clinic business

The clinic business, particularly follow-up cares and rehabilitation clinics (SSR), is by nature much less homogenous than the EHPAD business.

The financial performance of an SSR clinic depends mainly on the following:
- its specialization;

- its position in the local clinic market; and
- its occupancy rates.

SSR clinic bed specialization

Subsection **Error! Reference source not found.Error! Reference source not found.** of this Document explains the different kinds of specializations in the SSR clinics. Of the 2,739 Korian Group's SSR beds operated as of June 30, 2006, 1,346, (i.e. approximately half) were all-purpose, and the other half specialized either in geriatrics, rehabilitation or other areas.

Specialized beds involve a higher price per day and generate more revenues than all-purpose beds.

Thus converting all-purpose beds to geriatric beds in some facilities of the Medidep Sub-Group has led to noticeable gains in revenues and margins. The Korian Group plans to pursue this strategy of specialization of clinic beds.

Share of the local clinic market

The implementation of SROS III should reinforce the trend towards specialization facilities in the next few years (see Subsection 3.4.2.3.C). Some facilities will be able to take advantage of this trend to carve out a new position in the local clinic market, improve their name recognition and possibly benefit from renegotiated rates. Implementing a sound medical plan is a vital condition for the performance of the facilities.

Quality of services

Modern facilities offering quality accomodations are more likely to be recommended by local networks of prescribing health care providers (see Subsection 3.4.4.1.B). In particular, by offering private rooms, the Korian Group is meeting a legitimate demand by patients as well as satisfying certain therapeutic recommendations. Revenues from private rooms accounted for around 16% of clinic division revenues in the first half of 2006.

The financial performance of the facilities is very heterogeneous due to their disparities. Indeed, some are in the process of restructuring, which has a temporary negative effect on the financial performance of the clinic division as a whole. EBITDAR margins of the facilities vary between negative 15% (for a facility due to move within two years) and more than 30%.

Thus, of the Group's 35 SSR clinics:
- Two clinics representing 160 beds are undergoing major renovation, which interferes significantly with operations;
- Two clinics representing 170 beds are going to relocate to new buildings by the end of 2006;
- Two clinics representing 140 beds will be combined together in a new building in two years (lot being developed, permit obtained).

Due to restructuring operations necessary to upgrade them, improving the financial performance of the clinics requires more time than for the EHPAD Division.

SSR clinic occupancy rates (OR)

The Korian Group calculates its occupancy rates by the number of days billed as a ratio of the number of billable days. This figure is the product of the number of beds operated divided by 365 days. Due to different calculation methods, the occupancy rates presented may differ slightly from those historically recorded by the Medidep Sub-Group. In the following discussion, all the calculation methods have been harmonized, including for historical ratios.

The table below shows the evolution in the occupancy rates of the SSR clinics in the Korian Group and the Korian and Medidep Sub-Groups:

	Korian	**Korian Sub-**	**Medidep**

	Group (pro forma)	Group	Sub-Group
OR 2004	**90.4 %**	94.2 %	89.2 %
OR 2005	**94.2 %**	95.5 %	93.7 %
OR first half 2006	**95.1 %**	94.7 %	95.2 %

The underperformance of the Korian Sub-Group in the first half of 2006 is related to the particular circumstances of two facilities, one of which is undergoing renovation, while the other one is being voluntarily maintained at a reduced level pending a move by the end of 2008.

Medidep's lowest average occupancy rate in 2004 is due to the fact that the facilities opened during the year were still in the start-up phase. The continuous improvement of occupancy rates in 2005 and in the first half of 2006 illustrates the Group's ability to optimize its occupancy rates.

The psychiatry business

The psychiatry business, which accounted for approximately 23% of the clinic business in the first half of 2006, can be analyzed as an economic model half-way between the EHPAD business and the SSR clinic business.

This business remains highly dependent on the soundness of the medical plan of the clinics. Thus in the first half of 2006, the Korian Group established a coordination group to redefine an overall medical plan for the clinics based on recognized practices. This should enable the Group to become a benchmark for psychiatric clinic care in France.

In a context of short supply and high demand, the occupancy rates in the psychiatric clinics are especially high. For the Group's clinics, this rate amounted to 98.3% in the first half of 2006.

As in the case of the SSR clinics, the psychiatry business is dependent on the rates set by the supervising authorities. The financial performance of a psychiatric facility can by improved by the environment, the quality of care and accommodations and hence the ability of the operator to sell private rooms, with freely set prices (although they are negotiated with the private health care insurance companies). The market demand is definitely oriented towards facilities capable of offering personalized, quality care. Thus revenues from the sale of private rooms accounted for 24% of the revenues from the psychiatry business in the first half of 2006.

3.7.3.3 Seasonal effect on the Group's overall business

The Group's operations are affected by the seasonal nature of its businesses, particularly the EHPAD business. Traditionally, July and August are the months with very high occupancy rates because, during the vacation period, families often choose the option of temporary accomodations for the elderly persons in their care.

The SSR clinic operations are affected by a reverse seasonal effect but to a lesser extent than the EHPADs. Given that hospitals traditionally receive fewer patients in the summer months, the SSR clinics are also less in demand during the summer.

Therefore the Group's pro forma revenues in the second half of 2005, restated for the impact of the facilities added to the scope of consolidation during this six-month period, are more than 5% higher than in the first half of 2005. For the Korian Sub-Group, this figure was 12% due to a larger contribution to revenues from the EHPAD business (approximately 87% of revenues). Conversely, this figure was only 3% for the Medidep Sub-Group owing to the smaller contribution from the EHPAD business (47% of revenues).

The seasonal effect on the Group's overall business is expected to continue in the years to come.

3.7.4 Analytical review 2004 – June 30, 2006

The following discussion and analysis covers the pro forma consolidated financial statements including Korian's and Medidep's business (88% consolidated) for the years 2004 and 2005 (twelve months) as well as the first half of 2005 and 2006 (six months).

Changes in Korian's historical consolidated financial statements are not significant because they include Medidep only from October 1, 2005 onwards. However, these consolidated financial statements and the notes thereto are included in this document.

3.7.4.1 Revenues and other earnings

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**10.0%**
o/w						
Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
- Nursing Homes	100.1	13.2%	88.4	182.2	30.3%	139.8
- Clinic	15.9	31.7%	12.0	28.3	37.4%	20.6
Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
- Nursing Homes	64.1	7.5%	59.7	122.5	10.0%	111.4
- Clinic	74.7	3.7%	72.0	144.8	11.7%	129.6
Other earnings	**1.0**	**2.4%**	**1.0**	**2.3**	**12.5%**	**2.1**
o/w						
- Korian Sub-Group	-0.7	ns	0.0	0.3	ns	0.0
- Medidep Sub-Group	1.7	**84.7%**	0.9	2.1	-0.2%	2.1
Earnings from the business	**255.7**	**97%**	**233.0**	**480.1**	**19.0%**	**403.5**
o/w						
- Korian Sub-Group	115.3	14.8%	100.5	210.7	31.4%	160.4
- Medidep Sub-Group	140.4	5.9%	132.6	269.3	10.8%	243.0

The Group's consolidated revenues as of the first half of 2006 consists of the following:

- For the EHPAD Division (a total of € 164.2 m), revenues are broken down as follows:
  - residential revenues and miscellaneous sales representing € 118 million, or 72% of EHPAD revenues;
  - nursing revenues (nursing allocations related to the tripartite agreement), representing € 31.2 million, or 19% of EHPAD revenues;
  - dependence revenues representing € 17.6 million, or 11% of EHPAD revenues.

- For the Clinic Division (a total of € 90.5 million), revenues are broken down as follows:
  - Daily rate revenues representing € 64 million, or approximately 71% of clinic revenues;
  - Daily copay revenues representing nearly € 7 million, or approximately 8% of clinic revenues;
  - Private room revenues and other sales representing approximately € 16.5 million, or 18% of clinic revenues;
  - The remainder of clinic revenues consists of entry/exit copays, PMSI revenues and other kinds of drug copays for approximately 3% of clinic revenues.

Moreover, other income consists of miscellaneous earnings, such as income billed to the two franchised facilities (see Subsection 3.4.4.1.B) and billing to customers (or to social security agencies) for sums owed from previous years, etc.

Revenue trends 2004-2005

In 2005, the Korian Group's revenues amounted to € 477.7 million, up € 76.3 million over 2004, which is a 19.0% increase (31.2 % for the Korian Sub-Group and 10.9% for the Medidep Sub-Group), broken down as follows in terms of revenue growth:
- EHPAD sector – growth of 21.3% (up € 53.5 million) ;
- Clinic sector – growth of 15.2% (up € 22.8 million

This increase results mainly from organic growth, which amounted to € 75.5 million, an increase of 18.8%. It breaks down as follows in terms of organic growth:
- 12.2 % (€ 49.2 million) for the Korian Sub-Group, including

  - 7.7% (€ 31.7 million) from the full year effect of the November 2004 acquisition of Réacti-Malt;
  - 0.8 % (€ 2.3 million) from the opening of three facilities;
  - 3.7 % (€ 15.2 million) resulting from improved occupancy rates and an increase in average rates for facilities existing as of January 1, 2004; and
- 6.6 % (€ 26.3 million) for the Medidep Sub-Group, including in particular 2.7% (€ 10.9 million) from the full year effect of facilities opened in the second half of 2004.

Finally, pro forma external growth of the Korian Group (corresponding to the addition of facilities acquired during the period considered) amounted to € 0.8 million in 2005. It corresponds to the acquisition of the facilities of Rochefort and Andilly, and of a stake taken in Financière Sinoué (psychiatric facilities of Garches and Meudon). This external growth:
- does not reflect the full effect over the year of these acquisitions, as they were made at the end of the fiscal year;
- does not reflect any effect of the Medidep acquisition when it was actually acquired by the Group and added to the scope of the Group.

External growth in defined as the growth resulting from the addition to the scope of consolidation of facilities acquired during the period considered. Organic growth consists of the difference between total growth and external growth. It includes in particular the effects of full-year consolidation of acquisitions made during the previous period, as well as the effects of opening new beds.

Revenue trends in the first half of 2006

In the first half of the year, the Korian Group had revenues of € 254.7 million, up € 22.6 million over the first half of 2005, i.e. an increase of 9.7% (15.4% for the Korian Sub-Group and 5.4% for the Medidep Sub-Group), broken down into revenue growth:

- In the EHPAD sector of 10.9% (up € 16.1 million); and
- In the clinic sector of 7.8% (up € 6.5 million).

This 9.7% increase breaks down as follows:
- organic growth: 6.3%;
- external growth of 3.4%, with nearly all the external growth accounted for by the Korian Sub-Group.

The moderate growth in sales in the first half of 2006 was due mainly to the operations involving the integration of the Medidep Sub-Group into the Korian Group, which were considered priorities for management, before resuming steady growth in the years to come. The Group made it a priority to establish teams capable of carrying out its strategic goals and of confirming its new position as a leader in France. As this first step is in the process of being achieved, the Group has again set ambitious growth objectives of around 5,000 additional beds by the end of 2009 (see Subsection 3.4.4.6).

3.7.4.2 Personnel expenses

The Group's business is a personal service business and as such requires a large number of permanent qualified employees. The vast majority of the staff is employed by one of the companies in the Group. However, in order to make up for momentary absences, the facilities sometimes need to call on temporary staff. These temporary costs (€ 1.6 million in the first half of 2006, including € 1.1 million for the EHPAD Division and € 0.5 million for the Clinic Division) are recorded under other external expenses in the consolidated income statement. In addition, for some facilities, the Group turns to outsourcing, particularly in the catering business. The costs of outsourced personnel are also included in other external expenses in the consolidated income statement.

Personnel costs, accounting for 51.9 % of revenues in the first half 2006, are the Group's main expense. Therefore, the Group aims to:
- Optimize personnel costs by improving the work schedules of its facilities and pooling administrative duties as much as possible, benefiting from centralized management; and
- Give the facilities sufficient personnel budgets to maintain high quality services.

The objective is to assign the facilities staff to directly care for residents and patients as much as possible.

The Korian Group has an ambitious training policy aimed at improving the qualifications of its staff, ensuring their loyalty and constantly staying abreast of innovative practices, best practices within the Group and new regulations. In 2005, the amounts allocated to training accounted for 3.5% of the gross payroll for the Korian Sub-Group and 1.8% for the Medidep Sub-Group. The Korian Group believes that the amount allocated to training is higher than the average for the industry. The total amount allocated to training is expected to be maintained in the future.

In accordance with IFRS standard 2, the Group's consolidated financial statements also include an accounting expense of € 2 million in 2004, and € 1 million in the second half of 2005, and € 1.5 million in the first half of 2006 to account for the shares stock warrants owned by the Korian management until June 2006. These amounts never did and never will have any impact on the Group's cash position, since the expense associated with the shares stock warrants was incurred in late June 2006 by the Group's shareholders and not by the company itself (see Subsection 3.19.1.3).

Changes in personnel expenses

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19%**	**401.4**
o/w						
Korian Sub-Group	115.9					
Medidep Sub-Group	138.8					
Personnel exp.	**-132.3**	**12.6%**	**-117.5**	**-240.8**	**22.0%**	**-197.4**
as a % of total revenues	51.9%		50.6%	50.4%		49.2%
o/w						
- Korian Sub-Group	-61.9	**21.8%**	-50.8	-105.5	36.2%	-77.5
as a % of Korian SG revenues	53.4%		50.6%	50.1%		48.3%
- Medidep Sub-Group	-70.4	5.6%	-66.6%	-135.3	12.9%	-119.9
as a % of Medidep SG revenues	50.7%		50.6%	50.6%		49.7%

Changes in personnel expenses 2004-2005

The Korian Group's personnel expenses for 2005 amounted to € 240.8 million, an increase of 22.0% over fiscal year 2004, with the ratio of personnel costs to revenues rising from 49.2 % to 50.4 % in the same period. This increase is due to the hiring of increasingly qualified personnel were hired, both in the EHPAD Division due to the signing of tripartite agreements and in the clinic division.

The Group's employees are covered by a collective bargaining agreement for each of the two divisions:
- In the EHPAD division, the value per point determined by collective agreement (which points are used to calculate employees' salaries) was increased by 1.5% on January 1, 2005, then by 0.8% on July 1, 2005. In addition, the employees in the EHPAD division receive annual indexation of 1% of the salary under the agreement;
- In the clinic division, the value per point determined by collective agreement was increased by 2.5% on July 1, 2004, then by 1.4% on July 1, 2005.

Changes in personnel expenses in the first half of 2006

The Korian Group's personnel expenses for the first half of 2006 amounted to € 132.3 million, an increase of 12.6% over the first half of 2005, with the ratio of personnel costs to revenues rising from 50.6 % to 51.9 % in the same period.

This increase is due in particular to the increased in expenses in the EHPAD division resulting from the tripartite agreement process (as of the date of this document, only seven EHPADs out of a total of 127 have not signed the tripartite agreement). This process has generated additional job openings for nursing staff, as indicated in Subsection 3.4.2.2B. The impact of these new hires between the first half of 2005 and the first half of 2006 is € 2.1 million, or 0.8 % of revenues, related to the signing of 18 tripartite agreements.

At the same time, the Group hired personnel at corporate headquarters (two thirds of whom were for the Korian Sub-Group) in the second half of 2005 and the beginning of the first half of 2006. These hirings, which represented a personnel expense of approximately € 2.0 million in the first half of 2006, or 0.8% of revenues, are intended to strengthen the IT and human resources staff in particular, in connection with the consolidation of Medidep, which has a shortage of staff in these business lines. In addition, during 2006, operations conducted to centralize management led to a duplication of personnel, who will be eliminated once the operations are completed.

The salary negotiations held for 2006 resulted in a salary increase of 1.3% in January, then 1.1% in July for the EHPAD division and 1% on July 1 for the clinic division.

Lastly, the Group took advantage of the so-called "Villepin bonus". The Korian Sub-Group paid out bonuses not subject to employer social security charges in the amount of € 0.6 million in the first half of 2006, on its Medotels subsidiary (around 1,760 employees as of June 30, 2006). These bonuses were negotiated to make up for a lack of salary increases in the second half of 2006.

3.7.4.3 External expenses

Changes in external expenses

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
Purchases	-18.5	6.3%	-17.4	-35.0	10.6%	-31.6
As a % of revenues	7.3%		7.5%	7.3%		7.9%
o/w						
- Korian Sub-Group	-9.0%	0.0%	-9.0%	-18.3%	16.7%	-15.7%
as a % of Korian SG revenues	7.8%		9.0%	6.7%		9.8%
- Medidep Sub-Group	-9.5%	13.2%	-8.4%	-16.7%	4.5%	-16.0%
as a % of Medidep SG revenues	6.8%		6.4%	6.3%		6.6%
Other external expenses (excl. rents)	-33.9	10.7%	-30.7	-65.4	18.8%	-55.1
As a % of revenues	13.3%		13.2%	13.7%		13.7%
o/w						
- Korian Sub-Group	-12.9	12.5%	-11.5	-25.8	38.2%	-18.7
as a % of Korian SG revenues	11.2%		11.4%	12.3%		11.6%
- Medidep Sub-Group	-21.0	9.6%	-19.2	-39.6	8.8%	-36.4
as a % of Medidep SG revenues	15.1%		14.5%	14.8%		15.1%
External expenses (excl. rents)	**-52.4**	**9.1%**	**-48.1**	**-100.4**	**15.8%**	**-86.7**
As a % of revenues	20.6%		20.7%	21.0%		21.6%
o/w						
- Korian Sub-Group	-22.0	7.0%	-20.5	-44.1	28.4%	-34.3
- as a % of Korian SG revenues	19.0%		20.5%	21.0%		21.4%
- Medidep Sub-Group	-30.5	10.7%	-27.5	-56.3	7.5%	-52.4
as a % of Medidep SG revenues	21.9%		20.9%	21.1%		21.7%

The item external expenses refers to purchases as well as other external expenses, excluding rental expenses. The purchases involve mainly foodstuffs, fluids (water, gas, and electricity), drugs, medical or other equipment, and cleaning products.

The other external expenses represent 65% of external expenses and have remained unchanged in the Korian Group since 2004. These expenses involve mainly the following:

- Outsourcing a portion of catering and laundry services for € 31.2 million in 2005, or approximately 6.5% of revenues;
- Expenses for property maintenance for € 7.2 million in 2005, or approximately 1.5% of revenues. These expenses represent approximately € 42,000 per facility per year, or a little more than € 500 per bed per year;
- Costs for temporary workers of € 3.7 million in 2005, or 0.8% of revenues. The use of temporary employees is necessary when staff members (especially nursing staff) are absent or during hiring periods;
- Transportation (0.5% of revenues), post and telecommunications costs (0.5% of revenues) and advertising (0.3% of revenues);
- Professional fees represented € 11.8 million in 2005, or 2.5% of revenues. These consist mainly of fees paid to auditors, attorneys, accounting firms for facilities that are not centralized, fees billed by Batipart, technical verification fees (for risk of Legionnaires' disease, safety, etc.), entertainment fees, etc.

This line item remained between 20.6 % and 21.6 % of the Group's revenues from 2004 to the first half of 2006. In the first half of 2006, external expenses accounted for € 52.4 million, or 20.6 % of revenues.

The overall change in external expenses between 2004 and 2005 was similar to the Korian Group's change in revenues. However, between the first half of 2005 and the first half of 2006, the ratio of external expenses to revenues in the Medidep Sub-Group rose from 20.9 % to 21.9 % whereas this ratio fell from 20.5% to 19.0% for the Korian Sub-Group over the same period. This difference is due mainly to the billing to the Medidep Sub-Group of that portion of expenses for the corporate headquarters under the mirror agreement introduced at the beginning of 2006 (an expense of € 2.0 million in the first half of 2006).

These figures emphasize the importance of introducing a system of centralized purchasing in the Group for more efficient management of external expenses. Thus, a special department (the Department of Accomodation Services and Purchasing) (see Subsection 3.4.4.2) was set up in late 2005 to reduce the Group's purchasing costs while continuing to improve the service provided to residents or patients and operators.

The Group aims to reduce its annual external expenses by € 5 million by 2008 (including by at least € 2 million in 2007).

3.7.4.4 Taxes

This item includes business and real estate taxes, the non-recoverable VAT as well as other taxes. Changes in these expenses are shown below:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated Pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19%**	**401.4**
o/w						
Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
Taxes	-13.5	0.6%	-13.4	-27.2	21.8%	-22.3
As a % of revenues	5..3%		5.8%	5.7%		5.6%
o/w						
- Korian Sub-Group	-4.4	-18.3%	-5.4	-11.2	36.0%	-8.2
as a % of Korian SG revenues	3.6%		5.4%	5.3%		5.1%
- Medidep Sub-Group	-9.1%	13.5%	-8.0	-16.0	13.5%	-14.1
as a % of Medidep SG revenues	6.5%		6.1%	6.0%		5.9%

The ratio of taxes to revenues is higher for the Medidep Sub-Group due to a proportionately larger clinic business *(activité sanitaire)*, which is not subject to the VAT and which therefore generates a more substantial non-recoverable VAT.

In the Korian Group, the ratio of taxes to revenues changed from 5.6% to 5.7 % between 2004 and 2005. This ratio fell from 5.8% to 5.3% between the first half of 2005 and the first half of 2006, mainly due to the following two factors:

- An exceptional reduction in the non-recoverable VAT tax at the level of the Korian Sub-Group in the first half of 2006, in an amount of € 1.1 million, or 0.4 % of revenues;
- The increase from 6.1% to 6.5% of the ratio of taxes to revenues in the Medidep Sub-Group, which is due mainly to the application to the sub-groups beginning in 2006, of the prorated value-added tax method consistent with the practices of the Korian Sub-Group.

3.7.4.5 Change in EBITDAR margins

The Korian Group uses EBITDAR as an indicator in that it can be used to assess its financial performance independently of the real estate policy adopted by the Group in terms of holding and outsourcing its real estate assets.

The remaining costs under "other activities" were reallocated to the two divisions, the EHPAD and clinic divisions, in order to show all operating expenses excluding rents for each of the two divisions. These costs were reallocated between the EHPAD and clinic divisions in proportions equal to the actual internal charging of these costs. Korian bills the facilities for corporate overhead expenses in amounts equal to 5% of revenues excluding taxes for the EHPADs and 3% of revenues excluding taxes for the clinics.

This treatment results in the margin tables below:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
EBITDAR	**57.4**	**6.3%**	**54.1**	**111.7**	**15.1%**	**97.1**
As a % of revenues	22.6%		23.3%	23.4%		24.2%
o/w						
- Korian Sub-Group	26.9	13.7%	23.6%	49.9	23.7	25.2%
as a % of Korian SG revenues	23.2%		23.5%	23.7%		
- Medidep Sub-Group	30.6	0.5%	30.4	61.8	8.9%	56.7
as a % of Medidep SG revenues	22.0%		23.1%	23.1%		23.5%

Over the past thirty months, the Group's EBITDAR margin has varied between 22.6% and 24.2%. These margin levels should be analyzed taking into account five significant factors:

- One third of the Group's business involves the clinic division, whose margins before rents are traditionally lower;
- The acquisition of Réacti-Malt in 2004, which had EBITDAR margins of approximately 17% and revenues of € 37.7 million. The Group continues to develop facilities from Réacti-Malt (adherence to the social security system, improved occupancy rates and constructions of extensions) in order to raise their profit margins; this policy should produce its full effects in around 2007-2008 given the time needed for renovation and building extensions;
- Accounting as personnel costs (IFRS 2) of expenses related to incentive programs for management in the form of stock warrants (2004), even though those expenses have no effect on the Group's cash position (approximately € 2.0 million accounted for in 2004, € 1.0 million in 2005 and € 1.5 million in the first half of 2006);
- The additional employees hired at corporate headquarters to implement the Group's strategy (see Subsection 3.4.3). Most of these people were hired in early 2006;
- The total cost of the Korian Group's corporate headquarters before rents in the first half of 2006 amounted to € 12.3 million, or 4.8% of consolidated revenues; this amount is expected to remain unchanged in the second half of 2006.

The lower EBITDAR margin of the Medidep Sub-Group is due mainly to the fact that the clinic business has lower margins compared with the EHPAD business, and to the fact that clinics represent a greater proportion of Medidep Group's business compared to Korian Sub-Group's business. This discrepancy is even greater if the impact of the stock warrants on the margin of the Korian Sub-Group is restated.

The table below shows the changes in EBITDAR margins by division:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
EHPAD Division	164.2	10.9%	148.1	304.7	21.3%	251.2
Clinic Division	90.5	7.8%	84.0	173.1	15.2%	150.2
EBITDAR	**57.4**	**6.3%**	**54.1**	**111.7**	**15.1%**	**97.1**
As a % of revenues	22.6%		23.3%	23.4%		24.2%
o/w						
EHPADs	40.9	11.7%	36.6	75.5	16.3%	64.9
As a % of EHPAD revenues	24.9%		24.7%	24.8%		25.8%
CLINICS	16.5	-5.7%		36.2	12.6%	32.2
As a % of CLINIC revenues	18.2%		20.8%	20.9%		21.4%

Changes in EBITDAR margins 2004-2005

EBITDAR margins fell from 24.2 % in 2004 to 23.4 % in 2005. This decrease was due in particular to the decline in margins in the EHPAD division (from 25.8 % in 2004 to 24.8 % in 2005), due mainly to the increase in personnel expenses related to the hiring of increasingly qualified people in the EHPAD division, due to the signing of tripartite agreements.

Changes in EBITDAR margins in the first half of 2006

The deterioration in the margin of the clinic division in the first half of 2006 may be explained largely by six facilities to be restructured or in the process of being restructured, which generated revenues of nearly € 7 million in the first half of 2006 for an EBITDAR margin of zero. With the facilities now becoming specialized and with construction programs underway or scheduled for the future, the clinic division's margins should recover.

The Korian Group aims to achieve a margin for the EHPAD sector of at least 26% (before synergies are implemented) by 2007, while continuing gradually to improve the margins of the clinic division.

In the psychiatric clinics (€ 20.8 million in revenues in the first half of 2006, or 8.2% of total revenues), the average EBITDAR margin (before corporate overhead) is approximately 25%. However, two clinics are under-performing with EBITDAR margins of between 15 and 20%. One of these two clinics is to be moved and completely rebuilt and the other is being renovated and expanded. These two cases illustrate perfectly the need to produce quality services in a quality environment to achieve expected financial performance.

3.7.4.6 Change in external rents

This line item includes the outside rental expenses charged by the owners of facility buildings that do not belong to the Group. The amounts depend on negotiations with the property owners. The Korian Group has set a prudential rule with the aim of limiting external rent to 50% of EBITDAR (see Subsection 3.4.4.5).

These expenses evolved as follows:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
- Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
- Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
RENTS	**-26.7**	**35.1%**	**-19.8%**	**-40.5%**	**25.5%**	**132.2**
As a % of revenues	10.5%		8.5%	8.5%		8.0%
o/w						
Korian Sub-Group	-13.8	89.7%	-7.3%	-15.3%	71.7%	-8.9%
as a % of Korian SG revenues	11.9%		7.25	7.25		5.5%
Medidep Sub-Group	-12.9	3.3%	-12.5	-25.2	7.9%	-23.4
as a % of Medidep SG revenues	9.3%		9.5%	9.4%		9.7%

The increase in external rents was very significant in the last few fiscal years. This reflects the real estate policy followed by the Group in financing its growth. In 2002, the Medidep Sub-Group sold a significant portion of its buildings. At the end of 2004 and 2005, respectively, the Korian Sub-Group undertook two successive phases of building sales (operations Hermitage I at the end of 2004 and Hermitage II at the end of 2005). These two operations, which are described in Subsection 3.4.4.5, generated an annual external rental of approximately € 7.5 million from the end of 2004, and € 12.2 million in additional expenses from the end of 2005. The external rental expense in the first half of 2006 includes the full impact of both operations. In addition, the Group sold only one building in the first half of 2006, and is not planning to sell any more in the near future, with the exception of the headquarters in Massy.

The Group's external rental expense was also affected by the revision of the ICC index to which the annual revision of all the Group's rents is indexed. The table below shows the quarterly development in the ICC Index since January 2004.

Quarterly development in the ICC (source: INSEE)

Année	Trimestre	Valeur de l'ICC	Variation sur la période	Variation annuelle
2004	T1	1 225	0,91%	+3,55%
	T2	1 267	3,43%	+5,41%
	T3	1 272	0,39%	+5,74%
	T4	1 269	-0,24%	+4,53%
2005	T1	1 270	0,08%	+3,67%
	T2	1 276	0,47%	+0,71%
	T3	1 278	0,16%	+0,47%
	T4	1 332	4,23%	+4,96%
2006	T1	1 362	2,25%	+7,24%

3.7.4.7 Changes in amortization and depreciation allowances

This line item includes mainly amortization allowances for buildings and capital expenditures. It also includes the net allowances on unrecoverable receivables and allowances for operating risks and charges.

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
- Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
- Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
Depreciation & impairment allow.	**-9.0**	**-10.1%**	**-10.0**	**-21.0**	**13.3%**	**18.6**
As a % of revenues	3.5%		4.3%	4.4%		4.6%
o/w						
Korian Sub-Group	-4.0	-30.1%	-5.7	-11.7	14.8%	-10.2
as a % of Korian SG revenues	3.4%		5.6%	5.6%		6.4%
Medidep Sub-Group	-5.0	16.5%	-4.3	-9.3	11.5%	-8.3
as a % of Medidep SG revenues	3.6%		3.3%	3.5%		3.5%

As a percentage of revenues, allowances for provisions and amortization remained relatively unchanged between 2004 and 2005, then fell in the first half of 2006, reflecting the real estate sales operation of the Korian Sub-Group (Hermitage II operation, see Subsection 3.4.4.5). They also fell between 2004 and 2005 at the level of the Korian Sub-Group (-6.4 % to -5.6 %) because of the Hermitage I operation (see Subsection 3.4.4.5).

In the first half of 2006, amortization and depreciation expenses broke down as follows:
- € 8.2 million in depreciation allowances for tangible fixed assets;
- € 0.5 million in net allowances to provisions for litigation (particularly in the labor area); and
- € 0.3 million in net allowances to provisions for receivables.

3.7.4.8 Other operating income and expenses

The table below shows the changes in other operating income and expenses:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Revenues	**254.7**	**9.7%**	**232.1**	**477.7**	**19.0%**	**401.4**
o/w						
- Korian Sub-Group	115.9	15.4%	100.4	210.5	31.2%	160.4
- Medidep Sub-Group	138.8	5.4%	131.7	267.3	10.9%	241.0
Other operating income & exp.	**0.9**	**n.s.**	**0.1**	**26.4**	**n.s.**	**-3.2**
As a % of revenues	0.4%		0.0%	5.5%		0.8%
o/w						
Korian Sub-Group	0.2	n.s.	0.0	31.0	n.s.	1.0
as a % of Korian SG revenues	0.2%		0.0%	14.7%		0.6%
Medidep Sub-Group	0.7	n.s.	0.1	-4.6	9.6	-4.2
as a % of Medidep SG revenues	0.5%		0.0%	1.7%		-1.7%

Changes in other operating income and expenses in 2004-2005

Other operating income and expenses (not included in the current results *(résultat courant))* varied significantly in the 2004 and 2005 pro forma statements.

In 2004, the Group's pro forma statements include € 2.5 million in provisions for restructuring the Medidep Sub-Group (restructuring of the Brévent facility and restructuring of the Toulouse headquarters) and € 2.6 million in costs incurred by Medidep at the time of the tender offer by Korian (fees for the merchant bank that advised the Medidep Board of Directors). The other earnings of the Korian Sub-Group in 2004 consisted mainly of capital gains on the sale of real estate assets (the Hermitage I operation).

Because of their particular format, the Group's pro forma statements include the same restructuring expenses and costs related to the tender offer for Medidep. They also include € 31 million in capital gains from the Korian Sub-Group, associated with the Hermitage II operation and with the contribution of the La Durante facility to Financière Sinoué.

Changes in other operating income and expenses in the first half of 2006

In the first half of 2006, the two key events below affected the Korian Sub-Group's other income and expenses:
- The Korian Sub-Group sold the building housing a facility (consolidated capital gain of € 1.3 million); and
- The Korian Sub-Group underwent a tax adjustment, which was paid out in the second half of 2006, for a total of € 1.4 million. In agreement with its advisers, the Korian Group plans to take steps to contest this adjustment.

In the first half of 2006, in the Medidep Sub-Group, the earnings amounting to € 0.7 million correspond to various reversals of provisions.

3.7.4.9 Cost of net financial debt

The table below shows changes in the cost of the net financial debt:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Income from operating activities	**21.8**	**-10.5%**	**24.4**	**50.2**	**8.5%**	**46.3**
As a % of revenues	8.6%		10.5%	10.5%		11.5%
o/w						
- Korian Sub-Group	0.1	-14.9%	10.7	22.9	8.0%	21.2
as a % of Korian SG revenues	8.0%		10.6%	10.9%		13.2%
- Medidep Sub-Group	12.7	-7.1%	13.7	27.3	9.0%	25.0
as a % of Medidep Sub-Group revenues	9.1%		10.4%	10.2%		10.4%
Cost of net financial debt	**-0.4**	**-98.0%**	**-20.0**	**-35.9**	**15.1%**	**-31.2**
As a % of income from operating activities	1.8%		82.0%	71.5%		67.5%
o/w						
Korian Sub-Group	2.4	n.s.	-17.0	-29.4	13.8%	-25.8
As a % of Korian SG income from operating activities	26.2%		159.1%	128.1%		121.5%
Medidep Sub-Group	-2.8	6.0%	3.0	-6.5	21.0%	-5.4
As a % of Medidep SG income from operating activities	22.0%		21.7%	24.0%		21.6%
Other financial income and expenses	**1.1**	**n.s.**	**-0.2**	**-0.8**	**n.s.**	**0.7**
As a % of income from operating activities	5.1%		0.9%	1.6%		1.5%
o/w						
Korian Sub-Group	1.4		0.0%	0.8	n.s.	0.6
As a % of Korian SG income from operating activities	15.5%		0.3%	3.3%		2.6%
Medidep Sub-Group	-0.3	24.6%	-0.2	0.0	n.s.	0.1
As a % of Medidep SG income from operating activities	2.4%		1.8%	0.1%		0.5%

The Korian Group has put in place rate hedging instruments (see Subsection 3.8). They are accounted for under IFRS standards according to the following principles:
- In 2004, the Medidep Sub-Group accounted for its hedging instruments at their fair market value, while the Korian Group accounted for them by applying hedge accounting. The 2004 pro forma statements have retained this difference in method;

- Starting in 2005, the Korian and Medidep Sub-Groups applied the market value method. The pro forma statements at June 30, 2005 and December 31, 2005 were both prepared using this method, as were the consolidated financial statements at June 30, 2006.

The 2004 and 2005 pro forma statements were prepared based on the assumption of the acquisition of Medidep by Korian on January 1 of 2004 and 2005 respectively. Thus at year-end 2005, the Group's pro forma consolidated debt included the Medidep acquisition debt (€ 201.6 million), minus the real estate debt repaid at the time of the operations for the sale of the Hermitage I building at the end of 2004 and Hermitage II at the end of 2005.

Therefore, the cost of financial debt in the first half of 2005 includes the finance charges related to the real estate debt repaid as part of the Hermitage II operation. Thus comparing the finance costs between the first half of 2005 and the first half of 2006 has little significance.

In the first half of 2006, the Group's interest expense represented € 11.9 million, including € 2.8 million in the Medidep Sub-Group accounts and € 9.1 million in the Korian Sub-Group accounts, and therefore impacted the Group's cash position in an equivalent amount. This interest expense corresponds to an average interest rate of approximately 5.6%.

Hedging instruments posted a positive change in value of € 11.5 million, resulting from a rise in interest rates in the first half. These consolidated incomes, with no cash impact, were accounted for in the amount of € 11.4 million in the Korian accounts before the consolidation of Medidep and in the amount of € 0.1 million in the Medidep accounts.

Therefore, the cost of net financial debt was € 0.4 million in the first half. No other significant operation has taken place since the end of the first half of 2006 or is liable to have an impact on the amount of interest expense.

Other financial income and expenses includes in particular € 0.5 million associated with a swap reimbursement and € 0.2 milllion in interest received from cash pooling.

3.7.4.10 Corporate income tax

This item includes the current income tax and the deferred tax associated with consolidation restatements. It varied as follows between 2004 and the first half of 2006:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Income before taxes	**23.4**	**n.s.**	**4.2**	**39.9**	**n.s.**	**12.6**
As a % of revenues	9.2%		1.8%	8.4%		3.1%
o/w						
- Korian Sub-Group	13.1	n.s.	-6.3%	23.8	n.s.	-3.0
as a % of KSG revenues	11.3			11.3%		1.9%
- Medidep Sub-Group	10.3	-1.9%	10.5	16.1	3.5%	15.6
as a % of MSG revenues	7.4%		8.0%	6.0%		6.5%
Income taxes	**-8.8**	**n.s.**	**-1.8**	**-8.0**	**n.s.**	**-5.1**
As a % of pre-tax income	37.6%		43.7%	20.0		40.8%
o/w						
Korian Sub-Group	-5.0	n.s.	1.9	-1.9	n.s.	0.4
As a % of Korian SG pre-tax income	38.2%		29.8%	8.2%		12.5%
Medidep Sub-Group	-3.8	2.6%	-3.7	-6.0	9.6%	-5.5
As a % of Medidep SG pre-tax income	37.0%		35.4%	37.5%		35.4%

In the first half of 2006, the amount of deferred taxes was € 5.8 million. Current taxes amounted to € 3.0 million, corresponding to 12.8% of pre-tax income. The distinction between current income taxes and deferred taxes is shown below:

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Income taxes o/w Current income taxes Deferred taxes	**-8.8** -3.0 -5.8	 -33.3% -314.8%	**-1.8** -4.5 2.7	**-8.0** -1.6 8.6	 -65.2% n.s.	**-5.1** -4.6 -0.5

3.7.4.11 Evolution of minority interests and the Group's share of net income

€ m	Korian Consolidated June 30, 2006 6 months		Korian Consolidated Pro forma June 30, 2005 6 months	Korian Consolidated pro forma 2005 12 months		Korian Consolidated Pro forma 2004 12 months
Net income As a % of revenues o/w - Korian Sub-Group as a % of Korian SG revenues - Medidep Sub-Group as a % of Medidep SG revenues	**14.6** 5.7% 8.1 7.1% 6.5 4.6%	ns ns -4.1%	**2.4** 1.0% -4.4 -4.4% 6.8 5.2%	**31.9** 6.7% 21.9 10.4% 10.1 3.8%	ns ns 11.7%	**6.4** 1.6% -2.6 -1.6% 9.0 3.7%
Share of minority interests taxes As a % of net income o/w Korian Sub-Group as a % of Korian SG net income Medidep Sub-Group as a % of Medidep SG net income	**1.9%** 12.7% -1.1 13.0% -0.8 12.3%	ns ns -3.6%	**-0.8** 35.2% 0.0 0.1% -0.8 12.3%	**-2.1** 6.5% 0.9 4.0% -1.2 12.1%	ns ns 3.7%	**-1.3** 19.8% -0.1 3.4% -1.2 13.1%
Net income Group share as a % of revenues o/w Korian Sub-Group as a % of KSG revenues Medidep Sub-Group as a % of MSG revenues	**12.8** 5.0% 7.2 6.2% 5.6 4.0%	ns ns -6.3%	**1.5** 0.7% -4.4 -4.4% 6.0 4.5%	**29.8** 6.2% 21.0 10.0% 8.8 3.3%	ns ns 12.9%	**6.1** 1.3% -2.7 -1.7% 7l8 3.2%

Minority interests in the first half of 2006 break down as follows:
- € 0.8 million in Medidep minority interests;
- € 0.9 million in joint venture companies (*société en participation*) (SEP Grenoble: € 0.3 million; SEP Maisons Laffitte: € 0.5 million; SEP Massenet: € 0.1 million);
- € 0.1 million in other minority interests

3.7.5 Cash and Capital

3.7.5.1 Cash flow

Given the complexity of the structuring of the Hermitage II operation conducted at year-end 2005 and the concurrent refinancing of the Korian Group's debt, an analysis of the Group's pro forma tax flow statement for 2005 has little relevance to an analysis of the Group's ability to generate cash. In fact, the Hermitage II operation included both the sale of four real estate companies that had just been refinanced and of four other real estate companies after the restructuring of their balance sheets, contributions of assets and liabilities (12 lease agreements, eight buildings and their mortgages, which had just been refinanced), the outright sale of two buildings and contributions of current account.

Given the fact that the Group's financial structure was stabilized in early 2006, an analysis of the Group's ability to generate cash was conducted on the first six months of the year 2006, by comparison with the pro forma statement for the first half of 2005. The pro forma statements at June 30, 2005, are based on the assumption that the acquisition by Korian of 87.86% of Medidep occurred on January 1,

2005. As such, the pro forma debt as of June 30, 2005 includes the Medidep acquisition debt (€ 201.6 million) and the corresponding finance charges for the first half of 2005 (€ 6.9 million).

Pro forma cash flow statement for the first half of 2005 and the first half of 2006

In thousands of euros	**06/30/06**	**Korian Group pro forma 06/30/05**
Net income from consolidated companies	14,611	2,369
Income from activities sold	0	13
D&A and impairment allowances and provisions	8,398	9,118
Deferred taxes	5,852	-2,700
Discounting of the pension commitment	-81	114
Market value of financial instruments (SWAP)	-11,515	4,478
Capital gains from asset sales	-1,348	1,244
Payment based on stock warrants (BSA)	1,487	501
Cash flow	**17,404**	**15,137**
Change in inventory	-72	-3,773
Change in trade receivables	1,982	-8,488
Change in trade payables	3,941	-2,409
Change in other items	-12,449	-608
Change in the working capital requirements	**-6,598**	**-15,278**
Net cash flow generated by the operating activities: Total I	**10,806**	**-141**
Investing activities		
Other acquisitions and sales of subsidiaries	-7,918	-393,799
Tangible and intangible investments	-30,971	-16,205
Other financial (long-term) investments	-1,060	-229
Cash from capital asset sales (excluding securities)	2,200	9,936
Effect of mergers		-1,640
Net cash flow from investing activities: Total II	**-37,749**	**-401,937**
Financing activities		
Capital increase	4,303	204,218
New loans	13,198	219,413
Loan repayments	-10,010	-14,814
Dividends paid to minority shareholders of consolidated companies		-115
Net cash flow from financing activities: Total III	**7,491**	**408,702**
Net cash flow from activities sold: Total IV		**586**
Net change in cash position: I+II+III+IV	**-19,452**	**7,210**
Cash at opening	45,525	12,788
Cash at closing	26,073	19,971
Reclassification of cash at opening		-27
Cash on hand and cash equivalents	54,721	34,334
Current bank loans	-28,650	-14,363
Cash	**26,071**	**19,971**

Changes in cash flow generated by the business

Cash flow increased from € 15.1 million on June 30, 2005 to € 17.4 million on June 30, 2006, equivalent to an increase of € 2.3 million (up 15.2%) due to:

- The increase in EBITDAR of € 3.4 million, offset by an increase in external rents of € 6.9 million (impact of the Hermitage II operation). Therefore, EBITDA fell by € 34.3 million as of June 30, 2005 to € 30.7 million as of June 30, 2006;
- The incorporation into cash flow of the expenses associated with stock warrants for € 0.5 million in the first half of 2005 and € 1.5 million in the first half of 2006;
- A reduction in interest expense from € 15.4 million as of June 30, 2005 to € 11.9 million as of June 30, 2006 in connection with the Hermitage II operation. It should be noted that the € 15.4 million in interest expense as of June 30, 2005 includes € 6.9 million in interest expense on the Medidep acquisition debt which is considered as drawn as of January 1, 2005 (including € 0.9 million in interest rate hedging expense); and
- A reduction in the corporate income tax paid of € 4.5 million as of June 30, 2005 and € 3.0 million as of June 30, 2006.

The working capital requirement increased by € 15.3 million in the first half of 2005, due to:

- An increase in inventory in the amount of € 3.7 million corresponding to the construction of a building owned by Medidep under the specific real estate developpers tax regime (*régime moribond de biens*) (and hence accounted for as inventory);
- The sharp increase in trade receivables amounting to € 8.5 million in the first half of 2005; trade receivables as of June 30, 2005 accounted for 33.2 days of revenues;
- The reduction in trade payables amounting to € 2.4 million in supplier credits
- A reduction in other liabilities amounting to € 0.6 million.

The cash flow generated by the operating activities as of June 30, 2005 represented a minimum amount of € 0.1 million.

The working capital requirement increased by € 6.6 million in the first half of 2006 due to:

- An immaterial increase in inventory;
- A reduction in trade receivables of € 2.0 million, with trade receivables as of June 30, 2006 accounting for 28.4 days of revenue. This change is the consequence of the policy favoring payment by residents in the form of withholding and the gradual centralization of management information;
- The increase in trade payables of € 3.9 million;
- The reduction in other liabilities in the amount of € 12.4 million, due to the fact that a particularly high corporate income tax debt was paid off on January 1, 2006 following the Hermitage operation (€ 17.5 million), an increase in labor-related debts of € 10.9 million and the repayment of various loans of € 5.8 million.

The cash flow generated by the business as of June 30, 2006 amounted to € 10.8 million.

Changes in the cash flow from investing activities

The cash flow from investing activities amounted to - € 401.9 million in the first half of 2005 and to - € 37.7 million in the first half of 2006.

Pro forma investments in the first half of 2005 included:

- The acquisition of 87.8 % of the Medidep group for 389 million euros;
- Construction or expansion work, in particular on the facilities of Thonon (opened in summer 2005), Home Saint Louis (opened in the second half of 2005), Le Mans (opening planned for the second half of 2006), Saint Etienne (opened the first half of 2006);
- Recurring maintenance work for around € 7 million. This amount is consistent with the average annual expenditure per bed of approximately 1,000 euros (including maintenance charges and works), which the Group deems necessary for the proper upkeep of the facilities operated by it;
- The repayment in the amount of € 9.8 million of the Medidep current account with the D'Medica company, which was sold in the second quarter of 2005;
- The € 1.6 million impact of mergers corresponds to the elimination of the impact of internal mergers included in the amount booked as "other acquisitions and sales of subsidiaries"

Capital expenditures in the first half of 2006 include:

- Acquisitions of subsidiaries for € 7.9 million, in particular the company operating the La Clavette facility, on the one hand, and the increase in the Group's interest in Financière Sinoué to 40%, on the other hand;
- Tangible and intangible investments of € 31 million, including:
  - € 1.7 million in purchases of going concern for a total of 72 beds;
  - € 10.5 million in expansion or renovation work in the Medidep Sub-Group;
  - € 7.1 million in expansion or restoration work in the Korian Sub-Group;

  with the remainder consisting of various small-scale activities.
- Payment of the balance of the security deposits under the Hermitage II operation for € 1 million ;
- Increase in cash from the sale of capital assets (excluding securities) for € 2.2 million, from the sale of a building housing a facility.

Change in cash flow from financing activities

Pro forma financing activities in the first half of 2005 include:

- A capital increase of € 204.2 million at the time of the tender offer for Medidep in accordance with the assumptions adopted to prepare the pro forma financial statements as of June 30, 2005;
- The taking out of an acquisition loan of € 201.6 million from a banking pool in accordance with the assumptions adopted to prepare the pro forma financial statements as of June 30, 2005;
- New bank financing arranged for € 10.9 million; and
- Different lines of credit paid off for € 14.8 million.

Therefore, the net cash flow from financing activities amounted to € 408.7 million after the recognition of the capitalization of interest expense on the Medidep acquisition debt in the amount of € 6.9 million.

Financing activities in the first half of 2006 include:

- A capital increase in the amount of € 4.3 million associated with the exercise of the stock warrants;
- The repayment of various loans for € 10 million;
- The concurrent use of new financing for € 13.2 million (including the drawdown of € 10 million from tranche C of the 2005 Loan Agreement implemented when the Group was refinanced)

Therefore, the net cash flow from financing activities amounted to € 7.5 million.

Net cash flow

The net cash flow, including the € 0.6 million generated by the Medidep businesses sold, amounted to 7.2 million for the first half of 2005. As of June 30, 2006, these same cash flows were negative €19.5 million reflecting in particular a very significant improvement in net cash flows generated by the business of €10.8 million compared to negative 0.1 million one year earlier but also significant investments financed from cash.

3.7.5.2 Financial debt

On August 11, 2005 Korian signed a loan agreement with a banking pool, the agent of which on the date hereof is Crédit Industriel et Commercial ("2005 Loan Agent"), in a maximum principal amount of 428.4 million euros (as amended later by supplemental agreements, the "2005 Loan Agreement") to finance part of the Medidep acquisition cost and to refinance the outstanding debt of the Korian and Medidep Groups.

The interest rate applicable to each line of credit included in the 2005 Loan Agreement corresponds to the Euribor rate applicable for the relevant interest period (one, three or six months at the option of the borrower) plus the applicable margin, if any, from additional costs. The margins applicable to each 2005 Loan are determined based on certain Financial Leveraging Ratios. The applicable margins are shown below:

- For loans repayable in yearly installments and renewable revolving loans: between 80 bp and 140 bp if the financial leveraging ratio varies between 2 and 4.9 and 160 bp if it is above 4.9;

- For loans repayable in full: between 170 bp and 190 bp if the financial leveraging ratio varies between 2 and 4, and 210 if it is above 4;

As of June 30, 2006, the amount of loans included in the 2005 Loan Agreement totaled 397.6 million euros and could be broken down as shown below:

- Loans repayable in yearly installments from May 2007 to April 2011: 193.8 million euros (the total of the Tranche A-1 Loan, the Tranche A-2 Loan and the Tranche A Refinancing Loan);

- Loans repayable in full on April 30, 2014: 193.8 million euros (Tranche B-1 Loan, Tranche B-2 Loan and the Tranche B Refinancing Loan);

- Renewable revolving loans available until April 30, 2013 at the latest: 10 million euros (Tranche C Loan).

At June 30, 2006, the Korian Group's net debt as defined by IFRS standards was € 420 million, up by € 20.1 million, or 5.0 %, compared with € 399.8 million at December 31, 2005. Net financial debt ,used as the basis for calculating financial covenants, amounted to € 399.1 million at June 30, 2006, compared with € 376.1 million at December 31, 2005.

The table below shows a breakdown of the Korian Group's net debt by maturity as of June 30, 2006 (in thousands of euros):

Maturity of the financial debt

Maturity	**- 1 year**	**1 to 5 years**	**5 years and +**	**Total**
Loans	21,987	134,838	257,128	413,953
Real Estate Leases	1,828	5,913	3,032	10,773
Long-term Deposits and Security		460		460
Employee profit-sharing			9	9
Bank credit facilities	28,650			28,650
Cash and cash equivalents	(54,721)			(54,721)
Total net financial debt				**399,124**
Short-term resident deposits	16,819			16,819
Fair market financial instruments	2,841			2,841
Other miscellaneous financial debts*	71	1,103		1,174
Total net debt	**17,475**	**142,314**	**260,169**	**419,958**

** Agreement to buy back minority interests*

3.7.5.3 Interest rate risk

Managing the interest rate risk associated with financial debt involves adjusting the respective portions of the fixed-rate and variable-rate debt based on market trends. As of June 30, 2006, the Korian Group's debt was essentially at a variable interest rate.

To better manage its rate risk, the Korian Group implemented a policy of interest rate hedging (swaps, caps and tunnels) backed by bank lines of credit.

The table below describes the breakdown of fixed and variable rate financial debts owed by the Korian Group as of June 30, 2006 (in thousands of euros):

Variable-rate financial debt	418 869
Current bank loans	28 650
Fair market value of financial instruments	2 841
Sub-total variable rate	**450 360**
As a % of the Total	*94,8%*
Fixed-rate financial debt	6 434
Other financial liabilities	1 103
Long-term deposits and guarantees	460
Short-term deposits by residents	16 819
Sub-total fixed-rate	**24 816**
As a % of the Total	*5,2%*
Total	**475 176**

The table below describes the Korian Group's hedging instruments as of June 30, 2006 (thousands of euros):

Debt amounts hedged by type of instrument	
SWAP	216 671
CAP	50 000
TUNNEL	49 670
Total	**316 341**
Theoretical hedging expenses over 1 year by type of instrument[(1)]	
SWAP	-1 586
CAP	0
TUNNEL	-226
Total	**-1 812**
Theoretical interest expense over 1 year[(1)]	
Variable-rate interest	-20 299
Fixed-rate interest	-440
Total financial expense excluding hedging	**-20 738**
Total financial expense (including hedging)	**-22 550**
Total gross financial liabilities	**425 303**
Average interest rate excluding hedging	**4,88%**
Average interest rate (including hedging)	**5,30%**

(1) Based on a Euribor 3-month constant benchmark rate of 3.06% as of June 30, 2006

All these hedging instruments are pegged to the Euribor 3-month rate. As of June 30, 2006, the sensitivity of the Group's average interest rate to a change in the Euribor 3-month rate is shown below:

In thousands of euros	**Euribor 3-month benchmark rate**			
	2.06%	**3.06%**	**4.06%**	**5.06%**

Impact on financial expenses before hedging recognized	*-4,189*	*0*	*+4,189*	*+8,377*
Impact on financial expenses after hedging recognized	*-1,785*	*0*	*+1,833*	*+2,866*

3.7.5.4 Shareholders' equity

In thousands of euros	Capital	Premiums	Total results	Shareholders' equity Gp share	Minority interests	Total shareholders' equity
As of December 31, 2004	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**
Capital increase	100,599	103,618		204,217		204,217
Change in shareholders' equity			10	10		10
Profit/loss 2004			29,518	29,518	973	30,491
Change in mkt value of financial instru			1,462	1,462		1,462
Changes in scope				0	19,919	19,919
Payment in shares (warrants)			1,001	1,001		1,001
Effect of change in tax rate			911	911		911
Other changes			17	17		17
As of December 31, 2005	**263,562**	**108,008**	**35,229**	**396,799**	**21,293**	**418,092**
Capital increase	3,912	391		4,303		4,303
Change in shareholders' equity			17	17		17
Profit/loss 2004			12,758	12,758	1,854	14,612
Change in mkt value of financial instru				0		0
Changes in scope			79	79		79
Payment in shares (warrants)			1,487	1,487		1,487
Effect of change in tax rate				0		0
Other changes			66	66	70	136
As of June 30, 2006	**257,474**	**108,399**	**49,636**	**415,510**	**25,217**	**438,726**

The Korian Group share of shareholders' equity amounted to € 415.5 million as of June 30, 2006 compared with € 396.8 million as of December 31, 2005, or an increase of € 18.7 million corresponding to 4.7%. This increase is detailed in the table above.

The net debt/equity ratio remained nearly stable between December 31, 2005 (100.8 %) and June 30, 2006 (101.2 %).

3.8 *Cash and capital*

3.8.1 Cash and capital

See Note 12 under the consolidated accounts at June 30, 2006 appearing in Subsection 3.18.1.1.

3.8.2 Cash flows

See:

- the analysis appearing in Subsection 3.7.5.1
- the cash flow table appearing in the consolidated half-yearly financial statements at June 30, 2006 prepared under IFRS standards appearing in Subsection 3.18.1.1.
- the cash flow table appearing in sub-paragraph A-III-4 of the pro forma financial information at December 31, 2005 appearing in Subsection 3.18.2.

3.8.3 Information on debt terms and financing structure

On August 11, 2005, Korian signed with a bank pool, the agent of which is Crédit Industriel et Commercial as of this date (the "2005 Credits Agent"), a loan agreement for an amount in principal of €428.4 million (as subsequently modified by amendments, the "2005 Loan Agreement") in order to finance a portion of the acquisition cost of for Medidep and to refinance the existing debt of the Korian and Medidep Groups.

The interest rate applicable to each line of credit included in the 2005 Loan Agreement is the Euribor applicable for the relevant interest period (one, three or six months at the choice of the borrower in question) plus the applicable margin and any additional costs. The margins applicable to each 2005 Loan are determined on the basis of certain Financial Leverage Ratios. The applicable margins are as follows:

- for loans to be redeemed in yearly payments and renewable revolving loans: between 80 and 140 basis points depending on whether the financial ratio is between 2 and 4.9 and 160 bp if it is greater than 4.9;

- for loans to be repaid in full: between 170 bp and 190 bp depending on whether the financial ratio is between 2 and 4 and 210 bp if it is greater than 4;

As of June 30, 2006, the outstanding amount on the loans included in the 2005 Loan Agreement amounted to 397.6 million euros and brokes down as follows:

- loans to be amortized in yearly installments from May 2007 to April 2011:193.8 million euros(***[sum of Loan Tranche A-1, Loan Tranche A-2 and Refinancing Loan Tranche A)***

- loans repayable in full on April 31, 2014: 193.8 million euros(***[Loan Tranche B-1, Loan Tranche B-2 and Refinancing Loan Tranche B)***

- revolving Loans renewable until April 30, 2013 at the latest: 10 million euros ***(Loan Tranche C)***

The principal events triggering mandatory full prepayments of the 2005 Loans and the ratios imposed on Korian are mentioned in Subsection 3.2.3.1.

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Securities and guarantees: the usual ones in such matters; in particular, on the registration date of this Document:

- securities and guarantees made by Korian: (1) guarantee for the other borrowers for draws made by those borrowers on the relevant 2005 Loans concerned; (2) pledge of the Medotels stock; and (3) assignment as collateral, through a deed of transfer of business receivables, of Korian's receivables to the Subsidiaries to which Korian has and will make intra-group advances;
- securities and guarantees granted by Medidep: pledge of the stocks of the Medidep subsidiaries.

Korian intends to refinance its financial debt between now and the end of 2006 in order to lower the applicable margins (to take into account the positive change in the debt/equity ratio following the capital increases that are to occur concurrently with the merger, particularly the Capital Increase through Public Offering, which will be described in an offering circular submitted for the approval of the AMF) and reduce the the constraints in terms of "covenants" and guarantees. In this context, the Korian Group believes it can negotiate a covenant authorizing a maximum net financial debt/ EBITDA ratio on the order of 4.5 to 5..

3.9 *Research and development, patents and licenses*

Because its business is to house dependent persons, the Korian Group does not conduct systematic research and development operations and, therefore, has no patent that is important to its business.

In addition, although it is working to develop in the future a policy of differentiation using the brand name "Korian", the Korian Group believes that none of the brand names used currently by the Group are essential to its business.

Likewise, the Group's business does not depend on any license.

3.10 *Information on trends*

Recent trend in occupancy rates

The average occupancy rate for the EHPAD facilitiesn during the months of July and August is improved compared to the first half, translating not only from a seasonal effect (cf. 3.7.3.3), but also for the continued general trend toward improved EHPAD occupancy rates.

In the clinics division, after a slight hike in the occupancy rate in the month of July, it dropped in the month of August, there again translating a seasonal effect (cf. 3.7.3.3).

The average occupancy rate for the two divisions in the second half of the 2006 fiscal year should be situated at higher levels than those noted in the first half.

Facilities Openings

In September, the group opened a new Follow-up Care and Rehabilitation Clinic in Mans (Sarthe), including 60 beds transferred from Château de Segrais and 30 beds acquired at the time of the opening. In addition, between now and the end of 2006, the group should open a third EHPAD facility in Belgium.

Business Outlook

The group expects consolidated revenues for the 2006 fiscal year of at least € 515 million, on the basis of the existing perimeter.

The above outlook is based on data and hypothesis considered as reasonable by the Korian Group. These data and hypothesis are subject to change or to being modified on account of uncertainties due primarily to the economic, financial competitive or also regulatory environment. In addition, the occurrence of certain risks described in section 3.2 "Risk factors" would have an impact on the Korian Group's business and on its ability to achieve such objectives. The Korian Group thus does not assume any obligation and does not give any guarantee of the achievement of the outlook appearing in this paragraph and does not commit itself to publishing or disclosing any corrections or updates of these items.

Size of capital increases

At the time of these securities' admission to the Eurolist of Euronext, Korian plans to increase its equity by about € 150 million in keeping with the authorizations approved by the combined general shareholders meeting held on September 19, 2006 (cf. Subsections 2.2.3.3 and 2.2.3.5.)

3.11 *Earnings projections or estimates*

The Korian Group is not making earnings projections or estimates.

3.12 *Management and Supervisory Boards and Executive Management*

3.12.1 Members of the Management Board

Chairman: Jean-Claude Georges-François

Born in 1937, Jean-Claude Georges-François is a graduate of the Institut d'Etudes Politiques in Paris. After an initial position in the government, Mr. Georges-François served as an executive at Pont à Mousson from 1967 to1986.

In 1986, he joined Usinor (now Arcelor) where he held management positions in human resources, development and communications and served as a member of the Executive Committee from 1999 to 2002.

From 2002 to 2004, Mr. Georges-François served as an advisor to Francis Mer in the French Ministry of the Economy and Finance.

In 2004, he joined Korian as Chairman.

Mr. Jean-Claude Georges-François is an officer in the French Légion d'Honneur.

Business address: 152 avenue de Malakoff, 75116 Paris.

Mr. Jean-Claude Georges-François currently holds the following corporate offices and positions:

INGENIEURS 2000	Chairman
CMAV (CAISSE MUTUELLE D'ASSURANCE SUR LA VIE)	Chairman
FEDERIS (GROUPEMENT PARITAIRE DE PREVOYANCE) REGROUPANT MALAKOFF ET MEDERIC	Chairman
CHATEAU DE SAINT PIERRE OURSIN	Chairman

ABILONE	Chairman
HIRT ET CIE	Manager
LE CASTELLI	Chairman
PEROU	Manager
KORIAN	Chairman of the Management Board
PREVOYANCE ET REASSURANCE	Director
PREVOYANCE RE	Director
ATIC SERVICES	Director
MANUFRANCE BV	Director
CFNR	Director
BAIL INVESTISSEMENT FONCIERE	Director
EMO BV	Commissioner
OVET	Commissioner
COLSON ET COLSON FRANCE	Manager
MEDOTELS	Manager
KERINOU SANTE	Manager
SERIENCE SOINS DE SUITE ET READAPTATION	Manager
THALATTA	Manager
PARTENAIRE RESTAURATION	Manager
LE CASTEL IMMO	Manager
BIGOU	Manager
DOMAINE DE HAUTERIVE	Manager
SCI LES MARRONNIERS	Manager
SCI CHATEAU DE OUEZY	Manager

He has not held any other office in the last five years, with the exception of the office of Chairman of Korian when this company was a simplified joint stock company (SAS) and the following terms of office in the Korian Group that were dissolved:

SERIENCE	Chairman
MONCEAU MEDERIC	Chairman of Sérience, Manager

Member: Guillaume Lapp

Born in 1966, Guillaume Lapp is a graduate of the Institut d'Etudes Politiques in Paris and a civil engineer.

From 1993 to 1996, he served as an auditor in the Real Estate and Construction sectors at Arthur Andersen.

From 1996 to 2002, Mr. Lapp held various positions at Unibail: Executive Assistant to the Chief Executive of the office division responsible for acquisitions, planning and organization, and director of the property management subsidiary, director for special operations: property acquisitions/sales, and contracting authority for the new headquarters.

In 2002, Mr. Lapp joined Batipart as Director of Development, focused on the retirement home sector and handled relations with Batipart partners.

In 2005, Mr. Lapp was appointed managing and central director at Korian, responsible for corporate development, finance and information systems.

He has been a salaried employee of the Korian Group since September 1, 2006.

Business address: 30 avenue Carnot, 91 300 Massy

Mr. Guillaume Lapp holds the following corporate positions:

MEDIDEP SA	Member of the Management Board
VILLANDIERES NIMES SARL	Manager

He has not held any other office in the last five years.

Member: Jean-Pierre Ravassard:

Born in 1951, Jean-Pierre Ravassard is a graduate in Economics and Corporate Management (Master's) and has had legal training.

Mr. Ravassard began his career as Tax Manager for the Cedis retail group, which had 10,000 employees at that time.

He participated in the growth of the Cedis group through successive mergers and acquisitions and, during that period, was named Legal Director, a position he held until the merger with the Casino group.

He then entered private practice as a legal consultant; during that period, he served several operators in the medical-social sector, including the British group Kunick Plc, which operates about twenty retirement homes in Great Britain with the aim of expanding to France.

In 1990, Mr. Ravassard partnered with the Kunick Plc group within Finagest, which then operated two retirement homes. He led that company, which he expanded through organic growth to 800 beds at the end of 1999.

Following the decision by Kunick Plc to refocus its activities in Great Britain, Mr. Pierre Ravassard in 2000 joined Batipart, which purchased the stake in Kunick Plc. Since 2001, Mr. Ravassard has participated in the development of the Batipart healthcare division, particularly in the formation of Korian and its acquisitions of Sérience and Réacti-Malt.

Business address: 152 avenue de Malakoff, 75 016 Paris.

Jean-Pierre Ravassard currently holds or has held the following corporate offices and positions in the last five years:

LES OPHELIADES BEAUNE SAS	Chairman
LES OPHELIADES CHALON SAS	Chairman
LES OPHELIADES THISE SAS	Chairman
LES OPHELIADES LE CREUSOT SAS	Chairman
LES OPHELIADES NANCY SAS	Chairman
LES OPHELIADES SIMIANE SAS	Chairman

LES OPHELIADES FONTAINES SAS	Chairman
LES OPHELIADES EPINAL SAS	Chairman
LES OPHELIADES MEAUX SAS	Chairman
LES OPHELIADES MONTBELIARD SAS	Chairman
LES OPHELIADES TROYES SAS	Chairman
LES OPHELIADES DIJON SAS	Chairman
LES OPHELIADES SAINT ETIENNE SAS	Chairman
LES OPHELIADES THONON LES BAINS SAS	Chairman
LES OPHELIADES SAVERNE SAS	Chairman
SERENA SAS	Chairman
L'AIR DU TEMPS SAS	Chairman
SANTE MARKETING ET STRATEGIE SAS	Chairman
GEM VIE SAS	Chairman
REACTI MALT SAS	Chairman
LES CEANOTHES SAS	Chairman
LES FONTAINES SAS	Chairman
SAINT FRANCOIS DE SALES SAS	Chairman
LA VILLA KREISSER SAS	Chairman
RESIDENCE LES ACACIAS SAS	Chairman
LES TILLEULS SAS	Chairman
LES TEMPS BLEUS SAS	Chairman
RESIDENCE LES LICORNES SAS	Chairman
LES PINS BLEUS SAS	Chairman
LA REINE BLANCHE SAS	Chairman
LE CLOS ST CLEMENT SAS	Chairman
S.G.M.R. SAS	Chairman
HOMERE SAS	Chairman
LA SAISON DOREE SAS	Chairman
LE PETIT CASTEL SAS	Chairman
MAISON D'ACCUEIL DES ROCHES SAS	Chairman
SOGEMARE SAS	Chairman
ATRIA SAS	Chairman
RESIDENCE PONTLIEUE SAS	Chairman
CHP SAS	Chairman
KORIAN	Director
RESIDENCE FREDERIC MISTRAL EURL	Manager
SCI DE LA NOUE	Manager
SCI SAINT MANDRIER	Manager
SCI L'ATRIUM	Manager
L'AGE D'OR SARL	Manager
SCI PONTLIEUE TIRONNEAU	Manager
SCI LES TILLEULS	Manager
SCI LA MAISON DES PERES	Manager

In addition, he held the following positions during the last five years, which expired on the registration date of this Document:

FINAGEST SAS (dissolved)	Chairman
REACTI MALT DEVELOPPEMENT (dissolved)	Chairman
RM HOLDING SAS (dissolved)	Chairman
MAISON DE SANTE CHATEAU GOMBERT SAS	Chairman

3.12.2 Members of the Supervisory Board

The current members of the Supervisory Board are as follows:

Charles Ruggieri, Chairman of the Supervisory Board
46 avenue Foch
57000 Metz

Born in 1948, Charles Ruggieri, who holds a Doctor of Law degree, is the founder of Batipart, the holding company formed in 1988.

In 1970, he joined the steel real estate sector which he managed until the privatization of Immobilière Batibail, the real estate subsidiary, for which he organized the IPO. He was named Chairman in 1986.

In 1999, after profoundly reorganizing this company by focusing its business on Haussmann properties, he successfully directed its merger with Gécina, the leading French real estate company.

During the same period, he launched the national redeployment of Foncière des Régions, a company listed for trading on the *Second Marché*. He developed a partnership with major French institutional investors, primarily for the outsourcing of assets. Mr. Ruggieri has served as Chairman of the Supervisory Board of Foncière des Régions since 2001.

At the same time at Batipart, he developed a segment focused on elderly dependents with the acquisition of Finagest in 2001, the takeover of Korian in 2003, and the takeover of Medidep in 2005. Partnered with major institutional investors, he created the leading private operator of residences for the elderly in France. He has servicd as Chairman of the Korian Supervisory Board since June 8, 2006.

He holds the following offices and positions:

BATIGERE SAS	Honorary Chairman
BATIPART	Chairman
NOVAE	Legal representative of Batipart, Chairman
SAS DU 46 AVENUE FOCH	Legal representative of Batipart, Chairman
SAS BATIPART IMMOBILIER	Legal representative of Batipart, Chairman
SAS BATIPART SANTE	Legal representative of Batipart, Chairman
FONCIERE DEVELOPPEMENT LOGEMENTS	Chairman of the Supervisory Board
FINAGEST SA	Director
SOVAKLE SA	Director
CIAL SA	Director
KORIAN	Director
BOX AVENUE	Director
BAIL INVESTISSEMENT FONCIERE	Director
ASSOCIATION L'ARSENAL	Director
ASSOCIATION FONCIERE LOGEMENTS	Director
REGIE MUNICIPALE USINE D'ELECTRICITE DE METZ	Director
ASSOCIATION CILGERE LORRAINE	Managing Director
ANPEEC (EPIC)	Director representing the Collector Partners
UESL	Director representing CILGERE LORRAINE
APALOF	Director representing GIE CILGERE LORRAINE
MEDIDEP	Member of the Supervisory Board
FONCIERE DES MURS	Member of the Supervisory Board

He also held the following offices and positions in the last five years, which had expired on the registration date of this Document:

BATIGERE SAS	Honorary Chairman
BATIPART	Chairman
SIC SA	Chairman
IMMOBILIERE BATIBAIL BENELUX	Chairman
BATI GESTION D'ACTIFS	Chairman
BATISICA SA	Chairman
GIE CILGERE	Chairman of the Supervisory Board
BATIGERE SA	Chairman of the Supervisory Board
NOVAE	Legal representative of Batipart, Chairman
SAS DU 46 AVENUE FOCH	Legal representative of Batipart, Chairman

BATIPART PARTICIPATIONS SAS	Legal representative of Batipart, Chairman
BATIPART FINANCES SAS	Legal representative of Batipart, Chairman
GECINA SA	Vice-Chairman
FINAGEST SA	Director
SOVAKLE SA	Director
CIAL SA	Director
KORIAN	Director
ASSOCIATION L'ARSENAL	Director
ASSOCIATION FONCIERE LOGEMENTS	Director
REGIE MUNICIPALE USINE D'ELECTRICITE DE METZ	Director
ASSOCIATION CILGERE LORRAINE	Managing Director
ANPEEC (EPIC)	Director
UESL	Director representing CILGERE LORRAINE
APALOF	Director representing GIE CILGERE LORRAINE
FONCIERE DES MURS	Member of the Supervisory Board

Monsieur Louis Blanc
57000 Metz
46 avenue Foch

He was born in 1994 and, after earning his law degree, Louis Blanc began his career at Fidal and joined the Batigère Group in 1985 as Corporate Secretary. In 1987, he served as Chief Operating Officer for Immobilière Batibail, then joined the Foncière des Régions Group in 1999.

He is the representative of Batipart, serving as Chief Operating Officer, then Chief Executive Officer from 1999 to 2003, and has served on the Supervisory Board of Foncière des Régions since 2001.

Mr. Blanc holds the following positions and offices:

BATISICA SA	Director
BATIPART SA	Director
IMMOBILIERE BATIBAIL BENELUX SA	Director
SAINT GUILLAUME INVESTISSEMENT	Director
BOX AVENUE	Permanent representative of BATIPART, Director
BTP TRANSACTION SARL	Manager

In the past five years, he has also held the following offices, which had expired on the registration date of this Document:

BATISICA SA	Director
BATIPART SA	Director
IMMOBILIERE BATIBAIL BENELUX SA	Director
KORIAN	Permanent representative of BATIPART, Director
BTP TRANSACTION SALR	Manager
KORIAN	Chairman
SIC	Chairman
BATIGERE TRANSACTIONS SA	Permanent representative of BATIGERE SA, Director
R2A ITECO SA	Permanent representative of BATIGERE SA, Director
RIL SA	Permanent representative of BATIGERE SA, Director
BATIGERE SA	Member of the Supervisory Board
GSFR SERVICES SAS	Permanent representative of GSFR, Chairman
GSFR EXTERNALISATION SAS	Permanent representative of GSFR,

	Chairman
SCI DUPONT DES LOGES	Manager
SCI CAPUCINS TOMBOIS	Manager
SCI LES ORIELS DU JARDIN D'EAU	Manager

Batipart, whose permanent representative is Julien Ruggieri
57000 Metz
46 avenue Foch

Julien Ruggieri is a graduate of the European Business School, holds a DESS in Audits from the IAE in Aix en Provence and an MBA from the Johnson School (Cornell University).

He worked for Morgan Stanley Real Estate Funds (MSREF) in New York, after working for an American subsidiary of the Arcelor Group.

Julien Ruggieri joined the Batipart Group in July 2005 as Chief Financial Officer.

He holds the following corporate offices:

FINABELIA SAS	Vice Chairman of the Supervisory Board
JARDILAND SA	Vice Chairman of the Supervisory Board
MONROE SA	Director
PARCS GFR	Director
KORIAN	Permanent Representative of Batipart Member of the Korian Supervisory Board

He has not held any other offices in the last five years.

Monsieur Paul Boban
57000 Metz
46 avenue Foch

Paul Boban, 49, holds a DESS in Business Law and Corporate Taxes, and joined the Batibail Group in 1995, where he headed the legal department and managed human resources. During his tenure there, he participated in the acquisitions made by Immobilière Batibail and the transformation of the company leading to its 1999 merger with Gécina.

Since 1999, Mr. Boban has served as Legal Counsel and Tax Director of the Batipart Group, contributing his experience in the structuring of the growth transactions initiated by the Group's subsidiaries.

He holds the following offices:

PB EXPANSION SAS	Chairman
FONCIERE DES REGIONS	Permanent representative of SOCIETE IMMOBILIERE CENTRE NORD

Over the past five years, he held the following positions, which had expired as of the registration date of this Document:

JANUS INTERNATIONAL (Dissolved)	Chairman
VALENCE EXPANSION (Dissolved)	Manager
MAUD (Dissolved)	Manager
THORE (Dissolved)	Manager
LUCRECE (Dissolved)	Manager
FINAGEST (Dissolved)	Representative of BATIPART PARTICIPATIONS

Pascal Duhamel
61 rue de Monceau
75008 Paris

Born in 1963, Pascal Duhamel is a graduate of HEC. In 1998, he joined the Morgan Stanley Bank in Paris where he serves today as Managing Director for real estate funds in France, Spain and the Benelux countries.

He is also Investment Director for the Morgan Stanley Eurozone Office Fund (a Luxembourg collective investment fund) and Chairman-Chief Executive officer of the real estate company Les Mines de la Lucette, traded in Paris.

Prior to that, Mr. Duhamel acquired a solid background in the real estate sector with Groupe Bouygues and then with Archon, a subsidiary of Goldman Sachs. His experience in real estate investment is an asset for the Company.

He has been a member of the Korian Supervisory Board since June 8, 2006.

He holds the following offices and positions:

SNC LATE	Representative of AKAMA , Manager
AKAMA SARL	Manager
SNC CORTONE	Representative of AKAMA , Manager
SNC LATECOERE	Representative of AKAMA, Manager
SAS CAUDRON	Representative of AKAMA, Chairman
ZONE D'EVOLUTION URBAINE DE LA SEINE – Z.E.U.S SARL	Manager Representative of BERCY RESTAURATION, partner in the company
ZEUS PARIS BERCY SCS	Representative of ZEUS, Manager Representative of ZEUS 1, silent partner in the company Representative of ZEUS, managing partner
ZEUS 1 SAS	Representative of ZEUS, Chairman and shareholder Representative of ZEUS PARIS BERCY, shareholder
ZEUS 4 SAS	Representative of ZEUS, Chairman and shareholder
ZEUS 7 SAS	Representative of ZEUS, Chairman and shareholder
BERCY ANIMATION SARL	Manager Representative of ZEUS, sole partner
BERCY RESTAURATION SARL	Manager Representative of ZEUS, sole partner
MSIV SNC	Non-partner Manager Representative of ZEUS, Chairman and partner in ZEUS 7, partner Representative and Manager of BERCY RESTAURATION, partner
SNC MS CARRE PLEYEL	Representative of ZEUS, which is itself the representative of ZEUS 2, partner and manager Representative of BERCY RESTAURATION, partner
MSCG RIVES DE SEINE SARL	Representative of ZEUS, partner Representative of ZEUS, which itself represents ZEUS 1, partner
MSCG CHATEAU DES RENTIERS SARL	Representative of ZEUS, partner Representative of ZEUS, which is itself a representative of ZEUS 1, partner
MSCG VINCENNES SARL	Representative of ZEUS, sole partner
BERCY SERVICE	Representative of ZEUS, sole partner
FONCIERE DES REGIONS	Member of the Supervisory Board

MORGAN STANLEY PROPERTIES France SAS	Chairman
MINES DE LA LUCETTE	Chairman
ALTAREA	Director
MSEOF FINANCE SARL	Director
MSEOF HOLDING SARL	Director
MSEOF MANAGER SARL	Director
TEPIA	Co-Manager
CORE ONE SRL	Director
LAR SOL MS, SL	Director
CARENA INVERSIONES SIGLO XXI, SL	Director
NAIARAL INVERSIONES SIGLO XXI, SL	Director
ORACULO DE INVERSIONES SIGLO XXI, SL	Director
SNC Vaillant Peupliers	Manager
MSGV SARL	Manager

Moreover, in the past five years, he has not held any other office.

Adrien Blanc
61 rue de Monceau
75008 Paris

Born in 1971, Adrien Blanc holds a master's degree in science and management and a DESS in management and industrial strategy for construction and urban planning.

He began his career in 1998 with Archon France (Goldman Sachs Group), where he served as financial analyst and asset manager.

Since 2000, he has served at Morgan Stanley as Vice-President and asset manager for real estate asset management.

He holds the following positions and offices:

68 BROOK STREET	Director
CHIPS HOLDING SARL	Manager
CHIPS PLAGE SARL	Manager
FINANCIERE PALMER SARL	Manager
First Serviced Offices Holdings BV	Director
First Serviced Offices Real Estate Holdings BV	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 GP L.L.C	Director
MSREF V Galileo BV	Director
MSREF V Tulip BV	Director
Pinstripe (Jersey) Limited	Director
SNC FONCIERE PALMER	Manager
SNC PALMER PLAGE	Manager
SNC PALMER TRANSACTIONS	Manager
MSREF V Green Investments GP LLC	Director
KORIAN	Director

He has also not held any other office in the past five years.

Jean–Jacques Duchamp
50-56 rue de la Procession

75015 Paris

Jean-Jacques Duchamp, 50, is a graduate of AGRO-INAPG and the E.N.G.R.E.F. After an international career (India, Morocco, Colombia, and elsewhere) in public works and hydraulics, and in infrastructure financing with the World Bank, he joined the Crédit Agricole Group in 1985, where he served in different positions within the general inspection and audit department, then in the Department of Finance. In 2001, the joined the personal insurance branch of PREDICA where he headed the Finance Division within the Executive Committee. He has been PREDICA's representative on the Supervisory Board of Foncière des Régions since 2005, where he contributes his expertise in real estate and finance.

He holds the following corporate offices and positions:

BATIPART SA	Director
FONCIERE DES REGIONS SA	Director
PREVISIO OBSEQUES SA	Director
GROUPEMENT POUR LE FINANCEMENT DES ENTREPRISES REGIONALES SA	Director
SOCIETE FONCIERE LYONNAISE SA	Director

In the past five years, he has also held the following positions, all of which had expired on the registration date of this Document:

KORIAN	Director
MEDIDEP	Director
SFL	Director
SANEF	Director
SCI SEGUR	Director
SCI SEGUR 2	Director
GEFER	Director
SAL BANCASSURANCE (Lebanon)	Director
UNIPIERRE ASSURANCE	Vice Chairman
B IMMOBILIER	Chairman
SAS HOLDING GONDOMAR 2	Chairman

Michel Villatte
50-56 rue de la Procession
75015 Paris

Born in 1945, Michel Villatte holds a degree in law from the Institut d'Etudes Politiques in Paris and is a graduate of Etudes Supérieures in law.

He began his career in 1971 at Caisse Nationale de Crédit Agricole as an official representative until 1983.

In 1983, Mr. Villatte was appointed Chief Operating Officer at Caisse Régionale du Cantal.

In 1989, he became Chief Executive Officer at Caisse Régionale de la Meuse.

From 1992 to 2005, he held the position of Chief Executive Officer of PREDICA.

He currently holds the following corporate offices and positions:

UNIPIERRE ASSURANCE	Chairman of the Supervisory Board
IFCAM (association)	Director
GRANDS CRUS INVESTISSEMENT SAS	Director
Fédération Française des Sociétés d'Assurances	Member of the Executive Board
Fédération Française des Sociétés d'Assurances Mutuelle	Vice Chairman
Groupement Français des Bancassureurs	Chairman
SIPAREX	Advisor
BANCO ESPERITO SANCTO (Portugal)	Director
BESPAR (Portugal)	Director

EMPORIKI LIFE INSURANCE COMPANY (Greece)	Vice Chairman of the Board of Directors Director
PARTRAN Sgps (Portugal)	Director
PREDICAI EUROPE (Luxembourg)	Chairman of the Board of Directors
SAL BANCASSURANCE (Lebanon)	Director

In the past five years, he has also held the following positions, all of which had expired on the registration date of this Document:

BANCO ESPIRITO SANTO (Portugal)	Director
BESPAR (Portugal)	Director
CAES-SA EPARGNE SALARIALE	Permanent representative of PREDICA, Director
DOMAINES LISTEL	Director
GECINA	Director
IFCAM	Director
PACIFICA	Director
PARTRAN Sgps (Portugal)	Director
SAL BANCASSURANCE (Lebanon)	Director
KORIAN	Director
UNIMO	Permanent representative of PREDICA, Director
UNION DES ASSURANCES FEDERALES	Director
EMPORIKI LIFE INSURANCE COMPANY (Greece)	Vice Chairman of the Board of Directors
LA MEDICALE DE FRANCE	Chairman of the Board of Directors
PREDICAI EUROPE (Luxembourg)	Chairman of the Board of Directors
UNIPIERRE ASSURANCE	Chairman of the Supervisory Board
PREDI RETRAITES	Non-Director Chief Executive Officer
PREDICA	Non-Director Chief Executive Officer

Jean-Yves Hocher
50-56 rue de la Procession
75015 Paris

Born in 1955, Jean-Yves Hocher is a graduate of the Institut National Agronomique Paris-Grignon and the Ecole Nationale du Génie Rural, des Eaux et Forêts.

After spending the first portion of his career in government service, at the Ministry of Agriculture until 1986, then as special representative at the Department of the Treasury, he joined Crédit Agricole in 1989. He then joined the Fédération Nationale du Crédit Agricole as Director of Banking and, in 1997, became Chief Executive officer, whose principal mission was the plan for a public offering of Crédit Agricole SA.

Mr. Hocher, who previous served as Chief Executive Officer of Caisse Régionale de Crédit Agricole Charente-Maritime Deux-Sèvres, joined Crédit Agricole SA on January 1, 2006. He is the President of the Insurance division and Chief Executive Officer of PREDICA. He is also a member of the executive committee of Crédit Agricole SA.

He holds the following corporate offices:

CMDS	Chief Executive Officer
COFISA	Director
UNI EXPANSION OUEST	Director
SANTEFFI	Director
GREENCAM	Director
GECAM	Director
CAMCA	Director
PACIFICA	Director
EUROPAY FRANCE	Director
BGPI	Director

HOLDING EUROCARD	Director
SANTEFFI	Member of the Executive Committee
CALYON	Director

In the past five years, he has also not held any other office.

ACM Vie, represented by Pierre Bieber
34 rue du Wacken
67000 Strasbourg

Born in 1952, Pierre Bieber holds a degree in law from the Université de Strasbourg.

He joined Assurances du Crédit Mutuel in 1978 and, since 2003, has served as Vice President for Administration, particularly for legal affairs, human resources, internal control and audit.

He has represented ACM VIE SA on the Korian Supervisory Board since June 8, 2006.

He holds the following positions:

PROCOURTAGE (brokerage company of the ACM Group)	Director
FONCIERE DES MURS SCA	Permanent representative of ACM IARD on the Supervisory Board
IMMOBILIERE ACM SAS	Permanent representative of GACM, Chairman

He has also held the following positions in the past five years, which had expired on the registration date of this Document:

In the past five years, he has not held any other office.

3.12.3 Future changes to the Management Board and Supervisory Boards

There are plans to restructure the Korian management bodies as follows before and at the time Korian is listed for trading.

In October or November, there are plans for Jean-Claude Georges-François to resign from his position as Chairman and member of the Management Board. He will be replaced by Mrs. Rose-Marie Van Lerberghe.

Mrs. Rose-Marie Van Lerberghe (a graduate of ENA and the *Ecole normale supérieure*, with a doctorate in philosophy*)*, she began her career at Igas (the Social Affairs Inspectorate) before working for the Danone group between 1988 and 1996. Between 1996 and 1999, she held the position of Delegate for Employment and Vocational Training at the Ministry of Social Affairs. In December 2002, she was appointed the head of AP-HP (Public Assistance – Hospitals of Paris). From the beginning of her career, Rose-Marie Van Lerberghe has been required to familiarize herself with issues affecting the elderly, as Technical Adviser in charge of the elderly in the office of the Minister of Health and Social Security. She is also the author of a book entitled "Caring for the Elderly", published in 1981.

Jean-Claude Georges-François will be appointed to the Supervisory Board to replace Paul Boban, who will resign at that time and assume the chairmanship of the Board in the place of Mr. Charles Ruggieri who will resign from this position but will remain member of the Supervisory Board.

In addition, there are plans for the following members of the Supervisory Board to resign, effective on the date Korian is listed for trading:

- Pascal Duhamel
- Michel Villatte
- Louis Blanc

They will be replaced by three independent members, who will be appointed to the Supervisory Boardduring the first Supervisory Board meeting following the initial trading date. Two of these members havealready indicated that they would accept these positions:

- Jacques Ambonville, former member of the management board of OCP and
- Jean Paul Thonier, risk consultant, who on the date of registratino of this document is an independent member of the Medidep Supervisory Board;

Messrs Jacques Ambonville and Jean Paul Thonier are independent members of the Supervisory Board as defined by the the board's rules of procedure, which reflect the market definition of independent director.

A third suggested independent member has been approached and should confirm his acceptance during the month of October.

3.12.4 Other officers of the Korian Group

Born in 1954, Bruno Marie is a graduate of H.E.C. Since September 19, 2006, he has been chairman of the Medidep Management Board.

He gained experience in the dependent care sector in the Medidep Group, which he joined in 1998 as Chief Financial Officer; then he was appointed Chairman of the Management Board in 2003.

Before that, Bruno Marie held various positions in the Odier Bungener Courvoisier Bank for eleven years: Vice President, Corporate Operations, then Central Vice President in charge of Corporate Operations and Wealth Management. He began his professional career with Indosuez, where he held sales positions from 1979 to 1986 in the Markets Department then in the Major Corporations Department.

Born in 1948, Philippe Cléry-Melin is a Physician/Psychiatrist and the holder of an MA degree in Psychology, a *Licence* in Theology and a CPA degree (MBA in Executive Management from HEC). He is Vice President of the psychiatry sector for the Korian group.

After creating the Sinoué Group, of which he is Chairman, he joined the Group in September 2005. Before that, while at the same time pursuing his medical and hospital (Pitié Salpêtrière) and then professional career, he was Adviser to the Minister of Solidarity, Heath and Family from 2004 to 2005 (in which context he was the author of the Mental Health Plan released in 2005), Special Adviser to the Minister of Culture from 1995 to 1997 and to the Ministers of Social Affairs and Health from 1993 to 1995.

Born in 1952, Jean-Pierre Bareste holds a degree in Law and is a graduate of the Paris Institut d'Etudes Politiques. Since he joined the group in April 2005, he has been Vice President for Human Resources.

From 1998 to 2005, he was HR Director for Sofinco after holding the position of Director of Social Affairs for the Printemps group from 1991 to 1997.

Born in 1960, Mr. Jérôme Gatier is a graduate of the Ecole Polytechnique and the National School of Civil Engineering. Since January 1, 2006, he has been Director of Development and Construction for the Korian Group.

He joined the Group in 2005 as Deputy Director in charge of auditing and organization. He was Director of Assets and Maintenance for Accor from 1998 to 2005. He began his career at the Ministry of Equipment as the head of "hospital" investments before holding positions at the General Finance Inspectorate..

3.12.5 Founders of the Korian company

Korian was formed on March 12, 2003, with capital of € 37,000 under the name Suren by the following persons:

Batipart Participations (36,994 shares)
BTP Transactions (1 share);
Batipart (1 share);
Société Immobilière Centre-Nord (1 share);
Mr. Charles Ruggieri (1 share);
Mr. Jean-Pierre Ravassard (1 share);
Mr. Louis Blanc (1 share).

3.12.6 Declaration concerning directors and officers

To Korian's knowledge, the persons indicated in Subsections 3.12.1 to 3.12.5**Error! Reference source not found.** have not, as of this date, been subject to the following in the past five years:

- any conviction for fraud;
- any measure of bankruptcy, receivership or liquidation;
- any indictment and/or official public sanction pronounced by statutory or regulatory authorities;
- any order from a court prohibiting him from serving on an administrative, management or supervisory board of an issuer or from participating in the management or conduct of the business of at least one issuer.

It is also stipulated that there is no family connection among the members of the Supervisory Board and the Management Board, with the exception of Julien Ruggieri who represents the Batipart company and who is the son of Charles Ruggieri.

3.12.7 Conflicts of interest of members of the management board and supervisory board and officers

3.12.7.1 Conflicts of interest concerning members of the Supervisory Board

The Batipart company, in which:

- Charles Ruggieri is Chairman and principal shareholder;
- Louis Blanc is a member of the board;
- Jean-Claude Georges-François is a board member and paid service provider;
- Guillaume Lapp was an employee and still holds stock options and bonus shares issued by Foncière des Régions, the parent company of Foncière des Murs, and
- Jean-Pierre Ravassard was an employee and still holds stock options and bonus shares issued by Foncière des Régions, the parent company of Foncière des Murs,

holds more than one-third of the capital and voting rights of Foncière des Régions, in which Predica and ACM Vie also hold significant interests.

Foncière des Régions, Predica and ACM Vie respectively hold about 23%, 16% and 20% of the limited partnership with shares Foncière des Murs.

During outsourcing operations carried out in 2004 and 2005 and described in Subsection 3.4.4.5, Foncière des Murs acquired 45 properties owned or held under finance leases by the Korian Group, and entered into a partnership agreement with the Korian Group to outsource the Korian Group's property assets. This agreement is described in Subsection 3.4.4.5.

3.12.7.2 Conflicts of interest concerning members of the Management Board

Other than the information provided above, it is stipulated that Jean-Pierre Ravassard and Guillaume Lapp (both members of the Korian Management Board) were employees of Batipart, which is a shareholder of the Korian Group. Guillaume Lapp still holds stock options (for around 3,000 shares) issued by Foncière des Régions, the parent company of Foncière des Murs.

To the company's knowledge, there is no potential conflict of interest between the duties of the other members of the Supervisory and Management Board with respect to the company and their private interests and/or any other duty; in particular:

- no restriction has been accepted by the corporate officers concerning the sale of their stake in Korian's capital stock;
- no agreement has been signed by a corporate officer with the principal shareholders, clients or suppliers for the purpose of being selected as a member of an administrative, management or supervisory body.

3.12.7.3 Conflicts of interest concerning executives

Within the Korian Group, Philippe Cléry Melin directs the psychiatric division, which includes the facilities of the Korian Group and the Financière Sinoué group. Philippe Cléry Melin a shareholder in the Financière Sinoué company with 60% of the stock, and the Korian Group holds the remaining 40%.

Korian and Philippe Cléry-Melin have signed a shareholders' agreement governing their relations within Financière Sinoué.

3.12.7.4 Prevention of conflicts of interest

Korian applies the legal rules concerning the so-called regulatory agreements mentioned in Article L.225-38 of the French Commercial Code. These are authorized beforehand by the Supervisory Board, with the members directly or indirectly concerned by a conflict of interst not taking part in the voting.

The presence of three independent members, as of the admission of Korian's shares on the Eurolist by Euronext market, will strengthen the effectiveness of this control.

3.13 *Compensation and benefits*

The members of the management board received no direct compensation from Korian for fiscal year 2005 or for the period from January 1, 2006 to the date of this Document.

However, it is specified that, until July 31, 2006, Messrs. Lapp and Ravassard were employees of the Batipart company (a shareholder of the Korian company and member of the Supervisory Board) and, in this capacity:

- Guillaume Lapp received:
  - (fixed and variable) compensation of €186,400.12;
  - bonus and/or the employer's contribution of €5,400.00;,
  - and benefits in kind of €1,205.12.

- Jean-Pierre Ravassard received from Batipart, as a salaried employee:
  - fixed compensation of €254,388.00;
  - bonus and/or employer's contribution of €5,400.00;
  - and benefits in kind, including a loan on trust of €22,637.52.

In addition, Georges-François, Chairman of the Management Board and the next Chairman of the Supervisory Board, is the manager of SARL JCGF Conseil, which billed Batipart (a corporate shareholder of Korian) for services in the amount of €330,000.00 excluding tax in 2005. He also received from Batipart €1,510.00 in directors' fees in 2005 and €1,510.00 in directors' fees in 2004.

The Korian company indirectly pays a portion of the compensation described above for the amounts it owes Batipart under the service agreement described in Subsection 3.17.1**Error! Reference source not found.**.

In addition, Messierus Georges-François, Ravassard and Lapp have made gains on shares with warrants issued by Korian which they held. The breakdown of these transactions appears in Subsection 3.19.1.3.

The employment contracts of Messrs. Lapp and Ravassard were transferred to Korian, effective retroactively as of September 1, 2006. Their employment contracts, which were approved by the Supervisory Board at its meeting of September 19, 2006, respectively stipulate the following compensation:

- For Mr. Guillaume Lapp: fixed compensation of 137,397 euros (gross).
  No variable compensation under the contract
  Company vehicle

- For Mr. Jean-Pierre Ravassard: 214,838 euros (gross)
  No variable compensation under the contract
  Company vehicle

3.14 *Operation of the Administrative and Management bodies*

3.14.1 Operation of the administrative bodies—terms of office

The Korian company has been a French *société anonyme* (joint stock company) with a management board and a supervisory board since its Shareholders' Meeting of June 8, 2006.

As described in Subsection 3.12.3, immediately after the completion of the merger, the Supervisory Board will be reorganized to include ten members, including three independent members, including Jacques Ambonville and Jean Paul Thonier who have already stated their acceptance.

The terms of office of all members of the Supervisory Board installed as of the completion of the merger will expire at the end of the shareholders' meeting called in 2012 to approve the financial statements for the previous year.

3.14.2 Rules of procedure and committees

On June 8, 2006, the Supervisory Board adopted internal bylaws that stipulate:

- the criteria for independent members;
- the duties of the members and the ethical rules they must follow, particularly with respect to share ownership, the transparency of transactions on securities of the company, their duties of loyalty, diligence, confidentiality and disclosure, their duties as insiders and the prevention of conflicts of interest;
- the frequency of meetings and procedures for meetings, particularly with regard to telephone and video conferencing;
- the duties and responsibilities of the Supervisory Board;
- the operating rules for the committees.

In order to facilitate Supervisory Board meetings and, therefore, enhance its effectiveness, the rules of procedure stipulate that, with the exception of meetings dealing with:

- the appointment and dismissal of members of the Management Board;
- the election of and compensation paid to the Chairman of the Supervisory Board;
- the preparation of the annual individual and consolidated financial statements and the management report;
- the review of the annual budget;

The meetings of the Supervisory Board may use, under certain conditions, telecommunications equipment or videoconferencing to allow one or more members to be present.

The Supervisory Board instituted three committees at its meeting on June 8, 2006. They are:

<u>Compensation Committee</u>

This committee:

- submits recommendations to the Board concerning the compensation for members of the Management Board;
- issues an opinion on the compensation method for members of the Management Board and

corporate officers;
- issues an opinion on the appointment of members of the Management Board and corporate officers;
- submits recommendations to the Board for stock option programs, the allotment of bonus shares, on payments and granting bonus shares.

On the date Korian is listed for trading, the Supervisory Board will appoint the following members to the Compensation Committee:

- Chairman: Jean-Pierre Thonier
- Members: Pierre Bieber, Jean-Claude Georges-François

<u>Audit Committee</u>

The Audit Committee:
- reviews the accounting methods used by the company for its individual and consolidated financial statements and the methods for valuing the assets of the Company and the companies included in the scope of consolidation;
- reviews preliminary individual and consolidated financial statements prepared by the Management Board before they are submitted to the full Board;
- prepares the Board's decisions on internal audit tracking;
- reviews the agreements signed by the Company and persons who hold a direct or indirect interest in the Company;
- reviews proposed appointments of the Company's auditors; and
- controls the management, verification and clarity of the information provided to shareholders and the market.

On the date Korian is listed for trading, the Supervisory Board will appoint the following members to the Audit Committee:

- Chairman: Jean-Jacques Duchamps
- Members: Jacques Ambonville, Julien Ruggieri

<u>Investment Committee</u>

This committee is primarily responsible for preparing a report on any investment exceeding five million euros (€5,000,000) submitted by the Management Board.

For the purposes of its work, the Investment Committee may consult with any outside expert it believes useful and the cost of such experts shall be paid by the Company.

On the date Korian is listed for trading, the Supervisory Board will appoint the following members of the Investment Committee:

- Chairman: Charles Ruggieri
- Members: Jacques Ambonville, Adrien Blanc, Jean-Yves Hochet, Pierre Bieber

<u>Changes in the organization of the Supervisory Board</u>

On the registration date of this Document, these committees were not yet established, and Korian was governed under a shareholders' agreement between Batipart, MSRESS and Predica, which will expire at the time Korian is listed for trading on the Euronext Eurolist. The members of the committees, one third of whom will be independent, will be appointed effective on the date of listing. It is stipulated that the rules of procedure approved by the Supervisory Board define independent members in accordance with commonly accepted rules, i.e.:

"A member of the Board is considered to be independent when he maintains no relationship of any kind with the Company, its group or its management, which could compromise the exercise of his free judgment."

In addition, the Supervisory Board plans, as of the effective date of the appointments of the three independent members, to institute an ethics and security committee, which will include several independent members with recognized expertise in this area charged with monitoring the security and ethics procedures in effect in the Korian Group and the effective application of those procedures.

Finally, during its meeting on September 18, 2006, the Supervisory Board instituted an Ethics and Risks Committee. This Committee is responsible for:

- Evaluating procedures in the Group for protection from risks
- submitting recommendations to the Board concerning the implementation of specific procedures;
- submitting recommendations to the Board concerning follow-up on complaints.

On the date Korian is listed for trading, the Supervisory Board will appoint the following persons to the Ethics Committee:

- Chairman: Jean-Paul Thonier
- Members: Jean-Claude Georges-François, and one independent member

Mr. Malhuret will be the Korian Group's representative on the Ethics and Risks Committee

3.14.3 Limitations on management's powers

It is required under the bylaws and restated in the Supervisory Board's rules of procedure that, in addition to those decisions required by law to receive prior approval from the Supervisory Board, certain decisions of the Management Board require the prior approval of the Supervisory Board:

- a recommendation to the Shareholders' Meeting for any amendment to the Company's bylaws that modifies powers within the Company;
- any operation that may result immediately or in the future in an increase in the capital stock, through the issuance of securities, exceeding a total nominal amount of twenty (20) million euros;
- any recommendation submitted to the Shareholders' Meeting for the appropriation of earnings and distribution of dividends, and any distribution of interim dividends; and
- any loan agreement covering an amount in excess of one hundred (100) million euros.

It is the Chairman of the Supervisory Board's responsability is to ensure that the members of the Board have sufficient information to cast an informed vote.

3.14.4 Declaration concerning corporate governance

The Korian company will take measures to take into account, as of the date it is listed for trading on Eurolist by Euronext, the market recommendations on corporate governance, particularly those contained in the "Bouton" report of September 2002 and the APEF/MEDEF report of December 2003.

On the date of this Document, no member of the Supervisory Board can be classified as independent. Therefore, the Korian company plans to appoint three independent members to the Supervisory Board in the context of its listing, as described above.

Likewise, the committees stipulated by the Korian Supervisory Board's rules of procedure will be established once it is listed for trading and the independent members take office.

3.15 *Human Resources*

3.15.1 Employees of the Korian Group

As of December 31, 2005, the Korian Group employed 9,442 persons under fixed-term or open-ended employment contracts (8,150 Full Time Equivalent (FTE) persons in very different positions that contribute daily to quality care for the patients and elderly residents under their care.

The total workforce of 9,442 persons is broken down as follows: 69% for the EHPAD Division (6,537 persons), 29% for the Clinic Division (2,708 persons) and 2% for corporate headquarters (197 persons).

The use of fixed-term or interim contracts is intended to replace employees absent from the company.

8% of the total workforce is classified as "managerial"
Regarding gender distribution, 52% of the employees in the EHPAD Division are women and 48% are men. The Clinic Division breakdown is: 83% women and 17% men. The breakdown for corporate headquarters is: 65% women and 35% men.

3.15.2 Recruitment

The recruitment policy has been particularly steady in recent years, driven primarily by the addition of medical services in the EHPADs, through the signing of the tripartite agreement, and the specialization of the follow-up care clinics. The results of this policy have been:

- better care for patients and residents;
- a greater variety of duties for employees.

Because of this requirement, but also because of an ongoing concern to improve quality, the facilities are continually seeking qualified care personnel, such as registered nurses, orderlies, etc and they are doing so in the context of a national shortage in care personnel, which drives a high turnover rate for these employees.

As part of this recruitment effort, which is one of the Korian Group's strategic priorities and where it believes that its size and visibility are assets compared to some of its competitors, the Department of Human Resources is implementing a certain number of measures (participation in recruitment fairs, partnerships with schools, subsidized contracts, etc.)

In addition, the Department of Human Resources is working to develop a centralized "press communications" plan. The promotion of the Group's new identity under the name Korian will give the Group additional visibility throughout France, making communications more general and, therefore, more visible and effective.

Finally, the Group is focusing on the search for multi-disciplinary candidates, particularly for management positions. In effect, a facility manager must be able to understand the "care" component (by establishing a close relationship with the residents and their families) in addition to being a manager and administrator.

3.15.3 Career management

The long-term performance of the Korian Group depends on the quality, skills and successes of its employees, which are also the conditions for developing employee loyalty in a sector marked by shortages and tensions in the job market. This is why the Korian Group is working every day to create a professional environment that values every person and allows each employee to develop and express his or her potential.

The goal of the Korian Group is to develop its employees in order to achieve the group's objectives. To achieve this goal, it is vital to develop the skills of each employee, enhancing the motivation and contribution of every employee to the group's objectives. In particular, the Korian Group believes it is important to give its least qualified employees the possibility, if they wish, to move to qualified positions through a voluntary and sustained training policy (see Subsection 3.4.4.2 B). The Korian Group has set up, and intends to promote, vertical mobility career paths to encourage the hospital service agents (ASH) to move toward qualifications and duties as medical-psychological assistants (AMP), then to positions as orderlies and, finally, as registered nurses (IDE).

Likewise, the Korian Group encourages inter-segment and inter-departmental mobility, to allow employees to alternate a career in the Clinic Division and a career in the EHPAD Division. This mobility enhances employee performance, develops skills and motivation and, therefore, is a tool to ensure employee retention.

In this context, the Careers unit of the Department of Human Resources circulates the resumes received and holds an internal job "exchange". It organizes and more generally monitors geographic transfers and transversal professional transfers in order to train Management.

Finally, the Careers unit of the Department of Human Resources is responsible for identifying high potential managers within the Group and reports the results of this identification process to management through “Business Committees”. These high-potential managers, whose loyalty and professional growth are a key component in the Group’s expansion, are personally monitored.

3.15.4 Organization of the work week in the Korian Group

The duration and scheduling of the work week in the Group’s companies are decided and implemented in accordance with the laws in force and the various collective bargaining agreements applicable, including through enterprise agreements related to the reduction of the working week.

Likewise, the management of overtime complies with legal requirements and collective bargaining agreements.

Facility schedules are managed in each facility by the facility manager, with the assistance of the Labor Law unit in the Department of Human Resources, which is responsible for informing, assisting, and advising the Operating Divisions and facility managers on the application of labor legislation and agreements (division or corporate collective agreements) and, in this area, prepares personnel management procedural memoranda.

3.15.5 Collective agreement applicable to the Korian Group companies

All the companies of the Korian Group are governed by the Single Collective Agreement (*Convention Collective Unique*-C.C.U.) of April 18, 2002, which applies to the clinics, and which was completed for the EHPADs by the schedule dated December 10, 2002.

The C.C.U. was an opportunity for the Group:

- to improve the status of our businesses and the multi-disciplinary nature of the activity;
- to harmonize the various collective agreements among the different companies;
- to offer skill development prospects.

At the same time, the C.C.U. was an opportunity for Group employees to:

- obtain a reference framework and indicators;
- modify their collective agreements;
- to benefit from possibilities to improve employability and career development.

3.15.6 The values of the Korian Group: the guidelines for Human Resource management

Human resource management in the Korian Group is designed to value and motivate all employees. It is based on the conjunction of several principles established as corporate values, including:

- ethics, the priority goal and unifying factor for the business, which must be shared by all personnel;
- respect and participation in the Quality process as a key element in the Korian Group strategy;
- resident/patient care performed by all personnel, which must be understood as both physical and psychological care.

The goal of the Korian Group is to achieve over time, through training and corporate dialogue, a more pro-active labor policy, giving the Group the ability to attract and retain the best talent in the sector. This is one of the major challenges of the Group’s Department of Human Resources, under the direction of its Career Unit.

3.15.7 Promotion of corporate dialogue

The Group’s labor management policies are based on listening and a local management provided by facility managers and the Department of Human Resources. The Department wants to encourage open and proactive communications between management and employees in each unit of the Group. It also intends to establish a positive dialogue with labor in order to achieve the goals set for the entire group and for its various components.

The facility manager, who is the administrator for his staff, backed by the Labor Law unit of the Department of Human Resources and the quality department, is the person responsible for the development of this kind of dialogue, which must serve notably to convey the Group’s values.

As required by law, the subsidiaries of the Korian Group have organizations to represent employees.

In addition, the Department of Human Resources has begun to study methods to unify employee representative groups, and to create a single economic and social unit within a Group composed of different structures, often governed by very diverse rules as a result of the Group’s policy of growth through the acquisitions of companies.

This necessary unification must also take into consideration the consequences of previous and future simplifications of the Korian Group’s organizational structure.

3.15.8 Interests and stock options

The employees of the Korian Group do not hold any stake in the Korian company.

In addition, the Korian company has not granted stock options.

In the past, the Korian company issued stock subscription warrants to about ten executives. Since then, these interests have for the most part been transferred to companies of the Batipart group.

It should be noted that the Medidep company issued stock options to certain employees. These plans have been cleared.

There are plans to set up an employee shareholding vehicle that will allow Korian Group employees to participate in the Korian public offering. This plan, which is currently being negotiated with the union organizations, will be described in the offering circular that will be issued for the Korian offering.

3.15.9 Labor disputes

There are currently 105 labor disputes pending in the labor tribunals for the entire Korian Group, representing 1.10% of the Group’s total workforce of 9,500 persons. Provisions to the amount of €2,215,000 have been identified for these disputes.. The Group does not believe that any of these disputes is significant.

3.16 *Principal shareholders*

3.16.1 Distribution of Korian's capital among the principal shareholders

On registration date of this Document, the principal shareholders in the Korian company, i.e. those holding more than 5% of the capital and voting rights, are listed in the table below:

	% of capital and voting rights
BATIPART	
(of which companies controlled by Batipart: Novae,BTP Transactions, Proval	38.87 3.44
PREDICA (Prévoyance and Dialogue du Crédit Agricole)	34.83
MSRESS ARMAILLAC BV	18.08
ACM Vie (ASSURANCES du CREDIT MUTUEL)	7.21

The voting rights of the principal Korian shareholders are not different from the rights of other shareholders.

On the registration date of this document, the shareholders indicated above, with the exception of ACM Vie, were parties to a shareholders' agreement. This agreement will automatically expire on the date the Korian shares are listed for trading on Eurolist by Euronext.

Korian is not held or controlled, directly or indirectly, by any shareholder.

3.16.2 **Korian shareholders agreement**

Batipart, MSRESS and Predica (jointly the Shareholders) have executed an agreement amended for the last time on June 8, 2006, with a term of five years, automatically renewable for successive periods of one year, intended to set out their relationship as shareholders of Korian. The main provisions of the agreement are summarized below.

The agreement provides that the company management be supervised by a supervisory board made up of ten members, including four named as proposed by Batipart, three proposed by Predica, two proposed by MSRESS and one proposed by ACM Vie (not a party to the agreement). The office of chairman is to be held by a representative of Batipart.

Certain important decisions must be approved beforehand by the supervisory board. In particular, any substantial change to the Korian Group"s strategy and/or structure cannot be implemented until after having been approved by a qualified majority of at least 85% of the members of the supervisory board.

In addition, an investment committee must authorize new investment or divestment projects greater than € 5,000,000.

Batipart agrees to provide MSRESS and Predica with complete accounting and financial information regularly.

Each of the parties to the agreement will have a permanent right to maintain its percentage of interest (voting rights and/or rights to the profit) in Korian.

Each shareholder has a right of first refusal to all the stocks that a shareholder wishes to transfer to a third party. Any proposed transfer must nevertheless be notified to the Company in order to check whether the planned transfer is likely to give rise to the obligation to file a public offering for the stock of Medidep.

Each investor holds a right of withdrawal jointly with Batipart provided that Batipart comes to transfer a number of stocks with the consequence that its interest becomes lower than 1/3 of the capital and/or voting rights of the company.

In the event that one or more Shareholders holding over 75% of Korian's stock should decide, as of June 8, 2009, to transfer all of their stock to a third party, the latter shall have a right to obligate the other Shareholders to transfer theirs at the same price to the suggested buyer, except for the other shareholders exercising the right of first refusal and buying the stocks from the selling shareholders.

The Shareholders agree to make it so that in the event of a contribution of equity to the company by a new investor, MSRESS can ask this investor to buy 20% of the company stock held by it, at a price per share equal to the subscription price for the new shares.

The agreement stipulates that the Shareholders have the goal of listing on the stock market. Nevertheless, if this goal is not achieved at June 20, 2008, MSRESS may ask Batipart to buy or cause its stocks to be bought at a price determined by the investment banks appointed for this purpose.

The shareholders agreement shall be automatically terminated once the company is subject to listing on the stockmarket, with the effective date of termination being the date of admission of the company's shares on the market.

The parties to the shareholders agreement do not intend to remain contractually bound as of Korian's admission on the Eurolist of Euronext market.

3.17 *Related-party transactions*

The following agreements have been signed with the principal shareholders of Korian or companies in which they hold significant interests.

3.17.1 Assistance agreement signed with the Batipart company

On November 26, 2003, Korian signed an administrative and development assistance agreement with its benchmark shareholder the Batipart Company. This agreement was subsequently renegotiated twice to reflect the human resources changes in the Korian Company since its formation.
Under the last supplemental agreement on the registration date of this Document, signed on September 25, 2006, Korian and the Batipart Company set the new terms under which Batipart provides to Korian its resources in some areas for which Batipart has recognized expertise.

Korian compensates Batipart for the permanent assistance services rendered by it in the amount of 450,000 euros per year excluding taxes. This sum corresponds essentially to the real costs incurred by Batipart for these services, notably to part of the sums paid by Batipart to Jean-claude Georges-François and Charles Ruggieri as well as those paid to the staff providing assistance to Korian from its finance and legal departments providing assistance to Suren.

In addition, Batipart assists the Korian Group with significant M&A operations, notably by assisting its senior managers (including Charles ruggieri) and its legal and finance departments. In this context, and provided that the principle of assistance by Batipart is approved by the Supervisory Board, Korian will pay to Batipart in the event of a successful external growth operation, compensation calculated in accordance with the scale shown below:

Enterprise value purchased (€ million)	Compensation as a % of the value acquired	Amojnt of compensation for the tranche (€ million ex taxes)
0 to 30	0%	0
30 to 200	1%	2.0
200 to 300	0.5%	0.5
300 to 400	0.25%	0.25
Above 400	0.25%	0.25

The agreement has a term of one year and can be terminated upon expiration by either party

3.17.2 "Industrial" cooperation agreement signed with PREDICA

At the time Predica acquired a stake in Korian in March 2004, Korian signed an "industrial" cooperation agreement with Predica, the essential items of which were as follows:

<u>Promote synergies and benefit from complementary operations between Predica and the Korian Group</u>

The principal methods to be used for this goal could be the following:

- Establish a priority right for available bed space in the facilities of the Korian Group for Crédit Agricole clients who have taken out long-term care insurance: this right could take the form of a list of available spaces in the different facilities of the Korian Group made available in real time to those clients.

- The client, through his Predica long-term care insurance, would then have preferential information, which will facilitate his decision on the desired care facility.
- At the same time, the Korian Group would benefit from the opportunity to present its services to the clients of the Crédit Agricole Group and Predica.
- An improvement in the financial solvency of Korian Group clients thanks to the supplemental revenues obtained from the long-term care policy.
- A uniform high occupancy rate in the facilities, insofar as expanded communication about available spaces should improve the occupancy rate for the EHPAD (nursing home) facilities, which currently have an occupancy rate lower than the high average of the Group.
- PREDICA clients would enter the Korian Group facilities on the basis of market rates.

Definition and promotion of a demand for quality

Because of the positioning of their offer, the Predica and Korian partnership could encourage the development of standards to guarantee the quality of the services provided in a developing market that remains fragmented, and in which residential care takes a variety of forms.

The promotion of these standards could take the form of a quality charter that would define the level of services provided both by the “insurance” offer and by the “medical residence” offer.

Develop the offer of dependent care services by finding the most adapted and most economical forms (home care).

The insurance policies are characterized by a strong service component.

In addition to the operational synergies developed, Predica and Korian must, if they want to maintain their leadership, expand their partnership together by developing responses to changes in the dependent care market through innovative products and services.

Studies and exchanges on strategy, definition of joint positions, and lobbying on dependent care.

In the enormous expansion of the dependent care market, a certain number of economic, social and public players will attempt to direct the organizational choice of French society in this sector.

In this context, Predica and Korian have agreed to initiate open dialogue on these issues, to keep each other informed of their initiatives, and to work to promote joint aims.

Communicating statistics on the current EHPAD population to Predica

This information will be provided to PREDICA as an additional source for quantifying the dependence risk, by comparing the reality observed in the EHPAD population with the assumptions underlying the initial rates for a long-term care policy.

3.17.3 Partnership agreement with Foncière des Murs

The Korian Group signed a partnership agreement with Foncière des Murs, in which Batipart, Predica and ACM Vie hold significant interests, which is more described more fully in Subsection 3.4.4.5.

3.18 *Financial information concerning the issuer's assets, financial situation, and income*

3.18.1 Historic financial information

3.18.1.1 SUREN semi-annual consolidated financial statements for June 30, 2006 prepared in accordance with IFRS standards, and report from the statutory auditors

PIA Group	**MAZARS & GUERARD**
21 rue d'Artois 75008 PARIS	Le Vinci 4 allée de l'Arche 92075 La Défense Cedex

REPORT FROM THE STATUTORY AUDITORS
ON THE SEMI-ANNUAL 2006 INFORMATION

Dear Shareholders:

In our capacity as statutory auditors and pursuant to Article L. 232-7 of the French Commercial Code [*Code de Commerce*], we have undertaken:

- a limited examination of the table of activities and income presented in the form of consolidated semi-annual financial statements for the company SUREN, for the period from January 1 to June 30, 2006, as attached to this report;
- a verification of the information provided in the semi-annual report.

These consolidated, semi-annual financial statements were prepared under the responsibility of the board of directors. Our responsibility, based on our limited examination, is to express our conclusion on these statements.

We carried out our limited examination in accordance with professional standards applicable in France. A limited examination of interim financial statements consists of obtaining information deemed necessary, primarily through individuals responsible for accounting and financial aspects, and implementing analytical procedures as well as any other appropriate procedure. An examination of this nature does not include all controls corresponding to an examination carried out in accordance with professional standards applicable in France. It therefore does not provide assured identification of all significant points that might have been included within an audit and, consequently, we are not expressing an audit opinion.

Based on our limited examination, we have found no significant anomalies of such a nature as would raise questions with regard to conformance to the IFRS standard adopted by the European Union, the compliance and accuracy of the consolidated semi-annual financial statements, and the faithful image they give of the assets, financial situation, and income of the group comprising the parties and entities included within the consolidation.

In accordance with professional standards applicable in France, we also undertook a verification of the information contained in the semi-annual report commenting on the consolidated semi-annual financial statements to which our limited examination applied.
We have no comments to make as to their accuracy and their conformance to the consolidated semi-annual financial statements.

Issued in Paris, September 25, 2006

PIA GROUP Sophie DUVAL	**MAZARS & GUERARD** Pierre FRENOUX

SUREN Group

Presentation of the semi-annual balance sheet

ASSETS					
(In thousands of euros)	**note**	**6/30/06**	**12/31/05**	**6/30/05**	**6/30/05 pro forma**
Goodwill	4	364,468	359,886	96,524	353,596
Intangible fixed assets	5	498,324	490,515	201,742	483,895
Tangible fixed assets	6	184,172	160,682	198,607	272,936
Long-term investments	8	12,297	11,078	4,395	10,673
Deferred asset taxes	24	15	4,472	4,407	5,432
Non-current assets		**1,059,276**	**1,026,633**	**505,675**	**1,126,532**
Inventory	9	1,901	1,421	418	8,652
Trade accounts and notes receivable	10	40,192	41,938	12,966	42,244
Other receivables and current financial assets	11	58,651	45,381	19,685	46,056
Cash and cash equivalents	12	54,721	57,297	8,519	34,334
Assets held for purposes of sale					
Current assets		**155,465**	**146,037**	**41,588**	**131,286**
Total assets		**1,214,741**	**1,172,670**	**547,263**	**1,257,818**

SHAREHOLDERS' EQUITY AND LIABILITIES					
(In thousands of euros)		6/30/06	12/31/05	6/30/05	6/30/05 pro forma
Capital		257,474	253,562	152,963	253,563
Premiums		108,399	108,008	4,390	108,008
Consolidated reserves and income		49,637	35,229	5,347	-2,428
Shareholders' equity (Group share)	13	**415,510**	**396,799**	**162,700**	**359,143**
Minority interests	13	23,217	21,293	331	21,167
Total shareholders' equity		**438,727**	**418,092**	**163,031**	**380,310**
Provisions for retirement	17	5,758	5,606	1,719	5,061
Deferred taxes	24	167,860	163,924	86,515	176,440
Other provisions	18	3,276	3,854	1,577	3,801
Loans and financial liabilities	16	372,080	418,654	193,261	513,450
Non-current liabilities		**548,974**	**592,038**	**283,072**	**698,752**
Provisions of less than one year	18	5,501	5,443	2,635	2,868
Suppliers and trade payables		28,608	23,855	9,041	22,643
Other liabilities and adjustment accounts	19	90,332	94,794	35,532	77,622
Debts due within one year and bank overdrafts	15 / 16	99,758	32,347	45,741	67,413
Financial liability instruments	15	2,841	6,102	8,211	8,211
Liabilities held for purposes of sale					
Current liabilities		**227,040**	**162,541**	**101,160**	**178,757**
Total liabilities		**1,214,741**	**1,172,670**	**547,263**	**1,257,818**

Presentation of the semi-annual income statement

(In thousands of euros)	Note	6/30/06	12/31/05	6/30/05	6/30/05 pro forma
Total revenue		**254,703**	**282,283**	**100,417**	**232,078**
Other revenue		978	907	46	955
Activity revenue		**255,680**	**283,190**	**100,463**	**233,033**
Purchases consumed		17,686	22,884	9,013	13,180
Other purchases		828	1,079	30	4,232
Personnel expenses	20	132,279	143,751	50,848	117,478
External expenses	21	60,623	56,056	18,774	50,405
Duties and taxes		13,521	15,580	5,434	13,434
Depreciation and impairment		8,954	14,128	5,672	9,954
Current operating income		**21,788**	**29,712**	**10,692**	**24,350**
Other revenue and operating expenses	22	942	26,636	3	65
Operating income		**22,730**	**56,348**	**10,695**	**24,415**
Financial expenses		-11,985	-20,134	-10,290	-20,528
Financial revenue		11,515	1,277	179	341
Gross cost of financial debt	23	**-470**	**-18,857**	**-10,111**	**-20,187**
Cash revenue and cash equivalents		70	84		
Net cost of financial debt		**-400**	**-18,773**	**-10,111**	**-20,187**
Other revenue and financial expenses		1,103	-707		
Pre-tax income		**23,433**	**36,868**	**584**	**4,228**
Tax on earnings	24	-8,822	-6,377	-452	-1,846
Income from absorbed companies		**14,611**	**30,491**	**132**	**2,382**
Group share in the income of companies subject to the equity method of accounting			0		
Net income before income from activities in the course of suspension or sale		**14,611**	**30,491**	**132**	**2,382**
Income net of tax on activities suspended, sold, or in the course of sale					-13
Net income		**14,611**	**30,491**	**132**	**2,369**
Share of minority interests		1,854	973	3	835
Group share		**12,758**	**29,518**	**129**	**1,534**
Group share of net income per share	14	0.05	0.19		
Group share of net income per share (diluted)	14	0.05	0.19		

Cash flow table

In thousands of euros	6/30/06	12/31/05	Pro forma 6/30/05
Net income from absorbed companies	14,611	30,491	2,369
Income from sold activities	0		13
Depreciation, impairment, and provisions	8,398	14,421	9,118
Deferred taxes	5,852	-6,024	-2,700
Adjustment of retirement reserves	-81	114	114
Fair market value of financial instruments (SWAP)	-11,515	1,109	4,478
Capital gains on the sale of assets	-1,348	-2,376	1,244
Share-based payments (BSA)	1,487	1,001	501
Gross margin on reinvested cash flow	**17,404**	**38,736**	**15,137**
Change in inventory	-72	-60	-3,773
Change in client receivables	1,982	-130	-8,488
Change in supplier payables	3,941	20,354	-2,409
Change in other factors	-12,451	11,371	-608
Change in needs for working capital	**-6,600**	**31,535**	**-15,278**
Net cash flow generated by the activity: Total I	**10,804**	**70,271**	**-141**
Investment activities			
Other purchases and sales of subsidiaries	-7,918	-390,201	-393,799
Intangible and tangible investments	-30,971	56,720	-16,205
Other financial investments	-1,060	3,097	-229
Cash from the sale of fixed assets (excluding securities)	2,200	2,046	9,936
Impact of mergers			-1,640
Net cash flow related to investment activities: Total II	**-37,749**	**-328,338**	**-401,937**
Financing activities			
Capital increase	4,303	204,216	204,218
New loans	13,198	422,918	219,413
Repayment of loans	-10,010	-336,224	-14,814
Dividends paid to minorities in the absorbed companies		-106	-115
Net cash flow related to financing activities: Total III	**7,491**	**290,804**	**408,702**
Net cash flow generated by sold activities: Total IV			**586**
Net change in cash flow: I + II + III + IV	**-19,454**	**32,737**	**7,210**
Opening cash	45,525	12,788	12,788
Closing cash	26,071	45,525	19,971
Reclassification of cash items at opening			-27
Cash and cash equivalents	54,721	57,297	34,334
Bank loans contracted for cash flow purposes	-28,650	-11,772	-14,363
Cash	**26,071**	**45,525**	**19,971**

Changes in Shareholders' equity

(In thousands of euros)	Capital	Premiums	Cumulative results	Group share of shareholders' equity	Minority interests	Total shareholders' equity
At December 31, 2004	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**
Capital increase	100,599	103,618		204,217		204,217
Change in treasury shares			10	10		10
Income for fiscal year 2004			29,518	29,518	973	30,491
Change in the fair market value of financial instruments			1,462	1,462		1,462
Changes in corporate structure				0	19,919	19,919
Payment in shares (BSA)			1,001	1,001		1,001
Impact of change in tax rate			911	911		911
Other changes			17	17		17
At December 31, 2005	**253,562**	**108,008**	**35,229**	**396,799**	**21,293**	**418,092**
Capital increase	3,912	391		4,303		4,303
Change in treasury shares			17	17		17
Income for the fiscal year at June 30, 2006			12,758	12,758	1,854	14,612
Fair market value of financial instruments				0		0
Changes in corporate structure			79	79		79
Payment in shares (BSA)			1,487	1,487		1,487
Impact of change in tax rate				0		0
Other changes			66	66	70	136
At June 30, 2006	**257,474**	**108,399**	**49,636**	**415,510**	**23,217**	**438,726**

Note 1 – Accounting principles

Statement of compliance

The consolidated semi-annual financial statements were prepared in accordance with IFRS standards as adopted in the European Union.

The consolidated financial statements include the statements of Société Anonyme Suren and the subsidiaries it controls.

The list of absorbed companies is presented in note 30.

Presentation of the financial statements

The Group's consolidated financial statements are prepared based on historic cost, with the exception of the following assets and liabilities, which are posted at fair market value:

- investments held for trading purposes
- investments available for sale
- derivative instruments

Assets and liabilities subject to hedging are reported at fair market value taking the risk hedged into consideration. Current assets are:

- assets intended to be consumed or sold during the normal operating cycle;
- cash and cash equivalents;
- assets held essentially for trading purposes.

All other assets are non-current.

The consolidated financial statements are presented in thousands of euros.

Consolidation principles

The Suren Group's consolidated financial statements include the statements of Suren SA and its subsidiaries for the period from January 1 to June 30, 2006.

Subsidiaries

Subsidiaries are companies controlled by the Group. Control is defined as the power to directly or indirectly manage a company's operating and financial policies in such a way as to benefit from it. A subsidiary is controlled when the Group holds the power to directly or indirectly manage its operating and financial policy in order to derive benefits from its activities. In general, controlled companies are those in which Suren SA directly or indirectly holds over 50% of the voting rights.

The subsidiaries' financial statements are subject to the subsidiary consolidation method as of the date control was assumed, and cease to be consolidated when control is transferred outside the Group.

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

The financial statements are consolidated from the date control was assumed, to the date it was lost.

Affiliates [*Coentreprises*]

Affiliates are companies in which the Group exercises joint control resulting generally from a contractual agreement.

The financial statements of affiliates are consolidated according to the proportional integration method. Consolidation according to the proportional integration method is a method of accounting by which an affiliate's shares in the assets, liabilities, revenue, and expenses of the jointly controlled entity are consolidated, line by line, with the corresponding items in the affiliate's financial statements.

The financial statements are consolidated from the date control was assumed, to the date it was lost.

The financial statements of hidden partnerships [*sociétés en participation*] are subject to proportional integration, except in the case of exclusive control, in which case they are integrated according to the subsidiary consolidation method.

Related companies

Related companies are companies in which the Group exercises a significant influence in matters of operating and financial policy without holding control. In general, this involves companies in which the Group holds at least 20% of the voting rights.

The Group's interests in related companies are posted according to the equity [*mise en équivalence*] method. The financial statements of related companies are included in the consolidated financial statements from the date of the assumption of significant influence, until the date of the loss of significant influence.

The balance sheet value of securities posted under the equity method includes the purchase price of the shares (including the purchase premium), plus or minus changes in the Group's share of the related company's net assets beginning on the acquisition date. The income statement reflects the Group's share in the related company's income.

Eliminated transactions

Trade and financial balances and transactions, as well as income from inter-company transactions, are eliminated when preparing the consolidated financial statements.

Grouping of companies

- **Goodwill**

Positive variations between the purchase price and the share of the assets' and liabilities' fair market value identifiable on the date control are assumed are posted in assets under goodwill. Any negative variations are posted directly to income for the period.

Purchase premiums are not depreciated. Pursuant to regulation IAS 36, "Impairment of assets," they are subject to an impairment test at least once per year, and more frequently in the case of the application of a loss of value index. The test conditions are aimed to ensure that the recoverable value of the cash generating unit to which the goodwill is assigned or allocated is equal to at least its net book value. If a loss of value occurs, an impairment loss is posted to operating income, under "other operating revenue and expenses." This impairment is irreversible.

Pursuant to the transitory measures authorized by IFRS 1 "Initial adoption of the IFRS," purchases and groupings of companies posted before January 1, 2005 have not been reprocessed, and purchase premiums posted on that date were posted to the opening balance sheet of January 1, 2004 at their value net of depreciation, which became the new book value in IFRS.

- **Acquisition through successive purchases**

If acquisition takes place through successive purchases, each significant transaction is treated differently for determining the fair market value of the assets and liabilities acquired, and the residual purchase premium.

If an additional purchase allows control of a company to be obtained, shares already held are adjusted based on fair market value estimated on that date. The result of this adjustment is posted to shareholders' equity.

If the additional purchase occurs after control has already been acquired, the transaction is analyzed as a transaction with minority shareholders, with any premium at this time posted to shareholders' equity.

- **Minority interests**

Minority interests are posted at fair market value of net assets acquired.

Conversion methods

- ***Foreign currency transactions***

Foreign currency transactions are converted to euros by applying the exchange rate current on the transaction date.

All transactions are denominated in euros.

Financial statements in foreign currency

Assets and liabilities of Group companies expressed in foreign currencies, including goodwill and adjustments relative to determining the fair market value in consolidation, are converted to euros at the exchange rate current on the account closing date. These companies' revenue and expenses are converted to euros at the average exchange rate for the year. The resulting conversion variances are posted directly to shareholders' equity.

As of the closing, all foreign subsidiaries were located in the euro zone.

Intangible fixed assets

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

Intangible fixed assets are posted at purchase price. Operating authorizations acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date based on one year of revenue at 100% occupancy rate.

They are not subject to any revaluation. Most intangible assets consist of operating authorizations, which constitute assets with an indefinite, non-depreciable use life. As applicable, they are subject to impairment when their recoverable value falls below book value.

Other intangible fixed assets primarily include software depreciated according to the straight-line method over its use life. When intangible fixed assets are acquired separately, they are posted at purchase price.

Tangible fixed assets

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

Tangible fixed assets are posted at purchase price. Fixed assets acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date. They are not subject to any revaluation. At each close, purchase price is reduced by cumulative depreciation and any provisions for impairment as set forth in IAS 36, "Impairment of assets."

The cost of loans used to finance assets over a long service or manufacturing period is not included in the initial cost of the fixed assets, and is posted to expenses for the period.

- ***Treatment by component***

The principal components of a fixed asset with a use life shorter than that of the principal fixed asset are identified, for purposes of depreciation over their own use life.

Upon replacing the component, the expense corresponding to the new component is included under fixed assets so long as future economic benefits by the principal asset are expected.

- ***Maintenance and repair expenses***

Recurring maintenance expenses or those not corresponding to the criteria of treatment by component are posted to expenses when incurred.

- ***Work carried out on leased buildings***

Work carried out on buildings under simple lease are subject to depreciation by component over the asset's use life.

- ***Depreciation of tangible fixed assets***

Depreciation of tangible fixed assets is calculated according to the straight-line method and over their use lives as indicated below. Land is not depreciated.

The use lives applied are the following:

Categories	use life	mode
Structure	50 years	Straight line
Construction components	between 7 and 30 years	Straight line
Technical facilities	between 5 and 15 years	Straight line
Other improvements and fixtures	Between 3 and 5 years	Straight line
Medical materials	between 2 and 10 years	Straight line
Materials and furniture	between 2 and 10 years	Straight line
Software	1 year	Straight line
Transportation materials	5 years	Straight line

Assets subject to a lease-to-own agreement are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets)

- ***Impairment of tangible fixed assets***

In the presence of loss of value indices, tangible fixed assets are subject to impairment tests.

- ***Investment subsidies***

Investment subsidies are deducted from the corresponding gross investment value. They are applied at the latter's depreciation rate.

Lease agreements

Fixed assets financed through lease-to-own agreements, transferring to the Group virtually all risks and benefits inherent to the ownership of the leased assets, are posted to assets on the balance sheet at the leased asset's fair market value or at the discounted value of the minimum lease payments, if less. The corresponding debt is posted to financial liabilities.

Lease payments are broken up between financial expense and debt amortization in such a way as to obtain a constant periodic rate on the loan balance contained in the liability.

Assets subject to lease-to-own agreements are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets). In case of a loss of value index, they are subject to an impairment test pursuant to IAS Regulation 36, "Impairment of assets").

Lease agreements in which the lessor retains almost all risks and benefits inherent in ownership of the asset are simple leases. Payments under these agreements are posted to expenses on a straight-line basis over the lifetime of the agreement.

Loss of value of tangible and intangible fixed assets

The book values of assets are reviewed at each close, to identify any losses of value:

for non-depreciable intangible assets: at each close, or more frequently in case of the appearance of loss of value indices;
for all other assets: upon the appearance of loss of value indices.

The test is carried out at least once a year for assets with an indeterminate lifetime, i.e., essentially operating authorizations and purchase premiums.

To perform impairment tests, fixed assets are grouped into Cash Generating Units (CGU). In general, each establishment constitutes a CGU.

The utility value of these units is determined by means of net future discounted cash flows (DCF) according to the following principles:
Cash flows (pre-tax) derive from the medium-term business plan prepared by the management control department,
The discount rate is based on the group's average weighted cost of capital,
Future value is calculated by adding discounted cash flows to infinity, based on a standardized flow and a perpetual growth rate. This growth rate is consistent with the development potential of the markets in which the group is operating, as well as its competitive position within these markets.

When the recoverable value (the market or utility value, whichever is highest) is less than the asset's net book value or value of the Cash Generating Unit / CGU, a loss is posted to operating income.

When a CGU contains a purchase premium, the loss of value first reduces the purchase premium, before any impairment is applied to the CGU's other fixed assets.

Inventory and outstandings

Inventory is posted at cost or net sale value, whichever is lowest.

The inventory cost of raw materials, merchandise, and other provisions consists of the purchase price net of taxes, less rebates, returns, and discounts obtained, plus accessory purchasing expenses (transport, unloading expenses, customs expenses, purchase commissions, etc.). This inventory is evaluated in accordance with the first in / first out method.

Clients and other debtors

Trade receivables and other receivables are posted at purchase price less value adjustments.

Financial assets

Financial assets include:

non-current financial assets: securities of non-absorbed companies, trade receivables, construction loans, security bonds and deposits given,
current financial assets include short-term derivatives, cash, and cash equivalents (investment securities).

- ***Initial valuation***

Financial instruments are originally posted at purchase price. In most cases, the fair market value on the transaction date is the historic cost generally corresponding to purchase price.

- ***Classification and valuation at accounting closures***

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

Categories	Valuation	Posting of changes in value
Financial assets valued at fair market value	Fair market value	Income
Assets held to maturity	Depreciated cost	N/A
Loans and receivables	Depreciated cost	N/A
Assets available for sale	General principle: fair market value, Exception: at depreciated cost for shares for which fair market value cannot be reliably estimated (specifically, shares not traded on an active market)	Shareholders' equity

- ***Financial assets for which changes in fair market value are posted to income***

This category of assets includes:

assets held for trading purposes, i.e., acquired by the company with a view to turning a short-turn profit,
derivatives not expressly designated as hedging instruments.

Investment securities (SICAVs [*Sociétés d'Investissement à Capital Variable,* or French mutual funds], FCPs, etc.) are posted at fair market value at closing, and changes in fair market value are posted to financial income. Consequently, they are not subject to any impairment test. Fair market value is determined primarily with reference to market quotes.

- ***Loans and receivables***

These correspond to most non-derivative financial assets subject to fixed or fixable payments, not listed on an active market.

The depreciated cost of short-term receivables usually corresponds to historic cost.

In the Suren group, this category comprises trade receivables, long-term loans, and 1% housing loans.

The depreciated cost of short-term receivables usually corresponds to historic cost.

- ***Assets held to maturity***

These are non-derivative financial assets subject to fixed or fixable payments, of a set maturity date, for which the company has the intention and capability of keeping until maturity, other than receivables, loans, and financial assets designated by the company in the other two categories (valued at fair market value by income, available for sale).

- ***Assets available for sale***

Non-consolidated securities are treated as securities available for sale and are therefore valued at recoverable value, with underlying gains and losses posted to shareholders' equity, with the exception of underlying losses deemed permanent, which are posted to income. The net book value of these financial assets was deemed representative of recoverable value. Therefore, no variance was posted.

Other assets available for sale are specifically those not classified in any of the other three categories.

Short-term investments are posted at market value at each closing.

Cash and cash equivalents include cash and short-term investments maturing less than three months after the acquisition date.

Derivatives

The Group uses derivatives (swaps and tunnels) to hedge against interest rate risk resulting of its variable-rate financing policy.

Derivatives are posted originally at purchase price. They are subsequently valued at fair market value.

If a derivative is designated as a hedge of fair market value, changes in the value of the derivative and the hedged asset are posted to income for the same period. If the derivative is designated as a cash flow hedge, the change in value of the effective portion of the derivative is posted to shareholders' equity. It is posted to income when the hedged asset is itself posted to income. By contrast, a change in the value of the ineffective portion of the derivative is posted directly to income.

Treasury shares

Treasury shares held by the Group are posted at purchase price less shareholders' equity until cancelled or sold.

Revenue from the sale of these shares is applied directly to shareholders' equity, such that no capital gains or losses, and no declines in value, affect consolidated income.

Personnel benefits

- ***System types***

By virtue of legal obligations or common practice, the Group participates in supplementary retirement systems or other long-term benefits in favor of employees. The Group offers these benefits through defined contribution systems.
Within the framework of defined contribution systems, the Group has no obligation other than to pay contributions. Contributions made to the systems are posted to expenses for the period. Any contributions remaining to be paid during the period are subject to provisions.

- ***Commitment types***

    - **Severance payments**

Severance payments fall under the applicable Group collective agreement (Unified Collective Agreement, C.C.U.) and include severance payments upon retirement or at career-end, paid in the case of voluntary resignation or retirement of employees.

Severance payments fall under the defined payments system.

    - **Seniority bonuses (or anniversary premiums)**

Seniority bonus programs as provided under the company's agreements constitute additional bonuses paid to employees who reach a certain level of seniority within their company.

    - **Supplementary retirement systems**

No program supplementing the legal minimum pension to employees has been subscribed for the Group in favor of its employees.

- ***Valuation of commitments***

Retirement and similar commitments resulting from defined payment systems are subject to provision based on an actuarial calculation performed at least once a year by an independent actuary. These commitments include only retirement severance payments. The projected credit units method is used: each service period gives rise to one additional payment rights unit, and each of these units is valued separately to obtain the obligation to employees.

Calculations take into consideration specific details of the various regimes, as well as assumptions for start of retirement, change of career, salary increases, the likelihood of an employee's still being with the Group at retirement age (staff turnover rate, mortality tables, etc.). The obligation is adjusted based on the long-term bond interest rates of top-tier issuers.

The obligation is subject to provisions less any assets from the system valued at fair market value.
Actuarial gains and losses are generated by changes in assumptions relating to the commitments or financial assets of the regimes. These variances are recognized under income according to the corridor method defined in IAS 19, "Personnel benefits." They are depreciated over the employee's remaining expected active life for the portion exceeding 10% of the largest of the following amounts:

- the discounted value of the obligation at closing,
- the fair market value of the system assets at closing.

In setting the opening balance sheet in IFRS as of January 1, 2004, the Suren Group used the option under IFRS Regulation 1, of posting all actuarial variances at that date less shareholders' equity.

Net expenses for retirement and similar benefits are posted to operating income for the period, except the expense of adjusting fees posted to financial income.

Other provisions

A provision is posted when, at the close of the period, the Group has a current obligation (legal or implied) and it is likely that a disbursement of resources representing future economic benefits will be needed to discharge that obligation.

Provisions are discounted if the time effect is significant. The time-related increase in the provision is then posted to financial expenses.

During a reorganization, a provision may only be established if the reorganization is subject to an announcement and a detailed plan or startup of execution at the close of the period.

Legal disputes (employment, tax audits, trade disputes, etc.) are subject to provision when a Group obligation to a third party exists at closing. The provision is valued as a function of the best estimate of projected expenses.

Payments in shares

- ***Stock option plans***

Options to subscribe or purchase shares, granted to employees, must be valued at fair market value, which must be shown in the income statement covering the period of acquisition of exercise rights by employees. The fair market value of options is generally calculated using a discounted value model, based on assumptions set by Management.

The benefit valued according to IFRS 2 is equivalent to a payment to beneficiaries: it is therefore posted to personnel expenses, on a straight-line basis over the rights-acquisition period, against an increase in shareholders' equity. Under the transitory measures specifically set forth in IFRS 1 and IFRS 2, the Group has elected to post only plans awarded after November 7, 2002, and for which rights were not acquired as of January 1, 2005: no stock option plan is involved. Plans prior to November 7, 2002 are not valued and remain not posted so long as the options are not exercised.

- ***Stock warrants [*****bons de souscription d'actions,** ***or*** **BSAs*****]***

BSAs allocated to certain staff members must also be valued at fair market value and posted to personnel expenses.

These rights are valued using the intrinsic method. The counterpart is posted as an increase in shareholders' equity.

Interest-bearing loans

Interest-bearing loans are posted at original par value, less related transaction costs. These costs (expenses and loan issuance premiums) are included in the calculation of cost depreciated according to the effective interest rate method.

At each closing, financial liabilities are then valued at depreciated cost according to the effective interest rate method.

Loans are broken down by:

- current liabilities for the portion to be repaid within twelve months after closing
- and non-current liabilities for maturities longer than twelve months.

Sale options granted to minority shareholders.

Shares held by third-party minority shareholders and which the Group has committed to acquiring are presented under financial debt at the option's strike price.

The difference between the strike price of options granted and the historic value of minority interests is posted to purchase premiums, the latter being adjusted at the end of each period as a function of the change in the strike price of the options and the book value of the minority interests.

Suppliers and other creditors

Trade payables and other debts are posted at historic cost.

Taxes

Deferred taxes are posted, using the variable deferred balance sheet method, for temporary variances existing at the closing between the tax basis of the assets and liabilities and their book value, as well as tax shortfalls. No deferred liability tax is posted to purchase premiums.

Deferred asset taxes are posted to the extent it is likely the Group will have future taxable earnings to which unused tax losses may be allocated.

Most of the group's deferred taxes derive from posting purchases of securities of absorbed companies, and especially from posting intangible assets that constitute operating authorizations.

Deferred asset and liability taxes are valued at the tax rate expected to be applied over the period when the asset will be sold or the liability settled, based on the tax rates (and tax regulation) adopted or quasi-adopted as of the closing date.

Deferred taxes are calculated entity by entity. They are offset when taxes are collected by the same tax authority and correspond to a single tax entity (tax consolidation group).

Tax deferred and due is posted as a revenue or expense to the income statement unless it corresponds to a transaction or event posted directly to shareholders' equity.

Deferred taxes are presented on the specific categories of the balance sheet under non-current assets and liabilities.

Total revenue

Ehpad:

- Total revenue from treatment services corresponds to the amounts paid by the Caisse Primaire d'Assurance Maladie [Primary Health Insurance Fund] as an annual treatment contribution.
- Total lodging and occupation revenue is recognized when providing the services.

Ssr:

- Total revenue corresponds to treatment services and private rooms and is posted as the services are provided.

Calculating operating income/ current operating income

The income statement is presented by expense type.

Current operating income is obtained from the difference between expenses and pre-tax revenue excluding:

- Other revenue and expenses, including decline in the value of goodwill,
- financial factors,
- income from companies subject to the equity method of accounting,
- the share of income from operations carried out jointly with non-absorbed companies,
- and income from activities suspended or in the process of sale.

The "Employee share" is consolidated into personnel expenses.

Operating income is based on current operating income, adjusted by, on the one hand, other operating revenue and expenses, and on the other hand, other extraordinary or non-recurring revenue and expenses, i.e.:

- decline in the value of purchase premiums posted within the framework of impairment tests under IAS 36,
- reorganization expenses or those related to measures to adjust headcount by significant amounts, relating to major events or decisions,
- capital gains or losses from sales,
- expenses and revenue from major litigation, startup activities, or major capital activities (expense of incorporating a new business, etc.).

Income per share

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

Diluted net income per share is calculated assuming the exercise of all outstanding options, consistent with the "share purchase" method defined in regulation IAS 33, "Income per share."

Sector information

A sector is a distinct component of the group, engaged in providing products or services (activity sector) or providing products or services within a specific economic environment (geographic sector), exposed to risks and returns different from the risks and returns of other sectors.

The first and only level of the Group's sectoral information is the "activity sector."

In effect, with the exception of certain establishments located in Belgium, the group's activities are carried out in France. Since its Belgian activities are insignificant in proportion to the whole group, presentation by geographic region is not pertinent at this time. Organization by activity is as follows:

- Medical-social activity, primarily including EHPADs/ retirement homes;
- Health activity, including Follow-Up Care, Rehabilitation, Psychiatry, and Home Hospitalization activities.
- other activities (holding company).

This distribution corresponds to the criteria of IAS 14, "Sectoral information," with the risks and returns differing according to the aforementioned sectors.

Sector assets are operating assets used by a sector within the framework of its operational activities. They include allocable purchase premiums, intangible and tangible fixed assets, and current assets used in the sector's operational activities. They do not include deferred asset taxes, other interests, or receivables and other non-current financial assets. These assets are grouped under the line "non-allocated assets."

Sectoral liabilities are liabilities resulting from a sector's activities that are directly allocable to this sector or that may be reasonably allocated thereto. They include current and non-current liabilities with the exception of financial liabilities and deferred liability taxes. These liabilities are grouped under the line "non-allocated liabilities."

For each activity sector, Note 28 shows information on revenue and income as well as certain information relating to assets, liabilities, and investments.

Note 2 – Characteristic events during the period

Change in Suren's bylaws and governance

The Extraordinary General Shareholders Meeting of June 8, 2006 acted on the following principal resolutions:

- Conversion of Suren into a French Corporation with Board of Directors and Oversight Council [*Société Anonyme à Directoire and Conseil de Surveillance*]; This form of dual organization is based on the distinction between the corporation's management functions (Board of Directors) and control functions (Oversight Council) and would appear to increase the Group's level of rigor in terms of company governance.
- Transfer of the corporate headquarters to 152, avenue Malakoff – 75 016
- Elimination of priority share categories

The Board of Directors consists of:
- Mr. Jean-Claude Georges-François, Chairman of the Board,
- Mr. Jean-Pierre Ravassard, Board Member,
- Mr. Guillaume Lapp, Board Member,

The Oversight Council is chaired by Mr. Charles Ruggieri

Simplification of the legal organization chart

In the first half of 2006, Suren simplified and rationalized its legal organization chart.
To the extent possible, the group is seeking to combine, first, all its EHPADs, second, its health establishments, and third, its psychiatric clinics, into dedicated legal structures. The new legal organization chart is therefore aimed at harmonizing the legal structures with its operational organization in three areas of specialization.
Thus, on June 12, 2006, Medotels EURL took over the companies Serience, Finagest, and RM Holding by merger.

Exercise of BSAs (stock warrants)

Stock warrants were issued on October 7, 2004 by resolution of the SUREN General Meeting of June 24, 2004.
On June 29, 2006, 3,911,539 BSAs were exercised, resulting in the issuance of 3,911,539 new shares with par value of 1 euro, issued at the unit price of 1.10 €.
The capital of 253,562,498 euros was therefore increased to 257,474,037 euros.
There is no longer a dilutive capital instrument outstanding as of June 30, 2006.
The financial benefit drawn by beneficiaries of BSAs was posted to the financial statements of June 30, 2006.

Integration of Medidep

Implementation of an operational harmonization with the Medidep group is the major goal of 2006, aimed at building a benchmark operator around a common consolidation plan, dedicated to care for dependent persons, active both in the medical-social sector and in the health sector.
In the first half of the 2006 fiscal year, the two groups pursued their operational harmonization and combined their know-how. Several integration workshops were held: implementation of common management software (billing, accounting, payments), harmonized operating procedures, centralized purchasing and subcontracting policies, coordinated initiatives to promote EHPADs, etc.
This harmonization process should accelerate even further in the second half of 2006, given the decision by the Suren and Medidep Oversight Councils to examine a merger process (June 2006). Indeed, a merger would allow the new Suren group to continue the workshops already scheduled for harmonizing procedures and implementing operating synergies.

Service provision agreement between SUREN and Medidep

SUREN and MEDIDEP have initiated a process to rationalize the central functions of the group consisting of themselves and their subsidiaries. Within this context, certain employees of each company, originally assigned to certain central duties within their respective groups, have come together on permanent teams established under the functional management of a SUREN or MEDIDEP representative, depending upon the case, with each SUREN or MEDIDEP employee remaining under the hierarchical responsibility of his employer.

Within this context, each SUREN and MEDIDEP group provides assistance to the other in certain relevant areas of the central functions ("headquarters functions"), specifically by providing the other group with a portion of certain of its employees' time.

Within this context, SUREN and MEDIDEP have entered into two mirror service provision agreements in order to define:

- the extent of the assistance missions rendered by SUREN to MEDIDEP and vice versa
- and the conditions of compensation for these services.

Note 3 – Changes to the consolidation structure

Consolidation structure

At June 30, 2006, the consolidation structure included, in addition to the parent company Suren SA, 158 companies absorbed through the subsidiary consolidation method (159 in 2005), and 18 companies absorbed by the proportional consolidation method (18 in 2005).

The Suren – Medidep group continued its development during the first months of 2006 and has undertaken different purchase transactions:
The increase of its share in the Financière Sinoué group in accordance with the agreement signed in July 2005. This transaction resulted in the purchase of an additional 7.47% of Financière Sinoué for a total of €3 million, thereby increasing its share to 40%;
The purchase of 100% of the shares of Médicale Clavette (holding company), which itself holds 98.75% of the Château de Clavette Convalescence Clinic (follow-up care, 62 beds), for a total of €5.8 million;
Purchase of 80% of the shares of Villandières de Nîmes (increasing its share to 100%).

Note 4 – Goodwill

The Goodwill items listed below are presented by Cash Generating Unit

(In thousands of euros)	**Year of acquisition**	**6/30/06**	**12/31/05**
Les Ophéliades Beaune	2003	1,733	1,733
Les Ophéliades Chalon	2003	2,032	2,032
Les Ophéliades Le Creusot	2003	2,197	2,197
Les Ophéliades Thise	2003	2,015	2,015
Les Ophéliades Simiane	2003	1,903	1,903
Les Ophéliades Fontaines	2003	1,712	1,712
Les Ophéliades Nancy	2003	1,816	1,816
Les Ophéliades Epinal	2003	1,511	1,511
Les Ophéliades Montbéliard	2003	2,318	2,318
Les Ophéliades Troyes	2003	1,771	1,771
Les Ophéliades Meaux	2003	1,755	1,755
Les Ophéliades Château-Gombert	2003	2,342	2,342
Les Ophéliades Dijon	2003	201	201
L'Air du Temps	2003	1,600	1,600
Santé Marketing	2003	84	84
Les Ophéliades Gemenos	2003	1,708	1,708
Château-Gombert	2005	2,643	2,026
Bellevue	2005	2,455	2,071
Garches	2005	1,430	1,206
Les Fontaines	2004	893	893
St François de Sales	2004	1,088	1,088
Villa Kreisser	2004	934	934
Les Acacias	2004	446	446
Les Tilleuls	2004	1,157	1,157
Les Temps Bleus	2004	1,088	1,088
Les Pins Bleus	2004	1,256	1,256
Les Ophéliades Courbevoie	2004	823	823
La Reine Blanche	2004	1,353	1,353
Les Ophéliades St Clément	2004	1,256	1,256
Quieta	2004	1,116	1,116
La Saison Dorée	2004	1,339	1,339
Le Petit Castel	2004	531	531
Les Roches	2004	739	739
Frédéric Mistral	2004	1,256	1,256
Pontlieue	2004	2,243	2,243
Les Ophéliades Serres	2004	1,480	1,480
Le Clos Vermeil	2004	1,345	1,345
Amiens	2003	984	984
Bordeaux	2003	2,126	2,126
Brest	2003	1,328	1,328
Breteuil	2003	83	83
Chalon s/Saône	2004	530	495
Chartres	2003	1,338	1,338
Eaubonne	2003	1,625	1,625

in thousands of euros	Year of acquisition	6/30/06	12/31/05
Fréjus	2003	1,415	1,415
Grenoble	2003	318	261
Le Chesnay	2003	3,109	3,109
Lyon	2003	1,923	1,923

(In thousands of euros)	**Year of acquisition**	**6/30/06**	**12/31/05**
Maison-Lafitte	2003	510	22
Marcq en Baroeul	2003	1,868	1,868
Meudon	2003	1,177	1,177
Montpellier	2003	2,256	2,256
Mougins	2003	1,562	1,562
Noisy-Le-Grand	2003	2,044	2,044
Paris Maine Alésia	2003	2,030	2,030
Paris Champ de Mars	2003	2,560	2,560
Paris Parc Monceau	2003	17	17
Pau	2003	1,181	1,181
Perpignan	2003	1,957	1,957
Reims	2003	1,576	1,576
Roubaix	2003	1,043	1,043
Rouen	2003	1,505	1,505
Suresnes	2003	307	307
Valence	2003	327	327
Vimont	2003	1,142	1,142
Vitrolles	2003	1,992	1,992
Ouistreham	2003	670	670
Cenon	2003	1,429	1,429
Cenon II	2003	53	53
Le Mans	2003	1,493	1,493
Guyancourt	2003	2,348	2,348
St Mars d'Outille	2003	32	32
Charnay-Les-Macons	2003	1,443	1,443
Hyères	2003	180	180
Nancy	2003	1,385	1,385
Laval	2004	783	783
Les Villandières Nîmes	2005	778	741
Les Bégonias	2005	229	
Sogesco	2005	3,294	3,294
William Harvey	2005	9,061	9,061
Mieux Vivre	2005	15,857	15,857
Siouville Nord Cot	2005	4,299	4,299
Sem St Laurent	2005	3,735	3,735
La Bastide de La Tourne	2005	2,268	2,100
Frontenac	2005	1,901	1,901
Les Luberons	2005	4,958	4,958
Montgolfière	2005	1,511	1,511
Normandie	2005	3,659	3,659
Château des Deux Amants	2005	746	746
Sem Vernon	2005	2,297	2,297
Les Acacias	2005	1,541	1,541
La Roseraie	2005	4,093	4,093
Grand Maison	2005	1,651	1,651
Les Amarantes	2005	5,658	5,658
Coteau / Glycines	2005	302	302
Menardière	2005	3,893	3,893
in thousands of euros	Year of acquisition	6/30/06	12/31/05
Orion	2005	378	378
Château du Mariau	2005	711	711
Sem Clermont	2005	1,032	1,032

(In thousands of euros)	**Year of acquisition**	**6/30/06**	**12/31/05**
Bellecombe	2005	2,183	2,183
Daumesnil	2005	8,836	8,836
Mrepresentativea	2005	12,439	12,439
Petite Madeleine	2005	316	316
VSD	2005	1,451	1,451
Le Clos Clément	2005	5,353	5,353
Mapadex Brune	2005	12,741	12,741
Lilas	2005	8,545	8,545
Clos Varreddes	2005	2,811	2,811
Florian Carnot	2005	5,211	5,211
Villa Renaissance	2005	3,029	3,029
Repos and Santé	2005	1,844	1,844
New Philipp	2005	933	944
Gleteins	2005	3,715	3,715
Pinède	2005	5,384	5,384
Vernede	2005	13,434	13,434
Les deux Tours	2005	1,077	1,077
Terafi / Fontaine	2005	3,077	3,077
CRF Caen	2005	526	526
Gaillardière	2005	158	158
Gasville	2005	1,192	1,192
Horizon 33	2005	2,993	2,993
S Gest D de Vont	2005	5,117	5,117
Clinique Maylis	2005	471	471
CMI Montpribat	2005	2,476	2,476
Rue Petit	2005	499	499
Clinique médicale Ymare	2005	1,290	1,290
Clinique psychiatrique S and M	2005	2,204	2,204
CCO	2005	8,233	8,233
HAD Yvelynes Sud	2005	2,408	2,408
Le Mesnil	2005	4,805	4,805
Sartrouville	2005	3,173	3,173
Sainte Baume	2005	8,121	8,121
Saclas	2005	9,210	9,210
HP4S	2005	4,876	4,876
Livry	2005	5,949	5,949
Clinique Jeanne d'Arc	2005	14,284	14,284
Pereux	2005	5,113	5,113
Bezons	2005	9,564	9,564
Clinique du Château de Clavette	2006	2,316	
Les Hauts d'Andilly	2005	38	
Total		364,467	359,885

Change in Goodwill

(In thousands of euros)	**6/30/06**	**12/31/05**
Net goodwill at opening	**359,885**	**96,392**
Purchases	3,609	262,376
Sales		-1,112
Price supplement	472	1,512
Sale option	13	716
Other reclassifications	488	
Depreciation		
Net goodwill at 6/30/06	**364,467**	**359,885**

The changes may be explained by:

- The purchase by Sérience SSR of 1,767 shares of Société Clinique de Convalescence du Château de Clavette: €2,292,000
- The purchase of 245,700 additional shares of Financière Sinoué holding Maison de Santé Château Gombert, Maison de Santé de Bellevue, and Maison de Santé de Garches: €1,225,000
- The purchase of additional shares in the Hidden Partnerships: €92,000
- Adjustment in the price surcharge for the controlled group Les Hauts d'Andilly SAS: €38,000
- Price surcharges paid by Sérience SAS to the former shareholders of Villandières de Nîmes EURL, totaling €37,000, and Bégonias, totaling €229,000
- Medidep paid a price surcharge of €168,000 to the former shareholders of Bastide de la Tourne
- Inclusion of Lafitte Santé into the consolidation structure as of January 1, 2006: €488,000.

The value tests carried out, according to the method described in Note 1, "*Loss of value of intangible and tangible fixed assets*," did not show the loss of value of Goodwill corresponding to the group's cash generating units.

Note 5 – Intangible fixed assets

(In thousands of euros)	Authorizations	Other	Total
Gross value at opening	**489,618**	**3,290**	**492,908**
Change in structure	1,295	60	1,355
Sales		-114	-114
Purchases	4,547	1,100	5,647
Transfers		1,222	1,222
Gross value at 6/30/06	**495,460**	**5,558**	**501,018**
Cumulative depreciation at opening	3	2,389	2,392
Change in structure		56	56
Sales		-13	-13
Depreciation		259	259
Transfers		-4	-4
Cumulative depreciation at 6/30/06	**3**	**2,687**	**2,690**
Net book value at opening	**489,615**	**901**	**490,516**
Net book value at 6/30/06	**495,457**	**2,871**	**498,328**

The principal changes may be explained by:

- The consolidation of SARL Lafitte Santé for €60,000,
- The purchase of an additional 7.47% of Financière Sinoué holding Maison de Santé de Bellevue, Maison de Santé de Garches, and Maison de Santé Château Gombert, for €1,234,000,
- The purchase of Société Clinique de Convalescence du Château de Clavette for €2,781,000,
- The purchase of 48 beds from the Image rest home, for transfer to the site of the Petit Castel residence after its expansion,
- The purchase of 14 beds from the "Pirou" rest home, for transfer to Demeure Saint Clair, for a total of €130,000,
- The purchase of 18 general psychiatric beds from the "La Charmille" sanatorium for a total of €450,000, for transfer to the site of the Horizon 33 Château Chavasse psychiatric clinic.

Note 6 – Tangible fixed assets

(In thousands of euros)	Land	Buildings	Materials	Other	In progress and advances	Total
Gross value at opening	**12,938**	**120,466**	**29,739**	**64,581**	**26,878**	**254,602**
Changes in corporate structure	299	5,746	726	1,978	1,306	10,055
Sales	-56	-1,324	-85	-274	-79	-1,818
Purchases	7	505	1,691	4,447	21,631	28,281
Transfers		842	63	508	-2,757	-1,344
Gross value at 6/30/06	**13,188**	**126,235**	**32,134**	**71,240**	**46,979**	**289,776**
Cumulative depreciation at opening	253	38,755	19,454	35,459	0	93,921
Change in structure		2,247	558	1,620		4,425
Contributions	12	2,535	986	4,703		8,236
Sales		-639	-85	-207		-931
Other		498	-25	-519		-46
Cumulative depreciation at 6/30/06	**265**	**43,396**	**20,888**	**41,056**	**0**	**105,605**
Net book value at opening	**12,685**	**81,711**	**10,285**	**29,122**	**26,878**	**160,681**
Net book value at 6/30/06	**12,923**	**82,839**	**11,246**	**30,184**	**46,979**	**184,172**

The gross value of fixed assets held under a lease-to-own agreement is €30,574,000 at June 30, 2006 (€14,800,000 in 2005), with net value of €19,781,000 (€12,951,000 in 2005).

Purchases of tangible fixed assets (fixed assets in progress: €22 million) primarily include the following establishments:

- Grand Maison: Expansion and rehabilitation works to increase occupancy capacity (25 additional beds), for €1.4 million;
- Rehabilitation of the CHM building for transfer of the CLS Beueil to the CHM building, for a total of €1.7 million;
- Mont Blanc: construction of a Physical Medicine and Rehabilitation Center at Argonay (60 beds and 20 walk-in positions): the creation of this center resulted from the reduction in the authorized capacity of the Mont Blanc clinic and the complete closing of the Brévent clinic within the framework of the reorganization of the regional health system. The works totaled €5.5 million in the first six months;
- Ermitage: Renovation and expansion works on the building to use all authorized capacity. Works are scheduled to be
- St. Etienne: Construction of an 80-bed EHPAD. Works during the first six months totaled €1.1 million;
- Le Mans: Construction of a 101-bed SSR. Works during the first six months totaled €1.7 million;
- Ouistreham: Works to renovate the building, totaling €1.1 million;
- Montpellier: Works to renovate the establishment, totaling €1.1 million;
- Pau: Works to renovate the establishment, totaling €800,000;
- Devecey: Works to expand the Devecey administrative site. Works during the first six months totaled €600,000;
- Château-Gombert: Works to repair the kitchen at Ophéliades Château-Gombert, totaling €700,000.

Note 7 – Non-consolidated shares

				6/30/06	**12/31/05**
Company	**% held**	**Gross value**	**Depreciation**	**Net value**	**Net value**
Vepeza		52		52	50
SARL Lafitte Santé	100.00%			0	45
SCI du Perreux	20%	61		61	61
Neovacs	3%	192		192	192
SCI Santé Immo 37	8%	30	30	0	0
SCI Ymare	10%	137		137	137
Other		52	8	44	45
Total non-consolidated shares		**524**	**38**	**486**	**530**

SCI Janin and SARL Lafitte Santé were incorporated into the consolidation structure as of January 1, 2006.

Note 8 – Other non-current assets

- ***Change***

in thousands of euros	
Net value at opening	10,549
Increase	919
Repayments	-108
Changes in corporate structure	-4
Other movements	455
Net value at 6/30/06	11,811

- ***Analysis***

In thousands of euros	**6/30/06**	**12/31/05**
Security deposits	9,801	8,672
Loans	746	790
Trade receivables	762	356
Other	501	731
Total	11,811	10,549

Note 9 - Inventory

In thousands of euros	**6/30/06**	**12/31/05**
Gross value	1,901	1,421
Depreciation		0
Net value	**1,901**	**1,421**

Note 10 – Clients

In thousands of euros	6/30/06	12/31/05
Gross value	44,165	45,271
Depreciation	-3,973	-3,333
Net value	**40,192**	**41,938**

Note 11 – Other receivables and current assets

In thousands of euros	6/30/06	12/31/05
Tax receivables	18,004	20,303
Social receivables	1,055	713
Advances and down payments	3,854	1,658
Expenses posted in advance	3,001	3,614
Other debtors	23,388	17,508
Value of other receivables	**49,302**	**43,796**

In thousands of euros	6/30/06	12/31/05
Loans	892	890
Deposits and bonds	11	367
Financial instruments	8,344	90
Other long-term investments	102	238
Value of other current financial assets	**9,349**	**1,585**
Total other current financial assets (net)	**58,651**	**45,381**

Note 12 - Cash and cash equivalents

In thousands of euros	6/30/06	12/31/05
Investment securities	5,654	25,111
Cash	49,067	32,186
Total	**54,721**	**57,297**

Note 13 - Shareholders' equity and minority interests

Capital increase

At the general shareholders' meeting of June 8, 2006, 3,911,539 shares with par value of 1 euro each were created following the exercise of the BSA. The capital stock was increased by €3,911,539, to €257,474,037. The issuance premium was increased from €108,008,150.02 to €108,399,303.92.

Composition of the capital and conversion of Category "P" shares to common shares

The same general shareholders' meeting resolved to convert priority shares to common shares. Thus, 139,265,472 Category "P" shares (shares having the right to priority dividend of 5% of par value applied on a priority basis over any dividend distributed and approved by the general shareholders' meeting) were converted to Category "O" shares to unify the company's capital.

At June 30, 2006, the capital consisted of 257,474,037 common shares with par value of €1.00, completely paid-in.

Treasury shares

	number of shares	Value (in €000)
December 31, 2004	**38780**	**115**
Purchases of Suren shares	36,364	42
Change in structure of Medidep shares	3,539	95
Purchases of Medidep shares	2,364	70
Sales of Medidep shares	4,454	122
December 31, 2005	**37,813**	**85**
Purchases		
Sales of Suren shares	36,364	42
Purchases of Medidep shares	3,513	105
Sales of Medidep shares	2546	75
June 30, 2006	**2,416**	**73**

Treasury shares as of 6/30/06 include only Medidep SA shares. Medidep shares held by Medidep itself did not have voting or dividend rights.

Minority interests

At June 30, 2006, minority interests increased by €1.9 million. They correspond primarily to the rights of shareholders outside the group, in the Medidep group (13.21%).

Medidep group stock option allocation plan

A stock option plan was implemented by the board of directors on May 11, 2001, giving the right to a total subscription of 37,200 shares by May 12, 2006.

Of the 13,200 options still subject to exercise, 12,000 options have been exercised and 1,200 options not exercised were cancelled.

Pursuant to the transitory measures specifically provided for by IFRS 1 and IFRS 2, the Group elected to post only plans approved after November 7, 2002 for which rights had not been acquired as of January 1, 2005. No stock option purchase plan was reposted. Plans prior to November 7, 2002 were not valued and remain unposted as long as the options are not exercised.

BSA allocation plan and exercise of BSAs

A profit-sharing plan for Suren management was implemented in 2004. This plan was approved by the general shareholders' meeting of June 24, 2004, which delegated its execution to the chairman of the board of directors.

Within the framework of the plan to simplify the corporation's shareholder structure, the mixed general shareholders' meeting of Suren amended the terms and conditions of the stock warrants ("BSAs") attached to the shares with stock warrants ("ABSAs") issued on October 7, 2004, as delegated to it by the extraordinary general shareholders meeting of June 24, 2004.

The purpose of this change was to allow for the rapid exercise of the BSAs at a specified rate. The BSAs were thus able to be exercised at the end of June in the proportion of 8.9639229 shares for 45 BSAs. This ratio corresponded to the application of the mechanism for exercising BSAs for a Suren valuation of 2.25 euros per share.

- ***Impact on the Suren consolidated financial statements***

Pursuant to IFRS 2, "Payments based on shares," stock warrants awarded to employees must be posted to personnel expenses.

Since all exercisable BSAs were exercised as of June 30, 2006, they had a zero value at the end of the first half.

However, the financial benefit related to the exercise of the BSAs, having finally been withdrawn by management, totaled €4,498,000. The difference between this value and the value of the BSAs posted as of December 31, 2005 totaled €1,487,000, which was posted to personnel expenses for the first half of 2006. Note there was no cash flow related to this expense.

Value of share warrants

In thousands of euros	**6/30/06**	**12/31/05**
BSA at opening	**3,011**	**2,010**
Change in value	1,487	1,001
Exercise of BSAs	-4,498	
BSA at 6/30/06	**0**	**3,011**

Note 14 – Income per share

	6/30/06	12/31/05
Group share of net income (thousands of euros)	12,758	29,518
Average weighted number of shares (thousands)	254,059	156,234
Income in euros per share	**0.05**	**0.19**

Group share of net income (thousands of euros)	12,758	29,518
Average weighted number of shares (thousands)	254,059	156,234
Adjustments related to share subscription options		1,483
Average number of shares held to determine diluted income per share	254,059	157,717
Diluted income in euros per share	**0.05**	**0.19**

Note 15 – Financial instruments

The Suren group had recourse to derivatives that provided hedging for over 80% of its total syndicated loan. The group did not opt to post the hedge, and posts changes in the values of the derivatives under income.

At June 30, 2006, the market value of these rate-risk hedging instruments was €5,504,000 to the detriment of Suren, and the change in value posted directly to income was + €11,515,000.

- ***Inventory value of financial hedges***

In thousands of euros	30/06/06	31/12/05
Notional amount	465,501	465,501
Market value	-5,504	-6,012

Assets	Inventory value	Financial income
Options		
Rate swaps	8,344	8,254
Total asset hedges	**8,344**	**8,254**

Liabilities	Inventory value	Financial income
Rate swaps *	2,102	2,820
Options	75	347
Enhanced tunnels [*tunnels bonifiés*]	663	94
Total liability hedges	**2,840**	**3,261**

Note 16 – Financial liabilities

- ***Net liabilities (current/ non-current)***

	6/30/06	12/31/05	6/30/05 pro forma
Bank loans	361,569	407,300	471,031
Financing of leases-to-own	8,939	10,241	41,530
Employee profit-sharing	9	10	9
LT deposits and bonds	460		
Sundry other financial liabilities	1,103	1,103	880
Long-term financial liabilities	**372,080**	**418,654**	**513,450**
ST bank loans	41,761	1,569	25,050
ST financing of leases-to-own	1,834	1,396	6,476
ST housing deposits	16,819	15,038	14,431
Sundry ST financial liabilities	56		
Current bank outstandings	28,650	11,774	14,355
Fair market value of hedging instruments	2,841	6,102	1,542
Sundry other ST financial liabilities	10,567	1,824	5,559
ST commitment to purchase minority interests	71	746	
Short term financial liabilities	**102,599**	**38,449**	**67,413**
Financial liabilities	**474,679**	**457,103**	**580,863**

Investment securities	5,654	25,111	12,786
Cash on hand	49,067	32,186	21,549
Treasury cash	54,721	57,297	34,335
Net cash (debt)	**419,958**	**399,806**	**546,528**

Analysis of financial liabilities by rate type

In thousands of euros	**6/30/06**	**12/31/05**
fixed rate	24,880	51,400
variable rate	449,799	405,703
Total	**474,679**	**457,103**

Analysis of financial liabilities by maturity

	6/30/06	**12/31/05**	**6/30/05 pro forma**
less than one year	72,125	38,819	67,413
1 to 5 years	142,314	131,827	98,827
over 5 years	260,240	286,457	414,623
Total	**474,679**	**457,103**	**580,863**

Change in liabilities at June 30, 2006

To address the group's treasury needs, on April 11, 2006 Suren undertook a drawing on Tranche C as provided for in the syndicated loan agreement. The amount used was €10 million. Thus, the facility available as of June 30, 2006 was €10 million on the total Tranche C loan, the initial availability of which was €20 million.

As of June 30, 2006, the Médotels subsidiary had undertaken early repayment of a loan taken in 1994 from GITT totaling €6,098,000. This non-amortizable loan was to have been repaid by December 31, 2007 and bore interest of 8.75% per year.

Features of the syndicated loan

The syndicated loan of €411.6 million is broken down as follows:

- 2 tranches of the same amount, A and B (each €195.8 million, each drawn up to €193.8 million as of 6/30/06)
- and one Tranche C loan of €20 million, half of which was drawn as of 6/30/06.

Interest is calculated at Euribor + a variable margin as a function of the consolidated net liability/ consolidated EBITDA ratio.

Repayment will be as follows:

- Tranche A, semi-annually when due and payable, with the first installment due May 2007 (reclassification of the installment amount of €6.7 million to short-term debt), and final installment due on 4/30/2013,
- Tranche B to be repaid in full on 4/30/2014
- Tranche C to be repaid in full on 4/30/2013

The syndicated loan agreement requires conformance to certain commitments and ratios/ covenants.
For the first half of fiscal year 2006, two ratios are required:

- Consolidated financial leverage (consolidated net debt over consolidated EBITDA)
- Consolidated financial expenses over consolidated EBITDA

At June 30, 2006, the Suren-Medidep group has not met the net financial debt/ EBE ratio required by the Loan Agreement signed in August 2005. This non-conformance was due to the change in the Suren-Medidep real estate policy, consisting of purchasing the physical structures of its new acquisitions. The group is engaged in talks with its banks to obtain a waiver from their end.

Note 17 - Provisions for retirement and similar benefits

	6/30/06	12/31/05
Retirement commitments	-5,758	-5,606
total	**(5,758)**	**(5,606)**

Change in retirement commitments and seniority premiums

	6/30/06	12/31/05
Commitments at opening	-6,407	-1,656
Sales		1
Cost of services rendered (normal cost)	-349	-302
Interest expense (interest cost)	-127	-113
Actuarial losses and gains	450	-558
Services paid	162	27
Change in structure	53	-3,806
Other changes	13	
Commitments at 6/30/06	**(6,205)**	**(6,407)**

Reconciliation of commitments and provisions

	6/30/06	12/31/05
Net commitments	-6,205	-6,407
Total actuarial variances not recognized - losses/(gains)	447,	918
Other	,	-117
Provision at 6/30/06	**(5,758)**	**(5,606)**

Components of expenses for the period

	6/30/06	12/31/05
Cost of services rendered (normal cost)	-349	-302
Interest expense (interest cost)	-127	-113
Depreciation of actuarial losses and (gains)	-20	
Retirement expenses	**(496)**	**(415)**

Change in provisions

	6/30/06	12/31/05
Provisions at opening	-5,606	-1,597
Expense charge for the year	-496	-415
Employer payments or contributions	162	26
Change in structure		-3,490
Other	182	-130
Provisions at 6/30/06	**(5,758)**	**(5,606)**

Actuarial assumptions used (principal)

	6/30/06	12/31/05
Adjustment rate	4.60%	4.00%
Change in salaries	3.00%	3.00%
Inflation rate		
Mortality table	INSEE F 00-02	INSEE F 00-02
Retirement age	65 years	65 years
Types of retirement	voluntary	voluntary

Note 18 - Other provisions

- ***Non-current provisions***

In thousands of euros	Tax and social	Buildings	Restructuring	Other operating disputes	Total
Opening balance	3,352	0	0	502	3,854
Contributions	89			66	155
Applications	-285		-75	-4	-364
Reversals	-119			-113	-232
Reclassifications, changes in corporate structure	96			-234	-138
Balance at 6/30/06	**3,133**	**0**	**-75**	**217**	**3,275**

Provisions for anniversary premiums, posed under non-current provisions, totaled €249,000 at June 30, 2006.

- ***Current provisions***

In thousands of euros	Tax and social	Buildings	Restructuring	Other operating disputes	Total
Opening balance	2,869	4	2,480	90	5,443
Contributions	1,880			10	1,890
Applications	-1,398		-67		-1,465
Reversals	-158		-66	-36	-260
Reclassifications, changes in corporate structure	-590			482	-108
Balance at 6/30/06	**2,603**	**4**	**2,347**	**546**	**5,501**

Provisions for reorganization consist of the partial or total closings of the Mont Blanc, Brevent, and Medidep L'Union sites.

In thousands of euros	6/30/06	12/31/05
Other long-term provisions	3,275	3,854
Other short-term provisions	5,501	5,443
Total other provisions	**8,776**	**9,297**

Note 19 - Other liabilities and adjustment accounts

	6/30/06	12/31/05
Supplier debts	28,608	23,855
Total	**28,608**	**23,855**

	6/30/06	12/31/05
Fixed asset suppliers	4,810	4,982
Advances and down payments on orders	5,510	5,652
Tax liabilities	16,328	34,490
Social liabilities	49,171	36,238
Other debts	13,583	13,101
Revenue posted in advance	930	331
Total	**90,332**	**94,794**

Note 20 -Personnel expenses

In thousands of euros	**6/30/06**	**6/30/05**	**6/30/05 pro forma**
Salaries and benefits	95,448	36,557	84,941
Social expenses	35,204	13,185	30,723
Employee profit-sharing	1,021	139	847
Other personnel expenses	606	967	967
Personnel expenses	**132,279**	**50,848**	**117,478**

Note 21- External expenses

External expenses totaled €60,623,000 and included the expenses of leasing fixed assets and equipment, for €26,694,000

Note 22 – Other operating expenses and revenue

In thousands of euros	**6/30/06**	**6/30/05**	**6/30/05 pro forma**
Provisions for reorganization	0		-377
Capital gains or losses from sales of non-current assets	1,348		
Share of joint operations		101	
Provisions net of reversals	-633		
Other operating expenses and revenue	228	-98	442
Total Revenue (Expenses)	**942**	**3**	**65**

Note 23 –Net financial income

- ***Item analysis***

In thousands of euros	**6/30/06**	**6/30/05**	**6/30/05 pro forma**
Interest expenses	-11,985	-3,878	-15,499
Change in value of swaps	11,515	-4,286	-4,478
Gross cost of debt	**-470**	**-8,164**	**-19,977**
Capital gain or loss on sale of securities	70	11	,
Net cost of debt	**-400**	**-8,153**	**-19,977**
Adjustment of retirement commitments	81	-36	-111
Other financial revenue and expenses	1,022	-1,922	-99
Financial income	**703**	**-10,111**	**-20,187**

- ***Breakdown of other financial expenses and revenue***

In thousands of euros	**6/30/06**	**6/30/05**	**6/30/05 pro forma**
Dividends received from non-absorbed companies			
Other revenue from holdings	30		
Other financial expenses and revenue	992	-1,922	-99
Total "Other financial revenue and expenses"	**1,022**	**-1,922**	**-99**

Note 24 –Income tax

- ***Analysis of tax expense***

In thousands of euros	**6/30/06**	**12/31/05**	**6/30/05**	**6/30/05 pro forma**
Current taxes	(2,970)	(11,937)	(1,819)	(4,546)
Deferred taxes	(5,852)	5,560	1,367	2,700
Income tax	**(8,822)**	**(6,377)**	**(452)**	**(1,846)**

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

In thousands of euros	**6/30/06**
Net income (Group share)	12,758
Minority interests	1,854
Income of companies subject to the equity method of accounting	
Tax expense	8,822
Pre-tax income	**23,434**
Theoretical tax expense	**7,928**
Permanent variances	1,748
Non-activated tax deficits during the period	49
Use of non-activated tax deficits	-660
Adjustment of previously posted deferred taxes	-61
Reduced-rate taxes	-208
Parent company/ subsidiary rate difference	26
Actual tax expense	**8,822**
Effective tax rate	**37.64%**

- ***Permanent variances***

In thousands of euros	**6/30/06**
Other non-deductible or non-taxable revenue and expenses	-64
Share of fees and expenses	824
IFA and other tax adjustments	989
Total	**1,748**

- ***Net change in deferred taxes***

In thousands of euros	**6/30/06**
Opening balance	159,456
Expense (revenue)	5,852
Change in structure	1,329
Other changes	1,208
Balance at 6/30/06	**167,845**

- ***Type of deferred taxes***

In thousands of euros	**6/30/06**	**12/31/05**
Intangible fixed assets	155,692	154,350
Tangible fixed assets	4,737	4,781
Financial instruments	2,401	-1,431
Deferred taxes	-2,743	-5,880
Provisions for retirement commitments	-1,836	-1,785
Other provisions		
Other temporary variances	-1,344	-1,861
Other assets/liabilities	10,938	11,282
Total	**167,845**	**159,456**

Note 25 - Transactions with related parties

Suren – Medidep services agreement

Suren and Medidep have entered into a process of rationalizing the central functions of the group including themselves and their subsidiaries. Within this context, certain employees of each company, originally assigned to certain central functions within their respective groups, have come together on permanent teams under the functional management of a Suren or Medidep representative, depending on the case, with each Suren or Medidep employee remaining under the hierarchical responsibility of their employer.

Within this context, Suren and Medidep entered into two service provision agreements to define:
- the extent of the assistance assignments rendered by Suren to Medidep and vice versa,
- and the conditions for paying for these services.

For the first half of fiscal year 2006, Suren's compensation for the assistance services in favor of Medidep totals €2,021,000, and that of Medidep to Suren is €776,000.

Administrative services and development assistance agreement

On November 26, 2003, the Batipart and Suren groups entered into an Administrative Services and Development Assistance Agreement by which Batipart will provide Suren and its subsidiaries organizational and personnel management, financial management, and development assistance services.
This agreement, entered into for one year and automatically renewable for periods of the same duration, is still in force.
Batipart's compensation for these assistance services to Suren and its subsidiaries is €1,060,000 for the 2006 fiscal year.

Note 26 – Commitments and possible liabilities

- ***Commitments given (excluding simple lease and purchase obligation agreements)***

In thousands of euros	**6/30/06**	**12/31/05**
Loans secured by pledges of stock	410,483	390,713
Loans secured by real collateral	35,501	37,462
Loans secured by pledges of Goodwill	4,647	4,889
Liabilities secured by sale of subsidiaries	2,500	2,500
Total	**453,131**	**435,564**

- ***Purchase commitments***

The group has assumed the following purchase commitments
Purchase of the balance of the shares of a subsidiary for a minimum price of €1,103,000,
Purchase of the balance of the shares of a subsidiary based on the market value between June 2007 and June 2017,
Purchase of the goodwill of a subsidiary under lease management for €732,000.

- ***Commitments received***

Within the framework of the 2004 signing of an agreement to sell a company, the Group benefits from a "better fortunes" clause [*retour à meilleure fortune* clause], which is subject to activation until December 2007.

The group also holds obligations convertible to shares which, in the absence of any prior conversion into shares, may be subject to complete reimbursement.

- ***Litigation***

To the knowledge of the company and its counsel, there is no litigation that has been provisioned or likely to significantly affect the group's activity, results, or financial situation.

- ***Individual right to training/ IRT***

Pursuant to Law No. 2004-391 of May 4, 2004 relative to professional training, employees of the Group's French companies under indefinite duration employment contracts have an individual right to twenty hours of training per year, cumulable over a six-year period. After this six-year period, absent its application in whole or in part, the IRT is subject to a ceiling of one hundred twenty hours.

Note 27 – Commitments under leasing agreements

- ***Lease-to-own agreements***

Lease-to-own	**Buildings**
Net book value of lease-to-own assets	**20,613**
Lease commitments by maturity	
less than one year	1,825
over one year	5,898
greater than 5 years	3,062
Total commitments	**10,785**
Effect of adjustment	-2,502
Total adjusted commitments	**8,283**

- ***Simple lease agreements***

Simple leases	**Buildings**
Minimum lease payments due on non-cancelable agreements	
less than one year	25,956
over one year	139,063
over 5 years	89,212
Total commitments (not adjusted)	**254,231**

Since 2004, the Suren group has transferred ownership of most of its buildings to Foncière des Murs. In exchange, the Suren group signed a firm 12-year lease for each building. The lessee assumes responsibility for property tax, insurance, and the maintenance works and expenses stipulated in Article 606 of the Civil Code (restoration of façades and maintenance of windows and internal structure remain the responsibility of the lessor), as well as expenses of complying with existing and future regulations.
For the first 14 leases signed, a lease cancellation penalty equivalent to twelve months of lease payments is anticipated.

On March 13, 2006, Suren sold to Foncière des Murs the property used for the Château de Clavette clinic. The lease, which was signed for a 12-year period for an annual payment of €181,000, is subject to the same conditions as the previous leases signed with Foncière des Murs.

Note 28 – Sector information

6/30/2006 (*in thousands of euros*)

Income statement	**EHPAD**	**Sanitarium**	**Other activities**	**Total write-offs**	**total**
Total revenue	167,459	90,796	20,175	-23,726	254,703
Inter-activity sales	-3,289	-262	-20,175	23,726	0
Total	**164,170**	**990,534**	**(0)**	**0**	**254,703**
Current operating income	**17,113**	**8,696**	**-4,022**		21,788
Impairments	0	0	0	0	0
Other operating revenue and expenses	-1,249	1,217	974		942
Operating income	**15,865**	**9,913**	**(3,048)**	**0**	**22,730**
Share of income in related companies					0
Balance sheet					
Sector assets	**676,305**	**421,187**	**26,708**	0	1,124,200
of which, purchase premium	*218,238*	*145,230*	*0*	*0*	*364,468*
of which, Goodwill	*315,016*	*180,439*	*0*	*0*	*495,455*
of which, other intangible fixed assets	*73*	*52*	*2,510*	*0*	*2,635*
of which, tangible fixed assets	*110,333*	*60,047*	*13,792*	*0*	*184,172*
of which, clients	*10,894*	*29,158*	*139*	*0*	*40,192*
of which, inventory	*148*	*837*	*917*	*0*	*1,901*
of which, other receivables	*21,603*	*4,425*	*9,349*	*0*	*35,377*
Non-allocated assets					90,541
Total consolidated assets					**1,214,741**
Sector liabilities	**132,707**	**41,196**	**26,803**		200,706
of which RC provisions	*4,055*	*5,914*	*4,566*	*0*	*14,535*
of which, suppliers	*18,785*	*6,486*	*3,337*	*0*	*28,608*
of which, other liabilities	*109,868*	*28,796*	*18,900*	*0*	*157,564*
Non-allocated liabilities					1,014,035
Total consolidated liabilities					**1,214,741**

6/30/2005 pro forma (*in thousands of euros*)

Income statement	**EHPAD**	**Sanitarium**	**Other activities**	**Total write-offs**	**total**
Total revenue	170,558	84,326	12,977	-33,431	234,429
Inter-activity sales	-22,639	-307	-12,836	33,431	-2,351
Total	**147,918**	**84,019**	**141**	**0**	**232,078**
Current operating income	**18,269**	**8,665**	**-2,585**		24,349
Impairments					0
Other operating revenue and expenses	-29	275	-180		65
Operating income	**18,240**	**8,940**	**-2,765**	**0**	**24,415**
Share of income in related companies					**0**

Note 29 – Events subsequent to close

Development

For the 2006 fiscal year, a new residential establishment for the dependent elderly, with capacity for 95 beds, will open its doors in Belgium by year-end.

In addition, per the decision of ARH Rhône Alpes of January 10, 2001, it was decided to close the 73 beds of the Brévent clinic and to reduce the residential capacity of the Mont Blanc clinic by half, both located in Haute Savoie on the Plateau d'Assy (provisions for reorganization to this end were posted December 31, 2005). In effect, the agency required this reorganization based on the following finding: given the surplus supply of treatment at Plateau d'Assy, establishments are lodging large numbers of patients from other geographic regions, while the price per day and the lodging fee for each patient is assumed by the regional health insurance fund (CRAM). The local government therefore is assuming the financial cost of establishments that do not strictly meet local needs.

Parallel with this decision to close, Medidep obtained authorization to create a Physical Medicine and Rehabilitation Center (MPR) in the community of Argonay.
With capacity for 60 beds and 20 walk-in positions, this new clinic should accept its first patients in January 2007.

The Group also signed an addendum to the Petit Caste lease following the purchase by Foncière des Murs of a plot of land. This plot is intended for building the Petit Castel that, in time, will hold the beds from Montbazon purchased in early 2006 (see Note 3).

In June, Suren, through its subsidiary Médotels, acquired two plots of land, one at Vaucresson and the other at Roanne, to build two new establishments, of 96 and 88 beds, respectively.
Médotels also signed a VEFA promise to build a 90-bed EHPAD at Montivilliers.

New loans

The group has implemented two new lines of finance of €20 million each. The purpose is to ensure the financing of the group's development. Investments will be made as a function of purchases and no collateral is anticipated. The two lines expire June 30, 2007. The loans will be repaid in the event of the financing of the syndicated loan taken during the Medidep takeover bid.

Suren and Medidep analyze a merger:

As announced last June 26, Suren SA and Medidep SA agreed, at their respective Oversight Council meetings of June 8 and 26, 2006, to study the process of Medidep's merger with/ takeover by Suren.
The new group thus established will simultaneously request listing for trading on the Eurolist in order to ensure the liquidity of its shares. Moreover, to favor the group's ongoing development, it envisions undertaking a capital increase through a public offering.
This deal will result in a new integrated group and will strengthen its position as French leader in the private market for complete dependent-care responsibilities.
The envisioned operating methods and schedule are subject to market conditions and the approval of the market authorities and shareholders of the two companies.

Note 30 – List of Group companies

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Abilone	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Atria SAS	100.00%	100.00%	100.00%	100.00%	IG	3B avenue de la République Résidence Le Clos Vermeil 34370 MAUREILHAN
Carloup Santé	75.47%	69.84%	73.59%	69.84%	IG	12 impasse du Carloup 71100 CHALON SUR SAONE
Château De Saint Pierre Oursin	100.00%	100.00%	100.00%	100.00%	IG	Château de Saint Pierre Oursin 14370 VIMONT
Clinique de Convalescence du Château de Clavette	98.75%	98.75%			IG	Château de Clavette 17220 CLAVETTE
Colson & Colson France	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
De Bioux Santé	100.00%	100.00%	100.00%	100.00%	IG	2 rue de la résistance 71850 CHARNAY LES MACON
Financière Sinoue SAS	40.01%	40.01%	32.53%	32.53%	IP	11 Bis rue de la Porte Jaune 92380 GARCHES
Hirt and Cie	100.00%	100.00%	100.00%	100.00%	IG	11 rue Henri de Toulouse Lautrec 78280 GUYANCOURT
Homère SAS	100.00%	100.00%	100.00%	100.00%	IG	Homère Quieta 9 rue du Queyras 78180 MONTIGNY LE BRETONNEUX
Isère Santé	100.00%	100.00%	100.00%	100.00%	IG	50 rue de Mortillet 38000 GRENOBLE
Jongking SNC	99.00%	99.00%	99.00%	99.00%	IG	30 avenue Carnot 91300 MASSY
Kerinou Santé	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
La Reine Blanche SAS	100.00%	100.00%	100.00%	100.00%	IG	643 rue de la Reine Blanche 45160 OLIVET
La Saison Dorée SAS	100.00%	100.00%	100.00%	100.00%	IG	13 rue Pericaud 69008 LYON
La Villa Kreisser SAS	100.00%	100.00%	100.00%	100.00%	IG	3 Villa Kreisser 92700 COLOMBES
Le Castelli	100.00%	100.00%	100.00%	100.00%	IG	Route de la plaine 53970 L'HUISSERIE
Le Mail Santé	100.00%	100.00%	100.00%	100.00%	IG	175 rue Neuve de Bémecourt 27160 BRETEUIL SUR ITON
Le Petit Castel SAS	100.00%	100.00%	100.00%	100.00%	IG	9 rue du Mail « La maisonneraie de la Papoterie » 37170 CHAMBRAY LES TOURS
Les Bégonias SAS	100.00%	100.00%	100.00%	100.00%	IG	4 Impasse Germain Etourneau 17300 ROCHEFORT
Les Fontaines SAS	100.00%	100.00%	100.00%	100.00%	IG	Quartier of the Laus 83670 BARJOLS
Les Hauts D'Andilly SAS	100.00%	100.00%	100.00%	100.00%	IG	4 rue Philippe Le Bel 95580 ANDILLY
Les Ophéliades Courbevoie – Résidence Les Licornes SAS	100.00%	100.00%	100.00%	100.00%	IG	6 rue Pierre Lhomme 92400 COURBEVOIE
Les Ophéliades Serres	100.00%	100.00%	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRE
Les Ophéliades St Clément - Clos St Clément	100.00%	100.00%	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 SAINT CLEMENT
Les Pins Bleus SAS	100.00%	100.00%	100.00%	100.00%	IG	Route du Lazaret Domaine de St Elme 83430 ST MANDRIER SUR MER
Les Temps Bleus SAS	100.00%	100.00%	100.00%	100.00%	IG	8 bis rue de la Touche 28400 NOGENT LE ROTROU
Les Tilleuls SAS	100.00%	100.00%	100.00%	100.00%	IG	Route de Pleumartin 86100 CHATELLERAULT
Les Villandières Nîmes EURL	100.00%	100.00%	20.00%	20.00%	IG	28 rue Dumont D'urville 75116 PARIS
Maison d'Accueil Les Roches SAS	100.00%	100.00%	100.00%	100.00%	IG	Les Chavettes 63230 ST OURS LES ROCHES

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Maison de Santé Bellevue	40.01%	40.01%	32.53%	32.53%	IP	8 avenue du Onze Novembre 1918 92190 MEUDON
Maison de Santé Château Gombert	40.01%	40.01%	32.53%	32.53%	IP	11bis rue de la Porte Jaune 92380 GARCHES
Maison de Santé du Château de Garches	39.98%	39.98%	32.50%	32.50%	IP	11 Bis rue de la Porte Jaune 92380 GARCHES
Massenet Santé	100.00%	100.00%	100.00%	100.00%	IG	9 rue Jules Massenet 26000 VALENCE
Médotels	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Partenaire Restauration	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
PB Expansion	100.00%	100.00%	100.00%	100.00%	IG	46 avenue Foch METZ
Perou	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Reacti Malt SAS	100.00%	100.00%	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Frederic Mistral EURL	100.00%	100.00%	100.00%	100.00%	IG	Traverse Charles Susini 13381 MARSEILLE CEDEX 13
Résidence Les Acacias SAS	100.00%	100.00%	100.00%	100.00%	IG	17 rue Jeanne Gleuzer 92700 COLOMBES
Résidence Pontlieue SAS	100.00%	100.00%	100.00%	100.00%	IG	19 place Adrien Tironneau 72100 LEMANS
SARL Lafitte Santé	100.00%	100.00%			IG	5 avenue Favart 78600 MAISON LAFITTE
S.A.S GEM VIE	100.00%	100.00%	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.A.S L'Air du Temps Résidence Strasbourg Robertsau	100.00%	100.00%	100.00%	100.00%	IG	3 rue de la Baronne d'Oberkirch 67000 STRASBOURG
S.A.S Les Ophéliades Chalon	100.00%	100.00%	100.00%	100.00%	IG	7-9 allée de St Jean of the Vignes 71100 CHALON SUR SAONE
S.A.S Les Ophéliades Dijon	100.00%	100.00%	100.00%	100.00%	IG	15 Rue Jean Giono 21000 DIJON
S.A.S Les Ophéliades Epinal	100.00%	100.00%	100.00%	100.00%	IG	13 rue Ponscarme 88000 EPINAL
S.A.S Les Ophéliades Fontaines	100.00%	100.00%	100.00%	100.00%	IG	Montée de la Ruelle 69270 FONTAINES SAINT MARTIN
S.A.S Les Ophéliades Le Creusot	100.00%	100.00%	100.00%	100.00%	IG	6 rue Victor Hugo 71200 LE CREUSOT
S.A.S Les Ophéliades Meaux	100.00%	100.00%	100.00%	100.00%	IG	Rue de Condé ZAC du Luxembourg 77100 MEAUX
S.A.S Les Ophéliades Montbéliard	100.00%	100.00%	100.00%	100.00%	IG	7 avenue Georges Pompidou 25200 MONTBELIARD
S.A.S Les Ophéliades Nancy	100.00%	100.00%	100.00%	100.00%	IG	12 boulevard du 21e R.A 54000 NANCY
S.A.S Les Ophéliades Saint Etienne	100.00%	100.00%	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Saverne	100.00%	100.00%	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Simiane	100.00%	100.00%	100.00%	100.00%	IG	Avenue André Malraux 13109 SIMIANE COLLONGUE
S.A.S Les Ophéliades Thise	100.00%	100.00%	100.00%	100.00%	IG	2 rue Chenevières 25220 THISE
S.A.S Les Ophéliades Thonon les Bains	100.00%	100.00%	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
S.A.S Les Ophéliades Troyes	100.00%	100.00%	100.00%	100.00%	IG	39-41 Avenue Pasteur 10000 TROYES
S.A.S Société d'Etude and de Réalisation pour le Nouvel Age (Serena)	100.00%	100.00%	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.G.M.R SAS	100.00%	100.00%	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 ST CLEMENT
Saint François de Sales SAS	100.00%	100.00%	100.00%	100.00%	IG	145 chemin du Pelet 69390 VERNAISON
SAS Les Ophéliades Beaune	100.00%	100.00%	100.00%	100.00%	IG	Rue Maryse Bastié 21200 BEAUNE
SAS Santé Marketing and Stratégie	100.00%	100.00%	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
SCCV Croix Rouge	100.00%	100.00%	100.00%	100.00%	IG	18 quai du Commandant malbert 29200 BREST
SCI Château de Ouezy A34	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
SCI L'Atrium	100.00%	100.00%	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRE
SCI La Source	100.00%	100.00%	100.00%	100.00%	IG	4 rue Philippe Le Bel 95580 ANDILLY
SCI Le Mail Immobilier	100.00%	100.00%	100.00%	100.00%	IG	175 rue Neuve de Bémécourt 27160 BRETEUIL SUR ITON
Sérience Soins De Suite and De Réadaptation	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Société Médicale de Clavette	100.00%	100.00%			IG	Château de Clavette 17220 CLAVETTE
Sogemare SAS	100.00%	100.00%	100.00%	100.00%	IG	Rue of the Jardins - résidence l'Atrium 05700 SERRES
Suren SA	100.00%	100.00%	100.00%	100.00%	Sté Mère	Zone Industrielle de Devecey 25870 DEVECEY
Thalatta	100.00%	100.00%	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
SEP Breteuil	73.44%	73.44%	73.44%	73.44%	IG	175 rue Neuve de Bémecourt 27160 BRETEUIL SUR ITON
SEP Chalon	67.50%	65.00%	65.00%	65.00%	IG	12 impasse du Carloup 71100 CHALON SUR SAONE
SEP Grenoble	34.51%	32.23%	32.47%	32.23%	IG	50 rue de Mortillet 38000 GRENOBLE
SEP Maison Laffitte	19.03%	100.00%			IG	5 avenue Favart 78600 MAISON LAFITTE
SEP Massenet	57.81%	57.81%	57.81%	57.81%	IG	9 rue Jules Massenet 26000 VALENCE
Medidep SA to Directoire and to Conseil de Surveillance	87.79%	87.79%	87.86%	87.86%	IG	152 av. de Malakoff 75016 Paris
Cbetween Convalescence de l'Ouest	99.90%	87.70%	99.90%	87.77%	IG	15 rue du Professeur Mariller 78690 ST REMY L'HONORE
Clinique du Canal de L'Ourcq	100.00%	87.79%	100.00%	87.86%	IG	74 rue Petit 75019 PARIS
Clinique de Livry Sully	99.43%	87.29%	99.43%	87.36%	IG	62/64 Av. de Sully - 13/17 Allée du Clos 93190 LIVRY GARGAN
Clinique de Noisy le Sec	100.00%	87.79%	100.00%	87.86%	IG	1/3 bld Roger Salengro 93130 NOISY LE SEC
Clinique du Perreux	100.00%	87.79%	100.00%	87.86%	IG	6 rue Jouleau 94170 LE PERREUX SUR MARNE
Clinique Jeanne d'Arc	100.00%	87.79%	100.00%	87.86%	IG	15 rue Jeanne d'Arc 94160 SAINT MANDE

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Clinique Médicale de Saclas	100.00%	87.79%	100.00%	87.86%	IG	Chemin du Creux de la Borne 91690 SACLAS
Clos Clément	100.00%	87.79%	100.00%	87.86%	IG	Le Bois Clément - La Bégonnerie 77320 LA FERTE GAUCHER
CSS de Sartrouville	100.00%	87.79%	100.00%	87.86%	IG	20 Ave Maurice Bertaux 78500 SARTROUVILLE
Le Grand Clos	50.00%	43.90%	50.00%	43.93%	IP	3 rue Gabriel Péri 95130 LE PLESSIS BOUCHARD
Maison de Santé Seine & Marne	100.00%	87.79%	100.00%	87.86%	IG	8 rue de l'Ile Saint Pierre 77590 BOIS LE ROI
Mapadex Brune	100.00%	87.79%	100.00%	87.86%	IG	121 bd Brune 75014 PARIS
Mapadex Daumesnil	100.00%	87.79%	100.00%	87.86%	IG	116 avenue Daumesnil – 50/54 rue du Charolais 75012 PARIS
Mapadex Florian Carnot	100.00%	87.79%	100.00%	87.86%	IG	100-108 rue Aristide Briand 92160 ANTONY
Mapadex Les Lilas	100.00%	87.79%	100.00%	87.86%	IG	59 rue Paul Denis Huet 78300 CARRIERES SOUS POISSY
Mapadex Mrepresentativea	100.00%	87.79%	100.00%	87.86%	IG	54 rue de Vinaigriers 75010 PARIS
Newco Bezons	100.00%	87.79%	100.00%	87.86%	IG	27 rue Villeneuve 95870 BEZONS
Le Clos Varrèddes	100.00%	87.79%	100.00%	87.86%	IG	Chemin du Coteret 77910 VARREDDES
Repos & Santé	100.00%	87.79%	100.00%	87.86%	IG	40 avenue Caffin 94100 ST MAUR of the FOSSES
SAS Mathis développement	100.00%	87.79%	100.00%	87.86%	IG	122 rue de l'Eglise 77390 FOUJU
SN de la Clinique du Mesnil	100.00%	87.79%	100.00%	87.86%	IG	46 rue Raymond Berrurier 78320 LE MESNIL ST DENIS
Société Participation CJA	100.00%	87.79%	100.00%	87.86%	IG	15 rue Jeanne d'Arc 94160 SAINT MANDE
Sté Nouvelle de la Roseraie	50.00%	43.90%	50.00%	43.93%	IP	8 & 10 rue Palonceau 91170 VIRY CHATILLON
Villa of the Sources	50.00%	43.90%	50.00%	43.93%	IP	23-25 rue de Versailles 92410 VILLE D'AVRAY
Villa Les Fleurs	50.00%	43.90%	50.00%	43.93%	IP	33 avenue Léon Jouhaux 93270 SEVRAN
Villa Renaissance	100.00%	87.79%	100.00%	87.86%	IG	3 ave René Isidore 92260 FONTENAY AUX ROSES
HAD Yvelines Sud	100.00%	87.79%	100.00%	87.86%	IG	46 rue Raymond Berrurier 78320 Le Mesnil Saint Denis
AB Holding	99.17%	87.06%	99.17%	87.13%	IG	150 Ave du Dr J.Arnaud 74480 PLATEAU D'ASSY
Bastide de Jardin	50.00%	43.90%	50.00%	43.93%	IP	Bérardier 38200 JARDIN
Bellecombe	100.00%	87.79%	100.00%	87.86%	IG	47 rue Dunoir 69003 LYON
Château de Gleteins	100.00%	87.79%	100.00%	87.86%	IG	315 rue Edouard Hériot 01480 JASSANS RIOTTER
Clinique du Mont Blanc	99.96%	87.03%	99.96%	87.10%	IG	150 Ave du Dr J.Arnaud 74480 PLATEAU D'ASSY
Le Brévent	98.47%	86.45%	98.47%	86.52%	IG	180 rue d'Anterne 74480 PLATEAU D'ASSY
Sémiramis Orion	100.00%	87.79%	100.00%	87.86%	IG	167 rue Bergson 42000 SAINT ETIENNE

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Semiramis Janin	100.00%	87.79%	100.00%	87.86%	IG	9 rue du Treyve 42000 SAINT ETIENNE
Bastide de la Tourne	99.92%	87.72%	99.92%	87.79%	IG	Chemin of the Horts 07700 BOURG ST ANDEOL
AC Santé	100.00%	87.79%	100.00%	87.86%	IG	Domaine de Villefalse 11130 SIGEAN
Château de la Vernède	100.00%	87.79%	100.00%	87.86%	IG	Route de Villalier 11600 CONQUES SUR ORBIEL
La Pinède	100.00%	87.79%	100.00%	87.86%	IG	Domaine de Villefalse 11130 SIGEAN
Résidence Frontenac	100.00%	87.79%	100.00%	87.86%	IG	Rue Diderot 11150 BRAM
Sogesco	100.00%	87.79%	100.00%	87.86%	IG	70 route of the Marais 45 130 MEUNG / LOIRE
Chamtou	100.00%	87.79%	100.00%	87.86%	IG	6 mais de la Papoterie 37170 CHAMBRAY LES TOURS
Château du Mariau	100.00%	87.79%	100.00%	87.86%	IG	27 chemin du Mariau 45130 MEUNG SUR LOIRE
Clinique Cardiologique Gasville	100.00%	87.79%	100.00%	87.86%	IG	Gasville 28000 CHARTRES
Clinique de La Gaillardière	100.00%	87.79%	100.00%	87.86%	IG	Chemin de la Gaillardière 18100 VIERZON
Guillaume & Grégory			100.00%	87.86%	IG	271/273 rue du Général Renault 37000 TOURS
Immobilière JANIN	100.00%	87.79%			IG	Allée de Roncevaux 31240 L'UNION
HHT	100.00%	87.79%	100.00%	87.86%	IG	118 rue de la Croix Périgourd 37540 ST CYR SUR LOIRE
La Ménardière SGCO	99.96%	87.75%	99.96%	87.82%	IG	118 rue de la Croix Périgourd 37540 ST CYR SUR LOIRE
Le Coteau	98.00%	86.02%	98.00%	86.09%	IG	118 rue de la Croix Périgourd 37540 ST CYR SUR LOIRE
Mapadex La Roseraie	100.00%	87.79%	100.00%	87.86%	IG	8/10 ave du Général Leclerc 28100 DREUX
Mapadex Les Acacias	100.00%	87.79%	100.00%	87.86%	IG	24 Ave du Général patton 28000 CHARTRES
SA Les Amarantes	100.00%	87.79%	100.00%	87.86%	IG	42 rue Blaise Pascal 37000 TOURS
SG Clinique Domaine de Vontes	100.00%	87.79%	100.00%	87.86%	IG	Lieu-dit « Domaine de Vontes « – Vauguinier 37320 ESVRES
SHT	99.98%	87.77%	99.98%	87.84%	IG	118 rue de la Croix Périgourd 37540 ST CYR SUR LOIRE
Clinique Maylis	100.00%	87.79%	100.00%	87.86%	IG	4 Route of the Ignons 40180 NARROSSE
CMI Montpribat	100.00%	87.79%	100.00%	87.86%	IG	1444 Ch. Aliénor d'Aquitaine 40380 MONTFORT in CHALOSSE
Horizon 33 Château Chavasse	100.00%	87.79%	100.00%	87.86%	IG	Lieu-dit La Borie du Roy 33880 CAMBRES
L'Aquitania	100.00%	87.79%	100.00%	87.86%	IG	Route d'Arcachon – La Vallée d'Aure 33470 GUJAN MESTRAS
Saint Exupéry	50.00%	43.90%	50.00%	43.93%	IP	Impasse Frédéric Chopin 47 200 MARMANDE
SE Home Saint Gabriel	99.98%	87.04%	99.98%	87.11%	IG	20 ave Favard – Domaine le Brandier 33170 GRADIGNAN
CRF CAEN	100.00%	87.79%	100.00%	87.86%	IG	38 rue de Brocéliance – ZA Beaulieu 14000 CAEN

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Cbetween William Harvey	100.00%	87.79%	100.00%	87.86%	IG	Le Haut Boscq – St Martin d'Aubigny 50190 PERIERS
CRFS	99.83%	87.64%	99.83%	87.71%	IG	17 rue Marcel Grillard – Siouville Hague 50340 LES PIEUX
Demeure Saint Clair	50.00%	43.90%	50.00%	43.93%	IP	17 rue de la Libération- St Clair sur l'Elle 50680 CERISY LA FORET
La Normandie	100.00%	87.79%	100.00%	87.86%	IG	11 bis rue du Char 14100 LISIEUX
Le Nord Cotentin	100.00%	87.79%	100.00%	87.86%	IG	17 rue Marcel Grillard – Siouville Hague 50340 LES PIEUX
Résidence Les Sapins	100.00%	87.79%	100.00%	87.86%	IG	61 bis rue du Sapin 14490 BALLEROY
Société Normande de Services	100.00%	87.79%	100.00%	87.86%	IG	La Mielle - bld Henri Cornat – Heauville 50340 LES PIEUX
Château of the Deux Amants	100.00%	87.79%	100.00%	87.86%	IG	Route of the deux Amants 27380 AMFREVILLE ss MONT
Clinique d'Ymare	100.00%	87.79%	100.00%	87.86%	IG	Ymare 76520 BOOS
La Petite Madeleine – Jardin of the Plantes	100.00%	87.79%	100.00%	87.86%	IG	20 rue poussin 76000 ROUEN
L'Ermitage	100.00%	87.79%	100.00%	87.86%	IG	25 bld Clémenceau 27400 LOUVIERS
Sémiramis Vernon	100.00%	87.79%	100.00%	87.86%	IG	15 ave Pierre Mendès France 27200 VERNON
Villa Saint Dominique	100.00%	87.79%	100.00%	87.86%	IG	Rue du Dr Duménil 76000 ROUEN
CPRR Sainte Baume	100.00%	87.79%	100.00%	87.86%	IG	Domaine de Lorges 83860 NANS LES PINS
SAS Mieux Vivre	50.00%	43.90%	50.00%	43.93%	IP	109 av Auguste Renoir 06520 MAGANOSC
Les Deux Tours	100.00%	87.79%	100.00%	87.86%	IG	Traverse of the Deux Tours – Château Gombert 13013 MARSEILLE
Les Fontaines	99.80%	87.60%	99.80%	87.67%	IG	Quartiers of the Pontiers Av du Cours 13610 Le PUY ST REPARADE
Les Lubérons	100.00%	87.70%	100.00%	87.77%	IG	Quartiers de la Roubine 13610 Le PUY ST REPARADE
Résidence St Louis	50.00%	43.90%	50.00%	43.93%	IP	Rue Romuald Guillement 84200 CARPENTRAS
SAI Domaine de Lorges	100.00%	87.79%	100.00%	87.86%	IG	Domaine de Lorges 83860 NANS LES PINS
Sémiramis St Laurent du Var	100.00%	87.79%	100.00%	87.86%	IG	Domaine St Michel – Av du Zoo 06700 ST LAURENT DU VAR
Terafi	99.95%	87.56%	99.95%	87.63%	IG	Quartiers of the Pontiers Av du Cours 13610 Le PUY ST REPARADE
Grand Maison	100.00%	87.79%	100.00%	87.86%	IG	Allée de Roncevaux 31240 L'UNION
Medidep Foncier	100.00%	87.79%	100.00%	87.86%	IG	Allée de Roncevaux 31240 L'UNION
Privatel SA	100.00%	87.79%	100.00%	87.86%	IG	Allée de Roncevaux 31240 L'UNION
Les Ajoncs	100.00%	87.79%	100.00%	87.86%	IG	1 rue du Pré of the Essarts 17170 BENON
Les Issambres	50.00%	43.90%	50.00%	43.93%	IP	1 Rue Pasteur 17208 ROYAN Cedex

Corporate name	6/30/06 % control	6/30/06 % interest	12/31/05 % control	12/31/05 % interest	Method	Corporate headquarters
Les Lis	50.00%	43.90%	50.00%	43.93%	IP	58 route de St Jean d'Angely 16710 ST YRIEX / CHARENTE
Rayon d'Or	50.00%	43.90%	50.00%	43.93%	IP	31 rue de la Butte BP50 17140 LAGORD
Résidence le Lac	100.00%	87.79%	100.00%	87.86%	IG	3 rue Bel Air 86330 MONCONTOUR
Résidence Pompairain	50.00%	43.90%	50.00%	43.93%	IP	Châtillon sur Thouet 79200 PARTHENAY
Cbetween Médical Chambon	100.00%	87.79%	100.00%	87.86%	IG	Côte de Molle 43400 LE CHAMBON SUR LIGNON
Sémiramis Clermont	100.00%	87.79%	100.00%	87.86%	IG	Allée of the Tennis 63000 CLERMONT FERRAND
Alsace Santé	50.00%	43.90%	50.00%	43.93%	IP	27 avenue Gubbio 68800 THANN
New Philip	75.00%	65.74%	75.00%	65.79%	IG	104 avenue Palfijn 1090 BRUXELLES
Medidep Belgique	99.84%	87.65%	99.84%	87.72%	IG	104 avenue Palfijn 1090 BRUXELLES

Note 31 – Pro forma

Assumptions used

- Takeover of Medidep on January 1, 2005 in the proportion of 87.86%.

- Purchase financing:

Within the framework of the acquisition of Medidep, Suren SA took a syndicated loan totaling €201,613,000.
We used the assumption of a "depreciation deductible" from January 1, 2005 to May 31, 2007.

Interest on the loan was prorated based on expenses posted in 2005 (2 months). Over __ months, total interest was €6,016,000.

Interest on the rate hedge was posted to the pro forma financial statements, prorated based on expenses posted in 2005.
Over 6 months, interest totaled €852,000.

3.18.1.2 Suren Consolidated financial statements at December 31, 2005 and statutory auditor certification reports

PIA Group

21 rue d'Artois
75008 PARIS

MAZARS & GUERARD

Le Vinci
4 allée de l'Arche
92075 La Défense Cedex

Report of the Statutory Auditors on the Consolidated Financial Statements

Fiscal Year Closing December 31, 2005

Dear Shareholders,

In execution of the mission assigned to us by your General Shareholders Meeting, we have performed an audit of the consolidated financial statements of the corporation for the fiscal year ending December 31, 2006, as attached to this report:

The consolidated financial statements were prepared by the Administrative Council. We are to express an opinion on these statements, based on our audit. These statements were prepared for the first time in accordance with the IFRS standard adopted by the European Union. For purposes of comparison, they include data from fiscal year 2004 treated in accordance with the same rules.

We note that since your company was not previously required to publish consolidated financial statements, the previous year's statements were not subject to an audit.

I - Opinion on the consolidated financial statements

We have performed our audit in accordance with professional standards applicable in France; these standards require taking measures to obtain reasonable assurance that the consolidated financial statements contain no significant anomalies. An audit consists of an examination, by sampling, of critical elements that support the data contained in these financial statements. It also consists in evaluating the accounting principles followed and the significant estimates applied in preparing the financial statements and evaluating their presentation as a whole. We believe our audit provides a reasonable basis for the opinion expressed below.

We certify that the consolidated financial statements for the fiscal year, with regard to the IFRS standard adopted in the European Union, are consistent and accurate, and faithfully reflect the assets, financial situation, and income of the entire business unit comprising the parties and entities included in the consolidation.

II - Justification of the evaluations

Pursuant to Article L. 823-9, section 2 of the French Commercial Code [*Code de Commerce*] regarding to the justification of our evaluations, please be advised of the following:

Note 1 of the appendix to the financial statements indicates that intangible and tangible fixed assets (grouped into Cash Generating Units) were subject to impairment tests (according to an evaluation carried out with respect to net future discounted cash flows) in accordance with the IAS 36 standard. As of December 31, 2005, we made sure of:

- the reasonable nature of the estimates applied,
- that sufficient provisions were established based on the company's accounting principles.

Our work consisted of examining the available documentation and evaluating the reasonableness of the evaluations applied.

The analyses thus carried out fall within the framework of our audit of the consolidated financial statements taken as a whole, and therefore contributed to forming our opinion, as expressed in the first part of this report.

III – Specific verification

In accordance with professional standards applicable in France, we have also undertaken a verification of the information and data contained in the group's management report. We have no comments to make as to their accuracy and compliance with the consolidated financial statements.

Issued in Paris and La Défense, June 12, 2006.

The statutory auditors

P I A G R O U P E — SOPHIE DUVAL

M A Z A R S & G U E R A R D — PIERRE FRENOUX

Suren Group

Presentation of the balance sheet

ASSETS

(In thousands of euros)	note	2005	2004	2004 pro forma
Goodwill	4	359,886	96,392	368,970
Intangible fixed assets	5	490,515	201,722	478,139
Tangible fixed assets	6	160,682	194,819	267,499
Long-term investments	8	11,078	7,234	15,051
Deferred taxes assets	25	4,472	4,432	5,410
Non-current assets		**1,026,633**	**504,599**	**1,135,070**
Inventory	9	1,421	379	4,880
Trade accounts and notes receivable	10	41,938	11,745	38,209
Other receivables and current financial assets	11	45,381	11,901	50,363
Cash and cash equivalents	12	57,297	18,421	18,882
Assets held for purposes of sale				25,125
Current assets		**146,037**	**42,446**	**137,459**
Total assets		**1,172,670**	**547,045**	**1,272,529**

SHAREHOLDERS' EQUITY AND LIABILITIES

(In thousands of euros)		2005	2 004	2004 pro forma
Capital		253,562	152,963	253,563
Premiums		108,008	4,390	108,008
Consolidated reserves and income		35,229	2,310	1,290
Shareholders' equity (Group share)	14	**396,799**	**159,663**	**362,860**
Minority interests	14	21,293	401	18,865
Total shareholders' equity		**418,092**	**160,064**	**381,725**
Provisions for retirement	18	5,606	1,597	4,870
Deferred taxes	25	163,924	88,091	180,295
Other provisions	19	3,854	3,390	6,420
Loans and financial liabilities	17	418,654	205,855	515,823
Non-current liabilities		**592,038**	**298,933**	**707,408**
Provisions of less than one year	19	5,443	446	1,153
Suppliers and trade payables		23,855	10,876	28,458
Other liabilities and adjustment accounts	20	94,794	33,026	70,017
Debts due within one year and bank overdrafts	15 / 16	32,347	37,578	61,392
Financial liability instruments	15	6,102	6,122	7,472
Liabilities held for purposes of sale				14,903
Current liabilities		**162,541**	**88,048**	**183,395**
Total liabilities		**1,172,670**	**547,045**	**1,272,529**

Presentation of the income statement

INCOME

(In thousands of euros)	Note	2005	2004	2004 pro forma
Total revenue		**282,283**	**160,430**	**220,673**
Other revenue		907	-7	513
Activity revenue		**283,190**	**160,423**	**221,185**
Purchases consumed		22,884	15,473	19,471
Other purchases		1,079	181	181
Personnel expenses	22	143,751	77,269	107,464
External expenses		56,056	27,803	42,505
Duties and taxes		15,580	8,231	11,760
Depreciation and impairment		14,128	10,229	12,309
Current operating income		**29,712**	**21,237**	**27,495**
Other revenue and operating expenses	23	26,636	1,026	-2,537
Operating income		**56,348**	**22,263**	**24,958**
Financial expenses		-20,134	-12,514	-16,369
Financial revenue		1,277	185	163
Gross cost of financial debt	24	**-18,857**	**-12,329**	**-16,206**
Cash revenue and cash equivalents		84	338	338
Net cost of financial debt		**-18,773**	**-11,991**	**-15,867**
Other financial revenue and expenses		-707	558	589
Pre-tax income		**36,868**	**10,830**	**9,680**
Tax on earnings	25	-6,377	-4,302	-3,973
Income from absorbed companies		**30,491**	**6,528**	**5,707**
Group share in the income of companies subject to the equity method of accounting		0		1
Net income before income from activities in the course of suspension or sale		**30,491**	**6,528**	**5,707**
Income net of tax on activities suspended, sold, or in the course of sale				-263
Net income		**30,491**	**6,528**	**5,445**
Share of minority interests		973	88	180
Group share		**29,518**	**6,440**	**5,264**
Group share of net income per share	14	0.19	0.05	0.04
Group share of net income per share (diluted)	14	0.19	0.05	0.04

Cash flow table

In thousands of euros	31/12/2005	12/31/2004
Net income from absorbed companies	30,491	6,528
Contributions to depreciation, impairment, and provisions	14,421	9,598
Deferred taxes	-6,024	-191
Adjustment of the retirement commitment	114	105
Fair market value of financial instruments (SWAP)	1,109	-185
Capital gains from sales of assets	-2,376	340
Share-based payment (BSA)	1,001	2,010
Gross margin on treasury shares	**38,736**	**18,205**
Change in inventory	-60	103
Change in trade receivables	-130	1,918
Change in supplier debts	20,354	1,096
Change in other items	11,371	-26,024
Change in need for working capital	**31,535**	**-22,907**
Net cash flow generated by the activity: Total I	**70,271**	**-4,702**
Investment activities		
Other purchases of subsidiaries	-19,517	-4,982
Purchase of Medidep	-384,550	-31,530
Sale of SCI Hermitage	16,047	2,964
Other sales of subsidiaries	-2,181	-19,779
Intangible and tangible investments	-32,121	-2,289
Other financial investments	3,097	47,649
Cash deriving from the sale of fixed assets (excluding securities)	2,046	640
Sales of tangible assets, Hermitage 2	88,841	,
Net cash flow related to investment activities: Total II	**-328,338**	**-7,327**
Financing activities		
Capital increase	204,216	39,264
Investment subsidies		0
New loans	422,918	170,199
Loan repayments	-336,224	-179,605
Dividends paid to owners of absorbed companies	-106	6
Net cash flow related to financing activities: Total III	**290,804**	**29,864**
Net change in cash: I + II + III	**32,737**	**17,835**
Cash at opening	12,788	-5,040
Cash at close	45,525	12,795
Cash and cash equivalents	57,297	18,421
Current bank loans	-11,772	-5,626
Cash	**45,525**	**12,795**

Changes in Shareholders' equity

in thousands of euros	Capital	Premiums	Cumulative results	Group share of shareholders' equity	Minority interests	Total shareholders' equity
At 1 January 2004	**116,818**		**-5,194**	**111,624**	**331**	**111,955**
Capital increase	36,145	4,390	-1,101	39,434	-170	39,264
Income for fiscal year 2004			6,440	6,440	88	6,528
Change in the fair market value of financial instruments			-1,462	-1,462		-1,462
Changes in corporate structure				0	209	209
Payment in shares (BSA)			2,010	2,010		2,010
Impact of change in tax rate			1,617	1,617	-57	1,560
At December 31, 2004	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**
Capital increase	100,599	103,618		204,217		204,217
Change in treasury shares			10	10		10
Income for fiscal year 2005			29,518	29,518	973	30,491
Fair market value of financial instruments			1,462	1,462		1,462
Changes in corporate structure				0	19,919	19,919
Payment in shares (BSA)			1,001	1,001		1,001
Impact of change in tax rate			911	911		911
Other changes			17	17		17
At December 31, 2005	**253,562**	**108,008**	**35,229**	**396,799**	**21,293**	**418,092**

Note 1 – Accounting principles

Statement of compliance

The consolidated financial statements were prepared in accordance with IFRS standards as adopted in the European Union.

The consolidated financial statements include the statements of Société par Action Simplifiée Suren and the subsidiaries it controls.

The list of absorbed companies is presented in note 31. The organization chart is presented in note 32.

Presentation of the financial statements

The Group's consolidated financial statements are prepared based on historic cost, with the exception of the following assets and liabilities, which are posted at fair market value:

- investments held for trading purposes
- investments available for sale
- derivative instruments

Assets and liabilities subject to hedging are reported at fair market value taking the risk hedged into consideration. Current assets are:

- assets intended to be consumed or sold during the normal operating cycle;
- cash and cash equivalents;
- assets held essentially for trading purposes.

All other assets are non-current.

The consolidated financial statements are presented in thousands of euros.

Conditions for initial application of the IFRS

The principles and options applied in preparing the opening IFRS balance sheet of January 1, 2004, variations from the French accounting principles previously applied by the Group, and their numerical impact on this opening balance sheet, the balance sheet of December 31, 2004, and the income statement for fiscal year 2004 are described in Note 30 – "Impact of the conversion to IFRS standards by the Suren Group."

In accordance with the transitory provisions of IFRS 1, "Initial adoption of the IFRS," and IAS standards 32 and 39 relative to the presentation, posting, and evaluation of financial instruments, the Suren Group has elected to apply IAS standards 32 and 39 as of January 1, 2004. The comparative information from 2004 therefore includes the impact of these standards.

Consolidation principles

The Suren Group's consolidated financial statements include the statements of Suren SA and its subsidiaries for the period from January 1 to December 31, 2005.

The fiscal year of Suren SAS and the 35 companies of the group correspond to the period from April 1, 2004 to December 31, 2005 (see Note 31). Accounting data from after December 31, 2005 was prepared in such a way as to present the consolidated financial statements for this period. The same applies for the comparison period (2004).

Subsidiaries

Subsidiaries are companies controlled by the Group. Control is defined as the power to directly or indirectly manage a company's operating and financial policies in such a way as to benefit from it. A subsidiary is controlled when the Group holds the power to directly or indirectly manage its operating and financial policy in order to derive benefits from its activities. In general, controlled companies are those in which Suren SA directly or indirectly holds over 50% of the voting rights.

The subsidiaries' financial statements are subject to the subsidiary consolidation method as of the date control was assumed, and cease to be consolidated when control is transferred outside the Group.

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

The financial statements are consolidated from the date control was assumed, to the date it was lost.

Affiliates [*Co-entreprises*]

Affiliates are companies in which the Group exercises joint control resulting generally from a contractual agreement.

The financial statements of affiliates are consolidated according to the proportional integration method. Consolidation according to the proportional integration method is a method of accounting by which an affiliate's shares in the assets, liabilities, revenue, and expenses of the jointly controlled entity are consolidated, line by line, with the corresponding items in the affiliate's financial statements.

The financial statements are consolidated from the date control was assumed, to the date it was lost.

The financial statements of hidden partnerships [*sociétés en participation*] are subject to proportional integration, except in the case of exclusive control, in which case they are integrated according to the subsidiary consolidation method.

Related companies

Related companies are companies in which the Group exercises a significant influence in matters of operating and financial policy without holding control. In general, this involves companies in which the Group holds at least 20% of the voting rights.

The Group's interests in related companies are posted according to the equity [*mise en équivalence*] method. The financial statements of related companies are included in the consolidated financial statements from the date of the assumption of significant influence, until the date of the loss of significant influence.

The balance sheet value of securities posted under the equity method includes the purchase price of the shares (including the purchase premium), plus or minus changes in the Group's share of related company's net assets beginning on the acquisition date. The income statement reflects the Group's share in the related company's income.

Eliminated transactions

Trade and financial balances and transactions, as well as income from inter-company transactions, are eliminated when preparing the consolidated financial statements.

Grouping of companies

- **Goodwill**

Positive variations between the purchase price and the share of the assets' and liabilities' fair market value identifiable on the date control are assumed are posted in assets under goodwill. Any negative variations are posted directly to income for the period.

Purchase premiums are not depreciated. Pursuant to regulation IAS 36, "Impairment of assets," they are subject to an impairment test at least once per year, and more frequently in the case of the application of a loss of value index. The test conditions are designed to ensure that the recoverable value of the cash generating unit to which the goodwill is assigned or allocated is equal to at least its net book value. If a loss of value of found, an impairment loss is posted to operating income, under "other operating revenue and expenses." This impairment is irreversible.

Pursuant to the transitory measures authorized by IFRS 1 "Initial adoption of the IFRS," purchases and groupings of companies posted before January 1, 2005 have not been treated, and purchase premiums posted on that date were posted to the opening balance sheet of January 1, 2004 at their value net of depreciation, which became the new book value in IFRS.

- **Acquisition through successive purchases**

If an acquisition takes place through successive purchases, each significant transaction is treated differently for determining the fair market value of the assets and liabilities acquired, and the residual purchase premium.

If an additional purchase allows control of a company to be obtained, shares already held are adjusted based on fair market value estimated on that date. The result of this adjustment is posted to shareholders' equity.

If the additional purchase occurs after control has already been acquired, the transaction is analyzed as a transaction with minority shareholders and any premium at this time is posted to shareholders' equity.

- **Minority interests**

Minority interests are posted at fair market value of net assets acquired.

Conversion methods

- ***Foreign currency transactions***

Foreign currency transactions are converted to euros by applying the exchange rate current on the transaction date.

All transactions are denominated in euros.

Financial statements in foreign currency

Assets and liabilities of Group companies expressed in foreign currencies, including goodwill and adjustments relative to determining the fair market value in consolidation, are converted to euros at the exchange rate current on the account closing date. These companies' revenue and expenses are converted to euros at the average exchange rate for the year. The resulting conversion variances are posted directly to shareholders' equity.

As of the closing, all foreign subsidiaries were located in the euro zone.

Intangible fixed assets

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

Intangible fixed assets are posted at purchase price. Operating authorizations acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date based on one year of revenue at 100% occupancy rate.

They are not subject to any revaluation. Most intangible assets consist of operating authorizations, which constitute assets with an indefinite, non-depreciable use life. As applicable, they are subject to impairment when their recoverable value falls below book value.

Other intangible fixed assets primarily include software depreciated according to the straight-line method over its use life. When intangible fixed assets are acquired separately, they are posted at purchase price.

Tangible fixed assets

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

Tangible fixed assets are posted at purchase price. Fixed assets acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date. They are not subject to any revaluation. At each close, purchase price is reduced by cumulative depreciation and any provisions for impairment as set forth in IAS 36, “Impairment of assets.”

The cost of loans used to finance assets over a long service or manufacturing period is not included in the initial cost of the fixed assets, and is posted to expenses for the period.

- ***Treatment by component***

The principal components of a fixed asset with a use life shorter than that of the principal fixed asset are identified, for purposes of depreciation over their own use life.

Upon replacing the component, the expense corresponding to the new component is included under fixed assets so long as future economic benefits by the principal asset are expected.

- ***Maintenance and repair expenses***

Recurring maintenance expenses or those not corresponding to the criteria of treatment by component are posted to expenses when incurred.

- ***Work carried out on leased buildings***

Work carried out on buildings under simple lease are subject to depreciation by component over the asset’s use life.

- ***Depreciation of tangible fixed assets***

Depreciation of tangible fixed assets is calculated according to the straight-line method and over their use lives as indicated below. Land is not depreciated.

The use lives applied are the following:

Categories	**use life**	**mode**
Structure	50 years	Straight line
Construction components	between 7 and 30 years	Straight line
Technical facilities	between 5 and 15 years	Straight line
Other improvements and fixtures	Between 3 and 5 years	Straight line
Medical materials	between 2 and 10 years	Straight line
Materials and furniture	between 2 and 10 years	Straight line
Software	1 year	Straight line
Transportation materials	5 years	Straight line

Assets subject to a lease-to-own agreement are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets)

- ***Impairment of tangible fixed assets***

In the presence of loss of value indices, tangible fixed assets are subject to impairment tests.

- ***Investment subsidies***

Investment subsidies are deducted from the corresponding gross investment value. They are applied at the latter’s depreciation rate.

Lease agreements

Fixed assets financed through lease-to-own agreements, transferring to the Group virtually all risks and benefits inherent to the ownership of the leased assets, are posted to assets on the balance sheet at the leased asset's fair market value or at the discounted value of the minimum lease payments, if less. The corresponding debt is posted to financial liabilities.

Lease payments are broken out between financial expense and debt amortization in such a way as to obtain a constant periodic rate on the loan balance contained in the liability.

Assets subject to lease-to-own agreements are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets). In case of a loss of value index, they are subject to an impairment test pursuant to IAS Regulation 36, "Impairment of assets").

Lease agreements in which the lessor retains almost all risks and benefits inherent in ownership of the asset are simple leases. Payments under these agreements are posted to expenses on a straight-line basis over the lifetime of the agreement.

Loss of value of tangible and intangible fixed assets

The book values of assets are reviewed at each close, to identify any losses of value:

- for non-depreciable intangible assets: at each close, or more frequently in case of the appearance of loss of value indices;
- for all other assets: upon the appearance of loss of value indices.

The test is carried out at least once a year for assets of an indeterminate lifetime, i.e., essentially operating authorizations and purchase premiums.

To perform impairment tests, fixed assets are grouped into Cash Generating Units (CGU). In general, each establishment constitutes a CGU.

The utility value of these units is determined by means of net future discounted cash flows (DCF) according to the following principles:
- Cash flows (pre-tax) derive from the medium-term business plan prepared by the management control department,
- The discount rate is based on the group's average weighted cost of capital,
- Future value is calculated by adding discounted cash flows to infinity, based on a standardized flow and a perpetual growth rate. This growth rate is consistent with the development potential of the markets in which the group is operating, as well as its competitive position within these markets.

When the recoverable value (the market or utility value, whichever is highest) is less than the asset's net book value or value of the Cash Generating Unit / CGU, a loss is posted to operating income.

When a CGU contains a purchase premium, the loss of value first reduces the purchase premium, before any impairment is applied to the CGU's other fixed assets.

Inventory and outstandings

Inventory is posted at cost or net sale value, whichever is lowest.

The inventory cost of raw materials, merchandise, and other provisions consists of the purchase price net of taxes, less rebates, returns, and discounts obtained, plus accessory purchasing expenses (transport, unloading expenses, customs expenses, purchase commissions, etc.). This inventory is evaluated in accordance with the first in / first out method.

Clients and other debtors

Trade receivables and other receivables are posted at purchase price less value adjustments.

Financial assets

Financial assets include:

- non-current financial assets: securities of non-absorbed companies, trade receivables, construction loans, security bonds and deposits given,
- current financial assets include short-term derivatives, cash, and cash equivalents (investment securities).

- ***Initial valuation***

Financial instruments are originally posted at purchase price. In most cases, the fair market value on the transaction date is the historic cost generally corresponding to purchase price.

- ***Classification and valuation at accounting closures***

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

Categories	Valuation	Posting of changes in value
Financial assets valued at fair market value	Fair market value	Income
Assets held to maturity	Depreciated cost	N/A
Loans and receivables	Depreciated cost	N/A
Assets available for sale	General principle: fair market value, Exception: at depreciated cost for shares for which fair market value cannot be reliably estimated (specifically, shares not traded on an active market)	Shareholders' equity

- ***Financial assets for which changes in fair market value are posted to income***

This category of assets includes:

- assets held for trading purposes, i.e., acquired by the company with a view to turning a short-turn profit,
- derivatives not expressly designated as hedging instruments.

Investment securities (SICAVs [*Sociétés d'Investissement à Capital Variable,* or French mutual funds], FCPs, etc.) are posted at fair market value at closing, and changes in fair market value are posted to financial income. Consequently, they are not subject to any impairment test. Fair market value is determined primarily with reference to market quotes.

- ***Loans and receivables***

These correspond to most non-derivative financial assets subject to fixed or fixable payments, not listed on an active market.

The depreciated cost of short-term receivables usually corresponds to historic cost.

In the Suren group, this category comprises trade receivables, long-term loans, and 1% housing loans.

The depreciated cost of short-term receivables usually corresponds to historic cost.

- ***Assets held to maturity***

These are non-derivative financial assets subject to fixed or fixable payments, of a set maturity date, for which the company has the intention and capability of keeping until maturity, other than receivables, loans, and financial assets designated by the company in the other two categories (valued at fair market value by income, available for sale).

- ***Assets available for sale***

Non-consolidated securities are treated as securities available for sale and are therefore valued at recoverable value, with underlying gains and losses posted to shareholders' equity, with the exception of underlying losses deemed permanent, which are posted to income. The net book value of these financial assets was deemed representative of recoverable value. Therefore, no variance was posted.

Other assets available for sale are specifically those not classified in any of the other three categories.

Short-term investments are posted at market value at each closing.

Cash and cash equivalents include cash and short-term investments maturing less than three months after the acquisition date.

Financial Derivatives

The Group uses derivatives (swaps and tunnels) to hedge against interest rate risk resulting of its variable-rate financing policy.

Derivatives are posted originally at purchase price. They are subsequently valued at fair market value.

If a derivative is designated as a hedge of fair market value, changes in the value of the derivative and the hedged asset are posted to income for the same period. If the derivative is designated as a cash flow hedge, the change in value of the effective portion of the derivative is posted to shareholders' equity. It is posted to income when the hedged asset is itself posted to income. By contrast, a change in the value of the ineffective portion of the derivative is posted directly to income.

Treasury shares

Treasury shares held by the Group are posted at purchase price less shareholders' equity until cancelled or sold.

Revenue from the sale of these shares is applied directly to shareholders' equity, such that no capital gains or losses, and no declines in value, affect consolidated income.

Personnel benefits

- **System types**

By virtue of legal obligations or common practice, the Group participates in supplementary retirement systems or other long-term benefits in favor of employees. The Group offers these benefits through defined contribution systems.

Within the framework of defined contribution systems, the Group has no obligation other than to pay contributions. Contributions made to the systems are posted to expenses for the period. Any contributions remaining to be paid during the period are subject to provisions.

- **Commitment types**

  - **Severance payments**

Severance payments fall under the applicable Group collective agreement (Unified Collective Agreement, C.C.U.) and include severance payments upon retirement or at career-end, paid in the case of voluntary resignation or retirement of employees.

Severance payments fall under the defined payments system.

  - **Seniority bonuses (or anniversary premiums)**

Seniority bonus programs as provided under the company's agreements constitute additional bonuses paid to employees who merit them by a certain level of seniority within their company.

  - **Supplementary retirement systems**

No program supplementing the legal minimum pension to employees has been subscribed by the Group in favor of its employees.

- **Valuation of commitments**

Retirement and similar commitments resulting from defined payment systems are subject to provision based on an actuarial calculation performed at least once a year by an independent actuary. These commitments include only retirement severance payments. The projected credit units method is used: each service period gives rise to one additional payment rights unit, and each of these units is valued separately to obtain the obligation to employees.

Calculations take into consideration specific details of the various regimes, as well as assumptions for start of retirement, change of career, salary increases, the likelihood of an employee's still being with the Group at retirement age (staff turnover rate, mortality tables, etc.). The obligation is adjusted based on the long-term bond interest rates of top-tier issuers.

The obligation is subject to provisions less any assets from the system valued at fair market value.
Actuarial gains and losses are generated by changes in assumptions relating to the commitments or financial assets of the regimes. These variances are recognized under income according to the corridor method defined in IAS 19, "*Personnel benefits*." They are depreciated over the employee's remaining expected active life for the portion exceeding 10% of the largest of the following amounts:

- the discounted value of the obligation at closing,
- the fair market value of the system assets at closing.

In setting the opening balance sheet in IFRS as of January 1, 2004, the Suren Group used the option under IFRS Regulation 1, of posting all actuarial variances at that date less shareholders' equity.
Net expenses for retirement and similar benefits are posted to operating income for the period, except the expense of adjusting fees posted to financial income.

Other provisions

A provision is posted when, at the close of the period, the Group has a current obligation (legal or implied) and it is likely that a disbursement of resources representing future economic benefits will be needed to discharge that obligation.

Provisions are discounted if the time effect is significant. The time-related increase in the provision is then posted to financial expenses.

During a reorganization, a provision may only be established if the reorganization is subject to an announcement and a detailed plan or startup of execution at the close of the period.

Legal disputes (employment, tax audits, trade disputes, etc.) are subject to provision when a Group obligation to a third party exists at closing. The provision is valued as a function of the best estimate of projected expenses.

Payments in shares

- **Stock option plans**

Options to subscribe or purchase shares, granted to employees, must be valued at fair market value, which must be shown in the income statement covering the period of acquisition of exercise rights by employees. The fair market value of options is generally calculated using a discounted value model, based on assumptions set by Management.

The benefit valued according to IFRS 2 is equivalent to a payment to beneficiaries: it is therefore posted to personnel expenses, on a straight-line basis over the rights-acquisition period, against an increase in shareholders' equity.
Under the transitory measures specifically set forth in IFRS 1 and IFRS 2, the Group has elected to post only plans awarded after November 7, 2002, and for which rights were not acquired as of January 1, 2005: no stock option plan is involved. Plans prior to November 7, 2002 are not valued and remain not posted so long as the options are not exercised.

- **Stock warrants [*bons de souscription d'actions*, or BSAs]**

BSAs allocated to certain staff members must also be valued at fair market value and posted to personnel expenses.

These rights are valued using the intrinsic method. The counterpart is posted as an increase in shareholders' equity.

Interest-bearing loans

Interest-bearing loans are posted at original par value, less related transaction costs. These costs (expenses and loan issuance premiums) are included in the calculation of cost depreciated according to the effective interest rate method.

At each closing, financial liabilities are then valued at depreciated cost according to the effective interest rate method.

Loans are broken down by:

- current liabilities for the portion to be repaid within twelve months after closing
- and non-current liabilities for maturities longer than twelve months.

Sale options granted to minority shareholders.

Shares held by third-party minority shareholders and which the Group has committed to acquiring are presented under financial debt at the option's strike price.

The difference between the strike price of options granted and the historic value of minority interests is posted to purchase premiums, the latter being adjusted at the end of each period as a function of the change in the strike price of the options and the book value of the minority interests.

Suppliers and other creditors

Trade payables and other debts are posted at historic cost.

Taxes

Deferred taxes are posted, using the variable deferred balance sheet method, for temporary variances existing at the closing between the tax basis of the assets and liabilities and their book value, as well as tax shortfalls. No deferred liability tax is posted to purchase premiums.

Deferred asset taxes are posted to the extent it is likely the Group will have future taxable earnings to which unused tax losses may be allocated.

Most of the group's deferred taxes derive from posting purchases of securities of absorbed companies, and especially from posting intangible assets that constitute operating authorizations.

Deferred asset and liability taxes are valued at the tax rate expected to be applied over the period when the asset will be sold or the liability settled, based on the tax rates (and tax regulation) adopted or quasi-adopted as of the closing date.

Deferred taxes are calculated entity by entity. They are offset when taxes are collected by the same tax authority and correspond to a single tax entity (tax consolidation group).

Tax deferred and due is posted as a revenue or expense to the income statement unless it corresponds to a transaction or event posted directly to shareholders' equity.

Deferred taxes are presented on the specific categories of the balance sheet under non-current assets and liabilities.

Total revenue

EHPAD:

- Total revenue from treatment services corresponds to the amounts paid by the Caisse Primaire d'Assurance Maladie [Primary Health Insurance Fund] as an annual treatment contribution.
- Total lodging and occupation revenue is recognized when providing the services.

SSR:

- Total revenue corresponds to treatment services and private rooms and is posted as the services are provided.

Calculating operating income/ current operating income

The income statement is presented by expense type.

Current operating income is obtained from the difference between expenses and pre-tax revenue excluding:

- other revenue and expenses, including decline in the value of goodwill,
- financial factors,
- income from companies subject to the equity method of accounting,
- the share of income from operations carried out jointly with non-absorbed companies,
- and income from activities suspended or in the process of sale.

The “Employee share” is consolidated into personnel expenses.

Operating income is based on current operating income, adjusted by, on the one hand, other operating revenue and expenses, and on the other hand, other extraordinary or non-recurring revenue and expenses, i.e.:

- decline in the value of purchase premiums posted within the framework of impairment tests under IAS 36,
- reorganization expenses or those related to measures to adjust headcount by significant amounts, relating to major events or decisions,
- capital gains or losses from sales,
- expenses and revenue from major litigation, startup activities, or major capital activities (expense of incorporating a new business, etc.).

Income per share

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

Diluted net income per share is calculated assuming the exercise of all outstanding options, consistent with the “share purchase” method defined in regulation IAS 33, “*Income per share*.”

Sector information

A sector is a distinct component of the group, engaged in providing products or services (activity sector) or providing products or services within a specific economic environment (geographic sector), exposed to risks and returns different from the risks and returns of other sectors.

The first and only level of the Group’s sectoral information is the “activity sector.”

In effect, with the exception of certain establishments located in Belgium, the group’s activities are carried out in France. Since its Belgian activities are insignificant in proportion to the whole group, presentation by geographic region is not pertinent at this time. Organization by activity is as follows:

- Medical-social activity, primarily including EHPAD/ retirement homes;
- Health activity, including Follow-Up Care, Rehabilitation, Psychiatry, and Home Hospitalization activities.
- other activities (holding company).

This distribution corresponds to the criteria of IAS 14, “Sectoral information,” with the risks and returns differing according to the aforementioned sectors.

Sector assets are operating assets used by a sector within the framework of its operational businesses. They include allocable purchase premiums, intangible and tangible fixed assets, and current assets used in the sector’s operational activities. They do not include deferred asset taxes, other interests, or receivables and other non-current financial assets. These assets are grouped under the line “non-allocated assets.”

Sectoral liabilities are liabilities resulting from a sector’s activities that are directly allocable to this sector or that may be reasonably allocated thereto. They include current and non-current liabilities with the exception of financial liabilities and deferred liability taxes. These liabilities are grouped under the line “non-allocated liabilities.”

For each activity sector, Note 28 shows information on revenue and income as well as certain information relating to assets, liabilities, and investments.

Note 2 – Characteristic events during the period

Outsourcing of properties

In 2005, the Suren Group undertook a policy of outsourcing its building properties, the process of which had already been initiated in 2004 through a partnership with Foncière des Murs, a French publicly traded company subject to SIIC regulation [*société cotée à statut SIIC*] (Groupe Foncière des Régions). The Suren Group outsourced 31 properties, benefiting from the favorable regime (Art. 210 E of the CGI) applying to contributions of assets made to a French publicly traded real estate investment company [*société immobilière d’investissement coté (SIIC)*]. This outsourcing took place in two phases.

In October and December 2005, the Suren Group assigned to Foncière des Murs 11 properties, including 8 held through an SCI, totaling €47,087,000 (value of the properties).

In December 2005, the Suren Group contributed to Foncière des Murs 20 properties for use as retirement homes, i.e., leasing agreements for 12 properties and 8 properties under outright ownership financed by a loan. The contribution value of €52,599,000 was paid for through 701,319 shares of Foncière des Murs.

The Suren Group resold the shares received in payment for the contributions to the major shareholders of Foncière des Murs.
In total, the group outsourced properties with a sale value of 159.9 million euros, for annual lease payments of €12,366,000.

Upon completing this deal, the Suren Group will retain ownership of the businesses as well as their operational management.

Purchase of Medidep

On August 12 2006, the Suren Group purchased 39.32% of the Medidep Group through three investment funds.
On September 12, 2005, a takeover bid was initiated by the group for the balance of Medidep's capital.
On October 14, 2005, after the takeover, the Suren Group held 87.86% of the capital.

Assumption of a syndicated loan

To finance the deal for purchasing the Medidep Group, the Suren Group assumed a syndicated loan of €411.6 million distributed across four lines:

- Acquisition of the Medidep shares for 201.6 million euros
- Refinancing of Suren's existing debt for 75 million euros
- Refinancing of Medidep's existing debt for 115 million euros
- Financing of working capital needs, for 20 million euros

Business governance: new appointments

Medidep's management changed during the 4th quarter of 2005 following the Suren takeover.

The Medidep Oversight Council now comprises seven members reflecting the recent change in the capital:

- Mr. Jean-Claude Georges François (Chairman),
- Mr. Jean- Paul Thonier (Vice Chairman),
- Messrs. Claude Malhuret, Gérard Coscas, Charles Ruggieri, Louis Blanc, and the corporation Prédica-Prévoyance du Crédit Agricole, represented by Jean-Jacques Duchamp.

Within the framework of the industrial consolidation with the Suren Group, the Oversight Council appointed three new members to the Medidep Board of Directors: Messrs. Guillaume Lapp, Jean-Pierre Ravassard, and Dr. Philippe Cléry Melin.

The Board of Directors continues to be chaired by Bruno Marie.

Assumption of an interest in Financière Sinoue

In December 2005, the Suren Group took a 32.53% ownership interest in Financière Sinoue. This company operates two psychiatric clinics in the Ile de France region, and holds an authorization to operate a 140-bed geriatric facility in Hauts-de-Seine.
The geriatric facility is a care clinic (outpatient, short-term hospitalization, and follow-up and rehabilitation care) specializing in dementia, neurological pathologies, and psychiatric pathologies of the elderly. The geriatric facility is therefore an innovative establishment that constitutes the very heart of the concept of care for the elderly.

The ownership interest was assumed over two phases:

- Contribution to Financière Sinoue of a follow-up and rehabilitation clinic held by the Suren Group in Marseilles,
- Capital increase consisting of 5.5 million euros in cash.

Consistent with the agreements signed in July 2005, in April 2006 the group increased its share to 40% (+7.47%), to a total of €3 million.

Note 3 – Changes to the consolidation structure

Consolidation structure

At December 31, 2005, the consolidation structure included, in addition to the parent company Suren SAS, 159 companies absorbed through the subsidiary consolidation method (89 in 2004) and 18 companies absorbed by the proportional consolidation method (none in 2004).

Acquisition de Medidep

In August 2005, Suren acquired 39.32% of the Medidep group, and after completing its takeover bid at the end of September 2005, had increased its holdings to 87.86%. Medidep's consolidation into Suren's accounts occurred as of October 1, 2005. This deal received the approval of the General Competition Office [*Direction Générale de la Concurrence*] on September 20, 2005.

The increase in the number of companies absorbed under the subsidiary consolidation method resulted from the integration of the Medidep Group in the 3rd quarter of 2005 (98 companies).

The fair market value of Medidep assets at September 30, 2005 is as follows:

(In thousands of euros)	MEDIDEP
Intangible fixed assets	282,222
Tangible fixed assets	80,276
Long-term investments	6,254
Deferred asset taxes	858
Inventory	812
Trade accounts and notes receivable	32,097
Other receivables	17,960
Current financial assets	81
Cash and investment securities	16,189
Minority interests	-20,043
Provisions for retirement	-3,390
Deferred taxes	-89,377
Other provisions	-2,507
Loans and financial liabilities	-8,626
Suppliers and trade payables	-14,743
Provisions of less than one year	-171
Other liabilities and adjustment accounts	-35,785
Debts due within one year and bank overdrafts	-119,291
Fair market value of net assets acquired	**142,814**
Goodwill	257,072
Total acquisition cost	**399,886**

Other purchases

- Les Hauts d'Andilly (EHPAD): purchase by Finagest of 100% of its shares;
- SCI de la Source: purchase by Finagest of 100% of its shares for a total of €140,000;
- Les Bégonias (EHPAD): purchase by Sérience of 100% of its shares.

Sales

- Eight SCI within the framework of the policy of outsourcing its real estate holdings – November 4, 2005 – to Foncière des Murs.

Partial contributions of assets

- Contribution of shares of the company Maison de Santé Château Gombert held by Serena to Financière Sinoué in exchange for the Financière Sinoué shares.
- Taking of a 32.53% interest by Séréna in the company Financière Sinoué.

Note 4 – Purchase premiums

- **Note 4.1 Principal purchase premiums**

The purchase premiums listed below are presented by Cash Generating Unit.

(In thousands of euros)	**Year of acquisition**	**2005**	**2004**
Les Ophéliades Beaune	2003	1,733	1,733
Les Ophéliades Chalon	2003	2,032	2,032
Les Ophéliades Le Creusot	2003	2,197	2,197
Les Ophéliades Thise	2003	2,015	2,015
Les Ophéliades Simiane	2003	1,903	1,903
Les Ophéliades Fontaines	2003	1,712	1,712
Les Ophéliades Nancy	2003	1,816	1,816
Les Ophéliades Epinal	2003	1,511	1,511
Les Ophéliades Montbéliard	2003	2,318	2,318
Les Ophéliades Troyes	2003	1,771	1,771
Les Ophéliades Meaux	2003	1,755	1,755
Les Ophéliades Château-Gombert	2003	2,342	2,342
Les Ophéliades Dijon	2003	201	201
L'Air du Temps	2003	1,600	1,600
Santé Marketing	2003	84	84
Les Ophéliades Gemenos	2003	1,708	1,708
Château-Gombert	2005	2,026	
Bellevue	2005	2,071	
Garches	2005	1,206	
Les Fontaines	2004	893	895
St François de Sales	2004	1,088	1,091
Villa Kreisser	2004	934	937
Les Acacias	2004	446	447
Les Tilleuls	2004	1,157	1,160
Les Temps Bleus	2004	1,088	1,091
Les Pins Bleus	2004	1,256	1,259
Les Ophéliades Courbevoie	2004	823	825
La Reine Blanche	2004	1,353	1,357
Les Ophéliades St Clément	2004	1,256	1,259
Quieta	2004	1,116	1,119
La Saison Dorée	2004	1,339	1,343
Le Petit Castel	2004	531	532
Les Roches	2004	739	741
Frédéric Mistral	2004	1,256	1,259
Pontlieue	2004	2,243	2,248
Les Ophéliades Serres	2004	1,480	1,483
Le Clos Vermeil	2004	1,345	1,348
Amiens	2003	984	984
Bordeaux	2003	2,126	2,126
Brest	2003	1,328	1,328
Breteuil	2003	83	
Chalon s/Saône	2004	495	189
Chartres	2003	1,338	1,338
Eaubonne	2003	1,625	1,625
Fréjus	2003	1,415	1,415
Grenoble	2003	261	160
Le Chesnay	2003	3,109	3,109

Lyon	2003	1,923	1,923
Maison-Lafitte	2003	22	22
Marcq in Baroeul	2003	1,868	1,868
Meudon	2003	1,177	1,177
Montpellier	2003	2,256	2,256
Mougins	2003	1,562	1,562
Noisy-Le-Grand	2003	2,044	2,044
Paris Maine Alésia	2003	2,030	2,030
Paris Champ de Mars	2003	2,560	2,560
Paris Parc Monceau	2003	17	17
Pau	2003	1,181	1,181
Perpignan	2003	1,957	1,957
Reims	2003	1,576	1,576
Roubaix	2003	1,043	1,043
Rouen	2003	1,505	1,505
Suresnes	2003	307	307
Valence	2003	327	14
Vimont	2003	1,142	1,142
Vitrolles	2003	1,992	1,992
Ouistreham	2003	670	670
Cenon	2003	1,429	1,429
Cenon II	2003	53	53
Le Mans	2003	1,493	1,493
Guyancourt	2003	2,348	2,348
St Mars d'Outille	2003	32	32
Charnay-Les-Macons	2003	1,443	1,443
Hyères	2003	180	180
Nancy	2003	1,385	1,385
Laval	2004	783	1,818
Les Villandières Nîmes	2005	741	
Sogesco	2005	3,294	
William Harvey	2005	9,061	
Mieux Vivre	2005	15,857	
Siouville Nord Cot	2005	4,299	
Sem St Laurent	2005	3,735	
La Bastide de La Tourne	2005	2,100	
Frontenac	2005	1,901	
Les Luberons	2005	4,958	
Montgolfière	2005	1,511	
Normandie	2005	3,659	
Château of the Deux Amants	2005	746	
Sem Vernon	2005	2,297	
Les Acacias	2005	1,541	
La Roseraie	2005	4,093	
Grand Maison	2005	1,651	
Les Amarantes	2005	5,658	
Coteau / Glycines	2005	302	
Menardière	2005	3,893	
Orion	2005	378	
Château du Mariau	2005	711	
Sem Clermont	2005	1,032	
Bellecombe	2005	2,183	
Daumesnil	2005	8,836	
Mrepresentativea	2005	12,439	

Petite Madeleine	2005	316	
VSD	2005	1,451	
Le Clos Clément	2005	5,353	
Mapadex Brune	2005	12,741	
Lilas	2005	8,545	
Clos Varreddes	2005	2,811	
Florian Carnot	2005	5,211	
Villa Renaissance	2005	3,029	
Repos and Santé	2005	1,844	
New Philipp	2005	944	
Gleteins	2005	3,715	
Pinède	2005	5,384	
Vernede	2005	13,434	
Les deux Tours	2005	1,077	
Terafi / Fontaine	2005	3,077	
CRF Caen	2005	526	
Gaillardière	2005	158	
Gasville	2005	1,192	
Horizon 33	2005	2,993	
S Gest D de Vont	2005	5,117	
Clinique Maylis	2005	471	
CMI Montpribat	2005	2,476	
Rue Petit	2005	499	
Clinique médicale Ymare	2005	1,290	
Clinique psychiatrique S and M	2005	2,204	
CCO	2005	8,233	
HAD Yvelynes Sud	2005	2,408	
Le Mesnil	2005	4,805	
Sartrouville	2005	3,173	
Sainte Baume	2005	8,121	
Saclas	2005	9,210	
HP4S	2005	4,876	
Livry	2005	5,949	
Clinique Jeanne d'Arc	2005	14,284	
Pereux	2005	5,113	
Bezons	2005	9,564	
Total		**359,885**	**96,392**

- **Change in purchase premiums**

in thousands of euros	**2005**	**2004**
Net purchase premiums at opening	**96,392**	**68,108**
Purchases	263,205	22,289
Sales	-1,112	-317
Price supplement	683	1,524
Sale option	716	
Other reclassifications		4,788
Net purchase premiums at close	**359,885**	**96,392**

The changes may primarily be explained by:

- The purchase of the Medidep group: €257,072,000
- The purchase of Financière Sinoué: €5,304,000
- The purchase of additional participations of the Hidden Corporations [*Sociétés en Participation*]: €803,000
- The sale of SCI Castel Immo within the framework of the effort to outsource real estate holdings: €1,112,000
- The price supplements paid by Medidep SA to former shareholders of Bastide de Tourne SA: €383,000
- The adjustment to the price supplement for the Mieux Vivre sub-group: €300,000
- The posting of the commitment to purchase 80% of the shares of Villandières de Nîmes: €716,000.

The value tests carried out, according to the method described in Note 1, "*Loss of value of intangible and tangible fixed assets*," did not show the loss of value of Goodwill corresponding to the group's cash generating units.

Note 5 – Intangible fixed assets

in thousands of euros	Authorizations	Other	Total
Gross value at opening	**204,413**	**1,260**	**205,673**
Changes in corporate structure	488	1,658	2,146
Sales	-3,742	-434	-4,176
Purchases	288,955	509	289,464
Transfers	-496	297	-199
Gross value at close	**489,618**	**3,290**	**492,908**
Cumulative depreciation at opening	**2,987**	**967**	**3,954**
Change in structure		1,290	1,290
Sales	-2,984	-326	-3,310
Depreciation		263	263
Transfers		196	196
Cumulative depreciation at close	**3**	**2,390**	**2,393**
Net book value at opening	**201,426**	**293**	**201,719**
Net book value at close	**489,615**	**900**	**490,515**

The principal changes may be explained by:

- the purchase of the Medidep group and allocation of the first allocation premium for authorizations, totaling 281,852,000,
- The taking of an ownership interest in the Financière Sinoué group (€5,368,000)
- The purchase of SA les Bégonias (1 735 K€)
- The contribution of Maison de Santé Château Gombert shares to Financière Sinoué (net value of €758,000).

Note 6 – Tangible fixed assets

in thousands of euros	Land	Buildings	Materials	Other	In progress and advances	Total
Gross value at opening	**34,380**	**146,593**	**9,935**	**17,632**	**10,877**	**219,417**
Changes in corporate structure	-3,940	45,457	17,694	41,821	9,231	110,263
Sales	-18,372	-103,565	-379	-660	-4,801	-127,777
Purchases	870	6,076	1,639	4,102	19,116	31,803
Transfers	0	25,905	850	1,686	-7,545	20,896
Gross value at close	**12,938**	**120,466**	**29,739**	**64,581**	**26,878**	**254,602**
Cumulative depreciation at opening		**8,521**	**4,689**	**11,387**		**24,597**
Change in structure	262	29,383	13,004	23,663		**66,312**
Contributions	6	8,264	1,747	1,700		**11,717**
Sales	-15	-28,267	-316	-651		-29,249
Other		20,854	330	-640		20,544
Cumulative depreciation at close	**253**	**38,755**	**19,454**	**35,459**	**0**	**93,921**
Net book value at opening	**34,380**	**138,072**	**5,246**	**6,245**	**10,877**	**194,820**
Net book value at close	**12,685**	**81,711**	**10,285**	**29,122**	**26,878**	**160,682**

The gross value of fixed assets held under a lease-to-own agreement is €14,800,000 at December 31, 2005 (€75,825,000 in 2004 with net value of €12,951,000 €(67,236,000 in 2004).

The net book value of assets sold through Suren's real estate asset outsourcing operation totals €74.2 million.
This contribution from the Suren Group to Foncière des Murs falls within the framework of the Suren Group's strategy of outsourcing the physical facilities of certain of its rest homes in France, to dedicate its resources to its vocation of operating rest homes, whole retaining ownership of the goodwill.

The increases in fixed assets outstanding as of 12/31/05 primarily consist of the following establishments:

- Ouistreham: Expansion and restoration works (+ 14 beds) totaling €1.3 million. Completion of the works is scheduled for the 3rd quarter of 2006.
- Montpellier: Expansion and restoration works (+13 bed) totaling €800,000.
- Construction of a follow-up care establishment (90 beds) at Rougemont near Mans totaling €4 million. Completion of the works is projected for late 2006.
- Construction of an EHPAD at St. Etienne (occupancy: 80 beds) for €2.4 million. Opening is scheduled for summer 2006.

- Construction of the Gemenos and Thonon establishments for €4.8 million, and sale of the completed buildings to Foncière des Murs for outsourced operation of the property assets.
- Grand Maison: Expansion and rehabilitation works to allow for an increase in occupancy (25 additional beds), totaling €2.6 million;
- Restoration of the CHM building for conversion to a FAM (Medically Supervised Care Home), totaling €800,000;
- Mont Blanc: construction of a Physical Medicine and Rehabilitation Center at Argonay (60 beds and 20 outpatient positions) for €5.8 million; this center was created as a result of a reduction in the authorized capacity of the Mont Blanc clinic and the complete closing of the Brévent clinic within the framework of the recasting of the regional health system.

Note 7 – Non-consolidated shares

				2005	2004
Company	**% held**	**Gross value**	**Depreciation**	**Net value**	**Net value**
Vepeza	20.00%	50		50	50
SARL Lafitte Santé	100.00%	83	38	45	45
SCI du Perreux	20%	61		61	
Neovacs	3%	192		192	
SCI Ymare	10%	137		137	
Other		75	30	45	496
Total non-consolidated securities		**597**	**68**	**529**	**591**

Note 8 - Other non-current assets

- **Change**

in thousands of euros	
Net value at opening	**6,643**
Increase	904
Repayments	-3,303
Depreciation	-8
Changes in corporate structure	5,898
Other movements	415
Net value at close	**10,549**

- **Analysis**

in thousands of euros	**2005**	**2004**
Security deposits	8,672	2949
Loans	790	568
Trade receivables	356	39
Other	731	3087
Total	**10,549**	**6,643**

Note 9 - Inventory

In thousands of euros	**2005**	**2004**
Gross value	1,421	379
Depreciation	0	0
Net value	**1,421**	**379**

Note 10 – Clients

In thousands of euros	**2005**	**2004**
Gross value	45,271	12,230
Depreciation	-3,333	-485
Net value	**41,938**	**11,745**

Note 11 - Other Current assets

In thousands of euros	2005	2004
Tax receivables	20,303	7,566
Social receivables	713	252
Advances and down payments	1,658	1,223
Expenses posted in advance	3,614	1,358
Other debtors	17,508	1,414
Value of other receivables	**43,796**	**11,813**

In thousands of euros	2005	2004
Loans	890	64
Deposits and bonds	367	
Financial instruments	90	24
Other long-term investments	238	
Value of other current financial assets	**1,585**	**88**
Total other current financial assets (net)	**45,381**	**11,901**

Note 12 - Cash and cash equivalents

In thousands of euros	2005	2004
Investment securities	25,111	10,648
Cash	32,186	7,773
Total	**57,297**	**18,421**

Investment securities consist of French money market funds [*SICAV de trésorerie*] totaling €3.7 million and certificates of deposit totaling €21.4 million.

Note 13 - Shareholders' equity and minority interests

- **Composition of the capital**

At December 31, 2005, the capital consisted of 253,562,498 common shares with par value of €1 each, entirely paid-in.

At December 31, 2005, the capital was broken down as follows:
- 139,545,272 category "P" shares
- 114,017,226 category "O" shares

For the "P" shares, a priority, non-cumulative dividend will first be paid out of the year's distributable earnings, its distribution approved by the ordinary general shareholders' meeting, as well as distributions of reserves also approved by the ordinary general shareholders' meeting.

"P" shares will be entitled to an unlimited priority and cumulative dividend of an identical duration, per calendar year, equal to 5% of their par value.

Any dividend paid over the course of a calendar year and exceeding this priority dividend will be distributed equally between all "O" and "P" shares.
In the case of a capital reduction by redemption paid to shareholders, "P" shares will be redeemed before "O" shares. By contrast, in the event of a capital reduction for losses, this reduction will be felt first by the "O" shares and then only after that by the "P" shares, if the capital reduction undergone by the "O" shares is not sufficient as to cover the anticipated amount of the reduction.

- **Capital increase**

Pursuant to an extraordinary general shareholders' meeting held December 20, 2005, the company's capital stock was increased by €100,599,826. The company's capital stock consequently increased from €152,962,672 to €253,562,498. The issuance premium was increased from €103,618,820.78 to €108,008,150.02.

Treasury shares

	number of shares	value
December 31, 2004	**0**	**0**
Purchases of Suren shares	36,364	42
Change in structure of Medidep shares	3,539	95

Purchases of Medidep shares	2,364	70
Sales of Medidep shares	4,454	122
December 31, 2005	**37,813**	**85**

Minority interests

At December 31, 2005, minority interests increased by €20.8 million. They correspond primarily to the rights of shareholders outside the group, in the Medidep group.

Medidep group stock option allocation plan

The options plan completed May 11, 2001 resulted in the allocation of 37,200 option with strike price of €18.30. As of December 31, 2005, 13,200 options allocated to 11 beneficiaries are exercisable.

These options may be exercised between May 11, 2005 and May 11, 2006.

Pursuant to the transitory measures specifically provided for by IFRS 1 and IFRS 2, the Group elected to post only plans approved after November 7, 2002 for which rights had not been acquired as of January 1, 2005. No stock option purchase plan was reposted. Plans prior to November 7, 2002 were not valued and remain unposted as long as the options are not exercised.

BSA allocation plan

A profit-sharing plan for Suren management was implemented in 2004. This plan was approved by the general shareholders' meeting of June 24, 2004, which delegated its execution to the chairman of the board of directors.

The major features of this plan are the following:

a) General principles:

Management decided to offer the opportunity to subscribe for ABSA (shares with stock warrants [*actions à bons de souscription d'actions*]). The subscription price per share is equal to the subscription price applied in the previous capital increase some months previous (subscribed by PREDICA), i.e., 1.1 euros per share with par value of 1 euro.

To favor distributions to Suren's major shareholders, dividends linked to shares subscribed by employees are subordinate to payment to the major shareholders of an initial dividend of 5% of the shares' par value.

Shares subscribed by employees are each accompanied by 45 share warrants, valid for eight years, a fraction of which, calculated as a function of the IRR (Internal Rate of Return) realized by the founding shareholders (i.e., BATIPART, MSRESS and Montparnasse Investissement III) may be exercised, thereby allowing a certain number of shares to be subscribed at a price of 1.1 euros each, in the occurrence of a Liquidity Event.

Liquidity Events are the following:

- The Financial Investors (MSRESS and Montparnasse Investissement III) hold less than 5% of Suren's capital
- Suren becomes listed for trading on a stock exchange.

b) Number of ABSAs issued

486,366 ABSAs have been subscribed for a total of €535,002.60. 21,886,470 share warrants (BSAs) were therefore attached to the subscribed ABSAs.

c) Impact on Suren's consolidated financial statements

Pursuant to IFRS 2, "*Share-based payments*," stock warrants awarded to employees must be posted to personnel expenses. At December 31, 2005, the fair market value of these BSAs totaled €3,011,000 and the change in value posted to the income statement (personnel expenses) was €1,001,000.

Value of share warrants

In thousands of euros	**2005**	**2004**
BSA at opening	**2,010**	**0**
Change in value	1,001	2,010
BSA at close	**3,011**	**2,010**

Note 14 – Income per share

	2005	**2004**
Group share of net income *(thousands of euros)*	29,518	6,440
Average weighted number of shares *(thousands)*	156,234	133,863
Income in euros per share	**0,19**	**0,05**

Group share of net income *(thousands of euros)*	29,518	6,440
Average weighted number of shares *(thousands)*	156,234	133,863
Adjustments related to share subscription options	1,483	68
Average number of shares held to determine diluted income per share	157,717	133,931
Diluted income in euros per share	**0.19**	**0.05**

Note 15 - Financial instruments

The Suren group had recourse to derivatives that provided hedging for over 80% of its total syndicated loan. The group opted to post the hedge, and posts changes in the values of the derivatives under shareholders' equity (change in the effective part of the derivative).

However, as of December 31, 2005, the hedging relation is considered terminated by reason of:

- the numerous loan repayments linked to the outsourcing of its real estate assets,
- the assumption of a syndicated loan to finance the deal to purchase the Medidep group.

Changes of deferred value in shareholders' equity during fiscal years 2004 and 2005 were then posted to the income statement in the amount of €1,761,000.

- **Inventory value of financial hedges**

Assets	Inventory value	Financial income	Shareholders' equity
Options	90	66	
Total asset hedges	**90**	**66**	**0**

Liabilities	Inventory value	Financial income	Shareholders' equity
Rate swaps	4,978	300	
Options	367	12	
Enhanced tunnels [*tunnels bonifiés*]	757	274	
Termination of hedging relationship, fiscal years 2004 and 2005		-1,761	
Total liability hedges	**6,102**	**-1,175**	**0**

Note 16 - Financial liabilities

- **Net liabilities (current/ non-current)**

	2005	**2004**
Bank loans	407,300	178,463
Financing of leases-to-own	10,241	27,392
Employee profit-sharing	10	
Commitment to purchase minority interests	1,103	
Long-term financial liabilities	**418,654**	**205,855**
ST bank loans	1,569	4,252
ST financing of financial leases	1,396	16,690
ST housing deposits	15,038	9,649
Current bank outstandings	11,774	5,626
Fair market value of hedging instruments	6,102	6,122
Sundry other ST financial liabilities	1,824	1,516
ST commitment to purchase minority interests	746	
Short term financial liabilities	**38,449**	**43,855**
Financial liabilities	**457,103**	**249,710**
Investment securities	25,111	10,648
Cash on hand	32,187	7,773
Treasury cash	57,297	18,421
Net cash (debt)	**-399,806**	**-231,289**

- **Analysis by rate type**

in thousands of euros	**2005**	**%**
fixed rate	51,400	11%
variable rate	405,703	89%
total	**457,103**	**100%**

- **Analysis by maturity**

	2005	**2004**
less than one year	38,819	43,855
1 to 5 years	131,827	104,172
over 5 years	286,457	101,683
Total	**457,103**	**249,710**

In November 2005, Suren implemented a syndicated loan of €411.6 million distributed over four lines:

- Purchase of Medidep shares for €201.6 M€
- Refinancing of the existing Suren debt, for €75 million
- Refinancing of the existing Medidep debt for €115 million
- Financing of cash floor needs for €20 million

The loan is broken down into two tranches of the same amount (A and B) of €205.8 million.

Interest is calculated based on Euribor + a variable margin as a function of the ratio of net consolidated debt/ consolidated EBITDA.

Net debt assumed for calculating the ratio does not include:

- commitments to repurchase minority interests
- resident deposits
- the fair market value of financial hedges

Repayment will be as follows:

- Tranche A, semi-annually when due and payable, with the first installment due May 2007 and final installment due on 30/04/2013,
- Tranche B to be repaid in full on 4/30/2014

The syndicated loan agreement requires compliance with certain commitments and ratios/ covenants concerning the following:

- Compliance with financial ratios,
- Investment expenses,
- Asset sales,
- New debt,
- The distribution of dividends,
- The communication of accounting and financial documents,
- The signing of hedging agreements.

The loan agreement also provides for cases that might result in the remaining capital becoming due and payable, primarily under the following situations:

- Change of control,
- Breach of commitment,
- Alert procedure or reservation on the certification of financial statements,
- Payment incident,
- Significant unfavorable event.

In fiscal year 2005, only the consolidated financial leverage ratio (net consolidated debt over consolidated EBITDA) was required.

Based on the consolidated financial statements of the Suren and Medidep Groups at 12/31/2005, this ratio has been met.

Note 17 - Provisions for retirement and similar benefits

Change in retirement commitments and seniority premiums

-	**2005**	**2004**
Commitments at opening	-1,656	-1,024
Acquisition	-	-397
Sale	1	12
Cost of services rendered (normal cost)	-(302)	-163
Interest expense (Interest cost)	-113	-105
Actuarial losses and gains	-558	

Services paid	27	21
Change in structure	-3,806	
Commitments at close	**-6,407**	**-1,656**

Reconciliation of commitments and provisions

-	2005	2004
Net commitments	-6,407	-1,656
Total actuarial variances not recognized - losses/(gains)	918	51
Other	-117	8
Provision at close	**-5,606**	**-1,597**

Components of expenses for the period

-	2005	2004
Cost of services rendered (normal cost)	-302	-163
Interest expense (Interest cost)	-113	-54
Depreciation of actuarial losses and (gains)		
Retirement expenses	**-415**	**-217**

The cost of services rendered is posted to Personnel expenses, and interest expense is posted to financial expenses. The decline in value of the actuarial variances was ignored (less than €1,000).

Change in provisions

-	2005	2004
Provisions at opening	-1,597	-1024
Expense charge for the year	-415	-217
Employer payments or contributions	26,	21
Change in structure	-3,490	-385
Other	-130	8
Provision at close	**-5,606**	**-1,597**

Actuarial assumptions used (principal)

-	2005	2004
Adjustment rate	4.00%	4.50%
Change in salaries	3.00%	3.00%
Inflation rate		
Mortality table	INSEE F 00-02	INSEE F 00-02
Retirement age	65 years	65 years
Types of retirement	voluntary	voluntary

Sensitivity test

Rate	**5%**	**4%**	**3%**
Total commitment (in thousands of €)	5,689	6,407	7,226
Change in commitment with respect to the 4% rate	-12.6%		12.8%

A one-point change in the adjustment rate causes the commitment to change by approximately 12.7%.

Note 18 - Other provisions

- **Non-current provisions**

in thousands of euros	Tax and social	Commercial	Buildings	Restructuring	Other operating disputes	Total
Opening balance	3,249	6			135	3,390
Contributions	1,164	2			1,155	2,321
Reversals	-1,542				-1,042	-2,584
Reclassifications, changes in corporate structure	481	-1			247	727
Balance at close	**3,352**	**7**	**0**	**0**	**495**	**3,854**

Provisions for anniversary premiums, posed under non-current provisions, totaled €233,000 at December 31, 2005.

- **Current provisions**

in thousands of euros	Tax and social	Commercial	Buildings	Restructuring	Other operating disputes	Total
Opening balance	411				35	446
Contributions	1,145			1,800		2,945
Reversals	-411				-35	-446
Reclassifications, changes in corporate structure	1,724	1	4	680	89	2,498
Balance at close	**2,869**	**1**	**4**	**2,480**	**89**	**5,443**

Provisions for reorganization consist of the partial or total closings of the Mont Blanc, Brevent, and Medidep L'Union sites.

in thousands of euros	2005	2004
Other long-term provisions	3,854	3,390
Other short-term provisions	5,443	446
Total Other provisions	**9,297**	**3.836**

Note 19 - Other liabilities and adjustment accounts

	2005	2004
Fixed asset suppliers	4,982	1,237
Advances and down payments paid on orders	5,652	1,744
Tax liabilities	34,490	9,929
Social liabilities	36,238	14,870
Dividends payable		106
Other debts	13,101	3,753
Revenue posted in advance	331	1,387
Total	**94,794**	**33,026**

Note 20 -Personnel expenses

in thousands of euros	2005	2004
Salaries and benefits	102,063	56,165
Social expenses	38,908	20,331
Employee profit-sharing	906	229
Other personnel expenses	1,874	544
Personnel expenses	**143,751**	**77,269**

Note 21 - Other operating expenses and revenue

in thousands of euros	2005	2004
Provisions for reorganization	-2,500	
Capital gains or losses from sales of non-current assets	29,320	1,131
Capital gain on sale of MSCG* shares	1,433	

Medidep purchase – Takeover bid expenses	-2,650	
Share of joint operations		214
Other operating expenses and revenue	1,032	-319
Total Revenue (Expenses)	**26,636**	**1,026**

** Maison de Santé Château Gombert*

Provisions for reorganization consist of the partial and complete closures of the Mont Blanc, Brevent, and Medidep L'Union sites.
Capital gains on sales resulting from the outsourcing of property assets totaled €29,320,000.
Takeover bid expenses are assumed by the Medidep Group, with those assumed by the Suren Group included in goodwill.

Note 22 – Net financial income

- **Item analysis**

In thousands of euros	**2005**	**2004**
Interest expenses	-17,748	-12,514
Change in swap value *	-1,108	185
Gross cost of debt	**-18,857**	**-12,329**
Capital gain or loss on sale of securities	84	338
Net cost of debt	**-18,773**	**-11,991**
Adjustment of retirement commitments	-288	-97
Other financial revenue and expenses (1)	-419	655
Financial income	**-19,480**	**-11,433**

* of which the impact of termination of the hedging relationship: -€1,761,000.

- **Breakdown of other financial expenses and revenue**

In thousands of euros	**2005**	**2004**
Dividends received from non-absorbed companies	2	2
Other revenue from holdings	27	
Revenue from investment securities		
Other financial expenses and revenue	-448	693
Other (contributions) / reversals of financial provisions		-40
Total "Other financial revenue and expenses"	**-419**	**655**

Note 23 –Income tax

- **Analysis of tax expense**

in thousands of euros	**2005**	**2004**
Current taxes	-11,937	-5,192
Deferred taxes	5,560	890
Income tax expense (revenue)	**-6,377**	**-4,302**

- **Net change in Deferred taxes**

in thousands of euros	**2005**	**2004**
Opening balance	83,659	69,250
Expense (revenue)	-5,560	-890
Change in structure	81,594	17,519
Other changes *	-237	-563
Balance at close	**159,456**	**85,316**

*This amount includes the effect of rate changes.

- **Type of deferred taxes**

in thousands of euros	**2005**	**2004**
Intangible fixed assets	154,350	63,966
Tangible fixed assets	4,781	19,247
Financial instruments	-1,431	-2,094

Deferred taxes	-5,880	-2,297
Provisions for retirement commitments	-1,785	-577
Other provisions		-61
Other temporary variances	-1,861	
Other assets/ liabilities	11,282	5,475
Total	**159,456**	**83,659**

Note 24 - Transactions with related parties

- Outsourcing of real estate holdings

A partnership agreement was entered into between the Suren Group and the Foncière des Murs group on the occasion of an initial deal in 2004 to outsource the Suren Group's physical operating facilities to the Foncière des Murs Group.
On November 30, 2004, Foncière des Murs thus acquired by assignment (direct assignment or assignment of corporate shares) an initial portfolio of the "walls" of 22 rest homes managed by the Suren Group, and it signed a framework agreement with this company entitling it to be consulted on new deals it might undertake.
A second deal for the outsourcing of the Suren Group's physical operating facilities was entered into in fiscal year 2005.
In this deal, the partnership agreement was subject to an addendum dated November 4, 2005, pursuant to which, specifically, Foncière des Murs and Suren agreed to a second outsourcing program through the Foncière des Murs group of the real rights and assets henceforth operated by the Suren Group; the Suren Group awarded Foncière des Murs a right of first refusal to become its partner in the framework of any development project involving the construction of new buildings that the Suren Group plans to undertake or cause to undertake, or in the restoration of pre-existing real assets, and Foncière des Murs and Suren have decided to create a monitoring committee within the framework of current and future operations.

- Administrative services and development assistance agreement

On November 26, 2003, the Batipart and Suren groups entered into an Administrative Services and Development Assistance Agreement by which Batipart will provide Suren and its subsidiaries organizational and personnel management, financial management, and development assistance services.
This agreement, entered into for one year and automatically renewable for periods of the same duration, is still in force.
Batipart's compensation for these assistance services to Suren and its subsidiaries is €1,060,000 for fiscal year 2005.

Note 25 – Management compensation

Compensation paid to the Suren Group's corporate management for their duties is subject to the agreement described above. The amount paid totaled €954,000.

Note 26 - Commitments and possible liabilities

- **Commitments given (excluding simple lease and purchase obligation agreements)**

in thousands of euros	**2005**
Loans secured by pledges of stock	390,713
Loans secured by real collateral	37,462
Loans secured by pledges of Goodwill	4,889
Liabilities secured by sale of subsidiaries	2,500
Total	**435,564**

- **Purchase commitments**

The group has assumed the following purchase commitments:

- Purchase of the balance of the shares of a subsidiary for a minimum price of €1,103,000
- Purchase of the balance of the shares of a subsidiary for a minimum price of €743,000
- Purchase of the balance of the shares of a subsidiary for a minimum price of €3,261,000
- Purchase of the goodwill of a subsidiary under lease management for €732,000

- **Commitments received**

Within the framework of the 2004 signing of an agreement to sell a company, the Group benefits from a "better fortunes" clause [*retour à meilleure fortune*] clause.
The group also holds obligations convertible to shares which, in the absence of any prior conversion into shares, may be subject to complete reimbursement.

- **Tax audits in progress**

The financial statements of two Medidep Group subsidiaries are in the process of being audited by the tax authorities.

- **Litigation**

To the knowledge of the company and its counsel, there is no litigation that has been provisioned or that is likely to significantly affect the group's activity, results, or financial situation.

- **Individual right to training/ IRT**

Pursuant to Law No. 2004-391 of May 4, 2004 relative to professional training, employees of the Group's French companies under indefinite duration employment contracts have an individual right to twenty hours of training per year, cumulable over a six-year period. After this six-year period, absent its application in whole or in part, the IRT is subject to a ceiling of one hundred twenty hours.

Note 27 - Commitments under leasing agreements

- **Lease-to-own agreements**

Lease-to-own	**Buildings**
Net book value of lease-to-own assets	21,327
Lease commitments by maturity	
less than one year	1,891
over one years	8,577
greater than 5 years	2,342
Total commitments	**12,810**
Effect of adjustment	10,118
Total adjusted commitments	**22,928**

- **Simple lease agreements**

Simple leases	**Buildings**
Minimum lease payments due on non-cancelable agreements	
less than one year	51,997
over one year to 5 years	236,285
over 5 years	153,905
Total commitments (not adjusted)	442,187

Since 2004, the Suren group has transferred ownership of most of its buildings to Foncière des Murs. In exchange, the Suren group signed a firm 12-year lease for each building. The lessee assumes responsibility for property tax, insurance, and the maintenance works and expenses stipulated in Article 606 of the Civil Code (restoration of façades and maintenance of windows and internal structure remain the responsibility of the lessor), as well as expenses of complying with existing and future regulations.
For the first 14 leases signed, a lease cancellation penalty equivalent to twelve months of lease payments is anticipated.

Note 28 – Sector information

2005 (*in thousands of euros*)

Income statement	**EHPAD**	**Sanitarium**	**Other activities**	**Total write-offs**	**total**
Total revenue	269,547	64,628	10,228	-62,120	282,283
Inter-activity sales	-51,502	-362	-10,256	62,120,	0
Total	**218,045**	**64,266**	**-28**	**0**	**282,283**
Current operating income	25,109	3,341	1,262		29,712
Impairments					0
Other revenue and operating expenses	28,618	3,168	-5,150		26,636
Operating income	**53,727**	**6,509**	**-3,888**	**0**	**56,348**

Balance sheet					
Sector assets	656,931	400,691	34,920		1,092,542
of which, purchase premium	*218,555*	*141,247*	*84*		*359,886*
of which, Goodwill	*316,355*	*173,260*			*489,615*

	EHPAD	Sanitarium	Other activities	Total write-offs	total
of which, other intangible fixed assets	*46*	*180*	*674*		*900*
of which, tangible fixed assets	*92,479*	*55,188*	*13,015*		*160,682*
of which, clients	*12,395*	*27,403*	*2,954*		*42,752*
of which, inventory	*531*	*746*	*142*		*1,419*
of which, other receivables	*15,841*	*2,467*	*17,010*		*35,318*
Non-allocated assets					80,128
Total consolidated assets					**1,172,670**
Sector liabilities	83,011	40,022	78,038		201,071
of which RC provisions	*4,691*	*5,987*	*4,225*		*14,903*
of which, suppliers	*11,787*	*6,289*	*7,378*		*25,454*
of which, other liabilities	*66,558*	*27,721*	*66,386*		*160,665*
Non-allocated liabilities					971,599
Total consolidated liabilities					**1,172,670**

2004 (*in thousands of euros*)

Income statement	**EHPAD**	**Sanitarium**	**Other activities**	**Total write-offs**	**total**
Total revenue	172,583	21006	2,422	-35,581	160,430
Inter-activity sales	-32,697	-412	-2,472	35,581	0
Total	**139,886**	**20,594**	**-50**	**0**	**160,430**
Current operating income	20,634	616	-13		21,237
Impairments					0
Other revenue and operating expenses	1,088	2	-64		1,026
Operating income	**618**	**21,722**	**-77**	**0**	**22,263**
Share of income in related companies	**214**				**214**

Balance sheet					
Sector assets	447,558	50,510	26,128		524,196
of which, purchase premium	*93,074*	*3,234*	*84*		*96,392*
of which, Goodwill	*187,624*	*13,802*			*201,426*
of which, other intangible fixed assets	*22*	*32*	*239*		*293*
of which, tangible fixed assets	*154,470*	*29,486*	*10,863*		*194,819*
of which, clients	*6,171*	*3,278*	*2,286*		*11,735*
of which, inventory	*256*	*109*	*14*		*379*
of which, other receivables	*4,750*	*429*	*11,413*		*16,592*
Non-allocated assets					22,849
Total consolidated assets					**547,045**
Sector liabilities	57,456	8,396	71,253		137,105
of which RC provisions	*1,864*	*403*	*3,163*		*5,430*
of which, suppliers	*7,137*	*1,165*	*3,802*		*12,104*
of which, other liabilities	*46,336*	*6,509*	*63,595*		*116,440*
Non-allocated liabilities					409,940
Total consolidated liabilities					**547,045**

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Note 29 – Events subsequent to the close

The Suren – Medidep group has pursued its development in the first months of 2006 and engaged in various purchase deals:

- Increase in its share of the Financière Sinoué group in accordance with the agreements signed in July 2005 This deal resulted in the purchase of an additional 7.47% of Financière Sinoué for a total of €3 million. At April 15, 2006, Suren's share of Financière Sinoué was 40%.
- In the first half of 2006, purchase of 100% of Médicale Clavette (holding company), which itself held 98.75% of the Château de Clavette Convalescence Clinic (follow-up care, 62 beds) for a total of €5.8 million;
- Purchase of 80% of the shares of Villandières de Nîmes (ownership interest increased to 100%);
- Sale of all buildings held by the Château de Clavette Convalescence Clinic for a total of €1.9 million. After this sale, a lease was entered into with Foncière des Murs pursuant to the terms of the partnership.
- Purchase in early 2006 of 14 beds from the "Pirou" rest home for transfer to Demeure Saint Clair to increase the latter's occupancy capacity;

- Purchase in early 2006 of 18 general psychiatric beds from the “La Charmille” health center to expand the capacity of the Horizon 33 clinic;
- Purchase in early 2006 of the “L’Ermitage” residence building for a price of €1 million, in the process of restoring the facility.

Note 30 – Impact of the Conversion to IFRS standards

In July 2002, the European Union adopted a rule (No. 1606/ 2002) requiring all European companies whose shares are listed on a regulated market to publish their consolidated financial statements as of January 1, 2005 in accordance with “IFRS” (“International Financial Reporting Standards”) standards.

In France, Order No. 2004-1382 of December 20, 2004 (New Article L. 233-24 of the Trade Code) authorizes the preparation of consolidated financial statements in IFRS for non-listed companies pursuant to Article 5 of (EC) Regulation 1606/2002.

Consequently, the group elected the option to prepare its 2005 consolidated financial statements in accordance with these standards, which also requires a comparison with the fiscal year 2004 financial statements according to the same principles.

Pursuant to the recommendation issued December 30, 2003 by the European Committee of Securities Market Regulators [*Comité Européen des Régulateurs des Marchés de Valeurs Mobilières*], below the Group presents quantitative information for fiscal year 2004 prepared in accordance with IFRS standards.

This quantitative information was prepared in accordance with the provisions of IFRS 1, Initial Adoption of International Financial Information Standards, applying the IAS/IFRS current as of January 1, 2005 as published December 31, 2004 by the IASB and adopted by the European Commission. Specifically, the above quantitative information was prepared by applying:
- IAS 32, Financial Instruments: Information to be provided and presentation, and IAS 39, Financial Instruments: Accounting and valuation
- IFRS 2, Share-Based Payments, published by the IASB on February 19, 2004 and adopted by the European Commission on February 7, 2005.

1. Reconciliation of consolidated shareholders’ equity

The Suren Group presented the consolidated financial statements for the period from January 1 to December 31, 2004, prepared pursuant to Regulation CRC 99-02.

The reconciliation between shareholders’ equity prepared according to French standards and shareholders’ equity prepared according to IFRS standards is presented as follows, from January 1, 2004 to December 31, 2004:

in thousands of euros	note	1/1/2004	Net income 2004	other	12/31/2004
Shareholders’ equity (Group share) published in accordance with French standards		**119,450**	**7,397**	**39,209**	**166,056**
Reclassification of minority interests	2.2.1	297	49	55	401
TOTAL Shareholders’ equity published in accordance with French standards		**119,747**	**7,446**	**39,264**	**166,457**
Depreciation of purchase premiums (IAS 36)	2.3.3	-2,626	0	0	-2,626
Depreciation of authorizations (IAS 36)	2.3.3	-2,984	-65	0	-3,049
Cancellation of depreciation of purchase premiums (IFRS 3)	2.3.2		965	0	965
Reclassification of investment subsidies (IAS 20)	2.3.6	-39	-2	0	-41
Financial derivatives (IAS 32)	2.3.5	-4,057	185	-2,226	-6,098
Personnel benefits (IAS 19)	2.1.3	-243	192	-58	-109
Components method (IAS 16)	2.1.2	-442	-348	-332	-1,122
Intangible fixed assets (IAS 38)	2.2.2	-230	406	658	834
Provision for reorganization (IAS 37)	2.3.7		-94	0	-94
BSA (IFRS 2)	2.3.1		-2,010	2,010	0
Impact of deferred taxes on other treatments (IAS 12)	2.2.3	2,830	-147	2,264	4,947
Shareholders’ equity under IFRS standards		**111,956**	**6,528**	**41,580**	**160,064**

2. Explanation of main differences

The major differences between the French and IFRS standards are the following:

2.1 Differences related to IFRS 1/ Initial adoption of IFRS standards

IFRS standard 1 relates to the conditions for initial application of the IFRS. This standard offers “first-time users” a certain number of exceptions to the principles of retroactivity in applying IFRS. These options are the following:

2.1.1. Grouping of companies.

IFRS 1 offers the option to not include company groupings prior to the transition date, i.e., January 1, 2004. The Group has elected this option and purchases of companies occurring before January 1, 2004 were not included in the opening IFRS balance sheet.

2.1.2. Intangible and tangible fixed assets.

IFRS 1 offers the option to value tangible fixed assets, investment securities, and certain intangible fixed assets as of the transition date at fair market value, which is considered as their assumed cost.

The Group has not chosen the option to revalue tangible and intangible fixed assets at fair market value as of the transition date.

IAS 16, Tangible fixed assets, led to the application of the components approach and to a review of depreciation plans and methods. The Group has thus retroactively changed its depreciation plans for fixed assets.

This resulted in a decline in net book values (before taxes):

- at January 1, 2004, of (442,000) euros,
- at December 31, 2004, of (1,672,000) euros.

2.1.3. Actuarial variances linked to retirement commitments

IFRS 1 offers the possibility of posting, on the transition date, all cumulative actuarial variances linked to defined-contribution retirement systems. The Group has elected this option.
This resulted in an increase in provisions for retirement commitments (before taxes):

- at January 1, 2004, of 166,000 euros,
- at December 31, 2004, of 293,000 euros

Subsequent to January 1, 2004, and in accordance with the so-called "corridor" method, actuarial gains and losses are only recognized when they exceed 10% of the commitment or provision, whichever is highest.

The application of IAS 19 also results in an increase of provisions for seniority premiums, of:

- 77,000 euros at 1/1/04
- 80,000 euros at 12/31/04

2.2 Presentation differences

In financial statements prepared according to French standards, the consolidated balance sheet is presented in the order of liquidity of assets and liabilities. Pursuant to IAS 1, Presentation of Financial Statements, assets and liabilities must be presented separately depending upon whether they are current or non-current items.

2.2.1. Minority interests

In consolidated financial statements prepared in accordance with French standards, minority interests are not included in shareholders' equity. Pursuant to IAS 27, Consolidated and Individual Financial Statements, minority interests have been reclassified under shareholders' equity in the consolidated balance sheet.

2.2.2. Intangible fixed assets

In financial statements prepared in accordance with French standards, operating authorizations acquired by the group are presented under "operational business" [*fonds de commerce*].

Pursuant to IAS 38 – which does not recognize the concept of "operational business," but which does recognize the factors comprising it—operating authorizations constitute assets of indefinite use life. This results in a reclassification under goodwill. Moreover, authorizations held in assets, under this standard, result in a finding of a deferred liability tax.

These intangible assets are not subject to depreciation. They may also give rise to depreciation when recoverable value falls below book value.

This depreciation is realized in accordance with the principles contained in the amended IAS 36, depreciation of assets.

2.2.3. Deferred taxes

In financial statements prepared in accordance with French standards, deferred taxes are classified on the balance sheet under other receivables (assets) and under provisions for risks and expenses (liabilities), without regard for due date.

Pursuant to IAS 1, Presentation of Financial Statements (§ 70) and IAS 12, Income Taxes, all deferred asset and liability taxes must be classified under non-current items, and presented on a separate line.

- Assets net of deferred taxes reclassified under non-current items totaled €250,000 at January 1, 2004 and €2,785,000 at December 31, 2004 under French standards,

- Liabilities net of deferred taxes reclassified under non-current items totaled €20,113,000 at January 1, 2004 and €25,368,000 at December 31, 2004 under French standards.

2.2.4. Presentation of extraordinary items.

In consolidated financial statements prepared in accordance with French standards, extraordinary items are excluded from operating income and presented on a separate line of the income statement.

Pursuant to IAS 1, Presentation of Financial Statements, extraordinary items may not be presented separately. According to Recommendation No. 2004-R 02 of the National Accounting Council [*Conseil National de la Comptabilité*], certain extraordinary items were included in total operating income, on the line "Other Operating Revenue and Expenses." The Group also shows current operating income excluding the line "Other Operating Revenue and Expenses."
This latter includes:

- expenses incurred within the context of reorganization plans,
- capital gains or losses from the sale of activities and consolidated interests,
- losses of value incurred by intangible assets (including goodwill) relative to consolidated interests,
- the share of joint activities.

Capital gains or losses from disposals, as well as losses of value relating to non-consolidated interests, are presented on the "Other Financial Revenue and Expenses" line.

Consequently, extraordinary expenses and revenue for fiscal year 2004, with a net total of €194,000 (excluding share of subsidy applied to income of €4,000), and the share of joint operations, totaling €214,000, were reclassified under other operating revenue and expenses.

2.2.5. Other reclassifications of expenses and revenue

Transfer of expenses

In consolidated financial statements prepared by the Group according to French standards, a certain number of expenses were posted to assets under expenses to be distributed, using an expense transfer account. Major expenses included:

- loan issuance expenses,
- expenses incurred in acquiring tangible fixed assets.

In financial statements prepared according to IFRS standards, the corresponding expenses are either directly posted to assets if they meet the criteria, or maintained in expenses.

As noted below (2.3.5), loan issuance expenses are applied as a deduction against the borrowed amount.

Reversals of provisions within operating income

In consolidated financial statements prepared by the Group according to French standards, reversals of provisions are presented as a revenue item.
In financial statements prepared according to IFRS standards, reversals of provisions do not correspond to the definition of revenue and are posted against a decrease in expenses or provisions.

Changes in Inventory

In consolidated financial statements prepared by the Group according to French standards, changes in inventory of merchandise and materials are presented under expenses on a separate line.

In financial statements prepared according to IFRS standards, changes in inventory are applied to correcting the corresponding total purchases.

2.3 Other differences

2.3.1 Share-based payments

In consolidated financial statements prepared in accordance with French standards, stock subscription or purchase warrants are not valued and have no impact on the consolidated income statement.

Pursuant to IFRS 2, Share-Based Payments, stock subscription or purchase warrants awarded to employees must be valued at far market value, which must be posted to the income statement over the period of acquisition of the exercise rights by employees. The fair market value of the options is determined by reference to the intrinsic value.

This resulted in a personnel expense at December 31, 2004, totaling €2,010,000, offset by an increase in shareholders' equity.

2.3.2 Depreciation of Goodwill

In consolidated financial statements prepared according to French standards, goodwill is systematically depreciated over a duration that reflects the assumptions used, the objectives set, and the prospects envisioned at the time of the purchase. These durations are estimated at 20 years for EHPAD activities and follow-up care.

Goodwill is subject to impairment tests at least once a year. Extraordinary depreciation is exceptional and posted when recoverable value becomes permanently less than book value.

Pursuant to IFRS 3, Business Groupings, and amended IAS 38, Intangible Fixed Assets, goodwill must no longer be depreciated but rather be subject to loss-of-value tests at least once a year. The principles followed by the Group to perform impairment tests on assets are consistent with the principles set forth by amended IAS 36, Asset Depreciation.

2.3.3 Asset Depreciation

The application of amended IAS 36 yielded the following depreciation amounts, net of tax effect:

- at 1/1/04:
  - authorizations: €2,984,000
  - Goodwill: €2,626,000

  Total Depreciation: €5,610,000
- at 12/31/04,
  - authorizations: € 65,000
  - Goodwill: € 0,000

  Total Depreciation: €65,000

2.3.4 Investment securities and mutual funds.

In consolidated financial statements prepared according to French standards, investment securities and mutual funds are posted at purchase cost. They are subject to provisions for depreciation when recoverable value permanently falls below book value.

Pursuant to IAS 39, Financial Instruments: Accounting and Valuation, mutual funds and investment securities are classified into four categories:

- financial assets and liabilities at fair market value, by income,
- securities for which the Group has the intention and capacity to hold then until maturity (“held-to-maturity investments”),
- securities available for sale (“available for sale securities”), and
- loans and receivables.

In financial statements prepared in accordance with IFRS standards, non-consolidated securities are treated as securities available for sale. When these involve equities of non-listed companies, they are initially posted at cost and must be subject to an impairment test in cases of an impairment index. Any depreciation is posted to the income statement. At January 1, 2004 and December 31, 2004, the net book value of these financial assets was deemed representative of fair market value.

2.3.5 Financial instruments and application of the amortized cost method

In consolidated financial statements prepared according to French standards, interest rate and foreign exchange derivatives qualified for hedging purposes are treated as off-balance sheet commitments. Losses or gains on these derivatives are deferred to the time when the hedged item is itself posted to the income statement. Interest-bearing financial assets and liabilities are also included on the consolidated balance sheet at historic value, after applying any provisions for a loss of value on the assets. Financial revenue and expenses relative to these assets and liabilities are calculated based on face interest rate, and issuance expenses incurred are posted to assets on the balance sheet under expenses to be distributed and amortized over the life time of the instruments.

Pursuant to IAS 39, Financial Instruments: Accounting and Valuation, all derivatives must be reflected on the balance sheet at fair market value. If the derivative is designated as a hedge of fair market value, changes in the value of the derivative and the hedged item are posted to income over the same period. If the derivative is designated as a cash flow hedge, the change in value of the effective portion of the derivative is posted to shareholders’ equity. It is posted to income when the hedged item is itself posted to income. Moreover, IAS 39 requires that certain financial assets and liabilities be posted according to the depreciated cost method, based on effective interest rate.

At January 1, 2004 and December 31, 2004, the posting to the balance sheet of financial derivatives at fair market value and application of amortized cost had a pre-tax impact of -€4,057,000 and -€6,098,000, respectively, on consolidated shareholders’ equity.

The change in value of the effective portion of the derivative posted to shareholders’ equity totaled -€2,226,000 in 2004.
The change in value of the ineffective portion of derivatives is posted directly to income for a total of €185,000 in 2004.

2.3.6 Investment subsidies.

In consolidated financial statements prepared in accordance with French standards, investment subsidies are posted to shareholders’ equity.

Pursuant to IAS 20, Posting of public subsidies and information to be provided on public assistance, subsidies are posted as a reduction in the value of tangible assets.

At January 1, 2004 and December 31, 2004, this reclassification resulted in a decrease in tangible assets and shareholders’ equity of €34,000 and €41,000, respectively.

2.3.7 Provisions for reorganization

Within the framework of acquiring the Réactimalt Group, provisions for reorganization, totaling €499,000, were posted to the financial statements prepared in accordance with French standards.

According to IFRS 3, “grouping of businesses,” and IAS 37, “Provisions and Future Liabilities,” only provisions corresponding to an existing liability under a reorganization of acquired entities are permitted.

At 12/31/04, this treatment resulted in a reduction in provisions totaling €405,000 pre-tax, offset by:
- an increase in the purchase premium of €499,000
- a decrease in income of €94,000

1. **Conversion of the balance sheet at January 1, 2004 in French standards, to IFRS standards**

The following table shows a reconciliation between the consolidated balance sheet prepared in accordance with French standards, and the consolidated balance sheet prepared according to IFRS standards at January 1, 2004:

ASSETS

(In thousands of euros)	according to French standards at January 1, 2004	IFRS treatment	according to IFRS standards at January 1, 2004
Goodwill	34,166	33,941	68,107
Intangible fixed assets	141,969	12,704	154,673
Tangible fixed assets	224,296	-476	223,820
Long-term investments	2,541	-338	2,203
Deferred taxes assets		2,048	2,048
Non-current assets	**402,972**	**47,879**	**450,851**
Inventory	398		398
Trade accounts and notes receivable	7,248		7,248
Other receivables and current financial assets	13,926	1,431	15,357
Cash and cash equivalents	4,472	0	4,472
Current assets	**26,044**	**1,431**	**27,475**
Total assets	**429,016**	**49,310**	**478,326**

LIABILITIES

(In thousands of euros)	according to French standards at January 1, 2004	IFRS treatment	according to IFRS standards at January 1, 2004
Capital	116,818		116,818
Consolidated reserves and income	2,631	-7,825	-5,194
Shareholders’ equity (Group share)	**119,449**	**-7,825**	**111,624**
Minority interests	297	34	331
Shareholders’ equity	**119,746**	**-7,791**	**111,955**
Provisions for retirement	794	166	960
Deferred taxes		71,298	71,298
Other provisions	6,666	-499	6,167
Loans and financial liabilities	248,650	-14,131	234,519
Non-current liabilities	**256,110**	**56,834**	**312,944**
Provisions of less than one year		576	576
Suppliers and trade payables	6,118		6,118
Other liabilities and adjustment accounts	37,530	-20,108	17,422
Debts due within one year and bank overdrafts	9512	14,131	23,643
Financial liability instruments		5,668	5,668
Current liabilities	**53,160**	**267**	**53,427**
Total liabilities	**429,016**	**49,310**	**478,326**

2. IFRS standard conversion tables at December 31, 2004

- 2004 Balance Sheet under IFRS Standards

ASSETS

(In thousands of euros)	according to IFRS standards at 12/31/2004
Net goodwill	96,392
Intangible fixed assets	201,722
Tangible fixed assets	194,819
Long-term investments	7,234
Deferred taxes assets	4,432
Non-current assets	**504,599**
Inventory	379
Trade accounts and notes receivable	11,745
Other receivables and current financial assets	11,901
Cash and cash equivalents	18,421
Current assets	**42,446**
Total assets	**547,045**

LIABILITIES

(In thousands of euros)	according to IFRS standards at 12/31/2004
Capital	**152,963**
Premiums	**4,390**
Consolidated reserves and income	**2,310**
Shareholders' equity (Group share)	**159,663**
Minority interests	**401**
Shareholders' equity	**160,064**
Provisions for retirement	**1,597**
Deferred taxes	**88,091**
Other provisions	**3,390**
Loans and financial liabilities	**205,855**
Non-current liabilities	**298,933**
Provisions of less than one year	**446**
Suppliers and trade payables	**10,876**
Other liabilities and adjustment accounts	**33,026**
Debts due within one year and bank overdrafts	**37,578**
Financial liability instruments	**6,122**
Current liabilities	**88,048**
Total liabilities	**547,045**

2004 income statement according to IFRS standards

INCOME	
(In thousands of euros)	**12/31/04 IFRS**
Total revenue	160 430
Other revenue	-7
Activity revenue	**160,423**
Purchases consumed	15,473
Other purchases	181
Personnel expenses	77,269
External expenses	27,803
Duties and taxes	8,231
Contributions to depreciation	10,229
Current operating income	**21,237**
Other revenue and operating expenses	1,026
Operating income	**22,263**
Financial expenses	-12,514
Financial revenue	185
Pre-tax income	**-12,329**
Cash revenue and cash equivalents	338
Net cost of financial debt	**-11,991**
Other financial revenue and expenses	558
Pre-tax income	**10,830**
Tax on earnings	-4,302
Income from absorbed companies	**6,528**
Group share in the income of companies subject to the equity method of accounting	
Net income before income from activities in the course of suspension or sale	**6,528**
Net tax income from activities suspended, sold, or in the process of sale	
Net income	**6,528**
Share of minority interests	88
Group share	**6,440**

Conversion of 2004 income under French standards to IFRS standards

The following table shows a reconciliation for fiscal year 2004 between the consolidated income statement prepared in accordance with French standards, and the consolidated income statement prepared in accordance with IFRS:

INCOME

(In thousands of euros)	112/31/04 99-02	IFRS Treating	12/31/04 IFRS
Total revenue	160,430	0	160,430
Other revenue	972	-979	-7
Expense transfers	2,176	-2,176	0
Activity revenue	**163,578**	**-3,155**	**160,423**
Purchases consumed	15,546	-73	15,473
Other purchases	181	0	181
Personnel expenses	76,522	747	77,269
External expenses	27,912	-109	27,803
Duties and taxes	8,631	-400	8,231
Contributions to depreciation	11,128	-899	10,229
Current operating income	**23,658**	**-2,421**	**21,237**
Other revenue and operating expenses	0	1,026	1,026
Operating income	**23,658**	**-1,395**	**22,263**
QP on joint transactions	214	-214	0
Financial expenses	-12,559	45	-12,514
Financial revenue	1,053	-868	185
Gross cost of financial debt	**-11,506**	**-823**	**-12,329**
Cash revenue and cash equivalents		338	338
Net cost of financial debt	**-11,506**	**-485**	**-11,991**
Other financial revenue and expenses		558	558
Extraordinary income	198	-198	0
Pre-tax income	**12,564**	**-1,734**	**10,830**
Tax on earnings	-4,153	-149	-4,302
Income from absorbed companies	**8,411**	**-1,883**	**6,528**
Net income before income from activities in the course of suspension or sale	**7,446**	**-918**	**6,528**
Net income	**7,446**	**-918**	**6,528**
Share of minority interests	49	39	88
Group share	**7,397**	**-957**	**6,440**

Conversion of 2004 operating income under French standards to IFRS standards

in thousands of euros	2004
Consolidated 2004 operating income according to French standards	**23,658**
Reclassification of investment subsidies (IAS 20)	4
Adjustments in expenses for retirement commitments and seniority premiums (IAS 19)	290
Components method (IAS 16)	-348
BSA (IFRS 2)	-2,010
Reclassification of expense transfers and operating subsidies (IAS 1)	-277
Treatment of expenses to be distributed (IAS 38)	-80
Current operating income according to IFRS standards	**21,237**
Other operating revenue and expenses	1026
Impact of IFRS standards	**-1,395**
Operating income under IFRS standards	**22,263**

- Conversion of the 2004 balance sheet under French standards to IFRS standards

The following table shows a reconciliation between the consolidated balance sheet prepared according to French standards, and the consolidated balance sheet prepared according to IFRS, at December 31, 2004:

ASSETS

(In thousands of euros)	according to French standards at 12/31/2004	IFRS treating	according to IFRS standards at 12/31/2004
Goodwill nets	27,358	69,034	96,392
Intangible fixed assets	207,952	-6,230	201,722
Tangible fixed assets	196,566	-1,747	194,819
Long-term investments	4,291	2,943	7,234
Deferred asset taxes	0	4,432	4,432
Non-current assets	**436,167**	**68,432**	**504,599**
Inventory	379	0	379
Trade accounts and notes receivable	11,745	0	11,745
Other receivables and current financial assets	18,929	-7,028	11,901
Cash and cash equivalents	18,421	0	18,421
Current assets	**49,474**	**-7,028**	**42,446**
Total assets	**485,641**	**61,404**	**547,045**

LIABILITIES

(In thousands of euros)	according to French standards at 12/31/2004	IFRS treating	according to IFRS standards at 12/31/2004
Capital	152,963	0	152,963
Premiums	4,390	0	4,390
Consolidated reserves and income	8,928	-6,618	2,310
Shareholders' equity (Group share)	**166,281**	**-6,618**	**159,663**
Minority interests	196	205	401
Shareholders' equity	**166,477**	**-6,413**	**160,064**
Provisions for retirement	1,304	293	1,597
Deferred taxes	0	88,091	88,091
Other provisions	4,161	-771	3,390
Loans and financial liabilities	238,916	-33,061	205,855
Non-current liabilities	**244,381**	**54,552**	**298,933**
Provisions less than one year	0	446	446
Suppliers and trade payables	12,119	-1,243	10,876
Other liabilities and adjustment accounts	57,032	-24,006	33,026
Debts due within one year and bank overdrafts	5,633	31,945	37,578
Financial liability instruments	0	6,122	6,122
Current liabilities	**74,784**	**13,264**	**88,048**
Total liabilities	**485,641**	**61,404**	**547,045**

- Change in Shareholders' equity

The following table shows the change in shareholders' equity, prepared according to IFRS standards, between January 1, 2004 and December 31, 2004:

in thousands of euros	Capital	Premiums	Cumulative income	Group share of shareholders' equity	Minority interests	Total shareholders' equity
At 1 January 2004	**116,818**		**-5,194**	111,624	**331**	**111,955**
Capital increase	36,145	4,390	-1,101	39,434	-170	39,264
Income for fiscal year 2004			6,440	6,440	88	6,528
Change in fair market value of financial instruments			-1,462	-1,462		-1,462
Changes in corporate structure			-	-	209	209
Payment in shares (BSA)			2,010	2,010		2,010
Variable amount carried forward			1,592	1,592		1,592
Other changes			25	25	-57	-32
At December 31, 2004	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**

Note 31 – List of Group companies

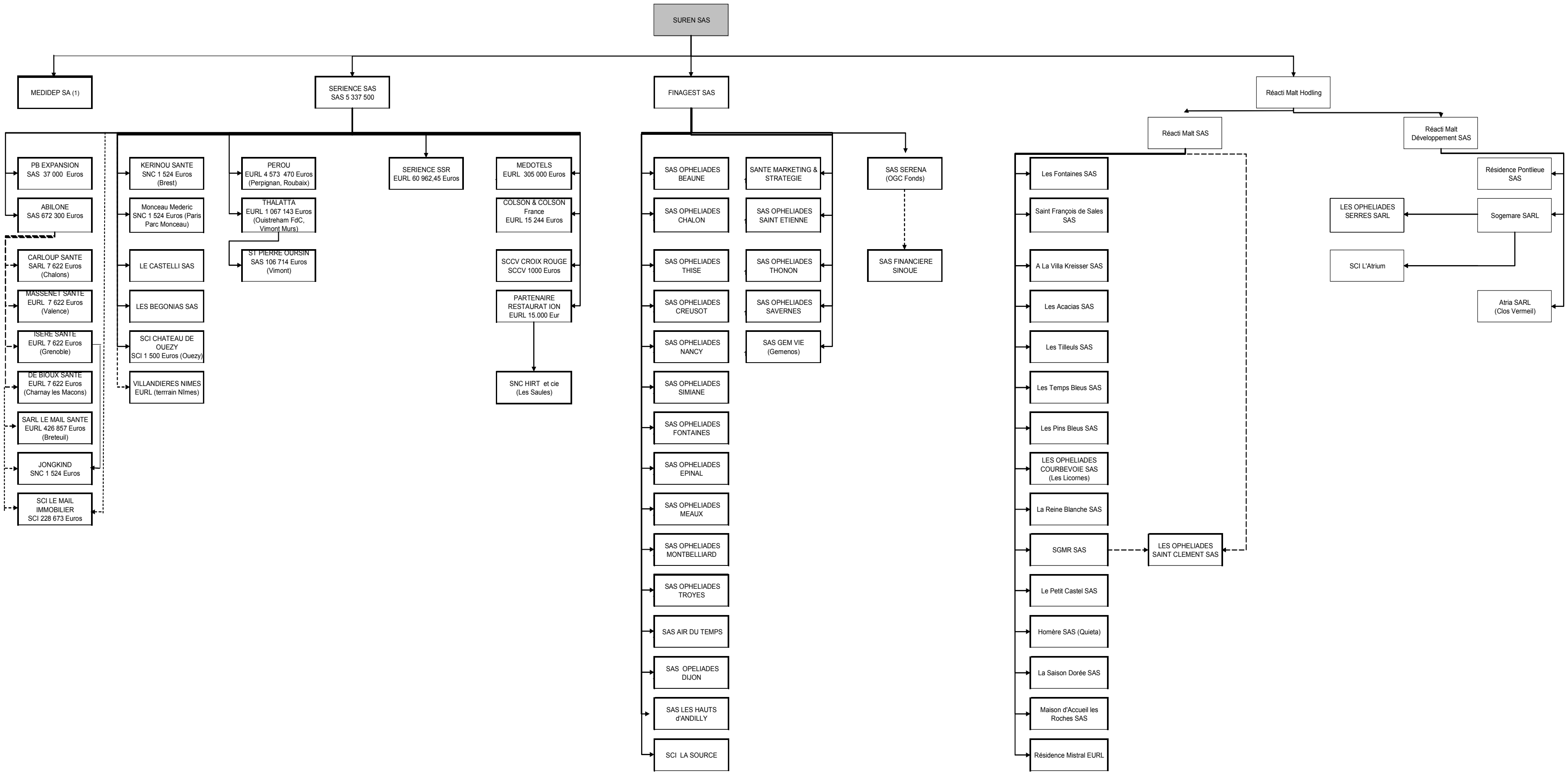
Corporate name	% control	% interest	Method	Corporate headquarters
Abilone (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Atria SAS	100.00%	100.00%	IG	3B avenue de la République Résidence Le Clos Vermeil 34370 MAUREILHAN
Carloup Santé	73.59%	69.84%	IG	12 impasse du Carloup 71100 CHALON SUR SAONE
Château De Saint Pierre Oursin (*)	100.00%	100.00%	IG	Château de Saint Pierre Oursin 14370 VIMONT
Colson & Colson France (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
De Bioux Santé	100.00%	100.00%	IG	2 rue de la résistance 71850 CHARNAY LES MACON
Finagest SAS (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
Financière Sinoue SAS	32.53%	32.53%	IP	11 Bis rue de la Porte Jaune 92380 GARCHES
Hirt and Cie (*)	100.00%	100.00%	IG	11 rue Henri de Toulouse Lautrec 78280 GUYANCOURT
Homère SAS	100.00%	100.00%	IG	Homère Quieta 9 rue du Queyras 78180 MONTIGNY LE BRETONNEUX
Isère Santé	100.00%	100.00%	IG	50 rue de Mortillet 38000 GRENOBLE
Jongking SNC (*)	99.00%	99.00%	IG	30 avenue Carnot 91300 MASSY
Kerinou Santé (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
La Reine Blanche SAS	100.00%	100.00%	IG	643 rue de la Reine Blanche 45160 OLIVET
La Saison Dorée SAS	100.00%	100.00%	IG	13 rue Pericaud 69008 LYON
La Villa Kreisser SAS	100.00%	100.00%	IG	3 Villa Kreisser 92700 COLOMBES
Le Castelli	100.00%	100.00%	IG	Route de la plaine 53970 L'HUISSERIE
Le Mail Santé	100.00%	100.00%	IG	175 rue Neuve de Bémecourt 27160 BRETEUIL SUR ITON
Le Petit Castel SAS	100.00%	100.00%	IG	9 rue du Mail « La maisonneraie de la Papoterie » 37170 CHAMBRAY LES TOURS
Les Bégonias SAS	100.00%	100.00%	IG	4 Impasse Germain Etourneau 17300 ROCHEFORT
Les Fontaines SAS	100.00%	100.00%	IG	Quartier of the Laus 83670 BARJOLS
Les Hauts D'Andilly SAS	100.00%	100.00%	IG	4 rue Philippe Le Bel 95580 ANDILLY

Les Ophéliades Courbevoie - Résidence Les Licornes SAS	100.00%	100.00%	IG	6 rue Pierre Lhomme 92400 COURBEVOIE
Les Ophéliades Serres	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRE
Les Ophéliades St Clément - Clos St Clément	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 SAINT CLEMENT
Les Pins Bleus SAS	100.00%	100.00%	IG	Route du Lazaret Domaine de St Elme 83430 ST MANDRIER SUR MER
Les Temps Bleus SAS	100.00%	100.00%	IG	8 bis rue de la Touche 28400 NOGENT LE ROTROU
Les Tilleuls SAS	100.00%	100.00%	IG	Route de Pleumartin 86100 CHATELLERAULT
Les Villandières Nîmes EURL	20.00%	20.00%	IG	28 rue Dumont D'urville 75116 PARIS
Maison d'Accueil Les Roches SAS	100.00%	100.00%	IG	Les Chavettes 63230 ST OURS LES ROCHES
Massenet Santé	100.00%	100.00%	IG	9 rue Jules Massenet 26000 VALENCE
Groupe Medidep (**)	87.86%	100.00%	IG	152 av. de Malakoff 75016 PARIS
Medotels (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Monceau Médéric (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Partenaire Restauration (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
PB Expansion	100.00%	100.00%	IG	46 avenue Foch METZ
Perou (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Reacti Malt Développement	100.00%	100.00%	IG	Zone Industrielle 25870 DEVECEY
Reacti Malt SAS (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Frederic Mistral EURL	100.00%	100.00%	IG	Traverse Charles Susini 13381 MARSEILLE CEDEX 13
Résidence Les Acacias SAS	100.00%	100.00%	IG	17 rue Jeanne Gleuzer 92700 COLOMBES
Résidence Pontlieue SAS	100.00%	100.00%	IG	19 place Adrien Tironneau 72100 LEMANS
S.A.S GEM VIE (*)	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.A.S L'Air du Temps Résidence Strasbourg Robertsau (*)	100.00%	100.00%	IG	3 rue de la Baronne d'Oberkirch 67000 STRASBOURG
S.A.S Les Ophéliades Chalon (*)	100.00%	100.00%	IG	7-9 allée de St Jean of the Vignes 71100 CHALON SUR SAONE
S.A.S Les Ophéliades Dijon (*)	100.00%	100.00%	IG	15 Rue Jean Giono 21000 DIJON
S.A.S Les Ophéliades Epinal (*)	100.00%	100.00%	IG	13 rue Ponscarme 88000 EPINAL
S.A.S Les Ophéliades Fontaines (*)	100.00%	100.00%	IG	Montée de la Ruelle 69270 FONTAINES SAINT MARTIN
S.A.S Les Ophéliades Le Creusot (*)	100.00%	100.00%	IG	6 rue Victor Hugo 71200 LE CREUSOT
S.A.S Les Ophéliades Meaux (*)	100.00%	100.00%	IG	Rue de Condé ZAC du Luxembourg 77100 MEAUX
S.A.S Les Ophéliades Montbéliard (*)	100.00%	100.00%	IG	7 avenue Georges Pompidou 25200 MONTBELIARD
S.A.S Les Ophéliades Nancy (*)	100.00%	100.00%	IG	12 boulevard du 21e R.A 54000 NANCY
S.A.S Les Ophéliades Saint Etienne (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Saverne (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY

S.A.S Les Ophéliades Simiane (*)	100.00%	100.00%	IG	Avenue André Malraux 13109 SIMIANE COLLONGUE
S.A.S Les Ophéliades Thise (*)	100.00%	100.00%	IG	2 rue Chenevières 25220 THISE
S.A.S Les Ophéliades Thonon les Bains (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Troyes (*)	100.00%	100.00%	IG	39-41 Avenue Pasteur 10000 TROYES
S.A.S RM Holding	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Société d'Etude and de Réalisation pour le Nouvel Age (Serena) (*)	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.G.M.R SAS	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 ST CLEMENT
Saint François de Sales SAS	100.00%	100.00%	IG	145 chemin du Pelet 69390 VERNAISON
SAS Les Ophéliades Beaune (*)	100.00%	100.00%	IG	Rue Maryse Bastié 21200 BEAUNE
SAS Santé Marketing and Stratégie (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
SCCV Croix Rouge	100.00%	100.00%	IG	18 quai du Commandant malbert 29200 BREST
SCI Château de Ouezy A34	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
SCI L'Atrium	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRE
SCI La Source	100.00%	100.00%	IG	4 rue Philippe Le Bel 95580 ANDILLY
SCI Le Mail Immobilier	100.00%	100.00%	IG	175 rue Neuve de Bémécourt 27160 BRETEUIL SUR ITON
Sérience (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Sérience Soins De Suite and De Réadaptation (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Sogemare SAS	100.00%	100.00%	IG	Rue of the Jardins - résidence l'Atrium 05700 SERRES
Suren SAS (*)	100.00%	100.00%	Sté Mère	Zone Industrielle de Devecey 25870 DEVECEY
Thalatta (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY

(*): fiscal year of 21 months
(**): 98 companies consolidated at 12/31/2005

Note 32 – Group organization chart



(1) Organigramme MEDIDEP à suivre

Note 33 – Pro Forma: assumptions used

- Takeover of Medidep on January 1, 2005 up to 87.86%
- Debt from purchase of MEDIDEP: €201.6 million
- Capital increase: €204.2 million
- Retention of existing Medidep debt

- Non-treatment of sales of real property assets in 2004
- Non-treatment of the purchase of the Réacti-Malt sub-group (purchase on 10/31/04))
- Non-inclusion of SUREN financing of €75 million after the outsourcing of its real estate assets

3.18.1.3 Consolidated financial statements of SUREN at December 31, 2004 in IFRS and contractual audit report of the statutory auditors

PIA Group

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75008 PARIS

MAZARS & GUERARD

Le Vinci
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92075 La Défense Cedex

Report of the Statutory Auditors on the Consolidated Financial Statements

Fiscal year ending December 31, 2004

Mr. Chairman,

Pursuant to your request to us and in our capacity as statutory auditors of SUREN, we have undertaken an audit of the consolidated financial statements prepared in accordance with the applicable IFRS standard as of December 31, 2005, as attached, for the period from January 1, 2004 to December 31, 2004.

These financial statements were prepared within the context of the listing on the market of SUREN shares for purposes of presenting the financial statements over three fiscal years in accordance with Commission regulation No. 809/2004 of April 29, 2004, implementing European Parliament and Council Directive 2003/71/EC with regard to information contained in prospectuses, the structure of prospectuses, the inclusion of information by reference, the publication of prospectuses, and the distribution of promotional communications.

The consolidated financial statements were prepared by the Board of Directors on September 19, 2005. We are responsible for expressing an opinion on these financial statements based on our audit.

I – Opinion on the annual financial statements

We have performed our audit in accordance with professional standards applicable in France; these standards require taking measures to obtain reasonable assurance that the consolidated financial statements contain no significant anomalies. An audit consists of an examination, by sampling, of critical elements that support the data contained in these financial statements. It also consists in evaluating the accounting principles followed and the significant estimates applied in preparing the financial statements and evaluating their presentation as a whole. We believe our audit provides a reasonable basis for the opinion expressed below.

We believe the consolidated financial statements accurately present, in all significant aspects, the financial situation of the entities comprising the December 31, 2004 consolidation and their operating results for the period from January 1, 2004 to December 31, 2004, pursuant to current accounting standards as described in our attached notes.

II – Justification of the evaluations

Pursuant to Article L. 823-9, section 2 of the Trade Code [*Code de Commerce*] relative to the justification of our evaluations, please be advised of the following:

Note 1 of the appendix to the financial statements indicates that intangible and tangible fixed assets (grouped into Cash Generating Units) were subject to impairment tests (according to an evaluation carried out with respect to net future discounted cash flows) in accordance with the IAS 36 standard. As of December 31, 2005, we verified:

- the reasonable nature of the estimates applied,
- that sufficient provisions were established based on these estimates.

The analyses thus carried out fall within the framework of our audit of the consolidated financial statements taken as a whole, and therefore contributed to forming our opinion, as expressed in the first part of this report.

Our diligences consisting in reviewing the available documentation and assess the fairness of the the valuations which have been retained.

Issued in Paris and La Défense, September 25, 2006

The statutory auditors

PIA GROUP SOPHIE DUVAL

MAZARS & GUERARD PIERRE FRENOUX

Groupe Suren

Presentation of the balance sheet

ASSETS

(In thousands of euros)	note	12/31/04	1/1/04
Goodwill	4	96,392	68,107
Intangible fixed assets	5	201,722	154,673
Tangible fixed assets	6	194,819	223,820
Long-term investments	8	7,234	2,203
Deferred taxes assets	25	4,432	2,048
Non-current assets		**504,599**	**450,851**
Inventory	9	379	398
Trade accounts and notes receivable	10	11,745	7,248
Other receivables and current financial assets	11	11,901	15,357
Cash and cash equivalents	12	18,421	4,472
Current assets		**42,446**	**27,475**
Total assets		**547,045**	**478,326**

SHAREHOLDERS' EQUITY AND LIABILITIES ,

(In thousands of euros)		12/31/04	1/1/04,
Capital		152,963	116,818
Premiums		4,390	
Consolidated reserves and income		2,310	-5,194
Shareholders' equity (Group share)	14	**159,663**	**111,624**
Minority interests	14	401	331
Total shareholders' equity		**160,064**	**111,955**
Provisions for retirement	18	1,597	960
Deferred taxes	25	88,091	71,298
Other provisions	19	3,390	6,167
Loans and financial liabilities	17	205,855	227,709
Non-current liabilities		**298,933**	**306,134**
Provisions of less than one year	19	446	576
Suppliers and trade payables		10,876	5,905
Other liabilities and adjustment accounts	20	33,026	17,635
Debts due within one year and bank overdrafts	15 / 16	37,578	30,453
Financial liability instruments	15	6,122	5,668
Current liabilities		**88,048**	**60,237**
Total liabilities		**547,045**	**478,326**

Presentation of the income statement

INCOME

(In thousands of euros)	**Note**	**2004**
Total revenue		**160,430**
Other revenue		-7
Activity revenue		**160,423**
Purchases consumed		15,473
Other purchases		181
Personnel expenses	22	77,269
External expenses		27,803
Duties and taxes		8,231
Depreciation and impairment		10,229
Current operating income		**21,237**
Other revenue and operating expenses	23	1,026
Operating income		**22,263**
Financial expenses		-12,514
Financial revenue		185
Gross cost of financial debt	24	**-12,329**
Cash revenue and cash equivalents		338
Net cost of financial debt		**-11,991**
Other financial revenue and expenses		558
Pre-tax income		**10,830**
Tax on earnings	25	-4,302
Income from absorbed companies		**6,528**
Group share in the income of companies subject to the equity method of accounting		
Net income before income from activities in the process of suspension or sale		**6,528**
Net income		**6,528**
Share of minority interests		88
Group share		**6,440**
Group share of net income per share	14	0,05
Group share of net income per share (diluted)	14	0,05

Cash flow table

CASH FLOW TABLE *(in thousands of euros)*	12/31/2004
Net income from absorbed companies	6,528
Net contributions to depreciation, impairment, and provisions	9,598
Deferred taxes	-191
Net income from absorbed companies	105
Contributions to depreciation, impairment, and provisions	-185
Net income from absorbed companies	340
Contributions to depreciation, impairment, and provisions	2,010
Gross margin on treasury shares	**18,205**
Change in inventory	103
Change in trade receivables	1,918
Change in supplier debts	1,096
Change in other items	-26,024
Change in need for working capital	**-22,907**
Net cash flow generated by the activity: Total I	**-4,702**
Investment activities	
Other purchases of subsidiaries	-4,982
Purchase of Réacti-Malt	-31,530
Sales de subsidiaries	2,964
Intangible and tangible investments	-19,779
Other financial investments	-2,289
Cash deriving from the sale of fixed assets (excluding securities)	47,649
Cash deriving from a reduction in long-term investments	640
Net cash flow related to investment activities: Total II	**-7,327**
Financing activities	
Capital increase	39,264
New loans	170,199
Loan repayments	-179,605
Dividends paid to minority owners of absorbed companies	6
Net cash flow related to financing activities: Total III	**29,864**
Net change in cash: I + II + III	**17,835**
Cash at opening	-5,040
Cash at close	12,795
Cash and cash equivalents	18,421
Current bank loans	-5,626
Cash	**12,795**

Changes in shareholders' equity

in thousands of euros	Capital	Premiums	Cumulative results	Group share of shareholders' equity	Minority interests	Total shareholders' equity
At 1 January 2004	**116,818**		**-5,194**	**111,624**	**331**	**111,955**
Capital increase	36,145	4,390	-1,101	39,434	-170	39,264
Income for fiscal year 2004			6,440	6,440	88	6,528
Change in the fair market value of financial instruments			-1,462	-1,462		-1,462
Changes in corporate structure				0	209	209
Payment in shares (BSA)			2,010	2,010		2,010
Impact of change in tax rate			1,617	1,617	-57	1,560
At December 31, 2004	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**

Note 1 – Accounting principles

Statement of compliance

The consolidated financial statements were prepared in accordance with IFRS standards applicable at December 31, 2005 as adopted by regulation in the European Union.

The consolidated financial statements include the statements of Société par Action Simplifiée Suren and the subsidiaries it controls.

The list of absorbed companies is presented in note 30.

Presentation of the financial statements

The Group's consolidated financial statements are prepared based on historic cost, with the exception of the following assets and liabilities, which are posted at fair market value:

- investments held for trading purposes
- investments available for sale
- derivative instruments

Assets and liabilities subject to hedging are reported at fair market value taking the risk hedged into consideration. Current assets are:

- assets intended to be consumed or sold during the normal operating cycle;
- cash and cash equivalents;
- assets held essentially for trading purposes.

All other assets are non-current.

The consolidated financial statements are presented in thousands of euros.

Conditions for initial application of the IFRS

The principles and options applied in preparing the opening IFRS balance sheet of January 1, 2004, variations from the French accounting principles previously applied by the Group, and their numerical impact on this opening balance sheet, the balance sheet of December 31, 2004, and the income statement for fiscal year 2004.

In accordance with the transitory provisions of IFRS 1, "Initial adoption of the IFRS," and IAS standards 32 and 39 relative to the presentation, posting, and evaluation of financial instruments, the Suren Group has elected to apply IAS standards 32 and 39 as of January 1, 2004. The comparative information from 2004 therefore includes the impact of these standards.

Consolidation principles

The Suren Group's consolidated financial statements include the statements of Suren SA and its subsidiaries for the period from January 1 to December 31, 2004.

The fiscal year of Suren SA and the 35 companies of the group correspond to the period from January 1, 2004 to December 31, 2004. Accounting data from after December 31, 2004 was prepared in such a way as to present the consolidated financial statements for this period.

Subsidiaries

Subsidiaries are companies controlled by the Group. Control is defined as the power to directly or indirectly manage a company's operating and financial policies in such a way as to benefit from it. A subsidiary is controlled when the Group holds the power to directly or indirectly manage its operating and financial policy in order to derive benefits from its activities. In general, controlled companies are those in which Suren SA directly or indirectly holds over 50% of the voting rights.

The subsidiaries' financial statements are subject to the subsidiary consolidation method as of the date control was assumed, and cease to be consolidated when control is transferred outside the Group.

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

The financial statements are consolidated from the date control was assumed, to the date it was lost.

Affiliates [*Co-entreprises*]

Affiliates are companies in which the Group exercises joint control resulting generally from a contractual agreement.

The financial statements of affiliates are consolidated according to the proportional integration method. Consolidation according to the proportional integration method is a method of accounting by which an affiliate's shares in the assets, liabilities, revenue, and expenses of the jointly controlled entity are consolidated, line by line, with the corresponding items in the affiliate's financial statements.

The financial statements are consolidated from the date control was assumed, to the date it was lost.

The financial statements of hidden partnerships [*sociétés en participation*] are subject to proportional integration, except in the case of exclusive control, in which case they are integrated according to the subsidiary consolidation method.

Related companies

Related companies are companies in which the Group exercises a significant influence in matters of operating and financial policy without holding control. In general, this involves companies in which the Group holds at least 20% of the voting rights.

The Group's interests in related companies are posted according to the equity [*mise en équivalence*] method. The financial statements of related companies are included in the consolidated financial statements from the date of the assumption of significant influence, until the date of the loss of significant influence.

The balance sheet value of securities posted under the equity method includes the purchase price of the shares (including the purchase premium), plus or minus changes in the Group's share of related company's net assets beginning on the acquisition date. The income statement reflects the Group's share in the related company's income.

Eliminated transactions

Trade and financial balances and transactions, as well as income from inter-company transactions, are eliminated when preparing the consolidated financial statements.

Grouping of companies

- **Goodwill**

Positive variances between the purchase price and the share of the assets' and liabilities' fair market value identifiable on the date control is assumed are posted in assets under goodwill. Any negative variances are posted directly to income for the period.

Purchase premiums are not depreciated. Pursuant to regulation IAS 36, "Impairment of assets," they are subject to an impairment test at least once per year, and more frequently in the case of the application of a loss of value index. The test conditions are aimed at ensuring that the recoverable value of the cash generating unit to which the goodwill is assigned or allocated is equal to at least its net book value. If a loss of value of found, an impairment loss is posted to operating income, under "other operating revenue and expenses." This impairment is irreversible.

Pursuant to the transitory measures authorized by IFRS 1 "Initial adoption of the IFRS," purchases and groupings of companies posted before January 1, 2005 have not been reprocessed, and purchase premiums posted on that date were posted to the opening balance sheet of January 1, 2004 at their value net of depreciation, which became the new book value in IFRS.

- **Acquisition through successive purchases**

If acquisition takes place through successive purchases, each significant transaction is treated differently for determining the fair market value of the assets and liabilities acquired, and the residual purchase premium.

If an additional purchase allows control of a company to be obtained, shares already held are adjusted based on fair market value estimated on that date. The result of this adjustment is posted to shareholders' equity.

If the additional purchase occurs after control has already been acquired, the transaction is analyzed as a transaction with minority shareholders, with any premium at this time posted to shareholders' equity.

- **Minority interests**

Minority interests are posted at fair market value of net assets acquired.

Conversion methods

- ***Foreign currency* transactions**

Foreign currency transactions are converted to euros by applying the exchange rate current on the transaction date.
All transactions are denominated in euros.

Financial statements in foreign currency

Assets and liabilities of Group companies expressed in foreign currencies, including goodwill and adjustments relative to determining the fair market value in consolidation, are converted to euros at the exchange rate current on the account closing date. These companies' revenue and expenses are converted to euros at the average exchange rate for the year. The resulting conversion variances are posted directly to shareholders' equity.

As of the closing, all foreign subsidiaries were located in the euro zone.

Intangible fixed assets

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

Intangible fixed assets are posted at purchase price. Operating authorizations acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date based on one year of revenue at 100% occupancy rate.

They are not subject to any revaluation. Most intangible assets consist of operating authorizations, which constitute assets with an indefinite, non-depreciable use life. As applicable, they are subject to impairment when their recoverable value falls below book value.

Other intangible fixed assets primarily include software depreciated according to the straight-line method over its use life. When intangible fixed assets are acquired separately, they are posted at purchase price.

Tangible fixed assets

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

Tangible fixed assets are posted at purchase price. Fixed assets acquired within the framework of a grouping of companies are valued at fair market value on the acquisition date. They are not subject to any revaluation. At each close, purchase price is reduced by cumulative depreciation and any provisions for impairment as set forth in IAS 36, "Impairment of assets."

The cost of loans used to finance assets over a long service or manufacturing period is not included in the initial cost of the fixed assets, and is posted to expenses for the period.

- ***Treatment by component***

The principal components of a fixed asset with a use life shorter than that of the principal fixed asset are identified, for purposes of depreciation over their own use life.

Upon replacing the component, the expense corresponding to the new component is included under fixed assets so long as future economic benefits by the principal asset are expected.

- ***Maintenance and repair expenses***

Recurring maintenance expenses or those not corresponding to the criteria of treatment by component are posted to expenses when incurred.

- ***Work carried out on leased buildings***

Work carried out on buildings under simple lease are subject to depreciation by component over the asset's use life.

- ***Depreciation of tangible fixed assets***

Depreciation of tangible fixed assets is calculated according to the straight-line method and over their use lives as indicated below. Land is not depreciated.

The use lives applied are the following:

Categories	**use life**	**mode**
Structure	50 years	Straight line
Construction components	between 7 and 30 years	Straight line
Technical facilities	between 5 and 15 years	Straight line
Other improvements and fixtures	Between 3 and 5 years	Straight line
Medical materials	between 2 and 10 years	Straight line
Materials and furniture	between 2 and 10 years	Straight line
Software	1 year	Straight line
Transportation materials	5 years	Straight line

Assets subject to a lease-to-own agreement are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets)

- ***Impairment of tangible fixed assets***

In the presence of loss of value indices, tangible fixed assets are subject to impairment tests.

- ***Investment subsidies***

Investment subsidies are deducted from the corresponding gross investment value. They are applied at the latter's depreciation rate.

Lease agreements

Fixed assets financed through lease-to-own agreements, transferring to the Group virtually all risks and benefits inherent to the ownership of the leased assets, are posted to assets on the balance sheet at the leased asset's fair market value or at the discounted value of the minimum lease payments, if less. The corresponding debt is posted to financial liabilities.

Lease payments are broken out between financial expense and debt amortization in such a way as to obtain a constant periodic rate on the loan balance contained in the liability.

Assets subject to lease-to-own agreements are depreciated over their use life in accordance with Group rules (see § - Depreciation of tangible fixed assets). In case of a loss of value index, they are subject to an impairment test pursuant to IAS Regulation 36, "Impairment of assets").

Lease agreements in which the lessor retains almost all risks and benefits inherent in ownership of the asset are simple leases. Payments under these agreements are posted to expenses on a straight-line basis over the lifetime of the agreement.

Loss of value of tangible and intangible fixed assets

The book values of assets are reviewed at each close, to identify any losses of value:

- for non-depreciable intangible assets: at each close, or more frequently in case of the appearance of loss of value indices;
- for all other assets: upon the appearance of loss of value indices.

The test is carried out at least once a year for assets of an indeterminate lifetime, i.e., essentially operating authorizations and purchase premiums.

To perform impairment tests, fixed assets are grouped into Cash Generating Units (CGU). In general, each establishment constitutes a CGU.

The utility value of these units is determined by means of net future discounted cash flows (DCF) according to the following principles:
- Cash flows (pre-tax) derive from the medium-term business plan prepared by the management control department,
- The discount rate is based on the group's average weighted cost of capital,
- Future value is calculated by adding discounted cash flows to infinity, based on a standardized flow and a perpetual growth rate. This growth rate is consistent with the development potential of the markets in which the group is operating, as well as its competitive position within these markets.

When the recoverable value (the market or utility value, whichever is highest) is less than the asset's net book value or value of the Cash Generating Unit / CGU, a loss is posted to operating income.

When a CGU contains a purchase premium, the loss of value first reduces the purchase premium, before any impairment is applied to the CGU's other fixed assets.

Inventory and outstandings

Inventory is posted at cost or net sale value, whichever is lowest.

The inventory cost of raw materials, merchandise, and other provisions consists of the purchase price net of taxes, less rebates, returns, and discounts obtained, plus accessory purchasing expenses (transport, unloading expenses, customs expenses, purchase commissions, etc.). This inventory is evaluated in accordance with the first in / first out method.

Clients and other debtors

Trade receivables and other receivables are posted at purchase price less value adjustments.

Financial assets

Financial assets include:

- non-current financial assets: securities of non-absorbed companies, trade receivables, construction loans, security bonds and deposits given,
- current financial assets include short-term derivatives, cash, and cash equivalents (investment securities).

- ***Initial valuation***

Financial instruments are originally posted at purchase price. In most cases, the fair market value on the transaction date is the historic cost generally corresponding to purchase price.

- ***Classification and valuation at accounting closures***

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

Categories	Valuation	Posting of changes in value
Financial assets valued at fair market value	Fair market value	Income
Assets held to maturity	Depreciated cost	N/A
Loans and receivables	Depreciated cost	N/A
Assets available for sale	General principle: fair market value, Exception: at depreciated cost for shares for which fair market value cannot be reliably estimated (specifically, shares not traded on an active market)	Shareholders' equity

- ***Financial assets for which changes in fair market value are posted to income***

This category of assets includes:

- assets held for trading purposes, i.e., acquired by the company with a view to turning a short-turn profit,
- derivatives not expressly designated as hedging instruments.

Investment securities (SICAVs [*Sociétés d'Investissement à Capital Variable,* or French mutual funds], FCPs, etc.) are posted at fair market value at closing, and changes in fair market value are posted to financial income. Consequently, they are not subject to any impairment test. Fair market value is determined primarily with reference to market quotes.

- ***Loans and receivables***

These correspond to most non-derivative financial assets subject to fixed or fixable payments, not listed on an active market.

The depreciated cost of short-term receivables usually corresponds to historic cost.

In the Suren group, this category comprises trade receivables, long-term loans, and 1% housing loans.

The depreciated cost of short-term receivables usually corresponds to historic cost.

- ***Assets held to maturity***

These are non-derivative financial assets subject to fixed or fixable payments, of a set maturity date, for which the company has the intention and capability of keeping until maturity, other than receivables, loans, and financial assets designated by the company in the other two categories (valued at fair market value by income, available for sale).

- ***Assets available for sale***

Non-consolidated securities are treated as securities available for sale and are therefore valued at recoverable value, with underlying gains and losses posted to shareholders' equity, with the exception of underlying losses deemed permanent, which are posted to income. The net book value of these financial assets was deemed representative of recoverable value. Therefore, no variance was posted.

Other assets available for sale are specifically those not classified in any of the other three categories.

Short-term investments are posted at market value at each closing.

Cash and cash equivalents include cash and short-term investments maturing less than three months after the acquisition date.

Financial Derivatives

The Group uses derivatives (swaps and tunnels) to hedge against interest rate risk resulting from its variable-rate financing policy.

Derivatives are posted originally at purchase price. They are subsequently valued at fair market value.

If a derivative is designated as a hedge of fair market value, changes in the value of the derivative and the hedged asset are posted to income for the same period. If the derivative is designated as a cash flow hedge, the change in value of the effective portion of the derivative is posted to shareholders' equity. It is posted to income when the hedged asset is itself posted to income. By contrast, a change in the value of the ineffective portion of the derivative is posted directly to income.

Treasury shares

Treasury shares held by the Group are posted at purchase price less shareholders' equity until cancelled or sold.

Revenue from the sale of these shares is applied directly to shareholders' equity, such that no capital gains or losses, and no declines in value, affect consolidated income.

Personnel benefits

- **System types**

By virtue of legal obligations or common practice, the Group participates in supplementary retirement systems or other long-term benefits in favor of employees. The Group offers these benefits through defined contribution systems.

Within the framework of defined contribution systems, the Group has no obligation other than to pay contributions. Contributions made to the systems are posted to expenses for the period. Any contributions remaining to be paid during the period are subject to provisions.

- **Commitment types**

  ○ **Severance payments**

Severance payments fall under the applicable Group collective agreement (Unified Collective Agreement, C.C.U.) and include severance payments upon retirement or at career-end, paid in the case of voluntary resignation or retirement of employees.

Severance payments fall under the defined payments system.

  ○ **Seniority bonuses (or anniversary premiums)**

Seniority bonus programs as provided under the company's agreements constitute additional bonuses paid to employees who merit them by a certain level of seniority within their company.

  ○ **Supplementary retirement systems**

No program supplementing the legal minimum pension to employees has been subscribed by the Group in favor of its employees.

  ○ **Valuation of commitments**

Retirement and similar commitments resulting from defined payment systems are subject to provision based on an actuarial calculation performed at least once a year by an independent actuary. These commitments include only retirement severance payments. The projected credit units method is used: each service period gives rise to one additional payment rights unit, and each of these units is valued separately to obtain the obligation to employees.

Calculations take into consideration specific details of the various regimes, as well as assumptions for start of retirement, change of career, salary increases, the likelihood of an employee's still being with the Group at retirement age (staff turnover rate, mortality tables, etc.). The obligation is adjusted based on the long-term bond interest rates of top-tier issuers.

The obligation is subject to provisions less any assets from the system valued at fair market value.
Actuarial gains and losses are generated by changes in assumptions relating to the commitments or financial assets of the regimes. These variances are recognized under income according to the corridor method defined in IAS 19, "*Personnel benefits*." They are depreciated over the employee's remaining expected active life for the portion exceeding 10% of the largest of the following amounts:

- the discounted value of the obligation at closing,
- the fair market value of the system assets at closing.

In setting the opening balance sheet in IFRS as of January 1, 2004, the Suren Group used the option under IFRS Regulation 1, of posting all actuarial variances at that date less shareholders' equity.

Net expenses for retirement and similar benefits are posted to operating income for the period, except the expense of adjusting fees posted to financial income.

Other provisions

A provision is posted when, at the close of the period, the Group has a current obligation (legal or implied) and it is likely that a disbursement of resources representing future economic benefits will be needed to discharge that obligation.

Provisions are discounted if the time effect is significant. The time-related increase in the provision is then posted to financial expenses.

During a reorganization, a provision may only be established if the reorganization is subject to an announcement and a detailed plan or startup of execution at the close of the period.

Legal disputes (employment, tax audits, trade disputes, etc.) are subject to provision when a Group obligation to a third party exists at closing. The provision is valued as a function of the best estimate of projected expenses.

Payments in shares

- **Stock option plans**

Options to subscribe or purchase shares, granted to employees, must be valued at fair market value, which must be shown in the income statement covering the period of acquisition of exercise rights by employees. The fair market value of options is generally calculated using a discounted value model, based on assumptions set by Management.

The benefit valued according to IFRS 2 is equivalent to a payment to beneficiaries: it is therefore posted to personnel expenses, on a straight-line basis over the rights-acquisition period, against an increase in shareholders' equity.
Under the transitory measures specifically set forth in IFRS 1 and IFRS 2, the Group has elected to post only plans awarded after November 7, 2002, and for which rights were not acquired as of January 1, 2005: no stock option plan is involved. Plans prior to November 7, 2002 are not valued and remain not posted so long as the options are not exercised.

- **Stock warrants [*bons de souscription d'actions*, or BSAs)]**

BSAs allocated to certain staff members must also be valued at fair market value and posted to personnel expenses.

These rights are valued using the intrinsic method. The counterpart is posted as an increase in shareholders' equity.

Interest-bearing loans

Interest-bearing loans are posted at original par value, less related transaction costs. These costs (expenses and loan issuance premiums) are included in the calculation of cost depreciated according to the effective interest rate method.

At each closing, financial liabilities are then valued at depreciated cost according to the effective interest rate method.

Loans are broken down by:

- current liabilities for the portion to be repaid within twelve months after closing
- and non-current liabilities for maturities longer than twelve months.

Sale options granted to minority shareholders.

Shares held by third-party minority shareholders and which the Group has committed to acquiring are presented under financial debt at the option's strike price.

The difference between the strike price of options granted and the historic value of minority interests is posted to purchase premiums, the latter being adjusted at the end of each period as a function of the change in the strike price of the options and the book value of the minority interests.

Suppliers and other creditors

Trade payables and other debts are posted at historic cost.

Taxes

Deferred taxes are posted, using the variable deferred balance sheet method, for temporary variances existing at the closing between the tax basis of the assets and liabilities and their book value, as well as tax shortfalls. No deferred liability tax is posted to purchase premiums.

Deferred asset taxes are posted to the extent it is likely the Group will have future taxable earnings to which unused tax losses may be allocated.

Most of the group's deferred taxes derive from posting purchases of securities of absorbed companies, and especially from posting intangible assets that constitute operating authorizations.

Deferred asset and liability taxes are valued at the tax rate expected to be applied over the period when the asset will be sold or the liability settled, based on the tax rates (and tax regulation) adopted or quasi-adopted as of the closing date.

Deferred taxes are calculated entity by entity. They are offset when taxes are collected by the same tax authority and correspond to a single tax entity (tax consolidation group).

Tax deferred and due is posted as a revenue or expense to the income statement unless it corresponds to a transaction or event posted directly to shareholders' equity.

Deferred taxes are presented on the specific categories of the balance sheet under non-current assets and liabilities.

Total revenue

EHPAD:
- Total revenue from treatment services corresponds to the amounts paid by the Caisse Primaire d'Assurance Maladie [Primary Health Insurance Fund] as an annual treatment contribution.
- Total lodging and occupancy revenue is recognized when providing the services.

SSR:
- Total revenue corresponds to treatment services and private rooms and is posted as the services are provided.

Calculating operating income/ current operating income

The income statement is presented by expense type.

Current operating income is obtained from the difference between expenses and pre-tax revenue excluding:

- Other revenue and expenses, including decline in the value of goodwill,
- financial factors,
- income from companies subject to the equity method of accounting,
- the share of income from operations carried out jointly with non-absorbed companies,
- and income from activities suspended or in the process of sale.

The "Employee share" is consolidated into personnel expenses.

Operating income is based on current operating income, adjusted by, on the one hand, other operating revenue and expenses, and on the other hand, other extraordinary or non-recurring revenue and expenses, i.e.:

- decline in the value of purchase premiums posted within the framework of impairment tests under IAS 36,
- reorganization expenses or those related to measures to adjust headcount by significant amounts, relating to major events or decisions,
- capital gains or losses from sales,
- expenses and revenue from major litigation, startup activities, or major capital activities (expense of incorporating a new business, etc.).

Income per share

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

Diluted net income per share is calculated assuming the exercise of all outstanding options, consistent with the "share purchase" method defined in regulation IAS 33, "*Income per share*."

Sector information

A sector is a distinct component of the group, engaged in providing products or services (activity sector) or providing products or services within a specific economic environment (geographic sector), exposed to risks and returns different from the risks and returns of other sectors.

The first and only level of the Group's sectoral information is the "activity sector."

In effect, with the exception of certain establishments located in Belgium, the group's activities are carried out in France. Since its Belgian activities are insignificant in proportion to the whole group, presentation by geographic region is not pertinent at this time. Organization by activity is as follows:

- Medical-social activity, primarily including EHPAD/ retirement homes;
- Health activity, including Follow-Up Care, Rehabilitation, Psychiatry, and Home Hospitalization activities.
- other activities (holding company).

This distribution corresponds to the criteria of IAS 14, "Sectoral information," with the risks and returns differing according to the aforementioned sectors.

Sector assets are operating assets used by a sector within the framework of its operational activities. They include allocable purchase premiums, intangible and tangible fixed assets, and current assets used in the sector's operational activities. They do not include deferred asset taxes, other interests, or receivables and other non-current financial assets. These assets are grouped under the line "non-allocated assets."

Sectoral liabilities are liabilities resulting from a sector's activities that are directly allocable to this sector or that may be reasonably allocated thereto. They include current and non-current liabilities with the exception of financial liabilities and deferred liability taxes. These liabilities are grouped under the line "non-allocated liabilities."

For each activity sector, Note 28 shows information on revenue and income as well as certain information relating to assets, liabilities, and investments.

Note 2 – Characteristic events during the period

Prédica's acquisition of an interest

Prédica, the individual insurance subsidiary of Crédit Agricole, assumed an interest in Suren's capital in March 2004 through a capital increase of €25 million, representing 16.29% of the total new capital. This capital increase is intended to finance Suren's development.
Suren thus has an expanded and diversified shareholder base as well as financial partners capable of furthering the group's long-term development. In effect, the long-term nature of the shareholder base has been strengthened, as Prédica considers the dependent-care sector a strategic sector.

Prédica's acquisition of an interest in Suren would allow for the creation of an industrial partnership. In effect, there is a high level of synergies between dependent-care services and dependency insurance products. The principal conditions of the envisioned industrial agreement are the following:

- ✓ Implementation of a right of priority for available capacity in favor of dependent insureds of Prédica, at market conditions,
- ✓ Facilitated presentation of new, solvent clients to Suren, by Prédica
- ✓ The intent to advance together in addressing the problem of dependency by studying possible new fields of intervention.

Finally, the shareholders' agreement was revised to include Prédica.

Outsourcing of properties

Suren has undertaken the outsourcing of 22 real properties during fiscal year 2004, for a total sale value of €85 million. All properties were sold to Foncière des Murs, a real estate investment company listed on the Paris bourse.
For each property, a lease was signed for a firm duration of 12 years. The lease payment is indexed annually.
This assignment allows for implementation of a long-term partnership between Suren and Foncière des Murs. This partnership specifically provides a right of first refusal by Foncière des Murs over any new outsourcing project, as well as a right of first refusal in case of sale by Foncière des Murs of assets acquired from Suren.

Purchase of Reacti Malt

In October 2004, Suren acquired the Reacti Malt group. Created in 1998, Reacti Malt has essentially developed through external growth and currently comprises a group of 18 EHPADs. Reacti Malt is one of the rare independent participants of such scale in the French market, with 1,321 beds in operation. Its establishments are located in urban environments, with a presence in the major population centers (Paris, Lyon, PACA).

This acquisition was carried out with a view to:

- expanding the group's geographic coverage,
- more quickly attaining a critical mass in Suren's sector, which may be estimated as having at least 8,000 beds.

The Réacti-Malt group shows EBITDAR margins over 5% lower than those of Suren. However, Suren anticipates improving Réacti-Malt's performance by:

Centralizing the management of its establishments, specifically by shutting down Réacti-Malt's Lyon headquarters,
Achieving a tripartite agreement for the establishments,
Undertaking an ambitious renovation and expansion program to be carried out over the next 3 years.

Simultaneous with the acquisition of the Reacti Malt group, Foncière des Murs acquired the physical facilities of certain establishments (see above paragraph), thereby reducing the total shareholders' equity invested by Suren.
The acquisition of this group required the implementation of acquisition financing of €36 million through BNP Paribas.

Other developments

<u>Establishments in the process of construction:</u> Gemenos (84 beds) and Thonon (88 beds) should open in 2005.

<u>Establishments acquired:</u>
Andilly: Following the signing in 2003 of a protocol to acquire a 33-bed establishment at Andilly, Suren signed two addenda, on January 27, 2004 (payment of an advance on the provisional price) and October 3, 2004. One contingent condition for the acquisition is to obtain authorization to increase the establishment's capacity to 59 beds.
Castelli: Acquisition of an 80-bed establishment at Huisserie (vicinity of Laval)

Change in debt

The group's debt changed significantly during 2004 because of a debt refinancing following the outsourcing of a portion of the property held by Suren and the acquisition of Reacti Malt.
This debt restructuring is aimed at:

- reorganizing the Group's debt following the sale of the physical facilities (certain debts become due),
- optimizing the financing term,
- reducing the most expensive loan margins,
- raising additional debt to allow for financing of the development plan ,
- and reducing constraints (e.g., dividend distribution, investments, covenants, etc.)

The acquisition of Reacti Malt required the implementation of an acquisition loan, for which all covenants were restricted to the Reacti malt sub-group.

Issuance of ABSAs

On March 24, 2004, the administrative council approved the principle of a management profit-sharing program based on the group's performance. This program should take the form of the issuance of ABSAs (shares with stock warrants).

To this end, the general shareholders' meeting of June 24, 2004 delegated to the administrative council the possibility of increasing its capital by issuing shares with stock warrants, up to a maximum of 1,000,000.10 euros; the administrative council of June 29, 2004 resolved to restrict the maximum amount of this capital increase to 654,548 euros and delegated to the Suren chairman the authority to undertake the transaction.

Within this framework, on October 7, 2004, Suren's capital was increased by 486,366 ABSA-type shares; each ABSA corresponded to 45 non-detachable stock subscription warrants, exercisable to a certain extent and under certain conditions as a function of the financial investment performance realized by Batipart, MSRESS, and UI/Idia. Each ABSA was issued at a price of 1.10 euros, with par value of 1 euro. Each BSA is exercisable at a price of 1.10 euros under certain conditions.

At December 31, 2004, the maximum potential dilution relating to the exercise of BSAs issued represented 14.30% of current capital, i.e., 21,886,470 BSAs, for a total of 152,962,672 shares outstanding.

Note 3 – Changes to the consolidation structure

Consolidation structure

At December 31, 2004, the consolidation structure included, in addition to the parent company Suren SAS, 89 companies were absorbed through the subsidiary consolidation method.

Creations

SAS Le Castelli: Creation of SAS Le Castelli by Sérience;
SCI Castel Immobilier: Creation by Sérience;
PB Expansion: Creation of PB Expansion by Sérience;
Partenaire Restauration: Creation of Partenaire Restauration by Sérience.

Purchases

Carloup Santé: Acquisition of additional lots by Abilone, increasing the percentage of its holdings to over 50% (62.34%);
Janus International SARL: Acquisition of 100% of the shares of Janus International SARL by PB Expansion;
Lucrèce SARL: Acquisition of 100% of the shares of Lucrèce SARL by PB Expansion;
Maud SARL: Acquisition of 100% of the shares of Maud SARL by PB Expansion;
Thore SARL: Acquisition of 100% of the shares of Thore SARL by PB Expansion;
Valence Expansion SARL: Acquisition of 100% of the shares of Valence Expansion SARL by PB Expansion;
Réacti-Mal Group: Acquisition of 100% of the shares of Réacti-Malt and Réacti-Malt Développement by RM Holding, with Réacti-Malt and Réacti-Malt Développement holding 100 % of the shares of 26 and 7 companies respectively.

Sales

Sale of 4 SCIs within the framework of the first wave of the outsourcing of real estate assets.

Mergers and TUP

In fiscal year 2004, Sérience undertook 7 mergers and 1 TUP, while Sérience SSR undertook 2 mergers.

Note 4 – Goodwill

- **Note 4.1 Goodwill principles**

The goodwill items listed below are presented by Cash Generating Unit.

Company or groups	Year of acquisition	12/31/04	1/1/04
Les Ophéliades Beaune	2003	1,733	1,733
Les Ophéliades Chalon	2003	2,032	2,032
Les Ophéliades Le Creusot	2003	2,197	2,197
Les Ophéliades Thise	2003	2,015	2,015
Les Ophéliades Simiane	2003	1,903	1,903
Les Ophéliades Fontaines	2003	1,712	1,712
Les Ophéliades Nancy	2003	1,816	1,816
Les Ophéliades Epinal	2003	1,511	1,511
Les Ophéliades Montbéliard	2003	2,318	2,318
Les Ophéliades Troyes	2003	1,771	1,771
Les Ophéliades Meaux	2003	1,755	1,755
Les Ophéliades Château-Gombert	2003	2,342	2,342
Les Ophéliades Dijon	2003	201	201
L'Air du Temps	2003	1,600	1,600
Santé Marketing	2003	84	84
Les Ophéliades Gemenos	2003	1,708	1,708
Les Fontaines	2004	895	
St François de Sales	2004	1,091	
Villa Kreisser	2004	937	
Les Acacias	2004	447	
Les Tilleuls	2004	1,160	
Les Temps Bleus	2004	1,091	
Les Pins Bleus	2004	1,259	
Les Ophéliades Courbevoie	2004	825	
La Reine Blanche	2004	1,357	
Les Ophéliades St Clément	2004	1,259	
Quieta	2004	1,119	
La Saison Dorée	2004	1,343	
Le Petit Castel	2004	532	
Les Roches	2004	741	
Frédéric Mistral	2004	1,259	
Pontlieue	2004	2,248	
Les Ophéliades Serres	2004	1,483	
Le Clos Vermeil	2004	1,348	
Amiens	2003	984	969
Bordeaux	2003	2,126	1,773
Brest	2003	1,328	1,408
Breteuil	2003		
Chalon s/Saône	2004	189	
Chartres	2003	1,338	1,300
Eaubonne	2003	1,625	1,815
Fréjus	2003	1,415	1,241
Grenoble	2003	160	67
Le Chesnay	2003	3,109	2,081
Lyon	2003	1,923	973
Maison-Lafitte	2003	22	
Marcq in Baroeul	2003	1,868	1,785

Meudon	2003	1,177	1,160
Montpellier	2003	2,256	2,236
Mougins	2003	1,562	1,542
Noisy-Le-Grand	2003	2,044	2,027
Paris Maine Alésia	2003	2,030	2,013
Paris Champ de Mars	2003	2,560	2,543
Paris Parc Monceau	2003	17	
Pau	2003	1,181	1,167
Perpignan	2003	1,957	1,938
Reims	2003	1,576	1,557
Roubaix	2003	1,043	1,025
Rouen	2003	1,505	1,483
Suresnes	2003	307	19
Valence	2003	14	
Vimont	2003	1,142	1,132
Vitrolles	2003	1,992	1,972
Ouistreham	2003	670	658
Cenon	2003	1,429	1,391
Cenon II	2003	53	
Le Mans	2003	1,493	422
Guyancourt	2003	2,348	735
St Mars d'Outille	2003	32	
Charnay-Les-Macons	2003	1,443	1,433
Hyères	2003	180	180
Nancy	2003	1,385	1,365
Laval	2004	1,818	
Total		96,392	68,108

- **Change in Goodwill**

in thousands of euros	**12/31/04**
Net goodwill at opening	**68,108**
Purchases	22,289
Sales	-317
Price supplement	1,524
Sale option	
Other reclassifications	4,788
Depreciation	
Net goodwill at close	**96,392**

The changes may be explained by:

- Acquisition of the Réacti-Malt group: €20,394,000;
- Acquisition of SCI Castel Immo: €1,112,000;
- Acquisition of Maud SARL: €38,000;
- Acquisition of Thore SARL: €39,000;
- Acquisition of SAS Le Castelli: €706,000;
- Sale of SCI Frejus:€ 317,000;
- Price supplements totaling €1,524,000;
- Adjustment of the value of buildings and SCIs sold for €4,788,000 within the allocation period.

The value tests carried out, according to the method described in Note 1, "*Loss of value of intangible and tangible fixed assets*," did not show the loss of value of Goodwill corresponding to the group's cash generating units.

Note 5 – Intangible fixed assets

in thousands of euros	Authorizations	Other	Total
Gross value at opening	**157,061**	**793**	**157,854**
Change in structure		634	634
Sales	-65	-318	-383
Purchases	47,416	182	47,598
Transfers		-31	-31
Gross value at close	**204,412**	**1,260**	**205,672**
Cumulative depreciation at opening	**2,984**	**199**	**3,183**
Change in structure		621	621
Sales		-18	-18
Depreciation		144	146
Transfers	2	21	21
Cumulative depreciation at close	**2,986**	**967**	**3,953**
Net book value at opening	**154,077**	**594**	**154,671**
Net book value at close	**201,426**	**293**	**201,719**

The principal changes may be explained by:

- acquisition of the Réacti-Malt group and allocation of the initial purchase premium to authorizations, for €41,023,000,
- consolidation of Carloup Santé and allocation of the initial purchase premium to authorizations, for €2,555,000;
- purchases of Lucrèce, Maud and Thore and allocation of the initial purchase premium to authorizations, for €1,209,000;
- acquisition of SCI Ouézy and allocation of the initial purchase premium to authorizations, for €457,000;
- purchases of SAS La Castelli and de la SCI Castel Immo and allocation of the initial purchase premium to authorizations, for €2,172,000.

Note 6 – Tangible fixed assets

in thousands of euros	Land	Buildings	Materials	Other	In progress and advances	Total
Gross value at opening	**38,468**	**179,811**	**7,821**	**10,963**	**2,512**	**239,575**
Changes in corporate structure	2,672	3,987	1,322	8,281	22	16,284
Sales	-8,932	-42,955	-517	-537		-52,941
Purchases	1,098	4,551	1,323	978	9,290	17,240
Transfers	1,074	1,199	-14	-2,053	-947	-741
Gross value at close	**34,380**	**146,593**	**9,935**	**17,632**	**10,877**	**219,417**
Cumulative depreciation at opening		**7,298**	**2,757**	**5,700**		**15,755**
Change in structure		-444	896	5,794		**6,246**
Contributions		7,072	1,606	1,085		**9,763**
Sales		-5,779	-503	-425		-6,707
Other		374	-67	-767		-460
Cumulative depreciation at close	**0**	**8,521**	**4,689**	**11,387**	**0**	**24,597**
Net book value at opening	**38,468**	**172,513**	**5,064**	**5,263**	**2,512**	**223,820**
Net book value at close	**34,380**	**138,072**	**5,246**	**6,245**	**10,877**	**194,821**

The gross value of fixed assets held under a lease-to-own agreement is €75,825,000 at December 31, 2004, with net value of €67,236,000.

The net book value of assets sold through Suren's real estate asset outsourcing operation totals €50.3 million.

The increases in fixed assets outstanding as of 12/31/04 primarily consist of the following establishments:

- Construction of Gemenos (70 beds, opening in February 2005) and Thonon (80 beds, opening scheduled for August 2005), for €4.5 million

- Château Gombert: Building expansion and restoration works for €1 million.

Note 7 – Non-consolidated shares

				12/31/04	1/1/04
Company	**% held**	**Gross value**	**Depreciation**	**Net value**	**Net value**
Vepeza	20.00%	50		50	50
SARL Lafitte Santé	100.00%	83	38	45	45
Other		507	11	496	118
Total non-consolidated shares		**640**	**49**	**591**	**213**

Note 8 - Other non-current assets

- **Change**

in thousands of euros	**2004**
Net value at opening	**1,990**
Increase	5,225
Repayments	-232
Depreciation	-2
Changes in corporate structure	-501
Other movements	163
Net value at close	**6,643**

- **Analysis**

in thousands of euros	**12/31/04**	**1/1/04**
Security deposits	2,949	745
Loans	568	475
Trade receivables	39	1
Other	3087	769
Total	**6,643**	**1,990**

Note 9 - Inventory

In thousands of euros	**12/31/04**	**1/1/04**
Gross value	379	398
Depreciation	0	0
Net value	**379**	**398**

Note 10 – Clients

In thousands of euros	**12/31/04**	**1/1/04**
Gross value	12,230	7,578
Depreciation	-485	-330
Net value	**11,745**	**7,248**

Note 11 - Other receivables and current assets

In thousands of euros	**12/31/04**	**1/1/04**
Tax receivables	7,566	8,763
Social receivables	252	106
Advances and down payments	1,223	377
Expenses posted in advance	1,358	895
Other debtors	1,414	3,197
Value of other receivables	**11,813**	**13,338**

In thousands of euros	**12/31/04**	**1/1/04**
Loans	64	408
Financial instruments	24	1,611
Value of other current financial assets	**88**	**2,019**
Total other current financial assets (net)	**11,901**	**15,357**

Note 12 - Cash and cash equivalents

In thousands of euros	**12/31/04**	**1/1/04**
Investment securities	10,648	589
Cash	7,773	3,883
Total	**18,421**	**4,472**

Note 13 - Shareholders' equity and minority interests

- **Composition of the capital**

At December 31, 2004, the capital consisted of 152,963,672 common shares with par value of €1 each, entirely paid-in.

At December 31, 2004, the capital was broken down as follows:
- 139,545,272 category "P" shares
- 114,017,226 category "O" shares

For the "P" shares, a priority, non-cumulative dividend will first be paid out of the year's distributable earnings, its distribution approved by the ordinary general shareholders' meeting, as well as distributions of reserves also approved by the ordinary general shareholders' meeting.

"P" shares will be entitled to an unlimited priority and cumulative dividend of an identical duration, per calendar year, equal to 5% of their par value.

Any dividend paid over the course of a calendar year and exceeding this priority dividend will be distributed equally between all "O" and "P" shares.
In the case of a capital reduction by redemption paid to shareholders, "P" shares will be redeemed before "O" shares. By contrast, in the event of a capital reduction for losses, this reduction will be felt first by the "O" shares and then only after that by the "P" shares, if the capital reduction undergone by the "O" shares is not sufficient as to cover the anticipated amount of the reduction.

- **Capital increase**

Fiscal year 2004 saw the execution of three capital increases, as follows:

- On March 26, 2004, by resolution of the Chairman of the Administrative Council, the Chairman, pursuant to the administrative council meeting of March 16, 2004, undertook final execution of the capital increase in cash, thereby increasing the capital from 116,818,000 euros to 139,545,272 euros through the issuance of 22,727,272 new shares with par value of 1 euro each and an issuance premium of 10 cents, i.e., a total issuance premium of 2,272,727 euros entirely reserved to Predica;
- On October 7, 2004, the Administrative Council resolved to increase the capital and eliminate the preferred subscription right in favor of certain named individuals, by issuing 486,366 shares with stock warrants at a price of €1.10, i.e., a par value of 1 euro and issuance premium of 10 cents;
- On October 25, 2004, the general shareholders' meeting undertook a capital increase totaling €12,931,034 to increase the capital stock to 152,962,672 euros through the issuance of 12,931,034 common shares with par value of €1 plus an issuance premium of 16 cents.

Minority interests

At December 31, 2004, minority interests totaled 401 K€.

BSA allocation plan

A profit-sharing plan for Suren management was implemented during 2004. This plan was approved by the general shareholders' meeting of June 24, 2004, which delegated its execution to the chairman of the board of directors.

The major features of this plan are the following:

d) General principles:

Management decided to offer the opportunity to subscribe ABSA (shares with stock warrants [*actions à bons de souscription d'actions*]). The subscription price per share is equal to the subscription price applying in the previous capital increase some months previous (subscribed by PREDICA), i.e., 1.1 euros per share with par value of 1 euro.

To favor distributions to Suren's major shareholders, dividends linked to shares subscribed by employees are subordinate to payment to the major shareholders of an initial dividend of 5% of the shares' par value.

Shares subscribed by employees are each accompanied by 45 share warrants, valid for eight years, a fraction of which, calculated as a function of the IRR (Internal Rate of Return) realized by the founding shareholders (i.e., BATIPART, MSRESS and Montparnasse Investissement III) may be exercised, thereby allowing a certain number of shares to be subscribed at a price of 1.1 euros each, in the occurrence of a Liquidity Event.

Liquidity Events are the following:

- The Financial Investors (MSRESS and Montparnasse Investissement III) hold less than 5% of Suren's capital
- Suren becomes listed for trading on a stock exchange.

e) Number of ABSAs issued

486,366 ABSAs have been subscribed for a total of €535,002.60. 21,886,470 share warrants (BSAs) were therefore attached to the subscribed ABSAs.

f) Impact on Suren's consolidated financial statements

Pursuant to IFRS 2, "*Share-based payments*," stock warrants awarded to employees must be posted to personnel expenses. At December 31, 2004, the fair market value of these BSAs totaled €2,010,000 and the change in value posted to the income statement (personnel expenses) was €2,010,000.

Value of share warrants

In thousands of euros	**12/31/04**	**1/1/04**
BSA at opening	**0**	**0**
Change in value	2,010	0
BSA at close	**2,010**	**0**

Note 14 – Income per share

	12/31/04
Group share of net income *(thousands of euros)*	6,440
Average weighted number of shares *(thousands)*	133,863
Income in euros per share	**0.05**
Group share of net income *(thousands of euros)*	6,440
Average weighted number of shares *(thousands)*	133,863
Adjustments related to share subscription options	68
Average number of shares used to determine diluted income per share	133,931
Diluted income per share in euros	**0.05**

Note 15 - Financial instruments

The Suren group had recourse to derivatives that provided hedging for over 80% of its total syndicated loan. The group opted to post the hedge, and posts changes in the values of the derivatives under shareholders' equity (change in the effective part of the derivative).

- **Inventory value of financial hedges**

Assets	Inventory value	Financial income	Shareholders' equity
Options	24	-98	-1
Swap	0		-1,488
Total asset hedges	**24**	**-98**	**-1,489**

Liabilities	Inventory value	Financial income	Shareholders' equity
Rate swaps	5,741	405	-733
Options	381	-123	-4
Total liability hedges	**6,122**	**282**	**-737**

Note 16 - Financial liabilities

- **Net debt (current/ non-current)**

Net debt (current/ non-current)

	12/31/04	**1/1/04**
Bank loans	178,463	188,406
Financing of leases-to-own	27,392	39,303
Employee profit-sharing		
Commitment to purchase minority interests		
Long-term financial liabilities	**205,855**	**227,709**
ST bank loans	4,252	7,878
ST financing of leases-to-own	16,690	3,772
ST housing deposits	9,649	6,810
Current bank outstandings	5,626	9,512
Fair market value of hedging instruments	6,122	5,668
Sundry other ST financial liabilities	1,516	2,481
ST commitment to purchase minority interests		
Short term financial liabilities	**43,855**	**36,121**
Financial liabilities	**249,710**	**263,830**
Investment securities	10,648	589
Cash on hand	7,773	3,883
Treasury cash	18,421	4,472
Net cash (debt)	**-231,289**	**-259,358**

- **Analysis by maturity**

	12/31/04	**1/1/04**
less than one year	43,855	36,121
1 to 5 years	104,172	75,080
over 5 years	101,683	152,629
Total	**249,710**	**263,830**

Debt refinancing:
The group's debt was refinanced in September 2004 after the property outsourcing.
This refinancing allowed the repayment of €147.5 million in debt (including the debt incurred in acquiring Serience, of €50 million). At the same time, Suren assumed €104.5 million in debt. These debts, assumed through the largest banks in the French market,

are secured through conventional collateral on real assets and pledges of goodwill. Margins paid thus declined an average of 46 basis points. Maturities were reduced by 6 months because the nature of the assets financed is less real-estate oriented.

Purchase of Reacti Malt

For the purchase of Reacti Malt, the group engaged a loan of €36 million, the principal features of which are the following:

- Duration: 7 years for the amortizable portion, 8 years for the portion repayable upon maturity
- Margin adjustable from 2.15% to 1.25% per year as a function of financial ratios
- Financial ratios (net debt/ EBE and Free Cash Flow/ Debt service) calculated annually based on the consolidated financial statements of the Reacti Malt sub-group.
- Collateral: pledge of financial instruments from the two holding companies acquired (Reacti Malt, Reacti Malt Développment)

Note 17 - Provisions for retirement and similar benefits

	12/31/04
Retirement commitments	-1,656
total	**-1,656**

Change in retirement commitment and seniority premiums

-	**12/31/04**
Commitments at opening	-1,024
Acquisition	-397
Sale	12,
Cost of services rendered (normal cost)	-163
Interest expense (Interest cost)	-105
Actuarial losses and gains	
Services paid	21,
Change in structure	
Commitments at close	**-1,656**

Reconciliation of commitments and provisions

-	**12/31/04**
Net commitments	-1,656
Total actuarial variances not recognized - losses/(gains)	51,
Other	8,
Provision at close	**-1,597**

Components of expenses for the period

-	**12/31/04**
Cost of services rendered (normal cost)	-163
Interest expense (Interest cost)	-54
Depreciation of actuarial losses and (gains)	
Retirement expenses	**-217**

The cost of services rendered is posted to Personnel expenses, and interest expense is posted to financial expenses. The decline in value of the actuarial variances was ignored (less than €1,000).

Change in provisions

-	2004
Provisions at opening	-1,024
Expense charge for the year	-217
Employer payments or contributions	21
Change in structure	-385
Other	8
Provision at close	**-1,597**

Actuarial assumptions used (principal)

-	2004
Adjustment rate	4.50%
Change in salaries	3.00%
Inflation rate	
Mortality table	INSEE F 00-02
Retirement age	65 years
Types of retirement	voluntary

Note 18 - Other provisions

- **Non-current provisions**

in thousands of euros	Tax and social	Commercial	Buildings	Restructuring	Other operating disputes	Total
Opening balance	6,049	5			113	6,167
Contributions	477	1			57	535
Reversals	-197					-197
Reclassifications, Changes in corporate structure	-3,080				-35	-3,115
Balance at close	**3,249**	**6**	**0**	**0**	**135**	**3,390**

Provisions for anniversary premiums, posed under non-current provisions, totaled €80,000 at December 31, 2004.

- **Current provisions**

in thousands of euros	Tax and social	Commercial	Buildings	Restructuring	Other operating disputes	Total
Opening balance	570	6				576
Contributions						0
Reversals	-570	-6				-576
Reclassifications, changes in corporate structure	411				35	446
Balance at close	**411**	**0**	**0**	**0**	**35**	**446**

in thousands of euros	12/31/04	1/1/04
Other long-term provisions	3,390	6,167
Other short-term provisions	446	576
Total Other provisions	**3,836**	**6,743**

Note 19 - Other liabilities and adjustment accounts

	12/31/04	1/1/04
Fixed asset suppliers	1,237	209
Advances and down payments received on orders	1,744	612
Tax liabilities	9,929	3,417
Social liabilities	14,870	9,363
Dividends payable	106	99
Other debts	3,753	3,873
Revenue posted in advance	1,387	61
Total	**33,026**	**17,635**

Note 20 -Personnel expenses

in thousands of euros	12/31/04
Salaries and benefits	56,165
Social expenses	20,331
Employee profit-sharing	229
Other Personnel expenses	544
Personnel expenses	**77,269**

Note 21 - Other operating expenses and revenue

in thousands of euros	12/31/04
Capital gains or losses from sales of non-current assets	1,131
Share of joint operations	214
Other operating expenses and revenue	-319
Total Revenue (Expenses)	**1,026**

Note 22 -Financial income net

- **Item analysis**

In thousands of euros	12/31/04
Interest expenses	-12,514
Change in swap value	185
Gross cost of debt	**-12,329**
Capital gain or loss on sale of securities	338
Net cost of debt	**-11,991**
Adjustment of retirement commitments	-97
Other financial revenue and expenses (1)	655
Financial income	**-11,433**

- **Breakdown of other financial expenses and revenue**

In thousands of euros	12/31/04
Dividends received from non-absorbed companies	2
Other financial expenses and revenue	693
Other (contributions) / reversals de financial provisions	-40
Total "Other financial revenue and expenses"	**655**

Note 23 –Income tax

- **Analysis of tax expense**

in thousands of euros	**12/31/04**
Current taxes	-5,192
Deferred taxes	890
Income tax expense (revenue)	**-4,302**

- **Net change in deferred taxes**

in thousands of euros	**2004**
Opening balance	69,250
Expense (revenue)	-890
Change in structure	17,519
Other changes *	-2,220
Balance at close	**83,659**

* This amount includes the effect of rate changes.

- **Type of deferred taxes**

in thousands of euros	**12/31/04**
Intangible fixed assets	63,966
Tangible fixed assets	19,247
Financial instruments	-2,094
Deferred taxes	-2,297
Provisions for retirement commitments	-577
Other provisions	-61
Other temporary variances	
Other assets/liabilities	5,475
Total	**83,659**

Note 24 - Transactions with related parties

- Outsourcing of real estate holdings

A partnership agreement was entered into between the Suren Group and the Foncière des Murs group on the occasion of an initial deal in 2004 to outsource the Suren Group's physical operating facilities to the Foncière des Murs Group.
On November 30, 2004, Foncière des Murs thus acquired by assignment (direct assignment or assignment of corporate shares) an initial portfolio of the "walls" of 22 rest homes managed by the Suren Group, and it signed a framework agreement with this company entitling it to be consulted on new deals it might undertake.

- Administrative services and development assistance agreement

On November 26, 2003, the Batipart and Suren groups entered into an Administrative Services and Development Assistance Agreement by which Batipart will provide Suren and its subsidiaries organizational and personnel management, financial management, and development assistance services.
This agreement, entered into for one year and automatically renewable for periods of the same duration, is still in force.
Batipart's compensation for these assistance services to Suren and its subsidiaries is €492,000 for fiscal year 2004.

Note 25 – Management compensation

NC

Note 26 - Commitments and possible liabilities

- **Commitments given (excluding simple lease and purchase obligation agreements)**

NC

- **Litigation**

To the knowledge of the company and its counsel, there is no litigation not subject to provision and likely to significantly affect the group's activity, results, or financial situation.

- **Individual right to training/ IRT**

Pursuant to Law No. 2004-391 of May 4, 2004 relative to professional training, employees of the Group's French companies under indefinite duration employment contracts have an individual right to twenty hours of training per year, cumulable over a six-year period. After this six-year period, absent its application in whole or in part, the IRT is subject to a ceiling of one hundred twenty hours.

Note 27 - Commitments under leasing agreements

- **Lease-to-own agreements**

Lease-to-own	Buildings
Net book value of assets under lease-to-own	68,692
Lease commitments by maturity	
less than one year	4,252
over one years	16,485
greater than 5 years	23,345
Total commitments	44,082
Effect of adjustment	
Total adjusted commitments	**44,082**

- **Simple lease agreements**

Simple leases	Buildings
Minimum lease payments due on non-cancelable agreements	
less than one year	13,231,126
one year to 5 years	64,444,892
over 5 years	50,286,216
Total commitments (not adjusted)	127,962,234

Since 2004, the Suren group has transferred ownership of most of its buildings to Foncière des Murs. In exchange, the Suren group signed a firm 12-year lease for each building. The lessee assumes responsibility for property tax, insurance, and the maintenance works and expenses stipulated in Article 606 of the Civil Code (restoration of façades and maintenance of windows and internal structure remain the responsibility of the lessor), as well as expenses of complying with existing and future regulations.
For the first 14 leases signed, a lease cancellation penalty equivalent to twelve months of lease payments is anticipated.

Note 28 – Sector information

12/31/04 (*in thousands of euros*)

Income statement	EHPAD	Sanitarium	Other activities	Total Write-offs	total
Total revenue	172,583	21006	2,422	-35,581	160,430
Inter-activity sales	-32,697	-412	-2,472	35,581	0
Total	**139,886**	**20,594**	**-50**	**0**	**160,430**
Current operating income	20,634	616	-13		21,237
Impairments					0
Other revenue and operating expenses	1,088	2	-64		1,026
Operating income	**618**	**21,722**	**-77**	**0**	**22,263**
Share of income of related companies	**214**				**214**

Balance sheet					
Sector assets	447,558	50,510	26,128		524,196
of which, purchase premium	*93,074*	*3,234*	*84*		*96,392*
of which, Goodwill	*187,624*	*13,802*			*201,426*

of which, other intangible fixed assets	*22*	*32*	*239*		*293*
of which, tangible fixed assets	*154,470*	*29,486*	*10,863*		*194,819*
of which, clients	*6,171*	*3,278*	*2,286*		*11,735*
of which, inventory	*256*	*109*	*14*		*379*
of which, other receivables	*4,750*	*429*	*11,413*		*16,592*
Non-allocated assets					22,849
Total consolidated assets					**547,045**
Sector liabilities	57,456	8,396	71,253		137,105
of which RC provisions	*1,864*	*403*	*3,163*		*5,430*
of which, suppliers	*7,137*	*1,165*	*3,802*		*12,104*
of which, other liabilities	*46,336*	*6,509*	*63,595*		*116,440*
Non-allocated liabilities					409,940
Total consolidated liabilities					**547,045**

Note 29 – Events subsequent to close

None

Note 30 – List of Group companies

Corporate name	% control	% interest	Method	Corporate headquarters
Abilone (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Atria SAS	100.00%	100.00%	IG	3B avenue de la République Résidence Le Clos Vermeil 34370 MAUREILHAN
Carloup Santé	73.59%	69.84%	IG	12 impasse du Carloup 71100 CHALON SUR SAONE
Château De Saint Pierre Oursin (*)	100.00%	100.00%	IG	Château de Saint Pierre Oursin 14370 VIMONT
Colson & Colson France (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
De Bioux Santé	100.00%	100.00%	IG	2 rue de la résistance 71850 CHARNAY LES MACON
Finagest SAS (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
Hirt and Cie (*)	100.00%	100.00%	IG	11 rue Henri de Toulouse Lautrec 78280 GUYANCOURT
Homère SAS	100.00%	100.00%	IG	Homère Quieta 9 rue du Queyras 78180 MONTIGNY LE BRETONNEUX
Jongking SNC (*)	99.00%	99.00%	IG	30 avenue Carnot 91300 MASSY
Kerinou Santé (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
La Reine Blanche SAS	100.00%	100.00%	IG	643 rue de la Reine Blanche 45160 OLIVET
La Saison Dorée SAS	100.00%	100.00%	IG	13 rue Pericaud 69008 LYON
La Villa Kreisser SAS	100.00%	100.00%	IG	3 Villa Kreisser 92700 COLOMBES
Le Castelli	100.00%	100.00%	IG	Route de la plaine 53970 L'HUISSERIE
Le Mail Santé	100.00%	100.00%	IG	175 rue Neuve de Bémecourt 27160 BRETEUIL SUR ITON

Corporate name	% control	% interest	Method	Corporate headquarters
Le Petit Castel SAS	100.00%	100.00%	IG	9 rue du Mail « La maisonneraie de la Papoterie » 37170 CHAMBRAY LES TOURS
Les Fontaines SAS	100.00%	100.00%	IG	Quartier of the Laus 83670 BARJOLS
Résidence Les Licornes SAS	100.00%	100.00%	IG	6 rue Pierre Lhomme 92400 COURBEVOIE
L'Age d'Or	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRE
Le Clos St Clément	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 SAINT CLEMENT
Les Pins Bleus SAS	100.00%	100.00%	IG	Route du Lazaret Domaine de St Elme 83430 ST MANDRIER SUR MER
Les Temps Bleus SAS	100.00%	100.00%	IG	8 bis rue de la Touche 28400 NOGENT LE ROTROU
Les Tilleuls SAS	100.00%	100.00%	IG	Route de Pleumartin 86100 CHATELLERAULT
Maison d'Accueil Les Roches SAS	100.00%	100.00%	IG	Les Chavettes 63230 ST OURS LES ROCHES
Massenet Santé	100.00%	100.00%	IG	9 rue Jules Massenet 26000 VALENCE
Medotels (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Monceau Médéric (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Partenaire Restauration (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
PB Expansion	100.00%	100.00%	IG	46 avenue Foch METZ
Perou (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Reacti Malt Développement	100.00%	100.00%	IG	Zone Industrielle 25870 DEVECEY
Reacti Malt SAS	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
Résidence Frederic Mistral EURL	100.00%	100.00%	IG	Traverse Charles Susini 13381 MARSEILLE CEDEX 13
Résidence Les Acacias SAS	100.00%	100.00%	IG	17 rue Jeanne Gleuzer 92700 COLOMBES
Résidence Pontlieue SAS	100.00%	100.00%	IG	19 place Adrien Tironneau 72100 LEMANS
S.A.S GEM VIE (*)	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.A.S L'Air du Temps Résidence Strasbourg Robertsau (*)	100.00%	100.00%	IG	3 rue de la Baronne d'Oberkirch 67000 STRASBOURG
S.A.S Les Ophéliades Chalon (*)	100.00%	100.00%	IG	7-9 allée de St Jean of the Vignes 71100 CHALON SUR SAONE
S.A.S Les Ophéliades Dijon (*)	100.00%	100.00%	IG	15 Rue Jean Giono 21000 DIJON
S.A.S Les Ophéliades Epinal (*)	100.00%	100.00%	IG	13 rue Ponscarme

Corporate name	% control	% interest	Method	Corporate headquarters
				88000 EPINAL
S.A.S Les Ophéliades Fontaines (*)	100.00%	100.00%	IG	Montée de la Ruelle 69270 FONTAINES SAINT MARTIN
S.A.S Les Ophéliades Le Creusot (*)	100.00%	100.00%	IG	6 rue Victor Hugo 71200 LE CREUSOT
S.A.S Les Ophéliades Meaux (*)	100.00%	100.00%	IG	Rue de Condé ZAC du Luxembourg 77100 MEAUX
S.A.S Les Ophéliades Montbéliard (*)	100.00%	100.00%	IG	7 avenue Georges Pompidou 25200 MONTBELIARD
S.A.S Les Ophéliades Nancy (*)	100.00%	100.00%	IG	12 boulevard du 21e R.A 54000 NANCY
S.A.S Les Ophéliades Saint Etienne (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Saverne (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Simiane (*)	100.00%	100.00%	IG	Avenue André Malraux 13109 SIMIANE COLLONGUE
S.A.S Les Ophéliades Thise (*)	100.00%	100.00%	IG	2 rue Chenevières 25220 THISE
S.A.S Les Ophéliades Thonon les Bains (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Les Ophéliades Troyes (*)	100.00%	100.00%	IG	39-41 Avenue Pasteur 10000 TROYES
S.A.S RM Holding (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
S.A.S Société d'Etude and de Réalisation pour le Nouvel Age (Serena) (*)	100.00%	100.00%	IG	40 chemin de Baume Loubière 13013 MARSEILLE
S.G.M.R SAS	100.00%	100.00%	IG	18 rue Jean Mermoz 89100 ST CLEMENT
Saint François de Sales SAS	100.00%	100.00%	IG	145 chemin du Pelet 69390 VERNAISON
SAS Les Ophéliades Beaune (*)	100.00%	100.00%	IG	Rue Maryse Bastié 21200 BEAUNE
SAS Santé Marketing and Stratégie (*)	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
SCCV Croix Rouge	100.00%	100.00%	IG	18 quai du Commandant malbert 29200 BREST
SCI Château de Ouezy A34	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
SCI L'Atrium	100.00%	100.00%	IG	Rue of the Jardins 05330 SERRES
SCI Le Mail Immobilier	100.00%	100.00%	IG	175 rue Neuve de Bémécourt 27160 BRETEUIL SUR ITON
Sérience (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Sérience Soins De Suite and De Réadaptation (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
Sogemare SAS	100.00%	100.00%	IG	Rue of the Jardins - résidence l'Atrium 05700 SERRES
Suren SAS (*)	100.00%	100.00%	Sté Mère	Zone Industrielle de Devecey

Corporate name	% control	% interest	Method	Corporate headquarters
				25870 DEVECEY
Thalatta (*)	100.00%	100.00%	IG	30 avenue Carnot 91300 MASSY
SCI Maison of the Pères	100.00%	100.00%	IG	145 chemin du Pelet 69390 VERNAISON
SCI Geria	100.00%	100.00%	IG	17 rue Jeanne Gleuzer 92700 COLOMBES
SCI Les Tilleuls	100.00%	100.00%	IG	Route de Pleumartin 86100 CHATELLERAULT
SCI de la Noue	100.00%	100.00%	IG	8 bis rue de la Touche 28400 NOGENT LE ROTROU
SCI St Mandrier	100.00%	100.00%	IG	Route du Lazaret Domaine de St Elme 83430 ST MANDRIER SUR MER
SCI Assetsoncier	100.00%	100.00%	IG	643 rue de la Reine Blanche 45160 OLIVET
SCI St Georges	100.00%	100.00%	IG	13 rue Pericaud 69008 LYON
SCI Le Petit Castel Papoterie	100.00%	100.00%	IG	9 rue du Mail « La maisonneraie de la Papoterie » 37170 CHAMBRAY LES TOURS
Réacti-Malt 4	100.00%	100.00%	IG	Zone Industrielle de Devecey 25870 DEVECEY
SCI CPM	100.00%	100.00%	IG	Les Chavettes 63230 ST OURS LES ROCHES
SCI Pontlieue Tironneau	100.00%	100.00%	IG	19 place Adrien Tironneau 72100 LE MANS
Les Céanothes	100.00%	100.00%	IG	Zone industrielle de Devecey 25 870 DEVECEY
SCI Bigou	100.00%	100.00%	IG	8 rue Dumune 33 150 CENON
SCI Castel Immo	100.00%	100.00%	IG	30 avenue Carnot 91 349 MASSY CEDEX
Financière Sérience	100.00%	100.00%	IG	30 avenue Carnot 91 300 MASSY
SCI Hauterive Immobilier	100.00%	100.00%	IG	46 rue Pierre Beregovoy 33 150 CENON
Janus International	100.00%	100.00%	IG	6 place de la Madeleine 75 008 PARIS 08
Lucrèce SARL	100.00%	100.00%	IG	30 avenue Carnot 91 300 MASSY
SCI Maronnier	100.00%	100.00%	IG	8 rue Dumune 33 150 CENON
Maud SARL	100.00%	100.00%	IG	30 avenue Carnot 91 300 MASSY
Thore SARL	100.00%	100.00%	IG	30 avenue Carnot 91 300 MASSY
Valence Expansion SARL	100.00%	100.00%	IG	30 avenue Carnot 91 300 MASSY

(*): Fiscal year of 21 months

3.18.1.4 Consolidated financial statements of Suren at December 31, 2003 in IFRS and report from the statutory auditors

PIA Group	MAZARS & GUERARD
21 rue d'Artois 75008 PARIS	Le Vinci 4 allée de l'Arche 92075 La Défense Cedex

Report of the Statutory Auditors on the Consolidated Financial Statements

Fiscal year ending December 31, 2003

Monsieur le Président,

Pursuant to your request to us and in our capacity as statutory auditors of SUREN, we have undertaken an audit of the consolidated financial statements prepared in accordance with regulation CRC 99-02 as of December 31, 2005, as attached, for the period from April 1, 2003 to December 31, 2003.

These financial statements were prepared within the context of the listing on the market of SUREN shares for purposes of presenting the financial statements over three fiscal years in accordance with Commission regulation No. 809/2004 of April 29, 2004, implementing European Parliament and Council Directive 2003/71/EC with regard to information contained in prospectuses, the structure of prospectuses, the inclusion of information by reference, the publication of prospectuses, and the distribution of promotional communications.

I – Opinion on the annual financial statements

The consolidated financial statements were prepared by the Board of Directors on September 19, 2006. We are responsible for expressing an opinion on these financial statements based on our audit.

We have performed our audit in accordance with professional standards applicable in France; these standards require taking measures to obtain reasonable assurance that the consolidated financial statements contain no significant anomalies. An audit consists of an examination, by sampling, of critical elements that support the data contained in these financial statements. It also consists in evaluating the accounting principles followed and the significant estimates applied in preparing the financial statements and evaluating their presentation as a whole. We believe our audit provides a reasonable basis for the opinion expressed below.

The presentation of the financial statements as a whole calls for us to express the following reservation:

The appendix to the consolidated financial statements does not present all the information stipulated by Regulation CRC 99-02, as mentioned in Note 1 of the Appendix.

With that reservation, we believe the consolidated financial statements accurately present, in all significant aspects, the financial situation of the entities comprising the consolidation and their operating results for the period from April 1, 2003 to December 31, 2003 pursuant to Regulation CRC 99-02 as of December 31, 2003 as described in our attached notes.

II – Justification of the evaluations

Pursuant to Article L. 823-9, section 2 of the French Commercial Code [*Code de Commerce*] relative to the justification of our evaluations, please be advised of the following:

Concerning the revaluation of the real assets and goodwill as a result of the additions to the corporate structure in fiscal year 2003, our work specifically consisted of assessing:

- the data and assumptions on which these estimates were based, specifically with regard to the valuation principles applied by the group,
- the correct allocation of valuation variances to intangible and tangible assets, in accordance with the values indicated by the independent experts and by sectoral practice.

The analyses thus carried out fall within the framework of our audit of the consolidated financial statements taken as a whole, and therefore contributed to forming our opinion, as expressed in this report.

Issued in Paris and La Défense, September 25, 2006

The statutory auditors

PIA GROUP	SOPHIE DUVAL
MAZARS & GUERARD	PIERRE FRENOUX

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2003, PREPARED IN ACCORDANCE WITH CRC 99-02 STANDARDS

Suren Group

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

ASSETS	**Note**	**12/31/2003**	**LIABILITIES**	**Note**	**12/31/2003**
Fixed assets		402,972	Shareholders' equity (Group share)		119,450
Acquisition premiums	1	34,166	Capital		116,818
Intangible fixed assets	1	141,969	Capital-based premiums		
Tangible fixed assets	2	224,296	Consolidated reserves		
Long-term investments	3-4	2,541	Consolidated income		2,632
Current assets		**26,044**	**Minority interests**		**297**
Inventory and outstandings		398	Provisions for risks and expenses	8	7,460
Trade accounts and notes receivable		7,248			
Other receivables and adjustment accounts	5-6	13,926	Debts		301,809
Investment securities	7	589			
Cash	7	3,883	Loans and similar debts	9	258,162
			Suppliers and trade payables		5,909
			Other liabilities and adjustment accounts	10	37,738
TOTAL ASSETS		**429,016**	**TOTAL LIABILITIES**		**429,016**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

	Note	12/31/2003
		,
Total revenue		73,003
Other operating revenue	11	1713
Purchases consumed		-18,985
Personnel expenses (including employee profit-sharing)	12	-33,833
Other operating expenses		-45
Duties and taxes		-4,415
Depreciation and provisions		-4,981
Operating income		**12,457**
Share of joint operations		**-60**
Financial expenses and revenue	13	-6,470
Current income of absorbed companies		**5,927**
Extraordinary expenses and revenue	14	-180
Income tax	15	-2,157
Net income of absorbed companies		**3,590**
Share of income from companies subject to the equity method of accounting		
Depreciation of acquisition premiums	1	-953
Net income of the consolidated entity		**2,637**
Minority interests		-6
Net income (Group share)		**2,632**

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRELIMINARY NOTE

The consolidated financial statements prepared as of December 31, 2003 were prepared within the framework of the listing of SUREN shares for trading on the market in 2006. Commission Regulation No. 809/2004 of April 29, 2004 implementing European Parliament and Council Directive 2003/71/EC concerning information contained in prospectuses, the structure of prospectuses, the inclusion of information by reference, the publication of prospectuses, and the distribution of promotional communications, stipulates that audited historical financial information be provided for the past three fiscal years as well as the prepared audit report, which made production of this appendix indispensable.
At December 31, 2003, the Suren group was not required to prepare consolidated financial statements. Therefore, the preparation of *a posteriori* consolidated financial statements involved significant difficulties in reconstituting the necessary information. The principal information we were unable to incorporate into this appendix is the following:
- Cash flow table 40,
- table of changes in capital 1,
- table of changes in fixed assets,
- breakdown and change in trade accounts and notes receivable,
- list of off-balance sheet commitments,
- total personnel commitments,

2. OUTSTANDING EVENTS DURING THE YEAR

The SUREN group was created in March 2003. Its activities consisted of the acquisition of two groups:
- The FINAGEST group, which includes 21 entities and which was incorporated into the consolidation structure of April 30, 2003. The fiscal year of this group's subsidiaries runs from May 1, 2003 to March 31, 2004.
- the SERIENCE group, which includes 34 entities and which was incorporated into the consolidation structure on June 30, 2003. The fiscal year of this group's subsidiaries runs from January 1 to December 31, 2003.

3. EVENTS SUBSEQUENT TO THE CLOSE

None

4. ACCOUNTING RULES AND METHODS:

- ***General principles:***

The SUREN group's financial statements were prepared in accordance with French accounting principles current in France, specifically pursuant to Regulation 99-02 of June 22, 1999.

- ***Structure:***

With all the companies controlled exclusively, directly or indirectly, by the parent company SUREN, they were absorbed in accordance with the subsidiary consolidation method.

- ***Change in the consolidation structure:***

the companies of the FINAGEST sub-group (21 entities) were incorporated into the consolidation structure on April 30, 2003,
the companies of the SERIENCE sub-group (34 entities) were incorporated into the consolidation structure on June 30, 2003,

- ***Consolidation principles and methods:***

All significant transactions between the absorbed companies were eliminated, as were the group's internal results (dividends, capital gains, etc.).

The companies were absorbed based on their annual financial statements or situations prepared as of December 31, and treated, as applicable, in accordance with the accounting principles applied by the Group. The consolidated financial statements that are presented include only eight months, from April 30, 2003 to December 31, 2003.

- ***Closing date:***

The closing date of the parent company and 21 of its subsidiaries is March 31, 2004. The closing date of the remaining 34 subsidiaries is December 31, 2003.

- ***Purchase variances:***

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[40] Note that the SUREN group was established in March 2003. Its activity derives from the acquisition of the FINAGEST group (consolidated at April 1, 2003) and SERIENCE (consolidated at June 30, 2003). Movements were due in their entirety to these additions to the consolidation scope. Consequently, this document did not seem relevant to us and given the difficulty of obtaining certain information, it was decided not to include it in this appendix.

The difference between the purchase cost of the shares and the global valuation of the assets and liabilities identified as of the purchase date constitutes the purchase variance. The book values of the purchased companies are revalued, taking minority interests into consideration.

Positive purchase variances are posted to fixed assets and depreciated over a use life reflecting the assumptions applied and the objectives set during the acquisitions, as reasonably as possible. This maximum use life is estimated at 20 years.

- ***Intangible fixed assets:***

Intangible fixed assets specifically include valuation variances relating to goodwill when it does not correspond to the identification criteria.
Goodwill is not depreciated.

Intangible fixed assets may be depreciated, as necessary, over periods corresponding to their duration of legal protection or anticipated use life.

The depreciation methods and durations applied are the following:

Intangible fixed assets	Method	Duration
Concessions, Patents, Licenses	Straight line	1 to 5 years

- ***Tangible fixed assets:***

Tangible fixed assets are posted to the balance sheet at purchase or production cost.

At purchase, valuation variances were posted for land and buildings.

Depreciation is applied according to the straight-line method as a function of the probable use life of the assets in question.

The principle use lives applied were the following:

Buildings:	Straight line	40 years
Building improvements:	Straight line	10, 15 or 20 years
Floor coverings:	Straight line	3, 5 years
Operating materials and furniture:	Straight line	5 to 10 years
Sundry improvements and fixtures:	Straight line	10 years
Office and computer materials:	Straight line	5 years

- ***Lease-to-own agreements:***

Transactions carried out through lease-to-own agreements are largely treated according to conditions identical to a purchase on credit at original contractual value. Depreciation is applied in accordance with the aforementioned methods and rates, and the tax impact of this treatment is taken into consideration.

- ***Long-term investments:***

This item essentially consists of deposits and bonds paid. An impairment provision might be posted in the future.

It also includes shares of non-absorbed companies. These are shown on the balance sheet at purchase cost.

A provision for impairment is likely to be posted when the inventory value of holdings, taking into consideration the share of net assets, among other items, falls below purchase cost.

- ***Inventory:***

Inventory is valued according to the FIFO method, first in / first out. The application of the latest price facilitates application of this method, without impact on the financial statements.

A provision for impairment is posted when inventory value falls below purchase cost.

- ***Receivables and liabilities:***

Receivables and debts are posted at par value.

A provision for impairment of receivables is applied nominatively when inventory value is below book value.

All client receivables have a due date of less than one year. Doubtful receivables are subject to a provision of 100%.

- ***Cash and securities:***

Securities are valued at purchase or subscription cost, excluding accessory expenses.

A provision for impairment is established when the stock market price or probable sale value is less than purchase value.

- ***Investment subsidies:***

Subsidies are treated as follows:

Posting to the liabilities adjustment account,
Application to the consolidated income statement.

- ***Provisions for risks and expenses:***

In consideration of the group's activities, the purpose of posting provisions is to cover one-off or underlying risks or litigation. These items primarily correspond to one-off litigation or deferred taxes. It is not necessary to establish provisions for recurring items, such as client guarantees.

- ***Commitments for retirement and similar services:***

Total rights acquired by employees in calculating retirement severance payments are generally calculated as a function of seniority, taking into consideration a percentage of the probability of employment with the company at retirement age.

All these costs are subject to provisions and are systematically taken into consideration in results during the employee's period of employment.

- ***Income tax:***

Pursuant to the requirements of Regulation No. CRC 99-02, the group posts deferred taxes in the event of:

Temporary variances between the tax and book values of assets and liabilities on the consolidated balance sheet;
Tax credits and shortfalls carried forward.

Deferred taxes are calculated in accordance with the method of variable items carried forward, by applying the latest tax rate current for each company.

Deferred asset and liability taxes are offset for a single tax entity, with the tax consolidation structure being similar to that of a single tax entity.

Deferred tax assets are only taken into consideration if:

Their recovery does not depend upon future results;
Or their recovery is likely, given the existence of a taxable benefit expected during wind-up.

- ***Distinction between extraordinary income and current income:***

Current income derives from activities in which the company is engaged within the context of its business, as well as related activities it assumes on an accessory basis or during the course of its normal activities.

Extraordinary income results from unusual events or transactions that differ from the activity and are not believed to occur frequently or regularly.

- ***Income per share:***

Income per share consists of net consolidated income – group share – corresponding to the average weighted number of shares of the parent company outstanding during the fiscal year, excluding treasury shares.

Since no dilutive instrument has been issued, diluted income per share corresponds to income per share.

5. NOTES and COMMENTS:

Note 1 - Intangible fixed assets:

	Acquisition premiums	Goodwill	Concessions and patents	Advances, down payments and other	Total
Gross value	35,295	141,375	427	366	177,463
Depreciation	-1,129		-190	-9	-1,328
Net value	**34,166**	**141,375**	**237**	**357**	**176,135**

Note 2 – Tangible fixed assets:

	Land	Buildings	Materials and tools	Other tangible fixed assets	Fixed assets in progress and advances	Total
Gross value	38,468	179,811	7,821	10,997	2,512	239,609
Depreciation		-6,856	-2,757	-5,700		-15,313
Net value	**38,468**	**172,955**	**5,064**	**5,297**	**2,512**	**224,296**
of which, leases	12,365	51,447				

Note 3 – Long-term investments:

Long-term investments are distributed as follows:

	Net value
Long-term financial instruments	621
Loans	883
Deposits and bonds	745
Other long-term receivables	149
Total	**2,398**

Note 4 – Non-consolidated shares:

List of major non-consolidated shares:

		12/31/2003		
Société	**% held**	**Gross value**	**Depreciation**	**Net value**
SARL Laffitte Santé	100.00%	84	38	46
SARL Massenet Santé	100.00%	8		8
SARL Isère Santé	100.00%	8		8
SEP Grenoble	23.00%	70		70
Other		11		11
Total non-consolidated shares		**181**	**38**	**143**

Note 5 – Other receivables and expenses posted in advance:

The breakdown of receivables by type is as follows:

	Net at 12/31/03
Tax receivables	8,763
Advances and down payments paid	377
Social receivables	106
Sundry debtors	3,197
Deferred asset taxes	250
Expenses posted in advance	895
Expenses to be distributed	338
Total	**13,926**

Note 6 – Expenses to be distributed:

The change in expenses to be distributed may be analyzed as follows:

	Expenses to be distributed
Opening balance	
Increase	290
Decrease	-178
Change in structure	226
Balance at close	**338**

Note 7 – Cash:

In thousands of euros	**12/31/03**
Investment securities	589
Cash	3,883
Total	**4,472**

Note 8 – Provisions for risks and expenses:

Provisions for risks and expenses include the following items :

	12/31/2003
Provisions for risks and expenses	1,574
Of which, provisions for pensions and retirement	794
Provision for taxes	5,886
Total	**7,460**

Note 9 – Loans and financial liabilities:

Financial liabilities are analyzed as follows as a function of maturity dates:

	Gross amount	**Up to 1 year**	**Between 1 and 5 years**	**Over 5 years**
Bank loans	239,359	11,650	75,080	152,629
- of which, real estate lease	43,075	3,772	14,009	25,294
Overdrafts	9,512	9,512		
Other financial liabilities	9,291	9,291		
Total	**258,162**	**30,453**	**75,080**	**152,629**

Note 10 – Operating and other debts:

The analysis of debts by type is presented as follows:

	12/31/2003
Debts on fixed assets	209
Social liabilities	9,363
Tax liabilities	3,417
Advances and down payments received on orders	612
Deferred liability taxes	20,113
Current creditor accounts	1,172
Other debts / Adjustment accounts	2,852
Total	**37,738**

Note 11 – Other operating revenue:

Other operating revenue is broken down as follows:

	12/31/2003
Production stored	-179
Fixed asset production	-46
Operating subsidies	313
Other revenue	45
Expense transfers	1,580
Total	**1,713**

Note 12 – Personnel expenses:

This item is analyzed as follows

	12/31/2003
Salaries and benefits	24,680

Social expenses	9,080
Employee profit-sharing	73
Total	**33,833**

Note 13 – Financial income:

Financial income is broken down as follows:

	12/31/2003
Dividends and revenue from profit sharing	
Revenue from receivables and securities	230
Reversals on provisions	1
Other financial revenue	1
Financial revenue	**232**
Interest and financial expenses	6,702
Provisions	
Financial expenses	**6,702**
Financial income	**-6,470**

Note 14 – Extraordinary income:

Extraordinary income is analyzed as follows:

	12/31/2003
Net capital gains or losses on the sale of fixed assets	-232
Contributions and reversals of provisions	244
Subsidies drawn as income	2
Expense transfers	100
Other extraordinary revenue and expenses	-294
Extraordinary income	**-180**

Note 15 – Taxes:

Note 15.1 Analysis of tax expense

in thousands of euros	12/31/2003
Current taxes	1,062
Deferred taxes	1,095
Income tax expense (revenue)	2,157

Note 15.2 Balance sheet presentation of deferred taxes

in thousands of euros	12/31/2003
Deferred asset taxes	250
Deferred liability taxes	20,113,
Net deferred taxes	**(19,863)**

LIST OF ABSORBED COMPANIES

	% control	% interest	Method
SUREN	100.00%	100.00%	Parent company
FINAGEST SAS	100.00%	100.00%	IG
Les Ophéliades Beaune	100.00%	100.00%	IG
Les Ophéliades Chalon	100.00%	100.00%	IG
Les Ophéliades Le Creusot	100.00%	100.00%	IG
Les Ophéliades Thise	100.00%	100.00%	IG
Les Ophéliades Simiane	100.00%	100.00%	IG
Les Ophéliades Fontaines	100.00%	100.00%	IG
Les Ophéliades Nancy	100.00%	100.00%	IG
Les Ophéliades Epinal	100.00%	100.00%	IG
Les Ophéliades Montbéliard	100.00%	100.00%	IG
Les Ophéliades Troyes	100.00%	100.00%	IG
Les Ophéliades Meaux	100.00%	100.00%	IG
Santé Marketing and Stratégie	100.00%	100.00%	IG
Les Ophéliades Dijon	100.00%	100.00%	IG
Les Ophéliades Nice	100.00%	100.00%	IG
Les Ophéliades Thonon	100.00%	100.00%	IG
Les Ophéliades Fréjus	100.00%	100.00%	IG
Les Ophéliades St Etienne	100.00%	100.00%	IG
SERENA	100.00%	100.00%	IG
L'Air du Temps	100.00%	100.00%	IG
GemVie	100.00%	100.00%	IG
Abilone	100.00%	100.00%	IG
Artemis SAS	100.00%	100.00%	IG
SCI Bigou	100.00%	100.00%	IG
SCI Carnot Immobilier	100.00%	100.00%	IG
Carnot Santé	100.00%	100.00%	IG
SCI Prestige Le Chesnay	98.50%	98.50%	IG
Château Le Moine	100.00%	100.00%	IG
Colson and Colson	100.00%	100.00%	IG
De Bioux Santé	100.00%	100.00%	IG
Financière Sérience	100.00%	100.00%	IG
SNC Hirt and Cie	100.00%	100.00%	IG
SCI Hauterive Immobilier	100.00%	100.00%	IG
Domaine de Hauterive	100.00%	100.00%	IG
SNC Jongkind	99.00%	99.00%	IG
SCI Kerinou Immobilier	100.00%	100.00%	IG
Kerinou Santé	100.00%	100.00%	IG
La Boissière	96.00%	96.00%	IG
SCI Le Mail Immobilier	100.00%	100.00%	IG
Le Mail Santé	100.00%	100.00%	IG
SCI Maronnier	100.00%	100.00%	IG
Maine Santé	100.00%	100.00%	IG
Medotels	100.00%	100.00%	IG
SNC Perou	100.00%	100.00%	IG
SCI Prestige Fréjus	98.07%	98.07%	IG
SCI Prestige Marcq in Baroeul	99.23%	99.23%	IG
SNC Monceau Mederic	100.00%	100.00%	IG
Les Saules	100.00%	100.00%	IG
SCCV La Croix Rouge	100.00%	100.00%	IG
Sérience SSR SARL	96.00%	96.00%	IG
Sérience	100.00%	100.00%	IG
SAS Sérience Expansion	100.00%	100.00%	IG
St Germain Santé	100.00%	100.00%	IG
St Pierre Oursin	100.00%	100.00%	IG
SNC Thalatta	100.00%	100.00%	IG

3.18.2 Pro forma financial information

3.18.2.1 Suren Pro forma financial statements at December 31, 2004 and at December 31, 2005 (including MEDIDEP for a full year) and report from the statutory auditors

PIA Group

21 rue d'Artois
75008 PARIS

MAZARS & GUERARD

Le Vinci
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92075 La Défense Cedex

Report from the Statutory Auditor

on the consolidated pro forma financial statements at December 31, 2004 and 2005

Mr. Chairman,

In our capacity as statutory auditors and in accordance with regulation (CE) N°809/2004, we prepared this report on the pro forma financial statements of Suren for the financial years ended at December 31, 2004 et 2005 included in the subsection 3.18.2 of its registration document which will be filed with the AMF.

These pro forma financial statements, which include a balance sheet at December 31, 2005 as well as financial statements and cash flow tables at December 31, 2004 and 2005 were prepared for the sole purpose of illustrating the impact that the consolidation of the Medidep Group by the Suren Group could have had would the transaction have been effective on January 1st, 2004. By their very nature, they describe a hypothetical situation and are not necessarily representative of the financial situation or results that might have obtained had this transaction actually taken place on January 1, 2004.

These pro forma financial statements were prepared under your responsibility and in accordance with the provisions of regulations (CE) N°809/2004 and with the CESR recommendations relating to pro forma financial statements.

Our responsibility is to express, in accordance with schedule II section 7 of the regulation CE N°809/2004, a conclusion as to the adequate nature of the preparation of the pro forma financial statements.

We have carried out our work in accordance with professional practice applicable in France. This work, which does not include a review of the underlying information used to established this proforma statements, consisted primarily of verifying that the data on the basis of which these pro forma statements were prepared agrees with the source documents, as well as examining critical elements that justify pro forma treatment, and interviewing SUREN Management to collect the information and explanations we deemed necessary.

In our view:

- The pro forma financial statemenst have been adequately established on the aforementioned basis ;
- This basis is consistent with the accounting methods used by the issuer

This repor is issued for the sole purpose of the public offer in France and in the other States of the European Union in which the prospectus, approved by the AMF, would be notified, and may not be used in other circumstances.

Issued in Paris and La Défense, September 25, 2006.

The statutory auditors

P I A G R O U P	SOPHIE DUVAL
M A Z A R S & G U E R A R D	PIERRE FRENOUX

Suren Group

A PRO FORMA FINANCIAL INFORMATION AT DECEMBER 31, 2005

I. Preamble

The pro forma information at 12/31/05 was prepared in accordance with the IFRS standard adopted in the European Union and in accordance with the accounting rules and methods applied by the group.

This pro forma information was prepared in order to present the financial situation and results of the Suren – Medidep group over a 12-month period as of January 1, 2005, the Suren group having acquired the Médidep group as of September 30, 2005.

The pro forma information was prepared based on:

- The Suren group's consolidated financial statements at 12/31/05 (including three months of the Medidep group),
- the consolidated financial statements of the Medidep group at 12/31/05 (12-month period).

Closures at 12/31/05 and as certified by their respective statutory auditors.

II. Principal data used in preparing the pro forma financial statements

- Assumption of 87.86% control of Medidep at January 1, 2005.

- Financing of the purchase:

Within the framework of the purchase of Medidep, SUREN SAS took a syndicated loan totaling €201,613,000.
We used the assumption of a "deductible exemption" [*franchise d'amortissement*] from January 1, 2005 to May 31, 2007.

Interest on the loan was prorated based on the expense posted in 2005 (two months). Over 12 months, interest totaled €12,031,000.

Interest on the rate hedge was prorated to the pro forma financial statements, based on the expense posted in 2005.
Over 12 months, interest totaled €1.8 million.

I. 2004 pro form financial statements

1. Pro forma balance sheet at 12/31/05

ASSETS

(In thousands of euros)	Suren group historical information at 12/31/05	Pro forma treatment	2005 pro forma
Goodwill	359,886	0	359,886
Intangible fixed assets	490,515	0	490,515
Tangible fixed assets	160,682	0	160,682
Long-term investments	11,078	0	11,078
Deferred taxes assets	4,472	0	4,472
Non-current assets	**1,026,633**	**0**	**1,026,633**
Inventory	1,421	0	1,421
Trade accounts and notes receivable	41,938	0	41,938
Other receivables and current financial assets	45,381	3,968	49,349
Cash and investment securities	57,297	0	57,297
Current assets	**146,037**	**3,968**	**150,005**
Total assets	**1,172,670**	**3,966**	**1,176,638**

SHAREHOLDERS' EQUITY AND LIABILITIES

(In thousands of euros)	Suren group historical information at 12/31/05	Pro forma treatment	2005 pro forma
Capital	253,562	0	253,562
Premiums	108,008	0	108,008
Consolidated reserves and income	35,229	-7,762	27,467
Shareholders' equity (Group share)	**396,799**	**-7,762**	**389,037**
Minority interests	21,293	0	21,293
Total shareholders' equity	**418,092**	**-7,762**	**410,330**
Provisions for retirement	5,606	0	5,606
Deferred taxes	163,924	0	163,924
Other provisions	3,854	16	3,870
Loans and financial liabilities	418,654	0	418,654
Non-current liabilities	**592,038**	**16**	**592,054**
Provisions of less than one year	5,443	-17	5,427
Suppliers and trade payables	23,855	0	23,855
Other liabilities and adjustment accounts	94,794	0	94,794
Debts due within one year and bank overdrafts	32,347	11,731	44,078
Financial liability instruments	6,102	0	6,102
Current liabilities	**162,541**	**11,714**	**174,255**
Total shareholders' equity and liabilities	**1,172,670**	**3,968**	**1,176,638**

2. Pro forma income statements 12/31/05

INCOME

(In thousands of euros)	**Suren stand alone pro forma**	**Medidep stand alone pro forma**	**Pro forma treatment**	**2005 proforma**	**2004 proforma**	**PM 2005**
Total revenue	**210 491**	**267 253**	**0**	**477 744**	**401 400**	**282 283**
Other revenue	257	2 074	0	2 331	2 072	907
Activity revenue	**210 748**	**269 327**	**0**	**480 075**	**403 472**	**283 190**
Purchases consumed	18 209	9 301	0	27 510	31 466	22 884
Other purchases	65	7 418	0	7 483	181	1 079
Personnel expenses	105 517	135 275	0	240 792	197 363	143 751
External expenses	41 088	64 755	0	105 843	87 296	56 056
Duties and taxes	11 191	16 022	0	27 213	22 347	15 580
Depreciation and impairment	12 818	8 204	0	21 022	18 550	14 128
Current operating income	**21 860**	**28 352**	**0**	**50 212**	**46 269**	**29 712**
Other revenue and operating expenses	30 992	-4 605	0	26 387	-3 175	26 636
Operating income	**52 852**	**23 747**	**0**	**76 599**	**43 094**	**56 348**
Financial expenses	-17 672	-6 629	-11 731	-36 032	-31 648	-20 134
Financial revenue	0	0	0	0	97	1 277
Gross cost of financial debt	**-17 672**	**-6 629**	**-11 731**	**-36 032**	**-31 551**	**-18 857**
Cash revenue and cash equivalents	28	92	0	120	339	84
Net cost of financial debt	**-17 644**	**-6 537**	**-11 731**	**-35 912**	**-31 212**	**-18 773**
Other financial revenue and expenses	-753	-36	0	-789	682	-707
Pre-tax income	**34 455**	**17 174**	**-11 731**	**39 898**	**12 564**	**36 868**
QP corporations subject to the equity method of accounting	-5 913	-6 031	3 968	-7 975	-5 129	-6 377
Tax on earnings	**28 542**	**11 143**	**-7 762**	**31 923**	**7 435**	**30 491**
Net income before income from activities in the course of suspension or sale			**0**		3	
Income net of tax on activities suspended, sold, or in the course of sale	0	-13	0	-13	-1 051	
Net income	**28 542**	**11 130**	**-7 762**	**31 910**	**6 387**	**30 491**
Share of minority interests	-866	-1 220	0	-2 086	-1 265	-973
Group share	**27 676**	**9 910**	**-7 762**	**29 824**	**5 122**	**29 518**

3. Change in Shareholders' equity

in thousands of euros	**Capital**	**Premiums**	**Accumulated income**	**Group share of net equity**	**Minority interests**	**Total net equity**
At January 1, 2005	**152,963**	**4,390**	**2,310**	**159,663**	**401**	**160,064**
Distribution of dividends				0		0
Capital increase	100,599	103,618		204,217		204,217
Change in treasury shares			10	10		10
Income at December 31, 2005			29,824	29,824	2,086	31,910
Fair market value of financial instruments			1,462	1,462		1,462
Changes in consolidation structure				0	18,806	18,806
Payment in shares (BSA)			1,001	1,001		1,001
Share purchase options				0		0
Impact of change in tax rate			911	911		911
Pro forma adjustment		-8,071	-8,071	-8,071		-8,071
Other changes			17	17		17
At December 31, 2005	**253,562**	**108,008**	**27,464**	**389,034**	**21,293**	**410,327**

4. Cash flow tables

TABLEAU DE FLUX DE TRESORERIE (en Milliers d'euros)	Suren 12 mois pro forma 2005	Medidep 12 mois pro forma 2005	Retraitement pro forma	**pro forma au 31.12.05**	**pro forma au 31.12.04**
Net income from consolidated companies	28 906	10 779	-7 762	31 923	6 383
Income from activities sold	0	13	0	13	
Net contributions to depreciation and provisions	11 105	9 690	0	20 795	17 865
Deferred taxes	-4 815	223	-3 968	-8 560	4 601
Adjustment of retirement commitment	73	156	0	229	263
Fair market value of financial instruments (SWAPs)	1 383	-593	0	790	-97
Capital gains from sale of assets	-2 496	-13	0	-2 509	313
Share-based payments (BSA)	1 001		0	1 001	2 010
Gross margin on treasury shares	**35 157**	**20 255**	**-11 730**	**43 682**	**31 338**
Change in inventory	-114	3 923	0	3 809	-3 435
Change in trade receivables	-3 374	-2 371	0	-5 745	-3 158
Change in supplier debts	22 284	-1 163	0	21 121	3 153
Change in other items	8 995	92	0	9 087	-17 335
Change in need for working capital	**27 791**	**480**	**0**	**28 271**	**-20 775**
Net cash flow generated by the activity	**62 948**	**20 735**	**-11 730**	**71 953**	**10 563**
Purchase / sale of subsidiaries	-19 517	-2 017	0	-21 534	-60 902
Purchase of Medidep	-399 885		95	-399 790	-399 790
Sale of SCI Hermitage	16 047		0	16 047	
Other sales of subsidiaries	-2 181		0	-2 181	
Intangible and tangible investments made	-26 951	-22 398	0	-49 349	-43 506
Other financial investments made	3 177	-347	0	2 830	-2 755
Revenue collected from sale of fixed assets received (excluding sec	1 950	11 016	0	12 966	49 503
Sales of Hermitage 2 tangibles	88 841		0	88 841	
Net cash flow related to investment activities	**-338 519**	**-13 745**	**95**	**-352 169**	**-457 450**
Net cash flow	**-275 571**	**6 990**	**-11 635**	**-280 216**	**-446 887**
Capital increase	204 216	95	-95	204 216	243 482
Increase in financial debt	304 885	119 337	0	424 222	497 234
Loan repayments	-217 672	-118 519	11 730	-324 461	-278 424
Dividends paid to minority owners of absorbed companies	-106	-10	0	-116	-42
Net cash flow related to financing activities	**291 323**	**902**	**11 635**	**303 860**	**462 250**
Net cash flow generated by activities sold	0	**1 094**	0	**1 094**	**-2 424**
Net change in cash	**15 752**	**8 986**	**0**	**24 738**	**12 939**
Cash at opening	12 788	7 961	0	20 749	-5 040
Cash at close	28 176	17 350	0	45 526	7 898
Reclassification of cash at opening	0	38	0	38	
Cash on hand	9 667	22 520	0	32 187	18 882
VMP	24 683	428	0	25 111	
Current bank loans	-6 174	-5 598	0	-11 772	-10 983
Cash	**28 176**	**17 350**	**0**	**45 526**	**7 899**

II. Notes and appendices to the pro forma income statement

1. *Total revenue, current operating income, and pro forma operating income at 12/31/05*

in thousands of euros	SUREN	MEDIDEP	TOTAL
Total revenue	210,491	267,253,	477,744
Current operating income	21,860	28,352,	50,212
Operating income	52,852	23,747,	76,599

2. *Personnel expenses*

in thousands of euros	SUREN	MEDIDEP	TOTAL
Salaries and benefits	75,523	96,643	172,166
Social expenses	27,620	36,942	64,562
Employee profit-sharing	500	1,690	2,190
Other Personnel expenses	1,874		1,874
Personnel expenses	**105,517**	**135,275**	**240,792**

3. *Other revenue and operating expenses*

in thousands of euros	SUREN	MEDIDEP	TOTAL
Provisions for reorganization	0	-2,480	-2,480
Capital gains or losses from sales of assets	29,320	13	29,333
Capital gain on the sale of MSCG* stock	1,433		1,433
Purchase of Medidep – Takeover expenses	0	-2,655	-2,655
Other operating expenses and revenue	239	517	756
Total Revenue (Expenses)	**30,992**	**-4,605**	**26,387**

4. *Net financial income*

in thousands of euros	SUREN	MEDIDEP	Pro form treatment	TOTAL
Interest expenses	-16 289	-7 222	-11 731	-35 242
Change in swap value	-1 383	593		-790
Gross cost of debt	-17 672	-6 629	-11 731	-36 032
Capital gain or loss on sale of stock	28	92		120
Net cost of debt	-17 644	-6 537	-11 731	-35 912
Adjustment of retirement commitments	-247	-156		-403
Other financial revenue and expenses	-506	120		-386
Financial income	**-18 397**	**-6 573**	**-11 731**	**-36 701**

5. *Income tax: analysis of tax expense*

in thousands of euros	SUREN	MEDIDEP	Pro form treatment	TOTAL
Current taxes	10,733	5,807		16,540
Deferred taxes (revenue)	-4,820	224	(3,968)	-8,565
Income tax expense (revenue)	**5,913**	**6,031**	**(3,968)**	**7,975**

6. *Pro forma sector information*

Income statement	EHPAD	Sanitarium	Other activities	Total Eliminations	total
Total revenue	356,202	173,678	26,060	-78,196	477,744
Inter-activity sales	-51,539	-597	-26,060	78,196	0
Total	**304,663**	**173,081**		**0**	**477,744**
Current operating income	31,542	20,056	-1,386		50,212
Other revenue and operating expenses	28,130	3,023	-4,766		26,387
Operating income	**59,672**	**23,079**	**-6,152**	**0**	**76,599**

B PRO FORMA FINANCIAL INFORMATION AT DECEMBER 31, 2004

I. Preamble

The pro forma information at 12/31/04 was prepared in accordance with the IFRS standard adopted in the European Union and in accordance with the accounting rules and methods applied by the group.

This pro forma information was prepared in order to present the financial situation and results of the Suren – Medidep group over a 12-month period as of January 1, 2004.

The pro forma information was prepared based on:
- The Suren group's consolidated financial statements at 12/31/04,
- the consolidated financial statements of the Medidep group at 12/31/04.

II. Principal data used in preparing the pro forma financial statements

Assumption of 87.86% control of Medidep at January 1, 2004.

1. Valuation of the operating authorizations:

Fair market value is assessed as of January 1, 2004:

Fair market value of the authorizations:	€267,781,000
Residual goodwill:	€294,931,000

The Suren group values all authorizations held by MEDIDEP at January 1, 2004 based on a method proprietary to the group.

Based on a valuation of the authorizations corresponding to 100% of the revenue budgeted for year n+1 (2004)41, the value of the authorizations thus totals €267,781,000, compared to a value of €120,133,000 in the MEDIDEP financial statements at January 1, 2004.

2. Deferred taxes:

The re-estimation of the value of the MEDIDEP authorizations will result in a deferred tax liability of €250,731,000 x 34.33%: €86,076,000 (compared to €35,388,000 in the financial statements of January 1, 2004).

Financing of the purchase:

1. Implementation of a loan of €201.6 million.

Within the framework of the purchase of Medidep, SUREN SAS took a syndicated loan totaling €201,613,000.
We used the assumption of a "deductible exemption" [*franchise d'amortissement*] from January 1, 2004 to May 31, 2007.

Interest on the loan was prorated based on the expense posted in 2005 (two months). Over 12 months, interest totaled €12,031,000.

Interest on the rate hedge was prorated to the pro forma financial statements, based on the expense posted in 2005.
Over 12 months, interest totaled €1,789,000.

2. Increase in Suren's capital

The capital increase was treated as follows:

Capital increase:	€100.6 million
Issuance premium:	€103.6 million

- **Other costs related to the Medidep acquisition**

Expenses related to the takeover bid (€2.6 million) and expenses related to the shutdown of the Toulouse site (€0.7 million) assumed by Medidep were included in the 2004 pro forma financial statements.

- **Non-inclusion of the acquisition of the Réacti-Malt sub-group:**

The financial factors relative to the Réacti-Malt sub-group, acquired October 31, 2004, were not included in these pro forma financial statements in view of their insignificant scope.
2004 revenue over 12 months: €32.7 million.

[41] Authorizations for establishments opened in fiscal year 2004 were valued based on the 2005 budgeted total revenue (over an entire year).

III. Pro forma 2004 financial statements

1. Pro forma income statement, 12/31/04

INCOME

(In thousands of euros)	SUREN Group historical data at 12.31.04 IFRS	Medidep pro forma data 2004	Pro forma treatment	2004 proforma
Total revenue	**160 430**	**240 970**	**0**	**401 400**
Other revenue	-7	2 079	0	2 072
Activity revenue	**160 423**	**243 049**	**0**	**403 472**
Purchases consumed	15 473	15 993	0	31 466
Other purchases	181	0	0	181
Personnel expenses	77 498	119 865	0	197 363
External expenses	27 574	59 722	0	87 296
Duties and taxes	8 231	14 116	0	22 347
Depreciation and impairment	10 229	8 321	0	18 550
Current operating income	**21 237**	**25 032**	**0**	**46 269**
Other revenue and operating expenses	1 026	-851	-3 350	-3 175
Operating income	**22 263**	**24 181**	**-3 350**	**43 094**
Financial expenses	-12 514	-5 314	-13 820	-31 648
Financial revenue	185	-88	0	97
Gross cost of financial debt	**-12 329**	**-5 402**	**-13 820**	**-31 551**
Cash revenue and cash equivalents	338	1	0	339
Net cost of financial debt	**-11 991**	**-5 401**	**-13 820**	**-31 212**
Other financial revenue and expenses	558	124	0	682
Pre-tax income	**10 830**	**18 904**	**-17 170**	**12 564**
Tax on earnings	-4 302	-6 636	5 809	-5 129
Net income before income from activities in the course of suspension or sale	**6 528**	**12 268**	**-11 361**	**7 435**
QP corporations subject to the equity method of accounting	0	3	0	3
Income net of tax on activities suspended, sold, or in the course of sale	0	-1 051	0	-1 051
Net income	**6 528**	**11 220**	**-11 361**	**6 387**
Share of minority interests	-88	-1 177	0	-1 265
Group share	**6 440**	**10 043**	**-11 361**	**5 122**

2. Cash flow tables

CASH FLOW TABLES (in thousands of euros)	SUREN 12/31/04 IFRS	MEDIDEP 12/31/04 IFRS	pro forma treatment	Pro forma 2004
Net income from absorbed companies	6 528	11 217	-11 362	6 383
Net contributions to depreciation, impairment, and provisions	9 598	7 567	700	17 865
Deferred taxes	-191	1 339	3 453	4 601
Adjustment to retirement commitment	105	158	0	263
Fair market value of financial instruments (SWAP)	-185	88	0	-97
Capital gains from sales of assets	340	-27	0	313
Share-based payments (BSA)	2 010		0	2 010
Gross margin on treasury shares	**18 205**	**20 342**	**-7 209**	**31 338**
Change in inventory	103	-3 538	0	-3 435
Change in trade receivables	1 918	-5 076	0	-3 158
Change in supplier debts	1 096	2 057	0	3 153
Change in other items	4 976	3 102	-25 413	-17 335
Change in need for working capital	**8 093**	**-3 455**	**-25 413**	**-20 775**
Net cash flow generated by the activity: Total I	**26 298**	**16 887**	**-32 622**	**10 563**
Investment activities			0	0
Purchase / sale of subsidiaries	-64 548	-1 947	-394 197	-460 692
Intangible and tangible investments	-19 779	-23 727	0	-43 506
Other financial investments	-2 289	-466	0	-2 755
Cash deriving from the sale of fixed assets (excluding securities)	47 649	1 214	0	48 863
Cash deriving from a reduction in long-term investments	640		0	640
Net cash flow related to investment activities: Total II	**-38 327**	**-24 926**	**-394 197**	**-457 450**
Financing activities			0	0
Capital increase	39 264	91	204 127	243 482
Investment subsidies		76	0	76
New loans	170 199	111 526	215 433	497 158
Loan repayments	-179 605	-98 819	0	-278 424
Dividends paid to minority owners of absorbed companies	6	-48	0	-42
Net cash flow related to financing activities: Total III	**29 864**	**12 826**	**419 560**	**462 250**
Net cash flow generated by sold activities		**-2 424**	0	-2 424
Net change in cash: I + II + III	**17 835**	**2 363**	**-7 259**	**12 939**
Cash at opening	-5 040	5 598	-5 598	-5 040
Cash at close	12 795	7 961	-12 858	7 898
Cash and cash equivalents	18 421	13 319	-12 858	18 882
Current bank loans	-5 626	-5 357	0	-10 983
Cash	**12 794**	**7 961**	**-12 859**	**7 898**

IV. Notes attached to the pro forma income statement

1. Total revenue

in thousands of euros	SUREN	MEDIDEP	Pro forma treatment	TOTAL
Total revenue	160,430	240,970		401,400
Current operating income	21,237	25,032		46,269
Operating income	22,263	24,181	-3,350	43,094

2. Personnel expenses

in thousands of euros	SUREN	MEDIDEP	TOTAL
Salaries and benefits	56,394,(*)	85,814	142,208
Social expenses	20,331	32,798	53,129
Employee profit-sharing	229	1,252	1,481
Other Personnel expenses	544		544
Personnel expenses	**77,498**	**119,865**	**197,363**

(*) of which, valuation of BSAs: €2,010,000

3. Other revenue and operating expenses

in thousands of euros	SUREN	MEDIDEP	Pro forma treatment	TOTAL
Capital gains or losses from sales of non-current assets	1,131			1,131
Capital gains or losses from sales of current assets		27		27
Provisions net of reversals		-168		-168
Acquisition of Medidep – Tender offer costs (pro forma treated)			-2,650	-2,650
Provisions for restructuring			-700	-700
Share of joint operations	214			214
Other operating expenses and revenue	-319	-710		-1,029
Total Revenue (Expenses)	**1,026**	**-851**	**3,350**	**-3,175**

4. Net financial income

In thousands of euros	SUREN	MEDIDEP	Pro forma treatment	TOTAL
Interest expenses	-12,514	-5,314	-13,820	-31,648
Change in swap value	185	-88	,	97
Gross cost of debt	**-12,329**	**-5,402**	**-13,820**	**-31,551**
Capital gain or loss on sale of securities	338	14	,	352
Net cost of debt	**-11,991**	**-5,388**	**-13,820**	**-31,199**
Adjustment of retirement commitments	-97	-154		-251
Other financial revenue and expenses (1)	655	265		920
Financial income	**-11,433**	**-5,277**	**-13,820**	**-30,530**

Detail of other financial revenues and expenses

In thousands of euros	SUREN	MEDIDEP	TOTAL
Dividends received from non-absorbed companies	2		2
Other revenue from holdings		51	51
Revenue from securities			0
Other financial expenses and revenue	693	-466	227
Other (contributions) / reversals of financial provisions	-40	693	653
Total "Other financial revenue and expenses"	**655**	**278**	**933**

5. Income tax: analysis of tax expense

in thousands of euros	SUREN	MEDIDEP	Pro forma treatment	TOTAL
Current taxes	(5 192)	(5 297)	5 808	(4 681)
Deferred taxes	890	(1 339)		(449)
Income tax expense (revenue)	**(4 302)**	**(6 636)**	**5 808**	**(5 129)**

6. Pro forma sector information

Income statement	EHPAD	Sanitarium	Other activities	Total Eliminations	total
Total revenue	283,852	152,083	20,055	-54,590	401,400
Inter-activity sales	-32,697	-1,838	-20,055	54,590	0
Total	**251,155**	**150,245**	**(0)**	**0**	**401,400**
Current operating income	**27,610**	**17,038**	**1,621**		**46,269**
Other revenue and operating expenses	500	-822	-2,854		-3,175
Operating income	**28,110**	**16,217**	**-1,232**	**0**	**43,094**

3.18.3 Dividend distribution policy

The Korian company (like the Medidep company) has paid no dividends in the last three years, preferring to focus its resources on growth.

Once the Korian shares are listed for trading on Eurolist by Euronext, Korian’s goal is to implement a real dividend distribution policy.

In this respect, a distribution rate of at least 20 % of current consolidated net income is planned, starting with the dividend for fiscal 2006.

3.18.4 Litigation and arbitration proceedings

Besides two potentially significant disputes described in Subsection 3.2.2, the Korian Group is a party to the following litigation of a tax nature:

Following a partial spin-off completed in 2001 by one of the subsidiaries of the Finagest company (the rights of which were assumed by Medotels, a direct subsidiary of Korian) followed by the consolidation of this same subsidiary by Finagest, the tax authority challenged the application of the special tax treatment applicable to mergers and partial spin-offs. The tax authority considers that this operation is really a split-off and, therefore, not eligible for the preferential tax treatment. This additional tax assessment resulted in a notice of collection of the following total amount (including late penalties) of approximately €1.3 million. Medotels paid this amount in August 2006. However, Medotels and its legal counsel believe the position of the tax authority is unjustified and will initiate proceedings in the appropriate court to assert their arguments.

This amount was provisioned in the Korian consolidated statement at June 30, 2006.

In addition, the companies in the Korian Group are parties, as plaintiff or defendant, to disputes considered as falling within the normal course of its business and deemed individually as not very significant.

In the case of lawsuits where companies in the Korian Group are defendants:

Disputes of a tax or social nature are subject to provisions at the rate of € 5,836,000 at June 30, 2006 (including € 2,215 for lawsuits before industrial tribunals);
Other operations-related lawsuits are subject to provisions at the rate of € 769,000 at June 30, 2006.

Among the other operations-related lawsuits, the lawsuits regarding public liability by companies in the Korian Group are covered in principle by the Group's insurance policies.

On the date of registration of the Document, besides the disputes mentioned above, there was no special fact or litigation, to Korian's knowledge, liable to materially affect the business, earnings or financial standing of the Korian Group.

3.18.5 Material change in the financial or commercial position.

There has been no significant change in the financial or commercial position of the Korian company or the Korian Group since December 31, 2005.

3.19 *Additional information*

3.19.1 Capital stock

On the registration date of this Document, Korian's capital stock totaled 257,474,040 euros, divided into 21,456,170 shares with a par value of twelve euros.

3.19.1.1 Authorized capital

The Korian Special Shareholders' meeting of September 19, 2006 granted the Management Board the following authorizations to issue shares of stock or securities giving rights to capital.

	Type of authorization	Authorization Date	Term of the authorization	Amount authorized
1	Issuance – with preemptive subscription right maintained – of shares and/or securities giving access to the equity in the Company and/or the issuance of debt securities giving access to the equity	September 19, 2006	26 months	€ 50 m
2	Issuance—without preemptive subscription rights—of shares and/or securities giving rights to the Company's capital and/or the issuance of debt securities giving	September 19, 2006	18 months	€ 50 m (charged to the caps referred to in 1

	rights to capital			
3	Possibility to increase the issuance of stock under the foregoing delegations up to a maximum of 15%, subject to the terms of Article L. 225-135-1 of the French Commercial Code	September 19, 2006	18 months	(charged to the caps referred to in 1 and 2, as the case may be
4	Issuance—without preemptive subscription rights—of shares reserved for Batipart at the same time as the Capital Increase by PO	September 19, 2006	18 months	€ 10 m (charged to the cap referred to in 1)
5	Issuance without preemptive subscription rights of shares reserved for ACM Vie at the same time as the Capital Increase by PO	September 19, 2006	18 months	€ 5 m (charged to the cap referred to in 1)
6	Issuance of shares reserved for participants in the Group savings plan	September 19, 2006	26 months	€ 840,000
7	Capital increase through the capitalization of premiums, reserves, earnings or other sums	September 19, 2006	26 months	€ 20 m
8	Stock options on new or existing shares	September 19, 2006	26 months	€ 840,000

3.19.1.2 Treasury shares held or controlled

Neither Korian nor any of its subsidiaries hold shares issued by Korian. No share of Korian stock is held by a third party on Korian’s behalf.

3.19.1.3 Historical changes in capital

The following table shows Korian’s capital operations since its formation.

Date	Type of operation	Amount of the capital reduction	Issue price per share	Share premium or discount	Amount of capital stock after the operation	Number of shares created	Total number of shares outstanding	Par value per share
Feb 12, 2003	Incorporation		€1	€0	€37,000	37,000	37,000	€1
Apr 24,2003	Capital increases in cash with elimination of preemptive subscription rights, reserved for companies of the Batipart group, MSRESS, Idia and CHP	€67,963,000		€0	€68,000,000			
Apr 24, 2003	Capital increase through in-kind contribution of stocks and bonds issued by Finagest made by companies of the Batipart group and CHP	€48,818,000	€1	€0	€116,781,000	116,781,000	116,818,000	€1
Mar 15, 2004	Capital increase with elimination of preemptive rights, reserved for PREDICA	€22,727,272	€1.10 €	€2,272,727.20	€139,545,272	22,727,272	139,545,272	€1
Oct 7, 2004	Issuance of shares with subscription warrants (ABSA) with elimination of preemptive rights, reserved for certain executives	€486,366 €	€1.10	€48,636	€140,031,638	486,366	140,031,638	€1
Oct 25, 2004	Capital increase with elimination of preemptive	€12,931,034	€1.16	€2,068,965.44	€152,962,672	12,931,034	152,962,672	€1

	rights, reserved for certain shareholders							
Dec 20, 2005	Capital increase with elimination of preemptive rights	€100,599,826	€2.03	€103,617,820.78	253,562,498	100,599,826	253,562,498	€1
June 29, 2006	Exercise of warrants attached to the ABSA on October 7, 2004	€3,911,539	€1.10	€391,153.90	€257,474,037	3,911,539	257,474,037	€1
Sep 20, 2006	Capital increase with elimination of preemptive rights, reserved for Batipart	3	€1	0	257,474,040	3	257,474,040	€1
Sep 20, 2006	Reverse stock split (12 existing shares for 1 new share)	N/A	N/A	N/A	257,474,040	N/A	21,456,170	€12
October 2006	Capital reduction	€ 150,193,190	NA	NA	€107,280,850		21,456,170	€ 5

Note concerning the stock subscription warrants (*bons de souscription d'actions)* issued on October 7, 2004

It is stipulated that the company, on the decision of the Board of Directors at its meeting of October 10, 2004, acting on authority from the Special Shareholders Meeting of June 24, 2004, issued 486,366 shares with stock subscription warrants, which were subscribed at the unit price of € 1.1 by eleven individuals who were members of the board and of the staff of Korian. Messieurs Goerge-François, Ravassard and Lapp (current members of the Korian Management Board) each thus subscribed 90,909 warrants. Furthermore, Mr. Boban, current member of the Supervisory Board, subscribed 36,364 warrants. Seven other individuals also subscribed the balance of the shares with warrants issued.

Attached to each of these shares were 45 warrants that could be exercised if (i) a "liquidity event" occurred, i.e.,

- public offering of Korian
- sale by the founding shareholders of Korian (Batipart, MSRESS and Idia) of Korian shares in an amount representing at least 85% of their initial investment.

In addition, the number of warrants that could be exercised by each holder varied on the basis of the net internal rate of return (IRR) (after dilution) made by the aforementioned founding shareholders. No warrant could be exercised if the IRR was to be lower than 20%, then the fraction increased with the IRR made up to 35%, the threshold beyond which all the warrants could be exercised. . The warrants could be exercised at the unit price of € 1.1 , corresponding to the price of the last capital increase completed subscribed by Predica.

At the time of the issuance of the warrants, the existing shares of Korian (before issuance of the warrants, thus held by the historical shareholders and Predica) were converted into P class shares which gave the right to a preferred dividend of 5% of their par value withdrawn on the dividends whose distribution the
General Shareholders Meeting would decide.

In April 2006, in the context of the Company's planned public offering, the Korian shareholders believed that this operation would be facilitated by the elimination of the existing warrants and simplification of the capital (which also implied the conversion of preferred shares into common shares).

In this context, the terms and conditions of the warrants were modified to allow them to be immediately exercised, in the percentage of warrants that could normally have been exercisable if the Korian shares had been valued in November 2006 (the planned offering date), at the price of € 2.25, corresponding to the last transaction recorded on Korian shares in May 2006, concerning a block of about ten million shares. The IRR theoretically made by the historical shareholders was determined on this basis. As a result, it was decided by the Korian Special Shareholders' Meeting and by the meeting of warrant holders that the warrants could be exercised in a proportion of 8.9639229/45 warrants times 45 (i.e. 8.9639229 warrants per share with warrants).

To facilitate the exercise of the warrants and prevent certain holders from becoming indebted to exercise the aforesaid warrants, as well as to ensure liquidity to these holders (the Korian stock not being intended to be listed for several months), the company BTP Transaction, a Batipart subsidiary, proposed to the holders of shares with warrants who wished that it buy their shares with warrants (prior to exercise of the shares with warrants) on the basis of a price per share with warrants of 12.5585 euros per share with warrants. This price corresponds to € 2.25 for each share with warrants plus the value of each of the 3.96392229 warrants attached to them and which amounted to € 1.15 (i.e. 2.25 minus 1.10).

The warrants were exercised in June 2006 by the shareholders who wanted to exercise them, including BTP Transactions, resulting in the creation of 3,911,539 new shares with a par value of one euro issued at the unit price of 1.1 euro, recorded on June 29, 2006 by the Management Board. On that date, warrants that had not been exercised could no longer be exercised.

In addition, in the context of the departure of two group managers, Batipart acquired the 50,001 shares with warrants that they had subscribed at the price of € 2.25 per share with warrants, without exercising the respective warrants.

Among the members of the Management Board or the Supervisory Board who held shares with warrants:

- Mr. Geroges-François sold 48,000 shares with warrants to BTP Transactions for the amount of € 606,808, thus making a gain of € 550,009, and he exercised the warrants attached to 42,909 shares with warrants not transferred; as a result of these transactions, he thus held 427,541 Korian shares with a par value of € 1 (before regrouping); he did not transfer these shares later, with the exception of fractions in connection with the regrouping of Korian's shares;
- Mr. Ravassard exercised through his asset company CHP the entirety of the warrants attached to the 90,909 shares with warrants that he held, i.e. a subscription of 814,901 shares with a par value of € 1 (before regrouping); he did not transfer these shares later, with the exception of fractions in connection with the regrouping of Korian's shares;
- Mr. Lapp sold the entirety of the 90,909 shares with warrants that he held to BTP Transactions for an amount of € 1,141,660, thus making a gain of € 1,041,680; he no longer owns shares of Korian;
- Mr. Boban sold 18,200 shares with warrants to BTP Transactions for an amount of 228,566 euros, thus making a gain of 208,546 euros, and he exercised the warrants attached to the 18,164 shares with warrants not transferred; after these transactions, he thus held 180,984 Korian shares with a par value of € 1 (before regrouping); he did not transfer these shares later.

All the other holders of shares with warrants transferred their shares with warrants to Batipart.

The table below shows the distribution of the capital of Korian before the purchase of the shares with warrants by Batipart and the exercise of the warrants, and after these transactions:

	Pre-reclassification and exercise of warrants		**Post-reclassification and exercise of warrants**	
Shareholdres	**NUMBER OF SHARES (1 € par)**	**%**	**NUMBER OF SHARES (1 € par)**	**%**
BATIPART and subsidiaries	97,208,007	38.34	100,091,577	38.87
MSRESS ARMAILLAC B.V.	46,552,554	18.36	46,552,554	18.08
PREDICA	89,690,454	35.37	89,690,454	34.83
ACM VIE	18,566,411	7.32	18,566,411	7.21
Management and other	1,545,072	0.61	2,573,041	1
Total	253,562,498	100%	257,474,037	100%

3.19.1.4 Pledges, endorsements and guarantees

Batipart pledged to financial institutions a total of 29,735,924 Korian shares, i.e. 86% of Korian's pledged capital.

Proval, a subsidiary of Batipart, pledged to financial institutions a total of 4,860,793 Korian shares, i.e. 14% of Korian's pledged capital.

3.19.2 Charter and bylaws

3.19.2.1 Corporate purpose

Article 2 of the Korian bylaws reads as follows:

"*The purpose of the company is:*

Any activity to manage, provide management consulting, and hold companies specializing in the healthcare sector, more particularly in Etablissements d'hospitalisation et d'accueil de personnes âgées*(EHAPD), follow-up and rehabilitation facilities, psychiatric clinics, personal home care for dependent elderly persons and, more generally, dependent care;*

and, more generally, the acquisition of interests, by any means, in all existing or future companies businesses or enterprises, and all financial, commercial, industrial, real and personal property transactions that may be directly or indirectly related to one of the purposes specified above or any similar or related purpose that might promote the development of the company's assets."

3.19.2.2 Major provisions of the issuer's bylaws concerning the members of the management and supervisory boards

The bylaws stipulate the following clauses concerning the Supervisory Board:

Article 14 – MEMBERS OF THE SUPERVISORY BOARD

1. *The Supervisory Board is composed of at least six (6) members and no more than eighteen (18) members, subject to the exception stipulated by law in cases of merger.*

   No member of the Supervisory Board may be a member of the Management Board.

   The members of the Supervisory Board are appointed, from among individual or corporate shareholders, by the Annual Shareholders' Meeting by simple majority vote; in the event of one or more vacancies on the Board, it has the option to appoint their replacements, each for the time remaining in his predecessor's term, subject to ratification by the next Shareholders' Meeting. Members may be dismissed at any time by the Annual Shareholders' Meeting without notice or indemnities.

   The number of Supervisory Board members over the age of seventy (70) may not be greater than one-third, rounded off, if applicable to the next higher number, of the members of the Supervisory Board in office (individual or the permanent representatives of legal entities). When this percentage is exceeded, the oldest member of the Supervisory Board, excluding the Chairman, shall be deemed to have resigned.

   Whenever the one-third percentage of Supervisory Board members over the age of seventy (70) has been exceeded, the Board shall note that fact at the last meeting of the Supervisory Board before the end of the calendar year. At that meeting, the Board shall designate the member or members deemed to have resigned on December 31 of the current year and shall appoint the new member(s) to replace the outgoing members, on a provisional basis, effective January 1 of the following year. The terms of office of such new members shall expire at the expiration of the terms of their respective predecessors.

2. *During his term of office, each member of the Supervisory Board must own at least one (1) share of stock.*

3. *Members of the Supervisory Board are appointed for a term of six (6) years. They may be reappointed. The office of member of the Supervisory Board expires at the end of the Shareholders' Meeting called to approve the financial statements for the previous year which is held in the year in which his term expires.*

4. *If the percentage of capital held by the employees of the company and its subsidiaries represents more than 3% of the capital of the company, one member of the Supervisory Board shall be named from among the employee shareholders or the employee members of the supervisory board of a* fonds commun de placement d'entreprise *(FCPE) that holds shares of the company, subject to the conditions defined in Article L. 225-71 of the Commercial Code.*

Article 15 – CHAIRMAN OF THE SUPERVISORY BOARD

1. *The Supervisory Board shall elect a Chairman and Vice Chairman, who must be individuals, from among the members for the duration of their terms. The Board shall set their fixed or variable compensation.*

   The Chairman shall call Board meetings and chair discussions.

2. *The Vice Chairman shall perform the same duties, with the same prerogatives, if the Chairman is unable to perform his duties or when the Chairman has temporarily delegated his powers.*

3. *The Supervisory Board may designate a secretary chosen from or outside the Board.*

Article 16 – DELIBERATIONS OF THE SUPERVISORY BOARD

1. *The Supervisory Board meets as often as the company's interests require. The members of the Supervisory Board are called to meetings by any means, even verbally.*

   The meetings of the Supervisory Board are held at the corporate offices or any other location specified in the notice of meeting. Meetings are chaired by the Chairman of the Supervisory Board or by the Vice Chairman in the absence of the Chairman.

2. *Meetings are held and resolutions adopted under the requirements for quorum and majority stipulated by law. In the event of a tie vote, the Chairman shall cast the deciding vote.*

3. *The Supervisory Board shall establish rules of procedure which may stipulate that, except for the adoption of decisions concerning the nomination or replacement of the Chairman and Vice Chairman and decisions concerning the nomination or proposed dismissal of members of the Management Board, members of the Supervisory Board who participate in the Board meeting through videoconferencing or the use of telecommunications or electronic methods are deemed present for the purposes of quorum and majority, subject to the conditions specified or required by law and the regulations in force.*

4. *Minutes of the meetings of the Board shall be prepared and copies or excerpts shall be issued and certified as required by law.*

Article 17 – POWERS OF THE SUPERVISORY BOARD

1. *The Supervisory Board shall exercise permanent control over the management of the company by the Management Board.*

   At any time of the year, it shall conduct the verifications and controls it deems appropriate, and may obtain from the Management Board all documents it believes useful to perform its duties.

   It shall receive a report from the Management Board on the conduct of the company's operations whenever it deems necessary and at least once every quarter.

   After the close of each fiscal year, within the periods stipulated by regulations, the Manager Board shall submit to the Supervisory Board, for the purposes of verification and control, the individual financial statements, consolidated financial statements, and its report to the Shareholders' Meeting. The Supervisory Board shall submit to the Annual Shareholders' Meeting its comments on the Management Board's report and the annual individual and consolidated financial statements.

   This supervision shall not under any circumstances result in the performance of management actions taken directly or indirectly by the Supervisory Board or its members.

2. *The Supervisory Board appoints the members of the Management Board under the conditions stipulated by law. It is also authorized to dismiss the members of the Management Board.*

3. *The following transactions require prior authorization from the Supervisory Board:*

   a) *under the legal and regulatory provisions in force:*

- *The in-kind transfer of property;*
- *Full or partial sale of equity investments;*
- *The creation of securities, as well as pledges, endorsements and guarantees.*

b) under these bylaws:

- *A recommendation to the Shareholders' meeting for any amendment to the bylaws that modifies powers within the company;*
- *Any operation that may result, immediately or in the future, in an increase in the capital stock, through the issuance of equities, that exceeds a total nominal amount of twenty (20) million euros;*
- *Any recommendation to the Shareholders' Meeting for the appropriation of earnings and the distribution of dividends and any distribution of an interim dividend;*
- *Any loan contracted for an amount greater than one hundred (100) million euros.*

c) Any agreement governed by Article L. 225-86 of the Commercial Code.

4. *Within the limits of the amounts it determines, and under the conditions and for the duration it defines, the Supervisory Board may authorize the Management Board in advance to perform one or more of the operations and transactions described in a) and b) of Subsection 3 above.*
5. *The Supervisory Board may approve the creation of Board committees responsible for studying issues submitted for their review by the Board or the Chairman. The Supervisory Board defined the membership and responsibilities of such committees, which report to the Board.*

Article 18 – COMPENSATION OF SUPERVISORY BOARD MEMBERS

Directors' fees may be allocated to the Supervisory Board by the Shareholders' Meeting. The Board shall distribute these fees freely among the members.

The Supervisory Board may also allocate exceptional compensation to its members in the cases and under the conditions defined by law.

The members of the Supervisory Board may hold their positions in combination with an employment contract provided that the contract represents an actual job.

The bylaws stipulate the following with respect to the Management Board.

Article 19 – MEMBERS OF THE MANAGEMENT BOARD

1. *The company is managed by a* Management Board*, composed of two (2) to seven (7) members, appointed by the Supervisory Board. The maximum number of* Management Board *members is reduced to five (5) when the shares of the company are not listed for trading on a regulated market. The Management Board performs its duties under the control of the Supervisory Board in accordance with the law and these bylaws.*
2. *The members of the Management Board may be chosen from non-shareholders, but must be individuals. They may always be re-appointed. No member of the Supervisory Board may be a member of the Management Board.*

   The age limit for membership on the Management Board is seventy-five (75). Any member of the Management Board who reaches this age shall be automatically deemed to have resigned.

   Each member of the Management Board may be tied to the company by an employment contract that remains in force for the entire term of his duties and after the expiration of his term.
3. *The Management Board is appointed for a term of six (6) years. If there is a vacancy on the Board, the Supervisory Board shall appoint a replacement for the time remaining in his predecessor's term in accordance with the law.*

4. *Any member of the Management Board may be dismissed by the Shareholders' Meeting or by the Supervisory Board. If dismissal is decided without reasonable grounds, it may result in damages. The dismissal of a member of the Management Board shall not cause the termination of his employment contract.*

Article 20 – CHAIRMAN OF THE MANAGEMENT BOARD – CHIEF EXECUTIVE OFFICERS

1. *The Supervisory Board may name one of the members of the Management Board as Chairman. He shall perform his duties for his term of office on the Management Board. He represents the company in its relations with third parties.*
2. *The Supervisory Board may grant the same representational power to one or more members of the Management Board, who shall hold the title of Chief Executive Officer.*
3. *All acts committing the party with respect to third parties shall be validly performed by the Chairman of the Management Board or by a Chief Executive Officer.*

Article 21 - DELIBERATIONS OF THE MANAGEMENT BOARD

1. *The Management Board meets as often as required by the company's interest and is called by the Chairman or by at least half of the members, either at the corporate offices, or at any other location stipulated in the notice of meeting. The agenda may be set or completed at the time of the meeting. Notices are issued by any and all means, even verbally.*
2. *Meetings of the Management Board shall be chaired by the Chairman or, if he is absent, by the Chief Executive Officer he has designated, or if there is no designation, by the oldest member of the Management Board.*

   If necessary, the Management Board shall appoint a secretary who does not have to be a member of the Board.
3. *The deliberations of the Management Board shall be valid only if at least half the members are present. Decisions shall be made by a majority of the members present or represented. In the case of a tie vote, the Chairman shall cast the deciding vote.*
4. *Deliberations are recorded in minutes; however, the failure to perform this formality does not nullify the decisions made.*

   Minutes are recorded in a special register. Copies or excerpts of these minutes are certified by the Chairman of the Management Board, one of its members, the secretary of the Management Board or any other person appointed by the Management Board.
5. *The members of the Management Board may participate in meetings through audio or videoconferencing.*
6. *To conduct its own operations, the Management Board may define rules of procedure and provide them to the Supervisory Board for its information.*

Article 22 – POWERS OF THE MANAGEMENT BOARD

1. *The Management Board is vested with the most extensive powers to act in all circumstances in the name of the company, within the limits of the corporate purpose, and subject to those powers expressly granted by law and these bylaws to Shareholders' Meetings and the Supervisory Board.*

   No restriction on its powers may be enforced against third parties and third parties may pursue enforcement by the company of commitments made in its name by the Chairman of the Management Board or a Chief Executive Officer if their appointments have been properly published.
2. *With the approval of the Supervisory Board, the members of the Management Board may divide the management tasks among themselves. However, under no circumstances shall this division release the Management Board from meeting and deliberating on the most important issues for the management of the company, nor may it be claimed as a cause for exemption from the joint liability of the Management Board and each of its members.*

3. *The Management Board may assign special permanent or temporary duties to one or more of its members or to any person outside the Board chosen by it, and delegate to those persons the powers its deems necessary for one or more specific purposes and with or without the option of subdelegation.*
4. *The Management Board shall prepare and submit to the Supervisory Board the reports, budgets and quarterly, half-year and annual financial statements, under the conditions stipulated by law and Section 1 of Article 17 above.*
5. *When an operation requires the authorization of the Supervisory Board as stipulated in Subsection 3 of Article 17 of these bylaws, and the Supervisory Board refuses said authorization, the Management Board may refer the dispute to the Shareholders' Meeting which may grant the authorization in question with all consequences therefrom.*
6. *The Management Board calls all Shareholders' Meetings, sets the agenda and executes the resolutions adopted by the Meeting.*

Article 23 – COMPENSATION OF THE MEMBERS OF THE MANAGEMENT BOARD

The Supervisory Board shall define the type and amount of the compensation for each of the members of the Management Board.

3.19.2.3 Rights attached to existing shares

Article 8 of the Korian bylaws provides the following:

"*Fully paid-up shares shall be in registered or bearer form, except where otherwise stipulated by law.*

They shall be registered in an account under the conditions and according to the procedures defined by the legislative and regulatory provisions in force."

Article 9 of the Korian bylaws reads as follows:

" *1. The voting right attached to capital or dividend shares is proportional to the percentage of capital they represent. Based on an equal par value, each share gives the right to the same number of votes, with a minimum of one vote.*

2. *All shares are the same class and confer the same rights, both to the distribution of earnings and to the liquidation dividend.*
3. *The subscription right attached to the shares belongs to the beneficial owner.*
4. *The ownership of one shares automatically implies compliance with the company's bylaws, the decisions of the Shareholders' Meeting and of the Management Board acting on the delegation of the Meeting."*

Article 10 of the Korian bylaws reads as follows:

"For the purpose of identifying the holders of bearer shares, the company has the right to request at any time from the central custodian that keeps its securities account, under the conditions defined by law and for compensation to be paid by the company, the name or corporate name (for a legal entity), nationality, year of birth or year of incorporation (for a legal entity), and the address of persons holding securities that give immediate or future voting rights in its own shareholders' meetings and the number of shares held by each person and any restrictions on those securities."

3.19.2.4 Conditions governing Shareholders' Meetings

The bylaws stipulate the following provisions governing Shareholders' Meetings:

<u>Article 25 – SHAREHOLDERS' MEETINGS</u>

1. *Notice of meeting:*

   Shareholders' Meetings are called and deliberate under the conditions defined by law and regulations.

   Meetings are held either at the corporate offices or at any other location indicated in the notice of meeting.

2. *Access – Vote by mail or electronically:*

   Annual and Special Shareholders' Meetings consist of all shareholders who hold at least one share under the conditions set forth below.

   Shares on which the amount of the payments due has not been made cease to give rights to participate in Shareholders' Meeting and are deducted when the quorum is calculated.

   Subject to the provisions set forth above, any shareholder has a right, with proof of identity, to participate in Shareholders' Meetings in the forms established by law. This right is subject to the following requirements:

   - *for owners of registered shares: their shares must be registered in their name in the company's registers;*
   - *for owners of bearer shares: they must file at the location indicated in the notice of meeting a certificate established by the intermediary holding their account verifying the non-transferability of their shares until the date of the Shareholders' Meeting.*

   These formalities must be completed at least five days before the date of the Shareholders' Meeting.

   However, the Management Board shall always have the option to reduce this period as a general measure.

   For proxy votes and votes by mail, electronically or using any other method permitted by the laws and regulations in force, the non-transferability of the shares must be certified by the approved intermediary pursuant to the applicable legal and regulatory provisions.

3. *Officers – Attendance sheet:*

   An attendance sheet shall be kept at each Shareholders' Meeting.

   The officers of the meeting include a Chairman and two tellers. The Meeting shall name a secretary, who does not have to be shareholder.

   Shareholders' Meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the member of the Supervisory Board designated for that purpose. If no one is designated, the Meeting shall elect a Chairman.

4. *Voting rights:*

   Each member of the Shareholders' Meeting has the right to a number of votes equal to the shares he owns or represents.

   Shareholders' Meetings shall deliberate with the rules for quorum and majority stipulated by the laws and regulations in force.

   Shareholders who participate in Shareholders' Meetings via videoconferencing or telecommunications methods that allow them to be identified as required by the laws and regulations in force shall be deemed to be present or represented for the calculation of the quorum and majority.

Minutes of the Meetings shall be prepared and the copies shall be certified and issued as required by law.

3.19.2.5 Disclosure obligations stipulated by the bylaws

Article 11 of the bylaws reads as follows:

"*In addition to the legal and regulatory obligations to disclose certain thresholds of ownership, any individual or legal entity, acting alone or with another, who holds or comes to hold, directly or indirectly, a number of shares representing two percent (2%) of the capital and voting rights, is required to inform the company, by registered mail with return receipt, within fifteen (15) days from the date of the trade or the signing of any agreement that results in the crossing of this threshold, without regard to the date of registration in an account, if applicable, of the total number of shares in the company or the number of voting rights which said person owns directly or indirectly and the total number of securities giving future rights to any capital and voting rights attached to those shares.*

This notice must be repeated under the conditions stipulated above, each time that a new threshold (higher or lower) of two percent (2%) is crossed.

Any shares that have not been disclosed, under the conditions set forth above, exceeding the fraction that should have been declared, are deprived of voting rights for any Shareholders' Meeting that may be held until the expiration of a two-year period following the date on which the said situation is rectified.

This sanction shall be applied only at the request, recorded in the minutes of the Shareholders' Meeting, of one or more shareholders holding at least two percent (2%) of the capital of the company."

3.20 *Major contracts*

All the Company's contracts have been signed in the normal course of business and call for no special comments, with the exception of the explanations provided on the contracts signed with Batipart, PREDICA and Foncière des Murs discussed in Subsections **Error! Reference source not found.**, **Error! Reference source not found.** and **Error! Reference source not found.** above respectively, and with the exception of the agreement entered into with Domus VI described below.

3.20.1 July 3, 2001 Memorandum of Agreement with Domus VI

Medidep signed a memorandum of agreement with the Domus VI Company (formerly Générale de Santé Medico Social Domus Vivendi SAS) to acquire the twelve operations of the Mieux Vivre group.

For that purpose, both parties created a joint holding company, the Mieux Vivre Holding Company, of which each party owns 50%. That company and its subsidiaries (all more than 99%-held) are included in the Medidep Sub-Group organization chart in Subsection 3.5.3.

Under the July 3, 2001 MOA, the Chairman of Medidep and the Chairman of DomusVi alternate as chairmen of the company so that each serves as chairman every other year. Under the agreement, the Chairman, without the approval of the two partners, can make only decisions relating to the daily administrative management of that company.

The facilities of the Mieux Vivre group thus acquired shall be operated by each of the twelve subsidiaries of the Mieux Vivre Holding Company. Each of the facilities shall be managed under a management mandate by Medidep or DomusVi, and therefore the companies that are owners of the funds are managed by a representative of Medidep or DomusVi, according to the list below:

Facilities managed by Medidep	Facilities managed by DomusVi
Résidence Alsace Santé (Thann) Résidence Saint Claude (Saint Clair) Résidence le rayon d'Or (Lagord)	Résidence Saint Exupéry (Marmande) Résidence Pomparain (Parthenay) Résidence Villa des Sources (Viry)

Résidence le Jardin des Fleurs (Sevran) Résidence Bastide Les Jardins (Jardin) Résidence les Issambres (Royan)	Résidence le Grand Clos (le Plessis-Bouchard) Résidence le Lis (Saint-Yriex) Résidence Saint Louis (Carpentras)

Under the MOA and the bylaws of the Mieux Vivre Holding Company, each shareholder in that Company may sell its shares in the company only if it complies with the joint preemptive right and withdrawal right assigned to the other shareholder.

3.20.2 Service provision agreements between Korian and Medidep

Two mutual service provision agreements were executed between Korian and Medidep according to the terms described below.

In the framework of their operational rapprochement, some employees of each of the companies originally assigned to some central functions within their respective groups were grouped into consistent teams placed under the functional management of a Korian or a Medidep representative, as the case may be, with each Korian or Medidep employee remaining under the hierarchical responsibility of his employer.

In this context, each of the Korian and Medidep Subgroups has to provide the other with assistance services in some areas deriving from central functions ("headquarters functions"), including making some of its employees available part of the time to the other subgroup.

Korian and Medidep thus executed two service provision agreements in order to set:

- the extent of the assistance tasks performed by Korian for Medidep and vice versa; and
- the conditions for the compensation of these services.

The compensation of Korian and of Medidep as service provider will be determined by application of a distribution key allowing for determining the share of the overall amount of the provider's payroll that should be taken into account in the compensation owed by the beneficiary, which share shall be calculated depending on:

- the number of provider employees assigned to an assistance function under the contract;
- the respective payroll and
- the fact that these employees are intended to intervene solely at EHPAD facilities or solely at clinic facilities (follow-up and rehabilitation care, etc.) or will intervene indistinctly in the two aforesaid business activities.

Thus, Medidep will invoice Korian € 1,552,683.00 not including tax in 2006, and Korian will invoice Medidep € 4,042,413 not including tax during the course of this same year.

These agreements will cease to be effective due to the consummation of the merger between Korian and Medidep.

3.21 *Information from third parties, declarations from experts, and declarations of interests*

None

3.22 Documents accessible to the public

The bylaws, minutes of Shareholders' Meetings and other corporate documents of the Korian company, as well as the historical financial information and any valuation or declaration established by an expert at the request of the Korian company which must be made available to shareholders under the applicable legislation, may be consulted at the corporate offices of the Korian company.

3.23 Information on equity investments

The issuer holds no equity investment other than those indicated in the organization chart provided in Subsection 3.5.2.

4 PRO FORMA FINANCIAL STATEMENTS

Consolidated pro-forma financial statements of the Korian company integrating 100% of the companies of the Medidep Sub-Group have been prepared for fiscal years 2004 and 2005.

The pro forma statements are provided in Subsection 3.18.2.

5 PRESENTATION OF THE COMPANY PURCHASED: MEDIDEP

Detailed information on Medidep's legal status, business, financial statements, recent changes and future outlook is provided in the following documents, which are incorporated for reference into this Document:

- The Medidep reference document filed with the AMF on June 16, 2006 under No. D.06-0586;
- the supplement to the aforementioned Medidep reference document filed with the AMF on October 4, 2006under Number D.06-0586-A01.

These documents are available on demand and without charge at the corporate offices of Medidep, on the Medidep website (www.medidep.com) under the heading Financial Communications, and on the website of the AMF (www.amf-france.org).

Appendix I

Report by the Merger Auditors on the terms of the merger

Michel LACAZE-LABADIE Les Bureaux du Canal 7, avenue de l'Orme à Martin COURCOURONNES 91023 – EVRY CEDEX	Pierre LOEPER 140 boulevard Haussmann 75008 - PARIS

KORIAN

French "*Société anonyme*" with a share capital of € 257,474,040
152 avenue de Malakoff – 75116 PARIS
RCS PARIS 447 800 475

MEDIDEP

French "*Société anonyme*" with a share capital of € 44,388,234
152 avenue de Malakoff – 75116 PARIS
RCS PARIS 339 778 326

MEDIDEP MERGER BY KORIAN

General Meetings held on November 8, 2006

<u>REPORT OF THE MERGER AUDITORS</u>

<u>ON THE COMPENSATION FOR THE CONTRIBUTIONS</u>

MEDIDEP MERGER BY KORIAN

Report of the merger auditors on the compensation for the contributions

Dear Madams, Dear Sirs,

In furtherance of the duties of merger auditors that were entrusted to us by Order rendered by the Chief Judge of the Paris Commercial Court on June 30, 2006, concerning MEDIDEP merger by KORIAN (formerly denominated SUREN), we have drawn up this report on the remuneration of the contributions provided for under article L 236-10 of the French commercial code, it being specified that we have assessed the value of the contributions in a distinct report.

The net assets contributed have been determined in the preliminary merger agreement executed by the representatives of the relevant companies dated September 29, 2006.

It shall rest with us to express an opinion as to the fair nature of the exchange rate. To that effect, we have performed our diligences pursuant to the standards of the National Company of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) applicable to such assignment; under such standards, all necessary skills must be implemented to check, on the one hand, that the relative values allocated to the shares of the companies involved are relevant and, on the other hand, to analyze the exchange rate with respect to the relative values deemed to be relevant.

You will find our findings and conclusions below under the following plan:

1. GENERAL PRESENTATION OF THE OPERATION

1.1. Context of the operation

The operation that is submitted to your approval consists in the merger of MEDIDEP by KORIAN.

This merger will be executed simultaneously with the completion of certain share capital increases of KORIAN reserved for persons named and the employees of the KORIAN group, and a KORIAN capital increase completed through a public offering at the end of an investment that will result in the listing of KORIAN shares on the Eurolist by Euronext.

The preliminary merger agreement entered into between KORIAN and MEDIDEP provides that the completion of the merger is subject to the completion of the capital increase via public offering.

It should be reminded that KORIAN launched a tender offer for the shares of MEDIDEP in July 2005. At the end of the offer, KORIAN held 87.86% of the capital and 87.89% of the voting rights of MEDIDEP. This interest was reduced to 87.79% of the capital and voting rights following the exercise by MEDIDEP employees of the stock options resulting in the issue of 12,000 shares.

Since KORIAN acquired control of MEDIDEP, the teams of both structures have cooperated to pool their experience and expertise and the new group has thus adopted a unified functional organization combining the employees of the two entities.

The legal merger of KORIAN and MEDIDEP is the logical culmination of this functional merger. The merger will, in particular, generate costs savings by a simplification of the organizational structure, a recombination of teams based on responsibilities and duties and the unification of the technical, accounting and reporting processes.

Finally, through its public offering paired with capital increased related to the completion of the merger, the new structure should diversify its financial resources to ensure its growth.

1.2. Companies involved in the operation

Surviving company

KORIAN is a French "*société anonyme*" with management board and supervisory board, the corporate purpose of which, as referred to under article 2 of its by-laws, is the following:

"Any activity to manage, provide management consulting, and hold companies specializing in the healthcare sector, more particularly in Etablissements d'hospitalisation et d'accueil de personnes âgées (EHAPD), follow-up and rehabilitation facilities, psychiatric clinics, personal home care for dependent elderly persons and, more generally, dependent care,
and, more generally, the acquisition of interests, by any means, in all existing or future companies, businesses or enterprises, and all financial, commercial, industrial, real and personal property transactions that may be directly or indirectly related to one of the purposes specified above or any similar or related purpose that might promote the development of the company's assets."

KORIAN was incorporated on March 25, 2003.

Its share capital currently amounts to € 257,474,040. It is divided into 21,456,170 shares, with a par value of € 12 each, all fully paid-up and of the same category.

By decisions of the extraordinary general meeting held on September 19, 2006, a reverse split of KORIAN shares was implemented at a rate of 12 existing shares of a par value of € 1 for one new share of a par value of € 12. Following such reverse stock split and an adjustment share capital increase of € 3, the share capital was brought up from € 257,474,037 divided into 257,474,037 shares with a par value of € 1 each to € 257,474,040 divided into 21,456,170 shares with a par value of € 12 each.

Such extraordinary general shareholder meeting resolved that the share capital would be reduced by an amount of € 150,193,190, to be reduced from € 257,474,040, its current amount to € 107,280,850 by way of reduction of the par value of the shares from € 12 to € 5, through the following related transactions:

1) Allocation of an amount of €10,948,934 to the negative item "retained losses" (*report à nouveau*),
2) Transfer of € 10,728,085 to the legal reserve,
3) Transfer of the balance, i.e. € 128,516,171 to a reserve account entitled "special capital reduction reserve" ("*réserve spéciale de réduction de capital*") which will remain unavailable until December 31, 2006, except for capitalization, allocation to the legal reserve or writing-off of losses upon decision of the shareholders general meeting,

the last two transactions are subject to the condition precedent of the absence of opposition or, in the case of opposition, of the dismissal thereof by the Commercial Court, of the establishment of sufficient guarantees or the reimbursement of the receivables.

On the date hereof, KORIAN does not carry out any public offering and its shares are not listed on any regulated market but shall apply for a listing on the Eurolist by Euronext effective as from the completion date of the merger.

Absorbed company

MEDIDEP is a French "*société anonyme*" with supervisory board and management board, the corporate purpose of which, as referred to under article 2 of its by-laws, is the following:

"The acquisition of interests, by any means, in all existing or future companies, businesses or enterprises specializing in the healthcare sector, more particularly in Etablissements d'hospitalisation et d'accueil de personnes âgées (EHAPD), and, more generally, all financial, commercial, industrial, real and personal property transactions that may be directly or indirectly related to one of the purposes specified above or any similar or related purpose that might promote the development of the company's assets."

MEDIDEP was incorporated on December 26, 1986.

Its share capital currently amounts to € 44,388,234. It is divided into 14,796,078 shares with a par value of € 3 each, all fully paid-up and of the same category.

The shares of MEDIDEP are listed on the Eurolist by Euronext (compartment B) under code ISIN FR 000006566.

Pre-existing ties between the surviving company and the absorbed company

KORIAN holds 12,989,257 shares of MEDIDEP over a total number of 14,796,078, i.e. 87.79% of its share capital and also 87.79% of the voting rights (taking into account firstly the double voting rights and secondly the treasury shares held on June 27, 2006, date of the last general shareholders meeting of MEDIDEP). The shares held by KORIAN are pledged in favor of a banking syndicate. KORIAN obtained the release from such syndicate of the pledge subject to the completion of the condition precedent n° 5 of this merger (cf. below).

1.3. Legal and tax terms and conditions of the operation

The terms and conditions of the merger have been established on the basis of the annual accounts of the two companies as of December 31, 2005.

From a legal point of view, the operation is governed by the standard regime as defined under sections L 236-1 *et seq*. of the French commercial code.

KORIAN shall have the ownership and possession of the assets and rights contributed by MEDIDEP as from the date of final completion of the merger. However, from an accounting and tax standpoint, the merger shall be carried out with retroactive effect as from January 1st, 2006.

The final completion of the merger as well as the corresponding capital increase of KORIAN and dissolution of MEDIDEP shall only become final as from the fulfillment of the following conditions precedent:

- approval by MEDIDEP extraordinary general meeting of the merger and dissolution without liquidation of the company;

- approval by KORIAN extraordinary general meeting of the merger, the contributions and the share capital increase relating thereto;

- final completion of KORIAN share capital increase by way of reduction of the par value from 12 to € 5;

- decision from the *Collège de l'Autorité des Marchés Financiers* (A.M.F.) not to impose to KORIAN or to its shareholders, on the ground of article 236-6 of the General Regulations of the A.M.F., any obligation to file a public buyout offer (*offre publique de retrait*) on MEDIDEP shares;

- receipt by KORIAN of a depositary's certificate issued by the placement clearing organization for a capital increase through public offering conducted by KORIAN which, paired with the two concomitant share capital increases reserved for Batipart and ACM Vie, would lead to an increase in the capital equity ranging from 100 million euros to 150 million euro, and for which the subscription price for the shares will be determined according to the so-called book building process ("*technique dite de construction d'un livre d'ordres*") as engaged in by customary market practices.

Failing fulfillment of any of the aforementioned conditions precedent on December 29, 2006 at the latest, the merger shall be considered automatically to be null and void without indemnification due by either party.

From the tax standpoint, the operation falls within the scope of the special regime provided for under article 210 A of the French general tax code as regards corporate income tax and falls within the scope of application of article 816 of said code as regards registration fees.

1.4. Description, assessment and compensation for the contributions

Description and assessment of the contributions

Pursuant to the terms of the preliminary merger agreement, the contributions shall consist in all the assets and liabilities composing MEDIDEP's assets as they shall exist on the completion date of the operation.

Settled on the basis of MEDIDEP's annual accounts as of December 31, 2005 and valued by reference to its net book value on such date, the net contributed asset amounts in total to € 82,612,499.

Compensation for the contributions

- it has been agreed to set the exchange rate at one KORIAN share for one MEDIDEP share (following the reverse stock split of KORIAN shares referred to above, i.e. a rate of 12 KORIAN shares for 1 MEDIDEP share before such reverse split).

- as KORIAN holds 12,989,257 out of the 14,796,078 shares of MEDIDEP, said shares shall not be exchanged for KORIAN shares as the latter may not become the owner of its own shares;

- In addition, pursuant to the provisions of article L 236-3 of the French commercial code, the shares held by MEDIDEP shall not be exchanged either as they will be cancelled as a result of the final completion of the merger. As of September 29, 2006, MEDIDEP held 2,410 of its treasury shares, the net book value of which is € 71,692 (as compared to 1,449 as of December 31, 2005 for a net book value of € 42,646).

  MEDIDEP undertakes not to proceed with any operation on its treasury shares until the completion date and to consequently maintain the number of MEDIDEP treasury shares unchanged.

- KORIAN shall consequently proceed, in consideration for the contribution that shall be made to it, with a share capital increase in a nominal amount of € 9,022,055, by the issuance of 1,804,411 new shares with a par value of € 5 each, fully paid-up in favor of the shareholders of MEDIDEP other than itself and than MEDIDEP.

Merger premium

The merger premium represents the difference between the net value of the assets contributed, except for the portion held by the surviving company in the absorbed company, and the par value of the shares issued in exchange:

Net value of the contributions	82.612.499 €
- Net book value of the 2,410 MEDIDEP treasury shares contributed and not compensated	-71.692 €
= net asset contributed following cancellation of the treasury shares	2.540.807 €

Portion of the net asset contributed corresponding to the stake of the minority shareholders of MEDIDEP, i.e. 1.804.411 shares contributed / (14.796.078 total shares - 2.410 treasury shares)	10.067.655 €
- KORIAN share capital increase	-9.022.055 €
= Merger premium	1.045.600 €

The merger premium shall be recorded on the liability side of KORIAN balance sheet benefiting to all former and new shareholders.

Merger loss

The negative difference between the value of the net asset received by KORIAN up to its stake in MEDIDEP and the book value of the 12,989,257 MEDIDEP shares held by KORIAN shall constitute a merger loss, i.e.:

Portion of the net contributed asset corresponding to the shareholding of KORIAN in MEDIDEP, i.e. 12,989,257 treasury shares/ (14.796.078 total shares - 2.410 treasury shares)	72,473,152 €
- Book value of the MEDIDEP shares held by KORIAN as of December 31, 2005	-389,977,710 €
= Merger loss	-317,504,558 €

The preliminary report provides that, pursuant to regulation n° 2004-01 dated May 4, 2004 (§ 4.5.2) of the Committee on Accounting Regulations related to the accounting treatment of mergers and similar operations, such merger loss will be recorded under intangible assets on the assets side of the KORIAN balance sheet in a sub-account entitled *"Merger loss"* of account 207 *"Goodwill"*.

2. CONTROL OF THE RELEVANCE OF THE RELATIVE VALUES ALLOCATED TO THE SHARES OF THE COMPANIES INVOLVED IN THE OPERATION

2.1. Diligences accomplished

We accomplished the diligences we deemed to be necessary according to the standards of the National company of statutory auditors (*Compagnie nationale des commissaries aux comptes*) for the purpose of:

- controlling that the relative values allocated to the shares of the companies involved in the operation are relevant;
- and ensuring that, until the issuance date of this report, no facts or events likely to challenge the values retained have occurred.

We have, in particular, carried out the following duties:

- we have contacted the persons in charge of the relevant companies and their counsels (including ROTHSCHILD et Cie and the law firm DE PARDIEU BROCAS MAFFEI), both to understand the planned operation and the context thereof, and to analyze the contemplated accounting, legal and tax terms and conditions;
- we have examined the preliminary merger report and its schedules;
- in order to ascertain that the financial statements and accounting information as of December 31, 2005 and as of June 30, 2006 transmitted to us are reliable, we have ensured that the Statutory Auditors of the absorbed company and the surviving company have unconditionally certified the annual accounts as of December 31, 2005 and certified the quarterly accounts as of June 30, 2006. We have met them within the context of the performance of our duties;
- we have taken knowledge of the 2006 budget, that we have matched, *inter alia*, with the achievements at June 2006, as well as with the business plan for the period 2007-2009 ;
- we have controlled the relevance of the criteria retained to assess the relative value of the relevant companies in order to determine the exchange parity used as compensation for the contributions;
- we have verified the accurate implementation of assessment methods and the calculations of valuation resulting therefrom;
- we have taken knowledge of the events that occurred during the retroactivity period and have assessed, if necessary, their impact on the exchange parity.

We have also relied on the duties we have performed in our capacity as merger auditors in charge of assessing the value of the contributions.

2.2. Control of the relevance of the relative values allocated to the shares of the companies involved in the operation

Prior comments

KORIAN holds 87.8% of the capital of MEDIDEP further to tender offer[42] conducted in 2005.

Both groups specialize in the *hébergement des personnes âgées dépendantes* (EHPAD) and follow-up and rehabilitation facilities (Cliniques de SSR). These sectors are governed by specific statutory procedures (authorizations, agreement, etc.) so that the growth can, for the most part, be only achieved through acquisitions.

It results from the foregoing that the balance sheets of the two groups present important intangible assets and a significant indebtedness (in particular as regards KORIAN). It consequently appears necessary, in view of the relative evaluations of the two groups (in equity capital values), to consider both their enterprise values and their respective indebtedness. The enterprise values may be considered through the so-called discounted cash-flows method (DCF) or by market comparables.

The growth is however different between the two groups: strong growth for KORIAN, which has been more recently incorporated than MEDIDEP, low growth for MEDIDEP since a period prior to the tender offer. The review of the market comparables evidences that the market favors expending groups.

[42] The acquisition price was € 30 per share.

Proposed relative values

The relative values have been determined as from 3 approaches:

The first approach tends to seek the relative contribution of each sub-group to the global value following the merger. Such approach is original but is relevant insofar as the two entities to be compared belong to the same consolidated whole. Its implementation is relatively complex and, for a proper understanding thereof, it should be specified that it includes the following stages:

- determination of a global enterprise value or rather a range of global enterprise values on various horizons (2006 – 2007 – 2008).

  Such global enterprise values are themselves established according to a multi-criteria analysis not including post-merger synergies:

  - discounted cash flows (DCF)
  - market multiples based on the two listed companies that may be compared, i.e. ORPEA (strong expanding company that may be directly compared with KORIAN) and MEDIDEP (company whose growth history profile is inferior to that of KORIAN), and applied to different aggregates : EBITDA (gross operating surplus), EBIT (operating income), the net Profit Group share.

- then determination of the respective contributions of MEDIDEP and of KORIAN excluding MEDIDEP to such range of enterprise values depending on the business plans and means of each entity;

- it results from the foregoing a range of enterprise values of MEDIDEP which, after deduction of its indebtedness (as of June 30, 2006) gives a range of equity capital values of MEDIDEP ;

- as from such equity capital, the shareholding value of KORIAN in MEDIDEP is calculated as a range;

- then with such value, with the enterprise value of KORIAN, and after deduction of its indebtedness (as of June 30, 2006), it is possible to obtain an equity capital range of KORIAN ;

- and consequently an exchange parity range:

	Induced parity (number of KORIAN shares– before consolidation of the shares at a rate of one new shares for 12 former shares –

	for one MEDIDEP share)
Average parity based on 2006 aggregates Average parity based on 2007 aggregates Average parity based on 2008 aggregates	

We have not noted any anomaly when reviewing the calculations. We also note that the range obtained is, as far as parities are concerned, rather narrow. This can be understood considering the importance of the MEDIDEP shareholding in the equity capital of KORIAN.

It should be noted that the use of the same multiples to value KORIAN and MEDIDEP tends to favor MEDIDEP whose growth profile is inferior to that of KORIAN. Conversely, as regards the calculation of the relative contributions, the growth profile of KORIAN, excluding MEDIDEP is taken into account (in particular considering the authorizations already obtained by KORIAN).

Finally, the reference to the most comparable data tends to favor MEDIDEP, considering the superior growth prospects of KORIAN.

The second and third approaches are both more classic and tend to seek the relative values as from the comparison of the intrinsic autonomous values of each group: KORIAN (including its shareholding in MEDIDEP) and MEDIDEP.

To that effect, to methodologies have been retained:

- discounted cash flow [DCF] (second approach)
- valuation through the market comparisons method (third approach).

The second approach conduit leads to an average parity included between 9,3 KORIAN shares for one MEDIDEP share and 11,1 KORIAN shares for one MEDIDEP share (before reverse stock split of KORIAN shares).

Such approach fully takes into account the different development of KORIAN and MEDIDEP on the short and medium term.

In connection with the third approach, it should be noted that:

- MEDIDEP has been retained for its market capitalization (on average one month, August 2006), it being noted that it remained stable since the tender offer in 2005, notwithstanding some recent variations that were not considered as significant. Such valuation thus reflects the control premium paid (*prime de contrôle*) upon the acquisition of such majority stake rather than the economic value of the stake;

- KORIAN has been valued based on market multiples of companies deemed to be comparable (ORPEA and MEDIDEP, as aforesaid), the valuation range relies firstly on the multiples of ORPEA, and, secondly, on the average multiples of ORPEA and MEDIDEP; the debt retained to switch from the enterprise value to the equity value is the debt as of June 30, 2006.

Such third approach evidences a parity ranging from 10,4 to 13,0 KORIAN shares for one MEDIDEP share (before reverse stock split of the KORIAN shares).

The parties have consequently dismissed the following methods:

- methods based on dividends, due to the lack of a distribution history for both companies;

- net accounting asset and net revalued asset as such methods did not take into account the prospects for growth and profitability of the companies, which are critical in this case ;

- market price approach as the KORIAN shares were not listed until the date hereof and the low liquidity of MEDIDEP shares following the tender offer in 2005 ;

- trading multiples approach due to the lack of a representative sample of transactions deemed comparable to the merger.

Such position seems to be justified to us.

As regards the methods retained, the analyses of sensitivity carried out by ROTHSCHILD and that we have completed, where necessary, do not lead us to challenge the parity ranges obtained.

As additional analysis, it seemed relevant to us to retain an approach consisting in applying:

- different market multiples between KORIAN and MEDIDEP (by reference to the market multiples and considering the different prospects for development of the two entities) ;

- to a 2006 current reprocessed EBITDA:
  - the reference to only year 2006 being more cautious and being corroborated, for most part, by the achievements as of June 30,
  - the reprocessing consisting in taking into account the impact in current year in cruising speed of establishments opened during 2006 insofar as the debt as of June 30, 2006 is integrated into the calculations.

Such approach, that seems to be considered as a synthesis integrating the key elements of the valuation and relying on current data recorded on the date hereof, leads to a parity range of 11,4 to 12,5 KORIAN shares for one MEDIDEP share (before reverse stock split of the shares).

3. ASSESSMENT OF THE FAIR NATURE OF THE PROPOSED COMPENSATION

3.1. Diligences accomplished

We have accomplished the diligences we deemed to be necessary in accordance with the standards of the national company of statutory auditors (*Compagnie nationale des commissaires aux comptes*) to:

- assess the fair nature of the exchange rate;
- and ascertain that the events that occurred during the retroactivity period were not likely to challenge the equity of the exchange rate.

We have relied on the works we have conducted to check that the relative values attributed to the shares of the companies involved in the transaction are relevant.

3.2. Assessment of the fair nature of the exchange rate

As mentioned in the preliminary merger agreement, the parties have retained an exchange rate of 12 KORIAN shares for one MEDIDEP share (before reverse stock split of the shares), i.e. after consolidation of the KORIAN shares, a parity of 1 KORIAN share for 1 MEDIDEP share.

Such exchange rate falls within the scope of the parities ranges determined by the parties.

The parity induced by such exchange rate is moreover supported by the additional analysis we have presented above (p.16).

Such parity largely relies on the 2006 data already validated, for the most part, both in terms of results and development, but also relies on the ability of KORIAN to achieve the expected development far beyond and master the organization necessary for such development.

Such parity also falls within the scope of the current laws and regulations; should modifications occur in the short or medium term, they should more affect KORIAN, considering the leverage effect linked to the indebtedness level higher by KORIAN than by MEDIDEP. Conversely, the portion of private proceeds (excluding DASS and *Conseils Généraux*) is higher by KORIAN, considering its business structure (more significant proportion of EHPAD).

Finally, as regards the minority shareholders of MEDIDEP, this operation will allow them access to an extended and growth-related structure as well as to a widen market for the negotiation of their shares.

3.3. Conclusion

In conclusion, we are of the opinion that the exchange rate thus retained is fair.

Paris, on

Michel LACAZE-LABADIE   Pierre LOEPER

Appendix II

Report by the Merger Auditors on the value of the contributions

[This report has not been translated – please refer to the official registration document in French]

Appendix III

Report by Mr Dominique Ledouble

[This report has not been translated – please refer to the official registration document in French]

Appendix IV

Glossary

Acronym	**Definition**
ADEHPA	Association of the Managers of Residential Facilities for the Elderly (EHPA)
AGGIR	Gerontology Self-Sufficiency, Iso-Resource Groups (*Autonomie Gérontologique Groupe Iso-Ressource)*
AMP	Medical-Psychological Assistant (*Aide Médico Psychologique)*
APA	Personal Autonomy Allowance (*Allocation Personnalisée d'Autonomie)*
ARH	Regional Hospitalization Agency (*Agence Régionale d'Hospitalisation)*
ASD	Registered Nurses' Aides (*Aides Soignantes Diplômées)*
AVC	Cerebral Vascular Incident (*Accident Vasculaire Cérébral)*
BMR	Multi-Resistant Bacteria (*Bactéries Multi-Résistantes*)
CANTOU	Centers of Natural Activities Geared to Useful Occupations (*Centres d'Activités Naturelles Tournées vers les Occupations Utiles)*
CCU	Single Collective Agreement (*Convention Collective Unique*)
CLIC	Local Information and Coordination Center (*Centre Local d'Information et de Coordination*)
CLIN	Comittee to fight Nosocomial Infections (*Comité de Lutte contre les Infections Nosocomiales)*
CLS	Long-stay Center (*Centre de Long Séjour*)
CME	Medical Facilities Conference (*Conférence Médicale d'Etablissement*)
CMU	Universal Health Coverage (*Couverture Maladie Universelle*)
CNOS	National Clinic Organisation Commission (*Comité National d'Organisation Sanitaire)*
CPOM	Multi-Year Means and Objectives Contract (*Contrat Pluriannuel d'Objectifs et de Moyens)*
CRAM	Regional Health Insurance Fund (*Caisse Régionale d'Assurance Maladie*)
CRF	Physical Rehabilitation Center (*Centre de Rééducation Fonctionnelle*)
CROS	Regional Clinic Heathcare Organizational Committee (*Comité Régional de l'Organisation Sanitaire)*
CROSMS	Regional Committee of the Social and Medical-Social Organization (*Comité Régional de l'Organisation Sociale et Médico-Sociale)*
CSP	Public Health Code (*Code de la Santé Publique)*
DASRI	Healthcare Waste with Infectious risks (*Déchets d'Activité de Soins à Risque Infectieux*)
DDASS	Departmental Office of Health and Social Actions (*Direction Départementale de l'Action Sanitaire et Sociale)*
DRASS	Regional Office of Healthcare and Social Affairs (*Direction Régionale des Affaires Sanitaires et Sociales*)

DREES	Department of Economic and Social Studies (*Direction des Etudes Economiques et Sociales*)
DSV	Department of Veterinary Services (*Direction des Services Vétérinaires*)
EHPA	Residential Facility for the Elderly (*Établissement d'Hébergement pour Personnes Agées*)
EHPAD	Residential *Facility for Elderly Dependents* (*Établissement d'Hébergement pour Personnes Agées Dépendantes)*
EOH	Hygiene Operational Team (*Equipe Opérationnelle d'Hygiène*)
ERP	Public facility (*Établissement Recevant du Public*)
EVC / EPR	Chronic Vegetative or Non-Relational State Etat (*Végétatif Chronique / Etat Pauci Relationnel*)
FEHAP	Federation of not-for-profit Hospitals and Private Assistance Facilities (*Fédération des Etablissements Hospitaliers et d'Assistance Privés à but non lucrative*)
FHP	Private Hospitalization Federation (*Fédération de l'Hospitalisation Privée*)
GIR	Iso-Resource Group (*Groupe Iso-Ressource)*
GMP	Weighted average Iso-Resource Group (*GIR Moyen Pondéré*)
HACCP	Hazard Analysis Critical Control Point
HAD	Home Hospital Care (*Hospitalisation A Domicile)*
HAS	High Health Authority (*Haute Autorité de Santé*)
ICALIN	Composite index of activities to fight nosocomial infections Indice (*Composite des Activités de Lutte contre les Infections Nosocomiales)*
IDE	Registered nurses (*Infirmier Diplômé d'Etat)*
INED	National Institute of Demographic Studies (*Institut National d'Etudes Démographiques*)
INSEE	National Institute of Statistics and Economic Studies (*Institut National de la Statistique et des Etudes Economiques*)
MAD	Home care services (*Maintien A Domicile)*
MCO	Medicine, Surgery, Obstetrics (*Médecine, Chirurgie, Obstétrique)*
MPR	Physical and Rehabilitation Medicine (*Médecine Physique et de Réadaptation*)
ONDAM	National Objective for Changes in Health Insurance Expenditures (*Objectif National de Dépenses d'Assurance Maladie*)
OQN	National Quantified Objective (*Objectif Quantifié National)*
PMSI	Program to Medicalize Information Systems (*Programme de Médicalisation des Systèmes d'Information*)
SCM	Medical Treatment Unit (*Section de Cure Médicale*)
SOSMS	Social and Medical-Social Organization Plan (*Schéma d'Organisation Sociale et Médico-sociale*)
SROS	Regional Health Organization Plan (*Schéma Régional d'Organisation Sanitaire*)
SS	Follow-up care (*Soins de Suite*)
SSI	Fire Safety System (*Système de Sécurité Incendie*)
SSR	Follow-up care and Rehabilitation (*Soins de Suite et de Réadaptation*)

SSIAD	Home nursing care services (*Services de Soins Infirmiers A Domicile)*
SYNERPA	National Union of Private Facilities and Residences for the Elderly (*Syndicat National des Etablissements et Résidences privés pour Personnes Agées*)
TIAC	Collective Food Toxicity-Infection (*Toxi-Infection Alimentaire Collective*)
TO	Occupancy Rate (*Taux d'Occupation)*
T2A	Rating by Activint (*Tarification A l'Activité)*
USLD	Long-term care unit (*Unité de Soins de Longue Durée)*

Appendix V

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